

# Will the EBRD adopt a 21st century energy strategy or stay in the fossil age?

In 2022, the EBRD launched a review of its Energy Sector Strategy. Given that the energy sector needs to undergo a substantial and rapid transition from fossil fuels to renewables, the time has come for the EBRD to fulfil its transition mandate.

## Send the right signal: no more funding for fossil fuels

*Efficiency & Environment*

### Germany to ban new gas boilers from 2024

The German Government has approved a bill that bans the installation of new gas and oil heating systems from 2024

Source: Dimitris Mavrokefalidis, [Germany to ban new gas boilers from 2024](#), Energy Live News, 25 April 2023.

From Bankwatch’s perspective, the EBRD’s Energy Sector Strategy is not only a guide for its own staff and operations; more importantly, it also sends a political signal to its countries of operation. With the EU, United States and many other economies now accelerating the

use of renewable technologies while reducing the use of gas, it would be irresponsible for the EBRD to continue to finance more gas and oil projects, either directly or through financial intermediaries. The only exception one might envision is a humanitarian crisis. Public money should not be used to finance the fossil fuel industry. If the fossil fuel industry considers infrastructure upgrades an immediate necessity, it should finance these from its own substantial profits or through private investors willing to bankroll stranded assets.

## What does the energy transition need?

Successful energy transition requires a distribution grid that can handle mushrooming renewables, improved interconnections between countries and regions, and proper grid management that can fully integrate thousands of decentralised producers and increased storage capacity. It also depends on an adequate regulatory framework that prioritises decentralised solutions by effective national regulators, and government capacity to implement competitive renewable energy auctions.

To achieve this transition, the EBRD has an important part to play. In its countries of operation, the Bank can finance proven technologies, provide technical

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assistance to help establish regulatory frameworks that support the uptake of renewable energy sources, and respond to rapid changes in the energy sector.



In recent years, many EBRD countries of operations have faced electricity grid constraints, not because renewable energy is difficult to manage (in fact, the amount of renewable capacity already installed is still relatively small), but because these countries (along with the EBRD) failed to lay the groundwork for the renewable energy boom. As energy transition gathers pace, individual households, small and medium-sized enterprises (SMEs), municipalities and large corporations are beginning to realise that their own renewables-based electricity reduces energy bills and increases resilience to market volatility, brought into sharp focus by Russia's invasion of Ukraine.

And on this point, one thing the energy transition certainly does not need is the myth that gas is a 'transition fuel'.

## Municipalities are key partners in the energy transition

One area that the EBRD should prioritise in its new Energy Sector Strategy is municipal energy infrastructure. As significant consumers, municipalities are particularly vulnerable to volatile energy prices. They also typically own buildings that can utilise solar energy and possess land that can be exploited for renewable use. Municipalities can also partner with citizens to develop integrated energy systems and promote and incentivise renewable use among homeowners and SMEs.

The EBRD also needs to embrace the challenges of the district heating sector. We expect projects such as Kosovo's solar-powered district heating



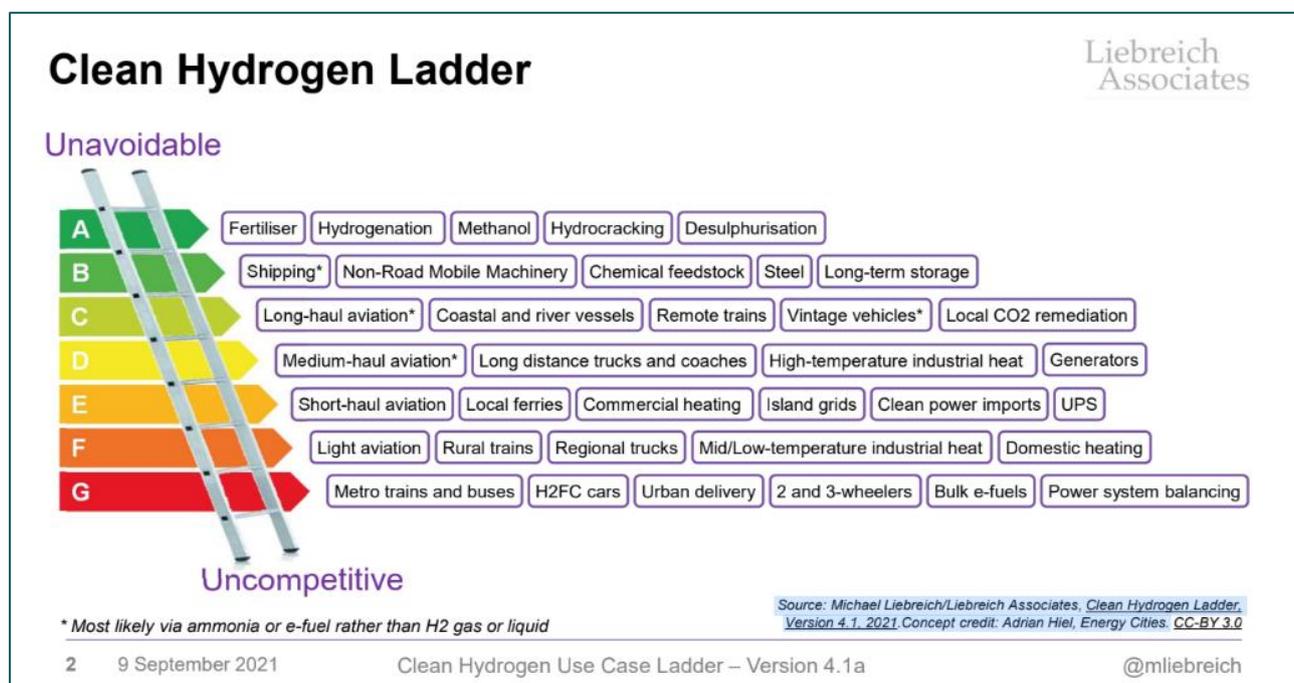
Source: Dragana Petrushevskaja, [Bosnia's Mostar to build 60 MW solar power plant - mayor](#), SeeNews, 30 January 2023.

