GREEN FOR GROWTH FUND
SOUTHEAST EUROPE

INVESTING IN ENERGY EFFICIENCY
AND RENEWABLE ENERGY

ANNUAL REPORT 2014

5 YEARS OF GGF

5 ANGLES OF SUCCESS

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Contents

INVESTORS

THE GGF IS SUPPORTED BY LEADING DONORS, INTERNATIONAL FINANCIAL INSTITUTIONS AND PRIVATE INVESTORS.

Milestones

2010

JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER

12.2009
KfW and EIB join forces with EU to launch Southeast Europe Energy Efficiency Fund/GGF

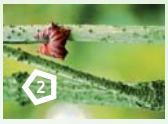
06.2010
First Energy Efficiency credit line signed (Sekerbank)

07.2010
Start of the first TA project with potential PIs – Awareness raising and market enabling

07.2010
IFC invests € 25 million in GGF

09.2010
German Development Ministry invests € 8 million in GGF

2011



JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER

07.2011
European Commission invests additional € 19 million into Green for Growth Fund

06.2011
ENR East expansion study commissioned

09.2011
Fund crosses 100,000 MWh/yr and 25,000 tCO_2/yr savings thresholds

10.2011
First TA project for a RE project – E&S plan Lengarica

12.2011
German Development Ministry invests additional € 19 million in GGF

12.2011
GGF receives LuxFLAG Environment Label

2012

JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER

02.2012
First investments for non-standard measures approved

06.2012
Largest single EE measure approved – € 10 million for Sunoko, Serbia

06.2012
Implementation of studies on the eligibility of new buildings and agricultural equipment

09.2012
Expansion of Fund into ENR East Approved

09.2012
First EE credit line in ENR East signed (Megabank)

09.2012
Fund adds its **10**th partner institution

10.2012
First TA project in the ENR region for Megabank, Ukraine

11.2012
FMO invests € 25 million in GGF

12.2012
German Development Ministry invests € 4 million in GGF

2013

JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER

03.2013
Fund crosses 400,000 MWh/yr and 100,000 tCO_2/yr savings thresholds

05.2013
First phase of agricultural standard measures approved

12.2013
Launch of joint Residential EE brochure with Central Bank of Armenia, IFC and EBRD

12.2013
EIB and KFW invest additional € 25 million each in GGF

2014

JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER

MID.2014
GGF closes first two direct RE investments (Lengarica, Dariali)

04.2014
Second phase of agricultural standard measures approved

04.2014
European Commission invests additional € 10 million in GGF

06.2014
Fund adds its **20**th partner institution

06.2014
White goods approved as eligible standard measure

06.2014
OEEB invests € 20 million in GGF

06.2014
Booklet produced to raise awareness of SME clients – translated into 10+ languages

09.2014
Joint financing with FMO to disburse parallel credit lines to Fibabanka, Turkey

12.2014
EBRD invests additional € 25 million in GGF

2015

JANUARY | FEBRUARY | MARCH | APRIL

01.2015
FMO invests additional € 16 million in GGF

02.2015
BMZ invests further € 10 million in GGF

03.2015
GLS invests € 22 million – private investors already fund 10 percent of portfolio

MISSION

THE MISSION OF THE GREEN FOR GROWTH FUND, SOUTHEAST EUROPE (GGF) IS TO CONTRIBUTE, IN THE FORM OF A PUBLIC-PRIVATE PARTNERSHIP WITH A LAYERED RISK/RETURN STRUCTURE, TO ENHANCING ENERGY EFFICIENCY AND FOSTERING RENEWABLE ENERGY IN THE SOUTHEAST EUROPE REGION, INCLUDING TURKEY, AND IN THE EUROPEAN NEIGHBOURHOOD REGION, PREDOMINANTLY THROUGH THE PROVISION OF DEDICATED FINANCING TO BUSINESSES AND HOUSEHOLDS VIA PARTNERING WITH FINANCIAL INSTITUTIONS AND DIRECT FINANCING.

KEY FIGURES 2014

13

Investors and donors to date who have committed funds to the Green for Growth Fund, Southeast Europe (GGF).

13

Target countries of the GGF: Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Croatia, FYR Macedonia, Georgia, Kosovo*, Moldova, Montenegro, Serbia, Turkey, Ukraine.

26

Partner institutions the GGF invested in to date.

36

Partner institutions the GGF has lent to and/or provided technical assistance to.

132

GGF Technical Assistance Facility projects to date to support partner institutions and promote energy efficiency and renewable energy finance.

218 thousand

Tons of CO_2 saved annually through energy efficiency and renewable energy investments financed by the GGF.

850 thousand

MWh saved annually through energy efficiency and renewable energy investments financed by the GGF.

252 million

Total portfolio outstanding (in EUR).

315 million

Total investor commitments (in EUR).

* This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

Letter from the Chair

Dear Investors and Partners

On behalf of the Board of Directors of the Green for Growth Fund, Southeast Europe, it is my pleasure to present the 2014 Annual Report. It marks our fifth year of operations and, fittingly, is anchored by five key concepts: impact, sustainability, diversification, profitability, and long-term commitment.

Measurable impact in energy savings and emission reduction

Let's start with impact, which is the essential purpose of the GGF. The investments in energy efficiency and renewable energy we have financed are saving 850,000 megawatt-hours of energy and reducing CO_2 emissions by 218,000 metric tons every year. From insulating homes in Macedonia to modernizing farms in Ukraine to generating clean hydropower in Georgia – the 13,000 measures we helped get off the ground so far are having a quantifiable and material impact in achieving climate goals set by national governments and the European Union.

Investing in sustainability

The GGF wants to ensure that its investments are sustainable, and to build a culture of green energy finance that endures long after our investments are repaid. We also help develop low or zero carbon sources of energy that will last for decades while respecting the environment and local populations. This we achieve by combining our investments with smart technical assistance to build capacities, raise market awareness, and implement international best practices in environmental & social protection.

Diversification is a key driver of the Fund's success

The risks of operating in a very challenging environment, both politically and economically, are mitigated through diversification. With operations in 13 countries, up from 8 in 2009, the Fund has a much broader geographic base. Furthermore, by investing in a broad spectrum of partner institutions, such as international banking groups, local banks, leasing companies, microfinance institutions, and also directly into renewable energy projects, the Fund can limit its exposure to adverse developments even within a single country.

Profitability attracts investors, and supports further growth in outreach and impact

The GGF's investment portfolio has grown from EUR 50 million in 2010 to over EUR 250 million at the end of 2014. We owe this growth to a sterling track record. Strong results enable the Fund to consistently attract not just donors and international financial institutions, but also private investors who value its risk-reward profile and environmental impact.

Patient capital supports the GGF's long-term commitment to its mission

The countries we operate in and the institutions we work with see us as a committed, long-term partner. The GGF is 'here to stay' thanks to the patient capital of our investors – the European Commission and the German Federal Ministry for Economic Development, along with the European Investment Bank, KfW, the European Bank for Reconstruction and Development, the International Finance Corporation, the Netherlands Development Finance Company, and the Austrian Development Bank – leveraged by funding raised from private investors. At year-end 2014 this commitment totaled EUR 315 million which, at the time of writing this, had already increased to EUR 354 million. In addition, funding for technical assistance has reached EUR 12 million, providing mission-critical support to the GGF.

I trust you will find this report a rewarding read.

CHRISTOPHER KNOWLES
Chairman of the Board of Directors

GREETINGS

2014: an important milestone for GGF and the EU

"The GGF's impact continues to impress by all key metrics."

Jean-Eric Paquet

2014 has been a noteworthy year both for the Green for Growth Fund, Southeast Europe (GGF) as well as the European Union as one of GGF's major investors. The GGF marked its fifth anniversary in 2014, which prompts us to look back on its achievements thus far. In these five short years the Fund has attracted a diverse and growing portfolio of partners across Southeast Europe and the European Neighbourhood Region, supported with financing and leading-edge technical assistance. This has translated into a very real environmental impact. It has also supported the building of core capacities of the financial sector towards more sustainable financing.

This is precisely why the European Commission continues to be a main investor in GGF; there are clear and strong synergies between GGF's objectives and those of the European Union and the Energy Community in supporting energy efficiency, renewable energy and green growth.

