EXPERT MEETING ON ACCESS TO PRIVATE FINANCE FOR GREEN INVESTMENTS IN EU EASTERN PARTNERSHIP COUNTRIES

5-6 June 2014, OECD Headquarters, Paris

SUMMARY RECORD

Background, meeting objectives and participants

Moving onto a greener, low-carbon and resource-efficient path of economic development requires significant investments. The public sector alone cannot bear the costs of such investments. In order to promote private sector finance, governments need to provide appropriate incentives.

Commercial banks have a potentially important role to play in providing lending for green investments. However, under the current conditions in the EU Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine), their involvement is rather limited. Generally, commercial banks have only established specific environmental credit lines when supported by International Finance Institutions (IFIs) and donors. In addition to supporting immediate investment priorities, the IFIs have established such credit lines with the aim of helping to strengthen the capacity of local banks to internalise sustainable energy lending into their standard project portfolios. IFI-supported environmental credit lines disbursed through local commercial banks offer useful insights into what needs to be done in order to increase the capacity of the banking sector to finance green investments.

In this context, on 5-6 June 2014, OECD organised in Paris an expert meeting on **"Access to private finance for green investments in the EU Eastern Partnership countries".** This note provides a summary of the proceedings of the expert meeting. The meeting focused on discussing the opportunities for and challenges to mobilising environmental finance through the commercial banking sector in the EU EaP countries, particularly through the use of debt instruments. More specifically, the objectives of the meeting were to:

- review the experience in the EaP countries with the design and implementation of relevant environmentally related IFI- and donor-supported credit lines disbursed through local commercial banks;
- identify key lessons from this experience that can help governments in the region improve the policy and regulatory environment that promotes green lending;
- discuss and agree on the methodology for in-depth review of selected credit lines that will aim to provide further insights into possible ways of increasing green investments by commercial banks.

The meeting brought together experts from both OECD and non-OECD countries as well as representatives of International Finance Institutions (IFIs), International Organisations (IOs), commercial banks from the EaP region, NGOs (for more information, see the List of Participants attached below). The meeting was organised within the framework of the “Greening Economies in the Eastern Neighbourhood”

(EaP GREEN) Programme initiated by the European Commission and implemented by the OECD in partnership with the UNEP, UNIDO and UNECE.

In support to the discussion, OECD prepared a thematic overview paper. The key points emerging from the discussion were as follows:

- At least 8 IFIs have extended environmental credit lines to the EaP countries, the Russian Federation and Central Asia. These credit lines have been mostly focused on energy efficiency (industrial, small and medium-sized enterprises (SMEs), residential and housing) and small-scale renewable energy. In addition, there are a number of multilateral facilities and donor financed platforms that have also issued environmental credit lines to local financial institutions in the region;

- In total, approximately EUR 800 mln has been committed by the IFIs in the EaP countries to date, with a further EUR 500 mln in the Russian Federation and Central Asia[1]. There is approximately another EUR 300 mln of additional environmental credit lines currently under various stages of negotiation. Most credit lines are accompanied by some form of (donor financed) technical assistance for the local Financial Institution (FI). The European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) have provided the largest volumes of credit finance to date;

- In total, about 70 banks in the region have received support, of which approximately half are in the EaP countries. Several local FIs have agreed more than one credit line often with multiple IFIs. The State Export-Import Bank of Ukraine (Ukreximbank) has the biggest number of IFI-supported credit lines in the region;

- Despite this, environmental lending in the EaP countries remains at an early stage of development. This is due to a number of market barriers - regulatory (the enabling environment underpinning environmental lending), demand side (the lack of awareness and understanding of the benefits) and supply side (e.g. the weak capacity and willingness of local FIs to develop green financial products);

- The supply of IFI finance is not enough to change the market dynamics by itself. A supportive regulatory and policy environment was identified as critically important to ensuring the development of demand for green investments. Supporting local FIs to improve their capacity as well as raising awareness and knowledge of the benefits among potential borrowers is also critical;

- IFIs need to demonstrate the commercial sustainability of green lending by keeping concessionality to a minimum where there is already a positive financial investment case. Technical assistance and incentives are useful for overcoming behavioural barriers, but should not be used to subsidise economically non-viable projects. IFIs should help FIs to migrate to a sustainable long-term lending model, and the structure of credit lines needs to fit the resource and institutional constraints of the FIs;

- A number of government officials (e.g. Ukraine and Georgia) indicated their interest in engaging in country-level work, further to political consultation and agreement with the relevant IFIs and local financial institutions.

