

**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

**SUSTAINABLE ENERGY INITIATIVE
PROGRESS REPORT**

**PAPER PREPARED FOR THE
MINISTERIAL MEETING OF THE GLENEAGLES DIALOGUE
ON CLIMATE CHANGE, CLEAN ENERGY AND SUSTAINABLE DEVELOPMENT
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The EBRD Sustainable Energy Initiative (SEI) was launched at the May 2006 Annual Meeting in London with the support of the Bank's shareholders. It responds to the needs of the energy transition in the EBRD region arising from the high energy intensity of its economies and to the request of the G8 at the Gleneagles Summit in 2005 for each Multilateral Development Bank (MDB) to develop an investment framework to scale up climate change mitigation and adaptation investment.

The SEI has the following main features:

- **project-based investment oriented approach** directly targeted to increase the level of financing for climate change mitigation;
- particular focus on **energy efficiency** reflecting the nature of climate change related issues in Eastern Europe, the high potential to generate significant carbon reduction results in the short term and the EBRD leading expertise in this area among MDBs based on operational experience built since 1995;
- specific orientation to **leverage private sector** financial and technical resources as more than 80% of EBRD financing in 2006 was to the private sector;
- **sector based approach** building on sectoral team knowledge and investment project experience;
- integration of energy efficiency in **country operational strategy** development and implementation; and
- full **internal mainstreaming** of SEI activities across the EBRD organisation with all country and sector operational divisions contributing to scaling-up of climate change mitigation investment and managerial coordination between climate change and corporate planning activity as support to mainstreaming.

The initial **scaling-up objective** of the SEI is to more than double the level of climate change mitigation investments to €1.5 billion over the period 2006-2008. The total project value related to this financing is initially set at over €5 billion over this period. The SEI is a rolling framework allowing to increase objectives over time if delivery exceeds initial ambitions.

The SEI has been now under implementation for over one year. This note provides a short description of the structure of the SEI, of results achieved to date and of the current outlook for climate change mitigation investment under this specific initiative.

SEI structure

Based on an assessment of the main climate change related issues in the Bank's region of operations and on its comparative advantage, the SEI focuses on the following main activity areas:

1. **Industrial energy efficiency** (*demand side energy efficiency*). The SEI extends an energy audit programme and energy management training for large energy users, accompanied by targeted investments to reduce energy waste. The programme covers the whole EBRD region with particular attention to large highly energy intensive industries.
2. **Sustainable energy financing facilities** (SEFFs) through the financial sector (*demand side energy efficiency and renewable energy*). The EBRD finances a large numbers of smaller projects (including in the SME, municipal and private residential sectors) by leveraging its relationships with local and regional financial institutions. A credit line is extended to these banks accompanied by technical assistance and in some instances grant incentives to overcome market barriers to these investments and build long term systemic capacity. SEFFs are being implemented in a growing number of countries.
3. **Cleaner energy supply** (*supply side energy efficiency*) covering the power and the natural resources sectors: extraction, generation and transmission. The SEI supports rehabilitation/refurbishment to increase generation efficiency, fuel switching strategies at large thermal power plants, loss reduction in transmission networks and seeks to identify project opportunities to reduce gas flaring.
4. **Renewable energy** (*zero carbon generation*). Renewable energy capacity in the EBRD region remains limited. The SEI provides legal assistance to establish the regulatory framework for renewable energy, technical assistance for renewable energy project scoping and environmental impact assessment, technical assessments of renewable energy potential and training for local banks and project developers, as well as finance for new capacity.
5. **Municipal infrastructure energy efficiency** (*demand side energy efficiency*). EBRD finances a range of projects to enhance the energy efficiency of municipal infrastructure services with a particular focus at this stage on district heating and public transport. Sustainable urban transport strategies will be supported along with investments that underpin tariff reform taking account of affordability constraints.
6. **Carbon market development** (*carbon finance for "green" projects*). The SEI includes the €165 million Multilateral Carbon Credit Fund (MCCF) launched with the EIB in December 2006 and supports project preparation of complex transactions, climate workshops in the region, and adoption of approval procedures for projects under the Kyoto Protocol's Joint Implementation and Clean Development Mechanisms. The region currently contributes around 13 per cent of global carbon emissions yet it generates just 3 per cent of global carbon credits. Over the coming years, the MCCF will help to raise this to a higher percentage.

SEI progress to date

The EBRD has moved swiftly to implementation with SEI investments reaching €750 million in 2006. In particular, demand side efficiency investments more than doubled from the previous year to around €500 million. It is relevant to note that only the portion of EBRD financing technically assessed to have an energy efficiency impact is counted. This may not include energy efficiency financing from other sources including private companies or syndication

banks. The total project value of the projects with SEI components reached over €4.4 billion in 2006.

