

EBRD renewable investments finally matched its fossil fuel investments in 2017 – So why is the bank's draft Energy Strategy still fixated with gas?

The European Bank for Reconstruction and Development has recently issued a new draft Energy Strategy for public consultation that will define its activities in the energy sector from 2019-2023.¹ It clearly commits to halt all direct financing for coal projects and not to finance any upstream oil exploration. It also commits not to finance upstream oil development projects except in rare and exceptional circumstances where the projects reduce GHG emissions or flaring.

However, while placing some limitations on financing for gas, the draft Strategy generally gives it too much prominence as a so-called “bridging fuel” on the way to decarbonisation – much more prominence than is given to energy saving and even to sustainable renewables.

This is, in our opinion, unwarranted, as the bank's lending in recent years has shown that it is able to do ramp up lending for renewables.

Our analysis, below, of the EBRD's energy lending during the current strategy period, from 2014 to 2017 has shown a significant change in relation to previous years.

In 2012, we published a report showing that there had been some welcome developments such as increases in the bank's energy efficiency and new renewables investments between 2006 and 2011. However these gains were undermined by the fact that almost half of the bank's energy-related lending had supported fossil fuels during the same period.²

In 2017 a similar analysis covering the years 2010-2016³ showed that both fossil fuel lending and renewable energy lending had been increasing at the bank until 2015. However in 2016, fossil fuel lending continued to rise, while renewables lending dropped sharply, mainly as a result of government policy in Poland where the bank had been heavily supporting the wind sector.

This new analysis shows that in 2017 the bank managed to overcome this setback, notably by financing solar in Egypt.

CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

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1 See <https://www.ebrd.com/cs/Satellite?c=Content&cid=1395276851507&d=Mobile&pagename=EBRD%2FContent%2FContentLayout>

2 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>

3 CEE Bankwatch Network: The weakest link - Progress in greening EBRD energy portfolio (2010-16) still undermined by lending for fossil fuels <https://bankwatch.org/wp-content/uploads/2017/11/EBRD-energy-lending-2010-16.pdf>

This raises the question why, if the bank is able to increase its business in the renewables sector, is it still planning to finance more gas?

In the era of the Paris Agreement, it is unacceptable that financing institutions are still supporting the construction of any new fossil fuel infrastructure at all. If the goal of limiting climate change to 1.5°C is to be achieved, no more fossil fuel electricity generation facilities can be built at all since 2017, according to a 2016 Oxford University study.⁴

In addition, Oil Change International has shown that not only can no new fossil fuel power stations be built, but no new fossil fuel infrastructure at all. 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°C of warming, and even excluding coal, the reserves in currently operating oil and gas fields would take us beyond 1.5°C. This means permitting needs to be halted for new fossil fuel extraction and transportation infrastructure, and some fields and mines - primarily in richer countries - need to be closed before fully exploiting their resources. Oil Change points out that a transition to clean energy is possible but must be managed to ensure a just transition for workers and communities.⁵

Not only must a transition to clean energy be just, but it must also be environmentally sustainable. Investments in renewable energy must prioritise those forms which have fewest impacts on people and the environment, and which bring real reductions in greenhouse gas emissions. They have to take into account possible biodiversity damage and other impacts such as impacts on drinking water, irrigation, expropriation, decreased sedimentation/increased coastal erosion and vulnerability to extreme climatic conditions.

This analysis updates our previous findings with 2017 data to see how the EBRD is doing in respect to these issues.

Findings

The EBRD's list of signed projects⁶ shows that it lent around EUR 6.35 billion for energy-related projects between 2014 and 2017. The proportion of investments dedicated to fossil fuels has declined somewhat to 41 percent between 2014-2017 (EUR 2.6 billion) compared to 48 percent from 2006-2011, but absolute fossil fuel lending has been on a rising trend since at least 2010, peaking in 2016 at EUR 774 million.⁷

The graph below gives an overview of energy-related EBRD lending since 2010, to show more clearly the trends.

