Summary record of Workshop on Green Finance Mobilisation in Georgia

22-23 July, 2017, Tbilisi, Georgia

The workshop on Green Finance Mobilisation in Georgia discussed key opportunities and challenges regarding further mobilisation of green finance in Georgia, reviewed the current sources of capital and financial instruments for green investment and explored new channels that can potentially be used to finance implementation of Georgia’s climate and green growth targets. It further engaged the private sector (both financial and non-financial institutions) in the discussion on green finance mobilisation in the country.

The meeting was co-organised by the Georgian Ministry of Environment and the OECD under Policy Dialogue on the Green Economy in Georgia. It was financially supported by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMUB). The views expressed herein can in no way be taken to reflect the official opinion of Germany or any of the OECD member countries, or the Government of Georgia.

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Objectives of the workshop

The Workshop on Green Finance Mobilisation in Georgia invited officials from the Georgian ministries and representatives from the public and private sectors to discuss decisive action needed for scaling up necessary finance for climate change and green economy agendas in Georgia. The workshop discussed the following topics:

- Scaling up current finance for green projects such as renewable energy, energy and resource efficiency, cleaner transport in Georgia;
- Exploring new financial instruments and capital sources that can potentially be used to finance such projects in the long-run;
- Possible linkages between the ongoing efforts to develop the financial market and future mobilisation of new and existing green finance in the country; and
- Identifying where business opportunities lie from the transition towards the green economy

The workshop agenda is presented in Annex 1.

Participation

Participants represented: several Georgian ministries (including Environment and Natural Resources Protection, Economy and Sustainable Development, Energy and Education); other governmental agencies (Georgian Energy Development Fund, Municipal Development Fund, the Partnership Fund, Enterprise Georgia); the Tbilisi City Hall; the National Bank of Georgia (the central bank); Georgian commercial banks; microfinance institutions; non-financial sector corporations; development co-operation partners; and civil society organisations. Video-link presentations were made by the Green Climate Fund (GCF) Secretariat, the International Association of Public Transport (UITP) and the International Transport Forum (ITF).

Outcomes of the workshop

Session 1: Opening Statements

The workshop was opened by Ms Ekaterine Grigalava (Deputy Minister of Environment and Natural Resources Protection), Mr Teimuraz Murgulia (Deputy Minister of Education and a Board member of the GCF), Ms Nina Khatiskatsi (Deputy Mayor of Tbilisi City) and Mr Jürgen Keinhorst (Head of Cooperation with Europe and Middle East and North Africa, German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety; also a co-chair of the OECD-hosted GREEN Action Task Force). Ms Kumi Kitamori, Head of Green Growth and Global Relations Division, Environment Directorate, OECD, moderated the sessions at this workshop.

In her remarks, Ms Grigalava stressed the importance of green finance not just for environment, but also for job creation and sustainable economic growth. Mr Murgulia echoed the need for further green finance for Georgia’s economy and environment, and reiterated the importance of solid analytical work to support further scaling-up of finance flows. Ms Khatiskatsi said that local governments and their decisive action were the crucial part of Georgia’s green economy transition. Mr Keinhalst appreciated the high level of interest in green finance mobilisation expressed by the Georgian stakeholders, and also mentioned the importance of looking at how green growth can also be inclusive by mitigating the burdens on those who can be negatively affected by the transition to green economy.
Session 2: Overview of Georgia’s climate and green growth targets and strategies

The participants reviewed four national-level strategic documents that were being developed or finalised, listed as below, while recognising there were also many other policy documents:

- Georgia’s Nationally Determined Contribution: Ms Maia Tskhvaradze, Chief Specialist of Climate Change Service, Ministry of Environment and Natural Resources Protection
- Georgia’s Green Economy Strategy - Current state of development: Ms Nino Lazashvili, Acting Head Sustainable Development Division Ministry of Economy and Sustainable Development

During the discussion some participants expressed their concerns about the lack the sufficient level of coherence among the key strategies. Business sector participants mentioned that there was still a room for an improved engagement of businesses at the earlier stages of policy development on climate and green growth agendas. Ministry of Economy mentioned that the ministries have been trying to engage private sector in the development of (e.g.) LEDS and NEEAP and that the Green Economy Strategy of Georgia would also provide further opportunity to mainstream green issues into the economic development, enhance coherence among different policies and involve various public and private sector actors.

