

Energy investments and financing during and post COVID-19 crisis

28 April 2020

In the course of the last three weeks, the Secretariat held calls with all International Financial Institutions (IFIs) active in the Energy Community (European Bank for Reconstruction and Development, European Investment Bank, German Development Bank KfW and World Bank) and the European Commission (DG NEAR) in order to learn about their assessment of the current situation regarding the impact of the COVID-19 crisis on the liquidity of energy utilities¹ and their respective Partner Financial Institutions (commercial banks) and the resulting implications on the ongoing and future investments in the energy sectors of the Energy Community Contracting Parties. Measures to alleviate the impact and boost the energy sector recovery post the COVID-19 crisis proposed by the IFIs and the European Commission were also discussed. The views of the IFIs and the European Commission collected by the Secretariat constitute the contents of this paper. The information provided hereinafter represents the state of play as of 28 April 2020 and may be amended to reflect additional developments.

Current situation

Ongoing investment projects in both large energy infrastructure and energy efficiency and renewable projects may be delayed because of supply chain disruptions and clients not being able to repay loans due to loss of revenues. The most vulnerable are projects implemented by SMEs and households, mainly in energy efficiency and small renewable energy. Commercial banks are assessing clients' requests for payment delays on a project by project basis.

The liquidity of commercial banks which are mostly local branches of international banks through which IFIs disburse many of the investment credit facilities does not seem to pose an immediate problem if the payment delays are limited in time (currently announced by some banks at 90 days in Serbia and Montenegro; and up to 180 days or until the COVID-19 crisis ends in Albania and Bosnia and Herzegovina). Many IFIs are prepared to extend bridging loans to these banks, if and when needed. Microfinance institutions are more threatened by the liquidity shortage and special assistance in the form of delayed repayments to the IFI by six months or more may be deployed.

Recovery support by IFIs and the European Commission

The Contracting Parties have put in place specific interventions to support their economies and citizens, e.g. moratoriums on debt payments to banks, tax relief, delayed payments of utilities and rent, new credit line facilities in national investment and development funds to support businesses in restarting their activities, etc. In parallel, the IFIs and the European Commission have launched additional support packages.

The list below provides a non-exhaustive overview of the support programmes offered by the IFIs and the European Commission, with multi-country and multi-sector programmes being featured.

The EU has adopted support programmes for SMEs in the Western Balkans and Eastern Partner countries - https://ec.europa.eu/commission/presscorner/detail/en/IP_20_604.

¹ For a complete assessment of the impact of the COVID-19 crisis on the liquidity of energy utilities, please see accompanying report "COVID-19: Financial liquidity in the electricity sector".

The IFIs have put in place solidarity or relief support packages for SMEs, banks, energy developers, corporations and municipalities, namely:

- **The EBRD** has adopted a support package for all countries of operation - <https://www.ebrd.com/what-we-do/coronavirus-solidarity>. It consists of up to two year short-term loans for SME operation financing.²
 - o **Montenegro**: EPCG has asked for a EUR 50 million short-term facility with a two year disbursement period;
 - o **Serbia**: EPS may have access to the same type of facility and is currently considering the option; the EBRD solidarity support to EPS foresees covenants related to moving to decarbonisation of the energy sector and reinstatement of the original Power Purchase Agreements (PPAs), as well as adherence of EBRD's principle of disclosure of emissions and stricter rules on the financial governance of EPS;
 - o **Kosovo**^{*3}: The distribution system operator KEDS is not a client of EBRD and cannot benefit from the facility (at present);
 - o **Albania**: The Government of Albania has asked the EBRD to look at the financial situation of OSHEE. Support to local Partner Financing Institutions (PFIs) is available mostly for SMEs' needs and potentially on demand for covering partly the renewable investments owned by the PFIs. EBRD recently disbursed EUR 50 million to the hydropower producer KESH to make its balance sheet stronger to weather the impact of COVID-19.
- **The EIB** response is limited to EU Member States for now - <https://www.eib.org/en/press/all/2020-094-eib-group-moves-to-scale-up-economic-response-to-covid-19-crisis.htm>. The EIB is currently discussing a "programme loan" to facilitate financing to local governments in the Western Balkans to reduce the financial constraints of energy operators.
- **The World Bank** worldwide programme to support the health sector is already in place. The Bank is analysing what is actually needed for a longer term recovery package in order to prepare a new financial aid programme with different instruments included.
- **The KfW** is monitoring the needs of different energy utilities for liquidity support, in order to prepare targeted interventions; additional support for SMEs or PFIs is also being considered.

Additional EU support recommended by financial institutions includes:

- Continuing EU financing support accompanying IFI credit lines, in the form of grants towards investment costs and technical support for project preparation and reporting;
- **Additional instruments** may be set up under the Western Balkan Investment Framework (WBIF) and the Neighbourhood Investment Platform (NIP), such as a Guarantee Facility (to be discussed with IFIs/ PFIs), specifically for energy efficiency and small renewable projects implemented by SMEs and households; this would be able to

² The EBRD solidarity support to PFIs will not distort the financial market – EBRD needs to meet the additionality criteria, as the price of loans will have to reflect the current increased market risks (a potential premium will be included, pending on the client history with EBRD).

³ This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

reduce the client risk for banks and allow more projects implemented in smaller municipalities, commercial and residential sectors.

Turning a disaster into an opportunity - “SMART” Recovery

IFIs and the European Commission were unanimous in agreeing that it was essential to pick up on energy sector reforms from where the coronavirus crisis has left them and build on the progress achieved in markets, competition and good governance. The Green Agenda needs to continue, as a source of investment in SMEs to produce locally energy efficient technologies and materials and renewable energy equipment. The crisis is a chance to allow new business models and new entrants into more open and transparent energy markets, benefitting customers and allowing them to rebuild their businesses.

Additional messages:

EIB and PFIs (commercial banks) called for governments to:

- “Embark on the change” – invest more in renewable energy and climate mitigation projects and accelerate existing lending operations or re-purpose to support reform;
- “Put their house in order” – implement reforms as part of EU policy discussions that may be accelerated when a new EIB funded project is being screened by the European Commission.

EBRD:

- Large infrastructure projects, albeit delayed, are expected to continue and new projects to start, such as smart metering with Serbian power utility EPS (strongly supported by the Government of Serbia).
- Investing in higher efficiency of buildings, public transport and the public sector will bring economic benefits as well as social benefits – health, jobs and cleaner air.