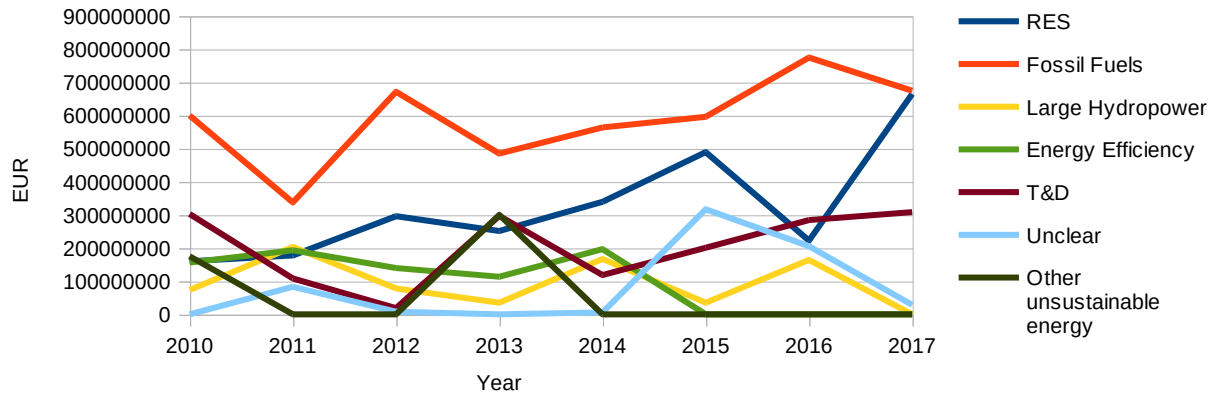
4 Alexander Pfeiffer, Richard Millar, Cameron Hepburn, Eric Beinhocker: The '2°C capital stock' for electricity generation: Committed cumulative carbon emissions from the electricity generation sector and the transition to a green economy, Received 11 September 2015, Revised 16 February 2016, Accepted 18 February 2016, Available online 24 March 2016, <http://www.oxfordmartin.ox.ac.uk/publications/view/2119>

5 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/>

6 Available at: <https://www.ebrd.com/cs/Satellite?c=Content&cid=1395236434965&d=Mobile&pagename=EBRD%2FContent%2FContentLayout> This does not include financing through financial intermediaries as the project subsectors cannot be identified in most cases.

7 The EBRD's draft Energy Strategy (p.5) cites EUR 6.9 billion in total energy-related investments, with 34% going to renewable power generation, and if one adds up all the fossil-fuel investments which the bank has presented in small chunks in its pie chart on p.5, these make up 44% percent of the financing. Among the reasons for the difference in the figures are most likely the EBRD's ability to categorise its financial intermediary investments and to more finely categorise mixed investments, as well as its different categorisation of certain projects. However the overall differences in the figures are not that large (41% vs. 44% for fossil fuels and 34% vs. 27% + 5.76% (ie.32.76%) for renewables/large hydropower).

EBRD energy-related investments 2010-2017



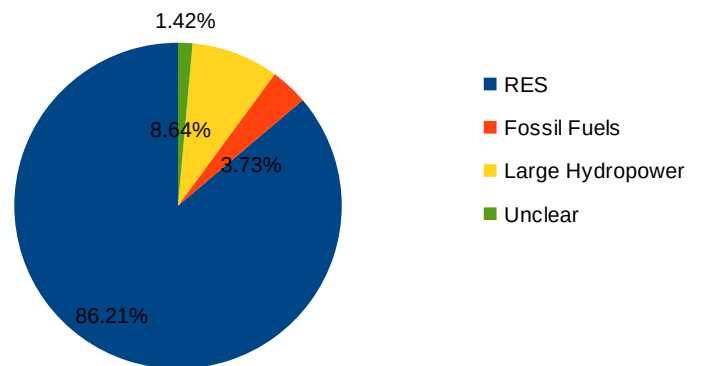
Note: The energy efficiency investments captured here do not represent the EBRD's entire portfolio, only the energy-sector ones which we found to consist mainly of energy efficiency measures and not for example mixing energy efficiency measures with exploitation of new oil/gas fields.