The EU reaffirms its commitment

Indeed 2014 also marked the year of the new European Commission with President Jean-Claude Juncker and his team of Commissioners taking office and setting out the overriding policy objectives for the EU for the coming 5 years, including notably a 'forward looking climate change policy'. The newly formed Directorate General for European Neighbourhood Policy and Enlargement Negotiations (DG NEAR) will take forward the EU's neighbourhood and enlargement policies and be in charge of managing the bulk of the Union's financial and technical assistance to these partners.

Systematically meeting the challenge

The countries of the GGF regions are very energy-intensive, reflecting both outdated industrial equipment and the structure of their economies. For each EUR 1,000 of GDP produced, a rough proxy for energy efficiency, the GGF's countries of operation require 43 percent more energy than the EU average. It is important to recall that, in all countries, sustainable improvements and growth can only come through a holistic and policy based approach: adopting a coherent market-based policy framework; attracting a stable network of investors (both private and public) in order to channel funding via both financial institutions as well as renewable energy projects; promoting energy efficiency in the market and bridge knowledge gaps; ensuring measurable reductions in CO_2 emissions and energy savings; building towards a cross-border energy market; and promoting fair competition.

In essence, the objective is a sustainable, low carbon, and environmentally friendly economy. The Green for Growth Fund contributes strongly to that – notably within a forum whereby the expertise and funding of International Financial Institutions come together under one roof. The European Commission continues to consider the GGF as an efficient vehicle for achieving green objectives, and affirms its commitment to the Fund in order to facilitate its impact and concretise its financial stability in the years ahead.

JEAN-ERIC PAQUET
Director for the Western Balkans, European Commission

EUROPEAN INVESTMENT FUND
The European Investment Fund as Trustee for the European Commission

A key initiative in the climate finance system

"The GGF's relevance has grown beyond a national and regional level."

Dirk Schattschneider

In its 5th year of successful operations, the Green for Growth Fund, Southeast Europe (GGF) further increased its investment portfolio and broadened its investor base. By year-end 2014, fund volume exceeded EUR 300 million, underscoring sustained and dynamic growth as new partner institutions and target countries were added and both portfolio and geographic diversification increased.

BMZ has been a strong supporter since the GGF's inception; so far, the ministry's investments and contributions have totaled EUR 43 million.

An effective instrument in climate protection

With its innovative approach and local insight, the GGF has consistently proved an effective instrument for stimulating impact investments in climate protection. By intelligently combining public and private engagement, it enables local financial institutions to establish and rapidly expand their lending activities in energy efficiency and renewable energy finance. The Fund also lives up to its role as a driver of green energy finance with direct project investments. Its success in leveraging funds to mobilize greater multiples of capital, and thus achieve greater impact for climate investments, continues to attract new investors and fuel the GGF's strategy to broaden its portfolio in Southeast Europe and the European Neighbourhood Region.

A key initiative in the climate finance system

The GGF's relevance has grown beyond a national and regional level and is helping shape the international climate finance architecture – as a key initiative in enabling the German government to achieve climate goals beyond the country's borders.

The GGF's track record demonstrates how an effective and meaningful climate finance system is essential to support the countries in Southeast Europe and the European Neighbourhood Region. It also shows that the GGF is in an excellent position to scale up investment activities and position itself as an attractive instrument for new investors.

We salute the team effort at the GGF and look forward to many more chapters in this continuing success story.

DIRK SCHATTSCHNEIDER
Head of the Division for South-Eastern and Eastern Europe, South Caucasus

BMZ Federal Ministry for Economic Cooperation and Development

Letter from the Investment Management team

The Investment Management team (from left to right): Holger Roentgen, Elvira Lefting, Thomas Albert, Florian Meister, Lloyd Stevens, Jens Giltjes, Sylvia Wisniwski, Dr. Thomas Schiller

The Investment Management team is pleased to take this opportunity to reflect on the first five years of operations of the Green for Growth Fund, Southeast Europe. In this relatively short timespan, the GGF has emerged as one of the most effective instruments for energy efficiency and renewable energy finance in Southeast Europe and the European Eastern Neighbourhood Region. The Fund continues to make strides in helping to build green energy finance into a viable business segment for the financial sector, and supporting the emergence of project finance as an accepted approach for enabling renewable energy to fulfill its promise.

> Impact

We are particularly proud of the GGF's success in terms of **impact**, which is measured in terms of saving energy and reducing CO_2 emissions. As at the end of 2014, the Fund has financed over 13,000 sub-loans to households, farmers, small and medium-enterprises and large corporates, generating annualized energy savings of 850,000 MWh and reducing CO_2 emissions by 218,000 tons per year. In this report we feature some of the investments made in 2014, including a greenhouse project in Azerbaijan and a solar farm in Turkey. We also spotlight projects that were featured in earlier annual reports, an important reminder that the GGF's investments generate environmental impact not just in the year of their investment, but for many years, even decades, into the future. The aggregate impact of GGF investments translates into over 2 million MWh of energy saved and in excess of 500,000 tons of CO_2 emissions avoided.

In addition, while not a core focus of the Fund, the GGF generates employment and economic activity – the insulation and windows at households must be installed, and the energy efficient equipment must be operated. The money saved on energy can also be invested into additional purchases and jobs, further supporting economic growth.

> Sustainability

For impact to be truly meaningful, it needs to be **sustainable** – a concept that has many implications in the GGF. In terms of growing the green energy segment in the financial sector, for example, the Fund combines investments with the provision of leading-edge technical assistance to build the internal capacity within partner institutions (PIs), foster the local ecosystem of engineers, energy auditors and consultants, and link demand, suppliers, and finance into a complete value chain. This comprehensive approach ensures that, even if a PI no longer requires capital from the GGF, it has the capacity to continue supporting EE/RE finance – and even thrive with it as a core business activity. Sustainability also means adhering to the highest international standards of environmental and social stewardship, whether it is investing directly in renewable energy projects or channeling funding through PIs.

> Diversification

In addition to its demonstrable, sustainable impact, one of the factors that makes the GGF attractive to both investors and clients alike is **diversification**. By any metric – geographical coverage, range of eligible measures and clients, and number and type of PIs – the Fund benefits from a unique level of diversification. At year-end 2014, the GGF held active investments in 26 PIs – microfinance institutions, small and medium-sized regional banks, members of international financial groups, leasing

companies, and project finance companies – across eleven of the thirteen countries in which it operates. PIs in turn used GGF funding to finance measures with loans ranging from a few hundred euros to ten million euros and meeting a broad spectrum of client needs. This diversification reduces the Fund's exposure to risk since it is not dependent on the fortunes of one or two countries or partners. At the same time, it broadens its ability to transmit know-how and innovations to the widest possible audience.

> Profitability

The GGF has achieved this success while also delivering strong **profitability**, demonstrating that a fund can have high impact while generating commercial returns for investors. In fact, 2014 was the Fund's most profitable year to date, and the first in which it was able to pay its investors a complementary dividend. This solid track record builds momentum for a virtuous cycle, attracting more and more investors to the Fund and lowering the cost of capital that in turn can be invested to generate still more financial and environmental returns.

> Long-term commitment

None of these successes would be possible without the **long-term commitment** of the GGF's stakeholders who have provided patient long-term capital, and, through their elected Board of Directors, guidance and wisdom in steering the Fund forward. Despite challenging economic and political environments, the GGF continues to grow and thrive as a stable, trusted partner that is truly in the region and sector for the long haul.

As we look ahead to 2015 and beyond, we see a number of exciting opportunities for the GGF to build on its 5-year track record and leading position in EE/RE finance. In its current regions, the Fund will continue to expand demand-driven products for PIs, and work with stakeholders to further develop the enabling environment for green energy. The Investment Management team looks forward to another 5 years of successful innovation by the GGF.

JENS GILTJES
Vice President
Oppenheim Asset
Management Services

SYLVIA WISNIWSKI
Managing Director
Finance in Motion

FLORIAN MEISTER
Managing Director
Finance in Motion

ELVIRA LEFTING
Managing Director
Finance in Motion

LLOYD STEVENS
Director
Finance in Motion

DR. THOMAS SCHILLER
Managing Director
MACS Management and Consulting
Services (Technical Advisor)

TRUE TO ITS MISSION ESTABLISHED FIVE YEARS AGO, THE GGF CONTINUES TO GROW AND ACHIEVE MEANINGFUL AND MEASURABLE IMPACT IN GREENING TARGET PARTNER ECONOMIES.

