

Analytica's comments to the EBRD's country strategy for Macedonia

To: EBRD
E-mail: macedoniastrategy@ebrd.com

Skopje, 29.03.2013

Dear Madam or Sir,

We would like to thank the EBRD for inviting Analytica to take part in the consultation meeting with the civil society held on 13.03.2013 in Skopje and we are very pleased that the civil society has to chance to give its input to the EBRD's strategy for Macedonia.

Before giving our comments, we would like briefly to present our organization. Analytica Think Tank is a Skopje based think-tank organization devoted to improving the democracy and good governance in Macedonia and the region of South East Europe. One of the core areas of research of Analytica is the energy policy. We have done research in this area on matters as renewable energy, energy efficiency, gasification, the heat market, local energy policies and similar. The energy related research and project results can be accessed on at our website www.analyticamk.org Contact person for the energy program: Ana Stojilovska astojilovska@analyticamk.org

Building on what we underlined at the consultation meeting, in this written communication we will give our comments and recommendations in a consolidated form. The matters that we address are the three strategic directions this strategy has defined.

Firstly, about the **challenge of enhancing competitiveness and facilitating private investment in the corporate and municipal sector**, Analytica agrees that is important matter to be stressed in the strategy. We would also suggest putting special focus on increasing the competitiveness of the gas and heat sector in the country as well as assisting the municipalities in implementing their energy programs and projects. This is important since the district heating in Macedonia is a small (existing only in Skopje), under-developed market which shows patterns of deterioration rather expansion and it is in a hand of a dominant market player Balkan Energy Group, which predecessor Toplifikacija Group has shown behavior of possible misuse of the its dominant market position. In addition, the number of consumers leaving the district heating is increasing, which switch either to wood or electricity, both forms usually executed in an inefficient way, leading to even higher energy consumption. In addition, natural gas is not used for heating the households since there is no developed gas distribution infrastructure. In sum, it is evident that the heat market needs to go through an in-depth reform process as a matter of priority especially forms and means of increasing its competitiveness have to be underlined.

Concrete recommendations of Analytica to the EBRD regarding improving the state of the heat market include assisting the municipalities in exploring their local possibilities to

develop their own heat markets by means of gasification, construction of co-generation utilities, developing gas or heat infrastructure after having previously assessed the sustainability of such investments. In this kind of projects as project involving building local infrastructure and establishing own local heat market, the role of the private sector should be strengthened. Regarding the Skopje district heating market, it needs to be demopolized by increasing the number of market actors especially heat producers and suppliers; increasing the efforts in gasification of the country, improving the energy efficiency in the buildings etc. Analytica highlights the importance of investment in co-generation as mean of highly efficient energy use and posing an alternative to the current inefficient heating practices. Co-generation especially small co-generation utilities could be seen as an opportunity for the municipalities – projects which could be included in their energy plans. In this line, EBRD could consider assisting the municipalities in realizing this possibility especially in developing local heat and gas infrastructure that has to be considered as a long term investment.

Furthermore, the local authorities should be assisted with know-how and finances in creating and implementing their local energy efficiency and renewable plans since they still lack proper human and financial resources for that and that the first energy efficiency plans of the municipalities show rather “safe” energy projects which are less expensive and do not include more progressive means as including co-generation utilities or local gasification plans for example. Analytica’s research has shown that there is a big difference between the municipalities regarding their capacities and progress achieved in drafting and implementing their energy efficiency plans. On one hand, there are municipalities that have separate departments working on energy matters and established teams, furthermore own energy efficiency strategies, while on the other hand other municipalities have barely one civil servant working on energy projects and have not yet their energy efficiency plans prepared. Municipalities agree that their biggest challenge is their lack of human and financial capacities. EBRD could also play an important role in facilitating the dialogue and cooperation between the local authorities and the national authorities in the energy area especially when they are governed by different political parties.

In addition, Analytica highly recommends mentioning and addressing the matter of energy poverty in the country. As a result of the gradual shift towards liberalized energy market, the electricity price is rising. The situation on the field shows alarming social issues as a result of the increasing gap between the market reforms and the social development. The citizens’ initiative AMAN has also voiced the citizens’ dissatisfaction with the increasing energy prices, showcasing that a very broad scope of the society can not pay the energy bills. In this line, the respective institutions’ actions for fighting energy poverty have been drafted without an inclusive public debate. Furthermore, the term energy poverty is defined in a most narrow sense – focusing predominately on the social categories of citizens (citizens registered as recipients of welfare). Therefore, this social aspect of the energy reform process has to be integrated in the strategy possibly in

relation to local municipal development and local projects on improving the local heat market.