The proportion going to renewables, excluding large hydropower plants, has increased, from 11 percent in 2006-2011 to 27 percent in 2014-2017. This is examined in more detail below. Large hydropower made up a further 5.76 percent of investments and includes both construction and rehabilitation of existing plants.

After a steady increase from 2010-2015, there was a fall in support for renewable energy in 2016. In 2015 support reached EUR 489 million but in 2016 it plummeted to EUR 222 million. This was partly related to the increasingly unfavourable environment for renewable energy in Poland, where the EBRD had previously supported several projects.⁸

In 2017 the bank's renewable energy project portfolio recovered and reached a high of EUR 664 million. It was highly concentrated on solar projects in Egypt rather than being evenly spread geographically. The renewable energy investments are concentrated in the electricity generation sector, where they made up no less than 86 percent of the investments in 2014-2017. This is a large change from 44 percent renewables and 45 percent fossil fuels in 2006-2011.

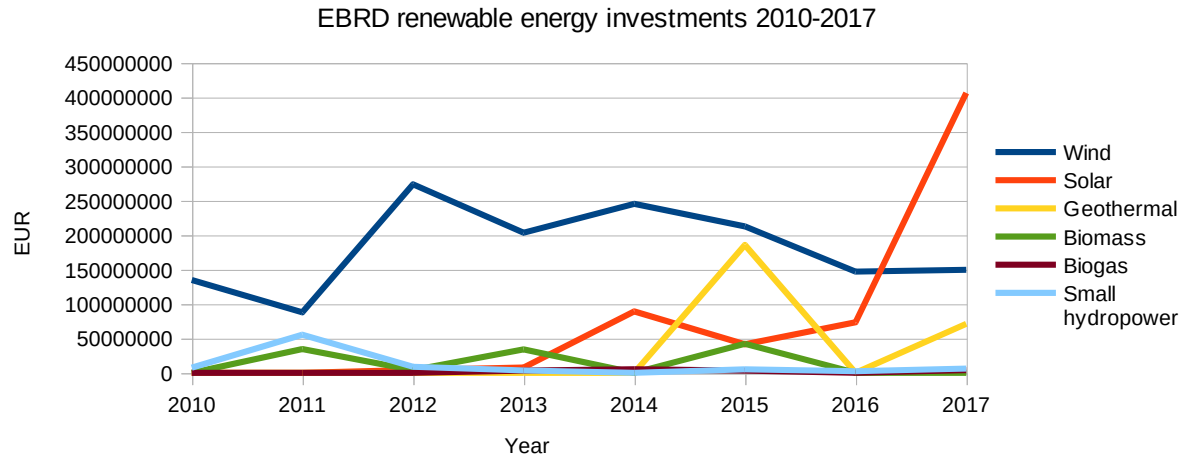
EBRD electricity generation investments 2014-2017



⁸ 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>

In practice this means most of the fossil fuel investments are supporting oil and gas extraction and transportation. In 2017 almost two thirds of fossil fuel investments were made up by just one project – the TANAP section of the Southern Gas Corridor, which received no less than EUR 417 million, out of a fossil fuel total of EUR 674 million.

