

The weakest link

Progress in greening EBRD energy portfolio (2010-16) still undermined by lending for fossil fuels

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For more information contact

Pippa Gallop
pippa.gallop@bankwatch.org

Fidanka McGrath
fidankab@bankwatch.org

1. CEE Bankwatch Network: Tug of War: Fossil fuels versus green energy at the EBRD, May 2012, <https://bankwatch.org/sites/default/files/EBRD-energy-tug-of-war.pdf>
2. EBRD: <http://www.ebrd.com/what-we-do/sectors-and-topics/ebrd-energy-strategy-switch-coal.html>, accessed 8.10.2017
3. Alexander Pfeiffer, Richard Millar, Cameron Hepburn, Eric Beinhocker: The '2°C capital stock' for electricity generation: Committed cumulative carbon emissions from the electricity generation sector and the transition to a green economy, Received 11 September 2015, Revised 16 February 2016, Accepted 18 February 2016, Available online 24 March 2016, <http://www.oxfordmartin.ox.ac.uk/publications/view/2119>

The European Bank for Reconstruction and Development, founded in 1991, is mandated to promote market economies in countries of the former Eastern Bloc and at the same time, environmental sustainability in all its activities. A very significant part of this work necessarily involves using its investments to tackle climate change.

CEE Bankwatch Network has for many years monitored EBRD investments in the energy and natural resources sectors and urged the bank to support demand-side energy efficiency and sustainable forms of renewable energy, rather than fossil fuels. In 2012, we published a report showing that there had been some welcome developments in the bank's energy portfolio, such as increased investment in energy efficiency and new renewables between 2006 and 2011. However these gains were undermined by the fact that almost half (48 per cent or EUR 3.26 billion) of the bank's energy-related lending supported fossil fuels during the same period.¹

In 2013 the EBRD took a step forward by virtually halting support

for new coal power plants in its new Energy Strategy.² Civil society groups responded positively to this development, but measuredly, as this step alone is insufficient to address the herculean reality of reigning in climate change, which has only become more urgent since the adoption of the strategy.

If the Paris Agreement's goal of limiting climate change to 1.5 degrees Celsius is to be achieved, no more fossil fuel electricity generation facilities can be built at all after 2017, according to a 2016 Oxford University study.³

These findings are supplemented by an Oil Change International study that finds that not only can no new fossil fuel power stations be built, but also no new fossil fuel infrastructure as well. This is because the potential carbon emissions from the oil, gas, and coal in the world's currently operating fields and mines would already take us beyond 2 degrees Celsius of warming, and even excluding coal, the reserves in currently operating oil and gas fields would take us beyond 1.5 degrees Celsius.

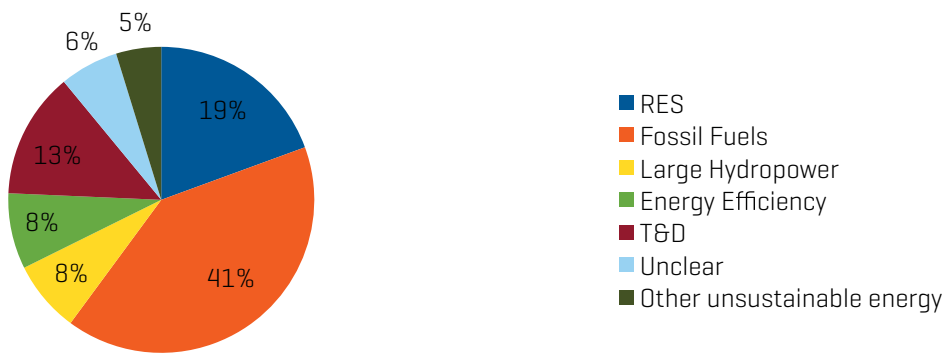


Figure 1 EBRD energy related investments 2010-2016

As a result, the report recommends halting permitting for new fossil fuel extraction and transportation infrastructure and closing some fields and mines – primarily in richer countries – rather than fully exploiting their resources. It points out that a transition to clean energy is possible but must be managed to ensure a just transition for workers and communities.⁴

At the same time, the cure must not be worse than the disease. Investments in renewable energy must prioritise those forms which have the fewest impacts on people and the environment, and which bring real reductions in greenhouse gas emissions. They must account for possible biodiversity damage and other impacts such as those on drinking water, irrigation, the expropriation of land, decreased sedimentation or increased coastal erosion and the vulnerability to extreme climatic conditions.

