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FINANCING THE GREEN AND NET-ZERO TRANSITION

in the Eastern Partnership and Central Asia countries

INTERNATIONAL CONFERENCE

SUMMARY RECORD

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EU4Environment
Green Economy in Eastern Partner Countries

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FINANCING THE GREEN AND NET-ZERO TRANSITION IN THE EU EASTERN PARTNERSHIP COUNTRIES AND CENTRAL ASIA

Reinforcing commitments and accelerating actions

International conference

19-20 September 2023, Brussels, Belgium

Summary Record

This Conference was jointly organised by the OECD and the European Commission with financial support of the European Union as part of the “European Union for Environment” Programme (EU4Environment) and Germany’s Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection (BMUV). In addition, the event was supported through EU contract “CTR 400-977 Organisation of and support to conferences, seminars, meetings and training activities in the framework of the Eastern Partnership, Black Sea Synergy”. The Conference contents are the sole responsibility of the OECD and do not necessarily reflect the views of the European Union.

Discussion highlights

- **The green and net-zero transition financing gap remains large in the EaP countries and Central Asia.** While some estimates show that on average up to about 20% of GDP will need to be invested between 2023-2050, the current green public and private expenditure is low. In most countries green public spending was less than 0.5% of GDP in 2021. Countries in the region continue to rely on financing provided by donors and IFIs.

- **Governments need to create demand for scaled green investments and mobilise all possible sources, particularly commercial capital.** Because of its magnitude, financing this gap through solely public investments is impossible, hence the financial and capital markets need to be more involved. The EaP and Central Asia countries have been slow to tap into the capital markets. However, there are signs that green bonds are becoming an asset class in its own right and have begun to gain traction in the region. Green bonds have become an attractive and competitive instrument to finance long-term green investments and more countries have started issuing green and related bonds in Armenia, Georgia, Kazakhstan, the Kyrgyz Republic, Ukraine, and Uzbekistan.

- **To grow the green bond market and make it predictable and stable green finance frameworks need to be put in place and harmonised with international standards.** Current green finance frameworks and regulations are still in their infancy but promising examples are already appearing (e.g. Georgia, Kazakhstan). They provide inspirations for other countries to learn from. Countries also need more demonstration issuances, particularly by sovereigns, which can serve as examples for other market actors to follow and reassure investors. The European Commission allocated funds to support demonstration issuances in the EaP countries in cooperation with OECD.

- **There is a wealth of programmes and instruments, offered by international partners, that the EaP and Central Asia countries can use to stimulate and de-risk green and net-zero investments.** These include, among others, grants, guarantees, currency hedging instruments, support for green bonds to develop green capital markets. One of the main challenges in applying these instruments is matching demand with supply and subsequent uptake by the countries. National authorities need to collect information about these programmes and spread the information across country stakeholders to scale up and accelerate the financing of green project pipelines, especially in the private sector.

- **Reforming environmental taxes in line with the OECD and EU standards can help make them more efficient and increase available revenue to support green investments**. Moldova and Ukraine have already started such reforms and other countries should follow. While carbon pricing is not yet seen as a key instrument in the climate change policy area, some governments have started considering it. It is important that countries start pricing carbon emissions even at low rates and putting the infrastructure in place as it usually takes time to get the scheme right and operational. This is also important in the context of the EU's Carbon Border Adjustment Mechanism (CBAM), which aims to prevent carbon leakage and will apply in its definitive regime from 2026, while the current transitional phase lasts between 2023 and 2025.

- **A number of countries have managed to mobilise additional public finance and have set up well-governed public funds.** Georgia, Moldova, Ukraine have aimed to align them with maturing market conditions or have reformed existing institutions in line with good international practices. However, governments need to do more to design public investment programmes and develop robust project pipelines that ensure that scarce public resources are used cost-effectively and efficiently. Further improvement of the capacity of governments and transfer of targeted know-how to manage green public investments, including through dedicated public Environmental Funds, is essential.

- **Partnerships are vital for promoting green finance and speeding up the green transition.** The OECD, the European Union and its members together with other international partners, continue working together to make such partnerships deliver. In this process, emphasis will be placed on ensuring strong country ownership, including an increasing role of finance and economic ministries, central banks, and financial and security market regulators.

International conference on

Financing the green and net-zero transition in the EU Eastern Partnership countries and Central Asia

19 – 20 September 2023, Brussels

SUMMARY RECORD

Background, meeting objectives and participants

The current document presents a synthesis of the main issues that were discussed during an international Conference on Financing the Green and Net-Zero Transition in the European Union Eastern Partnership (EaP) countries and Central Asia. This event took place on 19-20 September 2023 in Brussels and gathered about 130 participants (60 in person and another 70 online), representing several sectors and stakeholder groups. Primarily, these included officials from ministries of environment, economy, finance and energy, as well as from domestic public financial mechanisms, such as national environmental and decarbonisation funds or national development banks; experts from central and commercial banks from the EaP countries and Central Asia. Finance experts from the OECD and the European Union (EU) countries, the European Commission (EC) (Directorate-General for Environment (DG ENV), DG for Neighbourhood and Enlargement Negotiations (DG NEAR), European External Action Service (EEAS)) as well as officials from International Finance Institutions (IFIs), including, the European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), the World Bank, The Currency Exchange Fund (TCX), and international organisations (e.g., United Nations European Commission for Europe (UNECE), United Nations Environment Programme (UNEP), United Nations Industrial Development Organization (UNIDO)) also took part in the Conference. The event was also attended by private sector energy- and finance-related companies from the region, academics, consultants and non-governmental organisations.

The main objectives of the Conference were to:

- ✓ Take stock of recent initiatives, policy developments and financial vehicles in the EaP countries and Central Asia that support government efforts to shift towards a greener and net-zero transition
- ✓ Identify key challenges and ways forward to better align financial mechanisms with policy reforms to speed and scale up green investments at the post-COVID times and in the context of Russia's war of aggression against Ukraine
- ✓ Highlight new topics that may emerge from the agenda for further advancement of green and net-zero policy reforms in the EaP countries and Central Asia.

All documents, presentations and video recordings related to the conference are available electronically and can be accessed through this link.

This Conference was jointly organised by the OECD and the European Commission with financial support of the European Union as part of the "European Union for Environment" Programme (EU4Environment) which is being implemented by the OECD together with UNECE, UNEP, UNIDO and the World Bank. The Conference was also supported by Germany's Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection (BMUV) through its International Climate Initiative. In addition, the event was supported through EU contract "CTR 400-977 Organisation of and support to conferences, seminars, meetings and training activities in the framework of the Eastern Partnership, Black Sea Synergy".

This conference was the final regional event organised as part of the work on green investments and finance in the EaP region under the EU4Environment Programme. The conference provided an opportunity to present relevant work conducted by the OECD and its partners over the past several years. This covered issues such as the role of green bond markets in the EaP countries and Central Asia in providing long-term finance for green investments; de-risking instruments used by public entities to improve market conditions for investors; reforms in environmentally-related taxation as a source of public finance for green projects; leveraging private resources through targeted public investment programmes in various environmental sectors (e.g. transport, water and waste management); green banking regulations, international support for green investments in the EaP countries and Central Asia.

Opening and scene-setting session

This session featured high-level speakers from the OECD and the European Commission who spoke about the most recent policy developments and trends in green investments and finance in the context of international cooperation.

Mathilde Mesnard (Deputy Director, OECD Environment Directorate) opened the conference on behalf of the OECD and introduced the agenda. Ms. Mesnard acknowledged the ***importance of the EU's and Germany's long-standing relations with the OECD in supporting the EaP and Central Asia countries in their efforts to transition to a greener and net-zero path of economic development***. Ms. Mesnard also underlined the urgency of solving the climate challenge in a systemic way and as part of a triple crisis which includes climate, biodiversity and air pollution. She stressed that in order to address these challenges, countries need to mobilise all sources, both public and private, domestic and international. Ms. Mesnard pointed out that the EaP and Central Asia countries have recognised the scale of investment needs and have put in place relevant policy frameworks and governance arrangements. She also emphasised the role of the ministries of environment, economy, central banks and financial sector regulators in promoting sustainable finance. Ms. Mesnard also mentioned that despite some positive developments, important challenges still remain and these are related, among others, to unfinished business and regulatory frameworks, better management of public money and instruments that can mobilise more private resources but also to the lack of well-designed project pipelines. Ms. Mesnard indicated that over the years the OECD jointly with the EU and its partners, including UNECE, UNEP, UNIDO and the World Bank, have worked hard to help the EaP and Central Asia countries reform their green policies and regulations, develop technical guidelines and tools and address barriers to increased green finance.

Lawrence Meredith (Director for the Neighbourhood East and Institution Building, European Commission) welcomed the participants and highlighted the role of the ***European Green Deal as EU's growth strategy and a driver to mobilise resources for the net-zero transition, including through international partnerships***. Mr. Meredith recalled EU's commitment to make Europe the first climate-neutral continent by 2050. To achieve this ambitious goal, the EU needs to work closely with all its partners, including the EaP and Central Asia countries as well as the IFIs, and increase the level of green finance. Mr. Meredith explained that in the EaP countries the EU will deliver through its key initiatives such as the Economic and Investment Plan (EIP), which promotes the twin green and digital transition. The EIP aims to leverage up to Euro 17 bln over the next 5 years for sustainable transport, clean energy, green businesses, and other priority areas defined together with the partner countries. Mr. Meredith also spoke about a dedicated Ukrainian Facility (Euro 50 bln) that is being set up to support Ukraine's reconstruction efforts. The EU is also supporting the green transformation of Central Asia through the Team Europe approach. Among others, the EU has established the European Fund for Sustainable Development Plus which will help catalyse green public and private investments using both blending and guarantee instruments which can help reduce borrowing costs and risks. To further steer relevant policy reforms and mobilise capital and financial markets, the European Commission has established the International Platform on Sustainable Finance and launched the Global Green Bond Initiative. The EU's partnership with international organisations, such as the OECD, the major IFIs, and the private sector has been further strengthened. In conclusion, Mr. Meredith expressed his appreciation for the support provided to the EaP countries within the EU4Environment framework and confirmed the EU's commitment to further step up the work on green finance through new partnerships in the region.

Session 2: Green finance in the EaP and Central Asia countries: What is the magnitude of needs?

This session discussed the investment needs of the EaP countries and Central Asia to transition to a green and net-zero economic development as well as the efforts of the governments to prepare longer-term strategic and short-term action plans to finance the transition. The session was moderated by **Mathilde Mesnard** (OECD).