Renewable energy investments



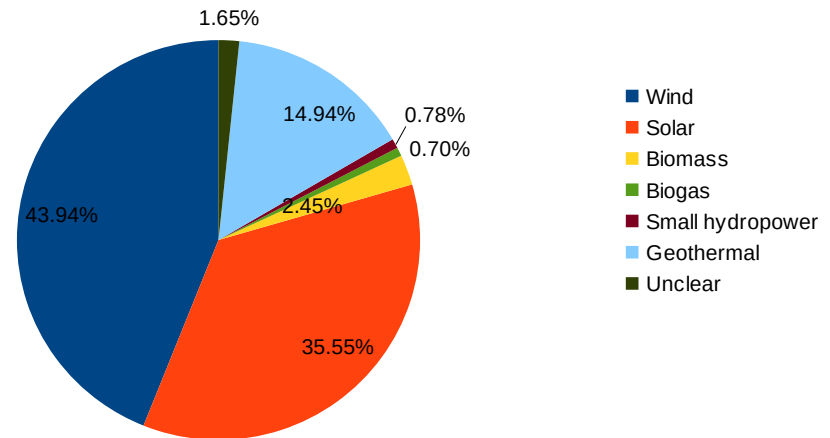
Taking a closer look at the renewable investments, the main change is the appearance of geothermal and solar in the mix. The rise in geothermal is mainly due to investments in Turkey. However these projects bring with them the issue that they have unusually high CO₂ emissions by geothermal standards, which can be comparable even to coal-fired power plants.⁹ The rise in solar is due to dropping prices as well as increased EBRD investments in the Mediterranean countries, with most of the 2017 investments in Egypt.

There also appear to be fewer small hydropower plants than in the 2006-2011 period, however this is difficult to tell as it may just be that a high proportion have been financed through commercial bank intermediaries and therefore do not show up in the statistics.

As an average of renewable financing between 2014-2017, wind made up just under 44 percent and solar just under 36 percent. The situation changed very rapidly due to the bank's massive ramping up of solar investments in 2017 and a slow decline in wind investments since 2012. Between 2010-2016 wind made up no less than 67 percent of renewable investments and solar only 11 percent.

⁹ 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://www.researchgate.net/profile/Erik_Layman/publication/313793891_Geothermal_Projects_in_Turkey_Extreme_Greenhouse_Gas_Emission_Rates_Comparable_to_or_Exceeding_Those_from_Coal-Fired_Plants/links/58a608a54585150402e2db61/Geothermal-Projects-in-Turkey-Extreme-Greenhouse-Gas-Emission-Rates-Comparable-to-or-Exceeding-Those-from-Coal-Fired-Plants.pdf?origin=publication_detail

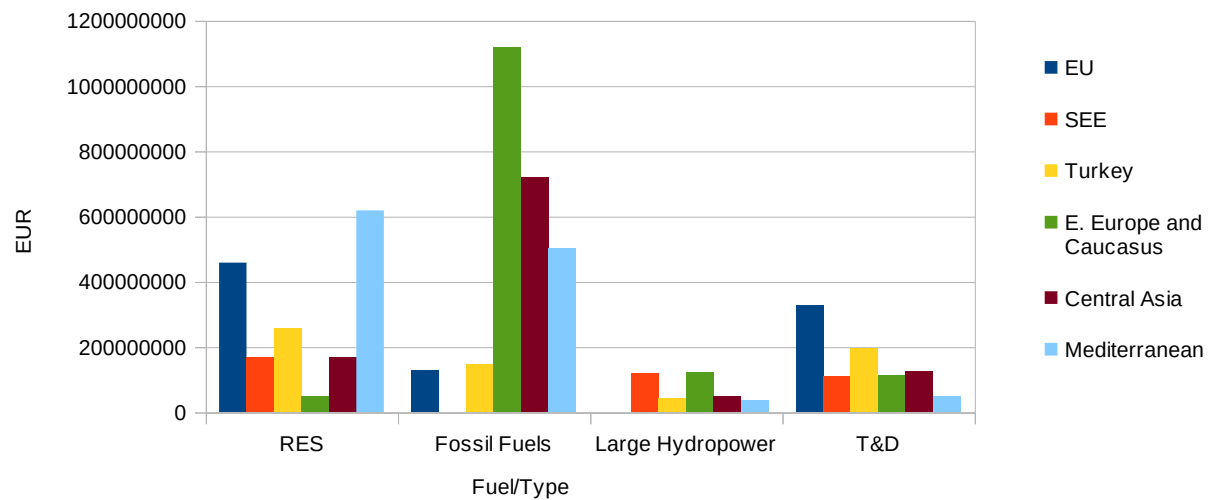
EBRD renewable investments 2014-2017 technology spread



Geographical spread of investments

Prior to 2017, the EU countries had received most support for renewable energy, but last year the Mediterranean countries, mainly Egypt, overtook them. The southeast European countries aspiring to become EU members have received very little, although this is not necessarily 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 but this has mainly been CO2-intensive geothermal.

