

# The Western Balkans residential Green Economy Financing Facility

## Results so far and recommendations for further action

For more information

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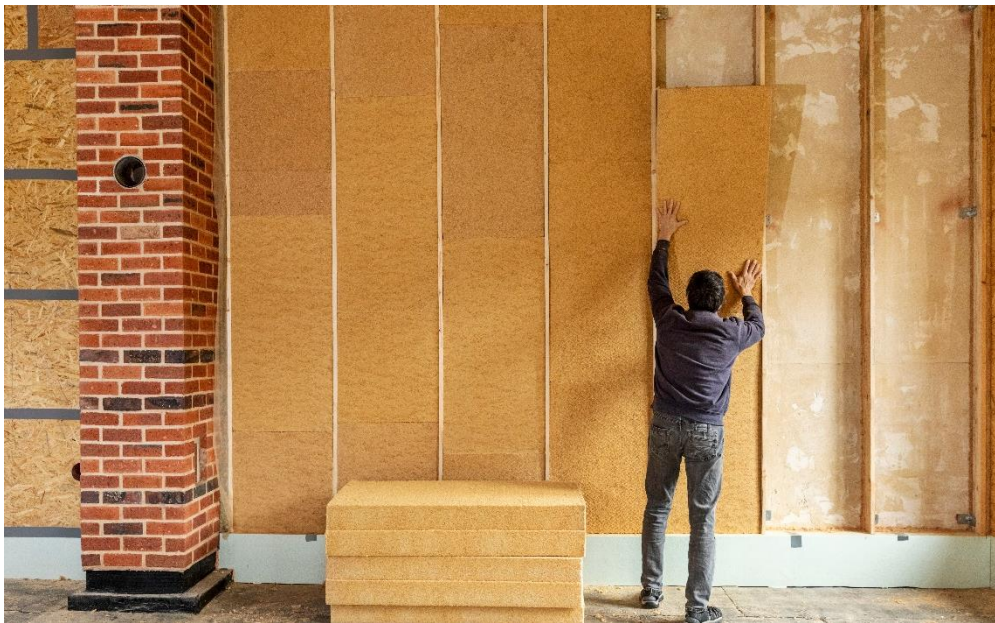


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## Executive summary

This briefing assesses the effectiveness of the energy efficiency credit lines for households financed through the Green Economy Financing Facility (GEFF), in terms of environmental sustainability and attractiveness for users in all six Western Balkan countries. The Western Balkans GEFF was founded by the European Bank for Reconstruction and Development (EBRD) and provides financing to partner financial institutions (PFIs) (commercial banks, microfinance institutions and other credit institutions), to support residential sector energy efficiency and small-scale renewable investments in the form of green loans, in some cases with a grant component of up to 20 per cent.

The briefing examines the eligibility criteria for getting a GEFF loan, as well as analyses the specific conditions that PFIs in the Western Balkans offer to the public. It also includes a case study of ProCredit Bank in North Macedonia regarding the disbursement of GEFF funds per technology, to better understand how the facility works in practice. Based on the analysis, it offers recommendations to the EBRD, Western Balkan governments and Western Balkan central banks, aimed at increasing the effectiveness and accessibility of the loans, thus accelerating investments by households in energy efficient technologies and services.

## Introduction

The Western Balkans is highly dependent on fossil fuels for power and heating, characterised by aging infrastructure, limited energy efficiency and energy productivity, as well as high rates of energy poverty. Buildings account for over 40 per cent<sup>1</sup> of the total final energy consumption in the region, and the residential sector is the largest consumer. Many residential buildings in the Western Balkans were built between 1960 and 1980 and have very poor energy performance.<sup>2</sup> And both district heating and individual heating systems in the region heavily rely on burning fossil fuels and wood.

Embarking on a path towards sustainability and climate-neutrality by 2050 by transposing European Union (EU) legislation and signing the Sofia Declaration,<sup>3</sup> the Western Balkans countries have committed to ensuring greater investments in ecologically sustainable technologies and approaches. Utilizing the clean energy potential of the Western Balkans following the Energy Efficiency First principle<sup>4</sup> will reduce energy demand, increase energy security, and improve air quality, while boosting growth and jobs in the region and reducing energy dependency.

The Energy Efficiency First principle is embedded in the EU Governance Regulation,<sup>5</sup> as well as in the Energy Efficiency Directive.<sup>6</sup> In November 2021 and January 2022 respectively, the Ministerial Council of the Energy

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<sup>1</sup> European Bank for Reconstruction and Development, [Guidelines for Putting Building Renovation Strategies Into Action](#), *European Bank for Reconstruction and Development*, 2023.

<sup>2</sup> CEE Bankwatch Network, [Heating in the Western Balkans](#), *CEE Bankwatch Network*, May 2021.

<sup>3</sup> Regional Cooperation Council, [Sofia Declaration on the Green Agenda for the Western Balkans](#), Regional Cooperation Council, 10 November 2020.

<sup>4</sup> European Commission, [Energy Efficiency First principle](#), *European Commission*, accessed 15 December 2023.

