



Joint Programme 2023 Annual Progress Report

SDG Financing Portfolio - Component 2

Cover page

UNCT/MCO: North Macedonia

Reporting Period: 1 January - 31 December 2023

JP title: SDG Financing- Catalytic Investments

Thematic SDG Areas: Energy Transitions; Climate change, biodiversity loss and pollution;

Gender Marker: Gender-responsive (for example, the JP aimed to respond to specific gender needs, such as linking social assistance with GBV response services or maternal health support)

Engine Room Activities: Devising a market-ready pipeline; Developing the 'deal room' (financing mix) ;

Total estimated expenditures: USD \$3,821,606.00

Total estimated commitments (including expenditures): \$5,482,892.00

Executive Summary

Accomplishments during January 1-December 31, 2023:

Year 2023 was marked by a major operational set-up for implementation of the GFF UN Joint Programme – with signing of Legal Agreement between UNDP and EBRD, establishment of Steering Committee, selection, onboarding and training of Project and Verification Consultants and signing of loan agreements with 3 participating financial institutions and launching GFF products to SMEs for investments in renewable energy and energy efficiency solutions.

Specifically, the following key activities were completed, and milestones reached in 2023:

First tranche of Government contribution received following Agreement between Government and UNDP on 28/12/2022. Second tranche received in September 2023.

Legal Agreement between UNDP and EBRD signed on 24/03/2023.

EBRD has signed Loan Agreements with three Participating Financial Institutions (PFIs), in the amount of USD 17,850,000 (EUR 17 million) of the available USD 30 million (EUR 28-29 million), which accounts for approximately 60% of the Facility. Total of USD 8,925,000 (EUR 8,500,000) is in committed tranches to the PFIs. Three sub-projects in the total amount of \$1.25 USD (EUR 1.19 million) were approved in 2023, one of which in the amount of \$54,989.55 USD (EUR 52,371) was disbursed to the end sub-borrower.

For Outcome 2, due diligence of 3 banks and independent micro assessment of 2 banks have been completed, and one bank is in contract negotiations with UNDP and IOM.

The Steering Committee (SC) established, and SC First Meeting held on 22/06/2023. SC members (i) adopted the SC Scope and Rules of Procedure, (ii) reviewed and noted the 2022 Annual Progress Report, and (iii) agreed on the 2023 Milestones.

Project Consultant (PC) and Verification Consultant (VC) for Outcome 1 selected, and contracts signed. The consultants are operational, working with the target SMEs and PFIs.

Verification Consultant (Independent Assessor) for Outcome 2 selected and contracted by UNDP and IOM on 20/11/2023. Validation Methodology is completed.

Product Launch was held on 03/11/2023, attended by about 90 participants, from the government, Joint SDG Fund donors, private sector, civil society and consumer organizations, and media.

GFF presentations provided at private sector organizations (business chambers) in North Macedonia and at international conferences.

UNECE training for Project and Verification Consultants on RE/EE project design and verification held on 28-30/11/2023.

Progress toward SDG targets is yet to materialize as the financial instrument was recently launched and disbursing only for Outcome 1 (SMEs) as of December 2023. Upon installation and use of the RE/EE solutions by SMEs and households, GFF will accelerate progress on multiple SDG targets (indicators) as specified in the SDG acceleration section below.

The GFF is expected to contribute to two of the six SDG transitions: (2) energy access and affordability and (6) climate change, biodiversity loss and pollution.

Annual Progress

Main results achieved by the joint programme in 2023:

The year 2023 was marked by major operational set-up for successful implementation of the GFF UN Joint Programme. UNDP and EBRD signed a Legal Agreement on 03/24/2023 after an extensive process of preparation and negotiations. A Steering Committee, co-chaired by the Deputy Prime Minister for Economic Affairs in the Government of North Macedonia and the UN Resident Coordinator was established and held the first meeting on 22.06.2023. The SC members (i) adopted the SC Scope and Rules of Procedure, (ii) reviewed and noted the 2022 Annual Progress Report, and (iii) agreed on the 2023 Milestones.

Project Consultants and Verification Consultants for Outcome 1 have been onboarded and trained and they are working with SMEs and the partner financial institutions. The Project Consultant for Outcome 1 developed a GFF Operations Manual and Marketing Plan and presented GFF at several events to the business community. In parallel, they developed a pipeline of three sub-projects worth \$1.25 million USD (EUR 1.19million) for investments by SMEs in renewable energy.

For Outcome 2, a Verification Consultant ("Independent Assessor") was selected and onboarded and is completed the Validation Methodology for the partner banks. An additional consultant team (Project Consultant) for Outcome 2 is in the process of selection expected to be finalized in early 2024. The contracted Verification Consultant, together with the Project and Verification Consultants for Outcome 1, received technical training from a team of experts engaged by UNECE. The 3-day training enhanced the consultants' knowledge and capacity in project design and verification of renewable energy (RE) and energy efficiency (EE) projects for SMEs and households under GFF going forward.

