

BLENDED FINANCE IN DEVELOPMENT

CHILE:
**A SHIFT FROM
PEOPLE'S NEEDS
TO BUSINESS
DEMANDS**

BASED ON RESEARCH BY
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CHILE



NAME:

Chilean solar energy programme

PROJECT TYPE:

Construction of a concentrated solar power plant and large-scale photovoltaic plants

ESTIMATED BUDGET:

USD 453 million

FINANCING INSTITUTIONS:

Chilean Ministry of Energy

European Commission

German National

Development Bank (KfW)¹

German Technical

Cooperation Agency (Giz)²

Inter-American

Development Bank (IDB)³

Clean Technology Fund⁴-

World Bank

OPERATORS/CONTRACTOR:

Abengoa (Spain)

EIG Global Energy Partners (USA)

With a growing demand and a heavy dependence on fossil fuel imports, Chile's energy sector is central to the country's sustainable development prospects. With its energy transition plan, the Chilean government has set a target of generating 70 per cent of its electricity nationally from non-conventional renewable energy by 2050.

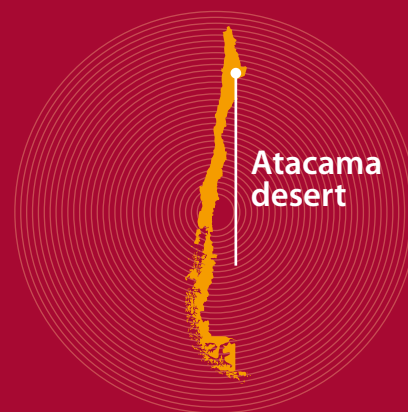
The Chilean Solar Energy Programme aims to develop a national solar industry in the Atacama Desert in the north of the country. The series of initiatives includes the construction of the first concentrated solar power (CSP) plant in South America, as well as of large-scale photovoltaic (PV) plants. The CSP plant will be integrated into the Northern Interconnected System grid. Currently, 90 per cent of the grid's electricity demand comes from mining.

BLENDED FINANCING

The Chilean Solar Energy Programme is a joint initiative by the Chilean government, the European Union (EU), the German government, the Inter-American Development Bank (IDB), the Clean Technology Fund (CTF), and the private sector, launched in 2013.

The Programme uses a diverse set of funding sources to cover its budget, initially estimated at USD 453 million. Official Development Assistance (ODA) funding is used in both grants and concessional loans, notably through the Latin American Investment Facility (LAIF).⁵

The LAIF is the EU's regional blending instrument and is the primary vehicle for coordinating the Chilean Solar Energy Programme's funding sources. The European Commission's investment in the Programme amounts to USD 20.3 million (nearly 4.4 per cent of the initial budgetary estimation).



BLENDING FACILITY:

Latin America Investment Facility (LAIF)

FINANCING INSTITUTIONS

COMPANIES:

Abengoa

EIG Global Energy Partners

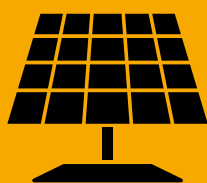
AN UNCERTAIN START

The Programme was approved in 2013 and awarded to Spanish company Abengoa, which initiated on-site work in 2015. Work was then suspended in 2016 due to financial problems of Abengoa. USA investment fund EIG Global Energy Partners then took over controlling share of the programme and works were resumed in 2017. In the meantime however, the overall scale and costs of the project had increased by 184 per cent to an estimated USD 1300 million. Uncertainty remains as to the project's future as EIG is currently seeking additional funds to be able to finalise the work by 2019.⁶

184% cost increase from
the original budget



453 MILLION USD



1300 MILLION USD

DEVELOPMENT EFFECTIVENESS

This project highlights some significant shortfalls as to their application.

THE DEVELOPMENT EFFECTIVENESS PRINCIPLES

- 1. Ownership of development priorities by developing countries:** developing countries to be in the driving seat of development initiatives.
- 2. Focus on results:** a lasting impact on eradicating poverty and reducing inequality, and on enhancing developing countries' capacities, aligned with their own priorities.
- 3. Inclusive development partnerships:** openness, trust, mutual respect and learning lie at the core of effective partnerships, recognising the different and complementary roles of all actors.
- 4. Transparency and accountability:** accountability to the intended beneficiaries, as well as to those impacted by development initiatives. Transparent practices form the basis for enhanced accountability.

