

GCF Readiness Project Phase 1 Findings

Andreas Biermann, 03 March 2021



Plan of the presentation

- Why Sustainable Finance?
- Recommendations
- Priority Actions
- Globalfields Team



Why Sustainable Finance?



The Theory of Change



Where are we now
(current state and
assumptions)

What needs to
happens to move from
current state to the
situation of change?

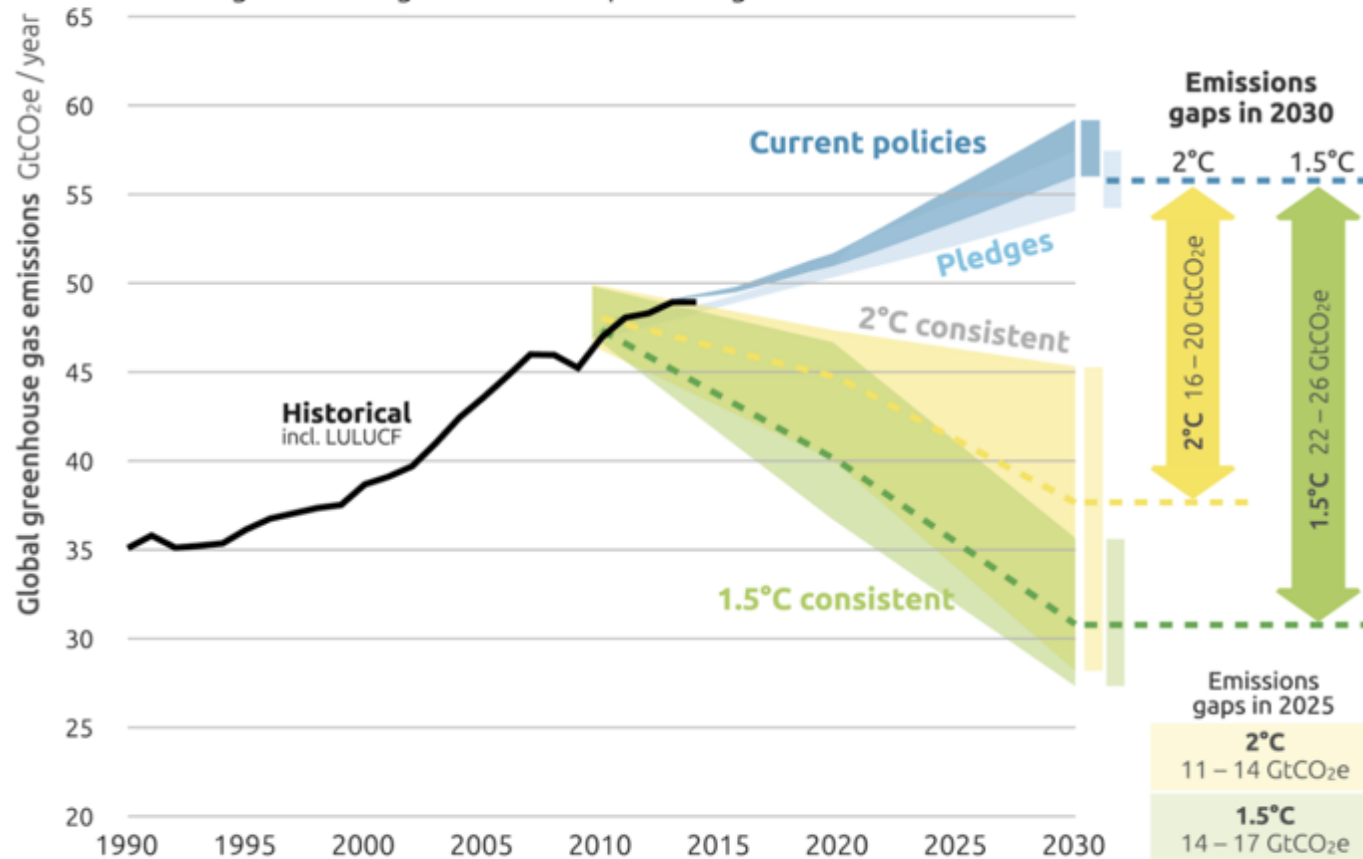
What is the change
that we want to bring /
pioneer?