Nelly Petkova (OECD Environment Directorate) set the scene for the discussion during this session and presented some ***emerging trends in financing the net-zero transition in the EaP countries and Central Asia***. Ms. Petkova emphasised that while the countries have made significant efforts to put in place relevant policy frameworks and prepare Nationally-Determined Contributions (NDCs) to combat climate change (containing medium-term targets until 2030) as well as Long-Term Low Emission Development Strategies (LT-LEDS) (with net-zero targets until 2050 or 2060) few have made detailed estimates of the necessary investment needs or know how exactly they will pay for them. Some international research however shows the investment levels needed to achieve the net-zero targets in the region. According to such estimates, in order to meet their committed climate and environmental goals, the EaP and Central Asia countries would need to spend, on average, about 20% of their GDP between 2023-2050, or between 7 and 17 times of the current green spending, depending on the country. When contrasted with actual green expenditure in both public and private sectors which is very low, the financial gap looms large. For illustration, green public spending in 2021 as a share of GDP was below 0.4% in most of the countries with only Azerbaijan and Georgia spending more than 0.5%. While increasing the role of domestic banks, reflected in lent amounts, is also rather limited. At the same time, these countries continue to rely on donor and IFI financing, where the bulk of resources comes from. Ms. Petkova also underlined some positive developments in the region. A number of countries have mobilised additional public finance and have set up well-governed Funds aligned with mature market conditions (e.g. Georgian Energy Development Fund). In addition, capital markets are being harnessed and the region has seen a number of green bond issuances which are used as a source of long-term green finance. In conclusion, Ms. Petkova reminded that due to the low current spending and huge financial needs, the countries need to do more to mobilise additional finance but also improve their green financial planning practices. Among others, Ms. Petkova asked if such public sources as Sovereign Wealth Funds, National Development Banks or Pension Funds, where these exist, could become legitimate green financiers and be more actively involved in financing the net-zero transition.

Gayane Gabrielyan (Deputy Minister of Environment, ***Armenia***) and Maia Javakhishvili (Ministry of Environmental Protection and Agriculture, ***Georgia***) presented their respective governments' ***work on identifying NDC-related investment needs and developing strategies and plans for their financing***.

Ms. Gabrielyan ***thanked the EU4Environment for allowing countries in the region to cooperate and exchange on issues of common interest***, such as among others, ***NDC implementation or greening banking and capital markets***. Ms. Gabrielyan pointed out that while Armenia's share in global greenhouse gas (GHG) emissions is less than 0.02% the Armenian government has committed to further emission reductions and has set ambitious targets. Armenia is currently revising its NDC in preparation for the "financial COP29" in 2024. Armenia is also working on a number of policy and strategic documents, including among others the Strategy for NDC Financing and the Investment Plan for NDC Implementation. According to a recent OECD assessment investments in climate action for both mitigation and adaptation for the period 2020-30 are estimated to amount to about USD 5.7 bln, of which 80% is envisaged to be spent on mitigation measures in the energy, transport and waste management sectors. Ms. Gabrielyan stressed that over the past 20 years Armenia has received a lot of targeted external support to address climate change issues. However, public funds (domestic and international) are not sufficient to deliver on targets hence the need to mobilise significant private sector finance. To achieve this, Armenia is planning to further work on finance issues, including among others, on developing a green taxonomy, attracting institutional investors to the green bond market, greening the credit market, introducing green procurement, exploring a debt-for-climate swap.

Similarly to Armenia, Ms. Javakhishvili also thanked the EU and other international partners for continued support. She spoke about the ***achievements of the Georgian government with developing relevant strategic, policy and legislative initiatives to combat climate change and move to net-zero***. Ms. Javakhishvili pointed out that Georgia is currently also revising its NDC and setting more ambitious emission reduction targets. To support the NDC implementation, the government has approved, among others, an NDC Financing Strategy and Investment Plan until 2030. It has also adopted an LT-LEDS which will shape Georgia's carbon neutral development until 2050. Georgia is also working on developing an Integrated National Energy and Climate Plan as well as a new Climate Law. Most of the funding for climate-related investments in Georgia comes from the state budget and international partners. Georgia is currently working on a number of initiatives such as, among others, climate tagging of the state budget, use of the international carbon market mechanism (Article 6 of the Paris Agreement) to trade carbon credits (e.g. with Japan and Switzerland), attraction of more Foreign Direct Investment (FDI) for climate-related investments implemented by the private sector. Ms. Javakhishvili stressed that Georgia's objective is to mobilise all possible sources (local, national and international) to combat climate change. The Georgian government is currently working with a number of partners estimating the investment levels that will be needed to achieve net-zero.

In her presentation, Viktoriia Kyreieva (Deputy Minister of Environment, Ukraine) focused on ***Ukrainian government's strategic plans for the green post-war reconstruction of the country***. Russia's war of aggression against Ukraine has caused a lot of human suffering but it has also significantly damaged both infrastructure and the natural environment. Rebuilding infrastructure and the economy will require massive financing. Environment-wise, Ms. Kyreieva pointed out that because of the war, Ukraine may lose 750 species of flora and fauna while military actions have led to an excessive increase of CO_2 emissions. The war has also had important environmental impacts on neighbouring countries and Ukraine believes the international community should recognise this as ecocide caused by Russia. Ms. Kyreieva stated that despite of the war, the Ukrainian government remains committed to its climate-related obligations and is working on designing investments plans for the reconstruction of the country which will be green and low-carbon. In this context, the Ministry of Environment is currently developing several policy initiatives, including, among others, Climate Action Policy for the Green Recovery in all sectors of the economy, National Energy and Climate Plan, updated NDC and Action Plan to reflect the new situation and new goals of Ukraine, Plan for the Reduction of Anthropogenic Methane Emissions until 2030 under the Global Methane Pledge. The Ukrainian government is also working closely with the EC on designing the Ukrainian Facility dedicated to the green reconstruction of the country and on aligning its climate-related policies with the EU Directives and Regulations in light of its EU accession. Ms. Kyreieva highlighted some of the reforms related to public environmental finance and specifically to Environmental Funds which are envisaged to be transformed into legally independent and transparent instruments of national environmental policy.

The main highlights emerging from this session included:

- While many of the countries have made significant efforts to prepare NDCs and LT-LEDS, few have made detailed estimates of the necessary investment needs or know how exactly they will pay for them. Governments need to do more to better design realistic investment and financial plans and develop robust project pipelines to meet defined long-term targets.
- The net-zero financing gap is extremely large: independent estimations showed that in order to meet their long-term climate and environmental goals the countries would need to spend, on average, about 20% of their GDP between 2023-2050, or between 7 and 17 times of the current spending depending on the country. Bridging the gap will require massive resources as well as mobilising all possible sources, both public and private.
- Governments can do more to create demand for increased green investments, mobilise new institutional investors, such as sovereign wealth funds, National Development Banks, pension funds or insurance companies where these exist. The governments should also set the right conditions for the financial and capital markets to get involved in financing the net-zero transition. Some countries have already moved along this way and have managed to leverage more private resources by mobilising additional public finance through well-governed public funds aligned with mature market conditions as well as issuing green bonds.

In this context, there was a request to the government by the Ukrainian NGO community to pay special attention to Ukrainian National Parks which have been particularly badly affected by military actions. Water and soil have been seriously contaminated with heavy metals and future clean-up efforts will not be possible without significant public support.

Session 3: Green capital markets: Does supply match demand?

Access to affordable financing is among the greatest challenges to investing in the green and net-zero transition in the EaP countries and Central Asia and also across the globe. Domestic financial systems in the region have been growing steadily over the past years but they still fail to adequately address financing. To mobilise additional funds for green investments, recently, the EaP and Central Asia countries have turned to capital markets and particularly to the green bond market. This session discussed the role that capital markets in the region could realistically play in financing green investments and help these countries achieve their climate-related and environmental targets.

The session was moderated by **Mr. Yucel Inan** of EBRD. EBRD is not only an issuer of green bonds but it is often a lead or anchor investor in many deals in the EaP and Central Asia countries.

Stanislav Dubko (Green and Sustainable Finance Expert, Berlin Economics) presented the ***main findings and conclusions from a regional analysis on "Greening debt capital markets in the EaP countries and Kazakhstan***" prepared by the OECD as part of the EU4Environment Programme. As Mr. Dubko pointed out, bonds are among the key instruments of the capital market traditionally used to raise debt for projects which need a significant amount of financing. Green bonds represent a considerable innovation through their focus on the green use of proceeds, tracking, impact reporting and external reviews. The results of the study showed that while these countries have been slow to tap into the capital markets, there have been signs that green bonds are becoming an asset class in its own right and have begun to gain traction in the region as a complement to bank financing. There has been some limited issuance in four of the countries covered in the study (Armenia, Georgia, Kazakhstan and Ukraine) and these issuances generated a bit more than USD 2 billion in total which is not much but is rather promising and shows that the market is growing. The main issuers have been corporates (both state-owned and private enterprises) with a very limited activity in the municipal market. Four large transactions were done in international bond markets between 2020 and 2022, while four smaller issues underlined the potential also in local markets, in particular for local banks. A lot of the revenue generated by the green bonds went to refinance existing green assets. Refinancing is a common feature of this market due to the better commercial terms often offered by bond transactions. Uzbekistan (not included in the study) has recently also issued its first green bond (August 2023) and earlier it has also issued a couple of sovereign Sustainable Development Goals (SDG)-related bonds. Mr. Dubko also discussed some of the main obstacles that constrain the faster growth of the green bond market in the region. While the capital markets are not yet fully developed and not particularly liquid, there a number of other challenges facing the markets as well. These include, among others, the lack of: sufficient pipelines of projects of high quality that can attract investors; sizeable issuers with adequate corporate governance practices that investors can trust (particularly on international markets); local institutional investors such as pension funds or insurance companies; sufficiently developed bond market infrastructure which deters international investors from trading on local exchanges. At the same time, the reform of green finance regulation in some of the countries (Georgia, Kazakhstan, Ukraine) is encouraging and over time is expected to provide a more conducive environment for local green assets and issuances. Mr. Dubko underlined the need for demonstration issuances particularly from sovereign issuers which could lead by example. He also spoke about the important role IFIs and development banks can play as anchor investors proving both financial and technical assistance to upgrade local green financial frameworks. All these can help further grow the green capital markets in the region. However, in the current environment of emerging market risk aversion international issuance is still more realistic than local currency bond issues.

This introductory overview was followed by a presentation of a successful issuer in the region. Ara Sargsyan (Ameriabank, Armenia) spoke about ***Ameriabank's experience with issuing green bonds***. Ameriabank is a leading financial institution in Armenia and is the first financial corporate to issue green bonds in the region. The bonds were sizeable placements (a debut issue of EURO 42 mln in 2020 and two local placements at the

Yerevan Exchange of USD 8 mln in 2022). Mr. Sargasyan explained how a first green bond private issuance that is initially supported by a development agency can subsequently garner demand on the open market through a public listing. Ameriabank has seen tangible benefits from the issuing green bonds which resulted in a diversification of the investor base but its earlier experience with generating and tracking green (renewable and energy efficiency) loans has also contributed significantly to the successful placement of the bonds. To develop further the competence of the Bank's staff in green finance, the Bank's management has allocated significant resources for a capacity-building programme and is setting up a specialised Unit of Sustainability Finance which will consolidate all internal expertise and knowledge. As a trend-setter, the Bank's green business model has been followed by other commercial banks in Armenia. Mr. Sargsyan pointed out that there are potentially a lot of energy and resource efficient investments that need financing as green finance is literally everywhere but the lack of green regulations and clear regulatory incentives discourage commercial banks from entering the market. He expressed his hope to see real incentives coming from the Regulator but also from the Bank for International Settlements in Basel (the forum of central banks that set regulations for central banks to follow) (e.g. introducing a lower risk rating or reduced cost of funding for green projects, lowering reserve ratios to allow commercial banks to lend out more).