A summary of the presentations given during the meeting sessions and points made is provided further below.

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[1] These figures exclude European Investment Bank (EIB) lending operations where there is a blended SME/Environment loan, with no minimum target for energy or environment, although we are aware that some of these funds have been used for on-lending to energy efficiency and renewable energy type projects.

Introduction of the project

The meeting started with a brief introduction by Brendan Gillespie (OECD ENV/EPI) of the OECD's project on access to private finance for environmental investments in EU EaP countries, placing it in the broader OECD's work on this topic. Nelly Petkova (OECD ENV/EPI) discussed how the concept for this project evolved. She also presented definitions of "green investments" and set out the financial and energy market context in which the project is being implemented. The three phases of the project (market scoping (Phase 1), country case studies (Phase 2), and policy recommendations and policy dialogue (Phase 3)) were explained to participants.

Public policies and incentives for enabling private finance for green investments

Robert Youngman (OECD ENV/CBW) explored "***Government intervention to mobilise private investments in green infrastructure***". He set out policy frameworks for green investment, and discussed the continuing weighting of subsidies towards fossil fuel use. The OECD Policy Guidance on Investment in Clean Energy Infrastructure was presented, together with a number of case studies on Public Financial Institutions already addressing environmental externalities.

Shilpa Patel (World Resources Institute (WRI) presented "***Private finance for green investment: The role of the public sector***". Sharing some lessons from WRI's experience, she set out potential public sector approaches to mainstreaming climate change using policy and financial market approaches (debt, equity and risk instruments). A number of case studies were presented on country-level funds and institutions established to facilitate low carbon development (USA, Thailand, Tunisia, and Mexico). The need for long term market development support was highlighted, taking the development of wind power in Mexico as an example.

Financing of green investments by commercial banks

Yuki Yasui (UNEP Finance Initiative (UNEP FI) presented the ***barriers to and opportunities for creating a functioning market for green finance***. She explained the work of UNEP FI in creating banking guidelines, online tools and courses for partner financial institutions. The actions taken by a number of Central Banks to develop a sustainability mandate were discussed (China, Nigeria, Brazil, Columbia, etc.). The increased interest of institutional investors in Corporate Social Responsibility (CSR) was also noted. Participants noted the low number of banks from the countries of Eastern Europe, Caucasus and Central Asia (EECCA) represented in the UNEP and other international initiatives, and it was agreed that further discussions would be explored to increase participation. In addition, the role of access to long term capital was identified as a key challenge to supporting environmental investments.

Mikhail Babenko (WWF Russia) laid out the "***Benefits from responsible finance in transition economies***". He set out environmental challenges facing countries in the EECCA region. The limited participation of EaP and neighbouring countries in international Sustainable Finance Initiatives was noted. WWF's work in supporting sustainable finance markets was presented, including examples of best practice projects (green bonds, sovereign funds). The benefits of developing sustainable finance for overall corporate performance were highlighted, but the low levels of awareness and limited implementation of CSR policies by Russian banks was identified as a major barrier. Exposure to international reporting standards was identified as a potential driver of CSR uptake.

Design and implementation of environmental IFI-supported credit lines in the EU EaP countries

Matthew Savage (Oxford Consulting Partners) presented an ***overview of environmentally-related credit lines disbursed through local commercial banks in the EU EaP countries***. This included an analysis of the IFI intermediated lending portfolios in the region (EBRD, IFC, EIB, KFW, Nordic Environment Finance Corporation (NEFCO), Austrian Development Bank, World Bank), together with an overview of multi-lateral instruments (Green for Growth Fund, Global Climate Partnership Fund). Approximately USD 1.5bn of credit lines were identified for the period 2005-2014. Key barriers were explored, including those related to weak regulatory environment, supply side concerns (financial institutions) and weak demand side (end borrowers). A number of observations were made about the challenges associated with monitoring the impact of credit lines, engaging with local financial institutions and withdrawing IFI support over time to develop sustainable business models among local banks. The need to take account of mainstreamed environmental lending as well as explicit environmental finance was raised, together with the importance of access to long term capital.