Table 1: 2006 SEI investments by sector

Category	Signed (€ million)	No of projects
SEI 1 Industrial energy efficiency	188	16
SEI 2 Sustainable energy financing facility	81	8
SEI 3 Power supply energy efficiency	310	5
SEI 4 Renewable energy	81	6
SEI 5 municipal infrastructure energy efficiency	88	16
Total	748	51

Table 2: 2006 SEI investments by region

Region	SEI Signed (€ million)	%	No. of Projects
Central Europe	153	20%	7
Russia	156	21%	12
Central Asia	-	0%	0
SEEC	439	59%	32
Total	748	100%	51

SEI projects were financed in 13 countries during 2006 including Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Lithuania, Poland, Romania, Russia, Serbia and Ukraine. SEI financing during 2006 included:

- **Industrial energy efficiency** investments reached €188 million in 16 projects with total EBRD finance of €598 million. Significant projects include Alchevsk and Mittal Krivih Ryi in Ukraine involving close to €130 million of EBRD energy efficiency investment and carbon credit transactions under preparation.
- Commitments to **Sustainable Energy Financing Facilities** reached €81 million, with the extension of the existing credit lines in Bulgaria and the launch of new credit lines in Ukraine to support the corporate sector to adjust to the gas price hike of 2006.
- **Supply-side energy efficiency** projects in the power sector accounted for €310 million, with in particular a large generation project involving fuel switch and increasing generation efficiency for Azdres in Azerbaijan.
- **Renewable energy** investments exceeded €80 million in spite of the significant barriers to investments in this area remaining in most countries including a large hydropower plant rehabilitation project with OGK in Russia and the Renewable Energy Fund in Armenia.
- Financing to **municipal infrastructure energy efficiency** projects amounted to €88 million including district heating projects in Ufa (Russia) and Timisoara (Romania), public transport (Kaunas in Lithuania, Pula in Croatia, and Krasnodar in Russia) and housing block energy efficiency (Surgut in Russia).

The Bank is now working with a number of donors to set in place financial cooperation agreements specific to the SEI, with the objective of attaining the initial €100 million donor grant target to support full implementation of the €1.5 billion EBRD initial investment target.

Overall, the EBRD's sustainable energy investments in 2006 are estimated to result in energy savings of about 1.2 million tonnes of oil equivalent and carbon savings of more than 6 million tonnes of CO₂ equivalent. The latter is equivalent to the annual emissions of 1 million UK households and the former to a third of the energy demand of Albania or Moldova.

SEI delivery drivers and outlook for 2007-2008

The implementation of the SEI relies on the following five key delivery drivers:

- **A project based approach to scale up climate change mitigation investments.** This approach is described above based on clear investment targets, specific sectoral programmes, a focus on project identification and implementation with an emphasis on the private sector, and on the use of technical assistance and investment grants to overcome identified barriers to energy efficiency investment.
- **Country specific programmes** including both the project approach but also country based policy dialogue to promote required institutional, regulatory and capacity building activities and provide the appropriate environment to scale up climate change mitigation investment.
- **Mainstreaming** climate change mitigation objectives across the EBRD organisation to achieve maximum internal leverage.
- **Multilateral partnership** with the EBRD working with other MDBs and partners such as the International Energy Agency in the framework of the Gleneagles Framework as well as with regional institutions. In March 2007, the Bank hosted the Clean Energy Investment Conference with the participation of the MDB Presidents and leaders from the private and public sectors. The EBRD also hosted, as a follow up action to the Monterrey Gleneagles Dialogue, a workshop in London on mainstreaming climate change financing within MDBs. This workshop attended by most MDBs covered a number of relevant topics to scale up MDB climate change investment such as climate change strategy formulation, organisational structure and incentives, and impact measurement.
- **Donor partnership.** The SEI requires grant funds to overcome specific market barriers to investment. Instruments include market studies, capacity building and project preparation, and in some instances investment grant co-financing. A strategic partnership with donor countries ensures that the EBRD also benefits from their policy perspectives and experience. There is close cooperation with the EU, in the framework of the Energy Efficiency Action Plan. The SEI provides the opportunity in regular SEI Forum meetings to share information on its climate change mitigation activity with a broad range of EBRD shareholders supporting the Initiative. Donor commitments to the SEI since its launch in May 2006 reached €75 million: over €50 million from the EU Commission and other EU funds; and over €20 million from bilateral donors, including the United Kingdom, France, Spain, Canada, Italy, the Netherlands, Sweden, Finland, Austria, Luxembourg, Switzerland and Norway. With a technical assistance project pipeline of some €40 million and investment grant requirements of around €120 million, further and sustained donor support is needed if the pace of SEI activity and financing is to be sustained.

Looking forward to the end of 2007 and to 2008, the following objectives are being pursued by the EBRD in the implementation of the SEI:

- **further scale up SEI activity relative to 2006** both in terms of overall climate change mitigation investment level and in terms of country coverage;
- **increased activity across SEI programmes** including large scale industrial energy efficiency investments, accelerated roll out of Sustainable Energy Financing Facilities, further development of supply side energy efficiency investment in power sector, build-up of renewable energy investment pipeline, expansion of number of cities covered by district heating energy efficiency and public transport projects, and targeted support to carbon market development;
- **develop new areas of activity** including buildings energy efficiency; and
- **strengthen policy dialogue, institutional development and capacity building activities** in complement to investment project financing activity.

The pace of development of the SEI and the resulting growth rate of EBRD sustainable energy investments will to some extent depend on the availability of grant funding to support technical assistance and investment grant requirements. Building on the positive response from donors to date, SEI funding mobilisation must be pursued to ensure continuing strong donor support. In addition, the shareholders of the EBRD may also consider to allocate some of the net income of the Bank to support the sustained development of the SEI.

The EBRD has been an active partner in the Gleneagles Dialogue. As the MDBs will be reporting on their activity and results achieved at the upcoming G8 meeting in Toyako, Japan, the EBRD will continue to play an active role with a particular focus on energy efficiency and on the actual scaling up of climate change mitigation investment in line with the objectives set at Gleneagles.