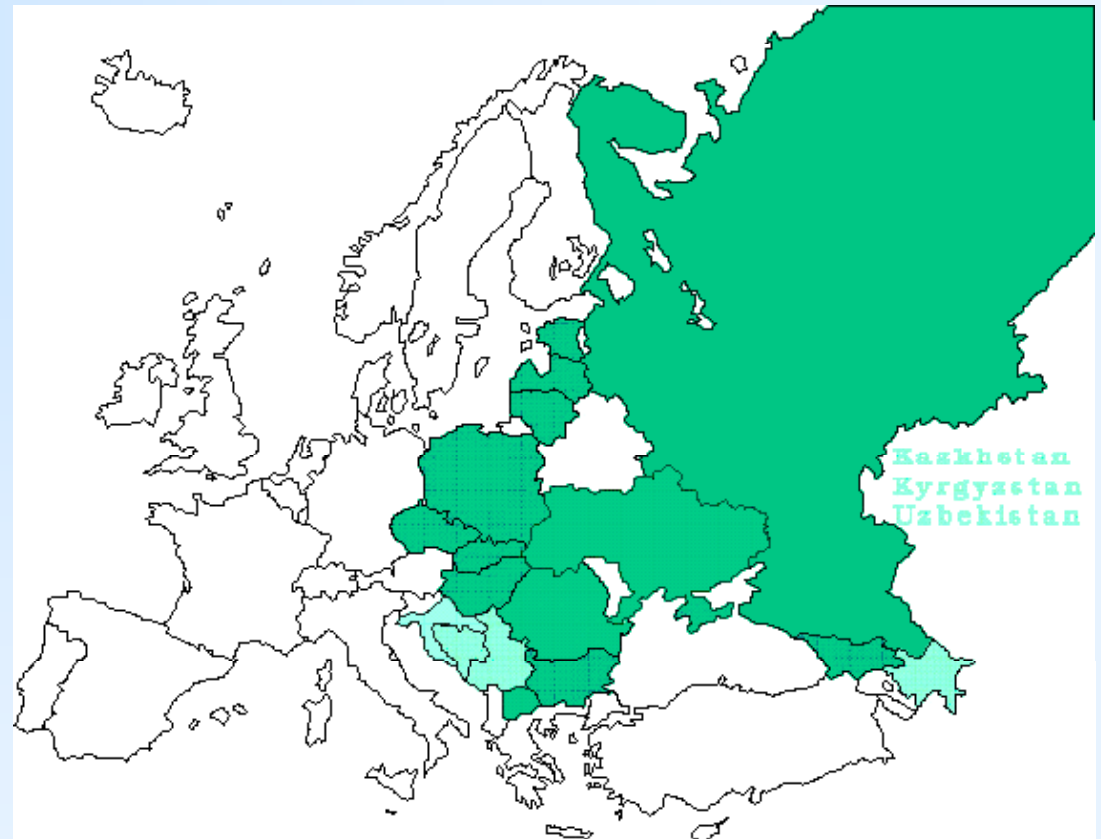


CEE Bankwatch Network

- y **CEE Bankwatch Network is an international non-governmental, non-profit organisation (NGO) with members from 13 countries of CEE and CIS region. Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Macedonia, Poland, Russia (Sakhalin), Serbia, Slovak Republic and Ukraine**



Bankwatch Mission

y **The Bankwatch mission** is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.



Can the International Financial Institutions do more to support new renewables and energy efficiency in southeast Europe?

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Introduction

- y **The Western Balkans countries face significant energy challenges**
- y **Energy intensity levels of the Western Balkan economies are high**
- y **The Western Balkans is a diverse region, yet the low level of exploitation of the potential of renewable energy sources (RES) and energy efficiency (EE) is a common feature, as well as the low uptake of IFIs and EU Funds for such projects**
- y **While governments have focused on increasing generation capacities and stabilising the transmission and distribution systems, progress in institutional and policy reform is lagging behind**
- y **In recent years there have been increased investments in electricity generation capacity, and the coming years are likely to see yet more.**

Introduction (continuing)

- γ **In spite of their renewable energy potential, Western Balkan countries are highly dependent on energy imports, in 2005 ranging from 32% for Serbia and BIH to 51% and 58% for Albania and Croatia**
- γ **SEE is also becoming a transit zone for oil and gas for western consumption**
- γ **SEE governments are engaging in an energy reform agenda framed by the Energy Community Treaty, a regional cooperation framework for rebuilding energy networks and the creation of a regional energy market**
- γ **EIB and EBRD are influential players in the energy sector in SEE, particularly during the financial crisis when commercial financing for energy investments has become hard to obtain.**