<sup>5</sup> EUR-Lex, [Regulation on Governance of the Energy Union and Climate Action \(EU/2018/1999\)](#), 11 December 2018.

<sup>6</sup> The European Parliament and the Council of the European Union, [Directive \(EU\) 2018/2002 of the European Parliament and of the Council of December 11, 2018 amending Directive 2012/27/EU on energy efficiency](#), *EUR-lex*, 21 December 2018.

Community adopted decisions<sup>7</sup> which obliged the contracting parties to transpose into their national legislation adapted versions of the European Union's Clean Energy Package, by no later than 31 December 2023. This includes both of these pieces of legislation.

The Energy Efficiency Directive clearly states that even within the EU, '*Current building renovation rates are insufficient, and buildings occupied by citizens on low incomes who are affected by energy poverty are the hardest to reach. The measures laid down in this Directive with regard to energy savings obligations, energy efficiency obligation schemes and alternative policy measures, are therefore of particular importance*'. There is a great need for deep renovations of buildings and the measures implemented must be designed in a way that ensures faster transition towards efficient and clean living, while also targeting those most vulnerable.

Different financial mechanisms in the Western Balkans help citizens implement energy efficiency measures, such as state level funds, municipal subsidies, bank loans etc.<sup>8</sup> However, many of these are in their infancy, and information about them is very scarce. Although Bankwatch plans to examine a wider range of support schemes in the future, this briefing assesses only the effectiveness of the energy efficiency credit lines for households offered by PFIs in all six Western Balkan countries, financed through the GEF.<sup>9</sup> The focus will be on environmental sustainability and attractiveness for users.

## About the Western Balkans residential Green Economy Financing Facility

The Western Balkans GEF was established by the EBRD and is co-financed<sup>10</sup> by the EU, the Austrian Federal Ministry of Finance, and bilateral donors<sup>11</sup> to the Western Balkans Investment Framework (WBIF).<sup>12</sup> It was introduced as part of the Regional Energy Efficiency Programme Plus (REEP Plus)<sup>13</sup> for the Western Balkans which began implementation in 2017 in partnership with the Energy Community Secretariat, aiming to stimulate renewable energy and energy efficiency investments in households, businesses and the public sector. The existing REEP Plus is a successor to the original Regional Energy Efficiency Programme (REEP)<sup>14</sup> established in 2012.

The Green Economy Financing Facility as a whole is a wider programme operating in 29 countries through 191 financial donors, supporting businesses and homeowners wishing to invest in energy efficiency and renewable technologies.<sup>15</sup>

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<sup>7</sup> Ministerial Council of the Energy Community, [Decision of the Ministerial Council of the Energy Community no. 2021/13/MC-EnC](#), 30 November 2021 and [Decision of the Ministerial Council of the Energy Community no. 2022/03/MC-EnC](#), 15 January 2022.

<sup>8</sup> CEE Bankwatch Network, [Heating in the Western Balkans](#), CEE Bankwatch Network, May 2021, 4.

<sup>9</sup> Energy Community, [Green Economy Financing Facility \(GEFF\) for the Western Balkans](#), Energy Community, accessed 15 December 2023.

<sup>10</sup> Green Economy Financing Facility, [Households light up with support of EU, Austria, bilateral donors and EBRD](#), European Bank for Reconstruction and Development, 28 September 2021.

<sup>11</sup> WBIF, [WBIF Bilateral Donors](#), WBIF, accessed 22 December 2023.

<sup>12</sup> WBIF, [About the Western Balkans Investment Framework](#), WBIF, accessed 22 December 2023.

<sup>13</sup> WBIF, [REEP/REEP Plus](#), WBIF, accessed 22 December 2023.

<sup>14</sup> Energy Community, [Regional Energy Efficiency Programme \(REEP\) for the Western Balkans](#), Energy Community, accessed on 22 December 2023.

<sup>15</sup> Green Economy Financing Facility, [About GEF](#), European Bank for Reconstruction and Development, accessed 22 December 2023.

The Western Balkans GEF started operating in 2017 with an initial volume of EUR 85 million for green economy investments in Albania,<sup>16</sup> Bosnia and Herzegovina,<sup>17</sup> North Macedonia,<sup>18</sup> Kosovo,<sup>19</sup> Montenegro<sup>20</sup> and Serbia.<sup>21</sup> It provides financing to PFIs, comprising commercial banks, microfinance institutions and other credit institutions, to support residential sector energy efficiency and small-scale renewable investments in the form of loans for energy efficiency and small-scale renewables with a grant component of up to 20 per cent.

The first Western Balkans GEF's financing ended in 2020, however, the same year it was extended with 50 million EUR to GEF II.<sup>22</sup> In 2022, the current extension GEF III<sup>23</sup> was introduced, with up to EUR 170 million dedicated to financial institutions in the Western Balkans to finance investments in the residential, as well as the public sector, following EBRD's Green Economy Transition (GET)<sup>24</sup> approach. GEF III also expanded its final beneficiaries to include construction companies for building GET-eligible high energy performance residential buildings. However, this briefing focuses on existing residential buildings, due to their importance for the cost of living.

