

Financing municipal energy efficiency in Macedonia

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Improving and enhancing the use of energy efficiency is one of the main goals of the European Union (EU). At the end of 2006, the EU members agreed to lower their annual consumption of primary energy by 20% by 2020.¹ Municipalities are one of the crucial actors for the support and realization of this goal, since their activities directly affect the local residents. Providing support to the municipalities for implementation of energy efficient projects, and raising public awareness and knowledge about this issue is a key driver for a greener future.

Southeastern Europe, especially the Balkans face many difficulties, both technical and knowledge wise, when it comes to energy efficiency. This essay has the objective of identifying some of the major problems municipalities in Macedonia face with respect to the financing of energy efficiency projects, and providing recommendations for improving the conditions and enhancing sustainability in the long term.

The level of energy efficiency financing by the municipalities in Macedonia is very low due to several reasons:

Co-finance – unlike several years ago, nowadays the donor institutions very often require co-financing when approving a grant in order for the institution to show higher involvement in the project. Many of the municipalities in Macedonia either are in very bad financial situation (blocked account) or lack the capacities for planning in order to foresee such cost in their annual budget planning. Moreover, considering that in the past period many of the grants were in full amount (100%), the municipalities kind of got used to the idea that the donor should supply all the necessary funds.

How many credit opportunities for energy efficiency are offered to the municipalities? – Currently there are not many credit opportunities for the municipalities to invest in energy efficiency. For many of the credit lines offered by the creditors, the municipalities are not eligible. Mainly, the households and the private companies are eligible to apply for these so called green or eco credits. For example, for the WeBSEFF programme, the main target group are enterprises that support sustainable use of energy. The Green for Growth Fund (GGF), through Halkbank AD Skopje, offers credits only to households and companies. The credits offered by the Macedonian Bank for Development Promotion and the GEF (Global Environmental Facility) programme are mainly targeted towards enterprises willing to invest in energy efficiency or renewable energies. Eco credits are offered by Procredit bank to households and enterprises willing to invest in energy saving. These are most of the credit opportunities for energy efficiency offered in Macedonia. As we can see there are not many credit opportunities offered to the municipalities and even when such opportunities are offered the rates are very high (around 7%).

Will the creditors give money to the municipalities? – Very often the answer is no! The creditors are not willing to give money to the municipalities due to the following reasons:

- *Lack of trustworthiness.* Several problems arise when creditor is considering municipality as a potential client. First, many of the municipalities have proven as bad financial managers, i.e. they have serious difficulties with their budget (blocked account or rather insufficient budget). Second, the political environment is unstable and

¹ "Saving 20% by 2020", October 2006, European Commission Directorate-General for Energy and Transport

so far the experience has shown that the next mayor might not abide by the contract that has been signed by his predecessor.

- *Lack of trustworthiness by the ministry of finance.* In some cases there is a possibility for a municipality to receive a credit only if the ministry of finance is a guarantee. However, considering the reasons stated above, not very often the ministry of finance is willing to support the local self-government units for this kind of matter.

Lack of interest by the municipalities to invest in energy efficiency in the public institutions (schools, kindergartens etc.) under their jurisdiction. Since the process of decentralization is not finished, many of the municipalities have jurisdiction over the elementary schools, however they are not yet responsible for the financial obligations. This means that the municipalities are not the ones responsible for the electricity, heating and water costs, but the national authorities are. The ministry of finance transfers the money to the ministry of education, the ministry of education transfers the money to the municipality and the municipality transfers the money to the school to cover its costs. Now, if investments in energy efficiency in the schools need to be made, the municipalities are the ones that will have to provide that investment. The question is why certain municipality should invest in energy efficiency in some school when they are not the ones paying the bills? With the completion of the decentralization process, the reasons for investing in energy efficiency by the municipalities will be very clear, but at the moment, due to short-term planning, they lack the interest to invest in such energy efficiency project.

However, we have to stress that the reasons stated above are not applicable to all local self-government units in Macedonia, some municipalities have shown very mature attitude towards this matter and implemented or are implementing very good and useful projects. For example, when the World Bank the previous year (2011) made an announcement for so called mirror grants (50% grant funds provided by the World Bank and 50% provided by the municipality), some of the municipalities proven to be pragmatic and hurried to apply for this great grant opportunity.