Western Balkans energy landscape

- γ **The region in total is dependent on imported energy, primarily oil and natural gas, as there are some countries which are import dependent to a very high degree.**
- γ **One of the major challenges that the region faces is the lack of reliable supply of electricity, which can sometimes cause shortages and blackouts.**
- γ **The total electricity generation in the Western Balkans region is predominantly a mix between thermal generation (mostly coal) and hydro power plants (mostly large scale ones).**
- γ **With 4 000 MW of coal and lignite fired plants exceeding 30 years of age, and with increasing electricity demand in the region, decision-makers are continuously raising the argument that the region needs to invest heavily into more generation capacity.**

Three questions

Should increased generational capacity become a priority number one, pushing the great need to improve energy efficiency further down the to-do-list?

- y **The economies in the region generally have high energy intensities, the countries have high carbon intensities**
- y **Transmission network losses in the SEE region are generally quite large**
- y **At the same time energy prices per unit in the region need to rise, in order to cover the production cost and to introduce incentives for energy savings.**
- y **In this situation urgent actions are necessary to increase energy efficiency and energy savings, in order to mitigate the negative economic impact of the expected increases in electricity prices.**

Three questions

Should new generation capacity come from conventional means – i.e. large hydro and thermal power? Or should it come from new renewables?

- y **Low quality lignite is considered a competitive source of energy in the countries that have their own lignite reserves**
- y **If we exclude large HPPs as unsustainable source of energy that causes irreversible damage to natural ecosystems, then we can state that renewable energy sources currently play an insignificant role in the region**
- y **To what extent it is sustainable to continue the exploitation of the abundant water resources in the region for more hydro power?**

Three questions

What is the purpose of increasing of the generation capacity: to secure a sufficient and reliable supply on the national and regional level, or to satisfy demand coming from richer neighbouring countries and the EU?

- y **Several SEE governments are developing new electricity generation projects for electricity export,**
- y **The European Commission is sending mixed messages regarding such electricity export plans**
- y **By allowing large-scale new renewable developments for export, SEE countries are restricting their own possibilities for developing their RES capacity for domestic use.**

Energy policy in the Western Balkan countries

- y **SEE countries, driven by EU harmonization processes, have been developing primary and secondary energy legislation in the last few years**
- y **All of the countries covered with this paper (Albania, Croatia, Macedonia and Serbia) are signatories of the Energy Charter Treaty and Energy Community Treaty and have adopted a general Energy Law and National Energy Strategies.**
- y **Croatia is most advanced with development of national legislation in line with the EU acquis**
- y **National incentives for EE and RES are limited**
- y **The lack of investment in the sector can be explained by numerous barriers in the region, mainly legal, institutional and administrative ones, but also financial and economic barriers**

Can the International Financial Institutions do more to support new renewables and energy efficiency in southeast Europe?

- y **Introducing the EBRD and EIB**
- y **Both the EBRD and EIB exist primarily to fill gaps left by the commercial banking sector and to finance projects that would otherwise not be financed. It is therefore worth briefly outlining why we consider that they should play a role in promoting energy efficiency and renewable energy in southeast Europe at all.**
- y **The above mentioned barriers make renewable energy and energy efficiency less attractive for commercial banks and private investors than the region's large potential would suggest. Yet unlike most other new areas of investment, it is absolutely crucial for the region that energy efficiency and renewable energy investments increase and succeed.**

Can the International Financial Institutions do more to support new renewables and energy efficiency in southeast Europe?

- y **Both the EBRD and the EIB have recognised the importance of financing renewable energy and energy efficiency and adopted targets**
- y **In 2006 the EBRD launched its Sustainable Energy Initiative (SEI) Phase 1 (2006-2008), which aimed at EUR 1.5 billion worth of sustainable energy investments during the period but was in fact exceeded, with EUR 2.7 billion invested.**
- y **Phase 2 of the Sustainable Energy Initiative (2009-2011) is now underway, with a target of EUR 3-5 billion in investments**
- y **The EIB has set itself several renewable energy targets, such as 50 percent renewable share of total new generation in the EU by 2010.**

