“Scaling up Green Finance Practices in Armenia”

GCF Readiness Project Phase 2 – *International Best Practices’ Review*

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Structure of the Presentation

- Scope of engagement;
- **Summary of market best practices** – 8 main instruments & prerequisites for attracting green finance;
- **Country case studies** – successful cases of consolidated policies and instruments;
  - **Mongolia** – green finance transformation and institutionalization;
  - (Other case studies are available in the Report – e.g. France, Uzbekistan);

Scope of Engagement

- Carry out comprehensive review of international best practices in “green finance instruments”;
- Recommendations on selecting specific best practices advising on their adaptation to Armenian market circumstances, taking account of Phase 1 findings;
- Design of tailor-made training programme;
- Provide recommendations on follow up ToT programme based on the results of the trainings.

Best Practice 1 – Sovereign Green Bonds (Fiji)

- In April 2018, Fiji became the first emerging market sovereign to list a green bond on London's International Securities Market, raising capital that will support more than **80 domestic climate mitigation and adaptation projects**;
- Proceeds used to finance the sustainable management of **natural resources, renewable energy, water and energy efficiency, as well as clean and resilient transport and waste-water management;**

Best Practice 1 – Sovereign Green Bonds (Fiji)

- Capital Markets Association's **Green Bond Principles** are used - a set of voluntary process guidelines intended for broad market use, developed by a range of investment and multilateral banks, including the World Bank and IFC.
- The Green Bond Principles set the foundations for the elements to be incorporated within a Green Bond Policy Framework - critical document to give credibility to a green bond.
- Key takeaways from Fiji experience are summarised in the Report.

Best Practice 1 – Sovereign Green Bonds (Fiji)

Recommendations for Armenia:

- Armenia can follow the example of Fiji and issue sovereign bonds for financing of domestic climate mitigation and adaptation projects in the public sector.
- Some of the projects have already been identified through rigorous consultation process within the framework of designing "GCF – Armenia Country Cooperation Programme" (with around 200 mln USD portfolio).

Best Practice 1 – Sovereign Green Bonds (Fiji)

Recommendations for Armenia:

- Absence of respective provisions defining taxonomy, frameworks for management of proceeds and reporting makes the overall process cumbersome;
- In the short-term perspective, any bank potentially willing to issue green bonds in accordance with the Green Bonds Principles should introduce the verification framework with the engagement of qualified international advisor.
- In the long-term perspective, CBA should define the taxonomy and introduce respective verification framework for management of proceeds and reporting.

Best Practice 2 – Corporate Green Bonds

- For issuers, green, social and sustainability bonds are a way to tap into fixed income investors that wish to achieve green financing impact through the bonds that they invest in.
- There is a pool of approximately US$100 trillion of patient private capital managed by global institutional fixed-income investors. And there is a desire by many to integrate climate and sustainable investment approaches into their portfolios.
- Same GBP are applied;

Best Practice 2 – Corporate Green Bonds

<u>Recommendations for Armenia</u>:

- The Government of Armenia and the regulator (Central Bank of Armenia) might consider prioritization of Green Bonds as potential instrument for attracting project finance into private sector entities (other than banks issuing Green Bonds) in certain sectors/sub-sectors;
- As an incentive, application of co-financing for transaction advisory services could be considered;

Best Practice 3 – EU Taxonomy

- The Taxonomy sets performance thresholds for economic activities which:
- Make a substantive contribution to one of six environmental objectives: climate change mitigation and adaptation, sustainable protection of water resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems;
- do no significant harm (DNSH) to the other five, and
- meet minimum safeguards;

Best Practice 3 – EU Taxonomy

Recommendations for Armenia:

- The EU Taxonomy can be introduced in Armenia through respective executive order (or through law) by regulator;
- **Purpose** - to establish the parameters under which a loan can be labelled green and defining the list of "green" projects.
- This will be instrumental for setting up incentives for such products, as it has been identified through the first phase of the Readiness Project.

Best Practice 4 – Green Loan Principles

- In 2018, the Loan Market Association (LMA), together with the Loan Syndications and Trading Association (LSTA) and Asia-Pacific Loan Market Association (APLMA), released its Green Loan Principles (GLPs) to create a framework for the green loan market, by establishing the parameters under which a loan can be labelled green;
- Green loans are any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects.