FOCUS ON DEVELOPMENT RESULTS

The programme aims to produce stable, low-carbon energy and contribute to reducing Chilean dependency on imported fossil fuels. However, the energy produced will primarily benefit the mining sector, which accounts for 90 per cent of the energy consumption in the grid. As such, it will have limited impact on people's access to energy.

Furthermore, the strain that the project will put on resources is likely to have an adverse impact on local communities. Local community-based organisations have highlighted a permanent conflict

between local communities and the mining industry's demand for water and energy, and its degradation of land.⁷

CSP technology requires significant water resources. As one of the driest areas of the world, water access is a critical issue in the region. This is of primary importance, notably for neighbouring city of Calama, where inhabitants experience consistent limitations in access to drinking water. While both donor⁸ and partner⁹ authorities have raised this issue, satisfactory guarantees are hard to envisage and have not yet been secured.

The energy produced will primarily benefit the mining sector.
It will have limited impact on people's access to energy.



INCLUSIVITY

Participation of stakeholders in this project, particularly of civil society organisations and trade unions, has been very limited. The project was presented to the Chilean Parliament and approved, but neither an Environmental Impact Assessment nor a public consultation was carried out.



DEVELOPMENT RESULTS: EMPLOYMENT IMPACT

Information on labour conditions at the project site and in the supply chain is very limited. The project only mentions the number of jobs and does not make any reference to labour conditions during construction or operation of the plant. While job creation projections vary, a minimum of 1000 construction jobs and 50 operational jobs are expected to be created in the project implementation, as well as further indirect jobs in the local labour market.¹⁰ The project will further indirectly foster employment through the provision of materials required for the construction and operation of the CSP. So far, most of the workers and much of the consultancy work has been contracted to local Chilean firms and professionals.

The construction sector as a whole is characterised by a high level of job rotation, occupational hazards, lack of stability and outsourcing. In the power generation and distribution sector, outsourcing is as high as 80 per cent.¹¹ This outsourcing trend contributes to the low trade union representation (approximately 19 per cent) and collective bargaining (18 per cent) in Chile. The rate of labour accidents in the construction sector is slightly above the national mean (4.4 per cent over 3.4 per cent),¹² and the sector has the second highest rate of fatal accidents at work (19.9 per cent of all deaths).¹³ Using the opportunity of this major multi-donor project to improve performance on these indicators would be a step towards maximising its development effectiveness.

*Benefit the mining sector.
People's access to energy.*



OWNERSHIP

Although the Solar Energy programme is aligned with the national energy policy, which was consulted upon and agreed by stakeholders, the use of development aid for a project that primarily benefits the mining industry, which is highly favourable to foreign investment (and resulting repatriation of value generation), remains controversial and not fully aligned with the principle of ownership.

A further element of concern is raised by the close alignment of the project with donor-country strategic objectives. The above quote illustrates how development agencies can be brought to adopt donor-oriented concern.

ACCOUNTABILITY

Similarly to the lack of inclusivity, the project documents do not refer to any accountability or compensation mechanisms for workers or local communities that might be negatively affected by the project's implementation. As with other projects that involve a complex mix of financing mechanisms, public and private actors, it is very difficult to access specific information about this individual project. The latest publicly available information is the LAIF Operational Report 2016, which states that the plant financed by the project is "under construction". However, the interruption of the works, and its implications, as well as the need for additional financing, are not mentioned in the report.

"German and European companies can expect the Chilean solar energy market to provide opportunities for their involvement as hardware suppliers, for the construction and operation of solar power stations, for financing arrangements and emissions trading, and for the provision of technical advice."

GIZ, (German development agency)



¹ KfW implements a variety of climate protection initiatives on behalf of the Federal Government, including the Initiative for the German Climate Technology Initiative (DKTI) on behalf of the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB). An agreement on a development loan of EUR 100 m was signed with Chile in 2014 as part of the DKTI. These BMUB funds are destined to finance the construction of Chile's first solar thermal power plant. (FfW, 2015)

² bit.ly/2S66soH

³ General information on the project at CIF Website bit.ly/2Qjk7eE

⁴ bit.ly/2TQw36P

⁵ Project ID: LAIF-10. bit.ly/2FC8fQN

⁶ EIG announces US\$758M financing for Chilean Solar Power company, May 2018, bit.ly/2DYZzm1

⁷ Environmental Conflicts Latin American Observatory. www.olca.org

⁸ Comments from Germany on Approval by mail: CTF funding for Chile: Concentrated Solar Power Project (IDB) September 11, 2012; bit.ly/2S9DNz8

⁹ Informe Consolidado N° 1 de Solicitud de Aclaraciones, Rectificaciones y/o Ampliaciones a la Declaración de Impacto Ambiental del Proyecto "Planta solar Cerro Dominador" bit.ly/2PQzITM

¹⁰ Planta Termosolar Atacama I. Energía del Desierto. BIT 103 - July 2015. bit.ly/1ImGkKs

¹¹ bit.ly/2KuEtfJ (30 March 2018).