In 2018 the EBRD is due to review its Energy Strategy. Therefore this briefing updates our previous analysis to examine whether the bank’s investments are headed in a direction that is likely to contribute to a sustainable energy transformation.

Methodology

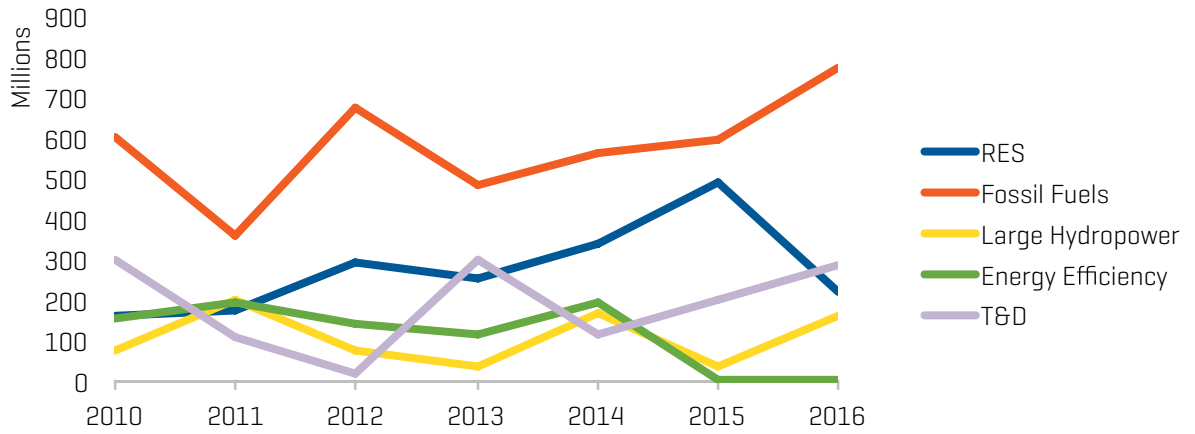
We used a methodology similar to our 2012 study, which includes not only those investments the EBRD classes as energy, but also its energy-related natural resources investments. This time we have also included some projects that the EBRD counts in the transport sector but which almost entirely benefit the oil and gas industry. The data on the projects was obtained from the EBRD on request, but we used our own classification of the project categories.

In our previous study we attempted to screen out particularly unsustainable renewable energy projects from the ‘new renewables’ category, however with the growing number of projects this is less and less feasible to do. Therefore the ‘renewables’ category excludes large hydropower projects but includes other forms of renewable energy whether they are likely to be sustainable or not. This means that a larger share of renewable energy investments is neither an explicitly positive or negative development in itself, but depends on the type and siting of the projects, an issue which is explained more below.

We have not been able to capture the EBRD’s complete portfolio of renewable energy and especially of energy efficiency. For renewable

4. Oil Change International et al: The Sky’s Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production, September 2016, <http://priceofoil.org/2016/09/22/the-skys-limit-report>

Figure 2 EBRD energy related investments 2010-2016



energy this is because some small projects are financed through financial intermediaries that do not disclose their portfolios, even though they are financed from public money. For energy efficiency, the same issue exists but it is even more complicated as there are energy efficiency components throughout the EBRD’s portfolio, even in non-energy sectors. Therefore we have counted only energy sector-related energy efficiency projects and do not presume to give a full picture of the EBRD’s energy efficiency lending.