The session also discussed how various stakeholders, including the private sector, can be effectively engaged in implementation of the policies. Some participants pointed out a need for further engagement of the Ministry of Finance in climate and green growth agendas, which would be essential for appropriate public budget allocation and finance mobilisation.

The discussion touched upon the financing mechanisms that already exist or are considered in the context of the implementation of the policy documents. One expert proposed to establish a green investment bank in the context of Low Emission Development Strategy, while the Ministry of Energy considers the establishment of an energy efficiency fund to implement National Energy Efficiency Action Plan and is in the process of consultation with relevant stakeholders. The discussions showed a further need to review the existing public financing mechanisms and to take a comprehensive approach to mobilise finance which would not lead to the fragmentation of the financial mechanisms.

Session 3: Overview of financial channels and instruments and gaps to be bridged

This session reviewed existing and potential financial sources, channels and instruments in Georgia, which are already or potentially used for actions to implement the national- and municipal-level strategies on climate change and green growth. A range of financial institutions also shared their experiences, on-going activities and future plans in the field of green finance.

The OECD presented preliminary findings from the stock-taking exercise on existing and potential financial channels for green finance in Georgia. The study showed that the international development finance institutions continue to be important contributors to green finance supplementing the central and municipal administrations spending. Equity and bonds have not been commonly used in general, let alone for green finance.
The EBRD and EIB outlined their financial products and initiatives that help the Georgian government and businesses to move their green growth agenda forward. The examples included the EBRD’s Green Cities Programme which supports investment in green infrastructure at the sub-national level and EIB’s InnovFin programme which supports innovative SMEs and large- and medium-sized companies with their loans and guarantees.

Domestic commercial banks, such as BoG and Procredit Bank, shared their experiences from lending to green projects. The BoG has 10 years of history of channelling green credit lines extended by bilateral and multilateral development banks. It is also one of the largest financiers for hydropower plants in the country. However the investment in this sector has been made possible by the government’s revenue guarantees through fixed tariffs under power purchase agreements (PPAs) and other preferential policies. Procredit Bank also presented that about 10% of its loan portfolio is already “green”, of which 80% is directed to energy efficiency projects.

Micro Finance Organisation Crystal presented its recent agreement with the Dutch development bank, FMO, on green lending to micro, small and middle sized enterprises.

During the discussion, several participants pointed out the limited availability of low-cost, long-term finance and the maturity gap between green projects and available capital (often only short-term). A representative from a local commercial bank stressed their challenges in lowering the interest rates as they do not have enough knowledge and information on possible risks as well as technical factors (for examples the hydrological and engineering parameters and related performance) of green investments.

**Session 4: Implication of the on-going reform of Georgia’s capital market development for green finance**

Participants exchanged their views on current barriers to mobilising green finance, and on possible future implications of ongoing financial market reform for tackling these barriers. The OECD presented the role of diversified financial channels in scaling up green finance, and what is needed for such diversification. The presentation (building partly on various OECD work, available at [http://www.oecd.org/cgfi/](http://www.oecd.org/cgfi/)) highlighted the importance of a well-functioning capital market for diversifying financial channels for green finance (and infrastructure investment in general) in Georgia in the long-run. It also touched upon an increasing interest among investors across the world in Environment, Social and Governance (EGS) factors and climate risks for their assets.

The National Bank of Georgia (NBG) presented ongoing work by the government and the NBG on legislative reforms for capital market development, financial education, and infrastructure development (e.g. payment system). While the NBG was supportive for the need for green finance, the discussion on whether the current capital market reform should also explicitly include “green” elements has not yet started. Nevertheless, regardless of whether there is an explicit green mandate built in the reform of the Georgian financial market, improving the market will have direct and indirect implications for future green finance mobilisation.