## Eligibility criteria for financing under the GEF

### What is eligible?

Financing under the Western Balkans GEF is available for the following measures:<sup>25</sup>

- thermal insulation of walls, floor or roof;
- front doors and double/triple glazed windows;
- new gas/biomass boilers or pellet stoves;
- heat pumps;
- solar water heaters;

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<sup>16</sup> Green Economy Financing Facility, [GEFF in Albania](#), *European Bank for Reconstruction and Development*, accessed 28 December 2023.

<sup>17</sup> Green Economy Financing Facility, [GEFF in Bosnia and Herzegovina](#), *European Bank for Reconstruction and Development*, accessed 28 December 2023.

<sup>18</sup> Green Economy Financing Facility, [GEFF in North Macedonia](#), *European Bank for Reconstruction and Development*, accessed 28 December 2023.

<sup>19</sup> Green Economy Financing Facility, [GEFF in Kosovo](#), *European Bank for Reconstruction and Development*, accessed 28 December 2023.

<sup>20</sup> Green Economy Financing Facility, [GEFF in Montenegro](#), *European Bank for Reconstruction and Development*, accessed 28 December 2023.

<sup>21</sup> Green Economy Financing Facility, [GEFF in Serbia](#), *European Bank for Reconstruction and Development*, accessed 28 December 2023.

<sup>22</sup> European Bank for Reconstruction and Development, [Western Balkans GEF II](#), *European Bank for Reconstruction and Development*, accessed 28 December 2023.

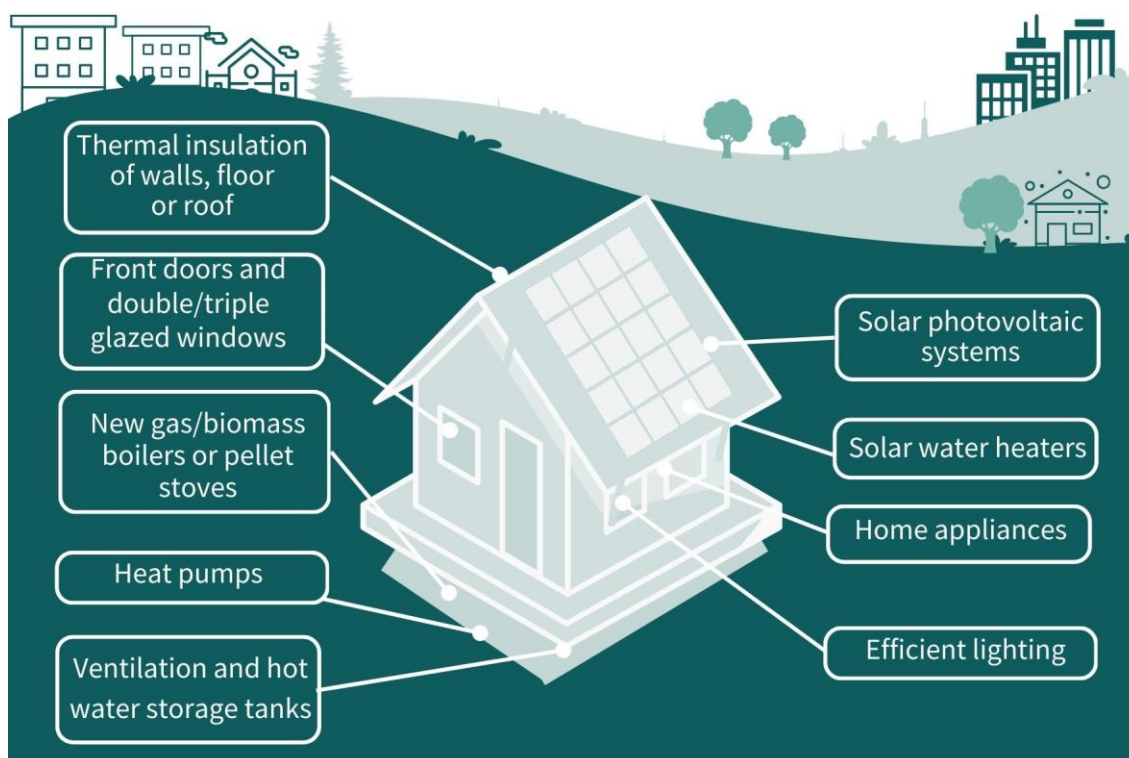
<sup>23</sup> European Bank for Reconstruction and Development, [Western Balkans GEF III](#), *European Bank for Reconstruction and Development*, 28 December 2023.

<sup>24</sup> European Bank for Reconstruction and Development, [What is the EBRD's Green Economy Transition approach?](#), *European Bank for Reconstruction and Development*, accessed on 28 December 2023.

