

# The Western Balkans Centre and the Regional Multi-donor Fund: Two Instruments to Support Climate Action in the Western Balkans

November 8, 2019

## Background

The Hungarian Government approved on December 21st, 2018 (decision 1770/2018. [XII. 21., December 2018]) the establishment of the **Western Balkans Green Centre (WBGC)**, a new instrument to finance the implementation of the Paris Agreement in the region. Designed with the support of GGGI under a cooperation project led by the Ministry for Innovation and Technology of Hungary, the WBGC finances project preparation in six countries: Albania, Bosnia and Herzegovina, Kosovo<sup>1</sup>, Republic of Northern Macedonia, Montenegro and Serbia. As early as 2019, the WBGC will finance project preparation and capacity building in the region with non-refundable funds.

The WBGC is the first step of a broader, more ambitious endeavour, to create a **Regional Multi-donor Fund** in 2021 financing project implementation, using blended finance and targeted financial instruments in the Western Balkans.

The Government proposal calls for the set-up of an **international committee** and further engagement with the Visegrad and other Central European countries for the establishment of the **Regional Multi-donor Fund**. The mandate of the international committee would be to finalize jointly and transparently the design of the Regional Multi-donor Fund.

The concept of the **complementary instruments** is the result of extensive stakeholder consultation, research and analysis that took place over the last year. It addresses the challenges and the needs in the targeted countries while promoting economic growth. These instruments will contribute to the implementation of the Paris Agreement in the Western Balkans and facilitate the EU accession of the concerned countries.

While the WBGC is set to be operational in 2019, the Regional Multi-donor Fund is still at a conceptual stage of development. This document serves as keynote for further discussion and engagement with regional counterparts.

## The Western Balkans (WB6)

The two instruments are financing climate action in a group of six countries (WB6) that are part of the enlargement agenda of the European Union, namely: Albania, Bosnia and Herzegovina, Kosovo, Republic of Macedonia, Montenegro and Serbia. The WB6 has a population of about 18 million and a GDP of approximately €80 billion.

The WB6 emerges as one of the planet's Warming Hot Spots, with more frequent heat waves, escalating to as much as 80% of summer months in a 4°C warmer world. Water availability in summer is expected to decrease over this century. Since the last decade, hazards caused by hydrological phenomenon in the Balkans have become increasingly serious. The region relies also heavily on fossil fuel which has serious impact on air quality and health.

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<sup>1</sup> *This designation is without prejudice to the positions expressed by the EU Member States on Kosovo's status and is in line with United Nations Security Council Resolution No. 1244/1999 and the International Court of Justice Opinion of 22 July 2010 on Kosovo's declaration of independence.*

## The Western Balkans Green Center (WBGC)

The Western Balkan Green Center (WBGC) provides non-refundable grants for project preparation. The WBGC will be operational in June 2019.

### *Principles of the WBGC*

1. The WBGC responds to the beneficiary countries' needs.
2. Projects shall contribute to climate change mitigation and/or climate change adaptation of the WB6.
3. Supports preparation with grant funding so projects can leverage funds for their full implementation.
4. Supports projects favourably that contribute to co-benefits listed in the Sustainable Development Goals adopted by the United Nations in 2015.

### *Legal Structure of the WBGC*

A state-owned non-profit limited liability company overseen by the Ministry of Innovation and Technology of Hungary will manage the WBGC.

### *Capitalization of the WBGC*

The WBGC will be capitalized by the Hungarian Government, mostly from funds of the Green Financing Scheme using the revenues of the EU ETS allowance sales.

### *Covered under the WBGC*

- Solid waste collection, treatment and recovery;
- Water management and wastewater treatment;
- Forest management and other sectoral adaptation measures;
- Energy efficiency and renewable energy; and
- Urban Environment: adaptation measures implemented at municipal level.

### *Project Selection*

The calls for proposals are initiated by the Secretariat who prepares specific criteria for the evaluation with weighting factor for each criterion. This information is published and disclosed transparently on the website of the WBGC. Weighing factors provide an advantage to projects supporting additional benefits as listed in the Sustainable Development Goals.

## The Regional Multi-donor Fund (the "Fund")

The Fund acts as a catalyst for investment in climate project in the WB6.

### *Principles of the Fund*

1. Projects are expected to achieve a positive financial return.
2. Projects contribute to the implementation of the Paris Agreement, i.e. low carbon and/or climate resilient development.
3. Participation of the Visegrad Cooperation and Central European Governments in the design and operation of the Fund is catalytic. Their engagement improves the risk/return profile of the projects.