The GFF team held a Product Launch on 03/11/2023 in Skopje, with a high level of attendance by representatives of the government, Joint SDG Fund donors, private sector (including banks for both Outcomes), civil society as well as media which ensured high visibility and outreach, as evident in the GFF Communications Update file.

To date, EBRD has signed loan agreements with two banks (Sparkasse Banka A.D. Skopje and ProCredit Banka A.D. Skopje) and one leasing company (Sparkasse Leasing DOO Skopje) in total amount of USD 17,850,000 (EUR 17M) or 60% of available USD 30 million by EBRD under the Facility. Total of USD 8,925,000 (EUR 8.5M) is in committed tranches to the PFIs.

One PFI began on-lending its funds in 2023; as a result, approximately \$55,000 (EUR 52,371) has reached one SME sub-borrower for the implementation of a Solar Photo Voltaic sub-project with expected savings of 130.2 MWh/year in energy and 105.6 tonnes/year in GHG emissions.

Once Outcome 2 performance-based payment loans are made available for the 7 target groups of households i.e., individuals in 2024, the GFF project team will organize presentations for each target group (female-headed households, single parents, Roma households, households with persons with disabilities, households affected by Covid-19, remittance recipients and returning migrants) throughout the country.

Main Challenges, adjustments and lessons:

Finalization of the Agreement between UNDP and EBRD took longer than expected as it was the first of this kind between the two entities, with complex coordination and clearance processes. The Agreement was signed on 24.03.2023. This delay affected the overall Programme timeframe in 2023.

Challenges and mitigating factors: elections in April and May 2024 are expected to cause economic slowdown which may reduce the appetite for investments. Mitigating factors include strengthened marketing efforts by the Project Consultants and electricity price increase which is expected to increase the interest in GFF.

For Outcome 1: The state guaranteed EiB7 credit line of EUR 100 million will be available in early 2024. The subsidized interest rate of 3.5% to end borrowers (businesses) as well as the streamlined application and approval procedures make it very attractive. For the first time, the EIB has introduced a requirement that at least 30% of the proceeds should be for green investments. All banks on the market are targeted. Mitigating factors: The EIB line can be used for refinancing existing investments, which will consume a good portion of the available funds. EBRD and EIB credit lines have been present on the market simultaneously for over a decade, showing that there is room for both types of instruments.

Additionally, the high EURIBOR makes the EBRD credit lines expensive, resulting in hesitation by some banks to join the GFF. Mitigating factor: shorter tenors and lower margins offered to the banks by EBRD.

For Outcome 2, withdrawal of two of the three local banks named in the GFF Project Document. One bank decided to place its commitment to GFF on hold until 2024. Another bank withdrew due to strategic process (expected merger). As a mitigation measure, the GFF team is preparing a Call for PFIs which is expected to result in selection of 2 (two) additional banks for Outcome 2 in 2024. In parallel, contract negotiations are currently ongoing with the third bank and are expected to be finalized to contract signing in Q1 2024.

Furthermore, for Outcome 2, the selection process for Project Consultant and Independent Assessor required repeat announcements due to a limited consulting market, complex solicitation requirements and time of year (holiday season). Subsequently, an Independent Assessor was selected and contracted on 20/11/2023, and a Project Consultant is expected to be selected and contracted in early 2024.

The complex programme i.e., facility structure and multiple stakeholders are making progress and yielding results

but pose a challenge in terms of communication. Lessons have been noted and are being translated into adjustments and new tools to enhance information exchange and to ensure engagement of all stakeholders, commensurate to interest and capacity.

Priority Cross-cutting Issues

Cross-cutting results/issues

Gender equality and women empowerment are imbedded in the design of GFF JP through an inclusion of women and single parents (most of whom are women) as target groups for Outcome 3 that provides access to finance for marketable but underserved households and individuals for investments in renewable energy and energy efficiency. In addition, GFF Outcome 2 will also benefit Roma (another most disadvantaged group in the country), people with disability, returning migrants and remittance recipients with access to finance for accelerated green transition.

How did the JP apply the Gender Marker

The JP is Gender-responsive (for example, the JP aimed to respond to specific gender needs, such as linking social assistance with GBV response services or maternal health support).

SDG Transitions Acceleration

Progress toward SDG targets is yet to materialize as the financial instrument was recently launched and disbursing only for Outcome 1 (for SMEs) as of December 2023. Upon installation and use of the RE/EE solutions by SMEs and households, GFF will accelerate progress on the following SDG targets:

SDG Target 7.2: By 2030, increase substantially the share of RE in the global energy mix.