Green bonds, despite a growing level of attention globally, have yet to be issued in the country. An interesting question raised was whether the work on capital market reform had any discussion on possible issuance of municipal bonds that could be directed to green projects. The representative of the NBG found it an interesting idea while mentioning the importance of careful review for the municipalities’ credit-worthiness for bond issuance in order to ensure the soundness of the bond market.
Session 5: Seizing opportunity for the Green Climate Fund

This session discussed the issues and steps to be taken with regard to accessing funding from the Green Climate Fund (GCF). The discussion aims to explore the ways in which such resources can help the country to mobilise different types of finance over time from public and private, national and international sources.

The Partnership Fund (one of Georgia’s sovereign investment funds) presented their ongoing work to become an accredited entity to directly (i.e. not through, for instance, multilateral development banks or UN agencies) access GCF’s funding resources. The Partnership Fund mentioned that the preparatory work to receive an accreditation would likely require about one year. The GCF Secretariat (from its Private Sector Facility) proposed to establish a green bank in Georgia and said that the GCF could allocate grants to the preparatory work. The discussions implied multiple possibilities to set up such a green bank/fund: whilst establishing a new green bank may be an idea that is worth exploring, it might also be sensible to strengthen the functions and scale of an existing sovereign fund(s), adding or strengthening a “green” aspect to the fund’s mandate.

Session 6: Engaging business sector with green finance mobilisation:

This session discussed key issues faced by private sector stakeholders in accessing and mobilising green finance for (e.g.) energy efficiency measures and renewable energy projects. The OECD’s and UNIDO’s presentations showed outcomes of analytical work on SMEs behaviours towards cleaner production investment as well as policy measures to be taken to drive demand for green finance. The UNIDO’s analysis implied that a number of SMEs were ready to accept more stringent environmental regulations which can stimulate demand for investment. The OECD highlighted the importance of a transparent dialogue between the public authorities and industry to discuss respective views and concerns which can facilitate project finance and implementation. Further, the OECD highlighted the existence of significant opportunities for quick return on low cost investments, which has been documented for examples under the EU-funded EaP GREEN project. Such opportunities may not have been exploited due to lenient and unclear regulatory framework and lack of financial mechanisms suited for small scale investment. It was also stressed that since businesses decisions are based on expected long term profits government policies should provide a regulatory framework that it predictable, clear and fair that is supported by regulatory guidance and advice taxation. These actions should be supported by incentives, including taxation, financial (possibly by already existing agencies such as Enterprise Georgia) and green public procurement.

In its presentation the Georgian Industrial Group (GIG) asked for the level-playing field between hydropower and wind or solar energy. For instance, the government and IMF agreed to set fixed tariffs under Power Purchase Agreements for renewables at no more than 6 US cents/kWh for 8 months, which may be profitable for hydropower, but not financially viable for other types of renewable energy projects in Georgia. The GIG also asked for time-bounded local content requirements for renewable energy development policies in Georgia to create employment, while a participant also mentioned that care should be taken from the trade prospective.

Some participants noted that there are still sizable subsidies directed to natural gas use for electricity and heat generation (albeit a relatively low level compared to some other countries in Eastern Europe, Caucasus and Central Asia), and a regulated price was still applied to electricity from the already depreciated hydropower plants whose marginal generation cost is effectively

1 [http://www.greenclimate.fund/who-we-are/about-the-fund](http://www.greenclimate.fund/who-we-are/about-the-fund)
They mentioned that these subsidies and low energy prices kept energy efficiency projects financially unattractive. The Ministry of Energy expressed a caution about how to treat energy subsidy reform in the context of Georgia’s National Energy Efficiency Action Plan, since such subsidies have been put in place for social protection reasons.

Session 7: Green finance for public transport infrastructure

This sector specific session on financing municipal transport infrastructure discussed the experiences of municipal and national authorities, the development co-operation partners and other Georgian stakeholders, including civil society organisations.

