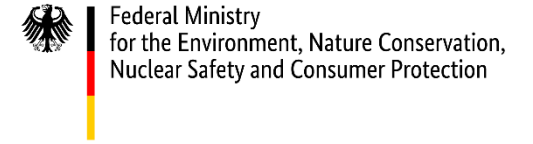




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EU4Environment
Green Economy in Eastern Partner Countries

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Trends in green lending and de-risking instruments in the EU Eastern Partnership countries and Central Asia

Matthew Savage

Director

Oxford Consulting Partners

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Overview

- Barriers
- Credit lines
- Global climate funds
- Capital markets and green bonds
- Private equity markets
- Risk hedging instruments
- Carbon markets
- EU institutions

Key Barriers

International initiatives seek to address a range of risks/barriers

Governance and regulatory barriers

- E.g., Emerging regulatory frameworks, fossil fuel subsidies, poor environmental enforcement
- But...higher energy prices/resource costs improving economics of green transition/investment in efficiency

Macro risks

- E.g., COVID-19,
- War of aggression in Ukraine
- Financial risks (NPLs, credit risk, exchange risk, liquidity, capital adequacy)

Institutional barriers

- Investor risk perceptions, opportunity costs, resource requirements, lack of strategic capacity/focus

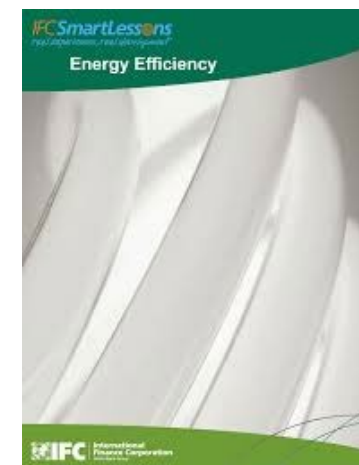
Developer/borrower barriers

- Higher costs (technology, capital), emerging supply chains, lack of awareness (e.g., Best Available Techniques)



Credit lines for RE/EE lending

- IFI/DFI credit line support for EAP and CA clean energy
 - EE/clean energy credit lines for local financial institutions since 2005
 - EBRD, IFC, EIB, KFW, NEFCO, OeDB, multi-lateral (GGF, GCPF, CTF)
 - Supported by concessional grants, TA from EU and member states
 - SME/Industrial energy efficiency, residential, small-scale RE
 - Evolving into new thematic areas (e.g., climate resilience)
 - EUR 1.5bn+ of concessional loans in EAP and CA countries to date
 - 50+ local banks in EaP and CA countries (some consolidation)
 - Average credit line 10-20m EUR (range of EUR 3m - 150m)
 - Normally supported by dedicated IFI TA facility
 - But challenges in replication without IFI support, lack strategic focus



GREEN FOR GROWTH FUND
SOUTHEAST EUROPE

INVESTING IN ENERGY EFFICIENCY
AND RENEWABLE ENERGY

Global climate funds

- Climate funds increasingly acting as donor aggregators/anchor funders (GCF, CIF)
 - Donors shifting into multi-lateral platforms, aligning finance at scale
 - Increasing importance for governments to be able to apply/access (competitive)
- Funds provide range of concessional capital (blended finance, grants, loans, guarantees to both public and private parties)
 - E.g., GCF has approved \$645 million
 - \$255 million for clean energy/ adaptation projects in EAP countries (Armenia, Moldova, Georgia),
 - \$390 million in Central Asia region
 - E.g., CIF has approved \$493 million
 - Ukraine (\$340m district heating, transport), Kazakhstan (\$65m – RE, low carbon), Armenia (\$14m RE), Tajikistan (\$72m resilience), Kyrgyzstan (\$2m resilience)
- Climate funds work through both IFIs and local partners
 - For example, GCF has co-financed 5 major EBRD initiatives
 - 3 regional programmes accessible in in EAP and CA
 - Sustainable Energy Finance Facility (Armenia, Georgia, Moldova, Tajikistan), Green Cities Facility (Georgia, Armenia), High Impact Programme for Corporate Sector (Armenia))
 - 2 country infrastructure (Tajikistan hydro, Kazakhstan Renewables)