<sup>25</sup> Green Economy Financing Facility Serbia, [What is eligible? What is the EBRD's Green Economy Transition approach?](#), *European Bank for Reconstruction and Development*, accessed 28 December 2023.

- solar photovoltaic systems;
- efficient lighting;
- home appliances;
- ventilation and hot water storage tanks.

Image 1. Eligible technologies for financing through Western Balkans GEF Programme. Source: Adapted from North Macedonia's GEF website<sup>26</sup>



The Western Balkans GEF also has established Technical Eligibility Criteria<sup>27</sup> for household technologies that must meet certain performance standards in order to be eligible for financing.

### Who is eligible?

The following categories of borrowers are eligible for a loan under the Facility:<sup>28</sup>

- Individuals owning or residing in a house or an apartment<sup>29</sup> in which they intend to implement an eligible investment. They can receive up to 20 per cent of eligible costs in the form of a grant for an

<sup>26</sup> Green Economy Financing Facility Macedonia, [What is Eligible?](#), European Bank for Reconstruction and Development, 28 December 2023.

<sup>27</sup> Green Economy Financing Facility Serbia, [Technical Eligibility Criteria](#), European Bank for Reconstruction and Development, accessed 28 December 2023.

<sup>28</sup> Green Economy Financing Facility North Macedonia, [Who is eligible](#), European Bank for Reconstruction and Development, accessed on 28 December 2023.

<sup>29</sup> Green Economy Financing Facility North Macedonia, [Grant support](#), European Bank for Reconstruction and Development, accessed on 28 December 2023.



eligible project within an individual apartment or house involving technologies from the GEFF Technology Selector,<sup>30</sup> depending on the type of sub-project.

- Groups of individuals, housing associations, condominium associations of apartment owners in multi-level buildings or other equivalent body which represents the interests of residents can receive up to 35 per cent of eligible costs in the form of a grant for a multi-apartment buildings sub-projects involving eligible technologies, depending on the type of sub-project.
- Service providers, such as Housing Management Companies and Energy Service Companies (ESCO) who provide maintenance, operation, installation, construction, refurbishment or similar services under a contractual arrangement with individuals and housing associations.
- Vendors, who supply and/or sell eligible technologies. Manufacturers, who produce eligible technologies and are planning to sustain or expand this part of their production.

## Publicly available information about current GEFF loans and conditions per PFI

The information about GEFF loans from PFIs' websites in all the Western Balkan countries shows that the loan conditions are different from one PFI to another, even within the same country. Other more specific findings are that:

- On some PFI websites there is a clear mention of GEFF, while on others there is not, even though they are listed on GEFF's websites as PFIs.
- There is no unified name of the loans: some are called eco loans, green loans, agro loans, energy efficiency loans, or other different names.
- Some PFIs offer detailed information about the loan conditions, including eligible technologies, links to GEFF's website, instructional videos, FAQs, loan calculators, etc., while others have very scarce information.
- On some PFIs' websites it is clearly stated that if you choose one technology you can receive up to 15 per cent return of eligible costs, and if you opt for two – up to 20 per cent, while on others it is stated only up to 20 per cent.
- The maximum amount offered is EUR 50 000, however this is not the case for all PFIs. Different loan ranges are available in different PFIs under different conditions (i.e. interest rates, collateral etc.). Different loan ranges can be also found within one PFI under different conditions.
- The maximum term for the loan is 20 years, however it differs from one PFI to another. Different terms apply within different PFIs under different conditions.
- There are many different scenarios for interest rates (fixed and variable) in all PFIs, directly related to the loan amount, term for payment, and other conditions.

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<sup>30</sup> Green Economy Financing Facility North Macedonia, [GEFF Technology Selector](#), *European Bank for Reconstruction and Development*, accessed on 28 December 2023.

- Most loans include scenarios with and without collateral (i.e. mortgage, bill of exchange, administrative ban etc.).
- Additional loan application related expenses apply for some PFIs, in the form of application fees, approval fees, etc.
- Some loans require that the beneficiaries must be residents and/or employed in the country with a certain amount of income.
- No special conditions are offered for vulnerable energy consumers.

The opportunity to receive a return of up to 35 per cent of eligible costs for multi apartment buildings is not listed on any PFI website, even though this can be found on GEF's websites in all Western Balkan countries. Thus, it remains unclear whether this opportunity is even supported by PFIs in practice.