The EBRD's energy investments in SEE

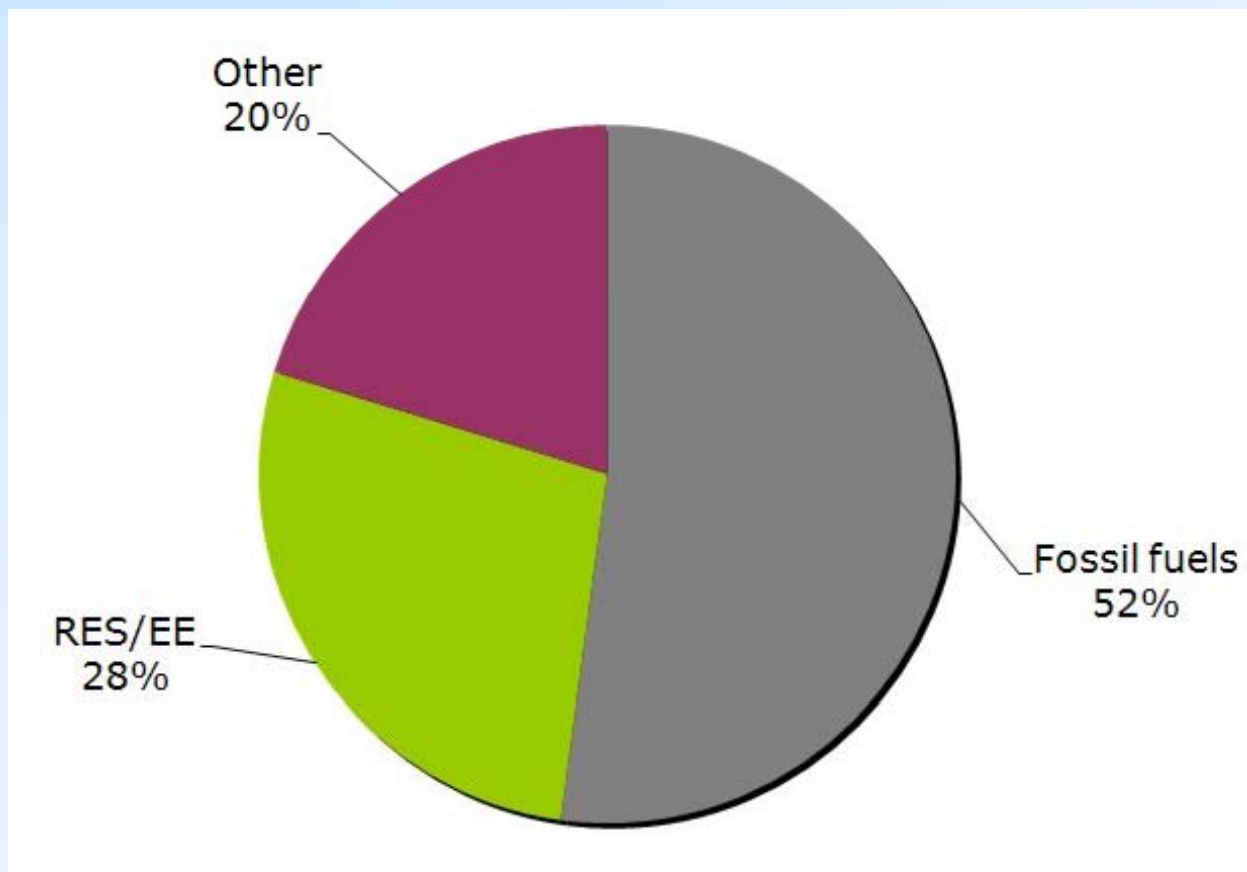
- γ **The following graphs show the EBRD's energy lending in southeast Europe, which amounted to EUR 1.962 billion in 2000-2009. The figures are subject to interpretation depending on categorisation of projects and which projects are included.**
- γ **The calculations cover the period 2000-2009**
- γ **The project data comes from the EBRD**
- γ **The project data for energy efficiency from 2006-2009 covers components of projects rather than whole projects**
- γ **In a few cases (district heating rehabilitation) it was not possible to ascertain which energy sources were involved and projects were therefore categorised as 'other'**

The EBRD's energy investments in SEE

- γ **In the energy sector, if a coal thermal power plant unit is replaced with a more efficient unit, should this be counted as energy efficiency?**
- γ **we believe that such investments tend more towards supporting the coal industry than moving towards truly sustainable energy**
- γ **In the energy sector this has mainly applied to one project, the EUR 80 million Turceni thermal power plant rehabilitation in Romania, so variants are presented below with both Turceni as a coal investment and Turceni as an energy efficiency investment.**

