EBRD Fossil Fuel Investments Undermine Progress on the Green Economy Transition

Since 2015, the Green Economy Transition (GET) has been the EBRD’s strategic approach to increasing financing for projects that support a sustainable future. Through this, the EBRD planned to increase its funding for ‘projects that advance the transition to an environmentally sustainable, low-carbon economy, and help prevent economies from being locked into a carbon-intensive, polluting pathway that depletes natural assets’ to 40% of its annual business volume by 2020.

The GET is, in large part, the EBRD’s response to the commitments made in the Paris Agreement to limit climate change to 1.5°C. This year, the EBRD will begin consultations to update the GET. Part of these consultations should be an evaluation of how successful the EBRD has been in its implementation. However, in its review, the EBRD should not focus solely on the projects that are part of the 40% – it should also examine projects across its entire portfolio. Green Economy Transition means nothing if the EBRD’s remaining investments are working against the goals of a green transition.

Nowhere is this more critical than in energy-related projects. Our previous report on the EBRD’s energy lending from 2014 to 2017 showed that the bank had effectively increased its renewable energy source (RES) lending, raising questions about why it was still planning to finance gas under its new energy strategy (2019-2023). This followed our 2012 and 2017 reports, which both showed a welcome increase of renewables, nevertheless coupled with sustained and increasing support for fossil fuels.

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3 As 2019 data for GET projects is not yet publicly available, we have not been able to examine the GET portfolio.
Our new report analyses energy-related projects across the entire decade (2010-2019), with a focus on new data from 2018 and 2019, to see how the picture looks with respect to the green transition.

Our findings show a continuation of the previous trends: in the past two years (2018 and 2019), the EBRD continued to increase lending for renewables (which are not necessarily all positive from a sustainability standpoint) while maintaining fossil fuel lending as a consistent part of its portfolio. In 2018, fossil fuel lending was higher than it had been in the past decade, but 2019 was the first year where support for renewables surpassed that for fossil fuels.

Notably, since the EBRD implemented GET in 2015, lending for fossil fuels and renewables have both seen positive trends, with lending for renewables increasing at a greater rate and growth in lending for fossil fuels flattening out, despite being greater in absolute terms.

To limit climate change in accordance with the Paris Agreement, no more fossil fuel electricity generation facilities should have been built after 2017, according to a 2016 Oxford University study. Oil Change International’s 2016 report confirmed that no new fossil fuel infrastructure at all, including for transportation, should have been built after 2017, because even the systems currently in place will result in temperature increases beyond the goals of the Paris Agreement. Furthermore, a 2017 study from the University of Manchester finds that fossil fuels can have ‘no substantial role’ in energy systems at all after 2035 if temperature increases are to be limited to 2°C.

A transition to a low-carbon economy cannot be done with only 40% of the Bank’s portfolio. It must be stimulated by a comprehensive approach to investment that is environmentally sustainable at every point, and that is furthermore just for the workers and communities that will be negatively affected by the transition. Thus, any fossil fuel lending counteracts the goal of preventing carbon lock-in, and any investments in renewables that have adverse impacts on people and the environment or does not reduce greenhouse gas emissions counteracts the goal of a sustainable, low-carbon future.

Findings

The EBRD’s list of signed projects shows that it lent EUR 3.77 billion for energy-related projects in 2018 and 2019. Of those investments, 41% of them were dedicated to fossil fuels. This is consistent with the previously analysed period (from 2014-2017 where fossil fuels made up 41%
of energy related funding), as well as the 41% of financing for fossil fuels out of all energy related projects for the entire 2010-2019 period.

On average, investments in fossil fuels have increased since 2010 (see Chart 1).

In 2018 and 2019, this increase was sustained by a large spike in fossil fuel financing during 2018. It was followed by a substantial drop in 2019. Almost half of the financing for fossil fuels in this period (EUR 500 million) went towards the Trans Adriatic Pipeline (two loans to Greece and Albania).

Financing for renewables, which received 23% of all financing from 2010 to 2019, has also experienced a positive trend. The proportion of finance for renewables, excluding large hydropower plants, was 26% in the period from 2018 to 2019. Large hydropower, including the rehabilitation and privatisation of existing plants, made up a further 3% of investments in 2018 and 2019.

After a peak year for renewables in 2017 (EUR 664 million), concentrated on solar projects in Egypt, investments dropped off in 2018. However, 2019 saw a level of investment (EUR 642 million) comparable to the 2017 peak and was the first year in which renewable investments exceeded fossil fuel investments. Over 60% of this went to solar projects in Kazakhstan and another 26% to solar projects in Ukraine.

Most of the energy-related investments that generated new electricity came from renewable sources – RES made up 67% of these investments in 2018 and 2019.

However, the amount of funding for fossil fuel-based electricity generation increased in both 2018 and 2019, and as a result fossil fuels made up 31% of this sector during the same period (as compared to 20% from
2014 to 2017). This was due to five projects, most of them gas projects.\textsuperscript{11} The Talimarjan Power Project in Uzbekistan (EUR 213.77 million) alone was responsible for over half of the total funding for fossil fuel electricity generation in 2018 and 2019. This project provided funds for the construction of an additional Combined Cycle Gas Turbine (CCGT) at the existing power plant, providing 900 MWe of new capacity.

As in the previous period, the majority of fossil fuel financing is still going towards supporting oil and gas extraction; however, the increase of fossil fuels in electricity generation is a concerning trend. Unlike in previous years, there were no transportation projects identified in 2018 and 2019 that primarily served the oil and gas industry.