Secondly, Analytica supports the strategy's goal of **investing in energy efficiency and renewables**. Our recommendations in this regard are contributing towards establishing the Energy Efficiency Fund promised since 2004 in Macedonia's first Energy efficiency action plan. Having this crucial implementation element only on paper makes for the country much more difficult to implement its energy goals and would significantly assist the local authorities in implementing their local energy plans. In addition, Analytica is on the opinion that one of the vital supporting mechanisms for renewables, the feed-in tariffs, if to be changed in the future, should previously undergo a broader discussion with other stakeholders especially the private sector and this change should take place announced and is not to happen overnight. The fact that there were sudden and frequent changes of the feed-in tariffs, uncertainty rose among the investors as well as among the banks that support these investors, eventually leading to dissimulation of investments.

Furthermore, the administrative barriers the potential investors in renewables face should be removed especially regarding the processes before beginning with the procedures defined in the Law on energy, meaning with the procedures under the Law on spatial and urban planning, Law on environment and Law on construction. These pre-energy law procedures as locating the suitable land and acquiring the documents whether the land is urbanized, possible ownership issues etc. are time consuming. This makes the investment risky especially if the feed-in tariffs change in the meanwhile.

Continuing the discussion on renewables, we want to point out that the commercial banks need to be encouraged to give green credits with lower interest rates and simpler demands and to be inclined to cooperate with the municipalities as well. This is important since as previously mentioned the lack of available and affordable funds are one of the main obstacles for both municipalities and the private sector for implementing energy plans and projects.

In addition, Analytica also recommends giving preference to investments in smart grids for the purpose of harnessing the renewables' potential over coal fired power stations since in light of the EU's 2020 and 2050 energy policies of growth and de-carbonization, existing coal fired power plants should be phased out gradually.

Also, Analytica thinks that the WBIF instrument for supporting the private sector in renewable and energy efficiency projects is an excellent tool for increasing investment in clean energy. We recommend that it needs to be promoted more not only to the private sector but also to the relevant institutions for promoting energy efficiency and renewables as the Energy Agency for example. The Energy Agency has a very frequently visited website and info center by potential investors in the area, thus it could contribute to increased awareness about WBIF among the private sector.

On this topic, Analytica also would like to highlight the fact that is important establishing a dialogue with the big polluters (metal and energy industry) to implement energy efficiency measures leading to reduced CO2 emissions.

Thirdly, regarding the third priority of **regional integration**, Analytica highlights that the country is facing big challenges in the area of transport networks, i.e. trans-European network – the transport infrastructure, especially in the part of financing these projects. Corridor VIII and X are of the country's greatest importance and also crucial for the country's further regional integration in the regional and European transport and energy market. The condition of the railway is not in a good shape and also the infrastructure sections along Corridor VIII, which should connect Macedonia with Albania and Bulgaria, are missing. Thus, greater attention should be devoted to completing and upgrading these vital trans-European networks.

Another important point of regional integration is the country's integration in the planed Gas Ring. Also, Macedonia has considered since many years ago the possibility of gasifying the city of Skopje which is a subject of discussion for about 20 years in which period several studies have been made without significant implementation. One other aspect that needs to be mentioned is the fact that not only the gas transmission network, but also the distribution network needs to be built, the latter preferably in cooperation with the municipalities since Macedonia's regional integration into the European gas infrastructure will not bring any benefit if the gas distribution network is non-existent. In fact, even the already existing transmission pipeline is under-used and the lack of distribution gas network does not allow households and smaller companies to utilize natural gas. In addition, connected to the suggestions given under the first priority, the gasification of Skopje will be competition to the Skopje district heating, ultimately enabling reforming of the district heating market and offering better heat services as a result of a competitive pressure. The lack of developed gas distribution network is an obstacle to utilizing natural gas in the households, an obstacle for companies to enter the heat market and does not allow bigger utilization of the capacity of the existing gas transmission pipeline, which if is to happen, would allow more affordable gas prices for the consumers. Therefore, Analytica once again wants to point out the necessary of investing in the regional integration of Macedonia in line with the Gas Ring concept, but at the same time it should be heavily invested in building the local distribution gas networks.

Thank you very much for your attention. We hope that you will find our comments to be valuable input and that they will be taken into consideration when updating the Strategy. Analytica is at your disposal for further feedback and additional information.

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