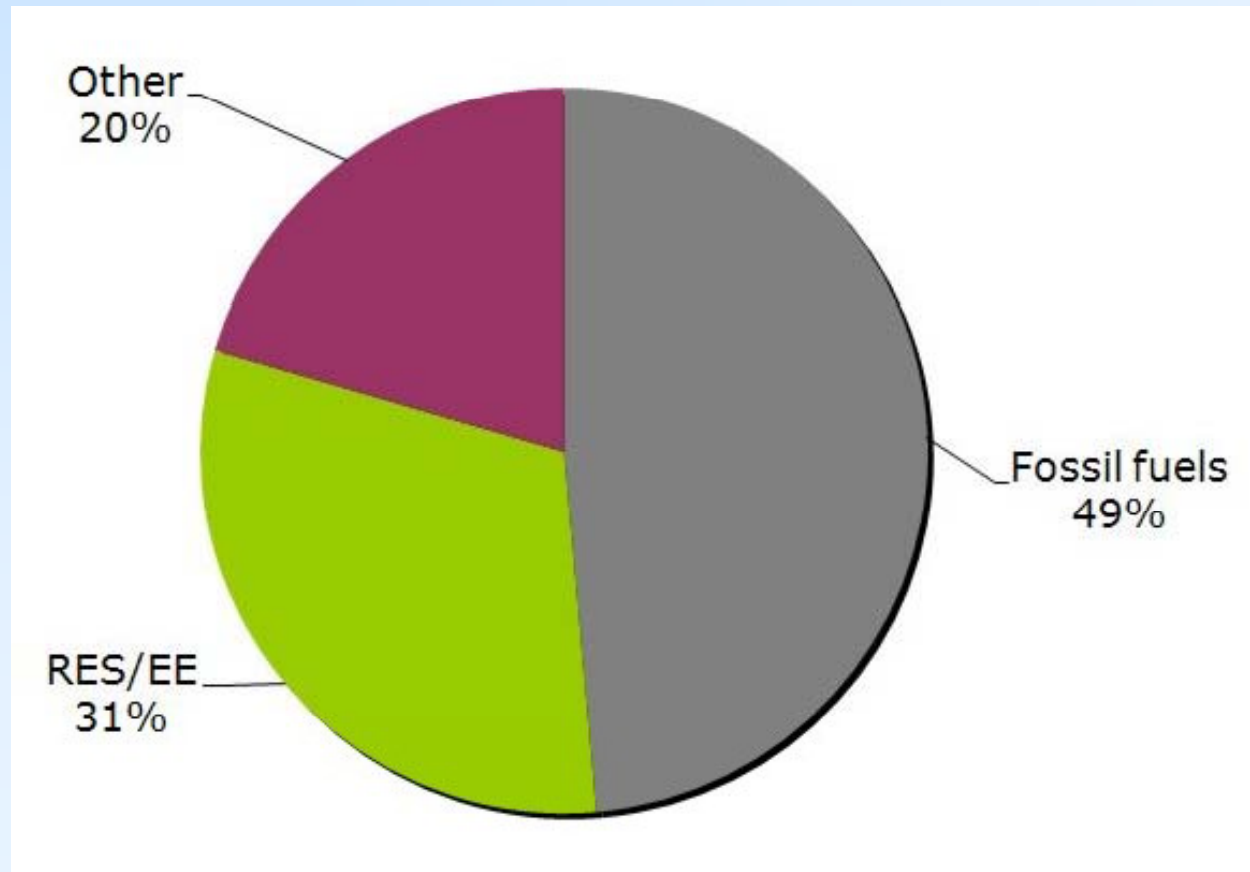
The EBRD's energy investments in SEE

γ **Graph 1 - EBRD investments in the SEE energy sector 2000-2009**
(without transport, Turceni as coal)