Another challenge is classifying cases where the EBRD has provided financing for large, often state-owned electricity companies which have a mixed portfolio but rely heavily on unsustainable energy forms such as coal for electricity generation. We classified these as ‘unclear,’ but it should be borne in mind that they represent additional support for fossil fuels which is not captured by the statistics.

In addition, we did not include projects that have been cancelled, even if they had previously been signed by the bank.

Findings

The EBRD lent just under EUR 10 billion [EUR 9.96 billion] for energy-related projects between 2010 and 2016. The proportion of the investments dedicated to fossil fuels declined somewhat to just under 41 per cent between 2010-2016 [EUR 4.05 billion] compared to 48 per cent from 2006-2011.

As mentioned above, this does not include projects that support fossil fuel-heavy utilities – and we have noted several of these, including support for Elektroprivreda Srbije [EPS] in Serbia, Bulgarian Energy Holding [BEH] in Bulgaria, Samruk Energy in Kazakhstan and Akxa in Turkey.

The proportion of the bank’s portfolio for renewables excluding large hydro

Figure 3 EBRD electricity generation investments 2010-2016



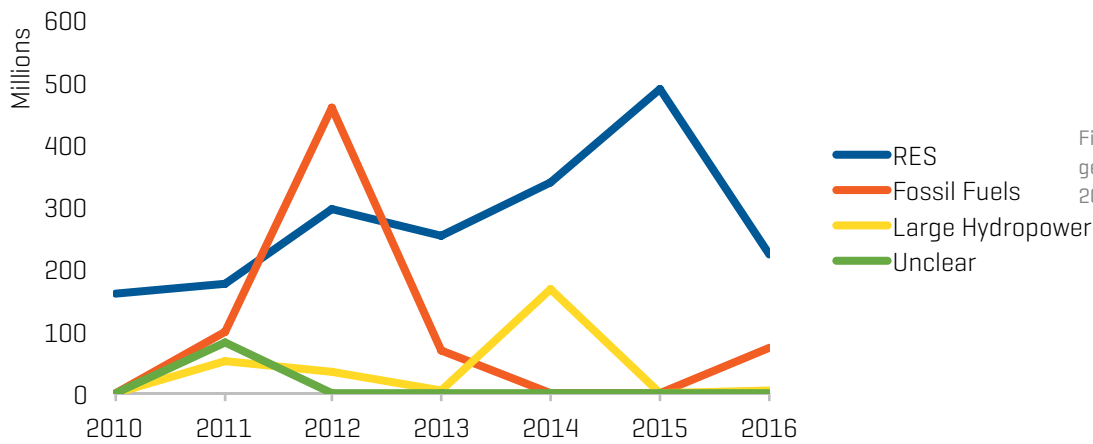


Figure 4 EBRD electricity generation investments 2010-2016

has increased, from 11 per cent in 2006-2011 to 19.4 per cent in 2010-2016. This is examined in more detail below. Large hydropower support made up 8 per cent of investments and includes both the construction and rehabilitation of existing plants. This amount would have been larger had the controversial Ombla and Boskov Most plants gone ahead in Croatia and Macedonia respectively.

As mentioned above, the energy efficiency investments captured here do not represent the EBRD's entire portfolio but only those in the energy sector, which we found to consist mainly of energy efficiency measures and not for example mixing energy efficiency measures with exploitation of new oil or gas fields.

However, absolute investments in fossil fuels have actually increased. Between 2010-2015 annual investments in fossil fuels averaged around EUR 540 million, but in 2016 the bank supported fossil

fuels with no less than EUR 774 million.

At the same time, after a steady increase from 2010-2015, there was an alarming fall in support for renewable energy in 2016. In 2015 support peaked at EUR 489 million but in 2016 it was down to EUR 222 million. This may be partly related to the increasingly unfavourable environment for renewable energy in Poland, where the EBRD had previously supported several projects.⁵

Some improvement is visible in terms of the bank's support for fossil fuels in new electricity generation capacity. This peaked in 2012 but has been relatively low since the EBRD's 2013 Energy Strategy was developed.