Possible reasons behind this can be found in the Energy Community Secretariat's Policy Guidelines on energy demand reduction measures in the Energy Community Contracting Parties:<sup>31</sup>

*'The renovation of the multi-apartment residential buildings is one of the most complex types of end-use sector renovation because it involves challenges that are not present in other end-use sectors, such as complex decision-making, different types of ownership, split incentives between landlord and tenant, lack of awareness and capacity for financial, technical and legal contracting by building owners.'*<sup>32</sup>

As a result, while there are plenty of opportunities for financing projects from international and national streams, the utilisation of such funds is difficult because multi-apartment buildings are usually not recognized by banks as having financial capability.<sup>33</sup>

Furthermore, the December 2022 draft Investment Plan for the Republic of North Macedonia under the Accelerating Coal Transition programme<sup>34</sup> mentions GEF as a product that has *'high uptake and is comprehensive in terms of the available technologies under the green technology selector. As such, it is considered as a key measure to boost the residential EE and RE investments in the region.'*

However, it goes on to say that *'in addition to creditworthiness, the requirements of banks based on collateral for credit are a frequent obstacle for citizens to apply for existing credit lines. This is especially pronounced in multi-apartment (residential) buildings'*. It also points out that the grant component is not always sufficient to motivate people, and they often decide to wait for municipal grants, which typically amount to about 50 per cent of the investment.<sup>35</sup>

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<sup>31</sup> Energy Community Secretariat, [Policy guidelines on the energy demand reduction measures in the Energy Community Contracting Parties](#), 19, 15 December 2023.

<sup>32</sup> Ibidem.

<sup>33</sup> Ibidem.

<sup>34</sup> Government of the Republic of North Macedonia, [Draft Investment Plan Accelerating Coal Transition Plan for the Republic of North Macedonia](#), Government of the Republic of North Macedonia, 92-93, December 2023.

<sup>35</sup> Bitola Municipality, [Public call for subsidizing and support of the 'Energy efficient homes' project](#), Bitola Municipality, accessed 16 January 2024.

As shown in our recommendations, below, the GEFF and commercial banks can tackle some of these issues, but not all of them. It is evident that the governments of the Western Balkan countries need a more progressive approach in addressing these issues by designing and implementing other support schemes financed through national development banks and national energy efficiency funds, targeting multi-apartment (residential) buildings. They also need to address the legal challenges that prevent residential buildings being eligible as parties with financial capability. Such action will accelerate the renovation rates of apartment buildings, by enabling owners access to funds that will result in reducing energy demand and improved living conditions.

### GEFF’s results as of 3Q 2023

By the end of the third quarter of 2023, 29 partner financial institutions across all six Western Balkan countries had signed contracts with GEFF. Since the inception of GEFF in 2017, the total value of these contracts was EUR 131 million. They had dispersed EUR 91.4 million in sub-loans, thus reaching 16,567 households.

Table 1. The Western Balkans GEFF’s key indicators as of 3Q 2023. Source: EBRD response to access to information request, 15 December 2023.

<b>Signing amount with PFIs</b>	<b>EUR 131 million</b>
<b>Number of PFIs</b>	<b>29</b>
<b>Sub-loans to households (EUR)</b>	<b>EUR 91.4 million</b>
Albania	EUR 1.9 million
Bosnia and Herzegovina	EUR 20.5 million
Kosovo	EUR 14.3 million
Montenegro	EUR 0.5 million
North Macedonia	EUR 32.8 million
Serbia	EUR 21.3 million
<b>Number of households reached</b>	<b>16,567</b>
Albania	357
Bosnia and Herzegovina	5,382
Kosovo	1,608
Montenegro	139
North Macedonia	4,021
Serbia	5,060

The largest portion had gone to North Macedonia with EUR 32.8 million, reaching 4,021 households. However, the largest number of households reached was in Bosnia and Herzegovina with 5,382, even



though it ranked third according to the amount received, namely EUR 20.5 million, despite the fact that both countries joined GEF in 2017.

Serbia joined GEF a year later, in 2018, and by the end of 3Q 2023 had received a bit more than Bosnia and Herzegovina, or EUR 21.3 million, but had reached fewer households – 5,060.

Albania had received EUR 1.9 million, however it had reached only 357 households, while Kosovo with 7.5 times more or EUR 14.3 million, had reached 4.5 times more households or 1,608. Kosovo joined GEF in 2017, and Albania in 2018. Montenegro with only EUR 0.5 million had reached 139 households, being the last country to join GEF in 2020.

Table 2. Percentage of total investments by households per technical sub-categories by 3Q 2023. Source: EBRD response to access to information request, 15 December 2023.

Technical Measure Sub-Category	Per cent of total investment by households
Windows	31.4 per cent
Heat pumps	23.9 per cent
Insulation of walls, floor and roof	24.9 per cent
Biomass boiler/CHP	13.1 per cent
Others	6.8 per cent
<b>Total</b>	<b>100 per cent</b>

Encouragingly, installation and insulation of windows, walls, floors, and roofs amount to more than 50 per cent of the total investment by households, since insulation of the building envelope should come first, before installation of renewable energy technologies, to achieve maximum results in energy savings. Together with the percentage for investments in heat pumps, this amounts to more than 80 per cent of the total investments of households, which is a positive trend for reducing energy demand.

A March 2022 GEF article<sup>36</sup> states that ‘thanks to the application of energy efficient technologies, households in the Western Balkans have reduced CO<sub>2</sub> emissions by 15,000 tonnes per year, the equivalent of removing 9,500 cars from the streets’.

Even though this is a step in the right direction, as outlined above and below, certain aspects related to GEF must be improved in order to increase the effectiveness and accessibility of the loans, thus accelerating investments by households in energy efficient technologies and services.