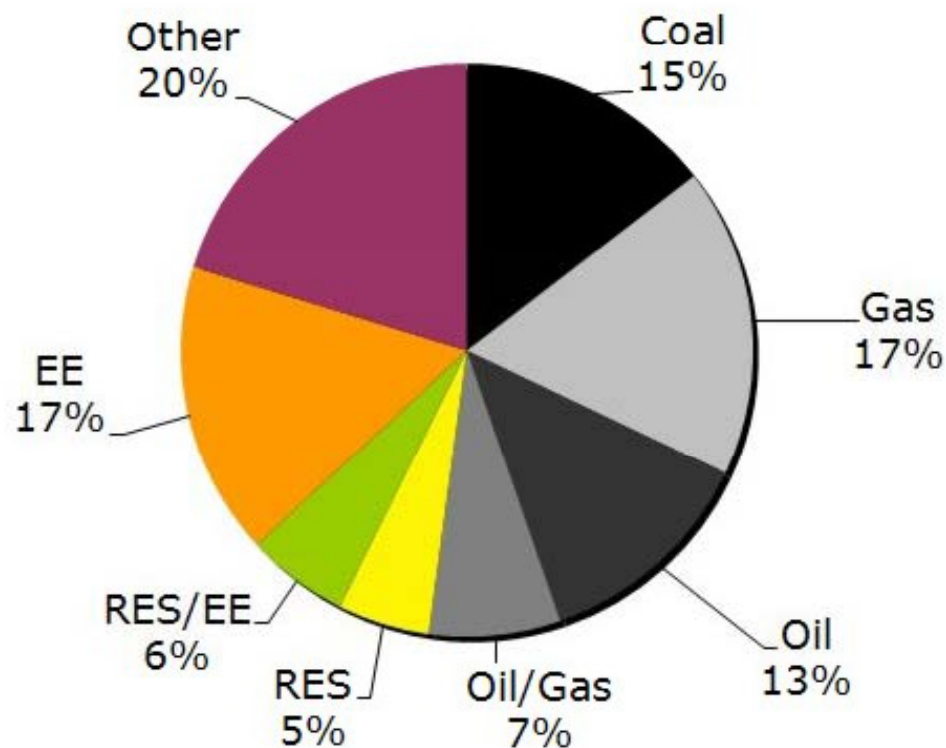
The EBRD's energy investments in SEE

γ **Graph 2 - EBRD investments in the SEE energy sector 2000-2009**
(without transport, Turceni as energy efficiency)



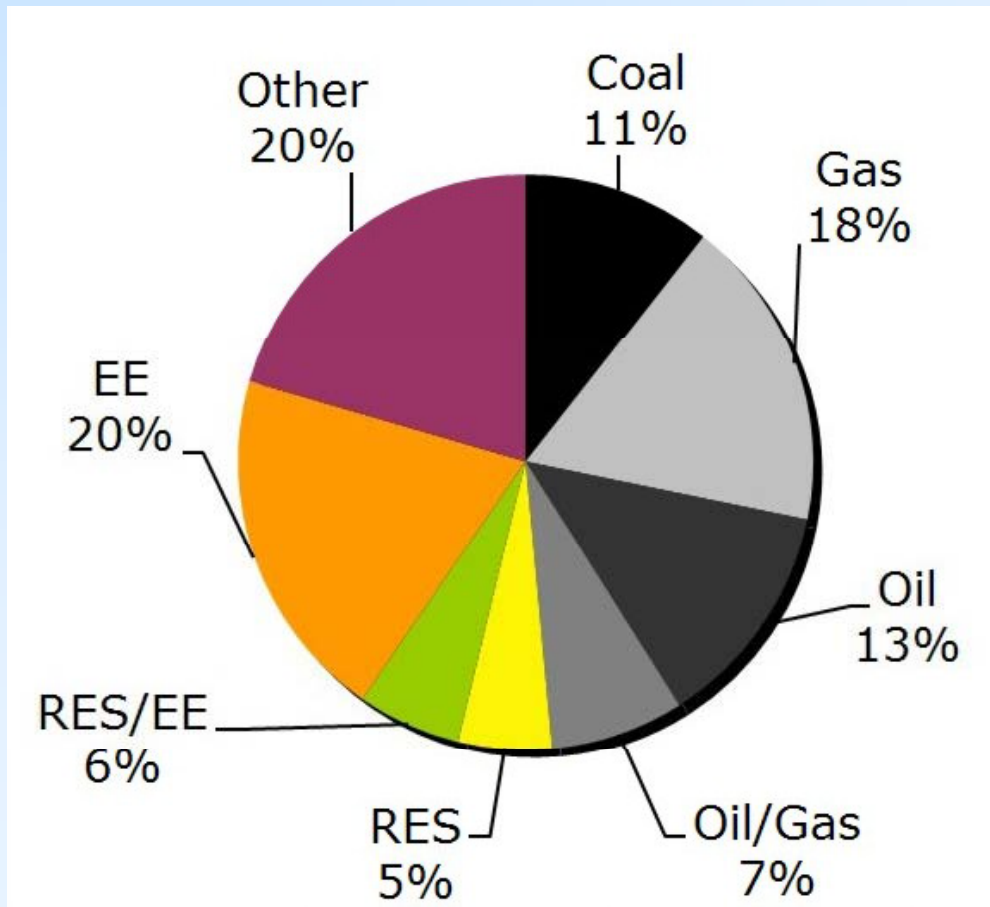
The EBRD's energy investments in SEE

Graph 3 - EBRD investments in the SEE energy sector 2000-2009 (without transport, Turceni as coal) - a more detailed version of Graph 1