IMPACT

IMPACT OF ENERGY EFFICIENCY

DIVERSIFYING THE PORTFOLIO OF MEASURES

GGF proposes 19 standard measures to its partner institutions for driving investment in energy efficiency.

IMPROVING EFFICIENCY IN BUILDINGS

By far the most common energy efficiency measure, insulation accounts for 32 % of the sub-loan portfolio.

MODERNIZING INDUSTRIAL INFRASTRUCTURE

Driving portfolio volume, investments in more energy-efficient equipment account for 42 % of disbursements.

SWITCHING TO CLEANER FUELS

GGF-financed loans have enabled 1,393 end-users to convert their gasoline-powered vehicles to CNG.

REDUCING EMISSIONS IN AGRICULTURE

GGF sub-loans in the agricultural sector alone reduce emissions by 13,895 metric tons of CO_2 per year.

In its fifth year of operations the Green for Growth Fund, Southeast Europe (GGF) has continued to broaden and deepen its green energy finance portfolio to promote investment in energy efficiency (EE)

MAINSTREAMING INVESTMENTS

in energy efficiency

With sub-loans ranging from hundreds to millions of euros, the GGF addresses a broad spectrum of client types and needs, delivering real impact in many ways. While standard EE measures continue to drive portfolio growth in terms of number of sub-loans, non-standard measures are driving investment volume. As at year-end 2014, the GGF had supported 158 energy audits for non-standard measures. Working with partner institutions throughout the region, the Fund's strategy builds on two main pillars: improving efficiency in buildings and modernizing industrial infrastructure.

The GGF also drives employment generation and economic growth, by making households and companies more efficient and channeling investments into productive assets, rather than into energy consumption. Firms can hire more employees, and increase output, with the money they were previously wasting on energy, while households have increased disposable income by spending less on their heating and electricity bills. All of this provides an economic boost to the economy, proving that a greener economy is also a richer one.

Increasing the scope of the GGF

The GGF extended its scope in 2014 by introducing new measures to align with new market demands. For instance, financing of agricultural equipment was ramped up as a standard measure across all target countries, as were loans for energy-efficient home appliances.

The push for agricultural measures – initially focused in 2013 on countries where strong immediate demand was identified, i.e. Bosnia and Herzegovina, FYR Macedonia, Moldova, Serbia and Ukraine – allows for the financing of tractors, harvesters, implements and heat exchangers for dairy farming. Building on the success of these measures and the study by the GGF Technical Assistance Facility, they have been rolled out in all other target countries in 2014. The study also identified energy saving potential in irrigation systems, specifically by installing newer, more efficient water pumps or complete irrigation systems (e.g. switching from sprinkler systems to drip irrigation). These measures promise to significantly enhance the GGF's impact in the agricultural sector and also help to conserve precious natural resources.

In 2014 the GGF extended eligible EE investments to also include white goods that comply with the EU's energy labeling standards. This move reflects the GGF's commitment to mirror the EU's evolving requirements. Though the investment volumes are small, this addition has the additional benefit of helping to raise energy efficiency awareness amongst consumers.

A fresh approach to energy efficiency in new buildings

Responding to demand from partner institution Bank of Georgia, the GGF explored an innovative approach to finance new, EE buildings in a country without a certification system. Here, the GGF Technical Assistance Facility commissioned a local expert to establish a country-specific baseline for comparing the new buildings to be financed with current construction practices. This unique approach, a first for the GGF, is likely to be replicated in other countries also lacking a certification system. Looking ahead to 2015, the GGF will continue to diversify its portfolio of measures as the market evolves.

Azerbaijan, with its vast oil and gas reserves, exports energy and this sets the country apart from many others in the GGF's target region. Despite comparably low power and gas costs at the commodity price level, however, energy remains expensive for Azeris.

RAISING EFFICIENCY

This is mainly a consequence of the very low degree of energy efficiency (EE) throughout the country's economy. Here, as well as in terms of the environmental impact of energy-inefficient industrial and residential infrastructure, the similarities with most other target partners are again quite obvious. Besides enabling Azerbaijan to fully benefit from its natural resource boon, raising energy efficiency will drive a virtuous spiral. Lower energy service costs, improved competitiveness but also less acid rain and greenhouse gas emissions would be just the main positive corollaries.

In 2014, the GGF made its first investment in Azerbaijan with a USD 15 million energy efficiency senior loan to AccessBank, which is specialized in microfinance. The purpose of the credit facility was to strengthen the bank's long-term financing capacities and enable it to offer attractive loan products – to incite business customers to invest in much-needed EE plant and equipment modernization and encourage households to upgrade their insulation.

Energy efficiency is a growing business

One of AccessBank's customers, the owner of a vegetable greenhouse in Shabran, faced various challenges. Because ventilation and irrigation needed to be operated manually, he had 10 employees manning the systems in shifts all day and night. Even though the boiler was running 24 hours a day, it was not possible to maintain the 18°C necessary to ensure optimal growth conditions. Tomatoes and cucumbers, the main crops, suffered especially. The high labor and energy costs, combined with the loss of productivity, increasingly ate into the bottom line. Compounding this precarious situation, the manual

Improved ventilation and irrigation systems lower energy costs and CO_2 emissions whilst increasing productivity.

irrigation system did not have a functional dosing mechanism – not only was water being wasted, crops were lost to overwatering, too.

With a GGF-funded credit line of around USD 248,000 from AccessBank, the greenhouse owner will be able to install a new ventilation systems for seven greenhouses as well as two 7.5 kW irrigation pumps operated through a centralized control system. The irrigation system will be upgraded as well with a dosing system for plant protection treatments to maximize yield.

In terms of environmental impact, the combined measures are projected to reduce primary energy savings by 73 percent, i.e. from currently 167,883 kWh/year to 46,035 kWh/year. CO_2 emissions will be reduced by just over 64 percent as well: from 56,223 kg/year to 20,164 kg/year.

Targeted support – more impact:
GGF technical assistance projects for Accessbank, Azerbaijan
An Azeri engineering consultancy is providing TA to initiate and facilitate lending by the GGF's new partner institution (PI) in Azerbaijan:

- Trainings to help loan officers recognize EE opportunities and effectively promote GGF-eligible investments to potential clients
- Energy savings audits to measure the impact of GGF investments
- Marketing support to identify EE investment opportunities for PI clients
- Hotline for the technical aspects of EE lending operations

GUEST ARTICLE

In recent political statements energy efficiency has been upgraded from the position of 'fifth fuel' to that of first fuel, which sends the message that energy efficiency is no longer just a matter of competitiveness, but rather a matter of energy security.

ARE WE DOING ENOUGH?

Increasing energy efficiency in the Energy Community

VIOLETA KOGALNICEANU
Head of Infrastructure and Energy Efficiency, Energy Community

The urgency of improving energy efficiency is even more evident in the countries of the Western Balkans, which over the past years have suffered rising prices for imported energy resources, a double dip recession, and devastating floods. Governments have become more engaged in promoting energy efficiency through policy decisions by setting energy saving and renewable energy targets, but also through legal and institutional framework development. Still, energy services and energy efficiency need to evolve in a market environment if we are to see any significant benefits. For this, countries must enact an enabling legal framework for supporting investments in this very atypical marketplace.

There are many encouraging signs, one of which is the Energy Efficiency Acquis in the countries of the Energy Community that are bound by common goals in alignment with the Energy Community Treaty. Other recent successes throughout the GGF's target region include the 'rulebooks' for using energy efficiency criteria in public procurement in Montenegro and Serbia, model contracts for energy performance contracting with energy service companies (ESCOs) in Serbia, Bosnia and Herzegovina, pipelines of municipal projects (street lighting, district heating, public hospital thermal rehabilitation etc.) for contracting with ESCOs.

And yet there are still many obstacles to broadening the scope of energy efficiency, and they are not easily overcome:

- **Lack of cost-reflective energy tariffs**
  The fact that energy prices are not in step with actual costs and are generally well below EU market rates means there is little incentive to alter behavior. This is especially true for residential consumers. The lack of dissuasive penalties for non/late-payment of energy bills is a compounding factor.
- **Lack of integrated energy policies**
  Implementing effective energy efficiency programs requires cross-sector policies and measures. Success depends, among others, on strong promotion, preferably by an authoritative body that transcends ministerial boundaries and integrates all sectorial goals.
- **Lack of awareness and information dissemination**
  Public awareness of the benefits of energy efficiency is still low. Besides being few and far between, campaigns do not have enough resources to reach a large base of consumers. This is one of the main reasons why there is still a lot of misperception and mistrust in the private sector when it comes to investing in energy efficiency measures.
- **Lack of a market infrastructure for energy and energy services**
  Significant public budget constraints for all type of investments make it difficult for governments to set the example. The lack of a sufficiently developed market for energy services in which private partners can generate their own dynamic further slows the process of mainstreaming green investments.