## Gas or biomass boilers/stoves and micro combined heat and power (mCHP) technology

As of 3Q 2023, investments in biomass boilers and micro combined heat and power (mCHP) technology amounted to 13.1 per cent of Western Balkans GEF investments, which raises concerns. Even though they

<sup>36</sup> Green Economy Financing Facility Bosnia and Herzegovina, [In BiH, over 4,000 households have improved their energy efficiency through the EBRD-GEFF Programme](#), European Bank for Reconstruction and Development, 25 March 2022.

must follow GEF's eligibility standards of high thermal efficiency, these are not truly sustainable heating solutions.

Western Balkans already has an issue with a lot of households relying on biomass fuels for heating (mainly firewood), usually in old, inefficient stoves, and without effective regulation of informal logging. Updated and reliable statistics are hard to come by, but a 2017 study estimated that over 40 per cent of the energy required for heating in the Western Balkans is being supplied through burning biomass due to its low cost and widespread availability.<sup>37</sup> However, 58 per cent of the biomass consumed in the region comes from unregistered sources, mostly due to illegal logging by local communities near forest areas and by private forest owners.<sup>38</sup> Illegal logging can lead to deforestation, loss of biodiversity, land degradation and other severe impacts for the environment, including economic impacts.

Moreover, burning biomass also exacerbates air pollution. Although modern boilers can decrease the extent, it is still unavoidable. Moreover, the fact that some biomass products such as pellets require considerable processing and transport prior to combustion increases the overall air pollution associated with their use,<sup>39</sup> as well as energy inputs.

Even though biomass is – under some circumstances<sup>40</sup> – considered renewable under EU law because trees and other crops can be replaced, there are limits to the amount of biomass that can be produced and we simply cannot grow as fast as we can burn. Encouraging investments in biomass boilers and stoves will deepen the dependence on biomass for heating in the Western Balkans for decades to come, making it even harder for households to break the habit of using firewood for heating, while slowing down the uptake of cleaner heating solutions based on renewables, such as heat pumps.

In 2021, more than 500 scientists from around the world sent a joint letter<sup>41</sup> to the European Commission President, Council President, and others to stop treating the burning of biomass as carbon neutral in its renewable energy standards and in its emissions trading system. Biomass is not a carbon-free fuel since its burning releases greenhouse gases, and we no longer have time to wait for replacement trees to grow – even if they are replaced, which is far from certain in many cases. In the letter, the scientists write: *'The burning of wood will increase warming for decades to centuries. That is true even when the wood replaces coal, oil or natural gas'*.

Given all the above, using primary woody biomass as a heating source, no matter how efficient, it shouldn't be supported with public money, especially in the Western Balkans where forestry and air pollution are so poorly regulated.

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<sup>37</sup> The World Bank, Western Balkans Investment Framework and Energy Community, [Biomass-Based Heating in the Western Balkans - A Roadmap for Sustainable Development](#), October 2017.

<sup>38</sup> Ibidem.

<sup>39</sup> Tran, Huy; Juno, Edie; Arunachalam, Sarav, [Emissions of wood pelletization and bioenergy use in the United States. \*Renewable Energy\*](#), December 2023.

<sup>40</sup> The 2018 and 2023 versions of the EU's Renewable Energy Directive contain sustainability criteria stipulating the circumstances under which bioenergy can be regarded as renewable, legally speaking.

<sup>41</sup> WWF, [500+ scientists tell EU to end tree burning for energy](#), WWF, 11 February 2021.

In addition, the Western Balkans GEF currently considers gas boilers and mini-CHP units as eligible. Gas is not only a fossil fuel with significant carbon intensity,<sup>42</sup> but the region has limited access to it and three countries – Albania, Kosovo and Montenegro – are not even connected to international gas networks. It has only been reasonably affordable due to the use of Russian gas, which the region is now trying to move away from, and in the future will be subject to higher prices and greater price fluctuations. In most of the countries, new gas infrastructure would have to be built from scratch, costing a lot of time and money. The lifetime expectancy of these projects is at least 30-40 years, which would delay the transition to a zero-carbon economy in the Western Balkans region, since investing in gas slows down the uptake of sustainable renewables<sup>43</sup> and diverts resources from investing in energy efficiency.

Therefore, expanding gas distribution networks and pushing households to invest in gas technologies will result either in stranded assets (if households do not connect) or gas lock-in (if they do, they will not replace their boilers with heat pumps very soon due to sunk costs). Increased gasification of household heating in the region would lock Western Balkan countries into another fossil fuel dependency, as well as perpetuating, and in most cases increasing, import dependency.

Promoting renewables-based solutions for clean and modern heating of households, such as coupling heat pumps with rooftop PVs<sup>44</sup> should be encouraged, and gas or biomass boilers and micro combined heat and power (mCHP) should be excluded from the eligible technologies for GEF financing.

## Case study: ProCredit Bank – North Macedonia

Bankwatch contacted ProCredit Bank in North Macedonia regarding the disbursement of GEF funds per technology and to better understand how the facility works in practice.

