



“Scaling up Green Finance Practices in Armenia”

Training on ESG Standards and Policies
Module 2. – Climate challenges and green
finance in Armenia

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Structure of the Presentation

- ▶ Armenia – climate challenges and vulnerabilities;
- ▶ Armenia NDC framework;
- ▶ International development finance;
- ▶ “Scaling up green Finance Practices in Armenia” Project
- ▶ Recommendations - summary of market best practices – 4 main instruments & prerequisites for attracting green finance;
- ▶ What Climate Funds and MDBs look for?

Armenia – key climate challenges

- ▶ Projections suggest Armenia could experience warming at levels significantly above the global average, with potential warming of 4.7°C by the 2090s;
- ▶ Expected rise in maximum and minimum temperatures are even more significant and represent major threats to human health, livelihoods, and ecosystems.
- ▶ Warming is projected to be strongly biased

Armenia – key climate challenges

- ▶ Increased drought risk is a particular threat to poorer rural communities dependent on subsistence agriculture;
- ▶ As the Caucasus Glaciers will largely disappear over the 21st century, the pressure and dependence on water management infrastructure is expected to also grow significantly.
- ▶ A warmer and more drought prone

Armenia – key climate challenges

- ▶ The increased risk of both flood and landslide hazards demand attention on disaster risk reduction, particularly in Armenia's poorer rural communities.
- ▶ A reduction in both the total arable land and the yield of staple crops threaten food production and efforts to eradicate undernourishment in Armenia.
- ▶ Without adaptation and disaster risk reduction,

Armenia – National Adaptation Policies

Policy/Strategy/Plan	Status	Document Access
The Disaster Risk Management National Strategy and the Action Plan	Enacted	April, 2017
Nationally Determined Contribution (NDC) to Paris Climate Agreement	Submitted	2015
Technology Needs Assessment Report	Completed	December, 2015
National Communications to the UNFCCC	Four submitted	Latest: May, 2020
National Platform for Disaster Risk Reduction	Enacted	2010
National Adaptation Plan (NAP) to Advance Medium and Long-Term Adaptation Planning in Armenia	In development phase	
National Forest Policy and Strategy	Enacted	January, 2015
Wildfire Action Management Plan	Enacted	May, 2013
EU-Armenia Comprehensive and Extended Partnership Agreement (CEPA) (2017).	Adopted	September, 2017
Eu-Armenia Cepas Roadmap	Adopted	2018
Green City – Yerevan Action Plan	Enacted	2017

Armenia – Climate Policy Framework

- ▶ Armenia ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1993 and the Paris Agreement in 2017.
- ▶ With the ratification of the Paris Agreement, the INDC of Armenia became its NDC for the period of 2015 – 2050.
- ▶ In its updated NDC-2020, the Republic of Armenia intends to adhere to a ten-year NDC implementation period (2021-2030), including

Armenia – Climate Policy Framework

- ▶ Holding the increase in the global average temperature to well below 2° C above pre-industrial level and pursuing efforts to limit the temperature increase to 1.5° C above pre-industrial levels;
- ▶ Furthering the objective of the Convention, while guided by its principles, including the principle of equity and common but differentiated responsibilities and respective capabilities, in the light of specific national circumstances;

Main Sector of Mitigation Contribution

- ▶ Energy (including renewable energy and energy efficiency);
- ▶ Transport (including development of electrical transport);
- ▶ Urban development (including buildings and construction);
- ▶ Industrial processes (construction materials and chemical production);
- ▶ Waste management (solid waste, waste water

Prioritized Adaptation activities

- ▶ Natural ecosystems (aquatic and terrestrial, including forest ecosystems, biodiversity and land cover);
- ▶ Human health;
- ▶ Water resource management;
- ▶ Agriculture, including fishery and forests;
- ▶ Energy;
- ▶ Human settlements and infrastructures;

Role of MDBs

- ▶ During last 5 years approximately 100 mln USD were channeled through Armenian commercial banks in the form of loans to the SMEs and households aimed at increasing energy efficiency and introducing of renewable energy solutions (key donors: EBRD, GGF, French Development Agency, WB and KfW).
- ▶ In accordance with the “2019 Joint Report on Multilateral Development Banks’ Climate Finance” Armenia has received 107 mln USD in 2019.

Scaling up green finance practices in Armenia

- ▶ Mapping and needs assessment of Armenian banks and UCOs;
- ▶ Review of international best practices and proposals made to Regulator;
- ▶ Implementation of capacity building activities;
- ▶ Design of green finance portal;
- ▶ Study visit to FMO and KfW;

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

Recommendations for Armenia:

- ▶ 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 Devices	Meteorological Solutions
Food Safety, Efficient Processing and Sustainable Packaging			Recycling Equipment	Natural Disaster Response
Sustainable Plantations			Recycling Services Waste Management	Water Infrastructure 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

Recommendations for Armenia:

- ▶ 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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What climate funds look for?

- ▶ “Incremental cost” concept;
- ▶ Additionality – leveraging funds from other sources;
- ▶ Private sector driven projects;
- ▶ Country ownership;
- ▶ Paradigm shift oriented – example of Evs;
- ▶ Innovation;

Sample Project 1 - Espejo de Tarapacá

- ▶ Combined renewable energy project in Chile;
- ▶ GCF contribution - 60 mln USD (equity);
- ▶ Co-financing by the partners - 1,04 bln USD;
- ▶ Tons of emissions avoided - 37 mln
- ▶ Beneficiaries - 17.6 mln population.
- ▶ The Espejo de Tarapacá project comprises two commercially-integrated power plants: (1) a 300 MW pumped storage hydroelectric plant using the Pacific Ocean as its lower reservoir; and (2) and a 561 MW photovoltaic solar plant.

Sample Project 2 - Agrovoltaic

- ▶ Fiji AgroPhotovoltaic Project in Ovalau;
- ▶ GCF contribution - 3,9 mln USD loan;
- ▶ GCF Contribution - 1,1 mln USD loan;
- ▶ Co-financing by the partners - 5 mln USD;
- ▶ Tonnes of emissions avoided - 91,6K

Sample Project 2 - Agrovoltaic



THANK YOU !!!

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