The Sustainable Development Centre Remissia highlighted underdeveloped regional public road transport and passenger railway network which still do not meet customers needs. Other challenges mentioned included: lack of unified vision and nationwide-policies for managing and developing transport sector in Georgian cities and lack of reliable statistical data related to urban transport.

The representative of the Tbilisi City Hall presented activities on public transport system development and challenges of securing adequate finance for improving their road transport systems. It was pointed out that there is a clear need for an increased transport fares and parking fees, this would require careful consideration as these might lead to social exclusion of the most vulnerable parts of the populations. Drawing on examples from other countries, the ITF and the UITP, as well as other participants, mentioned the need for clearer, more targeted subsidy policy via social support channels, rather than a “no-policy” subsidy that leads to a lasting, sometimes significant amount of support. The ITF and the UITP also highlighted opportunities in exploring relatively new financial sources, such as land-value capture, funds from advertising space and/or private sponsorship, linking transport NAMA (Nationally Appropriate Mitigation Action) with climate finance, and transport-sector green bonds.

Session 8: Wrapping up the workshop and exchanging views on possible next steps for the OECD analysis:

Based on the rich discussion by the participants and presenters during the one and half day, the moderator Ms Kitamori (OECD) summarised the key issues that could be subject to further analysis, including:

- Review of existing and new climate- and green growth-related policy documents, and support to the development of sector-level investment plans. This should be done in collaboration with all relevant institutions, including the Georgian government and stakeholders; UN agencies and other bilateral and international development agencies; and multilateral and bilateral providers of finance. This would also feed into the development and implementation of various policy documents, such as the nationally determined contribution, NEEAP, LEDS and Green Economy Strategy, aiming to turn these documents into more concrete, feasible investment pipelines.

- Analysis of the national funding entities and their needs and gaps in information, capacities and institutional arrangements, so that the entities can further enhance country ownership over accessing and mobilising green finance. This work could also inform discussions on establishing an energy efficiency fund (in the context of National Energy Efficiency Action Plan) and possibly a green bank that would either be newly established or build on the existing ones.

- More detailed analysis of the current financial market reform (from climate-related risk angle), and the examination of where potentials to “mainstream” climate risks in the
individual reform menus that already exist, which would require closer collaboration with the National Bank of Georgia, the Ministry of Finance, and the Ministry of Economy and Sustainable Development.

- Further analysis of energy subsidies reform, including possible distributional impact of the reform on different beneficiaries and how targeted support for the most vulnerable can be designed or improved.
- Review of environmental regulations in terms of qualitative and/or quantitative examinations for their potentials to create demand for green finance.

Whatever analytical work is conducted, it will need to be linked to high-level political discussion to take ambitious and expedited actions towards Georgia’s NDC targets and green and inclusive growth, and further engagement with business sector, the development co-operation partners and civil society organisations to ensure that such actions are feasible and effective.

The workshop was closed by Ms Ekaterine Grigalava (Deputy Minister of Environment and Natural Resource Protection). She appreciated the interest in green finance mobilisation shown by a range of actors from the public and private sectors; acknowledged their active participation in the discussion; reiterated the need for private and civil society sector engagement in implement of the Georgia’s nationally determined contribution; and expressed the Ministry’s interest to discuss the results of a final report to be prepared by the OECD in the collaboration with the Georgian government and other relevant institutions.
Annex 1: Meeting agenda

Day 1: 22 June 2017

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<tr>
<th>09:00-</th>
<th><strong>Registration, coffee and tea</strong></th>
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<tr>
<td><strong>Session 1</strong></td>
<td><strong>Opening remarks</strong></td>
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<tr>
<td>09:30-10:00</td>
<td>• Ms Ekaterine Grigalava, Deputy Minister of Environment Natural Resources Protection</td>
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<td>• Mr Teimuraz Murgulia, Deputy Minister of Education and Science / Member of the Green Climate Fund Board</td>
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<td>• Ms Nina Khatiskatsi, Deputy Mayor of Tbilisi City</td>
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<td>• Mr Jürgen Keinhorst, Head of Cooperation with Europe and MENA, Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, Germany</td>
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<td>• Moderator: Ms Kumi Kitamori, Head of Green Growth and Global Relations Division, Environment Directorate, OECD</td>
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**Session 2** | **Long-term goals: Overview of country targets and strategies**

