



“Scaling up **Green Finance Practices** in Armenia” – GCF funded Readiness Project

“Mapping of existing green finance practices and presentation of scoping report’s findings”

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Scope of Engagement

- **Mapping of current practices** and capacities of all existing commercial banks (17) and major non-banking financial institutions (16);
 - Identification of existing “**green finance instruments**” (including sources, requirements and conditions);
 - understanding **regulatory practices** and key **constraints**;
 - collecting and systemizing **suggestions on policy measures and instruments** on how to further promote “green finance practices” in Armenia
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Methodological instruments


1. Green Finance Mapping Matrix, asking:

- Name of the “green finance” instrument and the source of funding;
- **Key requirements** (*targeted beneficiaries, sectors, conditionality, exclusions/inclusions*);
- **Types of the instrument** (*debt, equity, guarantees etc*);
- **Key financial conditions** (*interest rate, term, ratio*);
- **Ratio** of the instrument in the total portfolio (*current*);
- **Market demand** and future utilization potential (*5/10 years*);



Methodological instruments

2. Green Finance Practices' Questionnaire, asking:

- **“Green finance”** definition applied (*availability of internal standards*);
 - **Demand** for “green finance” instruments;
 - Description of internal **business processes and expertise**;
 - Existing **regulatory framework** and recommended best practices;
 - Experience in attracting **“green bonds”**.
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Volume of “green finance” - banks

| Value (USD) | Name of the Institution |
|-----------------|--|
| > 10 mln USD | “Ameriabank” CJSC “ARMSWISSBANK” CJSC “Ardshinbank” CJSC |
| >5 < 10 mln USD | “ACBA-Credit Agricole Bank” CJSC |
| >1 < 5 mln USD | “INECOBANK” CJSC “ARMBUSINESSBANK” CJSC |
| < 1 mln USD | “Araratbank” OJSC “ARMECOBOMBANK” OJSC “IDBank” CJSC “Evocabank” CJSC |

Volume of “green finance” - UCOs

| Value (USD) | Name of the Institution |
|------------------------------|---|
| > 10 mln USD | “ACBA Leasing” Credit Organization CJSC |
| >5 < 10 mln USD | “GLOBAL CREDIT” UCO CJSC “CARD AgroCredit” UCO CJSC |
| >1 < 5 mln USD | “Kamurj” UCO CJSC |
| < 1 mln USD | “Development and Investments Corporation of Armenia” UCO CJSC “SEF International” UCO LLC “Fast Credit Capital” UCO CJSC “Armenian Leasing Company” UCO CJSC |

Ratio of “green finance” instruments in total portfolio - banks

| Ratio | Name of the Institution |
|----------------|--|
| Above 10 % | “ARMSWISSBANK” CJSC “Ameriabank” CJSC “Ardshinbank” CJSC |
| From 5 to 10 % | - |
| From 1 to 5 % | “ACBA-Credit Agricole Bank” CJSC “INECOBANK” CJSC “ARMECOBOMBANK” OJSC |
| Below 1 % | “IDBank” CJSC “ARMBUSINESSBANK” CJSC “Evocabank” CJSC “Araratbank” OJSC |

Ratio of “green finance” instruments in total portfolio - UCOs

| Ratio | Name of the Institution |
|------------------------|---|
| Above 20 % | “ACBA Leasing” Credit Organization CJSC |
| From 10 to 20 % | “GLOBAL CREDIT” UCO CJSC “Development and Investments Corporation of Armenia” UCO CJSC “Armenian Leasing Company” UCO CJSC |
| From 1 to 5 % | “Kamurj” UCO CJSC “SEF International” UCO LLC |
| Below 1 % | “Fast Credit Capital” UCO CJSC |

Leaders in disbursement of small and micro loans (micro business and households)

| N of loans | Name of the Institution |
|------------------------------|---|
| > 5,000 | “GLOBAL CREDIT” UCO CJSC |
| > 1,000 < 5,000 | “ARMECOBOMBANK” OJSC “ACBA Leasing” Credit Organization CJSC |
| < 1,000 | "CARD AgroCredit" UCO CJSC “SEF International” UCO LLC |

“Green Finance” Funding Sources and Pricing

For financial resources received from IFIs, including those blended with own resources, the average conditions are:

- In **AMD** – from **7.5-10.5 %** annually, with maturity of **12-60 months** (in rare cases up to 120 months);
- In **USD** – from **8-11%** annually, with maturity of **48-120 months**;

For financial products from own resources the conditions are usually as follows:

- In **AMD** – from **11-14 %** annually, with maturity up to **144 months**;
- In **USD** – from **8-11%** annually, with maturity up to **120 months**.