The EBRD's energy investments in SEE

y **Graph 4 - EBRD investments in the SEE energy sector 2000-2009 (without transport, Turceni as energy efficiency) - a more detailed version of Graph 2**



The EBRD's energy investments in SEE

y **A closer look at the Albania, Croatia, Macedonia and Serbia shows that the lending has also been uneven, with very little energy efficiency and renewables lending in the Western Balkans.**

y **Albania**

Energy Source	EUR million
Oil and gas	68.445
RES/EE	21.75

y **Croatia**

Energy source	EUR million
Gas	70
Oil	32.377
RES/EE	16.4

The EBRD's energy investments in SEE

y **Macedonia**

Energy source **EUR million**

Energy efficiency 37.5

Oil 17.338

Other 57.021

y **Serbia**

Energy source **EUR million**

RES/EE 23.8

Coal 60

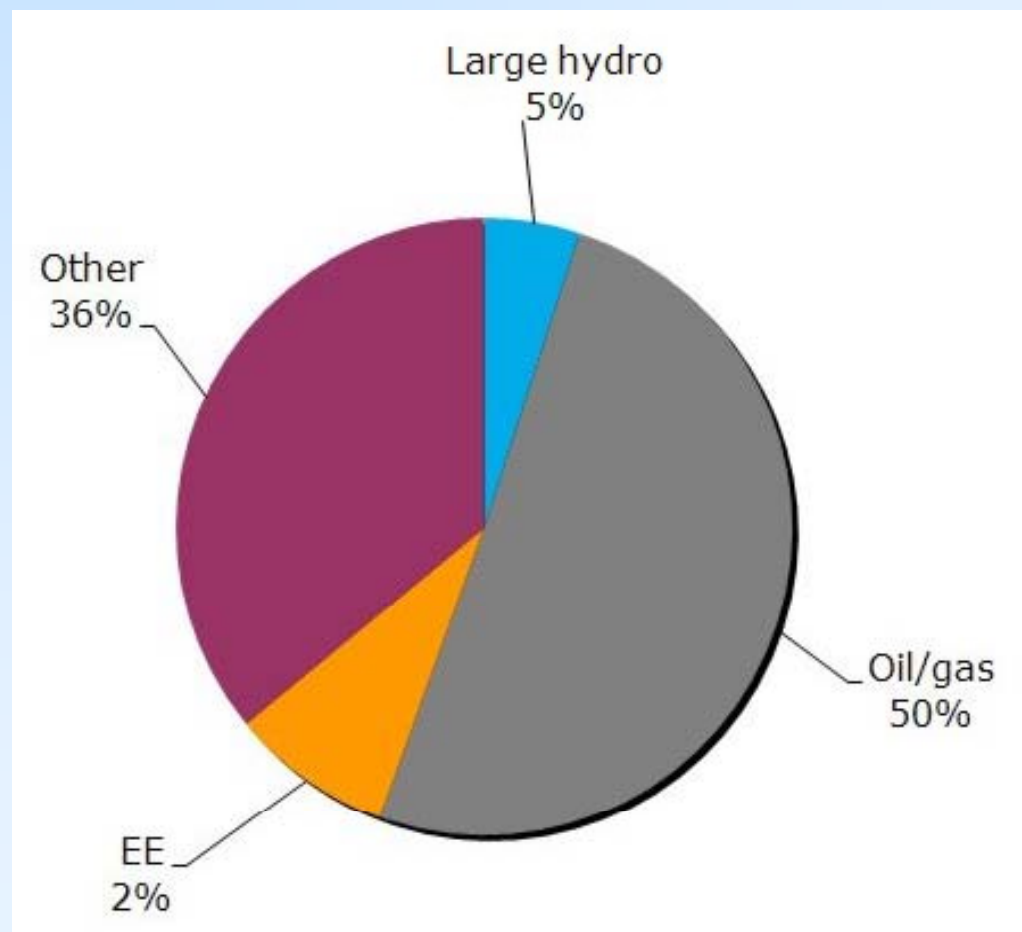
Other 120

The EIB investments

- y **Between 2000 and 2009 the EIB invested EUR 1029.5 million in the southeast European energy sector - just over half as much as the EBRD invested. So far we have obtained data on EIB energy efficiency projects in non-energy sectors only from 2007 onwards**
- y **The ‘other’ investments comprise improvements to the electricity transmission and distribution network.**