Mr. Inan explained that the debate on whether the national Regulator should incentivise green over non green assets is a very hot topic in the green finance space and has recently progressed a lot. Central Banks that care about the future of the monetary system and the risks to the economy need to also incorporate climate risks into their risk management strategies. For example, in 2019, the National Bank of Hungary decided to give a lower risk rating to green assets in the interest rate space and a few years later it extended this incentive to small and medium-sized enterprise (SMEs) financing, too. Examples like this show the important role Central Banks/Regulators can play in incentivising commercial banks to look at climate risks and include them in their balance sheets.

Sean Kidney (CEO, Climate Bonds Initiative (CBI) ***gave an overview of the global green capital market and spoke about some of the challenges and how these are being addressed***. Mr. Kidney pointed out that since its launch the market has grown significantly from about USD 2 bln in early times to about USD 3 trillion in 2022, and this is just the green side. If related markets are added (social, sustainable, sustainability-linked bond markets) this will add another trillion. The green bond market is expected to grow as a share of the global bond market. Green bonds have become a real financing option for corporates, banks and national governments and this instrument is becoming even more attractive than usually thought. Over the past few years, there have been a number of substantial changes that have driven the market. On the issuers' side, sovereign issuers in many parts of the world have become major players in the market, with more than 50 sovereign issuers having put in place regular green bond programmes. Investors' perceptions are also changing. Experience shows that global capital markets are shifting to prefer green assets which translates into higher investor subscription rates for green bonds and lower borrowing costs for issuers. CBI analysis confirms that all bond labels, including green, social, sustainability, and sustainability-linked, and transition bonds offer pricing benefits in hard currency compared to vanilla or traditional equivalents. Despite these developments, Mr. Kidney underlined the need for more regulation. Many regulators (in e.g. Hungary, China, India), governments (e.g. Denmark, France, Sweden, United Kingdom) and MDBs (e.g. EBRD, Asian Development Bank) have designed technical assistance programmes to help grow the green bond market and provide incentives that let work for greening the financial system. He also stressed the need for more demonstration issuances of larger volumes and eligible investments which is critically important particularly for institutional investors. When designing green bonds, issuers will also need to follow rules such as the International Capital Market Association (ICMA) Green Bond Principles or the EU Green Bond Standard, which are tough but inspirational measures. If issuers seek funds in international markets it is the EU Taxonomy for Sustainable Activities that will dominate and guide investors. Many countries are developing their national taxonomies, there are currently 47 national taxonomies being developed around the world. However, there is no need to reinvent the wheel, countries can reference internationally-recognised taxonomies while also trying to tailor them to local conditions. What is important for the international community is to continue to work on harmonistaion and standardisation of these tools. Having a Taxonomy *per se* is not a prerequisite but it helps to educate investors and grow the market later.

The main points that emerged from this session were:

- The global green bond market has been growing significantly over the past years on the back of changes in the world economy and strong investors' demand. While the EaP and Central Asia countries have been slow to tap into capital markets, there have been signs that green bonds are becoming an asset class in its own right and have begun to gain traction in the region as a complement to bank financing. Experience shows that green bonds have become an attractive and competitive instrument to finance long-term green investments.
- To grow the green bond market further countries need more demonstration issuances, particularly by the sovereign, which can serve as examples for other market actors to follow and reassure investors.
- There are potentially a large number of green investment projects in the countries and the capital market can supply much of the funding needed. Putting in place relevant green finance regulations and clear incentives can encourage new issuers to come into the market. Central Banks and financial regulators have a particularly important role to play in this context.

Session 4: Improving markets and closing the green investment gap: Major EU and international initiatives

While financial and capital markets in the EaP countries and Central Asia have evolved, many potential green projects (including infrastructure) remain unfunded. Such projects often suffer from high up-front costs and present significant risks for lenders and investors. Experience shows that the careful application and use of public capital could help reduce such risks. Risk-mitigation measures or "de-risking" approaches employed by public entities, both domestic and international, to improve market conditions for investors, were at the focus of the panel discussion at this session. The discussion was moderated by **Mr. Gérald Audaz** of the DG NEAR, European Commission**.**

Matthew Savage (Oxford Consulting) provided an introductory presentation on the ***main trends in environmental lending and existing instruments which seek to de-risk barriers to green investments in the EaP countries and Central Asia.*** The discussion was based on a study launched by the OECD within the EU4Environment Programme. Mr. Savage pointed out that environmental and climate finance are subject to the same geopolitical, macroeconomic and financial risks that the rest of the economy is subject to. Compared to 20 years ago when investors were mostly concerned with technological risks, many of the clean energy technologies have now matured and are well understood. Investor risk perception is now shifting more to governance and macroeconomy: if a country is uninvestable in other sectors, it will be uninvestabe in environmental finance sectors as well. Green finance should not be used to compensate for these wider risks. Mr. Savage presented a number of different instruments and programmes put in place by bilateral and multilateral donors and IFIs aimed at reducing risk in environmental lending products and improving market conditions for investors. These include, among others, environmental credit lines extended by IFIs to selected commercial banks in the region, the Global Climate Funds which work through both IFIs and local partners and provide a range of concessional capital products (blended finance, grants, loans, guarantees to both public and private entities), international IFI support for developing domestic green bond markets, and international green bond issuance. The EU, in particular, has also been scaling up its existing green finance offer: the EU Neighbourhood Investment Platform, the Investment Facility for Central Asia, the European Fund for Sustainable Development Plus, the EIB-managed Global Energy Efficiency and Renewable Energy Fund, are just few such examples. In conclusion, Mr. Savage pointed out a couple of important changes that have taken place in the past few years in the green finance market in the region. First, if earlier it was donors and IFIs who were pushing the green agenda, it is now national governments and the private sector in the countries that have taken ownership of this process. Second, donors are moving away from traditional grant instruments and are shifting to more risk-focused instruments, such as guarantees, hedging and private sector development. The days of big grants are disappearing due to the fact that energy efficiency, renewable energy or clean transport markets are becoming commercial or near commercial, and it is difficult for donors and IFIs to justify continued concessional finance going into these sectors. This new dynamic however also shows the need for further environmental and wider private sector reform in order to incentivise the private sector to finance more green and net-zero investments.

Mr. Savage's presentation was followed by a panel discussion. The panel consisted of representatives of the European Commission, EBRD, EIB and the Currency Exchange Fund (TCX) that have been very active in the partner countries. Panel discussants were invited to talk about:

i. what their institution does to help the EaP countries and Central Asia increase green investments and what specific programmes/instruments their institution has put in place in this regard; and
ii. the main challenges that they see on the ground and what governments in the region need to do more and better, and possibly jointly with international partners, in order to close the investment gap in the medium term.

In her intervention, Magdalena Kouneva (DG NEAR, EC) provided an ***overview of the major EU de-risking and blending instruments that the EU has put in place and from which EaP and Central Asia countries can benefit***. She focused on two such instruments: the European Fund for Sustainable Development Plus (EFSF+) and blending grants. Ms. Kouneva pointed out that blending[1] is used to mobilise additional investment in public infrastructure where returns are low but economic and social benefits are significant. EFSD+ is the financing arm of the Global Gateway, the new European Strategy to promote sustainable investments in the EU's partner countries, and offers a variety of risk-sharing instruments such as guarantees. Unlike blending, guarantees are an unfunded instrument, and require no transfer of money. As Ms. Kouneva explained, guarantees use the weight of the EU budget which has a triple AAA rating. As a result, guarantees are able to support and de-risk a large range of investments and counterparts (credit, political risk), making them valuable to address wider macroeconomic risk. Ms. Kouneva also emphasised that these represent just two of a range of instruments in the donor toolbox and that these do not replace the need for direct country support or traditional bilateral grants. Currently, the EC has set up 60 guarantee programmes for all regions in priority sectors, of which 16 programmes are dedicated to the DG NEAR region. A dedicated guarantee programme for Central Asia is being set up now. The EC expects that EURO 2.4 bln of guarantee coverage for the Neighbourhood region can mobilise investments in the order of EURO 17 bln in priority sectors. The EC is currently scaling up these instruments to be used in future financial facilities, such as the Ukraine Facility which will provide both blending grants and guarantees. One of the main challenges facing these instruments is matching demand with supply and subsequent uptake by the countries. Ms. Kouneva addressed conference participants and called on national authorities to learn about the programmes and spread the information across country stakeholders to scale up and accelerate the financing of green project pipelines especially in the private sector. More information on the above instruments can be found here and here.

Ksenia Brockmann (EBRD) focused on the role of ***multilateral development banks (MDB***), ***including EBRD, in catalysing systemic change and driving policy reforms that enable private sector green investments***. EBRD is one of the key channels in the EaP and Central Asia countries for concessional finance and offers a range of support instruments that call allow donors and other partners (e.g., EU or climate funds) to channel funds. Such instruments are critically necessary to enable investments in new technologies particularly where the costs of these technologies can be prohibitively high or where market barriers exist. EBRD also engages directly in countries with the aim of creating market opportunities and helping develop nascent markets. Ms. Brockmann provided examples of how EBRD engages with countries in the region. Some of the major programmes that she referred to that provide support to small businesses to adopt green technologies and increase resilience to climate change or to municipalities include: EU EBRD SME Competitiveness Programme, Green Economy Financing Facilities (GEFF), and Green Cities Programme. EBRD, together with other MDBs, has developed joint methodologies for climate and green finance which have been adopted by country partner financial institutions and are reflected in their Green Bond frameworks. EBRD also supports countries to develop low-carbon strategies and sectoral pathways (e.g. cement, steel

[1] Blending involves the strategic use of a limited amount of grant resources to catalyse additional financing for development projects. Grants are often combined with loans, equity, beneficiary resources or other forms of financing, with the aim of de-risking projects and making them bankable.

sectors). In addition, EBRD also engages with Central Banks and Financial Regulators (Armenia, Kazakhstan) helping them to develop and improve green finance regulations for the banking sector and build the capacity of domestic financial institutions to create long-term strategies. Ms. Brockmann also talked about some of the challenges that EBRD faces on the ground. Capacity constraints both in banks and direct borrowers are among the most important barriers to financing green investments. Hence, the need for extensive advisory support provided to EBRD partners. EBRD deploys digital solutions to overcome some of the constraints such as the Green Technology Selector (GTS). The GTS, a database of 40 000 high-performance green technologies, is an eligibility assessment tool that can be used by EBRD Partner Financial Institutions to qualify green investments. Another constraint relates to the lack of green technologies produced locally, and also to the domestic capacity to service these technologies which remains a major market barrier for many investors. There are different ways to deal with this challenge (e.g. preferential tax treatment for technologies produced in the domestic market, trade support). The EBRD Trade Facilitation Programme (TFP) supports international trade including trade in green technologies and services. Finally, the high cost of emerging technologies (e.g. around electric vehicles) opens opportunities for leasing approaches and guarantee instruments to encourage financial institutions to provide access to finance.