What this means in practice is that most of the fossil fuel investments are either supporting the extraction of oil and gas or its transportation.

Over the whole period, almost 65

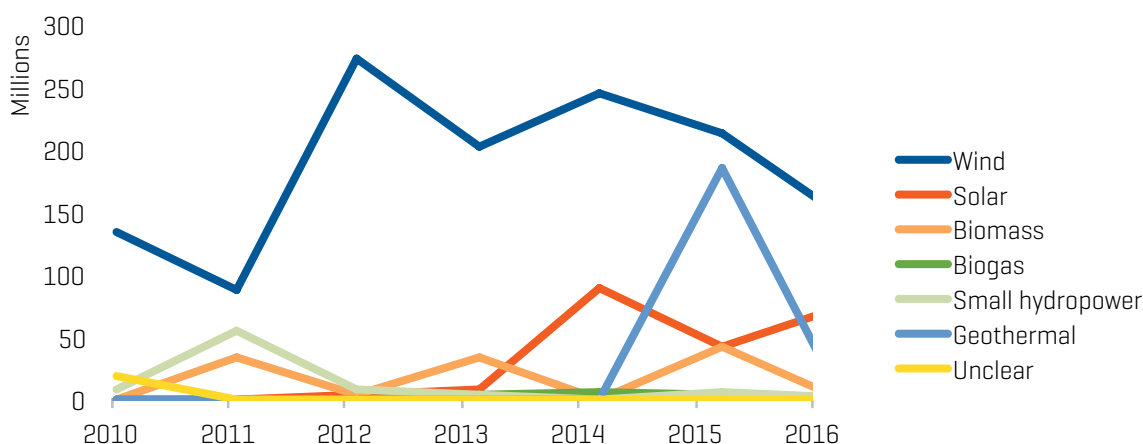
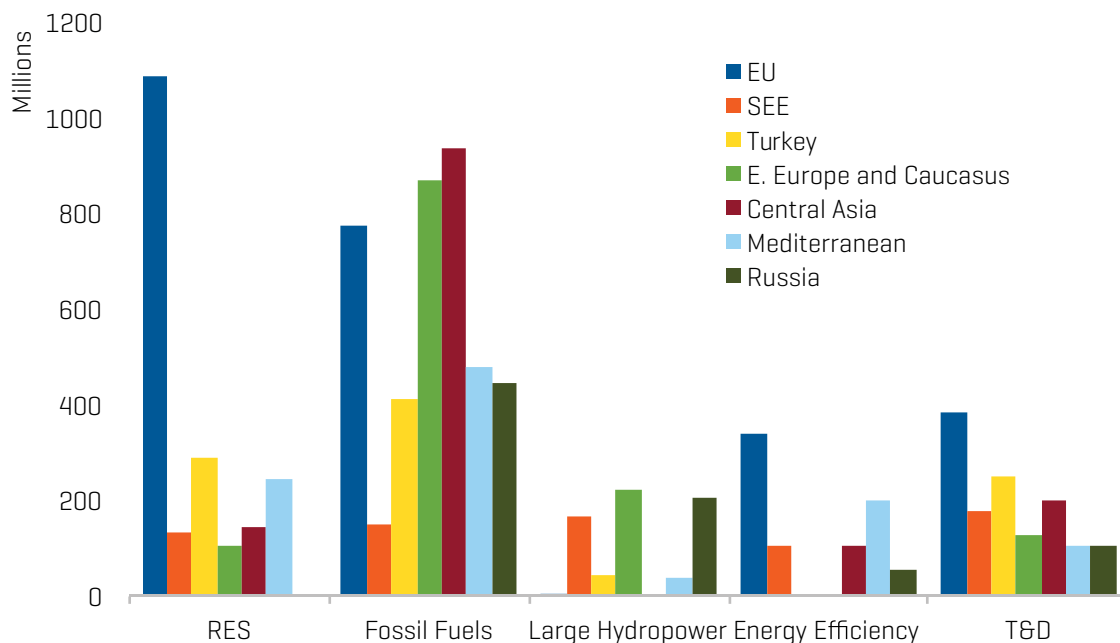