Best Practice 4 – Green Loan Principles – Recommended Taxonomy for Armenia

Energy Generation	Energy Management & Efficiency	Energy Equipment	Environmental Resources	Environmental Support Services
Bio Fuels	Buildings	Bio Fuels	Advanced & Light Materials	Environmental Consultancies
Cogeneration	Controls	Cogeneration equipment	Key Raw Materials & Metals	Finance & Investments
Clean Fossil Fuels	Energy Management Logistics & Support	Clean Fossil Fuels	Recyclable Products and Materials	Smart City Design & Engineering
Geothermal	Industrial Processes	Fuel Cells		
Hydro	IT Processes	Geothermal		
Nuclear	Lighting	Hydro		
Solar	Power Storage	Nuclear		
Waste to Energy	Smart & Efficient Grids	Solar		
Wind		Waste to Energy		
		Wind		

Best Practice 4 – Green Loan Principles – Recommended Taxonomy for Armenia

Food & Agriculture	Transport Equipment	Transport Solutions	Waste and Pollution Control	Water Infrastructure & Technology
Agriculture	Aviation	Railways Operator	Cleaner Power	Advanced Irrigation Systems & Devices
Aquaculture	Railways	Road Vehicles	Decontamination Services & Devices	Desalination
Land Erosion	Road Vehicles	Video Conferencing	Environmental Testing & Gas Sensing	Flood Control
Logistics			Particles and Emission Reduction Devises	Meteorological Solutions
Food Safety, Efficient Processing and Sustainable Packaging			Recycling Equipment	Natural Disaster Response
Sustainable Plantations			Recycling Services	Water Infrastructure
			Waste Management	Water Treatment
				Water Utilities

Best Practice 4 – Green Loan Principles

- The GLP set out a clear framework, enabling all market participants to clearly understand the characteristics of a green loan, based around the following four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

Best Practice 4 – Green Loan Principles

<u>Recommendations for Armenia</u>:

- Similar Green Loan Principles can be introduced in Armenia through respective executive order (or through law) by regulator with the purpose of establishing the parameters under which a loan can be labelled green and defining the list of “green” projects.
- This will be instrumental for setting up incentives for such products, as it has been identified through the first phase of the Readiness Project.

Best Practice 4 – Green Loan Principles

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Best Practice 5 – Investment Trust

- **Investment trusts** are closed-end funds that can hold a variety of asset classes, according to their specific, individual investment objectives and risk profile and the assets held can be global;
- The attributes of investment trusts have made them an important vehicle for investing into the green economy.
- A green investment trust could in theory hold any and all asset classes – from cleantech startups to privately developed renewable energy assets to green bonds – within one vehicle;

Best Practice 5 – Investment Trust

- A green investment trust provides a mechanism to spread risk when examining the potential for new technologies, whilst providing daily liquidity, an ability to mark the asset to market and a clear exit strategy;
- By working with expert fund managers and pooling funds with other interested market participants, an issuer can leverage the capital of their fellow investors and not be reliant on a single technology or management team, which can be particularly beneficial in fast-moving sectors and where there may be a variety of risks.

Best Practice 5 – Investment Trust

Recommendations for Armenia:

- Legal framework governing operations of non-public investment funds (up to 49 participants that came together to establish investment fund) is rather liberal in Armenia;
- Though under supervision of Central Bank of Armenia, that must approve the Rules of such funds, no license is foreseen for such entities and there are simplified reporting mechanisms in place;

Best Practice 5 – Investment Trust

<u>Recommendations for Armenia</u>:

- These entities are usually established by investors willing to finance the projects in certain sectors/sub-sectors of economy, thus, they are suitable for mobilization of funds for investments into the renewable energy projects;
- For the investment fund willing to target more participants and attract funds from the market the regulatory framework foresees licensing and tougher reporting procedures.
- GoA and CBA could consider fiscal and non-fiscal incentives for promotion of this investment vehicle;

Best Practice 6 – Yieldco

- **Yieldcos** are closed-end fund that have been used in the energy sector for some time;
- They are now proving a popular route to raise and recycle capital from renewable energy and related technologies and infrastructure;
- A **Yieldco** is a company, often an investment trust that is formed to own operating assets that produce a predictable cash flow, primarily through long term contracts;
- This is particularly attractive in renewable energy and related areas such as battery storage and energy efficiency; the structure separates higher-risk and shorter-term activities;

Best Practice 6 – Yieldco

- **Yieldcos** are expected to pay a major portion of their earnings in dividends, giving investors an opportunity to participate in renewable energy without many of the perceived risks;
- For pension funds looking for stable, long term yield or for corporates seeking to secure energy supply from specific (but diversified) renewable sources, **Yieldcos** can represent a more suitable investment proposition than a direct investment into the development of a new project;

Best Practice 6 – Yieldco

- For project developers, the **Yieldco** provides an opportunity to deliver, obtain a return and free up capital to focus on new project developments;
- There is growing evidence of investor appetite for the potential expansion of listed **Yieldcos** in London, particularly for those with an investment focus on emerging markets with strong renewable energy potential, such as in India, Africa and South East Asia;

Best Practice 6 – Yieldcos

Recommendations for Armenia:

- For the “Investment Funds” that are aimed at implementation of the “green energy projects” Government/regulator can consider providing co-financing for the transaction advisory services for expansion through the listing at the foreign stock exchanges.