Edvardas Bumsteinas (Asia, Central Asia, and the Pacific Public Sector Operations Division, EIB Global) and Andreas Berkhoff (Enlargement and Neighbourhood Department, EIB Global) presented the EIB perspective on the panel. Mr. Bumsteinas spoke about the ***EIB work in Central Asia with a focus on large infrastructure financing*** while Mr. Berkhoff presented EIB activities in the ***EaP countries with a particular focus on SME support in Georgia***.

Mr. Bumsteinas focused on the Team Europe approach to de-risking green investments in Central Asia under EIB Global. Mr. Bumsteinas explained that EIB Global is an arm of the EIB, launched in 2022, aligned with EU principles of programming as reflected in the EU Green Deal and the Global Gateway. Under the Global Gateway, the EU pledged to mobilise EURO 300 bln of investments of which EIB needs to mobilise EURO 100 bln through the EFSD+ instruments. There are two Team Europe initiatives launched in Central Asia - one around EU-Central Asia digital bridge and another one related to Central Asia water, energy and climate change. Mr. Bumsteinas' portfolio focuses on water. In Central Asia, Team Europe works with like-minded partners (EC, World Bank, France (Agence française de développement), Germany (GIZ)) to find solutions to major environmental and low carbon energy challenges (e.g. Aral Sea restoration, modernisation of irrigation infrastructure along the Amu Darya river, building hydropower plants) using different de-risking instruments. Mr. Bumsteinas pointed out that de-risking approaches can occur at different stages of infrastructure projects. The ability to share risks with different partners or bring in technical assistance to make projects bankable helps facilitate access to finance for such investments. Despite difficulties on the ground, Mr. Bumsteinas believes there are a lot of green investment opportunities in Central Asia, with much of the demand coming from the Kyrgyz Republic and Tajikistan as these countries have significant hydropower development potential. The Rogum Dam, for example, can transform the whole region and not only Tajikistan where it is being built. Before starting big infrastructure projects, however, governments need to put in place regulations to enable such investments and ensure cooperation in the area of transboundary connectivity with neighbouring countries. Mr. Bumsteinas underlined that Team Europe Partners and Central Asia governments work together to create the enabling environment conditions conducive to regulatory reform, connectivity and common approaches.

Mr. Berkhoff provided further explanations on EIB work in the EaP countries. He clarified that EIB is the EU's climate bank and as such it has set its own very ambitious climate and environmentally-related lending commitments (e.g. increasing the share of green lending in new investments to 50%). Mr. Berkhoff specified that in 2022 the Bank's EaP portfolio amounted to EURO 9 bln and that EIB uses different channels to distribute funding, including green finance as a core element. EIB also provides micro-, SME (MSME) lending in all EaP countries. In Georgia, in particular, EIB has provided more than EURO 2 bln since 2009 when it started its operations there, 20% of which relates to MSME finance (EURO 400 mln). EIB works with a broad range of counterparts in Georgia (local banks and microfinance institutions) and provides loans in both hard and synthetic local currency.[2] EIB works with local banks to help green their portfolios, supporting them in stress testing, climate strategy development (including disclosure), training, among other types of support. Complementary to support to banks, EIB also engages with the EaP Regulators (with support from Germany), including in Georgia, which allows EIB to engage with a larger pool of banks in the countries. In addition to technical assistance and green investments, EIB will next move to partial portfolio guarantees, supported under EFSD+, which allow for a strong combination of providing better liquidity to finance investments and de-risk projects. Mr. Berkhoff also spoke about some of the key lessons learnt from EIB operations in the region. He pointed out that green finance can present challenges to local banks and that increasing the green share of the portfolio can be a struggle for financial institutions, primarily due to a lack of demand. One needs to be realistic in setting green portfolio targets or ambitions, and starting small while gradually increasing the portfolio is a good approach. Better eligibility criteria and simpler mechanisms to qualify green investments are needed in order to avoid greenwashing. The EU Green Tracker and work on local taxonomies can help in this regard. Mr. Berkhoff also raised the issue of how to redesign the system of environmental credit lines extended by IFIs that currently include a subsidy and make the system more financially sustainable. Minimising the concessional element while still getting intermediary banks see the value of these credit lines as a viable commercial product remains a challenge. Finally, whole eco-system approaches (engaging with both banks and regulators) are important for transformational change. Additional information resources on EIB operations in the region can be found through these links: Business resilience in the pandemic and beyond: Adaptation, innovation, financing and climate action from Eastern Europe to Central Asia (eib.org), EIB Group 2022 Climate Bank Roadmap Progress Report, 2022/2023 EIB Global Report — The impact.

Managing the currency risk in climate-related investments was in the focus of Xander Goudriaan's intervention (TCX Fund**).** Mr. Goudriaan explained that the TCX Fund is a global development financial institution supported by major bilateral and multilateral lenders (including, among others, EBRD, EIB, EC, the governments of France, the Netherlands, Switzerland). TCX plays a specific role in the finance universe. It facilitates local currency lending specifically from development finance institutions to their borrowers in emerging and frontier markets. TCX shields international lenders and their local borrowers from exchange rate volatility. TCX does this by using a financial instrument known as a cross-currency swap. By swapping hard currency funding into a local currency loan, TCX makes debt financing predictable for the borrower. TCX is not a commercial counterparty, it operates in the most challenging countries where it is additional to the market and has facilitated lending in 70 currencies. TCX has worked in the Caucasus and Central Asia since 2007 and these countries represent a significant investment opportunity and a very large part (30-40%) of TCX portfolio. In Georgia and Uzbekistan, for example, governments have engaged actively in de-dollarisation of the financial system, and TCX is now no longer needed for some transactions in Georgia. Mr. Goudriaan also talked about how unforeseen events can affect the market (e.g. the COVID pandemic, the war in Ukraine) and often lead to currency volatility and depreciation. As a result, currency risk increases which in turn undermines predictability of costs as well as reduces the creditworthiness of borrowers. In summary, Mr. Goudriaan pointed out that currency risk is a key barrier to mobilising private and scaling up climate finance. To unlock private climate finance at scale, and to plug the net-zero funding gap, foreign exchange risk needs to be dramatically reduced for both private and public sector borrowers. Open capital markets can help improve yield curves and build confidence of domestic and international investors. More information on the TCX Fund can be found at TCX webpage: https://www.tcxfund.com/ or at TCX Linkedin page which is regularly updated: TCX: LinkedIn.p.

As part of the discussion, Andrii Frolov (State Specialised Enterprise "Forests of Ukraine") expressed his institution's interest to cooperate with donors and IFIs in attracting green financing for the restoration of Ukraine's forests that have been badly damaged by the Russian war of aggression. In particular, he requested

[2] A synthetic local currency loan is a loan whose interest and principal payments are indexed to the local currency. The borrower still receives a hard currency loan but all its debt service payments are fixed to the local currency at the time of the loan agreement. Such loans are common in SME lending.

support for developing projects that use forests' carbon potential and sell carbon credits on voluntary markets thus also helping Ukraine continue to meet its international climate-related obligations.

The main highlights that came out of this session were:

- There is a wealth of programmes and instruments, offered by international partners, that the EaP and Central Asia countries can make use of to stimulate and de-risk green and net-zero investments. These include, among others, blending grants, guarantees, currency hedging instruments, support for green bonds to develop green capital markets. One of the main challenges in applying these instruments is matching demand with supply and subsequent uptake by the countries. National authorities need to collect more information about these programmes and spread the information across country stakeholders to scale up and accelerate the financing of green project pipelines, especially in the private sector.
- Compared to 20 years ago when investors were mostly concerned with technological risks, investor risk perception is now shifting more towards governance and macroeconomic reforms. IFIs active in the region are willing to support the EaP and Central Asia countries and work closely with banks and regulators to overcome such obstacles.
- Currency risk is one of the key barriers to mobilising private and scaling up climate finance. To unlock private climate finance at scale, and to plug the net-zero funding gap, foreign exchange risk needs to be dramatically reduced for both private and public sector borrowers.

Session 5: Public revenue for green finance: instruments for mobilisation

While financial and capital markets need to be mobilised to take the lion's share of financing the net-zero transition, public sector finance still has a significant role to play. Reforming the system of environmental taxation and public environmental expenditure, setting a carbon price, phasing out environmentally harmful and economically wasteful fossil-fuel subsidies and redirecting the revenue to green investments lie at the heart of the net-zero agenda. The fiscal and financial impacts of these reforms have been in the focus of OECD work including in the EaP and Central Asia countries as well. Improving the system of environmental taxation to generate additional public resources for green investments was the main issue discussed during Session 5. The discussion was moderated by Mr. **Gérald Audaz (**DG NEAR)**.**

In her introductory intervention, Isabella Neuweg (OECD Environment Directorate) ***examined the importance of environmental taxation, fossil-fuel subsidy reform, and carbon pricing in financing green investments as well as introduced relevant work from Moldova, Ukraine, and OECD countries***. Ms. Neuweg stressed that carbon pricing is a cost-effective and flexible way to achieve emission reductions. The OECD has done a lot of work on analysing and tracking explicit carbon prices across many countries, including Ukraine. Ukraine is the only country in the EaP region which has set an explicit carbon tax. The OECD conducted a study on acceptability of carbon taxes, including in Ukraine, and the analysis of Ukrainians' preferences for how to use the carbon revenue was recently published as a separate report. In addition, the OECD database on fossil-fuel subsidies now includes data and information on the EaP countries, too. The inclusion of the EaP countries in this database is an important milestone in achieving transparency with regard to fossil-fuel subsidisation policies in the region. Ms. Neuweg also briefly spoke about the work on environmental taxation and environmental public expenditure management in Moldova and Ukraine which was conducted in parallel and upon request by the Ministries of Environment in these countries.

Following Ms. Neuweg's introduction, Alexandru Fală (National Expert, Moldova) and Yuliia Oharenko (Independent Consultant, Ukraine) presented the ***main findings and recommendations from the analysis on reforming the system of public environmental finance in Moldova and Ukraine***, respectively. Both thanked the OECD and EU for their support for this work.