Figure 5 EBRD renewable energy investments 2010-2016

5. Agnieszka Barteczko and Anna Koper: INTERVIEW-EBRD cuts financing for Polish renewables as regulations tighten, Reuters, 13 April 2017, <https://www.cnbc.com/2017/04/13/reuters-america-interview-ebrd-cuts-financing-for-polish-renewables-as-regulations-tighten.html>

Figure 6 EBRD energy investments by region 2010-2016



per cent of investments in new electricity generation capacity were for renewables, with just under 24 per cent for fossil fuels [see figure 3 on page 3]. This is quite a large change from 44 per cent renewables and 45 per cent fossil fuels in 2006-2011.

Taking a closer look at the renewables investments, the main change is the appearance of geothermal and solar in the mix. The rise in geothermal is mainly due to investments in Turkey. However these projects have unusually high CO2 emissions by geothermal standards, which can be comparable even to coal-fired power plants.⁶ The rise in solar is presumably due to dropping prices as well as increased EBRD investments in Mediterranean countries.

There also appear to be fewer small hydropower plants receiving financing than during the 2006-2011 period, however this is difficult to tell as it may just be that a higher proportion have been financed through financial intermediaries and therefore do not show in these figures.

Regarding the geographical spread of the investments, it is clear that

EU countries have received the most support for renewable energy. The southeast European countries aspiring to become EU members have received very little, although our monitoring suggests that this is not due to a lack of willingness from the EBRD but rather due to barriers within the countries. Some renewables support has taken place in Turkey and the Mediterranean, but this is heavily exceeded by fossil fuel investments.

Fossil fuel support has also been heavy in Central Asia – mainly for the extraction and transportation of oil and gas – and in Eastern Europe and the Caucasus, including for example support for Ukraine to secure its gas supply. The heavy support for fossil fuels in Central Asia and the relatively heavy support in the Mediterranean is problematic not only from a climate point of view but also from the perspective of economic diversification.

What is perhaps most surprising is that the EU was the third largest recipient of fossil fuel financing over the period.

The only slight consolation is that lending for fossil fuel projects within

6. Erik B. Layman: Geothermal Projects in Turkey: Extreme Greenhouse Gas Emission Rates Comparable to or Exceeding Those from Coal-Fired Plants, PROCEEDINGS, 42nd Workshop on Geothermal Reservoir Engineering, Stanford University, Stanford, California, February 13-15, 2017, <https://pan-gea.stanford.edu/ERE/db/GeoConf/papers/SGW/2017/Layman.pdf>

