



**European Bank**  
for Reconstruction and Development

**Statement to the third Conference of Parties to the Framework Convention on Climate Change**

**EBRD and Climate Change**

The European Bank for Reconstruction and Development (EBRD) was established in 1991 to foster the transition towards market-oriented economies in the countries of central and eastern Europe and the former Soviet Union. One of the EBRD's strengths is that it can operate in both the private and public sectors. It is also the first multi-lateral institution to have included in its founding agreement the mandate to 'promote in the full range of its activities environmentally sound and sustainable development'.

In many respects, and particularly with regard to the issue of climate change, the EBRD's countries of operation are in a special position. Due to the previous economic system, the 'economies in transition' are characterised by a very high energy intensity and low energy efficiency. Badly designed and inefficient systems, lack of maintenance, reliance on burning erstwhile low cost fossil fuels and a strong emphasis on energy intensive industries are characteristics of the region.

The Bank attaches particular importance to operations that promote energy efficiency, the use of cleaner technologies and the promotion of renewable resources. Within the Bank, a special team has been set up to develop and implement energy efficiency investment projects. Since the establishment of this team in 1995, the Bank has committed approximately ECU 150 million to energy efficiency projects, generating total investments of approximately ECU 450 million. Many other projects are currently being developed. The estimated energy savings achieved in these investments amount to approximately 900,000 tons of oil equivalent per year, avoiding about 2.8 million tons of CO<sub>2</sub> emissions per year.

On the energy production side, nearly half of the Bank approved power generation projects to date (6 out of 14, representing ECU 270 million of Bank financing) are for renewable energy (hydro and geothermal). In addition, the Bank has provided ECU 265 million for projects focusing on improved efficiency of plants and reduction of transmission and distribution losses of electricity.

The EBRD has, potentially, a particular important role in addressing climate change through its focus on the development of innovative financing mechanisms, and its support of the transition to a market economy. For example, the EBRD is playing a pioneering role in the development of 'Energy Services Companies' (ESCOs), as well as in the development of private investment in power plants based on renewable sources of energy, and financing structures for municipal service companies, such as district heating companies. In this way, the EBRD is paving the way for more commercial sources of financing and for further investments leading to reductions in greenhouse gas emissions.

Other projects, although not primarily aimed at energy savings, nonetheless can result in substantial reductions in the emissions of greenhouse gases. For example, many EBRD projects are concerned with investments in industrial modernisation and aim to lower production costs, often through reductions in energy consumption. In addition, through projects in sectors such as municipal waste and urban transport, the Bank can also help abate greenhouse gas emissions.

#### EBRD and 'Joint Implementation'

In many of the EBRD's countries of operation emission levels of greenhouse gases have dropped dramatically compared to 1990 levels. This is largely due to a collapse in industrial output and the related decrease in energy consumption. Many of these countries have also committed themselves to limit their emission levels. However, unless the energy intensive character of the economies is addressed and renewable sources of energy as well as co-generation are actively supported, emissions can be expected to rise in the coming years when countries' economic position improves.

In this respect, the EBRD strongly supports the concept of 'Joint Implementation' (JI). The EBRD sees as a principal benefit of JI to be the mobilisation of additional financial support for investment projects that lead to CO<sub>2</sub> emission reduction. 'JI' financing may enable the investment size of projects to be expanded beyond the Bank's possibilities for financing, or to increase the quality of projects. Also, it may contribute to the development of projects that would otherwise not be "bankable".

The EBRD has been actively working on the development of pilot 'Activities Implemented Jointly' (AIJ). Concrete experience has been gained in the Romanian Thermal Energy Conservation Project, in which Switzerland has indicated an interest in co-financing project components, in addition to the investments financed by the EBRD, as an 'activity implemented jointly'.

A main advantage of such co-operation is that much of the preparatory work needed to evaluate the project as an AIJ project will already be carried out in the course of normal project development work. This means that parties who wish to invest in CO<sub>2</sub> reducing measures in the EBRD's countries of operation may reduce their project development costs by teaming up with the EBRD, while at the same time participating in much more substantial projects than they would have been able to support on their own.

The involvement of international financing institutions such as the EBRD in joint implementation projects can, therefore, reduce the costs and increase the effectiveness of the implementation of climate change policies. However, for such co-operation to be effective, it is of key importance that mechanisms and procedures are kept clear and simple.

The EBRD is interested in the further development of projects and cost-effective mechanisms for the reduction of greenhouse gas emissions. In this regard, the European Bank for Reconstruction and Development would like to invite donor governments, and particularly private sector investors, who are interested in financing (pilot) Joint Implementation projects, to discuss possibilities for cooperation and to join with the EBRD in elaborating appropriate financing schemes.