Mr. Fală underlined that the public environmental finance system in Moldova, including fiscal and budgetary tools, is rather complicated but also not sufficiently comprehensive. He stressed that the analysis followed EU methodology and statistical standards which covers four major groups of environmental taxes: energy, transport, pollution and natural resource taxes. Current Moldovan legislation does not recognise energy and transport taxes as environmental. As a result, the Ministry of Environment has little influence on shaping the environmental taxation regime and this issue needs to be further addressed particularly given that energy and transport taxes generate most of the revenue across all environmental taxes. Considering all four groups of taxes, Moldova's budget raised about USD 300 mln (about USD 263 mln) in 2020 or about 2% of GDP which is comparable with the EU average. However, these significant revenue streams do not translate into adequate public environmental spending which in 2020 was less than USD 20 mln (about USD 18 mln) or about 0.5% of GDP, the lowest in Europe. Mr. Fală emphasised that the environmental sector in Moldova has been chronically underfunded over the years. He also spoke about the main reform challenges and possible ways to optimise the system of public environmental finance. He pointed out that environmental taxation regulations need to be harmonised with international standards. Some of the inconsistencies related to pollution taxes have been addressed through a new law on pollution taxation that the Ministry of Environment is working on including also the management of the revenue generated by pollution taxes. Mr. Fală also outlined some of the reforms of the National Environmental Fund, which is the institution that manages this revenue and allocates public funding for environmental investments in Moldova. The reforms aim to make the new Fund less politicised, better governed and more transparent and balanced in resource allocation.

Ms. Oharenko then presented the work carried out in Ukraine and explained that the results of the analysis, similarly to Moldova, are compatible with international standards and definitions (Eurostat, OECD). She clarified a couple of issues related to the definition of environmental taxes and particularly those linked to resource taxes. In accordance with Eurostat guidance the resource tax category includes taxes linked to the extraction or use of natural resources (e.g. water, forests) as these activities deplete natural resources and are potentially environmentally harmful but all resource taxes designed to capture the resource rent from the extraction of the natural resource, owned by the state, are excluded from this group. In economic terms, a resource rent is classified as a property income and not a tax and as such it is excluded from the environmental tax definition. For this reason, the natural resource rent in Ukraine was not considered relevant to be included in the analysis. Current Ukrainian legislation recognises only pollution taxes and CO_2 tax as environmental taxes and the revenue generated by these taxes has been generally decreasing as a share of state budget revenue, down to 0.3-0.4% in recent years. 2019 saw an important growth in environmental tax revenue due to a considerable CO_2 tax increase (currently set at USD 0.80 per tonne of CO_2). However, if energy and transport taxes are considered under the wider umbrella of environmentally related taxes, following the Eurostat approach, a completely different picture appears and the share increases to 5%-8% during different years. Generally, the revenue generated from environmental taxes as a share of GDP is also similar to the levels in a range of EU countries. Ms. Oharenko underlined that current environmental taxes in Ukraine do not stimulate the reduction of pollution and serve only fiscal purposes. She also mentioned that environmental taxation reforms have been on the government agenda for more than 10 years but the lack of comprehensive and coordinated vision across government institutions have impeded its progress. The Ministry of Environment together with the Ministry of Finance are now working on proposals to advance the reform programme. On the expenditure side, Ms. Oharenko, explained that there are also issues that need to be addressed related to the definition and scope of environmental protection measures. The classification of public environmental measures in Ukraine differs from internationally-recognised classification systems (UN, OECD) which makes any comparative analysis more challenging. She pointed out though that while enterprises in Ukraine report on environmental protection measures fully in line with international statistical standards, government spending is not yet aligned with it. Generally, public environmental spending in Ukraine has generally increased over the past years (apart from the crisis years and before the Russian war of aggression started) but the share of environmental measures in total state budget expenditure never exceeded 1% (except in 2013, and in recent years they have dropped to less than 0.5%). Altogether, the analysis demonstrated that the effectiveness of budget funding for environmental measures is rather low and the institutional capacity to manage environmental revenue at both central and local levels is quite limited which also shows a mismatch between policy ambition and availability of budget funding. In conclusion, Ms. Oharenko outlined some of the main institutional and legislative changes that can help improve the system of public environmental expenditure management in Ukraine. Most importantly, the government of Ukraine has made a decision to (re-)establish a National Environmental Fund (including at a regional level) to manage some of the revenue generated by the environmental taxes and transform the Fund into an independent institution and a transparent and efficient tool of environmental policy in Ukraine.

Jonas Teusch (OECD Economics Department) completed the session and focused on ***OECD countries' experience with setting a carbon price and reflecting on its relevance for the EaP and Central Asia countries***. Mr. Teusch pointed out that carbon pricing is one of a range of policy approaches that countries employ in their efforts to reduce emissions and encourage the shift to net-zero (others include bans on certain pollution assets and activities, tax incentives, subsidies for certain technologies). However, carbon pricing is more flexible compared to other instruments because it leaves households and businesses a wider range of choices to cut emissions, thus minimising their compliance costs. Carbon pricing also raises revenue which can be recycled to various social programmes to deal with some side effects of the price. To set a carbon price governments can use both carbon taxes and emission trading. The Emission Trading Scheme (ETS) is a cap-and-trade system where the government puts a cap on emissions for a sector or for the country and the market finds the price. With the carbon tax, the government sets the price and polluters decide how much reduction they can achieve. Mr. Teusch explained that the Nordic countries were the first to start using carbon taxes in the early 1990s and in 2005, the EU put in place the first ETS. There are also other instruments that are not put in place with climate considerations in mind but economically they can have a quite similar impact, such as fuel taxes. In the EU, Mr. Teusch continued, there is a very strong focus on carbon pricing, in other parts of the world, this is less so. In the USA, there are carbon prices at the sub-national level only. More carbon pricing schemes around the world are being set up these days (e.g. Chile, Singapore, South Africa). The OECD report on Pricing GHG emissions (covering 71 countries) shows that about 60% of emissions in the countries are currently not priced (analysis takes account of ETS, carbon taxes, fuel excise taxes and fossil-fuel subsidies), which implies that countries need to do much more. Carbon pricing alone will not encourage deep emission cuts unless governments provide cleaner alternatives (e.g. one cannot switch from fuel driven cars to trains if there is no railway transport available). Mr. Teusch also clarified that a carbon tax and ETS can exist in parallel and can be combined in a sensible way. In many countries where ETS exist, enterprises can be exempt from the carbon tax. Some countries (e.g. Canada) choose to set a carbon price floor[3] to also provide some certainty about the pricing of investments under the ETS. Mr. Teusch underlined that there is a strong domestic case for carbon pricing in the EaP and Central Asia countries. Estimates show that even at lower rates a carbon price can raise revenue equivalent to 1% of GDP or more (providing there is a long-term government commitment to increasing the price). The initial price does not have to be high but it should be predictable in terms of how it will evolve in the future. Mr. Teusch also touched upon the EU Carbon Border Adjustment Mechanism (CBAM) which will go into full effect in 2026. CBAM (an effective border tax) aims to charge for the difference between the EU carbon price and the carbon price of exporting countries. Non-EU countries without a carbon price in place can be vulnerable to future carbon tariffs imposed under CBAM, an issue highly relevant for the EaP and Central Asia countries as well. In conclusion, Mr. Teusch underlined that it is useful for countries to start pricing carbon emissions even at low rates and start putting the infrastructure in place because it usually takes a while to get the scheme right and operational.

Rustam Sarybayev (Union of Kyrgyz Banks, Kyrgyzstan) took the floor to express his institution's interest to further cooperate with the OECD on investing in and financing climate transition particularly in the context of the Sustainable Financial Academy initiative which is being set up in the Kyrgyz Republic.

[3] Price floor prevents a price from falling below a certain level.

The main findings from this session were:

- Ukraine and Moldova have started reforming their public environmental taxation and expenditure management systems. This experience demonstrates the need for more work on definitions, scope, statistical approaches in order to bring the systems in line with international standards and harmonise them with the EU methodologies. Among others, including energy or transport taxes in the broader umbrella of environmental taxation can generate additional revenue which can be further allocated to green and net-zero investments. Compared to traditional pollution taxes, energy and transport taxes can make the public environmental finance system stabler and more predictable.
- Decisions on how to manage the revenue generated from environmental taxes are equally important and challenging. Traditionally, the EaP and Central Asia countries have managed the revenue that was raised from pollution and resource taxes through environmental funds. These traditional funds have undergone many transformations and they are now being reformed to reflect the changing market conditions in the region. Whatever the choice, relevant parts of the government (ministries of environment, finance, economy) need to talk to each other and make joint decisions. Involving all relevant stakeholders in the discussions, as demonstrated by Moldova and Ukraine, can only make the selected management set-up and governance structure better understood by all parties involved.
- Kazakhstan and Ukraine have sought to use carbon pricing in their climate policy. Ukraine is the only country that has set an explicit carbon tax and although the tax rate is rather low it has been increasing despite all the difficulties. Earlier, Kazakhstan had introduced an ETS but the scheme has run into problems and is currently not operational. The EaP and Central Asia countries can learn from the experience of other regions with setting a carbon price. Given their trade relations with the EU, having a carbon price in place can help minimise future EaP and Central Asia businesses' compliance costs under the upcoming CBAM.

Session 6: Using domestic public finance to leverage private resources

Governments have an important role to play in helping mobilise private finance for the net-zero transition. Public authorities have a broad array of possible instruments - both regulatory and financial - to create higher demand for green investments. The OECD has worked for many years on environment and climate aspects of public environmental expenditure management in the EaP and Central Asia countries. The work has particularly focused on supporting public financiers that manage public investment programmes to better comply with good international practices for such institutions. The session discussed examples of good practice and remaining challenges regarding capacities of the public sector to manage such programmes. Special focus was placed on the access to green finance for those most in need, the small and medium-sized enterprises (SMEs) in the region. The discussion was moderated by **Krzysztof Michalak** (OECD Environment Directorate).

The session started with Mr. Michalak's summarising the discussions during the first day of the Conference. He also encouraged participants to share issues that made a particular impression on them. A number of participants took the floor (Stéphanie Capdeville, AGRECO; Olena Maslyukivska, Ukraine; Tatiana Chernyavskaya, UNIDO). Among the issues they identified were: the significant financial gap and resources needed to achieve the net-zero transition in the countries; the shift in international capital markets where the "green" is becoming the "new normal" and the change in the mindset among institutional investors; the wealth of international programmes and instruments that can help businesses to reduce risk of green investments and the need for governments to facilitate businesses' access to these instruments, particularly for SMEs which are the backbone of these economies; the lack of local capacity to absorb such support and lack of robust pipelines of projects.

Many governments are now aware of the need to move away from financing of individual projects towards applying a programmatic approach. Developing pipelines of priority environmental investments that would not get implemented without public support lies at the heart of this approach. To help governments better plan and manage their public expenditure for multi-year green investments, the OECD has developed a programme costing methodology and designed an Excel-based model which can be used to estimate, among others, the total costs of a specific green investment programme for a given target. The model calculates the optimal subsidy level and possible environmental and climate-related benefits that can be achieved with programme implementation. The model is an analytical tool that can help better inform the decision-making process and make it more transparent. The aim of this work is to demonstrate in practice how to use scarce public funds to leverage private resources (in other words, how to set the optimal subsidy rate for a given type of projects) and incentivise the private sector to invest more in green projects. Using this methodology, over the years, the OECD has worked with a number of countries to support the design and costing of such green public investment programmes in different environmental areas, including: a programme for energy efficiency in the housing sector (Kazakhstan), clean urban public transport (Kazakhstan, Kyrgyz Republic and Moldova), and most recently, a programme for biodegradable waste stream (Georgia) and water supply and sanitation (Azerbaijan). Experience shows that blending public and private resources and leveraging private sector capital in a smart and cost-effective way can help stimulate more demand for green investments.

