Joint SDG Fund – Component 2 – SDG Financing

Joint Programme Final Progress Report (preparatory funding)

Cover page

Reporting period: June 30 – December 30, 2020

Country: **North Macedonia**
Joint Programme (JP) title: **Green Finance Facility to Improve Air Quality and Combat Climate Change in North Macedonia**
Short title: **Green Financing Facility**

List of PUNOs: **UNDP, IOM, UNECE**

RC (name): **Rossana Dudziak**
Representative of Lead PUNO (name and agency): **Narine Sahakyan, UNDP**

Government JP Focal Point (name and ministry/agency): **Mr. Fatmir Bytyqi, Deputy Prime Minister for Economic Affairs**

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Budget (Joint SDG Fund contribution): **50,000.00 USD**

Budget Expenditures: **40,229.94 USD**

Delivery Rate 84% $= \frac{40,229.94}{50,000}$:

Short Description of the Joint Programme (1 paragraph for each section)

Financial leverage (estimated target in US$): **29 million**

Challenge:

With the support from the Joint SDG Fund, this project will develop and operationalize a Green Financing Facility (GFF), a new financial vehicle, that will significantly improve access to affordable green financing for SMEs and target groups of individuals/households for investments in renewable energy (RE) and energy efficiency (EE) solutions as well as foster innovation in RE and EE sector. The GFF will enable accelerated adoption of RE and EE solutions, contribute to the reduction of greenhouse gas emissions and air pollution and strengthen the local ecosystem for RE & EE innovation and green finance.

Innovation (financial instrument/mechanism/approach):

The Green Financing Facility (GFF) will offer comprehensive financing solution for accelerating a more rapid and wider adoption of RE and EE technologies by SMEs and targeted households. It will be implemented through as many as 7 out of 14 banks in North Macedonia, which together hold 60% of the market, ensuring a wide market outreach and with the Fund for Innovation and Technological development will include: a) the first finance facility that will promote combined investments of SMEs in both RE and EE, with emphasis on solar RE investments given that the solar segment is practically untapped (only 0.07% of the national technical potential has been utilized so far), despite the natural/climate advantages that country has; b) the first targeted financing facility based on performance based payments (up to 30%) for the households targeting female-headed households, single-parents, PWD, vulnerable communities/Roma, and employees affected by COVID-19. To tap into remittances, the project also targets remittance recipients and returning migrants while prioritizing within these two groups the female headed households, single parents, PWD, and employees affected by COVID – 19. With this the project aims to ensure that concessionally is given to those who really need it as opposed to the "first come first served" currently applied; c) development of innovation in RE and EE solutions via the implementation of a grant scheme for market placement and market testing that focuses on synergizing existing actors in the North Macedonia's innovation landscape and aims to deliver sustainable improvements in the innovation and financing ecosystem.

SDG Impact:

This project is aligned to and supports the achievement of SDG and the UNSDCF targets. Concretely, it will result in 68,000 MWh of annual energy savings, 70,450 tonnes of CO2-eq emissions avoided, and 7.25 MW in new renewable energy capacity. Furthermore, enabling access to affordable financing for renewable energy and energy efficiency solutions will contribute to advancements towards achieving SDGs 7 and 13. The project will directly contribute to SDG 7 (Affordable and Clean Energy) by making the acquisition of clean energy more affordable and by lowering energy consumption. The project will directly contribute to SDG 13 as it will significantly reduce GHG emissions. More broadly, as emissions are closely linked to resource use, this project supports 'green growth' as the future development pathway that promotes resource use efficiency and low-carbon development.