The specific conditions for applying for a GEF grant through ProCredit Bank are:

- Interest rate – 7.75 per cent fixed for a period of 3 years; after that it becomes variable and depends on the value of the treasury bills,<sup>45</sup> but can never be below 8 per cent. It consists of a 5 percentage points margin plus T-bills (treasury bills) for the remaining period if the repayment term is longer than 3 years,
- Bank charges – 2 per cent or minimum MKD 6 000 (EUR 97),
- Application costs – MKD 1 000 (EUR 16),
- Repayment period - up to 7 years,

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<sup>42</sup> Deborah Gordon et al, [Evaluating net life-cycle greenhouse gas emissions intensities from gas and coal at varying methane leakage rates](#), DOI 10.1088/1748-9326/ace3db, *Environmental Research Letters* 18 084008, 17 July 2023.

<sup>43</sup> CEE Bankwatch Network, [Heating in the Western Balkans](#), *CEE Bankwatch Network*, May 2021.

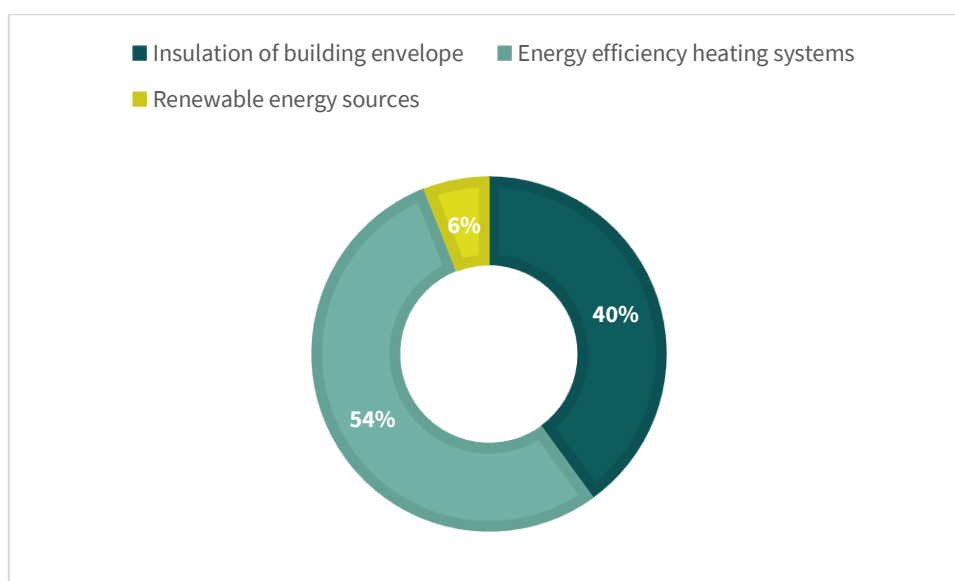
<sup>44</sup> CEE Bankwatch Network, [Analysis of alternatives to coal-based district heating for the Bitola region in North Macedonia](#), *CEE Bankwatch Network*, October 2022.

<sup>45</sup> ProCredit Bank – North Macedonia, [Treasury Bills](#), *ProCredit Bank – North Macedonia*, accessed 25 January 2024.

- Security – Solemnized contract (i.e. contract guaranteed by a public notary)/Salary-backed-loan<sup>46</sup>/Bill of exchange,<sup>47</sup>
- Amount – an internal rule of the bank is that the loans should not exceed MKD 1 000 000 (EUR 16 245), in order not to be concentrated among certain clients. However, this amount can be exceeded, but approval is required from the Departmental Director or a member of the Management Board (according to the GEFf guidelines, the maximum amount is EUR 50 000).

The total amount of funds available for ProCredit in North Macedonia under the GEFf programme until the end of 2023 (EUR 6 660 000) were fully used, financing 556 projects in total. Out of these, 512 were used for investments in energy efficiency. In fact, 325 loans were used for installation of heat pumps, and 187 for insulation measures of floors, roofs, external walls, windows, doors etc. The remaining 41 loans were used for biomass boilers, photovoltaic panels and solar energy heating systems. 40 per cent of the total available funds were used for construction works to improve the energy efficiency of the building envelope (insulation of floors, roofs, external walls, windows, doors etc.), while 54 per cent were used for heat pumps and 6 per cent for investments in renewable energy sources.

Image 2. Disbursement of GEFf funds per technology by ProCredit Bank – North Macedonia



Additionally, ProCredit Bank does not have exclusion criteria or criteria for prioritization of different categories of clients. That is, any client who meets the minimum criteria for financing can be supported by the Bank with a loan, so the same applies to the funds from the GEFf programme as well. In its responses, ProCredit Bank also highlighted that it hasn't received any comments about the interest rates of the GEFf loans, nor about the other loan conditions. In their view, since the grant component covers the cost of the interest rates, in a way the loans are 'interest-free'.