Origin of Funding

| N of loans | Name of the Institution |
|-----------------------------|---|
| > 50,000,000 USD | Own financial resources (for some cases blended with funds from IFIs) |
| > 25,000,000 USD | KfW |
| > 5,000,000 USD | EBRD GEF “National Mortgage Company” UCO CJSC |
| > 1,000,000 USD | R2E2 |
| around 1,000,000 USD | IFAD, Habitat, other (targeting female entrepreneurs) |

Growth Perspectives - banks

| Ratio | Name of the Institution |
|---|---|
| Aggressive <i>(20-30% of portfolio in 5 years)</i> | “ARMSWISSBANK” CJSC “Ameriabank” CJSC “Ardshinbank” CJSC “ACBA-Credit Agricole Bank” CJSC |
| Optimistic <i>(10-20% of portfolio in 5 years)</i> | “INECOBANK” CJSC |
| Moderate <i>(up to 10% of portfolio in 5 years)</i> | “IDBank” CJSC “ARMECOBOMBANK” OJSC “Evocabank” CJSC “ARMBUSINESSBANK” CJSC “Araratbank” OJSC |

Growth Perspectives - UCOs

| Ratio | Name of the Institution |
|---|---|
| Aggressive <i>(20-30% of portfolio in 5 years)</i> | “ACBA Leasing” Credit Organization CJSC “CARD AgroCredit” UCO CJSC “Armenian Leasing Company” UCO CJSC |
| Optimistic <i>(10-20% of portfolio in 5 years)</i> | “GLOBAL CREDIT” UCO CJSC “Development and Investments Corporation of Armenia” UCO CJSC |
| Moderate <i>(up to 10% of portfolio in 5 years)</i> | “Kamurj” UCO CJSC “SEF International” UCO LLC “Fast Credit Capital” UCO CJSC |

Key Demand Sectors

| Ratio of respondents | Sector |
|----------------------|--|
| 40% | <ul style="list-style-type: none">➤ Solar PV installations for SMEs using net-metering approach (up to 0.5 MW);➤ Solar appliances for households; |
| 35% | <ul style="list-style-type: none">➤ Industrial scale solar PV, wind and small scale hydropower stations; |
| 30% | <ul style="list-style-type: none">➤ Energy efficient equipment for businesses; |
| 25% | <ul style="list-style-type: none">➤ Energy efficient construction;➤ High-value agricultural and equipment |
| 15% | <ul style="list-style-type: none">➤ Solar PV installations and energy efficient upgrades for public buildings; |
| 10% | <ul style="list-style-type: none">➤ Low carbon transport; |

External standards

| Group | Standards | Response Rate |
|----------|--|---------------|
| 1 | Links to the following UN SDGs: <ul style="list-style-type: none">➤ SDG7 Affordable and Clean Energy;➤ SDG9 Industry, innovation and infrastr.;➤ SDG11 Sustainable Cities and Communities;➤ SDG13 Climate Action. | 19% |
| 2 | Well defined internal standards (non-doc.): <ul style="list-style-type: none">➤ CO₂ reduction by minimum 20%;➤ Increase in energy efficiency by minimum 20%;➤ Renewable energy (SHPPs, solar and wind) for households, SMEs and industrial scale;➤ Low emission transport;➤ Energy efficient home appliances | 43% |
| 3 | Applying IFIs' or other partners' standards only within the framework of channeled finance facility. | 38% |

Internal Standards


The typical workflow is described below:

- **Step 1.** – Acquisition of the loan application either through direct marketing or via expression of interest;
- **Step 2.** – Collection of information about applicant (also through meetings) and initial screening;
- **Step 3.** – Initial review of loan application which includes assessment of eligibility under respective “green finance” product, investment criteria and collateral’s assessment;
- **Step 4.** – Implementation of full-fledged financial analysis and E&S risk assessment;
- **Step 5.** – Finalization of the package;
- **Step 6.** - Loan Approval by institution’s Credit Committee;
- **Step 7.** – Legal arrangements (signing the contract);
- **Step 8.** – Periodic post-disbursement monitoring of compliance;