In Azerbaijan, the water supply and sanitation programme aimed to increase the catchment and storage of freshwater and treatment of wastewater. The programme provided a financing scheme that calculates the optimal level of public co-financing for the purchase of new equipment in pilot rural areas that face significant challenges while ensuring safe domestic drinking water supply, securing irrigation water, and reducing pollution from wastewater.

Farida Alakbarova (Ministry of Ecology and Natural Resources, Azerbaijan) ***shared Azerbaijan's experience with implementing the green economy approach in close collaboration with international partners***. She also spoke about the work the Ministry of Ecology and Natural Resources has done jointly with the OECD (as part of the EU4Environment Programme) on the design of a green public investment programme promoting sustainable water supply and sanitation. This programme will contribute to meeting the future drinking and utility water demand of Azerbaijan's population, agriculture and industry. Azerbaijan acknowledges the importance of such programmes and fully commits to their successful implementation. In addition, Ms. Alakbarova provided a brief update on other government programmes in the water sector and stressed that financing is a critical issue. To support and facilitate the implementation of these programmes, Azerbaijan has recently established a State Water Commission (to manage and coordinate activities in the water supply and sanitation sector) and a Water Resource Agency (to manage water as a natural resource) and has also started the development of a National Water Strategy. As part of its green growth agenda, the government has also put in place programmes to support investments in clean and alternative energy as a way to mitigate climate change and meet its international climate-related obligations. The SME Development Agency under the Ministry of Economy also plays an important role in supporting market access programmes for small businesses.

In order to discuss what institutional arrangements exist to manage green public expenditure programmes, representatives of Moldova, Georgia and Ukraine were invited to present examples from their countries.

Further to Mr. Fală's intervention in the previous session, Mihai Rusu (Ministry of Environment, Moldova) ***outlined some of the reforms related to the National Environmental Fund that the Ministry of Environment has carried out*** over the past couple of years with support by the OECD within the EU4Environment Programme. The National Ecological Fund, a predecessor of the new National Environmental Fund (NEF), has been reformed in line with good international practices recommended by the OECD and has been made more transparent and environmentally relevant. Some of the main reforms included, among others: transforming the Fund into an independent legal entity governed and overseen jointly by representatives of the government (e.g. Ministry of Environment, Ministry of Finance, Ministry of Economy) and managed by dedicated and competent technical staff responsible for the daily operations of the Fund (with a focus on project cycle management); updating the legal framework governing the NEF both on the revenue and the expenditure side; streamlining the allocation of the NEF resources. The NEF has been made less politicised by transferring its administration outside of the Ministry of Environment to a specialised entity (National Environmental Project Implementation Office) which has more capacity to identify cost-effective projects for financing. NEF strategic focus has been strengthened to support current environmental goals such as climate change and sustainable management of natural resources. If in earlier times, the Ecological Fund was financing mostly water supply and sanitation projects (80% of all projects), water infrastructure investments have now been transferred to the Ministry of Infrastructure and Regional Development. Mr. Rusu also explained that a lot of work has been done on the NEF related legislation and regulations. To strengthen the revenue side and provide a more predictable stream of revenue, Moldova introduced levies on packaging and on environmentally-harmful goods and products which have generated significant resources. These may not be sufficient but this was an important development. The Law on Environmental Pollution Taxation has also been revised to improve the environmental taxation system and eliminate some inconsistencies. On the expenditure side, the Ministry developed a solid Operational Manual that sets out clear guidelines for the Fund operations including project appraisal and selection criteria, financial and administrative processes. After the first Call for Projects, the Manual has been further adjusted to fix gaps and oversights in the initial technical rules and procedures. The Manual is available in both Romanian and Russian on the Ministry's website. In conclusion, Mr. Rusu underlined that implementing the reforms took the Ministry more than two years but they were worth it given the improvements achieved in the current NEF governance and performance practices. A major challenge facing the NEF is the lack of high quality projects and the Ministry needs to do more work with potential beneficiaries to ensure a smooth flow of better prepared projects that can be supported by the Fund.

More information on Moldova's recent work was provided by Veronica Arpintin (State Secretary, Ministry of Economic Development and Digitalisation, Moldova). Ms. Arpintin ***shared the experience of Moldova's government with supporting the green transition in the private sector and particularly with facilitating access to green finance for small businesses***. Ms. Arpintin underlined that greening the economy is a core element of the Ministry of Economy and Digitalisation work but green economy transformation requires the concerted efforts of the entire government. The Ministry of Economy jointly with the Ministry of Environment lead the Greening the Economy Working Group which brings together all relevant national and international stakeholders. The Working Group has overseen the development of a number of important programmes such as the Green Economy Programme and the Programme for Entrepreneurship and Competitiveness Growth. These programmes aim, among others, to prepare Moldovan companies to export and become competitive particularly in the EU market as 70% of Moldova's export goes to the EU countries which already prefer green products. Being competitive these days, underlined Ms. Arpintin, means being green. This is also important in the context of Moldova's EU accession (envisaged for 2030) as the accession agenda is dominated by green regulations. Shifting the economy onto a green path of economic development is an expensive exercise. However, money alone will not bring adequate results. Ms. Arpintin stressed the need for capacity building and transfer of know-how to ensure relevant expertise goes to both government institutions and businesses so they can better understand the benefits of the green and circular economy and create demand for increased green finance. Ms. Arpintin thanked international partners (EU4Environment partners, Germany, Sweden, USA, but also EBRD, EIB, International Finance Corporation, among others) for their support to her government and for bringing much needed expertise and funding. She was particularly thankful to UNIDO who has been working closely with small businesses in different sectors in Moldova (e.g. textile, wine-making) helping them identify, design and implement energy and resource efficient projects. UNIDO has been instrumental in also bringing in the gender aspect to support women entrepreneurs. Promoting the greening of the SME sector is a major responsibility of the SME Development Agency in Moldova (ODA in Romanian) which is overseen by the Ministry of Economy. As underlined by Ms. Chernyavskaya (UNIDO), ODA has put in place a breakthrough initiative, the Greening SME Fund, set up to provide financial support to small businesses willing to implement green investments. The Fund provides grants which can cover between 50% and 70% of the value of an investment, depending on the type of project. This experience is valuable and relevant for the other EaP and Central Asia countries. UNIDO is already discussing with Azerbaijan's SME Development Agency the possibility to consider a similar funding model.

Anuki Batiashvili (Georgian Energy Development Fund - GEDF, Georgia) presented ***Georgia's experience with managing public resources for green investments and how cooperation with international partners has helped GEDF improve its internal policies and performance***. Ms. Batiashvili explained that GEDF is a joint stock company, established in 2010 and operating under the umbrella of the Ministry of Economy and Sustainable Development, however, legally, it is a separate entity. The Fund is state-owned, capitalised by the government with the only capital injection provided when the Fund was created. GEDF mission is to contribute to the achievement of Georgia's climate-related obligations and support the development of the renewable energy market in the country, including investments in hydro, wind and solar energy. GEDF main objective is to search for promising projects and attract investors at various phases of development of these projects. Since its establishment, GEDF has added 140 MW of capacity to the country's power system and the average investment cost of such projects has been around USD 160 mln (e.g. a wind farm with 21 MW installed capacity, large hydropower plants (108 MW). Ms. Batiashvili underlined that GEDF has developed a strong project pipeline which contains a lot of promising projects (e.g. the first and biggest utility-scale solar power plant in Georgia, 96 MW). She also explained that the Fund uses two main schemes to develop and finance projects. In the first case, the Fund develops a project using its internal resources and then looks for an investor. In the second option, an investor approaches the Fund, and if the project gets approved, GEDF co-finances the project offered by the investor. In this case, GEDF can provide minority equity investment (up to 30% equity on an investment project) but is required to have an exit strategy after project commissioning. Ms. Batiashvili stressed that this allows the Fund to maintain its resources and reallocate them to other projects, effectively functioning as a revolving public equity fund. Overall, GEDF functions as a project developer, project promoter, service provider (e.g. obtaining necessary permits and licenses for projects) and also project manager. Given its close interactions with various institutions, GEDF has developed a strategy for cooperating with international and national partners, including investors, IFIs, commercial banks. All projects that GEDF has already completed or are in the pipeline are implemented with IFI support. IFIs also support research and analysis undertaken by the Fund in response to challenges in the energy sector. GEDF works with Georgian banks as well to co-finance projects. Most recently, GEDF has started accreditation to the Green Climate Fund (GCF). The GCF is considered one of the largest financial partner organisations for Georgia and accreditation is believed to help GEDF attract cheaper loans to support more investments. Ms. Batiashvili explained that it had taken GEDF more than a year to prepare the accreditation, this was not an easy process but it was worth it as it had helped the Fund improve some of its internal policies (e.g. gender policy) which need to be in place in order to meet the GCF accreditation requirements.

Mariia Malaia (First Deputy Head, State Agency of Energy Efficiency and Energy Saving - SAEE, Ukraine) ***shared Ukraine's experience with setting up a new public funding mechanism to promote energy efficiency and low-carbon investments in the country***. Ms. Malaia explained that energy infrastructure had been badly damaged during the Russian war of aggression and the Ukrainian government had become painfully aware of the need to reduce the reliance on fossil fuels. The government now sees energy efficiency as a key principle of Ukraine's recovery and a matter of the country's energy and wider security. SAEE works on the implementation of the state policy on energy efficiency but also on renewables and decarbonisation particularly of energy utilities (e.g. combined heat and power plants). To support the decarbonisation of the energy sector, SAEE has created two new tools which include the State Fund for Decarbonisation and Energy Efficiency Transformation ("the Fund") and the National Decarbonisation Platform. The Ukrainian Parliament approved the Law on the Fund in April 2023. The Fund is established as a state enterprise managed by SAEE and the Minister of Recovery of Ukraine. The Fund is a budget line (part of the special (earmarked) fund of the State Budget) and will be largely capitalised by the revenue generated from the CO_2 tax. The Fund will also seek to attract additional funding (including technical assistance, grants, credit lines) from donors, international organisations and IFIs. As Ms. Malaia explained, as a budget line, the Fund needs a practical mechanism to allocate support to low-carbon projects and ensure the repayment of loans extended to the state. This mechanism is provided by the National Decarbonisation Platform (NDP). NDP is a comprehensive digital tool which is designed to provide technical expertise and solutions as well as ensure monitoring and verification throughout an entire project lifetime. SAEE is working closely with its USA partners who are helping the Agency set up the Platform. Among others, NDP provides an up-to-date catalogue of energy efficiency technologies produced by global and local producers, register of energy service companies as well as qualified expert support and consultancy that beneficiaries can make use of. NDP aims to offer affordable funding using different financial instruments such as grants, preferential loans, guarantees, financial leasing, factoring. At a later stage (2026-2030), carbon credits and green bonds are also envisaged to be deployed through NDP while development of circular economy processes and clusters will be addressed over the period 2030-2050. Ms. Malaia explained that circular economy is a new topic for Ukrainian businesses and for the government as well and it will take them time to understand how to best approach it. Tatiana Chernyavskaya (UNIDO) explained that UNIDO has an ongoing project component on Circular Economy dedicated specifically to Ukrainian businesses and government representatives that Ukraine can benefit from. In conclusion, Ms. Malaia confirmed that the legal and regulatory work on the Fund and the Platform has not been easy and has taken many years but SAEE hopes that they will become fully operational in 2024. She invited all partners to join the Platform and help Ukraine in its recovery and green transformation.