SDG Target 7.3: By 2030, double the global rate of improvement in energy efficiency.

SDG Target 7.a: By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology.

SDG Indicator 11.6.2: Concentrations of fine particulate matter (PM2.5)

SDG Target 13.2.2.: Total greenhouse gas emissions per year.

SDG Target 17.3. Mobilize additional financial resources for developing countries from multiple sources.

The GFF is expected to contribute to two of the six SDG transitions: (2) energy access and affordability and (6) climate change, biodiversity loss and pollution.

During 2023, the GFF UN Joint Programme formally unlocked EBRD financing of USD 30 million to be available for support to SMEs' investments in RE and EE solutions under GFF's Outcome 1. <https://www.ebrd.com/news/2023/new-green-finance-for-smes-and-underserved-individuals-in-north-macedonia.html>.

The implementation of the GFF UN Joint Programme guarantees that the financial solutions developed and implemented are context-specific, since the "Technology Selector Tool" was adapted and updated by UNECE's team of consultants in October 2022 and was made available publicly for the GFF target audience in 2023.

Annual Reporting on Results

Exit strategy, scaling, sustainability and next steps

In 2024, the GFF project team aims to expand the number of PFIs for the implementation of both Outcome 1 (SMEs) and Outcome 2 (7 target groups).

For Outcome 1, The EBRD is in discussions with two additional PFIs to sign a total of EUR 8 million under the Facility; it is expected that these transactions will be signed in 2024. Another 1-2 transactions (EUR 3-4m) utilising the remaining amount under the Facility are expected to be identified in 2024.

The Project Consultant will focus on building capacity of PFIs at both head offices and branches (pipeline screening and development) and on supporting PFI marketing efforts. The PC will also cooperate with chambers of commerce and the regional planning offices to identify potential sub-borrowers and vendors. The Verification Consultant will begin work as the first project is completed for verification.

For Outcome 2, the UNDP team is preparing an announcement of an "Open Call for PFIs" for onboarding additional 2 (two) banks as Responsible Parties in 2024.

Overall, the Joint Programme is expected to demonstrate the effectiveness of the Green Finance Facility model in North Macedonia as a partnership model to Governments, financial institutions, investors, and others in the region, with potentials to replicate in the countries with similar economies.

The Joint Programme aims to catalyze impact beyond a one-off project investment using a combination of market push and pull activities that address barriers to the adoption of renewable energy and energy-efficient solutions.

In this regard, the programme partners (UN and EBRD) are interested and exploring opportunities to scale up the Programme (sub) regionally as well as / or replicate it globally.

At the same time, the Government as a partner in the Joint Programme and motivated by the highly prioritized green agenda is also committed and looking into opportunities to promote, expand, and scale up the partnership and programme engagement.

Measuring and reporting on impact

During 2023 "Green Finance Facility" UN Joint Programme established the mechanisms and formalized the partnerships to launch the GFF product and accelerate implementation. The actual tangible results and impact toward the JP's and SDG targets is expected in the following reporting cycles in the next 2 years and will be recorded and reported accordingly. The following highlights marked GFF's implementation in 2023:

- One of the key achievements of the GFF UN Joint Programme in 2023 was the signing of the Legal Agreement between UNDP and EBRD, the first of its kind in both organizations. It overcame administrative barriers and established a model of cooperation between a UN entity and an international financial institution, with the potential to be scaled and replicated at regional and global levels.
- Furthermore, GFF First Steering Committee Meeting held on 22/06/2023 ensured a full commitment from the Government of North Macedonia to support the UN Joint Programme. Subsequently, GFF was featured at COP28 by the Minister of Environment and Physical Planning in the Government of North Macedonia.
- The GFF Product Launch (November 3rd, 2023) marked an important JP milestone by officializing the launch of the first GFF products (RE and EE loans with technical assistance and performance-based payments) and ensuring the strategic commitment of PFIs to provide affordable finance for SMEs and households of target groups to invest in RE and EE in the country.

The benefits from operationalization of GFF in terms of installed renewable energy capacity, greenhouse gas emissions avoided, and energy savings are expected to be materialized tangibly and recorded starting from 2024 onward.

Overview of progress toward Financial Instrument(s)

GFF SME loans (Outcome 1): Fully operational and placed on the market via three private institutions (two banks and one leasing company). Remaining activities: completion of agreements with additional private financial institutions in addition to the three already engaged.

GFF Household loans (Outcome 2): Not yet operational. Negotiations on the agreement with one private financial institution (bank) for extension of the GFF household loans is in mature stage. Two additional banks planned to be identified through a new tender in 2024.

The contract with Independent Assessors was signed on 20 November 2023 and they have completed the first Deliverable 1: Validation Methodology, which represents an integral part of the Performance Based Payments Agreement to be signed with the banks for Outcome 2.