Internal Standards

While, as the overall process of decision making looks similar for participating banks and non-banking financial institution, the following specificities were reported by some respondents:

- One UCO collects loan applications and all necessary supporting documents through a dedicated website;
 - The same organization reported that loan funds are transferred directly to the engineering company that will supply respective appliances (for solar PV station and solar water heaters) carry out installation;
 - Only 3 banks mentioned that depending on the project, the potential borrower might be recommended to seek advice of engineering consulting company (including carrying out of a partial or full-fledged energy audit);
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Internal Capacities

Out of **20 Banks and UCOs** participated to the survey:

- **30%** noted that their staff has some basic technical knowledge about RE and EE technologies gained during participation to respective trainings/seminars organized by partner IFIs and consulting companies within the framework of respective lending programmes;
- **10%** noted the availability of specially assigned coordinator that provides mentorship to the credit departments' staff on the issues related to the “green finance” products;
- **5%** noted the existence of a dedicated department within the structure of organization that is exclusively dealing with “green finance” products;

Only one organization noted that due to the automation of the approval process the number of responsible staff is minimal, implying that no specific capacity was required.

Internal Capacities

External expertise is also utilized, rather than undertaking capacity enhancement of internal human resources. Presumably due to its flexibility, this is a more common approach among survey respondents:

- **35%** have framework agreements in place with ESCOs, engineering companies and specialized institutions/individuals for the assessment of technical component of proposed for lending consideration investment proposals. Most of them also noted that they periodically benefit from advisory support of consulting companies available within the framework of specialized on-lending facilities by IFIs;
- **30%** referred to the R2E2 Fund as key source for such expertise.

Beneficiaries' view of barriers

| Ratio | Perceived barrier |
|-------|---|
| 30% | ➤ Customers' awareness and preparedness level; |
| 20% | ➤ Cost of capital which makes "green finance" product non-attractive; ➤ Lack of internal capacities to raise funds and attract new clients; |
| 10% | ➤ Lack of external experienced partners (e.g. in the field of energy audit); |
| 5% | ➤ Lack of fiscal incentives (low interest rate funds, cash-backs); ➤ Tough eligibility requirements and unjustified limitations by IFIs; ➤ Lack of standards (e.g. energy efficient construction) and enabling policies |

Recommendations – Government Policies

| Ratio | Recommended policies |
|------------|--|
| 40% | <ul style="list-style-type: none">➤ To contribute towards raising awareness of businesses and households on the benefits of “green technologies”; |
| 20% | <ul style="list-style-type: none">➤ To introduce fiscal incentives;➤ Help to channel more resources from IFIs and climate funds; |
| 5% | <ul style="list-style-type: none">➤ To assist in organizing trainings for the staff of the banks and UCOs responsible for “green finance”;➤ To increase net-metering cap;➤ To launch state subsidy programme for SMEs and households willing to benefit from renewable energy and energy efficiency technologies;➤ To establish database of qualified suppliers of equipment; |

Recommendations – CBA

| Ratio | Recommended policies |
|-------|--|
| 45% | ➤ To enact specific regulation outlining the concept of “green finance” and defining support mechanisms; |
| 25% | ➤ To reduce mandatory reservation costs to the zero; |
| 10% | ➤ To reduce minimum capital and liquidity requirements for “green finance” instruments; |
| 5% | ➤ To impose policy and fiscal restrictions on brown financing projects; ➤ To reduce risk weights for “green finance” instruments; |

Recommendations – Government Support

| Ratio | Recommended policies |
|------------|---|
| 20% | ➤ To facilitate issuance of green bonds in accordance with Green Bond Principles and climate Bond Standards; |
| 15% | ➤ To assist with attracting financial resources for blending; |
| 10% | ➤ To channel resources for enabling cash-backs and grants for MSEs and households willing to benefit from renewable energy and energy efficiency solutions; |
| 5% | ➤ To introduce tax and custom holidays for renewable energy and energy efficiency equipment. |



THANK YOU !!!