Nevertheless, there is some good news, too. Multilateral donors (e.g. the European Commission) and international financial institutions have initiated a significant number of promising, and in some cases already very effective, programs associated with technical assistance. The GGF is a shining example of the latter. Enabling these initiatives, not least by removing the larger obstacles among those mentioned above, will certainly pave the way for significant investments in energy efficiency and renewable energy in the Western Balkans and beyond.

In just five years, the GGF funds channeled by partner institutions to finance energy efficiency (EE) investments at all levels of the economy have made and will continue to make a difference. Home insulation improvement, for instance, is one of the most effective ways to reduce energy consumption and improve quality of life.

LOOKING BACK

Featured EE projects

A client of Şekerbank, Turkey, in front of his insulated home.
A one-year interest free loan allowed for measures leading to energy savings of more than 20 percent. Improvements to buildings, primarily insulation and modern windows account for more than one third of GGF-financed measures. (Project featured in GGF Annual Report 2011)

A sugar plant of Sunoko, based in Serbia and one of Europe's leading sugar producers. Banka Komercijalna's flagship EE project was completed in 2012. A GGF credit line allowed the replacement of a rotary dryer that used heavy oil as fuel for drying pulp with a steam dryer.

Reduction of primary energy consumption for pulp drying: 78 percent, thereby also significantly reducing costs. (Project featured in GGF Annual Report 2012)

80 percent less energy and 80 percent fewer emissions for each kilogramm of chocolate produced. Through a GGF credit line from Araratbank the Armenian chocolate producer Arcolad automated part of the production line. This investment alone increased output sixfold. (Project featured in GGF Annual Report 2013)

IMPACT OF RENEWABLE ENERGY

FINANCING RE PROJECTS ACROSS THE TARGET REGION

To date GGF has invested in projects in 5 target countries: Albania, Bosnia, Croatia, Serbia Turkey.

USING RE SOURCES FOR HOT WATER

GGF-financed loans have enabled 1,163 households to install solar-powered water heaters.

REDUCING CO_2 EMISSIONS

GGF investments in RE projects so far are already lowering CO_2 emissions by 21,577 tons every year.

GENERATING ELECTRICITY LOCALLY

10 small-scale PV projects have been financed in 3 countries using GGF funding.

SUPPORTING SMALL HYDRO DEVELOPMENT IN THE REGION

GGF investments in hydro projects via partner institutions and direct investments total nearly EUR 20 million.

On a parallel track to supporting investments that raise energy efficiency (EE), the GGF is also a force in driving renewable energy (RE) projects throughout its target region, either by providing funds to partner institutions (PIs) for on-lending to project developers or by directly financing select projects.

SUSTAINABLY PROVIDING RENEWABLE ENERGY

Investments in RE projects play an important role to support the regions of the Fund with long-term funding and the target countries on their path to sustainable energy production.

Building capacities for RE lending

When financing RE projects through its banking partners, the GGF pre-analyses the capacities of the PIs to identify their specific needs. Part of this analysis is setting up a workshop involving the Investment and technical assistance (TA) teams on behalf of the Fund and the decision makers and experts for energy-related topics on behalf of the PIs. As a result, tailor-made TA is provided to ensure high quality sub-loans are made by the PIs, in respect of credit risk and environmental and social (E&S) matters. In addition, RE project finance workshops are offered to support the PIs in building up know-how on technology risks and regulatory questions. This expertise, coupled with financing appropriate for this segment, sets the GGF apart.

Taking a direct interest in RE development

Where direct investments in RE projects are concerned, the GGF takes the lead in identifying, analyzing and structuring RE projects. GGF carries this out with expert support on legal, E&S and technical matters, with the goal of ensuring that projects supported by the Fund are sustainable in every way. Once a project is built, such direct investments, which are mainly in the small to medium-scale range, are carefully monitored throughout their entire lifetime for compliance with the GGF's requirements.

Sustainable investments are long-term investments

Considering the scope and life cycle of RE investments, long-term funding is key. That is why the GGF provides credit lines that match sub-loan maturities, which in project finance are typically 10 years or more. This reduces risks for PIs and demonstrates the Fund's commitment over the long haul. For direct investments, the GGF provides tailored tenors that take into account the specific financing needs and constraints of each RE project.

Strength through diversification

During the year under review, the GGF maintained its successful diversification strategy. By year-end 2014, the portfolio of RE investments included more than twenty projects in five target partners throughout the region. The GGF also signed its second RE direct investment: a new hydroelectric power plant in Dariali on the Tergi river in northeastern Georgia. The construction and operation of the Dariali project will be aligned with the EU's and Georgia's E&S requirements and the sustainability guidelines of the international hydropower association. And that is just one example of how the GGF achieves its profitability and sustainability goals while diversifying its risk exposure.

The demand for energy of Turkey's dynamic economy continues to rise. Although the country is generating power, it remains a net importer of energy. Besides impacting the trade balance, this also increases dependency on foreign energy supply.

HERE COMES THE SUN

Tapping an inexhaustible resource

The government has therefore launched a number of initiatives to attract investments in the energy sector, not only in the area of conventional power generation, but also with a strong focus on renewable energy (RE). From 34.8 percent in 2010 the share of RE has increased to 40 percent in 2014, and developing hydro, wind and solar power continues to be at the top of the agenda. For a long time most investments have been directed towards the hydro and wind sectors. Since 2013, however, promoting photovoltaic (PV) projects has become a priority. Although falling energy production costs have definitely facilitated the shift, attractive rates on the energy markets and Turkey's virtually year-round insolation are the two key factors fuelling PV investments.

In 2010, barely a year after it was created, the GGF began to build an attractive portfolio of investments in partner institutions (PIs) that support Turkey's national plan to develop energy efficiency (EE) and renewable energy. The Fund's latest investment in 2014 was in the form of a EUR 20 million credit line for Aklease, Turkey's leading machinery and equipment financing company, to get a major grid-connected PV system off the ground.

Green entrepreneurship wins

One of Aklease's clients is a local real estate company that developed an 8 MW peak solar farm at a total net project cost of USD 12 million. Located in the province of Konya, about three hours by car south of Ankara, the ground-mounted solar project is expected to generate 12.8 GWh per annum – enough to provide electricity for 2,500 households. The region offers a unique combination of advantages: solar radiation is among

The GGF requires that all involved parties play an active role in mitigating the environmental impact of RE projects.

the highest and most dependable in the country; establishing solar farms does not encroach on arable land resources; and distances between the plant and energy transmission lines can be kept short. Benefitting from a reasonable feed-in tariff, Aklease's client will supply the electricity to the grid for the first ten years and then be able to sell it freely on the energy market.

The GGF began working closely with Aklease in 2014 and the cooperation has proved very fruitful for both sides. The combination of longer term funding that matches the tenor of the sub-loans with targeted technical assistance enables Aklease to provide much-needed financing and specialized services in the growing RE market – and the GGF to maximize investment impact, outreach and return. It is projects such as Konya that will maintain Turkey on its trajectory towards sustainably improving its energy trade balance.

Targeted support – more impact:
GGF technical assistance projects Aklease, Turkey
For Aklease, the Technical Assistance Facility implemented a several consulting projects to facilitate and monitor lending activities:

- Training seminars for Aklease staff on eSave, the GGF's loan verification and reporting software application, and the provision of online access
- Audits on actual energy savings achieved through loans to measure the impact of the GGF's investment in Aklease

GUEST ARTICLE

Hydroelectric power generation appeared in the Southeast Europe region (SEE) in 1900, just 20 years after the first hydropower plants were installed on the Niagara Falls in the United States.

HYDROPOWER

Tapping fresh potential for sustainability

NIKOLA CATOVIC
Managing Director
of MACS Serbia

REINHOLD METZLER
Due Diligence for Renewable
Energy Projects at MACS GmbH

Hydropower has since become part of the landscape, playing an important role in this region as well as in the other target regions of the Fund.