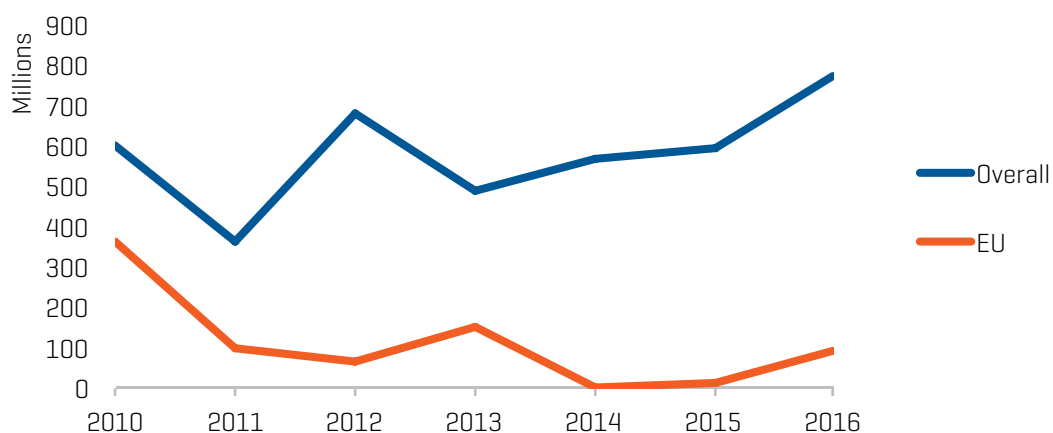


Figure 7 EBRD fossil fuel financing by region 2010-2016

the EU has generally decreased, although it increased again in 2016.

Conclusions

Bankwatch has analysed EUR 10 billion in support from the EBRD for energy-related projects between 2010-2016 to see how the trends have changed from the period 2006-2011 and whether the bank is on the right track to support a transition towards sustainable energy.

Overall we found that just under 41 per cent of the bank's financing still supported fossil fuels, while 19.4 per cent supported renewable energy excluding large hydropower plants. Most of the fossil fuel financing took place in Central Asia, eastern Europe and the Caucasus, and, surprisingly, the EU. EBRD fossil fuel support in the EU decreased during the period, in contrast to its overall support across its whole region of operations, where this amount increased.

The picture looks quite different in new or additional electricity generation projects, where just under 65 per cent of financing went to renewables and just under 24 per cent went to fossil fuels. Renewables investments here exclude large hydropower but do include other problematic investments such as small hydropower plants and geothermal plants in Turkey, which are

particularly CO₂ intensive.

The bank has made steps forward in financing wind and solar projects in recent years: 67.5 per cent of renewable electricity investments were for wind, while solar grew from virtually nothing in 2006-2011 to more than 11 per cent of its renewables investments in 2010-2016. However these positive trends are threatened by developments such as the legislative changes in Poland that have led to the EBRD's renewables investments dropping there.

Another issue in the electricity sector is indirect support for unsustainable energy like coal through loans for companies like Elektroprivreda Srbije and Bulgarian Energy Holding. This has not been possible to quantify but represents a loophole in the bank's commitments to limit coal financing to "rare and exceptional circumstances".

In conclusion, the EBRD has somewhat decreased the proportion of fossil fuels in its energy-related investments between 2011-2016 compared to the 2006-2010 period, but the absolute fossil fuel investments increased, especially in 2016. This is unacceptable given the increasing evidence by Oxford University, Oil Change International and others that no new fossil fuel generation capacity or other infrastructure can be built if we are to have a chance of meeting the

1.5 degrees Celsius goal set within the Paris Agreement.

Its increased renewable energy lending has mainly been positive but has tailed off in 2016. This has also included some unsustainable renewable energy projects as well, such as the CO₂-intensive geothermal projects in Turkey and hydropower projects for example in the Balkans and Georgia.

Recommendations

The EBRD needs to:

- Use its Energy Strategy review in 2018 to commit to halting all support for new fossil fuel projects or those which expand the lifetime or capacity of existing facilities.

- Either commit to avoid financing for fossil-fuel heavy utilities (for example those with over a certain percentage of electricity generated from fossil fuels) or come up with a convincing strategy to accelerate their transformation through its investments.
- Avoid support for unsustainable renewable energy projects like the CO₂-intensive geothermal projects in Turkey and hydropower projects with impacts on sensitive areas.⁷
- Ensure that sustainability is not sacrificed as it looks to make up for lost business in its renewables portfolio in places like Poland.
- Pay particular attention to ensure that it contributes to the diversification of economies in sectors other than natural resources and avoids indirect fossil fuel financing through transportation and other projects.

7. For more details on Bankwatch's proposed hydropower sustainability criteria see: Sustainability criteria for hydropower development, December 2016, <https://bankwatch.org/publications/sustainability-criteria-hydropower-development-0>