### *Capitalization of the Fund*

The Fund's resource mobilization strategy relies on funding from the Hungarian state and other regional donors (potentially Visegrad and Central European countries). Secondly, the Fund may rely on the issuance of green bonds to attract private capital.

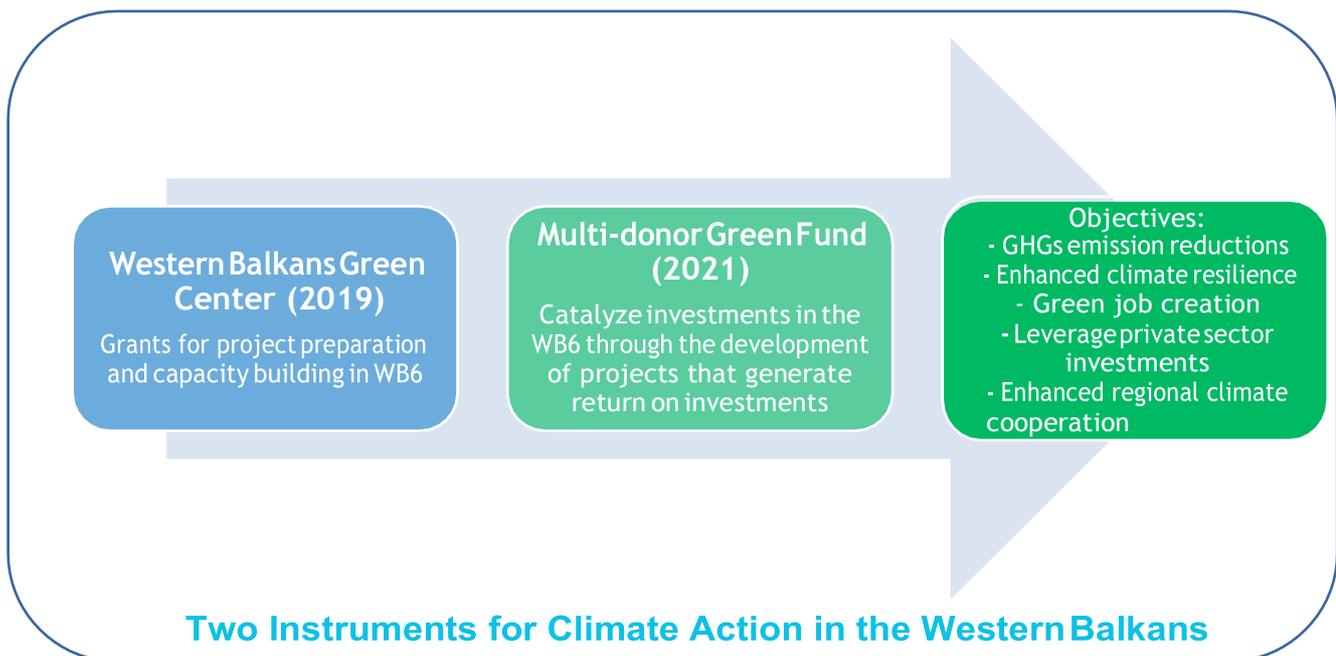
### Financial Instruments of the Fund

The following types of project financing instruments would be relevant for the regions and sectors covered:

- Direct Loan Facility (DLF) – for larger scale projects with minimum EUR 1M funding need
- Indirect Loan Facility (IdLF) – for lower scale projects with less than EUR 1M funding need
- Mezzanine Facility (MF) – for larger scale projects where loans are not applicable
- Grant Facility (GF) – Grant would be used to generate bankable projects, ie. Working on policy and enabling environmental and in certain cases improving the yield of return if needed.

### Sectors Covered under the Fund

It is expected that the Fund will have the same sectoral scope as the WBGC.



### Notes:

- The design of the instruments was supported by GGGI, an international organization promoting green growth, a growth paradigm that is characterized by a balance of economic growth and environmental sustainability. GGGI has 31 member countries working across four priority areas: energy, water, sustainable landscapes and green cities. The organization is presided by former Secretary-General of the United Nations Mr. Ban Ki-Moon. Hungary is a Member of GGGI since 2016. Since 2019, Hungary is hosting GGGI's European Liaison Office.
- **For any questions or comments, please contact the Western Balkans Green Center Nonprofit Llc. (Hungary) at:**

**Mr. László Örlös, Managing Director**  
Email: [laszlo.orlos@wbgc.hu](mailto:laszlo.orlos@wbgc.hu)

**Mr. Gábor Benedek, Senior International Advisor**  
Email: [gabor.benedek@wbgc.hu](mailto:gabor.benedek@wbgc.hu)