While hydropower has an important role to play in helping the countries of the region meet their 20/20/20 goals and beyond, like all renewable energy projects, it is important that the environmental and social (E&S) impact is carefully considered in the decision for financing any hydropower project and that any impacts are properly mitigated. Small hydropower plants (SHPPs) are usually designed as 'run of river', i. e. without water storage. While these facilities usually leave the current river morphology unchanged, they can still affect wildlife as they form a barrier for fish migration and influence the river stream due to the reduced flow between the intake point and the power generator. Here, experience shows that leaving up to 10 % of the average flow between the intake and powerhouse, which is usually the case, will not adequately maintain a sustainable environment for aquatic life year-round. The GGF approach is to carefully analyze the morphology of each river and to provide a sustainable discharge below the intake, limiting as much as possible the impact of the SHPP on the environment.

To protect aquatic life, SHPP projects involving GGF funds comply with the European Water Framework Directive (WFD). The WFD requires, for instance, that a "good ecological potential" be secured following measures that artificially alter the river flow , such as weir construction and water diversion. The best practice is to apply the methodology based on the natural flow paradigm, which assumes that the natural flow will provide the best possible conditions for functioning ecosystem processes, and identifies building blocks required to continue supporting or even improving these processes. The GGF goes a step further by requiring a biodiversity study to accurately assess environmental impact, and subsequently provide a basis for developing environmentally friendly solutions that further support sustainability.

This methodology not only ensures that GGF-financed SHPP projects will have as neutral an impact on the environment as possible, but also helps improve the status of water resources and achieve greater sustainability for local biodiversity.

Throughout the GGF's expanding target region opportunities abound for tapping wind, solar, hydro and biomass resources to generate electricity. Combining financial investments with targeted technical assistance has consistently assured the Fund's success in helping realize this unique potential.

LOOKING BACK

Featured RE projects

The Lengarica run-of-river hydropower plant in Albania is projected to generate power for 3,000 households. Greenlighted in late 2011, this is one of the Fund's first direct investment projects in the area of renewable energy in the target region. (Project featured in GGF Annual Report 2011)

Small hydropower plant near Mut in the Akdeniz region of Turkey. The GGF Technical Assistance Facility supported Şekerbank in upgrading its existing environmental and social procedures. (Project featured in GGF Annual Report 2012)

Rooftop solar systems on the island of Lošinj in Croatia. These small, effective and robust systems are producing clean, emission-free electricity for around 100 households. (Project featured in GGF Annual Report 2013)

With active support from the GGF Technical Assistance Facility in developing innovative products and strategic approaches, the Fund's partner institutions (PI) are increasingly successful in placing energy efficiency (EE) and renewable energy (RE) loans with their clients.

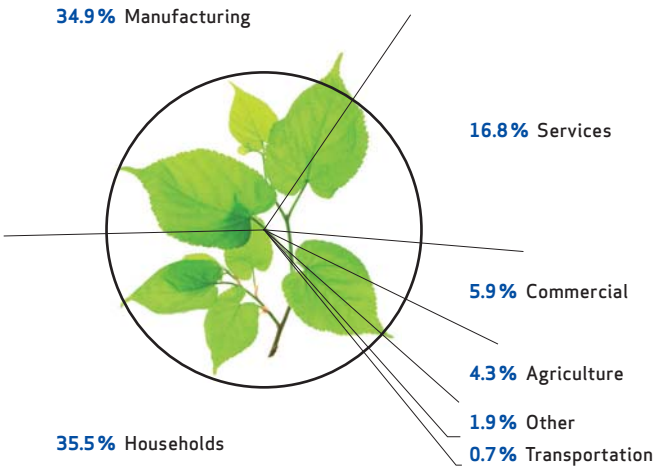
ENVIRONMENTAL IMPACT

Since its inception, the GGF has financed over 13,000 sub-loans for investments in EE and RE measures. In 2014 alone, the volume of sub-loans disbursed by the GGF's PIs increased by 50 percent vs. 2009.

The most common types of measures financed continue to be energy-efficient process-related equipment for businesses and improvements to buildings, primarily insulation and modern windows, for both households and businesses. Renewable energy for households, businesses and grid-connected generation, including direct investments, also comprises a significant portion of the portfolio.

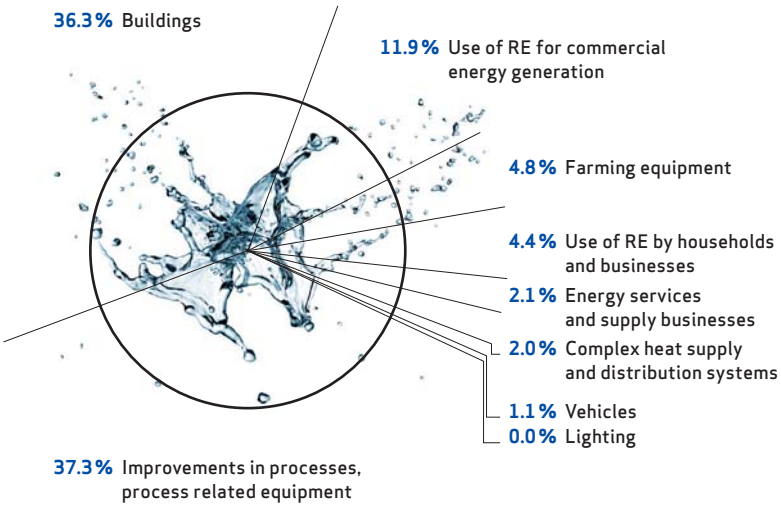
SECTORS FINANCED

Since inception in December 2009
(based on loan amount disbursed)



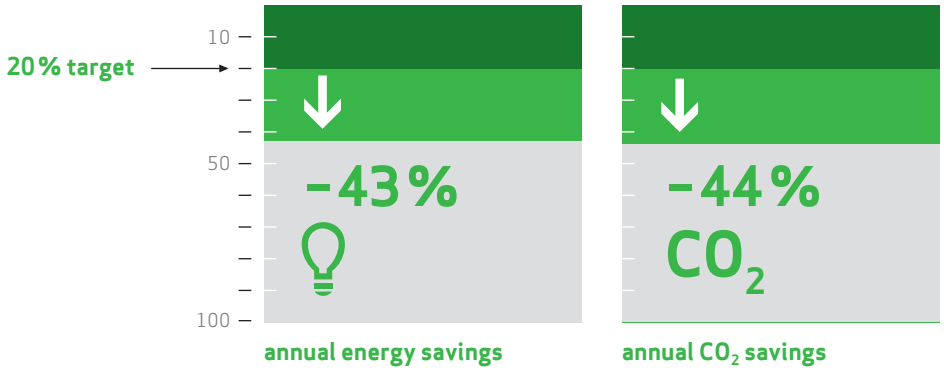
MEASURES FINANCED

Since inception in December 2009
(based on loan amount disbursed)



SAVINGS GENERATED

The reductions in energy consumption and CO_2 emissions achieved through GGF-financed measures exceed the 20 percent target set by the Fund by more than one hundred percent.



The measures financed by the GGF are resulting in energy savings of 850 000 MWh/year and CO_2 reductions of 218,000 tons per year – a substantial impact that will yield environmental benefits and economic savings long after the loan financing the investment is repaid.