Geographical spread of EBRD energy investments 2014-2017



Fossil fuel support appears to have been particularly concentrated in Eastern Europe and the Caucasus. Although indeed there has been support eg. for Ukraine to secure its gas supply, more than a third of the amount has been lent for the Southern Gas Corridor, which is supposed to

meet EU needs rather than Eastern European/Caucasian ones. Support for fossil fuels has also been heavy in Central Asia – mainly oil and gas extraction and transport and the Mediterranean.

Conclusions

Bankwatch has analysed the EBRD's EUR 6.35 billion in support for energy-related projects between 2014-2016 to see how the trends have changed and whether the bank is on the right track to support a transition to sustainable energy.

Overall we found that 41 percent of the financing still supported fossil fuels, while 27 percent supported renewable energy, excluding large hydropower plants. Most of the fossil fuel financing took place in Eastern Europe and the Caucasus, Central Asia, and the Mediterranean, although the largest fossil fuel loan, of EUR 417 million, was for the EU-driven Southern Gas Corridor project.

Although fossil fuel financing fell slightly in 2017 compared to 2016, overall since 2010 there seems to be an upward, not downward trend in fossil fuel lending. 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 by the Paris Agreement.

The picture looks quite different in new or additional electricity generation projects where 86 percent of financing went to renewables and just under 4 percent went to fossil fuels. The 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 made particularly large steps forward in financing solar in 2017, while investments in wind have stabilised and even slightly fallen since 2012. Solar investments have been particularly concentrated in Egypt but are also increasing elsewhere.

The findings show that in spite of setbacks in 2016, the EBRD is generally able to increase its business in renewable energy and add value to the green energy transition. This confirms, in our view, the need for the bank to concentrate more on this area and energy savings and to halt support for fossil fuels, including gas.

Recommendations

The EBRD needs to:

- Curb its increasing fossil fuel investments. It needs to commit to halting all support for new fossil fuel projects and existing projects involving capacity or lifetime extension.
- Avoid over-promoting the role of gas, especially in countries like the Western Balkans where its use would require a significant expansion of infrastructure, risking stranded assets.
- Avoid supporting unsustainable renewable energy projects like the CO2-intensive geothermal projects in Turkey and hydropower projects with impacts on sensitive areas.¹⁰
- Make sure that sustainability is not sacrificed in its renewables portfolio.

¹⁰ 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>

- Ensure that it contributes to diversification of the economy in sectors other than natural resources and avoids indirect fossil fuel financing through transportation and other projects.

Annex 1 - Methodology

We used a similar methodology to the 2012 Tug of War study, which includes not only those investments classified as energy by the EBRD, but also its energy-related natural resources projects. We have also included some projects which the EBRD counts as transport but which almost entirely benefit the oil and gas sector. The project data was obtained from the EBRD's spreadsheet of signed projects but we used our own classification of the project categories. We did not include cancelled projects.

In our 2012 study we attempted to screen out 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.

We have not been able to capture the EBRD's complete portfolio of renewable energy and energy efficiency. For renewable energy this is because some small projects are financed through financial intermediaries which do not disclose their portfolios, even though they are financed from public money. For energy efficiency, the situation 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 was in classifying cases where the EBRD has provided financing for large electricity companies which have a mixed portfolio but rely heavily on fossil fuels for electricity generation. We classified these as "unclear" but it should be borne in mind that they represent additional support for fuels which is not captured by the statistics.