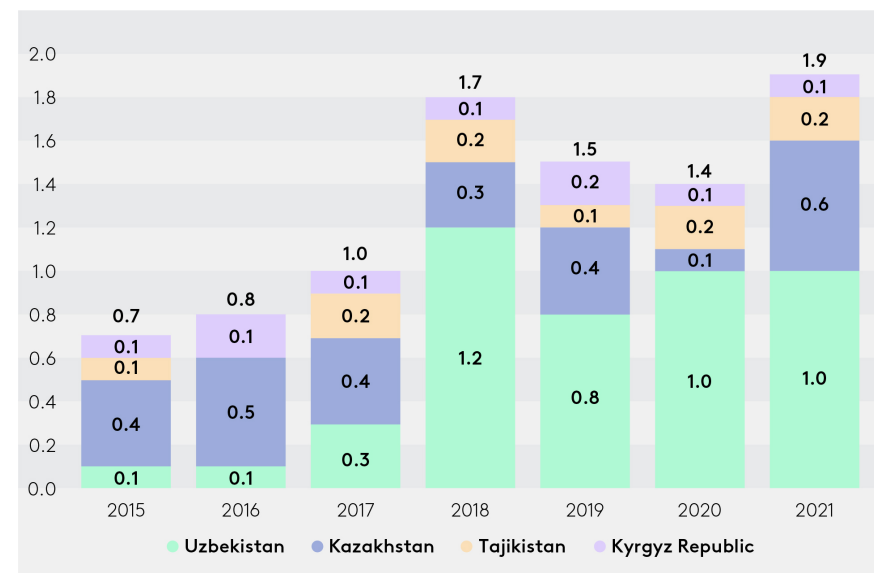


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Wider IFI/Donor support

- Climate funds subset of broader concessional donor funding through various channels (e.g., MDBs, bilateral programmes)
- E.g., from 2015 to 2021, Central Asia obtained \$8.9 billion from donors and MDBs as green finance (Uzbekistan 50%)

Climate finance flows in Central Asia 2015-2021



Source: UNFCCC Technical Needs Assessment 2023

Example: EU4Climate (2018-2023)

- EUR 8.8m programme (through UNDP)
- Implementation and update of NDCs, LEDS
- Emission Measurement, Reporting, Verification (MRV)
- Alignment with the EU Acquis
- Mainstreaming climate, guidelines on Paris Agreement
- Climate investment
- Adaptation planning
- Ukraine response and reconstruction

Example: International Climate Initiative (IKI) Germany

- 96 projects in or including EAP and Central Asia countries (incl. regional/global projects) – EUR 776 million
- Implemented through German agencies (e.g., GIZ, KfW), IFIs (e.g., EBRD, IFC, WB), agencies (e.g., UNDP, OECD), NGOs
- Supported by bi-lateral assistance, MDB/climate fund contributions and leveraging KfW/DEG resources

Capital markets and green bonds

- International IFI support for green bonds, anchor investors
- International issuance
 - Georgia:
 - Georgia Global Utilities (2020) - \$250m (e.g., \$20m ADB) - Ireland
 - Georgian Railways SOE (2021) - \$500m (e.g., \$50 m EBRD) - London
 - Ukraine
 - Ukrenergo (2021) – \$825m - Europe (e.g., EBRD \$75 million)
- Domestic issuance/private placement
 - Armenia:
 - Ameriabank (2020) – \$50 million (private placement – FMO anchor investment)
 - Followed by 2022 public offering \$8 million and AMD 3 billion
 - Georgia
 - Georgian Renewable Power Operations (2022) – GSE listed
 - \$80 million (FMO - \$30m, IFC\$20m , EBRD, \$13.8m, ADB, \$4m)
- TA (e.g., EBRD), Emerging support for credit enhancement