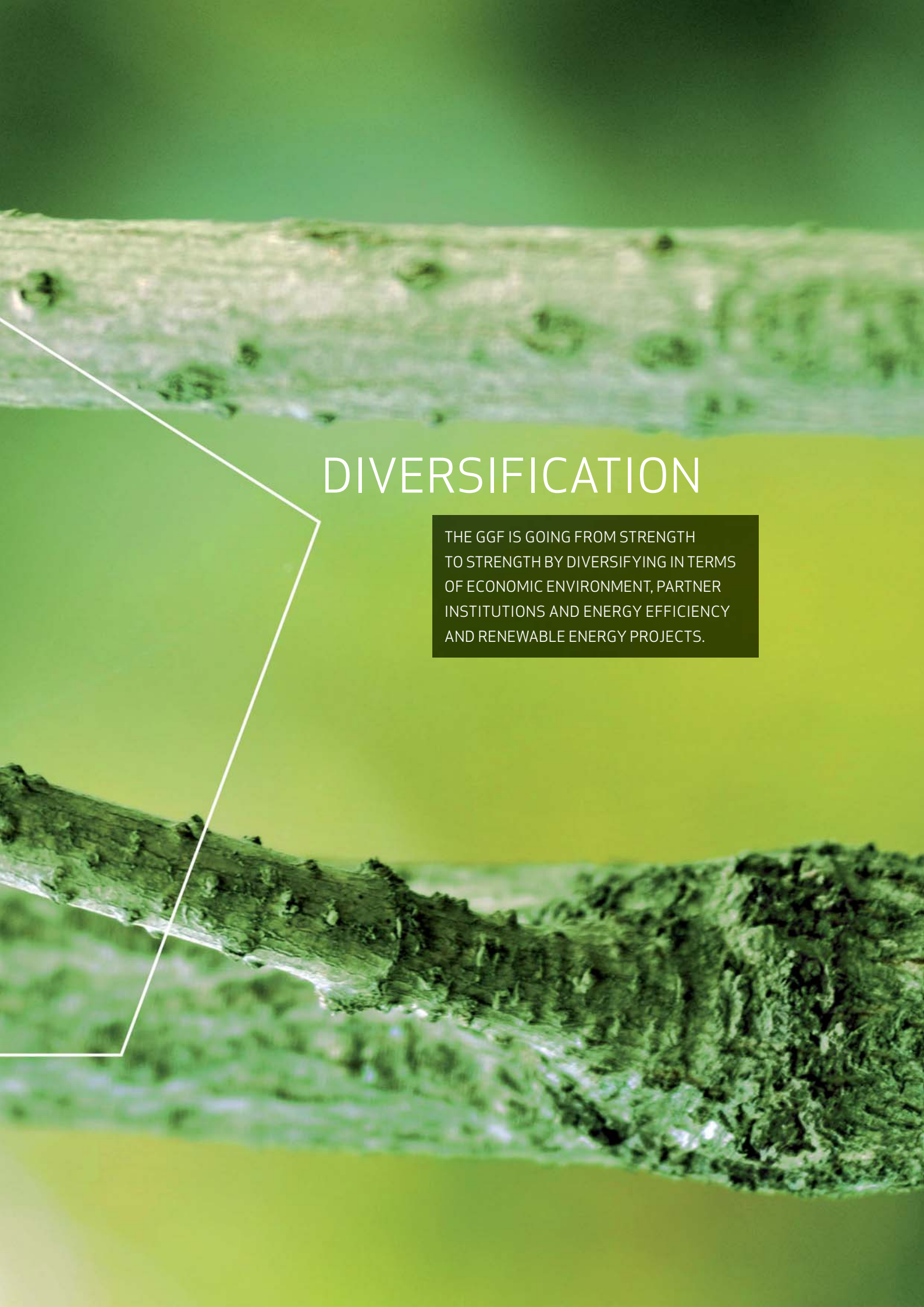
CO_2 REDUCTION AND ENERGY SAVINGS

As at 31 December 2014

MEASURE	PI Type	Sub-loan volume (EUR, since inception)	CO_2 reduction (TCO_2/yr)	CO_2 reduction (%)	Energy savings (MWh/yr)	Energy savings (%)
Agri-equipment	FI *	7,622,821	22,618	24	97,415	26
Buildings	FI *	57,842,413	122,243	58	479,641	54
Complex heat supply and distribution systems	FI *	3,225,056	7,784	52	30,313	45
Energy services and supply business**	FI *	3,396,400	–	0	–	0
Improvements in processes, process related equipment	FI *	59,452,367	51,542	33	193,131	35
Lighting	FI *	75,078	21	50	65	50
Vehicles	FI *	1,678,888	1,425	19	1,778	5
Sub-total EE		**133,293,023**	**205,634**		**802,344**	
Use of RE by households and businesses	FI *	6,928,876	12,006	96	46,530	97
Use of RE for commercial energy generation	FI *	18,988,158	665	100	1,190	100
Sub-total RE		**25,917,034**	**12,671**		**47,720**	
Total		**159,210,057**	**218,305**	**44**	**850,063**	**43**

* FI = Financial institution

** The supply of energy efficient equipment is eligible for financing by the GGF. However, to ensure that there is no double counting of savings when this equipment is actually purchased and installed, the GGF takes the conservative approach of assigning no savings to the financing of the supplier. Savings are assessed and calculated only from the point at which the equipment is put into operation by the end-user.

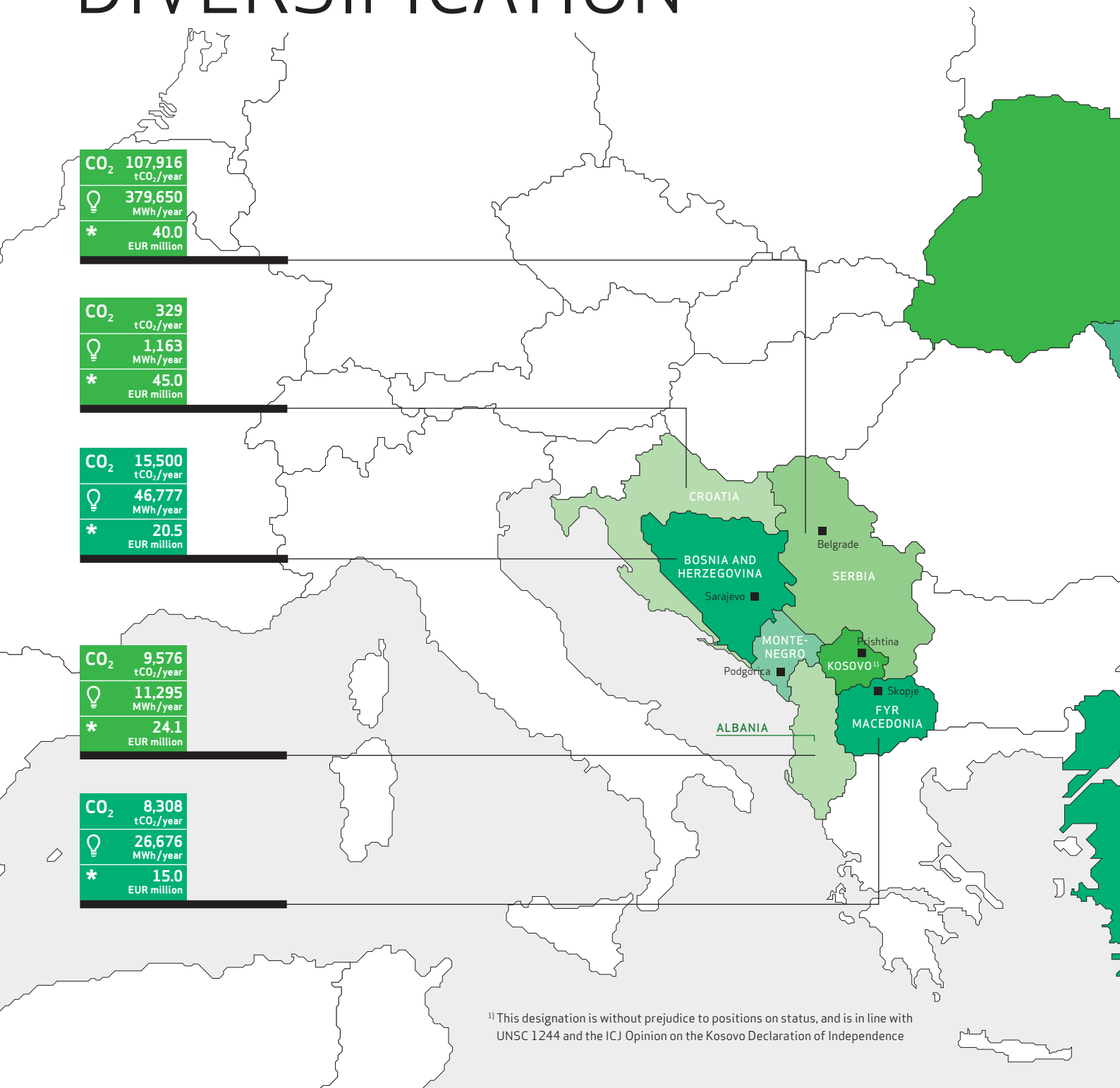


DIVERSIFICATION

THE GGF IS GOING FROM STRENGTH TO STRENGTH BY DIVERSIFYING IN TERMS OF ECONOMIC ENVIRONMENT, PARTNER INSTITUTIONS AND ENERGY EFFICIENCY AND RENEWABLE ENERGY PROJECTS.