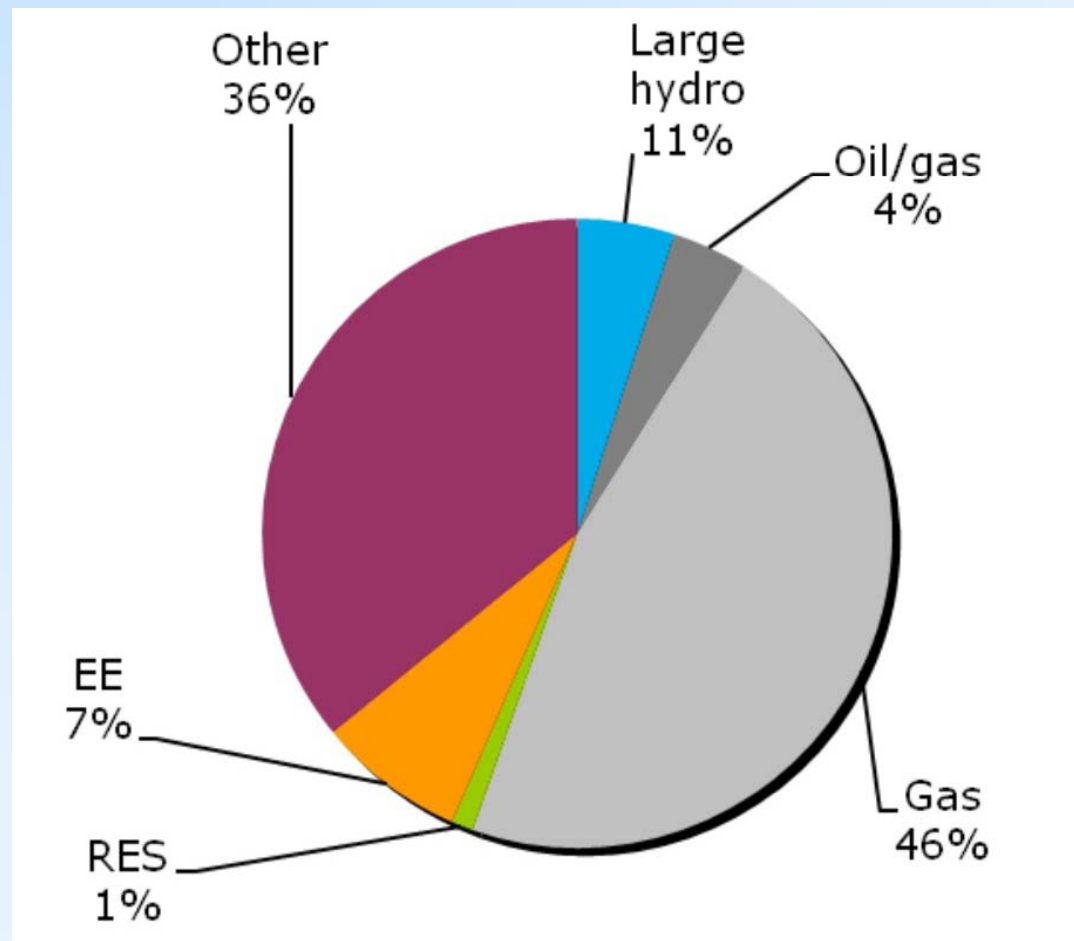
The EIB investment

Graph 5 - EIB SEE energy investments 2000-2009



The EIB investment

Graph 5 - more detailed EIB SEE energy investments 2000-2009



The EIB investments

y **Albania**

Energy source	EUR million
Other	30.00
Energy efficiency/RES	3
Oil/gas	40

y **Croatia**

Energy source	EUR million
Gas	280
Energy efficiency	5

The EIB investments

Y **Macedonia**

Energy source	EUR million
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Other	13
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Energy efficiency and RES	3
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Y **Serbia**

Energy source	EUR million
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Other	116.5
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Energy efficiency and RES	3
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Could the IFIs do more to support new renewables in southeast Europe?

- γ **The European Investment Bank has invested very little into new renewables in southeast Europe.**
- γ **While the EBRD has done more, particularly in Bulgaria, its renewables investments in the Western Balkan countries have been small, very recent, and hidden, because they have been carried out through credit lines and a private equity fund whose final beneficiaries are not disclosed.**
- γ **The EBRD has also supported more climate-damaging fossil fuel projects in the region, as well as road construction projects**
- γ **Both banks have made some energy efficiency investments, particularly in the power transmission and distribution sector. Investments in this sector need to be further developed, particularly to include residential energy efficiency and energy efficiency in public buildings.**

Could the IFIs do more to support new renewables in southeast Europe?