Description	Indicator	Baseline	Project impact	Contri-bution	Unit
SDG Target 7.2: By 2030, increase substantially the share of RE in the global energy mix.	Contribution of the project to the increase in the installed RE capacity generation potential	Installed capacity in the country as of 02.2020 142.7 MW (source ERC)	7.25 MW	5.08	%
	Contribution of the project to the increase in the installed solar capacity generation potential	Installed capacity in the country as of 02.2020 16.7 MW (source ERC)	7.25 MW	43.40	%
	Contribution of the project to the increase in the renewable energy share in total energy consumption	Renewable energy generation in the country in 2019 - 1,288,705 MWh (source Energy Balance SSO)	10,875 MWh	0.84	%
SDG Target 7.3: By 2030, double the global rate of improvement in energy efficiency.	Contribution of the project to the annual final energy consumption reduction target	Annual reduction target for the country up to 2030 2,406,616 MWh (source NDC)	68,000 MWh	2.83	%
SDG Target 13.2: Integrate climate change measures into national policies, strategies and planning; Indicator 13.2.2: Total greenhouse gas emissions per year	Contribution of the project to the annual GHG emission targets (up to 2030)	Annual GHG emission reduction target for the country up to 2030 - 3,609.82kt (source NDC)	63.51 kt	1.76	%
Additional indicators	Share the final energy consumption reduction target in the sector industry for 2030	Reduction target for the sector industry in 2030 - 922,538.5 MWh (source NDC)	60,000 MWh (Outcome 1 loans with PBP to SMEs)	6.5	%
	Share of the final energy consumption reduction target for all sectors in 2030	Reduction target for all sector in 2030 - 3,238,967 MWh (source NDC)	68,000 MWh (entire Project)	2.1	%

Partners:

Cabinet of the Deputy Prime Minister for Economic Affairs, EBRD North Macedonia Office, 7 local banks (Komercijalna Banka, NLB Bank Skopje, Ohridska Banka, Sparkasse Bank Macedonia, Silk Road, Stopanska Banka Bitola, and Procredit Bank Macedonia), the Fund for Innovation and Technology Development, Ministries of Economy, Environment and Physical Planning and Finance.

Final Progress Report (MAX 3 PAGES)

1.1. Progress achieved

During the preparation phase, the financial mechanism design was further elaborated, defining in details the loan instruments to be offered to the end consumer as well as the processes that are to be established to implement and monitor the GFF. Feasibility studies and market assessments were carried out, gender analysis including focus groups and consultation with relevant stakeholders and together with the assessment of market potential through exchanges with EBRD and local banks served as a basis for the development of the GFF financial instruments. Furthermore, the expected environmental impact, contributions to the achievement of national targets including those related to SDGs were quantified serving as inputs for the finalization of the measurement matrix (for project's contribution to SDGs) and project's results framework. Financial and economic analyses gave additional insights into the financial and economic viability of the project from the country's and global perspective. In the preparatory phase the structure of a steering committee and operational mechanisms have been discussed and agreed to by the key partners and task sharing among the UN team, EBRD and local banks was outlined and communicated, setting the stage for jump-starting the implementation if/when the project is approved. The relationship with the Government was strengthened although the new government was established in August.

In terms of Outcomes, Outcomes 1 and 2 benefit from a substantial amount of preparatory work having been done to date that enables the allocation of loans to beneficiaries within 3-6 months of the project launch. There have been several rounds of consultations with the selected partner banks who have committed to participate in the project (Letters with Expression of Interest from Local Banks are attached). The basis for the procedures, document templates as well as contacts with the network of the technical consultants (project and verification) is based on EBRD's positive experience with the implementation of similar credit financing facilities on the local and regional market, the Western Balkans Sustainable Energy Financing Facility (WebSEFF) which targeted local SMEs, and the Green Economy Financing Facility (GEFF) which targeted individuals. The abundance of EBRD experience in developing such grant supported financial schemes allows for a short period of adaptation and quick rollout to the market.

For Outcome 3, several operational setups and roles of stakeholders were explored. The final design of Outcome 3 builds on a wide range of experiences (especially from EU), such as acceleration and sub-granting under the EU Framework Research and Development Programmes. Under Framework Programme FP7 and in particular Horizon 2020 and its successor programme Horizon Europe, there has been an important shift to increased use of acceleration and sub-granting in an effort to get more funds directly to dynamic start-ups and SMEs that higher growth and innovation potential. Under the EU's flagship Future Internet Programme (FIWARE), DG CONNECT contracted 16 accelerator initiatives through a competitive open call and these accelerators were at the core of the Go2Market Strategy for FIWARE. Some of the features of the frontierCities Acceleration Programme (frontierCities1 and frontierCities2 https://ec.europa.eu/digital-single-market/en/future-internet-publicprivate-partnership), which was descried as best practice in acceleration by an EC external review, have informed the design of Outcome 3 (in particular the focus of the Market Acceleration Grant, the longer grant cycle, and the significant emphasise on grantee company support and mentoring).