During its five years of operation, the Green for Growth Fund, Southeast Europe (GGF) has substantially broadened its geographic scope to encompass pre-accession countries in the Western Balkans, including Turkey, and the partnership countries of the European Eastern Neighbourhood Region.

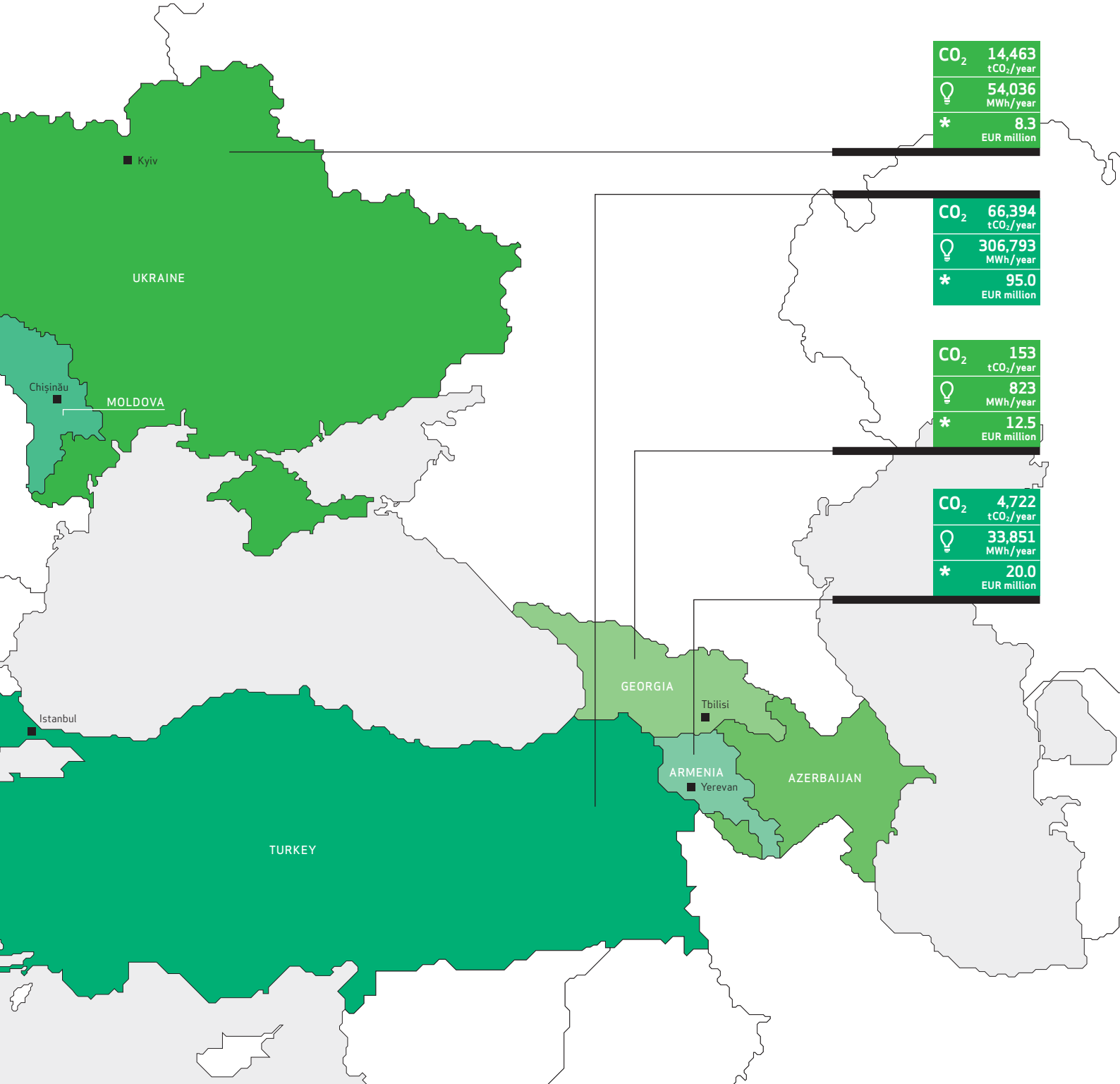
GEOGRAPHIC DIVERSIFICATION



[1)] This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

In late 2012, the GGF expanded its successful green energy finance model from its core region of the Western Balkans, including Turkey, to include five countries in the European Eastern Neighbourhood Region, bringing the total to thirteen countries. This provides the GGF's portfolio with geographic diversification and enables the efficient transfer of know-how between institutions across the Fund's regions of operation. At the end of 2014, the GGF had active investments or technical assistance projects in all thirteen countries.

■ Offices of the Investment Advisor Finance in Motion CO_2 CO_2 Reduction Energy savings * GGF investments



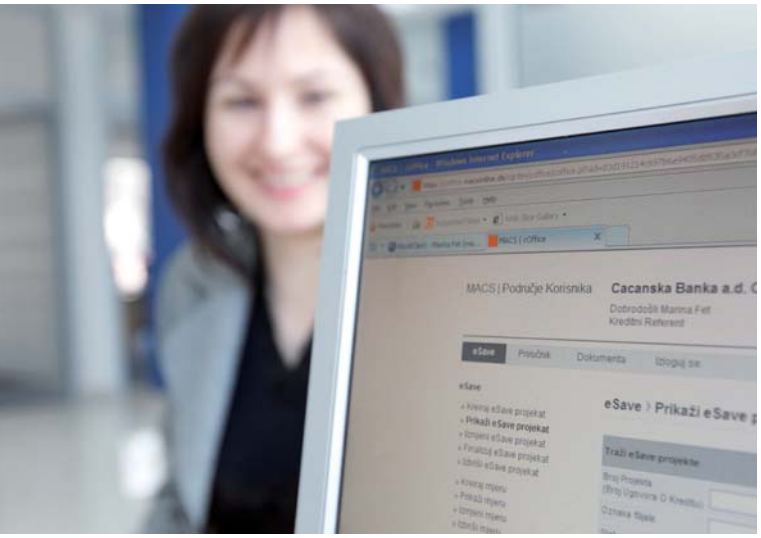
GGF INVESTMENTS ARE ACCOMPANIED BY TARGETED ASSISTANCE TO MAXIMIZE IMPACT – WITH A FOCUS ON GROWTH THAT PRESERVES OUR NATURAL RESOURCES TO ACHIEVE MEANINGFUL SUSTAINABILITY.

SUSTAINABILITY

Ensuring the GGF achieves its environmental and social (E&S) goals is a core priority. Monitoring and reporting procedures are therefore a fundamental component of the Fund's operations. They serve to measure the impact of the capital deployed in terms of saving energy and reducing CO_2 emissions, thus contributing toward the overall achievement of national targets. Just as important, they help to quickly validate what works and identify what doesn't – and indicate when and where to shift gears to reach sustainability goals.

MONITORING AND REPORTING

Sustainability through accountability



The eSave monitoring and reporting tool helps local energy auditors to assess whether projects are eligible for funding and what E&S impact can be expected.

Checks and balances to meet evolving needs

The GGF uses a two-tiered system based on the specialized eSave tool and local energy auditors to assess whether projects are eligible for funding and what E&S impact can be expected. The idea is to maintain data integrity while matching the complexity of projects with the appropriate assessment methodology. This approach features several built-in checks and balances to ensure that data quality is high. In 2014, for instance, we implemented additional plausibility checks in eSave along with a flagging mechanism to inform partner institutions (PIs) of errors in their reporting.