Emission gaps

2030 EMISSIONS GAPS

CAT 2017 projections and resulting emissions gaps in meeting the Paris Agreement's temperature goals



The "gap" range results only from uncertainties in the pledge projections. Gaps are calculated against the mean of the benchmark emissions for 1.5°C and 2°C.

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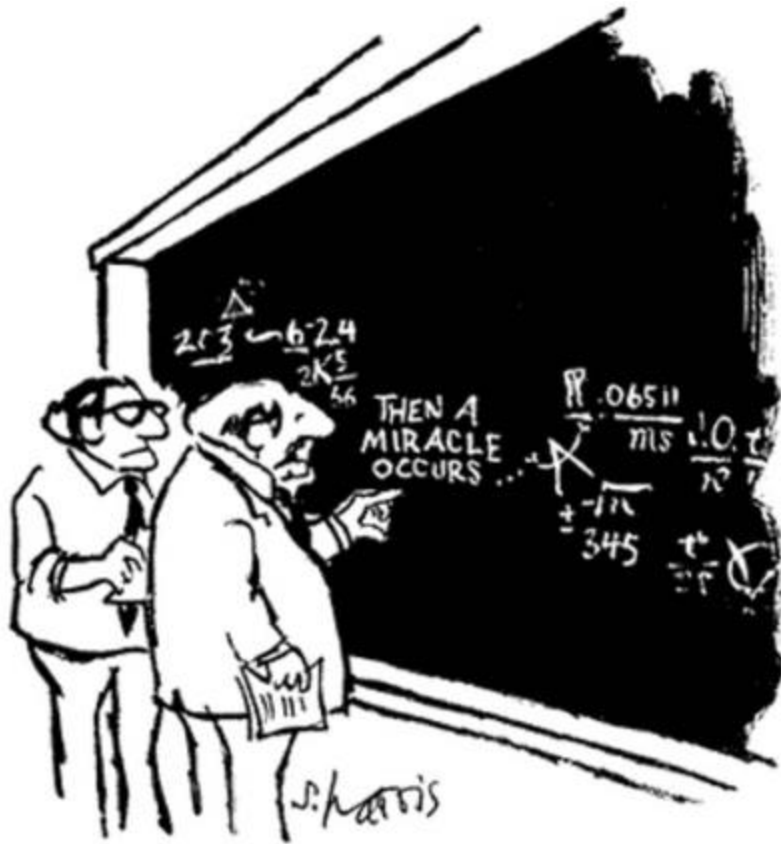
What is the change
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Key changes we need

- ▶ Support critical changes in society – at individual and corporate levels – to steady / increase demand of ‘green’ products.
- ▶ Countries globally need to scale up in their annual investment in low-carbon energy and energy efficiency by a factor of 5 by 2050.
- ▶ The supply of renewable energy needs to increase by 70-85 per cent of electricity by 2050.
- ▶ Coal should decline steeply to zero in electricity by 2050.
- ▶ There also needs to be deep emissions cuts in the transport and construction sectors and in land use and urban planning.
- ▶ In addition, resources and materials need to be approached from a different perspective, i.e. circular models (e.g. circular economy), sustainability (cradle to cradle designs) and stewardship (water management, land management, eco-system based approaches to natural resources utilization).
- ▶ What about the regulatory environment? Behavioral change?