This session will share the recent update on the development of national-level climate and energy related strategies. These strategic policy documents can and should also play the role in sending a right signal to investors who are interested to provide or scale up green finance.

**Introductory presentation**

- **Georgia’s Nationally Determined Contribution**: Ms Maia Tskhvaradze, Chief Specialist of Climate change Service, Ministry of Environment and Natural Resources Protection

**Discussants**

| 10:00-11:15 |
| Georgia’s Green Economy Strategy -Current state of development: Ms Nino Lazashvili, Acting Head Sustainable Development division Ministry of Economy and Sustainable Development (invited) |
Questions for discussion

- Are these documents sending strong and coherent signals to business sector and domestic financial institutions and development banks to encourage them to scale up green finance?
- How domestic financial institutions and business sector can be further engaged in the implementation of (I)NDC and the other strategic policy documents?
- What are the roles of the public sector in mobilising green finance?

11:15-11:30 Coffee break

Session 3 Where does the money come from, and how? - Overview of financial channels and instruments and gaps to be bridged.

This session aims to review existing and potential financial sources, channels and instruments in Georgia, which are or can be used for actions to implement the national- and municipal-level strategies on climate change and green growth. This session invites a range of financial institutions to share their experiences and stimulate discussion among the participants

Introductory presentation

- Mr Takayoshi Kato, Policy Analyst, Environment Directorate, OECD

Discussants

- Ms Tamar Khizanishvili, Deputy Corporate Banking Director, JSC Bank of Georgia
- Mr Nugzar Khaindrava, Portfolio Manager, Georgian Energy Development Fund
- Ms Tea Melikadze, Principal Banker, Municipal and Environmental Infrastructure, EBRD
- Mr Maciej Czura, Loan Officer, Lending Operations in Neighbouring Countries Banks, European Investment Bank
- Mr Kakha Gabeskiria, Chief Operations Officer, Micro Finance Organisation Crystal

Questions for discussion

- What are the key drivers to scale up finance from existing sources and instruments (e.g. lending from commercial banks) to finance energy efficiency and renewable energy projects?
- What role can the government and local and international financial institutions play in exploring and mobilising newer types of finance sources and instruments (equity funds, bond financing from various sources)?
- What are barriers to mobilising finance from these exiting and new financial sources using other financial instruments than collateral lending?

13:00-14:00 Lunch
**Session 4**  
*Future implications of the Georgia’s financial market reform for green finance*

14:00-15:15  
This session will exchange the views on current barriers to green finance, and possible future implications of ongoing financial market reform for tackling these barriers. Diversification of financial instruments (e.g., using equity, bonds, mezzanine finance), de-dollarisation of assets, and development of the money market and capital market are among the priorities in the ongoing financial market reform efforts in the country, which would also potentially help the country mobilise further green finance over time.

Introductory presentation

- Mr Takayoshi Kato, Policy Analyst, Environment Directorate, OECD

Discussants

- Mr Giorgi Laliashvili, Head of Financial Markets Department, National Bank of Georgia

Questions for discussion:

- What are the drivers for and challenges to diversifying financial instruments for green projects?
- Within your business, what could the financial market development bring to scaling-up of green finance in Georgia?
- Could Georgia’s effort for financial market development be more explicitly linked with climate and green growth agenda over time? If so, how?

