

In her first interview since taking the helm of the EBRD's regional operations in the Western Balkans, Zsuzsanna Hargitai discusses the international finance institution's green financing and planned projects in the region. She tells Balkan Green Energy News that the EBRD takes seriously non-governmental organizations' recent reports about hydropower plant financing by its financial intermediaries, as well as that the Bank is working with policy makers in different countries in the region to put into practice the Policy Guidelines on the competitive procurement of renewable energy, prepared together with the Energy Community Secretariat.

The indicative investment pipeline of the EBRD's Green Cities programme includes Banja Luka Water Project, Belgrade Green Fleet, Skopje Bus, Skopje Wastewater and Podgorica Public Buildings Energy Efficiency, Hargitai says.

You have recently assumed the new office of the EBRD's regional director for the Western Balkans. Does that herald the financial institution's more regional approach in this part of the world? Also, would you say that this region is specific in some way compared to other regions of the EBRD's operations?

Having the regional director for the Western Balkans on the ground and developing further our Belgrade office as a regional hub, is part of a simple plan from the EBRD: we wish to enhance our local presence to be able to provide even better tailored financial and advisory products and services for our clients and counterparts in this region. Such products and services will take into account the specificities of the individual countries as well as the region as a whole, including EU approximation and the development of a regional economic area.

Could you tell us about the EBRD's key green finance projects planned in the region? Which sector from the Bank's green portfolio, in particular, will be in the focus?

The EBRD's Green Economy Transition approach puts investments that bring environmental benefits at the heart of our financing and advisory activities. The target is to achieve 40% share of green financing in our annual business by 2020. And we are well on track to get there! In the Western Balkans, we have invested over EUR 2.32 billion in 184 green projects since 2006, which is equivalent to 25% of total investments in the region. We provide 'green financing' both directly (e.g. renewable energy generation, energy efficiency upgrade of corporates) and indirectly, by extending specialised credit lines to local banks. Let me highlight two programmes.

The Western Balkans Regional Energy Efficiency Programme, established in strategic partnership with the European Union and with support from bilateral donors, is implemented in close collaboration with the Energy Community Secretariat. REEP combines



EBRD seeks to put investments that bring environmental benefits at heart of its financing, advisory activities

EBRD financing (EUR 302 million across all products) with grant elements as well as advice for beneficiaries and policy-makers. The EU has supported REEP with funding of EUR 34 million for grant incentives and additional EUR 9.3 million for advisory services. Donors provided EUR 19 million in grant financing as well. We work with local financial institutions to on-lend to SMEs for smaller-scale projects, as well as to households and housing associations that wish to implement energy efficiency home improvements. REEP also includes direct lending facilities for both private sector sustainable energy projects and for cities or municipal companies to improve energy efficiency.

Our Green Cities programme is designed to support cities in addressing systematically urban environmental problems (air quality, energy efficiency, municipal waste, water treatment, etc.). We have already signed EUR 78 million of financing for the first five projects in the Western Balkans: Sarajevo Water, Belgrade Green Boulevards, Banja Luka District Heating, Tirana Water Company and Energy Efficient Refurbishment of Zenica Hospital. Going forward, our indicative investment pipeline includes Banja Luka Water Project, Belgrade Green Fleet, Skopje Bus, Skopje Wastewater and Podgorica Public Buildings Energy Efficiency. A key component of this facility is the Green City Action Plan that articulates a city's vision of sustainable development as well as priorities for environmental investments. The first GCAP in the region was adopted by Tirana municipal council. The EBRD is currently supporting the development of GCAPs in Sarajevo, Zenica, Banja Luka and Belgrade. Other cities in the region, such as Skopje, are also planning to become Green Cities.

Could you single out an EBRD-backed project that has had the biggest impact on climate action in the region so far?

The EBRD supports investments focused on climate change mitigation (reduction of greenhouse gas emissions) and on adaptation and resilience to the effects of climate change. On the mitigation side, last year we co-financed two wind projects: Čibuk 1 (158 MW) with EUR 108 million syndicated loan and Kovacica (105 MW) with EUR 50 million. The renewable power generated by these two projects combined is equivalent to cover 5% of the residential electricity consumption in Serbia. Only Čibuk 1, the largest wind project in the Western Balkans to date, is expected to contribute to CO<sub>2</sub> emission reduction of 370,000 tonnes annually, once it is connected to the grid next year.