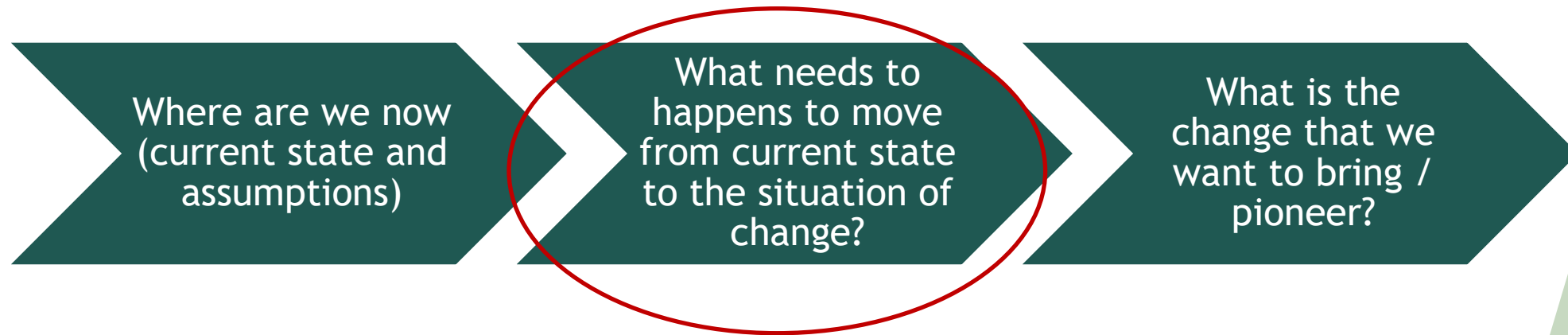
Defining action...



"I think you should be more explicit here in step two."



The Theory of Change

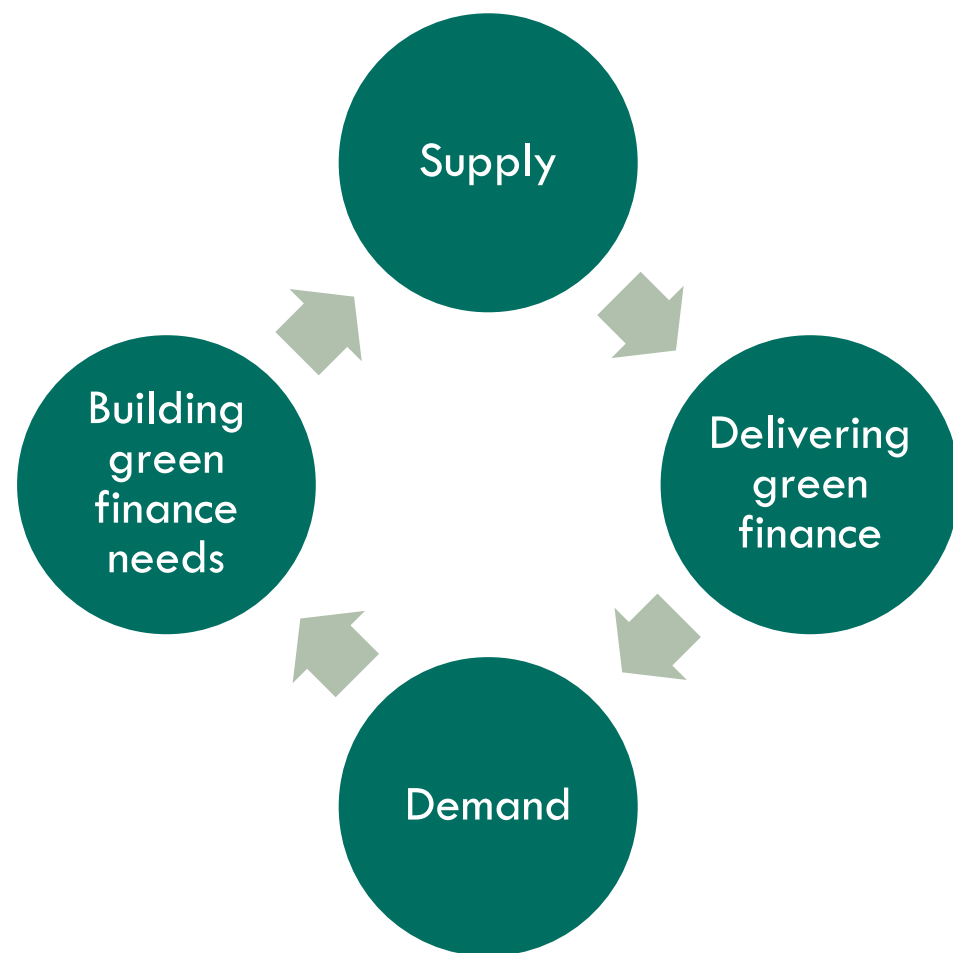




How does this translate into financing?

