Financing just transition

Investment Plan for North Macedonia

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The Context on Energy Transition in the Western Balkans

The Western Balkans have set a course towards **carbon-neutrality** in 2050, as per Sofia and Berlin declarations.

Fossil fuel combustion is a key source of emissions in the region.

- Except for Albania, **the region relies heavily on coal for electricity generation,** supplied by circa 8.7GW of installed TPP capacities.
- Coal shares in electricity generation range from circa 40% in Montenegro to over 95% in Kosovo.

Over **40,000 people** in the region are employed in coal power plants and mines, with further **60,000 jobs** indirectly affected.

Despite progress, draft National Energy and Climate Plans (NECPs) fall short of being on climate neutrality trajectory up to 2030. This is in part due to the lack of financial support, including for grid investments and ensuring societal buy-in for transition.

Enabling just energy transition through holistic approach

Our experience from JT action plans and investments in the region shows the following pillars are crucial for delivering on just energy transition:

Strong Governance & Policy Frameworks

- Adopted **NECP** with **Annex on measures and priority investment,** strong RE and coal phaseout targets based on robust modeling
- **Regulatory frameworks** in place (e.g on market coupling, renewables, storage, ETS etc)
- **Governance** structures for ensuring just transition

Fossil Fuel phase out

Land remediation & power plant repurposing

Workforce reskilling/ support packages

Grid strengthening

Grid masterplans

Storage solutions

New renewables capacity

Local supply chains development for climate technologies & services

Economic diversification

Businesses' support & green skills development

Climate Finance & Institutional support

Climate co-finance (grants/concessional funding); IMF (Resilience and Sustainability Trust); Sovereign guaranteed corporate loans & bonds; and carbon savings monetisation (subject to availability)

Private sector mobilisation

Project finance;
Green/Sustainability(linked) bonds & loans;
Equity

Investment needs and impact for WB6 by 2030

High-level estimates:

> EUR 30 billion*

to support climate-neutrality aligned just energy transition before 2030

excluding regional economic diversification

*Based on EBRD high level estimates from publicly available sources – detailed studies are needed.
RE targets as needed for climate-neutrality transition (based on Energy Transition Commission scenarios).

2030 IMPACT

Robust **NECPs and climate ambition** supported

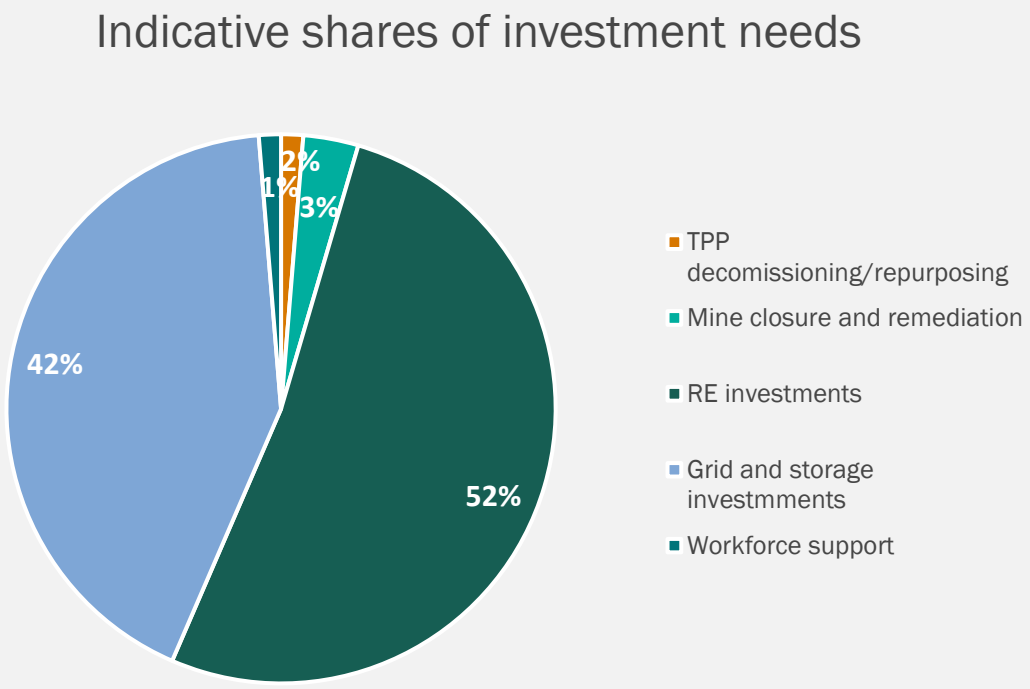
Up to **2.6 GW** coal-fired TPPs phased-out*

Up to **32,000** workers supported

Up to **15 affected regions** supported in green and just economic diversification

> 5 GW* of new RE capacity deployed

Financing for just transition



Total: c. EUR 31-36 billion excluding regional economic diversification and governance