This Joint Programme will hence contribute to engaging private sector in accelerating progress on SDGs and "leaving no one behind" by addressing the untapped market need with tailored financial products. The incentives needed to drive greener development have so far been limited in North Macedonia – almost non-existent support for RE solar introduction for SMEs and households and limited and scattered support for EE for SMEs and households – leading to constraints on investments and actions. Hence, this facility is a unique, tailored, transparent local financing mechanism that bridges the gap, while also subsequently serving as a tool for the government, development partners, climate funds, investors and others to channel finance into green investments and a greener (COVID – 19) recovery.
Concessional funding from the SDG Fund is required to reduce newcomers' risk and incentivise SMEs and households to prioritise investments in RE and EE technologies. Also, as these investments are new to banks and require greater understanding of the RE and EE technologies that the banks do not have, they perceive higher risk of placement and successful monitoring and implementation of these loans, so the concessionality as well as the additional expert support provided via the project and verification consultants, lowers their perceived risk of entering in these new loan products. The GFF will also increase the knowledge and experience of local banks in assessing, extending and monitoring of loans for RE and EE to various industry sectors, allowing for gradual building of local banking market capacities to extend RE and EE loans on their own in the future. This facility will be the first to put emphasis on the RE investments, particularly on investments in solar panels, which were neglected by the local SMEs so far, as investments in new equipment usually have the priority. Only about 9% of the previously available SME loan financing for RE and EE were placed into RE projects (and none in photovoltaics) while about 7% of the currently available SME Competitiveness Programme (which has wide usage, and offers possibility for RE investments) were placed in such investments. Both of these facilities did not promote specifically investments in RE.

1.2. Challenges faced

The main challenge faced was the Covid-19 pandemic, which caused some delays in carrying out the preparatory activities and posed limitations in terms of direct engagement with larger focus groups but alternative on-line engagements were practiced. Also, a change of government occurred between the initial stage of concept application and the preparatory phase, resulting in the need to inform/build new partnerships with the new officials and ensure letter of support from the new Deputy Prime Minister and the new Government. The fact that for the endorsement letter to be issued a formal approval of the project document is needed at the Government session while some banks needed to present to their boards in order to be able to issue the letter of intent, timely submission of the project document with all the relevant endorsement letters was a huge challenge that the team successfully overcame.

1.3 Partnerships leveraged

Did you leverage new partnerships during the preparatory phase (e.g. government, private investors, IFIs, bilateral/multilateral banks, etc.)?

☒ Yes
☐ No

During the preparatory phase, the already identified partnership with EBRD North Macedonia Office was further strengtened, and transformed into a close collaboration and co-creation relation with all partners intensly engaged and learning actively from each other. Beyond this, partnerships with 7 local banks were established from scratch (for UN system), while leveraging EBRD's previous experince, knowledge and understanding of the market. They actively participated in the conceptualisation and will be the key partners for the successful implementation of the GFF. The partnership with the Cabinet of the Deputy Prime Minister for Economic Affairs was deepened, albeit there was a change of government while the partnership with the Fund for Innovation and Technology development was strengthened and full support from the new director ensured although he came on board when project document was being finalized.

1.4. Co-funding mobilized

All partners, UNDP, IOM, and EBRD dedicated their in-country knowledge and expertise (including significant time allocation of the Deputy Resident Representative, Head of Office, Principal Banker, regional experts, etc.) as well as tapped into the expertise of their regional centers (in addition to the expertise that was procured on the market with SDG F preparatory funds) to support the design of this complex project.

☒ Yes
☐ No

Source of funding	Yes	No	Type? ($ or in kind support)	Name of organization	Amount (USD)	Comments
Government	☐	☐				
Donors/IFIs	☒	☐	*$*	*EBRD*	*23.4 million*[1]	
Private sector	☒	☐	*$*	*Local Banks & entrepreneurs*	*5.6 million*	
UN/PUNOs	☐	☐				
Other partners	☐	☐				

1.5. Budget changes (if relevant)

Actual budget was used in line with the budgeted allocations/categories.

[1] *Based on the UN exchange rate of 1 EUR = 1.17 $(as of November 2020).*