- ▶ A key part of this transformation is to reshape the financial system to accelerate investments in technologies, solutions and partnerships needed to de-carbonise the economy and promote behavioral change.
- ▶ Considerable investment is required – the IPCC estimates that around \$2.4 trillion or roughly 2.5 per cent of global GDP annually needs to be invested in the energy system between 2016 and 2035.
- ▶ This is an opportunity and also a risk for the financial sector:
 - ▶ Lending opportunities for new, green and sustainable projects.
 - ▶ Risk from exposure to old, fossil-fuel projects.

Bottom up and top down approaches





Bringing finance from...

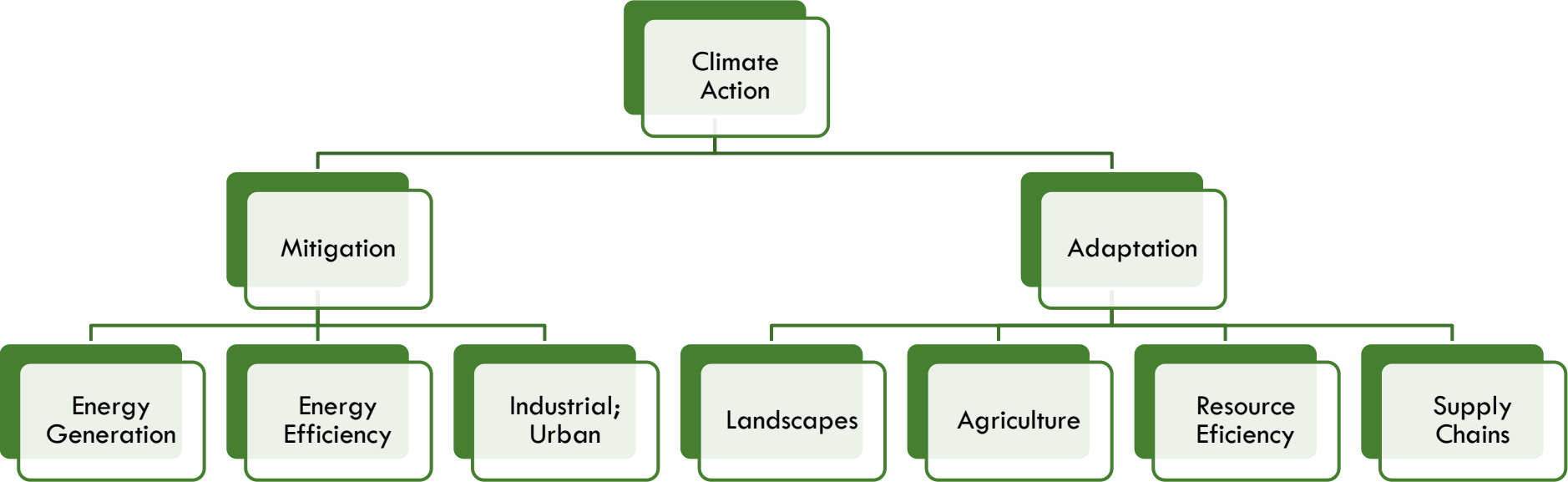
Banks; Asset managers; asset owners

Co-financiers, ventures, commercial co-financing

Blended finance, official co-financing

Other non-financial partnerships

Building demand for...





Recommendations from Armenia

Recommendations – Policy, Standards, Legal/Regulatory

The Government and Central Bank should consider implementing the full suite of systemic recommendations outlined below, with a strong focus on **supporting the local banking sector in delivering green financial solutions, encouraging innovation in products:**

- To contribute towards **raising awareness** of businesses and households on the benefits of “green technologies”;
- To **impose policy and fiscal restrictions** on brown financing projects;
- To **enable fund raising** through clear policies defining “green finance” policies, facilitation of the issuance of green bonds in accordance with the Green Bond Principles and Climate Bond Standards and amending budget codes for municipal governments and state-owned enterprises to enable them to more easily take green finance packages;
- To **provide financial support** for channeling resources from IFIs and climate funds, introduction of tax and custom incentives and direct subsidies for renewable energy and energy efficiency equipment, and channeling resources for enabling cashback and grants for MSEs and households willing to benefit from renewable energy and energy efficiency solutions;
- To **introduce minimum energy efficiency requirements** for different sectors of economy (priority – construction of new residential buildings).