1. Majority of investments are for **cost-competitive renewables**, which should primarily be financed by **private sector** (e.g. via auctions)
2. Another **c. 42% are for grids and storage** can come from state budgets, private and MDB financing, with concessional loans and limited grants (e.g. for storage)
3. Remaining **c. 6% for environmental and social aspects** would require high levels of **state expenditure and grant support** to ensure that transition is just.
4. **Regional economic diversification** investments are context-specific, and should come through a combination of **private sector and MDB investments and sustainable incentives** (e.g. grants & concessional finance)

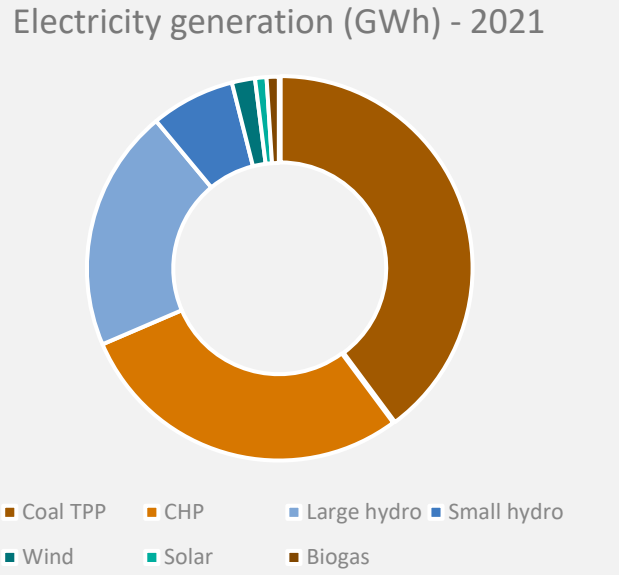
Case study: North Macedonia's energy transition context

North Macedonia has set an ambitious NDC target of net 82% GHG emissions reduction by 2030 compared to 1990 levels. This corresponds to absolute emission reduction in 2030 compared to BAU: 7,603 Gg CO2-eq.

Core action to achieve this is complete coal phase-out before the end of the decade. In 2021, 39.5% of the country's electricity was generated from coal, supplied by two power plants - 125MW TPP Oslomej and 639MW TPP Bitola. Over 33% of electricity was imported, raising energy security concerns.

North Macedonia targets 38% share of electricity in gross final energy consumption from RES (from 23% in 2020). Per green scenario of the draft National Energy and Climate Plan (NECP) this will require circa 1,5 GW new installed RE capacity by end of 2030.

Support will be critical to meet NDC target in the electricity sector, including for decommissioning, grid strengthening, storage and supporting just transition measures.