system<sup>1</sup> to mushroom in the Western Balkans and in other regions served by the EBRD. And while we recognise that these projects face transitional obstacles, the very reason the EBRD was set up is to help countries overcome them.

## We cannot ignore hydrogen, but we should for a while

While hydrogen is likely to play some role in the decarbonised economy, it has a very limited role, if any, in the power and heating sector. This is because, until energy production is close to 100 per cent renewable, it is more efficient to use renewable electricity directly for relevant industrial processes and heating. Hydrogen produced from new dedicated renewable sources – when power generation is close to 100 per cent renewable – will mainly play a role in replacing fossil fuel-based hydrogen and in industries where direct electricity use is not feasible.

Bankwatch, therefore, urges the EBRD to adopt the concept of a hydrogen hierarchy,<sup>2</sup> one that prioritises hydrogen use in relevant industrial sectors like fertiliser production (until they become saturated) and de-prioritises hydrogen use in the power and heating sectors.



Source: Michael Liebreich, [Clean Hydrogen Ladder](#), Version 4.1, Concept credit: Adrian Hiel, Energy Cities, *Liebreich Associates*, 15 August 2021.

In addition, in the EBRD’s countries of operation, the Bank needs to prioritise sustainable renewable projects for domestic use over hydrogen export projects. Only when renewables meet domestic energy demand should the EBRD support hydrogen projects for export. But there is also a good reason these countries of operation should be careful about running towards hydrogen – at the moment, all of the

<sup>1</sup> European Bank for Reconstruction and Development, [Kosovo becomes first Western Balkans economy to use solar energy for district heating](#), *European Bank for Reconstruction and Development*, 20 December 2022.

<sup>2</sup> Michael Liebreich, [Clean Hydrogen Ladder](#), Version 4.1, Concept credit: Adrian Hiel, Energy Cities, *Liebreich Associates*, 15 August 2021.

hydrogen hype in the EU is driven by the gas industry, which is advocating to ensure that it can survive competition with renewables by gaining access to massive grants and subsidies from public pockets. Therefore, instead of investing in hydrogen right now, the Bank must focus on supporting countries' implementation of mature clean technologies.

## Renewables: a good servant but (possibly) a bad master

If the past few years have taught us anything, it is that the EBRD can no longer ignore climate resilience and adaptation in its countries of operation. Against the backdrop of reduced precipitation and increased droughts, the vulnerability of hydropower has been thrown into sharp relief. Therefore, the EBRD needs to make it clear in its updated Energy Sector Strategy that rapid diversification of renewable energy sources away from hydropower is also required in those countries that are heavily dependent on hydropower.

The new strategy will also have to make its sustainability criteria for renewable energy sources far more precise and transparent. This is particularly the case for forest biomass, for which sustainability criteria apply at the EU level but are widely considered insufficient. Given the poor environmental governance in many of the EBRD's countries of operation and the near impossibility of tracking the origin of forest biomass, more attention needs to be paid to this issue. To take just one example, the EBRD needs to outline how it will ensure that its projects use only secondary, rather than primary, forest biomass. It also needs to demonstrate how it will ensure that forest biomass solutions for district heating are used only as a last resort, only on a minimum scale, and only after other solutions such as solar thermal, heat pumps and geothermal (where greenhouse gas emissions are low) have been implemented.



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