Robust data for driving green energy finance

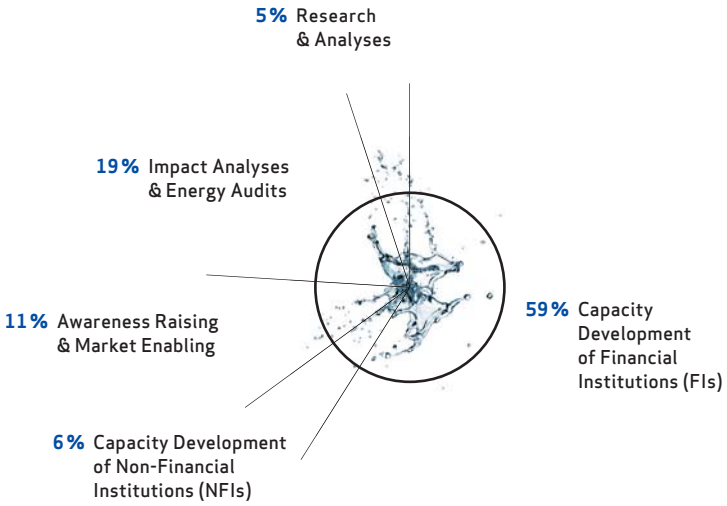
The outputs generated by the GGF's comprehensive monitoring and reporting systems provide actionable data that is invaluable to all parties associated with the Fund, from investors to end borrowers. For the PI it is not only a means to reliably determine the eligibility of investment projects, and do so within a very short timeframe. It also conclusively points out to clients the potential for energy – and hence cost – savings to be realized with green loans. For GGF stakeholders it is the best guarantee for getting a clear picture of the impact their investments are achieving. Measurable outcomes are equally important in presenting a compelling case for the GGF to prospective investors.

Full compliance is standard procedure

The GGF's investment decisions are always contingent upon the PI or the project developer's being compliant with the Fund's E&S performance requirements. In fact, the necessary additional technical assistance will be provided to close any gaps that may arise. Where direct investments in renewable energy projects are concerned, there is also the additional requirement of full compliance with relevant EU standards. In 2014, a review of the GGF's E&S procedures by independent assessors confirmed the Fund's full adherence to the strict E&S standards required by shareholders.

The GGF Technical Assistance Facility (TAF) plays a key role in supporting the Fund's efforts to promote EE and RE by providing targeted technical assistance (TA) to financial institutions and project developers that receive GGF funding.

SUSTAINABLE SUPPORT



Targeted. Tailored. Hands-on.
TA ranges from early-stage support to get an energy efficiency (EE) or renewable energy (RE) investment off the ground to enhancing the long-term capacities of partner institutions by working with them to improve their marketing, monitoring and reporting tools and processes. Where the GGF directly invests in an RE project, the TAF provides the project developer with the support needed to fill capacity gaps.

Also within the purview of the TAF are projects that promote the acceptance of and encourage the spread of green energy, e.g. media campaigns to raise the general awareness for EE and RE technologies. These projects are either initiated by the TAF or initiated by partner institutions and supported by the TAF. Public institutions or agencies related to EE/RE development in the GGF's target partners can count on the TAF for support in developing and implementing enabling measures for promoting EE and RE.

As the graph shows, the majority of the TAF's activities are focused on enhancing the institutional capacities of our partner institutions and assuring the effective use of the Fund's investments, effectively contributing to the sustainability of the Fund.

2014 was again a very successful year for the TAF with a total of 82 projects with 13 different target partners under management. During the year under review, the following highlights stand out:

- The GGF's first two investments in Azerbaijan, with AccessBank and Muganbank, were supported by tailored capacity building in product and strategy development, staff training, marketing activities and reporting.

- Three research activities examined the market for new, energy-efficient buildings in Georgia, Armenia and Serbia to better inform the GGF's investment strategy in these countries.

- The GGF produced its first booklet designed for small and medium enterprise borrowers, "Save Energy, Save Costs, Develop Your Business," along with a leaflet explaining the GGF's energy audit requirements, to promote the benefits of EE investments to this key target group. The booklet is available in 10 languages for distribution to more than 18 partner institutions and their thousands of SME clients.

LONG-TERM COMMITMENT

IN JUST FIVE YEARS, THE GGF HAS GROWN INTO A FORMIDABLE FORCE IN GREEN ENERGY DEVELOPMENT, PROVIDING A ROBUST AND DEPENDABLE PLATFORM FOR INVESTING IN THE FUTURE.

LEADERSHIP

Board of Directors (from left to right): Michael Mörschel, Gerhard Engel, Dominique Courbin, Syed Aftab Ahmed, Christopher Knowles (Chairperson), Hubert Cottogni, Christoph Tiskens, Peter Hobson

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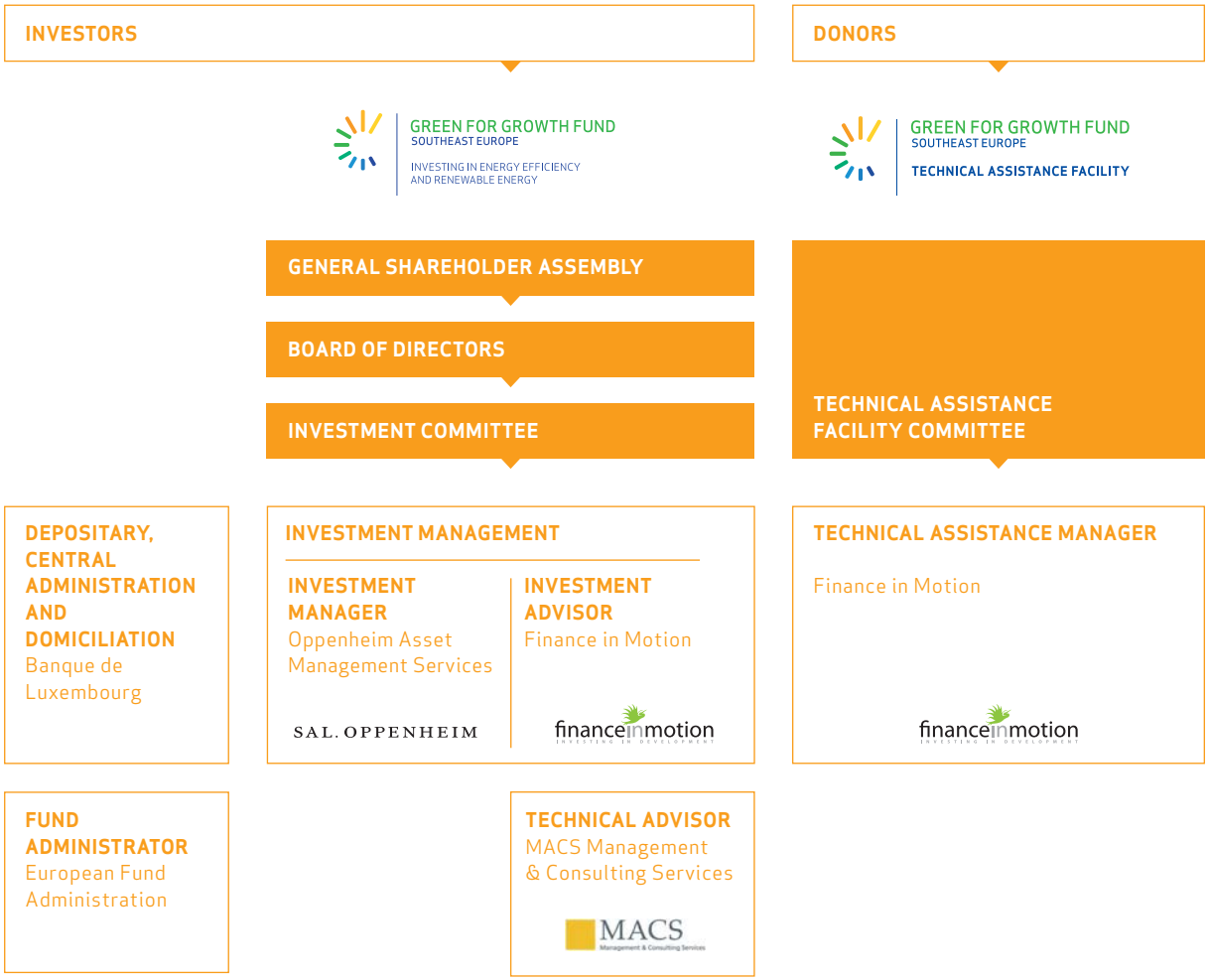
GOVERNANCE

The GGF's multi-tiered governance structure ensures strong oversight at all levels, providing the Fund with effective, prudent and transparent management to the highest international standards.

The investors and donors of the Green for Growth Fund, Southeast Europe (GGF) and the accompanying Technical Assistance Facility have implemented a layered governance structure to ensure the GGF achieves its mission of reducing energy consumption and CO_2 emissions while efficiently adhering to industry-leading practices. Within the overall framework and guidance provided by the donors and shareholders, the Board and its committees set policies and guidelines to achieve maximum impact with the Fund's resources. The professional management team, leveraging its expertise and local knowledge, strives to make the stakeholders' vision a reality.

INSTITUTIONAL STRUCTURE



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