CEE bankwatch network

# European public money for the energy sector in countries of the European Neighbourhood Policy, 2007–2014

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For more information

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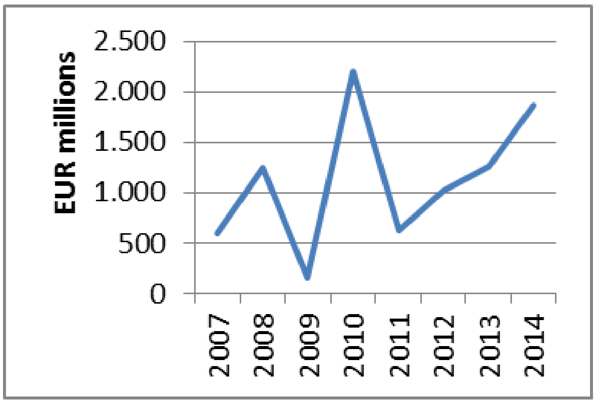
## Executive summary


Countries of the European Neighbourhood have received a boost to their energy sectors in the last decade, thanks in part to the prominent role played by the EU as a catalyst of both policy reforms and financing. The present analysis examines EU financing for the energy sector in 16 countries of the European Neighbourhood between 2007 and 2014.[1] The research focuses on financing from the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Neighbourhood Investment Facility (NIF), INOGATE and the European Atomic Energy Community (Euratom). The goal of the analysis is to compare the support for unsustainable sources of energy (such as fossil fuels and nuclear power) versus that of renewables and energy savings and provide a reality check about the extent to which the EU's decarbonisation goals are promoted within the ENP region.

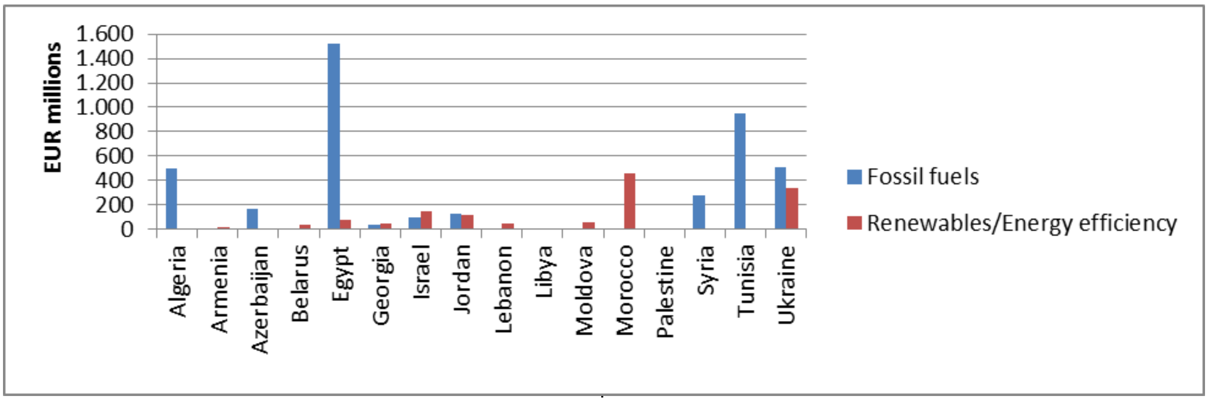
Between 2007–2014, the EU financed at least EUR 9 billion in 205 energy projects among its eastern and southern neighbours. The EBRD and the EIB contributed with EUR 8.4 billion, 94 per cent of the total EU financing examined. The EBRD financed the most projects (EUR 2.8 billion for 105 projects), while the EIB provided the largest amount of financing (EUR 5.6 billion for 51 projects).




EU financing was geographically concentrated in four countries that absorbed three quarters of the total funding. Ukraine is the top recipient (EUR 2.5 billion), followed by Egypt (EUR 1.8 billion), Tunisia (EUR 1.1 billion) and Morocco (EUR 1.1 billion).

Financing was spread unevenly between fossil fuels and renewable sources of energy and energy savings. Oil, gas and coal absorbed nearly three times more financing by volume than renewables and energy efficiency. The EU provided over EUR 4.2 billion for hydrocarbons, in contrast to EUR 1.5 billion for alternative sources of energy.


1 Specifically, the research covers Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Palestine, Syria, Tunisia and Ukraine.




