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Lending Cash to Save Energy in Rostov

By Roland Oliphant

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Workers recycling plastic at RosKhimPlast, a company that borrowed 20 million rubles to invest in new equipment in Taganrog in the Rostov region. **Roland Oliphant**

TAGANROG, Rostov Region — Anatoly Antonenko is happy.

For two months earlier this summer, workmen made life difficult for the residents of his 13-floor apartment building in the southern port of Taganrog, replacing windows, installing heating meters and insulating pipes.

But now, he says, they're warmer — and hopefully financially better off.

Antonenko's apartment block complex is one of the first to take advantage of a series of loans from a local bank that is funding energy-efficient investments for small businesses and housing associations.

They borrowed 1.7 million rubles ($54,700) to carry out the renovations. But the expected 20 percent reduction in heating needs means they will pay off the loan in just four to five years.

Banks Cash In

Antonenko borrowed the money for the renovations from a privately owned Rostov-on-Don based bank called Center Invest, which began offering energy-saving loans in 2005.

Center Invest had invested 2.7 billion rubles in 408 projects between 2005 and November 2009, chairman Vasily Vysokov said at a news conference in Rostov-on-Don on Tuesday.

But the cash originated as a $10 million credit line that the International Finance Corporation extended to the bank as part of a program to finance residential energy-efficiency projects in the country.

"It works like this — we extend a credit line to the bank, at a normal market rate, on the condition that it is used to finance energy-efficiency projects," said Ilya Sverdlov, communications and public affairs manager for IFC's private enterprise partnership in Europe and Central Asia.

The project, which also has a credit line for businesses, is meant to be foolproof and low risk — a company is more likely to make a return in energy savings than it is on a new business venture.

Put like that, it sounds like a no-brainer. But it has not been smooth sailing.

Given a tradition of cheap, plentiful supplies of gas, electricity and municipal heating, coupled with a native suspicion of taking on unnecessary debt, the project was met with skepticism from both fellow financiers and potential clients.

"At first, no one wanted to listen. They thought we were mad," Sverdlov conceded. "Bankers said, 'Who's going to want this product?' Business owners didn't see the point."

Five years since the beginning of the program, IFC is partnered with 19 banks across the country, and Sverdlov says the change in mentality in that time has been "remarkable."

Things have become easier since 2008, when the government set its own target of reducing the country's GDP energy intensity by 40 percent and increasing renewable energy's share of total electricity generation to 4.5 percent by 2020.

A 2009 federal law on energy efficiency — which, among other things, required every regional government to develop and publish its own energy-efficiency program — has also fueled interest.

The IFC and World Bank claimed in a 2008 report that Russia could save up to 45 percent of its annual energy consumption — equivalent to the same amount France consumes every year — largely by cutting waste in the residential sector.

Successful Energy Projects

Successful projects showcased during a recent visit to the Rostov region included a bakery that had invested in new ovens and an agricultural equipment producer that had taken a loan to buy more modern machine lathes.

RosKhimPlast, a plastics company based in Taganrog, invested 20 million rubles in a plastic-recycling production line — allowing it to convert used plastic bags and wrapping back into raw polyethylene pellets.

Warmer for Less

On the residential side, one of the biggest challenges in slashing energy costs — and customers' bills — is that the system of centralized heating is almost completely unmeasured.

Grigory Kazaryan, a qualified engineer who is also the IFC's senior business adviser to the programs in the Rostov region, reckons he can slash residential energy consumption on most apartment blocks by at least 20 percent with an investment of 2.5 million to 3 million rubles in insulation, double glazing and on-site water boilers.

"But the very first thing we do is put a meter on the building," he said.

That generates instant savings because the utilities companies that supply Russia's centrally controlled municipal heating systems tend to calculate bills based on what they're producing — not what is getting through to customers.

Kazaryan conceded that utility companies "don't always like it."

"But it's a legal issue once you put in the meter. You can say, 'Look, you're charging me for so much, but I only got this much,'" he said.

Meters to individual apartments are a long way off, meaning that the incentive for individual action on heat loss remains elusive. The communal meter creates a powerful incentive for neighbors to pool their resources — but that can backfire.

"We gathered a million rubles among ourselves, but we went to the banks because eight people didn't want to contribute," said Tatyana Khimordina, the of a 70-apartment building in Shakhty, a rundown former mining town near Rostov-on-Don.

She added that there was an ongoing dispute with the refuseniks. On the plus side, she said the installation of an on-site boiler and meter had made the place much warmer in the winter and slashed bills by up to 50 percent.

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