Environmental Finance through Commercial Financial Institutions in the EaP Region

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Oxford Consulting Partners
Presentation Overview

• The landscape of environmental finance
  • IFI and bilateral supported lending
  • Multi-lateral initiatives

• Barriers to environmental lending

• Observations
IFI supported environmental finance

• All IFIs active in region support environmental lending through FIs
• Focus on intermediated lending through local FIs
• SME/Industrial energy efficiency, also residential and small-scale RE
• Largest programmes managed by EBRD and IFC
• EIB, KFW, NEFCO, OeDB all engaged with provision of credit
• Multi-lateral initiatives (e.g. Green for Growth, GCPF)
• Active finance and programming since 2005: 10 years of experience
• c. EUR 1.5bn in CIS region
  • c. EUR 800m in EaP
  • c. EUR 700m in Russia and Central Asia
• 70+ Banks across CIS, c. 35 in EaP
• Average credit line 10-20m EUR (range of EUR 3m - 150m)
• Normally supported by dedicated TA facility
European Bank for Reconstruction and Development (EBRD)

• EUR 600m since 2006 in CIS
• EUR 422m in EAP region, primarily Ukraine
• SME/corporate/residential EE, small-scale RE
• National level facilities each support 3-5 banks
• Investment and advisory combined
• End user payment incentives based on market
• Strong external consultancy support
International Finance Corporation (IFC)

- c. $370m since 2005 in CIS region
- Main focus in Russia (RSEFP – c. $300m to date)
- $64m in EaP region since 2008
- Additional $85 in Ukraine under approval (CTF)
- 7 Banks in Ukraine, Armenia, Belarus
- Mostly focussed on SME lending
  - Ukraine residential (individual/associations)
  - Small scale RE in Armenia
- Strong upstream advisory offering
  - Only 50% of advisory clients receive investment
- Policy engagement (e.g. Russia, Ukraine)
Other IFIs

• Austrian Development Bank (OeDB)
  • EUR 22m in Georgia and Armenia
  • EUR 20m to Russia

• European Investment Bank (EIB)
  • SME credit lines with up to 30% energy and environment component
  • New Kazakhstan operations with minimum climate action component (c. 150m Eur)

• KFW
  • $30m Pro-Credit Ukraine
  • Green for Growth

• NEFCO
  • EUR 7.5m to 3 banks in Ukraine and Belarus

• World Bank (IBRD)
  • $200m Ukreximbank credit line
Multi-lateral

• Green for Growth
  • Initiated by KFW and EIB
  • 4 Investments in Armenia, 1 in Ukraine
  • EUR 30m in EaP

• Global Climate Partnership Fund
  • KFW, IFC, EIB
  • Includes $30m Ukraine
## EaP Partner Banks

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### Notes:
- ✓ indicates a partnership.
- No symbol indicates no partnership.

### Analysis:
- **EBRD**, **IFC**, **EIB**, **World Bank**, **KfW**, **OeDB**, **NEFCO**, **GGF**, and **GCPF** are international financial institutions that support projects in the EaP region.
- The table lists partner banks in Armenia, Azerbaijan, and Belarus, indicating the extent of their partnerships with these institutions.
## EaP Partner Banks

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Key Barriers: Regulatory Environment

- Weak regulatory and fiscal frameworks
- Fossil fuel and energy price subsidies
- Limited tax incentives
- Emerging carbon pricing (FITs, permit trading)
- Environmental standards (BAT, emission control)
- Weak enforcement
- Legal rights (e.g. housing associations)
- Awareness

- Limited influence over commercial lending markets
Key Barriers: Supply side (Financial Institutions)

- Global/Regional financial crisis
- Perceptions of risk of new lending product areas
- Lack of familiarity with environmental technologies
- Limited appreciation of market size and opportunity
- Complex eligibility criteria and technical standards
- Burdensome IFI reporting requirements (including impact data)
- Failure to appreciate cash flow benefits of resource efficiency
- High resource development costs (staff, systems and marketing)
- Opportunity costs vs. more straightforward (and profitable) alternatives
Key Barriers: Demand side (End Borrowers)

• Lack of information about energy/resource costs
• Technical (BAT) and financial (payback periods)
• Poor metering systems
• Lack of internal incentives and leadership
• High capital costs (despite rapid payback periods)
• Opportunity costs vs. expanding production
• Lack of control over heating systems (e.g. residential)
• Principal – agent problem (ownership vs. energy costs)
Observation 1: Transparency and Impact

- Limited publically available performance data on individual credit lines
- Environmental finance sometimes blended (e.g. with SME operations)
- Commercially negotiated finance contracts (tenor, rate, collateral)
- NPLs monitored, but not widely reported
- Long reporting chain, large number of sub-borrowers
- Some consolidated impact data published by IFIs
  - CO2 avoided, Installed RE Capacity, MWh generated
- Limited public access to IFI evaluations
Observation 2: Technical Assistance/Incentives

- Credit line delivery requires high levels of technical support and incentives
- Either in house advisory teams or external consultant facilities
- Significant donor grant facilities have been made available
- End user payments, concessionality, subsidised TA
- FI training, product development, marketing, pipeline, appraisal, reporting
- Level of dependency on IFI technical assistance support?
Observation 3: Achieving sustainable markets

- Few FIs have continued to develop credit products post IFI support
- Process of adoption and commercial development a multi-year process
- Competitive landscape will drive product innovation and differentiation
- Coordination/alignment of IFI support and messaging?
- Role of regulators and policy makers?