*EU public banks support for fossil fuels versus renewables and energy efficiency in ENP, 2007–2014*

The EU's public banks made the difference in terms of financing for fossil fuels and clean energy. Financing for renewables and energy savings (EUR 1.3 billion) received just one third as much as financing for hydrocarbons (almost EUR 4.2 billion). Egypt (EUR 1.5 billion), Tunisia (EUR 954 million) and Ukraine (EUR 510 million) are again the top borrower countries for oil and gas-related developments from the EIB and EBRD. In addition, hydrocarbon-rich countries have received disproportionately less financing for exploiting renewable sources. Tunisia received only EUR 7 million for energy efficiency and in Egypt, public support for renewables amounted to EUR 74 million, 7 per cent of what oil and gas received.

The contrast between financing for fossil fuels versus renewables and energy efficiency is most pronounced in the EIB's lending portfolio. Renewables and energy efficiency projects received four times less (EUR 780 million) than fossil fuels (EUR 3.2 billion).

## European Bank for Reconstruction and Development

The EBRD's lending portfolio in the ENP region is a contrasting mix of fossil fuels and renewable energy and energy efficiency projects. Between 2007 and 2014, the EBRD provided EUR 991 million to fossil fuels, with the region receiving its highest total in 2014 (EUR 557 million) for seven mostly gas-related projects. The shift towards gas investments is expected to continue given the EBRD's recent approval of a EUR 500 million loan to Lukoil for the extraction of gas in Azerbaijan.

The EBRD is one of the key promoters of hydropower in the ENP region and was the sole actor to invest in greenfield, run-of-river and dam projects exceeding a capacity of 10MW. The three new plants that the EBRD backed are all located in Georgia, making the country a hotspot of large hydropower construction. The EBRD also financed the refurbishment of large hydropower plants in Armenia and Ukraine.

The EBRD provided just EUR 582 million for wind, solar, biomass, biogas and small hydropower projects in the past eight years. Despite increasing efforts to finance renewable energy sources and energy efficiency, the EBRD's support for renewables and energy conservation is lagging behind its contributions for hydrocarbons. Overall, renewables and energy efficiency received EUR 409 million less in financing from the EBRD than fossil fuels over the period 2007–2014.

2014 marked the sharpest contrast between financing for fossil fuels (EUR 557 million) and renewables and energy savings (EUR 140 million).

EBRD support for nuclear power is restricted to the financing of nuclear safety measures, mainly upgrade at existing units. These however enable the lifetime extension of expired units for up to 20 years beyond initially projected. The EBRD and Euroatom were lead financiers of EUR 600 million for nuclear investments in Ukraine.

## European Investment Bank

EIB lending to the energy sector in the ENP region totalled EUR 5.6 billion in 2007–2014, double that of the EBRD, reaching a little over EUR one billion in

2014. Egypt is the main recipient of the EIB energy financing (EUR 1.5 bilion), and Tunisia and Morocco follow with EUR 1 billion and EUR 956 million respectively.

The EIB financed 17 fossil fuel projects worth EUR 3.2 billion between 2007–2014 – nearly three times more than the EBRD – most of which were gas projects. The bank financed directly only one oil-related project, the ERC refinery in Egypt. The EIB boosted financing for hydrocarbons after a three-year period (2011–2013) during which there were no fossil fuel investments. Egypt and Tunisia were the major destinations of EIB gas-related financing.

Like the EBRD, the EIB has used different instruments for financing smaller renewables and energy efficiency projects. It contributes to national and international funds like the Green for Growth Fund. In total, the EIB supported small renewables and energy conservation via intermediaries with nearly EUR 77 million.[2] However, renewables and energy conservation received four times less than fossil fuels in the ENP (EUR 780 million).

## Neighbourhood Investment Facility

The Neighbourhood Investment Facility (NIF) has established itself as a smaller financing instrument in the ENP energy. Between 2007–2014, the NIF provided EUR 277 million for 29 energy operations in the region, joining forces with larger financiers such as the EBRD and EIB. It is noteworthy that while NIF made minimal contributions to fossil fuels, renewables and energy efficiency constituted nearly three quarters (EUR 201 million) of its total financing. Morocco was the leading recipient of NIF financing for renewables.

## Recommendations to the EU during for the ongoing ENP review

EU financing institutions and instruments favour fossil fuels and other unsustainable energy sources over new renewables and energy savings. The new ENP is encouraged to ask for a phase-out of fossil fuels and other unclean sources of energy, and instead contribute to sustainable energy generation and energy conservation. Such directions are in line with the EU's long-term decarbonisation agenda and the UN Sustainable Development Goals.

2 Some of these funds have a regional scope and cover also non-ENP countries.