

Why would scarce development finance be needed for gas projects in Africa?

BLUF: Downstream gas projects can have high impact in poor countries but unlocking project financing almost always requires offtaker risk mitigation.

Context: African countries will need to meet growing energy demand. While there's a (mostly healthy) debate about the potential role of gas in Africa's energy transition, a separate question is whether capital from development finance institutions (DFIs) is even necessary for gas projects. DFIs were created explicitly to fill a gap by providing capital to highly developmental projects in high-risk low-credit markets. DFIs like the US DFC or the World Bank's IFC are increasingly being asked to add climate change to their mandates.

Immediate relevance: DFIs are ramping up investment in renewable energy while still deciding when, if ever, to invest in fossil fuels. The current US position excludes all coal or upstream oil and gas (exploration and production), while leaving a narrow window for downstream gas (e.g., electricity generation) but only in high-impact projects and only in poor countries.¹ Yet, some are asking: *is scarce development finance really needed for downstream gas or can it be left to the private markets?*

The broad case for development finance: DFIs' entire existence is built on the notion that public funding can mitigate risk to catalyze high-impact projects that would otherwise not proceed. In a fully functioning economy, private capital flows to high-return projects. But in many markets, DFIs are needed because capital is scarce or too expensive because of political risk, lack of creditworthiness, or other factors. DFIs thus select projects that are commercially viable but also:

1. *High impact:* Create jobs, provide services, generate taxes, empower women, reduce carbon, or serve national security.
2. *Additional:* Do not crowd-out private capital or fund projects that would happen anyway.

The specific case for downstream gas: Why might development finance be unnecessary for upstream oil and gas but needed for downstream gas in very poor countries?

- *Impact is likely far higher.* Upstream oil and gas usually produce export revenues, which (ideally) bring benefits to citizens through eventual fiscal spending.
Downstream gas uses are far more likely to have direct benefits to people and low-income economies by providing electricity, cleaner cooking, industry, and fertilizer.
- *Additionality is clearer.* Upstream oil and gas projects are often built by large well-capitalized international companies who secure future revenues via exports to a creditworthy foreign buyer. Downstream gas-fired power plants are mostly built by

smaller companies who can **only secure project finance if future revenue streams can be tied to an offtaker**, typically the local utility. However, all utilities in poor countries are under severe financial strain; in sub-Saharan Africa, not a single utility operates at a profit.² Thus there are few credible offtakers that can unlock project finance to enable projects.

What about climate? Downstream gas can be aligned with Paris commitments and the clean energy transition. A world where African gas can be exported to burn in Asia or Europe but not used in Africa itself would be profoundly perverse. And there is no plausible scenario where domestic African gas usage has a meaningful impact on global emissions.³ More importantly, smart, integrated downstream gas projects can support economic diversification, smooth the long-term energy transition, and help to accelerate uptake of variable sources like wind and solar.

Conclusion: Downstream gas projects can bring substantial benefits (impact), but the lack of a credible offtaker very often requires a guarantee or patient risk capital (additionality). The curtailment or withdrawal of DFI funding for downstream gas therefore would amount to an effective ban.

Endnotes

1. US Treasury [Guidance on Fossil Fuel Energy](#) (August 2021) and DFC [Climate Finance Plan](#) (April 2021).
2. [Making Power Affordable for Africa and Viable for Its Utilities](#), World Bank (2016).
3. [What Happens To Global Emissions If Africa Triples Down On Natural Gas For Power?](#) Energy for Growth (August 2020).