Now an example of our work on climate resilience: the EBRD provided EUR 65 million financing to the Bosnian Roads Company for the upgrade and repair of the road network damaged by the unprecedented floods of 2014. The project design specifically focused on climate change considerations, and part of the loan was used to support climate resilience

measures, such as enhancing drainage systems, deepening bridge abutments, strengthening vulnerable slopes.

What is the EBRD's response to allegations made by environmental civil society organizations concerning hydropower projects and their petition against hydropower financing?

We take seriously recent NGO reports about hydropower plant financing by our financial intermediaries, and we are currently reviewing the way we work with them on such projects. We have not directly financed any new hydropower projects without verifying that they are not located in protected or proposed protected areas. In very rare cases, areas were designated as protected after projects had been approved.

Overall, we welcome the dialogue with civil society organisations, particularly as we aim to continuously develop and improve the Bank's environmental and social policies, and to mainstream sustainable development throughout our operations. We have taken a number of actions to strengthen our project appraisal approach, including undertaking an early pre-screening of all geographical locations of HPP projects (regardless whether they would be financed by the EBRD or by financial intermediaries). The eligibility criteria for small HPPs have been updated and a new initial environmental and social examination tool specifically for small HPPs has been introduced. Actually, the EBRD was the first international financial institution to issue a Guidance Note for the sustainable development of HPP projects.

Hydropower is key in the power generation mix in the Western Balkans. It is also highly sensitive to hydrological and climatological variability, and to the projected impacts of climate change. The EBRD supports its clients to incorporate climate resilience components in their operational management. For example, our investment in Albania's KESH, the state power utility, is conditioned upon an agreed plan for comprehensive reforms, which explicitly cover improved climate risk management. We help the company understand and manage climate change risks to hydropower operations, through improved access and use of hydromet data, optimising power generation and managing flood risks.

Many European countries are shifting to competitive selection procedures (tendering and auctions) as a new model of supporting renewable investments. How will that affect the countries of the region considering they have not reached the maturity of their European peers?

The move to competitive procurement for renewable energy is an important development. This shift has been one of the contributors to the stunning cost reductions for renewable energy in recent years. We are therefore keen to help the countries in the Western Balkans also make this transition. It is important, however, that such schemes are structured in a

way that can attract a large pool of investors so that the benefits of competition can be realised. We worked jointly with the Energy Community Secretariat and in collaboration with the International Renewable Energy Agency, to prepare Policy Guidelines on the competitive procurement of renewable energy. They were issued in March 2018 and are intended to provide specific recommendations for structuring competitive procurement processes. The Policy Guidelines take account of the different stages of market development in the region. Moreover, competitive procurement schemes can be further tailored to adapt to anticipated market reforms, such as those currently envisaged in the Western Balkans region. We are now working with policy makers in different countries to put these Policy Guidelines into practice.

The EBRD recently announced a deal with Erste Bank in Serbia as part of the Green Economy Financing Facility for the Western Balkans. What are the next steps under the facility in Serbia and the neighbouring countries?

The Green Economy Financing Facility is part of the comprehensive Western Balkans Regional Energy Efficiency Programme . It aims to provide financing for energy efficiency improvements to households through our network of partner banks. Upon investment completion, the end borrowers are eligible to receive a grant (funded by the EU) of up to 20% of the investment cost. The facility also targets comprehensive retrofits of multi-apartment buildings and for such complex projects the grant contribution is up to 35%. Since November 2017, GEF has been rolled out to Bosnia and Herzegovina, Kosovo, FYR Macedonia and, as of this month, in Serbia. We have by now provided EUR 40 million financing to 10 partner banks out of the overall EBRD funding envelope of EUR 85 million. Through the GEF technical assistance programme, funded by the Austrian Federal Ministry of Finance and the Western Balkans Investment Framework (EUR 5.1 million in total), we are engaging with suppliers and producers of green technologies for the residential sector, which the programme aims to promote (e.g. energy efficient boilers, windows, thermal insulation, heat pumps, solar PV panels etc).

The allocation for Serbia is EUR 25 million of the overall funding envelope, supported by around EUR 5 million of EU grants. Erste Bank Serbia is the first local bank to become part of the GEF programme with a credit line of EUR 5 million equivalent in Serbian dinar. Our goal is to expand the cooperation with local partner banks to achieve a meaningful impact in Serbia. You are welcome to join us for the official launch event of the GEF programme in Serbia that will take place at the end of September!

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