- γ **The EIB is perhaps even better placed than the EBRD to make loans for renewable energy projects in southeast Europe because its loans are made at cost price and thus have lower interest rates than the EBRD's,**
- γ **The international financial institutions can only select projects initiated by others, which fit their policy goals, and a lack of clear government commitment to making renewable energy and energy efficiency into a force to be reckoned with in their countries may dampen private companies' appetites to develop new projects that might be financed by the European public banks.**
- γ **This cannot explain the current situation of low IFI support for renewable energy in southeast Europe, as investment plans for renewable energy do exist in almost all of the countries**

Could the IFIs do more to support new renewables in southeast Europe?

- y **The question is whether the IFIs are perhaps being too perfectionist in wishing to ensure that the conditions for renewable energy investments are in place before supporting the sector.**
- y **After all, is it not the role of public banks to lead investments in new markets that are still considered too risky for the private sector?**
- y **In our opinion, IFI investments in renewable pilot projects could considerably assist in opening the way for further investments by making renewable energy project approval and grid connection procedures more logical and proportional.**

Recommendations for International Financial Institutions

- y **We call upon the International Financial Institutions to shift their funding from fossil fuel energy projects into renewable and energy efficiency projects in the region. This should not include new large hydro power plants, which are not considered sustainable due to biodiversity and water quality impacts and vulnerability to dry weather. Moreover, concerning renewable energy projects, IFIs should support projects where the energy is not primarily intended for export, but its production benefits the development of the country and improves the quality of life of its people.**
- y **IFIs should not wait until the conditions are perfect before financing renewable energy projects, but instead use pilot investments to push through change in the countries in the sector.**

Recommendations for International Financial Institutions

- γ **Regarding district heating energy efficiency projects, we recommend the IFIs to look into supporting biomass utilization rather than fossil fuels. We propose that further research is developed in this area, to show best practices and sustainability of these systems.**
- γ **Although energy efficiency in the residential sector is a massive initiative, we expect IFIs to have an active role in assisting the Governments from the region in addressing the low efficiency of buildings and providing proper finances in order to help implement energy efficiency measures. Additionally, thermostats and control switches in households should be included as mechanisms.**

Recommendations for International Financial Institutions

- γ **A large percentage of the biomass used in this region is accounted for by wood, and in some countries there is illegal logging that is additionally contributing to significant. A programme to support the switching of inefficient with efficient burners is one way to address deforestation.**
- γ **Support should be provided to private companies in the countries developing renewable energy technologies. Supporting them through credit lines would have a multi-beneficiary aspect - it would create jobs, support local economic development and increase the share of renewable energy production in the overall energy production in the country. This would also indirectly help households make a major step in introducing renewable energy technology.**

Recommendations for International Financial Institutions

- y **Regarding industrial energy efficiency, there is an urgent need to the improve energy efficiency of existing large industry in the region and decrease high energy intensity. However, there should be a main focus on very clear and transparent accounting and public information disclosure in order to make sure that the companies are really using the support to significantly improve their energy efficiency.**
- y **As there are significant capacity constraints within national and local administrations, the IFIs could step up technical co-operation to support the staff within the ministries and agencies in increasing their knowledge and skills. Providing technical support in developing laws, regulations and toolkits as well as ways to implement them could also assist the Governments in achieving their goals.**

Recommendations for International Financial Institutions

- y **Some regional Governments argue that they can't attract investments in certain renewable energy utilization projects because they do not have proper data to provide the investors with. The IFIs could also support more research into potentials and in combination with their existing expertise from different countries, such initiatives would be beneficial to all parties concerned.**
- y **In terms of energy efficiency in the transport sector, the IFIs need to step up support for sustainable transport. Urban investments need to encourage better urban planning and decrease climate impacts by decreasing dependency on cars, by providing alternative public transport, use of the bicycle and walking. Elsewhere, the IFIs should drastically decrease financing for motorway and highway construction and invest more in railways.**

Recommendations for International Financial Institutions

- γ **When assessing energy and transport projects, IFIs need to look at various national strategies and EU legislation rather than just sectoral strategies for the energy and transport sectors. Energy and transport sector strategies, where they exist at all, often conflict with the need to reduce greenhouse gas emissions in order to meet EU targets once the SEE countries join the EU.**

THANK YOU FOR YOUR ATTENTION!

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