Best Practice 7 – Green Procurement Principles

- Green Public Procurement (GPP) is a process whereby public authorities seek to procure goods, services and works with a reduced environmental impact;
- The basic concept of GPP relies on having clear, verifiable, justifiable and ambitious environmental criteria for products and services in the public procurement process, based on a life-cycle approach and scientific evidence base;
- Number of countries (EU) have developed guidance in this area, in the form of national GPP criteria. These are based on data from an evidence base, on existing ecolabel criteria and on information collected from stakeholders;

Best Practice 7 – Green Procurement Principles

- The GPP approach is to propose two types of criteria for each sector covered:

1. the core criteria, which are suitable for use by country, address the key environmental impacts, and are designed to be used with minimum additional verification effort or cost increases;
2. the comprehensive criteria, which are suitable for those who wish to purchase the best environmental products available on the market and may require additional verification effort or a slight increase in cost compared to other products with the same functionality;

Best Practice 7 – Green Procurement Principles

Overall, public procurement can be instrumental in addressing environmental problems such as:

- Deforestation, (e.g. through the purchase of wood and wood products from legally harvested and sustainably managed forests);
- Greenhouse gas emissions (e.g. through the purchase of products and services with a lower CO2 footprint throughout their life-cycle);
- Water use (e.g. through choosing more water-efficient fittings);

Best Practice 7 – Green Procurement Principles

- Energy efficiency and resource use (by choosing products which are more efficient and implementing environmentally conscious design principles, e.g. cradle-to-cradle);
- Air, water and soil pollution (by controlling chemicals and limiting the use of hazardous substances);
- Waste (by specifying processes or packaging which generate less waste or encouraging reuse and recycling of materials);
- Sustainable agriculture (e.g. by purchasing organically produced food);

Best Practice 7 – Green Procurement Principles

Recommendations for Armenia:

- While there is no direct relevance to the green finance instruments and best practices, application of GPP in Armenian context through incorporating its principles into the laws and regulations governing the public procurement might have catalytic effects in promoting the demand for sustainable consumption, thus, overall demand of green finance.

Best Practice 8 – Crowdfunding

- **Crowdfunding** is one of the fastest growing sources of funds for any new venture;
- It is a method of funding a venture or project through the collective efforts of individual investors - backers.
- There are around 500 online crowdfunding platforms or websites that investors can use for crowdfunding, many of them well suited for funding green businesses.
- Out of this amount, around 30 platforms globally offer equity crowdfunding for renewable energy projects;

Best Practice 8 – Crowdfunding

Aside from the obvious importance of funding, there are several other benefits to a crowdfunding approach.

- it gives new enterprise exposure to wider investor pools;
- helping to validate the business concept through crowdfunding support;
- major platform for promotion, marketing and product improvement.

Best Practice 8 – Crowdfunding

Core Areas of success:

- Platform regulation;
- Platform technology (target post investment services);
- Platform investment instrument (mainly debt finance);
- Platform developer onboarding (due diligence is important);
- Investment information provided to investors;

Best Practice 8 – Crowdfunding

Recommendations for Armenia:

- Funding renewable energy projects in Armenia through crowdfunding platforms can become a good modality for attracting green finance;
- Among enabling factors, availability of top global crowdfunding agency headquartered in Yerevan could be mentioned;
- Collaborative partnership of private sectors and key experts with the CBA in designing respective regulatory framework (currently underway) will also serve as critical catalyzer of the process;

Best Practice 8 – Crowdfunding

Recommendations for Armenia:

- Key regulatory constraints for the crowdfunding are:

1) absence of the suitable legal status for the company willing to attract investments through crowdfunding (all existing types requires specifications of the shareholders/partners and the volume of their interest at the moment of incorporation), and
2) current version of the regulatory acts discussed with the CBA proposes limits on the number of participants (maximum 50) and volume of investment (maximum 2,000 USD);

Best Practice 8 – Crowdfunding

Recommendations for Armenia:

- Review of the numerous platforms suggests that the most successful ones have regional focus.
- So, Armenia could consider establishment of respective crowdfunding platform that will benefit from targeting its Diaspora investors/backers

Country Case Study – Mongolia – Principles of Green Development Policy

- A key milestone of Mongolia's transition towards an inclusive green economy was the adoption of the **National Green Development Policy** by the Parliament in 2014, which is anchored around **6** strategic objectives;
- In 2016, the Government approved the **Action Plan** for the implementation of the Green Development Policy. The Action Plan contains **255 activities** with the timeline to accomplish by 2030;

Country Case Study – Mongolia – Principles of Green Development Policy

- **Objective 1-** Promote resource efficient, low carbon production and consumption with emphasis on waste reduction:

1. Introducing benchmarks for energy efficiency (20% increase by 2030) and renewable energy's share in total production (30% by 2030)
2. Introducing benchmarks for reduction of building heat losses (40% by 2030), through the introduction of green building rating systems and energy audits, and the implementation of incentive and leverage mechanisms;

Country Case Study – Mongolia – Principles of Green Development Policy

- **Objective 2- Maintain** ecosystem balance and reduce environmental degradation while intensifying reclamation activities and environmental protection:

1. Introducing benchmarks for protecting fresh water reserves (at least 60%) and expanding protected areas (to 30% by 2030;
2. Enhancing the carbon sequestration in forests by intensifying reforestation efforts and introducing benchmarks for expanding forest cover areas (to 9% of the country's territory by 2030)

Country Case Study – Mongolia – Principles of Green Development Policy

- **Objective 3 -** Promote investment in environmental protection, human development and clean technology and leverage tax, credit and incentive mechanisms to finance green economy:

1. allocating 2% of GDP annually for green development;
2. Establishing a green taxation system to reduce the production, services, importing goods and consumption which are harmful to the environment;
3. Introducing public procurement benchmarks (min 20%);

Country Case Study – Mongolia – Principles of Green Development Policy

- **Objective 4 -** Promote green jobs, reduce poverty and promote green lifestyle:

1. Involving citizens in vocational training programs, providing job/career placement services, and
2. increasing the labor value at the adequate level for females who take care of their children, enabling them to support their lives sufficiently;

Country Case Study – Mongolia – Principles of Green Development Policy

- **Objective 5 -** Make education, science and technology and innovation accelerators of green development by promoting environmentally adapted style and cultural values:

1. Encourage the development of clean technology and innovation to support green development by increasing the share of GDP expenditure for science and technology research and experimentation by 3% by 2030;
2. Increase manufacturing of green products with specified quality and exclusivity by expanding cooperation between scientific organizations and industries;

Country Case Study – Mongolia – Principles of Green Development Policy

- **Objective 6 -** Plan and implement human settlement adapted to climate change, and rural resources carrying capacity:

1. Introducing benchmarks for increasing the share of green space in the urban area (by 30% by 2030)
2. Introducing benchmarks for reduction of solid waste in landfills (by 40% by 2030), by recycling, reusing wastes and producing value added products;

Country Case Study – Mongolia – Taxonomy

- The overall objective of the introduced green taxonomy is to develop a nationally agreed classification framework of activities that contribute to climate change mitigation, adaptation, pollution prevention, resource conservation, and livelihood improvement in the context of green finance;
- The green taxonomy is designed to be applied to a wide range of financial instruments including corporate lending, consumer lending, project finance, SME finance, green bonds, equity investment, insurance, credit guarantee, grants, financial advisory and technical assistance, among others;

Country Case Study – Mongolia – Taxonomy

The green taxonomy framework is developed in adherence to the following 6 principles:

- **Principle 1**: Contribute to national policies and targets;
- **Principle 2**: Address environmental challenges;
- **Principle 3**: Cover high-emitting, key economic sectors;
- **Principle 4**: Align with international standards and good practices;
- **Principle 5**: Comply with ESG standards;
- **Principle 6**: Continues review and development;

Country Case Study – Mongolia – Institutions

- The Mongolia Green Finance Corporation (MGFC) is a joint public-private sector effort to create a national financing vehicle (NFV) to overcome the existing challenges and constraints of climate change mitigation within Mongolia;
- The MGFC aims to mainstream green, affordable and gender-inclusive financing for households and businesses to switch to low-carbon technologies to sustain improvements in policy environment and stakeholder awareness;
- Funded by GCF (AE - XACBANK);

Country Case Study – Mongolia – Institutions

- The MGFC structure is designed following international best practices tested by the World Bank and IFC (WBG) in establishing development finance companies (DFCs) in more than 50 countries, as well as the standard pathway used to establish National Green Banks, as defined by the Green Bank Network;
- The successful rollout of the MGFC could serve as a best practice for other developing countries facing similar challenges and constraints within the context of developing economies;

Country Case Study – Mongolia – Institutions

- The MGFC features two components:

1. Provision of wholesale financing to participating financial institutions (PFIs) for EE in industry, thermal insulation and green affordable housing; and
2. Equity injection into the MGFC, technical assistance to strengthen MGFC's green business development function, reinforce the green finance policy environment, build the capacity of PFIs, project developers, households and policy makers, develop a sustainable and bankable green project pipeline and conduct community engagement and awareness raising activities;

Country Case Study - Mongolia

<u>Recommendations for Armenia</u>:

- Armenia's authorities might want to consider successful experience of Mongolian Government with enhancing national capacities for green growth through establishing enabling policy framework facilitative towards creations of growth levers, building up institutions and engaging private sectors;
- The creation of a dedicated green finance institution is a powerful signal, and also avoids competing with non-green financing in the same institution;

THANK YOU !!!

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