Consequently, the list of recommendations that can spur municipalities in Macedonia on the path to energy efficiency is presented below:

Completion of the decentralization process – since the decentralization process first started, many issues remained unresolved concerning the governing rights and obligations of the municipalities. Most of the power is still in the hands of the central government and the line ministries. In order to motivate the municipalities to participate actively in the life of their residents, more decision-making power must be transferred. The municipalities will accordingly to their needs, expectations and budget provide action plans and strategies and be solely responsible for the well being of their residents.

Raising public awareness – the residents of the particular municipality, and all the population should be familiar with the projects that are undertaken and the benefits they bring over the medium and long term. Having the support and the patience from the public is a key element since implementing and realizing energy efficient projects demands certain short term sacrifices.

Different financing sources – there are multiple ways in which municipalities can receive financing. If it is used for projects whose return is greater than the costs for the project, every investor will be willing to invest a certain sum of money. Despite the main financing options, municipalities can organize: fundraising events, public – private partnerships, issue bonds, leasing opportunities etc., however modification of the legal framework is necessary.

Budget management should be carefully and efficiently planned, since with the decentralization, the municipalities are responsible for their own credit risk.

Incentives to invest in energy efficiency – the national and local authorities have to consider introducing larger portion of incentives to the companies for investing in energy efficiency, such as tax holiday, carbon emissions trading, reduced taxes etc. Furthermore, the strongly supported concept of so called ESCO companies, by EU, needs to be introduced. These companies develop, install, and arrange financing for projects designed to improve the energy efficiency and maintenance costs for facilities over a seven to twenty year time period. What sets ESCOs apart from other firms that offer energy efficiency, like consulting firms and equipment contractors, is the concept of performance-based contracting. When an ESCO engages in a project, the compensation, and often the financing of that project, are directly linked to the amount of energy that is actually saved.² The World Bank has successfully introduced and implemented 24 ESCOs around the world in different countries including: China, Brasil, India, Croatia, Bulgaria e.t.c.³

Green public procurement – this has been used by EU countries in the past couple of years and it is a working concept that can be applied to Macedonia. Green public procurement means that energy efficiency demands and clauses should be included when public institutions issue tenders. In that way, not only the best price of quality will have an effect on the decision on who gets the tender, but also the accent is placed on who can provide the best energy efficient project or service.⁴ In this direction introducing ISO 14001, the most widely implemented EMS (Environmental Management System) standard, will benefit both the municipalities and the private enterprises, and oblige them to fulfill the prescribed criteria for energy efficiency.

With the growth of some large economies such as: China, India, Brazil, Russia, Indonesia, the demand for energy has reached unsustainable levels. Since there are no new major discoveries of energy sources, the price just keeps rising. This is the reason why leading EU and EFTA countries, Germany being the leader, have done major steps toward sustainability, energy efficiency, use of renewable energy sources and waste management. According to Eurostat, since the creation of the Eurozone, Germany has lowered its energy consumption from primary sources by 9,2% while still maintaining economic growth.⁵ This shows that the cliché about the negative correlation between energy efficiency and growth no longer exists and that a well developed and comprehensive strategy can bring both economic prosperity and a greener environment. Undertaking projects with the accent placed on energy efficiency demand additional costs and thus a higher expected return. Energy efficiency leads to sustainable development, which enhances the ability to use the same sustainable resources in the long term, more cheaply, and efficiently, thus improving the economic growth and prosperity of the country.

² Dayton, D., Goldman, C., Pickle, S., *“The Energy Services Company (ESCO) Industry: Industry and Market Trends”*, 1998, LBNL-41925

³ *World Bank GEF Energy Efficiency Portfolio Review and Practitioners’ Guide*, January 2004, Thematic discussion paper

⁴ *Green Public Procurement in 2005: Status Overview*, October 2005, http://ec.europa.eu/environment/gpp/pdf/report_facts.pdf

⁵ Statistics Explained, Eurostat, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Consumption_of_energy