Completed transactions

The interest rate for the first three sub-projects approved under the Facility varies from 5.66% to 7.16% and the weighted interest rate for these sub-loans stands at 5.87%.

Total of three sub-loans were approved and one sub-loan was disbursed in 2023, for an investment in renewable energy (photovoltaic power plant). Namely, in mid-December 2023 the first SME signed a "Letter of Engagement" for a GFF loan from one of the participating banks. The total investment amounts to over \$50,000 USD.

Following loan disbursement, the renewable energy solutions will be procured and installed which is expected to

take a few months before they are fully operational to generate green energy and energy savings, as per the technical specifications.

Strategic Partnerships, Documents and Communications

Multi-stakeholder engagement

National government; Civil Society Organizations; IFIs/DFIs; Commercial banks; Bilateral aid organizations;

How did the JP facilitate collaboration with diverse stakeholders

The Government of the Republic of North Macedonia provides co-funding in the amount of \$800,000 USD to the GFF UN Joint Programme and overall strategic steering of the programme through the co-chairing of the GFF Steering Committee. Under the leadership and coordination of the Deputy Prime Minister for Economic Affairs, 3 line Ministries, (i.e., the Ministry of Environment and Physical Planning, the Ministry of Finance, and the Ministry of Economy) are engaged and serve as observing members in the Steering Committee. This partnership and government engagement aligns the Joint Programme with national strategic priorities and developments in the green transition of the country.

Through the partnership between UNDP and EBRD for the Green Finance Facility UN Joint Programme, which was legally formalized on 24/03/2023, EBRD provides own funds in the estimated amount of USD 30 million to partner local banks to on-lend as sub-loans to SMEs for investments into RE and EE solutions, while UNDP channels resources granted by the Joint SDG Fund to EBRD for performance-based payments for verified RE/EE projects by SMEs and technical assistance for project development and verification.

EBRD has further expanded the partnership with local commercial banks and leasing companies for implementation of GFF's Outcome 1, by signing contracts with Sparkasse Banka A.D. Skopje, ProCredit Banka A.D. Skopje, and Sparkasse Leasing DOO Skopje.

GFF project team has already established close cooperation and promotional events have been organized at both AmCham Macedonia (a business community, comprised of 140+ member companies, with a diverse spectrum of businesses, from NGO, small enterprises and local companies to large foreign investors) and the Economic Chamber of North Macedonia, the largest business organization in the country with approximately 15,000 voluntary member firms in different sectors, most of which are small and medium sized enterprises).

Financial leverage

\$18,251,013.00

Donor and Strategic events attended by JP in 2022

Kick-off meeting	JP steering committee/ programme board meeting	Strategic partners/ donors event
	Yes, in 2023	Yes, in 2023

Focus on LNOB cross cutting principles

Human Rights	Persons with disabilities	Youth	Environmental and social standards
No	Yes	No	Yes

Beneficiaries

Number of beneficiaries

\$25.00

Percentage (%) of women benefited among the total number	Percentage (%) of children & youth (0-24 years of age) benefited among the total number	Percentage (%) of older persons (age 60 and above) benefited among the total number	Percentage (%) of persons with disabilities benefited among the total number
45	0	0	0

Communications

Voices from the field

1. UNDP Press Release dated November 08th 2023: " New "green" loan options for SMEs and underserved individuals in North Macedonia" (link - <https://www.undp.org/north-macedonia/press-releases/new-green-loan-options-smes-and-underserved-individuals-north-macedonia>)

Quotes available from:

Mr. Fatmir Bytyqi, the Deputy Prime Minister in Charge of Economic Affairs, Coordination of the Economic Departments, and Investments in the Government of North Macedonia.

Ms. Rossana Dudziak, UN Resident Coordinator in North Macedonia.

Ms. Aleksandra Vukosavljevic, EBRD Director, Financial Institutions, Western Balkans and Eastern Europe.

Mr. Armen Grigoryan, UNDP Resident Representative in North Macedonia.

Ms. Rania Sharshr, IOM Director of Peace & Development Coordination.

Mr. Dmitry Mariyasyn, UNECE Deputy Executive Secretary

2. GFF Product Launch video: <https://www.youtube.com/watch?v=vhaGtFRVj-k>

Additional quotes (upon individual written consent) from: Mr. Gordan Jordanov, United Macedonian Diaspora; Mr. Sead Ismail, Association for Development and Promotion of the Roma Community "Romano Cacipe"; Ms. Jasminka Dimitrova Kapac, Macedonian Center for Energy Efficiency.

Declaration

We hereby confirm that the information provided in this update is duly reviewed and approved by the RC and all PUNOs involved in the Joint Programme.