Overall, 70\% of the EBRD’s electricity generation financing in the past decade went towards renewables and 22\% towards fossil fuels.

**Renewable energy investments**

Wind and solar have emerged over the past decade as the two primary renewable technologies funded by the EBRD. Whereas financing for wind over the period has seen only a slightly positive

\textsuperscript{11} In 2018, EL TO Zagreb Upgrade Project (Croatia), ADES International Holding Ltd (Egypt), and DFF - SDX Energy Gas Connection (Morocco) for a total of approximately EUR 140 million; in 2019, Talimarjan Power Project (Uzbekistan) and Black Sea - Midia Gas Development Project (Romania) for a total of EUR 263.77 million.
upward trend since 2010, solar has seen a steep positive trend. However, funding for both wind and solar dropped off in 2018, and whereas financing for solar increased only slightly in 2019, financing for wind increased drastically. This is mainly due to four significant wind projects (ranging from EUR 49 million to 75 million each) in Egypt, Kosovo, Poland and Ukraine in 2019.

Solar made up almost half of all renewables financing in 2018 and 2019 combined. As an average of renewable financing between 2018-2019, solar was 48% and wind 36%. This more or less reverses the trend during the period from 2014-2017, where solar was under 36% and wind 44%. Between 2010-2019, wind made up 51% of renewable investments and solar 30%.

There was no direct financing for geothermal and biomass in the EBRD’s energy or natural resource financing during 2018 and 2019, and financing for small hydropower plants remained low. However, this data may not represent all geothermal, biomass, or small hydropower financed by the EBRD. Instead, it may be the case that a higher proportion have been financed through commercial bank intermediaries and are therefore not part of the data analysed for this study.
Prior to 2017, the EU countries had received the most support for renewable energy, but in 2017 the Mediterranean countries, mainly Egypt, overtook them. In 2018-2019, Eastern Europe and the Caucasus and Central Asia received the most support for renewable energy. However, looking back over the entire decade, the EU was the undeniable greatest recipient of renewables funding.

Southeast Europe (SEE), as in previous years, received very little for renewables in 2018 and 2019, along with the Mediterranean, which instead saw significant funding for transmission and distribution (T&D), and the EU.

In the past decade, almost all regions received more financing for fossil fuels than for any other project category. Eastern Europe and the Caucasus received the most support, closely followed by the EU. In 2018 and 2019, the EU received the most support for fossil fuels, significantly more than any other region, likely driven by a combination of the Trans Adriatic Pipeline in Greece and a bond for KGHM Polska Miedz for combined heat and power (CHP) plant refurbishment and a new combined cooling, heat and power (CCHP) plant in Poland.
The Trans-Anatolian Pipeline (TANAP) and Trans Adriatic Pipeline (TAP), part of the Southern Gas Corridor, have made up a significant amount of the EBRD’s fossil fuel lending since 2017 (see Chart 9).

Conclusions

Bankwatch found that of the nearly EUR 15.4 billion lent by the EBRD for energy-related operations between 2010 and 2019, fossil fuel operations made up 41%, followed by renewables (excluding large hydropower plants), which made up 23%. Lending for renewables increased during this period, and by 2019 it surpassed lending for fossil fuels for the first time. However, lending for fossil fuels remained high, and even increased.

Renewables investments, dominated by wind and solar, made up the majority (70%) of electricity generation over the decade. The amount of financing for solar projects has increased significantly, particularly since 2016, and the amount of financing for wind projects has also seen a positive trend, albeit at a slower rate, as financing for wind has been high since the beginning of the decade.

As the EBRD reviews the outcomes of the GET this year, it needs to pay particular attention to how these trends in energy-related lending have changed since 2015, when the policy was put into place. Since 2015, the Bank has shown that it is possible to increase investments in renewables. However, it has also continued to invest in fossil fuels and the growth in lending in this sector has increased more since 2015 than it did during the period from 2010-2014. In absolute terms, the total amount of lending for fossil fuels between 2015 and 2019 was just as high, if not higher, than it was from 2010-2014. In large part, this is due to the massive financing for the Southern Gas Corridor.

The priorities of the GET are evident in the EBRD’s energy lending since 2015. However, these results show that the EBRD needs to continue to advance its emphasis on renewables and other projects that support or are explicitly a part of the GET. At the same time, the bank must follow the example of the EIB and end support for fossil fuels in order to truly have a positive impact.
**Recommendations**

The EBRD should:

- Align all energy spending with the goals of the GET so that the benefits of GET are not undermined by EBRD projects not included in the initiative.
- 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.
- Ensure that projects in the renewables portfolio meet the EU’s climate mitigation and adaptation taxonomy criteria and avoid supporting unsustainable projects like hydropower projects with impacts on sensitive areas, or waste incineration projects.

**Annex 1 - Methodology**

This study’s methodology is based on that used in our 2012 report Tug of War. It 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 that the EBRD counts as transport but that almost entirely benefit the oil and gas sector. The resulting database consists of a total of 339 operations signed by the EBRD across all countries of operation from 2010 to 2019. 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. 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 that do not disclose their portfolios, even though they are financed from public money. In addition, energy efficiency is found 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 that 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 that is not captured by the statistics.

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12 CEE Bankwatch Network, *Tug of War: Fossil fuels versus green energy at the EBRD.*