<sup>46</sup> For a salary-backed-loan the instalment agreed is deducted from the salary (or pension) and paid to the Bank that allocated the loan every month, by the employer and/or the Pension office for pensioners.

<sup>47</sup> Britannica, [Bill of exchange](#), Britannica, accessed 18 January 2024.

The following are two examples of possible loans that can be received through the GEFF programme in ProCredit Bank North Macedonia – one for a mid-priced 3.5 kW inverter air conditioner which is not subject to the 20 per cent grant opportunity, and one for an average investment for changing of windows in a building apartment. The examples are produced using the loan calculator on their website, which give three different options for the number of monthly instalments within the range where the fixed interest rate is applicable. The amounts are given in Macedonian denars (MKD).

Table 3. Example of GEFF loan without 20 per cent grant opportunity for an investment in a mid-priced 3.5 kW inverter air conditioner through ProCredit Bank – North Macedonia

<b>Loan amount</b>	<b>40 000</b>		
Interest rate	7.75 per cent		
Number of instalments	12	24	36
Monthly instalment	3 474.92	1 804.53	1 248.85
<b>Total</b>	<b>41 699.04</b>	<b>43 308.72</b>	<b>44 958.60</b>

Table 4. Example of a GEFF loan with 20 per cent grant opportunity for an investment for replacement of windows in a building apartment through ProCredit Bank – North Macedonia

<b>Loan amount</b>	<b>125 000</b>		
Interest rate	7.75 per cent		
Number of instalments	12	24	36
Monthly instalment	10 859.11	5 639.17	3 902.65
Sub-total	130 309.32	135 340.08	140 495.40
<b>Grant 20%</b>	<b>25 000.00</b>	<b>25 000.00</b>	<b>25 000.00</b>
<b>Total</b>	<b>105 309.32</b>	<b>110 340.08</b>	<b>115 495.40</b>

As can be seen from the examples, a loan for a smaller size investment in an air conditioner that is not eligible for the 20 per cent grant opportunity, can add between 4 and 13 per cent to the overall cost of the investment, depending on the repayment period. This may be discouraging for potential clients, particularly as ProCredit Bank has other product lines in their portfolio that can be used for such investment with better conditions and lower interest rates.<sup>48</sup>

The second example (Table 4) clearly shows the benefits of the grant as explained by ProCredit Bank. Namely, the grant amount does not only cover the interest rates, but also decreases the overall cost of the investment for the household. But in this case as well, it is visible that a higher income household that can accommodate a higher monthly instalment in their budget, will benefit from higher savings in the end.

<sup>48</sup> ProCredit Bank North Macedonia, [Investment Loan](#), ProCredit Bank North Macedonia, accessed on 24 January 2024.

Although loans will never be a suitable instrument for the most vulnerable households and grant instruments need to be developed by the government, there are ways that these loans can be made more available for a larger portion of the population. According to the Poverty Watch 2023 report for North Macedonia,<sup>49</sup> 62.5 per cent of employed people have a net salary lower than MKD 30 000 (EUR 500) per month. For these people, the option with the highest number of instalments in the second example means they would need to dedicate 13 or more per cent of their salary to the loan, which causes a significant and often unacceptable strain on the household budget. Increasing the grant percentage and implementing measures to decrease the interest rates on all possible levels can significantly increase people's willingness to invest in retrofits.

## Recommendations

### To the EBRD

- Unify the name of the loans for all PFIs to help people easily connect them with GEFF and its benefits, while avoiding confusion with other programmes or loans.
- Ensure clear mentions and visibility of GEFF on PFIs' websites, including a link to GEFF's website for the appropriate country, for easy access to all information and tools related to GEFF's eligibility criteria, Partner Financial Institutions, Technology Selector, and the loan application process.
- Establish common conditions on which loan information PFIs must display on their websites, such as minimum and maximum loan amount, minimum and maximum repayment term, interest rates, collateral, bank charges, and additional loan application related expenses.
- The most basic conditions, such as the loan amount range, form of collateral as well as the minimum/maximum term for completing the project, should be the same for all PFIs within one country, to enable equal access to funding for all households regardless of the PFI.
- Increase the percentage of the grant by at least 10 per cent, making it more attractive for lower middle-class households.
- Unify whether the grant covers financing of one or more technologies and under which conditions.
- Exclude gas or biomass boilers/stoves, and micro combined heat and power (mCHP) technology from the list of eligible technologies to encourage households to invest in sustainable renewable energy sources and highly efficient heat pumps.

### To the Western Balkan governments

- Make the necessary technical and legal adjustments to allow for multi-apartment buildings to be eligible as parties with financial capability to benefit from the GEFF programme.

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<sup>49</sup> Macedonian Anti-Poverty Platform, [Poverty Watch 2023: Preventing Austerity, Refinancing Social Rights](#), Macedonian Anti-Poverty Platform, 2023.



## To the Western Balkans central banks

- Regulate interest rates and other loan conditions for investments in energy efficiency separately from other loans to allow PFIs to offer better conditions to their clients through the GEF programme.



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