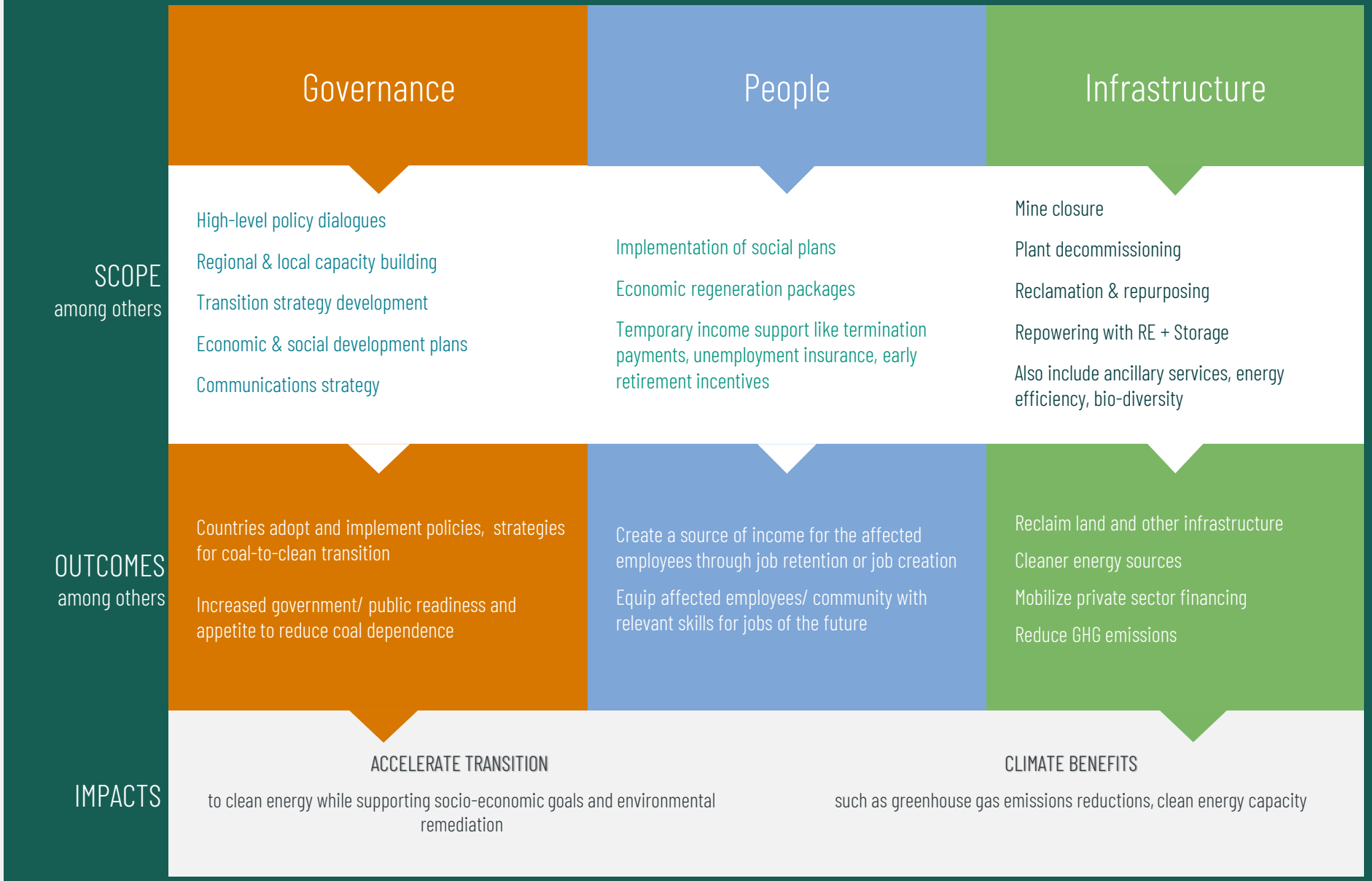


Sources: draft National Energy and Climate Plan (NECP)
Energy and Water Services Regulatory Commission (2021 report)

From planning to action

- EBRD has supported the Government of North Macedonia in **Climate Investment Funds Accelerated Coal Phase out (CIF ACT)** programme application.
- CIF ACT Programme offers **a holistic toolkit** to support countries transitioning away from coal, tackling challenges linked to national strategies, people, and communities, as well as land and infrastructure, targeting transformational change.
- **JT Roadmap,** adopted developed with EUD & EBRD support, and later adopted by Government in June 2023, has been instrumental to strengthening the case during the last replenishment.
- As a result, North Macedonia was invited to prepare **a country-owned investment plan (IP)** to access up to **USD 85 mln** of concessional finance & grants (submission aim: Jan 2024). The process is supported by three MDBs – EBRD (lead), WB and IFC.
- This is **unprecedented testament to the country's ambition**, as previous CIF ACT countries included only large economies: South Africa, India, Indonesia, Philippines.

CIF ACT Programme Pillars



JT Roadmap, adopted in June 2023, identifies transition pathways that form the cornerstones of IPs

JT Roadmap: Four pathways with **investment project ideas** based on analysis and stakeholder engagement

Private Sector Investment and Startup Economy	Green & Smart Infrastructure	Clean Energy	Skill Development
Enhanced role of TIDZ	Energy Efficiency	TPP repurposing	Upskilling and reskilling
Tailored state aid	Electrification of mobility	Storage capacities	New training program development (incl.STEM)
Fostered start-up ecosystem	Waste management	Green jobs	Youth and gender specific programs
Increased access to finance	Water management	Rise in prosumers	Social transfers

Starting point

USD 0.5 mln technical assistance package to develop **investment project concepts and support capacity building**

- Component 1: Retiring and replacing coal-fired power generation assets in Bitola and Oslomej
- Component 2: Regional economic regeneration
- Component 3: Energy efficiency, clean heating and distributed generation programme

Draft IP components discussed with key stakeholders

Component 1: Retiring and replacing coal-fired power generation assets in Bitola and Oslomej

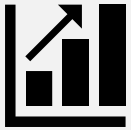
Phase-out 3+ TPP blocks
Disconnect, demolish, rehabilitate

Remediate 3 coal mine areas
Prepare for re-purposing

Replace TPP capacities with low carbon energy sources
Solar PV on mine sites, storage solutions, synchronous condensers, grid strengthening

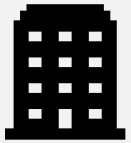
Human capital development
Re-skilling ESM workforce to support transition to low-carbon jobs incl. supporting national/sectoral educational and skills development strategies

Component 2: Regional economic regeneration



Economic regeneration programme
Climate-smart investments in businesses in Southwest and Palagonia incl. with associated skills trainings

Entrepreneurship credit lines
Financing lines for former ESM and coal value chain workers, women and youth to develop businesses



Support for Industrial Zones
Next to Kicevo and Bitola to encourage domestic and foreign investments in high value-added industries in line with state aid rules

Component 3: Energy efficiency, clean heating and distributed generation programme

Energy efficiency
for community public sector buildings esp. in Bitola, Kicevo and other coal-reliant municipalities

Concessional FI lines
for energy efficiency, clean heating and distributed generation focussing on coal regions

Human capital development
In energy efficiency and distributed generation for affected communities, incl. gender component, as part of the previous two components

Next steps for JT support

Exploration of further grants & concessional finance opportunities to deliver on North Macedonia's ambition and delivery on the plan

Mobilisation of private sector investments to scale up the programme's impact

Exploring opportunities to replicate similar mechanisms in other WB6 countries and broader programmes in Ukraine in the reconstruction context

Thank you for your attention!

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