Southeast Europe remains a challenging market for renewable energy projects, interview with Mr. Lloyd Stevens, Director of Finance in Motion, Investment Advisor to the Green for Growth Fund, Southeast Europe

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Serbia-Energy.com: The mission of the Green for Growth Fund, Southeast Europe is to contribute, in the form of a public private partnership with a layered risk/return structure, to enhancing energy efficiency and fostering renewable energies in the Southeast Europe region. Can you tell us more about the incentive drivers which lead to this project?

The countries in the regions of the Fund, currently Southeast Europe and the European Neighborhood Region, are much more energy intensive than those of Western Europe. As countries such as Serbia seek to fulfill the EU's 20/20/2020 goals, they need to address both the demand and supply sides of their energy equation. This means reducing demand through energy efficiency, at households, businesses, and government level, and to "green" supply by focusing on renewable sources, in particular wind and hydropower.

The GGF was set up to support these countries in both areas – by promoting energy efficiency, primarily through financial institution partners, and to develop new sources of renewable energy by investing directly into smaller projects that might be overlooked by other international investors. Our investors – donors, IFIs, and private investors, view our structure as particularly appropriate for making these kind of market-making investments.

With a solid first-loss cushion from donors, our investors feel comfortable in the Fund making investments that emphasize environmental impact, not just financial returns. We are able to address gaps in the market, investing where purely commercial investors might not yet feel confident to invest.

Serbia-Energy.com: Can you tell us more about the projects which are within the scope of the fund and what are the general experiences in project implementation?

To date the Fund is working exclusively with financial institutions. We support them in developing new products focused on energy efficiency and renewable energy, raising awareness, training their staff, and in monitoring the impact of their investments. Roughly half of the projects our partner banks have financed relate to improving the building envelope – installing energy efficient windows, and insulating walls to save energy. The remaining projects have supported businesses in replacing their old, inefficient equipment so that they can produce goods with less energy, and households investing in new boilers or even rooftop solar hot water heaters. We are seeing excellent progress, with Serbia as one of our most successful partner countries.

Serbia-Energy.com: How much are you satisfied with your local partners, the banks and services providers? What are the interest of the donors to support the fund, political and economical?

The Fund currently works with 15 financial institutions to advance the EE/RE agenda and is in negotiations with various RE projects. In Serbia the Fund so far works with three commercial banks – Čačanska banka, Kommercijalna Banka, and Banca Intesa Beograd. We are very satisfied with all three institutions, each of which has a unique approach to energy efficiency reflecting each bank's respective market focus. We are supported in our work in Serbia by several local energy auditing firms, which help our banking partners' clients to identify profitable energy saving investments, which can then be financed by the banks using GGF funding. We have been very impressed by the high level of expertise available in Serbia in this area.

Serbia-Energy.com: Can you tell us more about your project financing line for RES projects in the region, what are your expectations for green energy projects in the region?

Southeast Europe remains a challenging market for renewable energy projects. The Fund has several that it is working on across all eligible technologies (wind, hydropower, solar PV, biomass). These projects are quite far along, but we believe that a higher degree of regulatory certainty, particularly in Serbia, would be very helpful. It is difficult to plan the financing of a project when the feed-in tariff regime is not locked in.

Serbia-Energy.com: Would you be able to select a positive and negative case study which may serve as lesson learned for other applications and loan beneficiaries?

One of our banks is working with a major Serbian manufacturer to replace their existing oil-fired equipment with modern, combined heat & power equipment. This will save 70% over the existing machinery, saving both energy and money. These possibilities are not *exceptions but due to effective screening of businesses and a comprehensive understanding of various technologies and underlying cost/benefit analyses. In Turkey, we have had great success with building insulation. That country has a law in place that explicitly encourages large buildings, through their homeowners associations, to install modern insulation. The uptake there has been phenomenal, with GGF alone financing over EUR 25 million in these investments.*

On the negative side, we do see that the current economic climate makes it difficult to convince companies in particular to make large-scale investments in energy efficiency. Although the medium-term case is clear, with payback periods of as short as a few years, some of the companies are reluctant to invest in anything beyond their current expenses until the economic climate improves. That is why GGF is investing in awareness raising campaigns, such as our "Save Energy – Investing in the Future" (Štedimo energiju – investirajmo u budućnost) campaign conducted in conjunction with Čačanska banka. Often small adjustments in technology and processes can unleash great energy and cost savings. Businesses need to learn to take a comprehensive look at all parts of their business and bring in external advice to run a diagnostic.

Serbia-Energy.com: How does GGF sees regional economic development perspective, which countries are faster than others?

We look at both economic growth AND the enabling environment when assessing the potential for EE/RE. From that perspective, despite its current challenges, Serbia is one of our top growth markets for the Fund, and currently is our second biggest market after Turkey. We also see potential in Croatia, which is acceding to the EU in 2013 and therefore making great efforts to meet its treaty obligations to improve its energy efficiency and increase the share of RE in its supply. Of course, Turkey remains an attractive growth market for all types of investments. In our newer region, the European Neighborhood Region, we see lots of potential in Georgia, Armenia and Ukraine. At the same time, the GGF was set up to promote EE/RE throughout our region, and we will continue to seek out investment opportunities in all of our target partners. Given that all countries suffer from old building stock and outdated equipment and need to increase competitiveness there is ample room in all countries for the Fund, in particular in our work to raise awareness for the problems and the solutions.

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