Recommendations – Infrastructure & Capacity

- The government should consider **investing in delivering the institutional and human infrastructure** and capacity to enable businesses and households to invest in green solutions in an efficient and informed manner.
- Financial institutions should adopt **clear and robust internal processes** and link them to emerging international standards.
- Financial institutions should grow **internal technical capacity** to deliver rapid and robust assessment of green finance project proposals and loan applications.

Recommendations – Awareness Raising

- The government and the financial sector actors should consider ways to **undertake comprehensive awareness raising campaigns**, e.g. deploying modern communication technology to enable both businesses and consumers to visualize of the benefits of renewable energy and energy efficiency solutions, and to be able to undertake initial calculation of benefits from these investments, similar to e.g. online mortgage calculators. Such a campaign should particularly target smaller size enterprises and households in the regions.
- **Establishing both generic and inhouse training programmes** for bank staff to help them promote green finance solutions, as well as community-/association-based outreach programmes to promote green solutions to targeted household audiences, could be a powerful tool to increase the dissemination of green finance information throughout the Armenian economy.
- A focus of training should be put on non-bank financial institutions which are reported in the survey to have lower satisfaction levels in terms of service delivery.

Recommendations - Motivation

- Design awareness-raising campaigns that strongly **focus on the economic benefits from investing in green solutions**, emphasizing the triple bottom line, of investments being good for the household or business budget, good for the environment and the planet, and good for the country.
- Develop awareness-raising campaigns for other green products that **focus on the economic benefits** they can deliver.

Recommendations – Reduced Financing Cost

- Seek to expand **access to favorable credit provision** from DFIs and donors such as the Green Climate Fund or the EU to bring down the overall cost of green finance in Armenia.
- Consider **regulatory measures that would enable financial institutions** to lend at lower levels for green products than other products, through e.g. reform of banking regulations.
- Provide taxation or other benefits to **bring down the cost of green products**, both physical and financial, to reflect the environmental and economic benefits of such products to Armenia.

Recommendations – Quality of Financial Products

- Undertake a study to further **gather information on how solar products are marketed and how financial institution processes are set up** to enable this, in order to draw lessons for other green products.
- FIs should **consider innovation to provide a broader range of financing instruments**, and have a wider choice of finance raising instruments themselves.



Priority Actions



Government actions

- To support awareness-raising in businesses and households of green technology benefits;
- To impose policy and fiscal restrictions on brown financing projects;
- To enable fund raising:
 - Policies defining “green finance”, state support mechanisms, incentives and structures;
 - The facilitation of the issuance of green bonds in accordance with the Green Bond Principles and Climate Bond Standards
 - To amend budget codes for municipal governments and state-owned enterprises to enable them to more easily take green finance packages;
- To provide financial support:
 - Help to channel more resources from IFIs and climate funds;
 - The introduction of tax and custom incentives and direct subsidies for renewable energy and energy efficiency equipment (such as tax holidays and reimbursement of income tax paid by borrowers of mortgage finance);
 - An increased cap for enterprises installing solar PV modules under net-metering;
 - To channel resources for enabling cashback and grants for MSEs and households willing to benefit from renewable energy and energy efficiency solutions
- To introduce minimum energy efficiency requirements for different sectors of economy

Central Bank

- To improve the funding environment for green projects in general:
 - To impose appropriate restrictions on brown financing projects;
- To enable fund raising via e.g. green bonds:
 - To enact specific regulation outlining the concept of “green finance” and defining support mechanisms;
- To enable enhanced finance flows from banks:
 - To reduce mandatory reservation costs to the zero;
 - To reduce minimum capital and liquidity requirements for “green finance” instruments;
 - To reduce risk weights for “green finance” instruments;



Never lose track
of the ultimate
goal...



Globalfields – Our team

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Thank you