15:15-15:45  
*Coffee break*

**Session 5**  
*Seizing the opportunity from the Green Climate Fund*

The Government of Georgia and GIZ are working on the Green Climate Fund Readiness Programme. This session discusses (i) the issues and steps to be taken with regard to accessing the Fund’s resources, and (ii) the ways in which such resources can help the country mobilise different types of finance over time from public and private, national and international sources. This session will also discuss how the efforts for accessing the Green Climate Fund could enhance the country ownership in developing climate-related projects while also catalysing further financing from bilateral and multilateral development banks.

Introductory presentation

- Ms Maia Tskhvaradze, Chief Specialist of Climate change Service, Ministry of Environment and Natural Resources Protection

Discussants
• Mr Mikheil Khuchua, National Advisor, GCF Readiness Project, GIZ
• Ms Nino Cholokashvili, Deputy Director of Investment Department, Partnership Fund
• Mr Leo Park, Financial Institutions Specialist, the Green Climate Fund (online)

Questions for discussion:

• How would GCF-funded projects make real and broader changes to Georgia’s effort towards green growth?
• How could the Georgia’s business sector engage in and/or benefit from GCF country programming exercise currently planned?
• How would (and should) a Climate Finance Co-ordination Mechanism be designed and organised to scale up green finance?

17:30- Cocktail
Day 2: 23 June 2017

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<td>09:00</td>
<td>Registration, coffee and tea</td>
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<td>Session 6 Engaging more business in green finance</td>
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<td>09:30-10:45</td>
<td>This session will discuss key issues faced by private sector stakeholders in accessing and mobilising green finance for (e.g.) energy efficiency measures and renewable energy projects. Such issues include: political stability; misalignment between environment and investment/industry policies; policy predictability; limited availability of low-cost, long-term capital; cost-return imbalance of “green” projects; limited options of financial instruments and sources, amongst others.</td>
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<td>Introductory presentation</td>
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<td>- Mr Krzysztof Michalak, Senior Programme Manager, Environment Directorate, OECD</td>
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<td>Discussants</td>
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<td>- Ms Ana Chorgolashvili, UNIDO Resource Efficient and Cleaner Production for SMEs under EaP GREEN</td>
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<td>- Mr Levan Vepkhvadze, Adviser to CEO on Strategic Issues / Member of Board of Directors, Georgian Industrial Group</td>
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<td>- Mr Ioseb Rostomashvili, Head of Environmental Management Unit, Procredit Bank</td>
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<td>10:45-11:00</td>
<td>Coffee break</td>
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### Session 7: Sectoral discussions on finance for public transport

This session will hold a sector-specific discussion on finance for municipal transport infrastructure. It will discuss general issues around mobilising public and private financing for the sustainable public transport systems, based on the experiences of the national government, municipal authorities, and development co-operation partners. It will also examine potential solutions that could be provided by different actors.

#### Introductory presentation
- Ms Marina Shvangiradze, Director, Sustainable Development Centre Remissia/Independent Technical Advisory Panel for the Green Climate Fund

#### Discussants
- Ms Elene Khundadze, Head of Analytical Division, Municipal Transport Department, Tbilisi City Hall
- Mr Giga Gvelesiani, Head of Safeguards, Municipal Development Fund
- Ms Hilia Boris Iglesia, Manager, International Association of Public Transport (UITP) (online)
- Ms Aimée Aguilar Jaber & Ms Elene Shatberashvili, International Transport Forum (online)

#### Questions for discussion:
- What are the possible financing options (both existing and potential) for scaling up investment in infrastructure and operation of sustainable public transport system?
- What kind of pricing scheme could reduce unnecessary private vehicle use and promote more environmental friendly modes of transport (e.g. public transport and non-motorised transport)?

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<th>Session 8</th>
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<td>12:30-13:00</td>
<td>Wrapping up the workshop and exchanging views on possible next steps for the OECD analysis</td>
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- Ms Kumi Kitamori, Head of Green Growth and Global Relations Division, Environment Directorate, OECD

#### Closing remarks
- Mr Jürgen Keinhorst, Head of Cooperation with Europe and MENA, Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, Germany
- Ms Ekaterine Grigalava, Deputy Minister of Environment Natural Resources Protection