The highlights from the discussion during this session included:

- Designing public investments programmes and developing robust project pipelines which allow governments to achieve country's green and climate-related objectives in a cost-effective and efficient manner is possible. The OECD work in a number of EaP and Central Asia countries showed how other countries in the region may want to consider developing such programmes with support by international partners as a way to green their public finance systems and strengthen the management capacity of their public finance institutions.
- There are different institutional arrangements that EaP and Central Asia governments have chosen to manage their public environmental expenditure. The experience from Moldova, Georgia and Ukraine demonstrates this diversity and shows that there is no "one-size-fits-all" solution. Depending on the economic context, the maturity of financial markets and capacities in the countries, each government selects the institutional set-up and financial instruments that suits it best. Setting up new funds or reforming traditional national environmental funds (capitalised by revenue generated from pollution charges/taxes) in line with good international practices make these institutions more transparent and efficient and help them grow their resource base to support bigger investments. Support by international development partners, both financial and through technical assistance, can contribute to funds' better performance.
- Achieving the green and net-zero transition will require significant financial resources. However, money alone will not be sufficient. The EaP and Central Asia countries need more targeted capacity building and transfer of know-how to ensure that relevant expertise, knowledge and skills go to both government institutions and businesses so they can better understand the benefits of the net-zero transition and better absorb international support. While significant efforts have been made in this regard (including through programmes like EU4Environment) there is a need to further reinforce this support, especially by strengthening regulatory and technical skills in the countries.
- SMEs face significant challenges with financing their green projects. Governments can do more to support small businesses and facilitate their access to green finance sources. The experience of the Moldovan government with setting up a fund dedicated to supporting SME green investment efforts is an inspiration for other countries and a possible model to follow. Such public finance schemes are indeed critically needed across the EaP and Central Asia countries given the role the SME sector plays in these economies.

Session 7: Greening domestic and international finance

The speed with which green domestic financial and capital markets develop and mature depends on many variables, including policy and regulatory factors, market conditions and financing trends. The session, facilitated by **Krzysztof Michalak** (OECD), aimed to look at possible actions that international actors and national governments in the countries can take to scale up and grow a functioning green financial and capital market.

Giorgio Gualberti (OECD Development Co-operation Directorate***) presented recent trends in climate-related development finance provided by bilateral and multilateral development finance institutions to the EaP and Central Asia countries***. Mr. Gualberti explained that international finance to the region has generally increased over the past years growing from USD 3.2 bln per year (between 2013 and 2018) to USD 4.9 bln per year (between 2019-2021). Analysis shows that in 2020-21, Ukraine and Uzbekistan received the largest commitments in absolute terms while Georgia and Moldova got most of the support on a per capita basis. Climate finance allocated to mitigation activities prevailed (70% of all projects) with energy being the most important sector that donors supported, followed by transport and agriculture. Mr. Gualberti also pointed out that development finance is channelled through the public sector in almost 70% of the cases in all countries except in Armenia and Ukraine where 50% of finance was allocated to private sector investments. MDBs (EBRD, World Bank, EIB, Asian Development Bank) are the largest green public financiers in the EaP and Central Asia countries but there are also some bilateral donors that have been active in the region (France, Germany, Japan). The current situation shows that development finance has been – and will most likely remain in the future – a crucial part of the green finance landscape for many countries in the region.

Mr. Gualberti's intervention was followed by a discussion from the floor focused on some terminology issues, including concessionality of lending products offered by donors as well as climate finance definition. He explained that concessionality rates vary across countries depending on the country's income level (according to income country classification) and the maturity of the local market. This is the reason why countries like Kazakhstan and Ukraine received the least concessional loans in the region while the cheapest loans went to the Kyrgyz Republic, Tajikistan and Turkmenistan. Mr. Gualberti also explained that the OECD has a working definition of climate finance which is applied when bilateral donor support is analysed. MDBs, on the other hand, use their own methodology to define climate-related data reported to the OECD. Mr. Gualberti also confirmed that the data included in the OECD Development Assistance Committee (DAC) database (Creditors Reporting System) are presented as commitments and not as disbursements which shows the need to reconcile data provided by donors and reality on the ground. However, definitions and methodology are subject to continuous improvement. In addition, Mr. Gualberti explained that green FDI flows are not accounted for in the OECD DAC database. Nelly Petkova (OECD) mentioned that United Nations Conference on Trade and Development (UNCTAD) tracks FDI flows and its recent World Investment Report 2023 provides some regional insights on green FDI in the energy sector. The discussion showed that more work is needed to understand how green FDI (e.g. green equity, initial public offerings (IPOs) contributes to financing the green and net-zero transition in the EaP and Central Asia countries.

Salome Tvalodze (National Bank of Georgia - NBG) ***spoke about the role of green regulations for the commercial banking sector in Georgia and explained some of the major challenges and achievements that NBG has seen in this process***. Ms. Tvalodze introduced the main elements of the Sustainable Finance Framework that NBG started developing in 2017 and focused on the Roadmap for Sustainable Finance which was launched in 2019. The Roadmap ultimate goal is to provide credible, predictable and stable regulatory framework and prepare the market for transitioning to sustainable finance. Ms. Tvalodze underlined the importance of having clear common definitions and a common classification system for tracking and measuring green and sustainable finance. To avoid greenwashing, NBG has developed a Sustainable Finance Taxonomy (SFT) which consists of Green and Social Taxonomy (issued in August 2022). SFT was first applied in the commercial banking sector which represents 95% of Georgia's financial sector. In 2023, NBG issued the Regulation on Loan Classification and Reporting according to the SFT for Commercial Banks and several banks are already reporting, on a monthly basis, on their SFT-aligned portfolios. Analysis shows that the green lending market is growing in Georgia. The green bond market has also increased: Georgian companies are now issuing green bonds at the local Stock Exchange, including in local currency. NBG is currently working on a Green Bonds Framework (GBF) based on SFT rules and regulations to further support the development of the local market. Among other regulatory initiatives, NBG has also integrated environment, social and governance (ESG) principles into the Corporate Governance Code for Banks (2018) and Issuers of Public Securities (2021) and ESG now makes part of financial institutions' strategies and risk management frameworks. Financial institutions are required to disclose and report any ESG-related information to the Regulator (ESG Reporting and Disclosure Principles). Altogether, NBG has developed a comprehensive green regulatory framework which is aligned with international standards. Ms. Tvalodze underlined that development and implementation of SF Taxonomy requires time and resources and is a challenge for banks. NBG is working on making the Taxonomy easy and simple for banks to understand and is also providing support and capacity building to them as many banks do not have in-house expertise. Another challenge which she pointed out is the lack of demand by the private sector for green loans which is often related to the lack of companies' awareness of green technologies but also to the fact that Georgia has no government incentives that can stimulate more green borrowing. Ms. Tvolodze also briefly spoke about NBG climate stress-testing. The objective of this analysis is to understand the level of exposure and vulnerability of the financial sector to high risk sectors. It is an ongoing work and it is not easy (data, capacity constraints) but there are already some good preliminary insights from this analysis.

In Kazakhstan, the Green Finance Center at the Astana International Financial Center Authority (AIFC) has also developed a very comprehensive framework for green finance. Aigul Kussaliyeva (AIFC, Kazakhstan) ***presented Kazakhstan's experience and specifically the AIFC role in helping develop the domestic green capital market in the country***. Ms. Kussaliyeva explained that AIFC was set up as a separate jurisdiction in the city of Astana to help develop the capital market in Kazakhstan: it has a separate court, Arbitration Center and operates under English common law. AIFC is also the hub for ESG finance and the Green Finance Center (GFC) is part of it. The GFC has been established to develop the green and sustainable capital market in Kazakhstan but also to provide support to Central Asia countries. AIFC has been actively working on a number of fronts: developing relevant regulations and standards, designing financial products that are offered on the Astana International Exchange (AIX) (part of AIFC), supporting government initiatives and accompanying government and private entities in ESG investing. On the regulatory side, to support the issuance of thematic instruments at the AIX, AIFC has developed ESG Bond Guidelines (covering green, social and sustainability-linked bonds (SLBs). In December 2021, Kazakhstan adopted the Green Taxonomy (aligned with internationally-recognised standards such as the CBI and EU Taxonomy) which is being updated to also include more transitional activities and align it with the new Strategy of Carbon Neutrality of Kazakhstan. Achieving carbon neutrality by 2060, with renewable energy reaching 80% of the energy mix, will require investments to the tune of around USD 600 bln. For comparison, while the current green finance market has been growing (about USD 530 mln in 2022) it remains rather small compared also to other similar economies (e.g. Chile or Hungary). Green and social bonds and green loans are the main financial products offered on the market (green bonds account for more than half of it) and most issuers are financial institutions such as the Development Bank of Kazakhstan and commercial banks. Recent changes in national legislation have allowed the city of Almaty to issue green (SLBs) municipal bonds to finance green investments at the Almaty Power Stations. While this is a precedent it opens opportunities for the future. The GFC also offers assistance to prospective issuers and a number of incentives for those assets complying with the new national Taxonomy. The two Exchanges in Kazakhstan (Kazakhstan Stock Exchange (KASE) being the second one) offer reduced fees for services they provide to issuers of sustainable instruments. AIFC has also issued Guidelines for ESG Reporting at AIX and there are similar Guidelines for companies listed at KASE. Recently, there have been discussions to merge the two Exchanges and harmonise their regulations. The Financial Regulator in Kazakhstan has also adopted Guidelines on ESG Reporting for Financial Institutions and reporting for banks will become mandatory in 2024. In addition, Ms. Kussaliyeva discussed the work the government of Kazakhstan has done to facilitate access to green finance and the subsidy programme it has put in place to support companies (particularly SMEs) when borrowing from commercial banks or when issuing green bonds. AIFC has also launched a number of regional initiatives: it has set up a Regional Office for Green Investment Principles for the Belt and Road Initiative for Central Asia aiming to connect green projects in the region with potential investors, it has developed a model Green Taxonomy for the Eurasia Economic Union and has supported the ESG Bond market in Kyrgyz Republic (helping to draft a Sustainable Finance Taxonomy, providing external reviews to a couple of commercial banks' ESG bond issuances). Ms. Kussaliyeva stressed that one of the ways to boost the market and provide much needed investment is to have more green issuances taking place at a sovereign and municipal level.

