CEE bankwatch network

EBRD policy briefing

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Tug of War: Fossil Fuels vs. Green Energy at the EBRD

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Addressing the climate crisis by drastically reducing greenhouse gas emissions by 80 to 95 percent in developed countries and 50-70 percent globally is becoming ever more urgent. While developed countries need to take the lead on this, all EBRD countries of operations must make significant emissions reductions and as well develop their renewable energy and energy efficiency sectors to avoid becoming uncompetitive in these areas. International bodies such as the International Energy Agency are warning that carbon-based energy consumption is already to a large extent locked into existing infrastructure and that building new power plants, roads and industrial facilities dependent on fossil fuels risks completing this lock-in to such an extent that achieving the necessary emissions reductions will be impossible.

The EBRD's current energy policy, which has guided the bank's lending to the energy sector since 2006, is however inadequate to face these challenges and urgently needs to be revised. While the currently policy contains a much-needed emphasis on sustainability and laid the ground for increased energy efficiency and renewables financing, the policy allows the bank to finance almost anything, including the most carbon intensive energy sources such as coal[1]. Dramatic events since the policy was approved, including new proof of impending catastrophic climate change, the bank's expansion to the southern and eastern Mediterranean region, rising oil prices, and the death of the so-called nuclear renaissance, necessitate a new approach.

At the same time, the EBRD is also currently revising its mining policy, and a draft version shows that the EBRD has so far failed to rule out financing coal mining. This must be changed before approval by the bank's Board of Directors.

Between 2006 and 2011, the EBRD provided EUR 6.7 billion in loans and equity for the energy sector. During this time there were some welcome developments such as a large increase in the bank's energy efficiency and new renewables investments, and the EBRD should continue to develop these areas.

However this good news is overshadowed by the bank's continued financing of fossil fuels, which made up almost half (48 percent or EUR 3.26 billion) of its overall energy lending in the period. In particular its increasing financing of coal and oil projects is problematic, as in 2011 each of these received investments equal to the amount of new renewables financed.

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 Except the construction and operation of nuclear reactors.

Between 2006 and 2011 EBRD support for coal also increased from EUR 60 million to EUR 262 million, indicating a worrying trend.

The EBRD is prone to justify its involvement in such projects by arguing that these countries would burn fossil fuels anyway. However, the bank – a public institution – is obliged to finance projects only where other sources of financing are not available at reasonable rates. So if the EBRD is financing projects that would anyway go forward, then it is competing with commercial banks and contravening its mandate. In addition fossil fuels investments divert limited resources away from energy efficiency and new renewables financing, as well as other worthwhile investments. And the idea that something harmful/problematic is going to happen anyway is not an excuse for actively contributing to it.

Given the IEA's warnings regarding carbon lock-in in infrastructure, the bank needs to phase out lending for carbon-intensive sectors of the economy altogether, starting with an immediate halt in support for the extraction and combustion of the most carbon-intensive energy source, coal.

Another issue is that the increase in renewables lending brings with it new challenges that need to be addressed if renewable energy is to retain its integrity as an environmentally acceptable means of energy production. One example is Bulgaria, where the rapid but poorly-planned expansion of renewable energy has proved to be environmentally damaging. At the same time, the re-emergence of financing for unsustainable, large hydropower projects – the EBRD financed three such projects in 2011 – is also disconcerting given the high environmental costs of these investments. The EBRD therefore needs stricter sustainability criteria for defining what constitutes renewable energy and to contribute to careful planning of these technologies with national and local authorities.