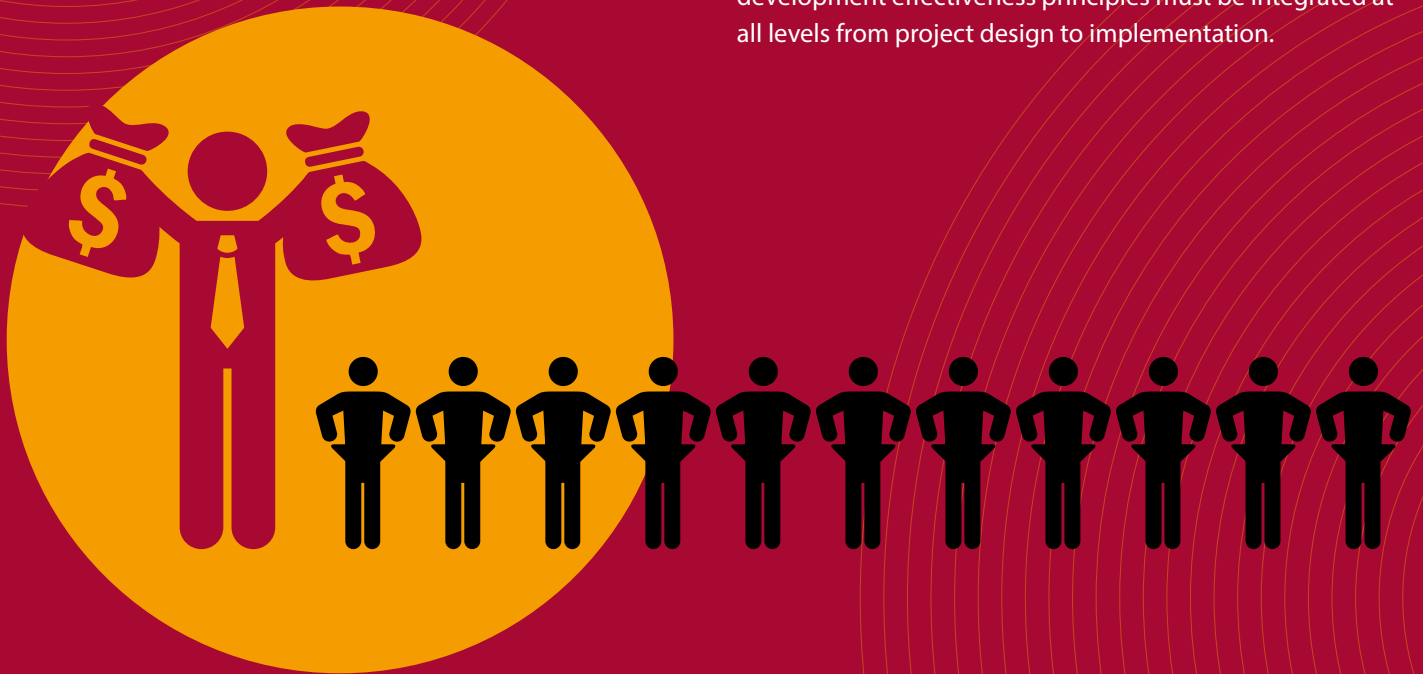
¹² SUSESO (2018). Estadísticas de la Seguridad Social 2017. bit.ly/2PNxPqN

¹³ Vargas Vianco, M.C. (2015). "Seguridad y Salud en el Trabajo en Chile. Diagnóstico y Propuestas". bit.ly/2DF4Jm9

CONCLUSION

The case of the Chilean Solar Energy Programme raises a number of questions as to the effectiveness of the significant ODA investment in targeting the most vulnerable through this project. The opportunity cost for using over USD 20 million in ODA for a project that has only indirect impacts on improving peoples living conditions must be considered.

This project is representative of a broader trend in development funding: a move away from directly targeting those most in need and towards an increased use of blended finance. Measures to ensure that the development objectives of ODA are not diluted in the investment processes are currently lacking. A clear focus must be maintained on ODA development objectives and the development effectiveness principles must be integrated at all levels from project design to implementation.



CSO Partnership 
for **Development Effectiveness**



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