Private equity markets

- Private equity funds, backed with donor/IFI capital
- Focus on markets with commercial returns (e.g., RE)
- High risk capital for project development
 - E.g., Caucasus clean energy fund (Schulze Global Investments)
 - \$100 million for Georgian Renewable Investments 10-20MW
 - Fund supported by donors GEREEF (EIB), OeEB, FMO
- Emerging sovereign interest
 - E.g., Sovereign Wealth Fund of Azerbaijan acting as an investor in IFC Catalyst Fund (private equity) alongside UK and Canadian governments

Risk hedging instruments

- Emergence of instruments addressing specific investor risk
 - Capitalised by concessional donor funds
- E.g., TCX – addressing currency exposure
 - German, Dutch, British and Swiss governments (risk bearing capital)
 - Development finance institutions (DFIs), FMO, KfW, DEG, EFSE (Germany), AFD, Proparco (France), BIO (Belgium), OFID (Austria), JBIC (Japan), Cofides (Spain)
 - Multilateral development finance institutions EBRD, EIB, IFC, IDB, AFDB, DBSA
 - Specialized microfinance investment vehicles
- Strategic focus on developing local currency climate finance
- DFI lending and capital market orientation
- c. \$64 million of DFI financing flows to renewable energy in 2022
- Total portfolio in EAP/CA of \$382 million loans supported in 2022
- 50% of all local bond hedging in EAP/CA region



EUROPE/CENTRAL ASIA	
Armenia	12.4
Azerbaijan	58.9
Georgia	27.7
Kazakhstan	22.1
Kyrgyzstan	21.6
Mongolia	5.8
Serbia	25.1
Tajikistan	37.5
Uzbekistan	170.9
USD millions	382.0

Carbon markets

- Voluntary carbon markets slowly emerging
 - C. 1m million credits issued in region
 - 10 projects registered
 - E.g., Chorokhi Hydro Power Plant Project (Georgia),
 - Badamsha Wind Farm (1+2) Kazakhstan
- Opportunities under Article 6 of Paris Agreement
 - E.g., joint crediting mechanism (Japan-Georgia)
- Bridging financing initiatives to support carbon markets
 - E.g., Swiss – Georgian cooperation - \$120 million fund with 25% rebate tied to emission reductions)
- International technical assistance support for the Kazakhstan Emissions Trading Scheme (ETS)



EU Institutions



European MDBs and DFIs shifting portfolios towards green investment and Paris Alignment

Climate lending targets, fossil fuel exit, climate mainstreaming, default low carbon approaches

Growing direct and intermediated green operations across EAP and Central Asia region



EU evolving and scaling its existing green finance offer

E.g., Neighborhood Investment Platform (156 projects, EUR 2.3 bn) 2008-2018, Investment Facility for Central Asia (EUR 205m) 2010-2020

Range of risk instruments: co-financing, loan guarantees, interest rate subsidies, technical assistance and risk capital

EaP Economic and Investment plan (2021) \$2.3 bn grants, blending and guarantees for EAP region (incl. climate and resilience)

Going forward Global gateway (2022) – European Fund for Sustainable Development Plus (EFSD+), External Action Guarantee





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Conclusions

- Large scale financing flows supported by donors (EU, member states) leveraging IFI and private capital over 20-year period
- Ongoing policy and regulatory challenges, constraints around capacity and project pipelines, market size, shallow capital/carbon markets
- Environmental finance flows and disbursement significantly impacted by macro-economic, geopolitical, black swan events
- Historical reliance on IFI interest/concessional capital to create incentives but evolving with greater national ownership, NDCs, targets, green transition
- Ongoing scaling of climate focus among IFIs and MDBs associated with Paris Alignment and lending targets, EU focus
- Diversification of international donor/IFI instruments from grant/concessional loans into more risk and guarantee instruments with private mobilization focus
- Importance of macro-economic reform/governance as some sectors approach commerciality and accessible to private finance solutions (e.g., RE, EE, Transport)



Thank you

matthew.savage@oxfordconsult.co.uk