Ms. Kussaliyeva's intervention was followed by a discussion on how to ensure consistency across national taxonomies that are developed by different countries. In her opinion, national taxonomies can take inspiration from international standards but they should be aligned with national priorities and national legislation specifics. In addition, Veronica Arpintin (Moldova) raised the issue of how new technologies (e.g. FinTech) and non-traditional finance instruments (crypto, crowdfunding) can be used to further boost the green finance markets in the EaP and Central Asia countries. These are new topics for the countries and they can be considered for more detailed analysis in the future.

Mohammed Saffar (OECD Environment Directorate) ***presented some major findings from recent OECD work on using international support to mobilise private finance in developing countries***. Mr. Saffar's presentation was based on the OECD report Scaling Up the Mobilisation of Private Finance for Climate Action in Developing Countries. He reminded that meeting the Paris Agreement goals will require huge resources. Analysis shows that estimated annual climate investment needs in developing countries until 2030 amount to around USD 2.4 trillion. While a lot has been done by governments and the private sector, current spending remains low, in 2021 it stood at around USD 850 bln. In 2020, about USD 68 bln of public climate finance from international sources mobilised only about USD 13 bln of private climate finance. Therefore, every country needs to rapidly increase financing in areas such as clean energy, sustainable land use, adapting to impacts of climate change. Mr. Saffar underlined that the scale of the challenge is such that all sources have to be mobilised particularly commercial capital. In this context, the main question that public financiers need to address is how to use scarce public funds to more effectively leverage more private resources. Mr. Saffar stressed the need for a significant shift of development finance towards private capital mobilisation including blended finance. He explained that a systematic approach to blended finance and deploying public finance more strategically can help maximise its development impact, minimise the risk of market distortion and preserve public resources. This approach requires that governments monitor the evolution of commercial markets and ensure that public finance decisions take into account changing market conditions, adjust public support concessionality levels and gradually move away from near commercial investments (e.g. renewable energy projects). Mr. Saffar explained that the OECD analysis looked particularly at barriers (economy-wide, sectoral or project level) to clean energy investments (e.g. energy efficiency, renewable energy, clean power including green hydrogen) and possible solutions to overcome them. He stressed that solutions need to be well targeted to the specific barrier they aim to address: small energy projects (e.g. off-grid renewables such as rooftop solar) will face different challenges compared to utility-scale renewable projects and will need different types of public support to increase their chances to attract private investors. While financial considerations need to be made on a project-by-project basis governments need to make sure their intentions are clear (through policies and long-term strategies) and provide a sense of stability to investors so they could see how their projects are anchored in the longer-term development plan of the country particularly if investments are backed by international support. On a project level, the existence of strong pipelines of investable projects could also help deploy public finance strategically. Instead of spending billions on an entire project it is better that public financiers use public resources in a smart way to de-risk the project and bring in the private sector to finance the bigger part of the investment. Mr. Saffar emphasised that governments, private sector and the international community need to work together to find the best ways to increase the financing of green investments as part of the green and net-zero transition process.

The main points that emerged from the discussion during this session included:

- International climate-related development finance plays an important role in mobilising private- and public-sector green finance in the EaP and Central Asia countries. The current situation shows that such finance has been – and will most likely remain in the future – a crucial part of the green finance landscape for many EaP and Central Asia countries. It is important to regularly and adequately monitor green financial flows (public, private, domestic and international) in order to assess progress in achieving green objectives and identify challenges early in the process.
- When used in a smart way, international public finance, including blended finance, can help maximise its development impact, minimise the risk of market distortion and preserve scarce public resources. The session underlined the key role financial regulators and national banks can play in defining a predictable and stable green finance framework (through e.g. green taxonomies, ESG reporting and disclosure principles and rules) and boosting the green financial and capital markets in the countries. The examples from Georgia and Kazakhstan are inspiring and provide possible models for other countries to learn from.
- More demonstration issuances are needed to further expand domestic green debt capital markets. Issuing sovereign and municipal green bonds is particularly important to show the commitment of the public sector and reassure the rest of the participants in the market. EaP and Central Asia governments may want to consider making such issuances.
- Green Fintech, crypto currencies or crowdfunding are emerging as possible instruments to use in the EaP and Central Asia countries. Even though there seems to be interest in these as potential sources for green investments more in-depth analysis is needed in order to understand how to use them in practice and expand their application in the future.

Session 8: Exploring new avenues for further work and closing of the conference

In this session, the OECD and the European Commission summarised the discussion that took place during the seven sessions of the Conference. They also highlighted new policy issues that may need to be considered for further analysis in supporting the EaP and Central Asia countries in their efforts to transition to a green and net-zero economy.

In summarising the discussion **Krzysztof Michalak** (OECD) and **Angela Bularga** (European Commission, DG NEAR) thanked all speakers and panellists for their hard preparatory work as well as participants, both in the room and online, for their active participation, sharing ideas, and contributing to the fruitful discussions over the two days. They acknowledged the diversity of stakeholders and the variety of their views. They also underscored the countries' commitments to seize the opportunities to green investment and finance. Last but not least, they thanked the OECD team who prepared the Conference with support also by Cecoforma, the company responsible for logistical matters, as well as the interpreters who ensured the smooth exchange of ideas in different languages.

Mr. Michalak thanked both the European Commission and the government of Germany for their continuous support and for this conference, in particular. He pointed out that policy ambitions and financial needs in the EaP and Central Asia countries are very high and the challenge that these countries face is bridging the gap between low current spending and large future investment needs (about 20% of GDP on average). Mr. Michalak underlined that over the years these countries have received considerable support from donors, EU member states and IFIs but this is not sufficient, other sources need to be mobilised. He also spoke about some new market developments that can help in this regard. Using risk-mitigation instruments to reduce the cost of financing and match the profiles of project owners can encourage more green lending. However, connecting such instruments with project proponents remains a major challenge. Capital markets have also started working for the net-zero transition and have begun to provide long-term finance for green investments. Green bonds and other related instruments are becoming an asset class in their own right in the EaP and Central Asia countries. Mr. Michalak underlined that capital markets are strongly influenced by macroeconomic and geopolitical events (COVID pandemic, the war against Ukraine) but also by insufficient governance reforms and new instruments can only go as fast as markets mature. A number of policy and legislative initiatives (green taxonomies, ESG disclosure and reporting principles) which incentivise market participants to use capital markets and raise debt for long-term green investments are already in place in some countries (Georgia, Kazakhstan), other countries have also started working on such regulations but more incentives and support programmes are needed. The public sector has a clear role to play in helping close the finance gap. Mr. Michalak reminded that governments can put in place robust public expenditure programmes and investment plans for the medium and longer terms and differentiate between support for large and small enterprises. Reforms of domestic environmental taxation systems (as demonstrated by Moldova and Ukraine) are encouraging and can help raise additional revenue to spend on the net-zero transition. Money alone however, continued Mr. Michalak, cannot solve the problems, quoting Veronica Arpintin (Moldova), as money without knowledge and capacity building may be wasted and will not serve the purpose. Another issue that Mr. Michalak highlighted is that access to the European market is important for the EaP and Central Asia businesses. The European Union is putting in place a lot of regulations and demands and to access this market, industries and producers in the countries will need to align with EU standards and make their own production lines more energy and resource efficient.

Viviane Bertel (Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection, Germany) took the floor on behalf of Germany. She also thanked the European Commission for this event and recognised the importance of the topic discussed during the two days of the Conference. She expressed her appreciation for the comprehensive presentations and the rich discussions that followed. Ms. Bertel stressed that it is very important to have a clear understanding of the instruments that exist and that can be used to overcome challenges to bridging the finance gap. It is also important that countries have a platform to share experiences and learn from each other. She confirmed that Germany is keen to support further work in the EaP and Central Asia countries and contribute to deepening the discussion in the future.

Ms. Bularga praised the richness of knowledge sharing during the conference. She highlighted as her major take-aways (i) the magnitude of the financing gap, (ii) the need for more supportive regulatory frameworks in the partner countries and recent progress, and (iii) the diversity of tools put in place by the EU to unlock green investments. First of all, Ms. Bularga recalled that the investment needs and the magnitude of the financial gap are impressive and when affordability is taken into account, they might be perceived as daunting. She underlined however that these investments also bring opportunities and benefits and the fact of not investing and the lack of policy action now may imply risks and impacts in the future much higher than current ones. Public money is not enough: the private sector should become more involved in climate and environmental action. The impressive growth of the green bond market globally over the past 10 years shows that scaling up green finance is feasible. In relation to the private sector involvement, one important conclusion – and another major take-away – is the need to continue improving policy and regulatory frameworks, including by phasing out fossil-fuel subsidies, as well as by implementing reforms in environmental taxation systems. Ms. Bularga also recognised that green finance frameworks have evolved and pointed to the examples from Georgia, Kazakhstan and Ukraine (where a Concept for the Development of the Green Bond Market was adopted the day before the start of Russia's war of aggression). She underlined the demand for modernising regulatory frameworks stemming from the partner countries themselves. She reminded the audience that technology risks are not anymore the main impediments as many green technologies have already matured; other risks, including regulatory and governance ones, have nowadays a greater impact on investment decisions. As her third take-away, Ms. Bularga highlighted the diversity of EU support aimed to unlock green investments. She recalled that the EU had established the European Fund for Sustainable Development Plus, which uses both blending and guarantees to help offset these risks. At the same time, improving the capacity of governments themselves to manage green investment programmes could further help overcome market barriers. One general problem that Ms. Bularga highlighted with mobilising capital markets but also with blending and guarantees is the lack of pipelines of quality projects but also the risks related to green investments, so more work needs to be done on these as well. In this respect, Ms. Bularga explained that together with the OECD and GIZ, the European Commission will continue to support capacity development in the area of green finance and announced a new regional programme – EU4Climate Resilience. She stressed the need for active engagement and strong country ownership. Ms. Bularga recalled that experience from other regions has shown that demonstration issuances help the market grow. Therefore, DG NEAR will work with the OECD and GIZ to support such issuances and learn from this work. In conclusion, Ms. Bularga echoed her Director's message that partnerships are vital for speeding up the green and net-zero transition and confirmed that the European Commission will be happy to work with all partners to contribute to making this happen.

The main highlights from this concluding session included:

- Investing in the green and net-zero transition will require significant resources but increased investments can also bring opportunities and benefits to the countries. To speed up the transition further work is needed on policy reform and setting up green finance regulatory frameworks. The European Union and its members will continue supporting the EaP and Central Asia governments in their efforts to transition to a greener model of economic development. Partnerships across governments, donors, IFIs and the NGO and expert community are vital for speeding up the green and net-zero transition.
- The European Commission announced new work which will be launched in 2024 and which will aim to help EaP partners make their regulatory frameworks more supportive to green investments and further green their capital markets including support for actual green bond issuances. The work will be implemented jointly with the OECD and GIZ. To make this partnership successful the active engagement of the countries will be needed.