Janina Ketterer and Ian Smith (EBRD) shared ***EBRD's experience with Sustainable Energy Financing Facilities in the region***. The EBRD role in supporting local financial institutions to develop and scale up sustainable lending products was set out. The interaction between finance, technical assistance and policy dialogue was explored. Participants described the importance of adapting technical assistance and reporting standards to the local context. A number of lessons learnt were presented, including the need for market studies prior to launch, reducing transaction costs for less complex investments, and mainstreaming products and processes within banks. EBRD set out its approach to encouraging local financial institutions to transition to deploying their own funds through the use of soft targets. Finally, the need for robust monitoring, reporting and evaluation processes was examined. The measurement of impact against a dynamic baseline was identified as a key EBRD methodological strength.

Sandra Lutz (KfW) presented ***KfW experience with establishing donor-supported credit lines in selected EaP countries***. KfW set out their definitions and approach, including only financing economically viable projects where subsidies were not required. This limits KfW activity to those markets where framework conditions are already positive for environmental lending. A Ukraine case study was presented. Key success factors were identified, including the importance of mainstreaming, and the relevance of framework conditions in a given country. Participants discussed the harmonisation of standards and reporting approaches on CO_2 reduction and other measures. KfW explained that it was moving towards an *ex-post* evaluation approach, rather than resource intensive tracking systems to measure impact on an ongoing basis.

Challenges with disbursing credit line resources by local banks at a country level

Sergiy Khudiyash (Ukreximbank) presented an ***overview of the work of Ukreximbank in the sphere of sustainable finance***. The challenges of sustainable energy in Ukraine and a description of regulatory environment were set out. Ukreximbank has developed a standard environmental lending product, and an in-house implementation and training unit. The bank has disbursed more than USD 550 mln of IFI originated credit lines over the last 5 years. A number of case studies of companies in receipt of loan financing were presented.

Tamar Khizanishvili (Bank of Georgia) presented ***work on the finance of hydropower plants (HPPs)***. Bank of Georgia has received finance from both KfW (Renewable Energies Facility) and EBRD (Energocredit), but also provides financing from its own balance sheet. HPPs are economically viable in Georgia without the support of feed-in tariffs. A number of case studies were presented, and challenges in financing projects identified. The need for good local engineering expertise was highlighted, as well as the need to incentivise clients to take energy audits. Competition between banks has helped to drive market development in both areas of lending. A request was made to lower the OECD risk rating to reduce the cost of insurance on imported goods and equipment.

New green investment initiatives in the EU EaP countries

Martin Dasek (IFC) set out ***banking activities and market opportunities associated with green finance***. He provided an overview of IFC Climate Smart Business through finance institutions, covering both investment products and advisory services. The need to provide targeted products to meet individual banking needs was stressed, as was the need to limit the level of concessionality associated with such products. Not all banks need credit lines, and risk sharing facilities or mezzanine finance may be more appropriate. The IFC cost sharing model was set out. The role of government in improving the level of market demand was discussed, and a number of IFC case studies presented. The length of support to be provided by IFIs was explored, with a range of views on how long such support might be required. In future, IFC may move towards being a provider of stand-alone environmental lending advisory as access to finance improves.

Patrick Nussbaumer (UNIDO) presented ***UNIDO's work on resource efficiency and cleaner production in the EaP region, and its partnerships with a range of international organisations***. The benefits of resource efficiency approaches were presented, and an approach to mainstreaming cleaner production into manufacturing industry set out. The work of the Resource Efficient and Cleaner Production (RECP) in Ukraine was explained, and lessons learned discussed. Key opportunities included making a clearer business case for resource efficiency, integrating technical and financial solutions, providing non-technical support, encouraging partnership development and improvements in the policy environment.

Methodology for an in-depth review of environmentally-related IFI-supported credit lines

Matthew Savage (Oxford Consulting Partners) described some of the drivers and key success factors associated with environmental credit lines. The ***proposed approach to Phase 2 of the research process*** was then set out. This envisages 2-3 country case studies, comprising desk research, a set of semi-structured interviews and a market/regulatory review. The selection criteria for choosing case studies were presented to ensure a range of sector and market coverage. Participants discussed the content of the research exercise, and the potential limitations on data availability. The scope of the research (potential to include project finance, and other forms of environmental lending) was also discussed, but it was decided that the research needed to remain focused on a subsector of environmental lending (credit lines).

Closing session — next steps in project implementation

Next steps on project implementation were discussed. The need to customise the research process to the country and sectors chosen was highlighted. Government of Ukraine and Ukreximbank set out their support and willingness to engage with the project as a potential case study and it was agreed that further discussions would be undertaken, together with the relevant supporting IFIs. Government of Georgia and Bank of Georgia indicated that they would be open to further discussions but that these should be initiated through the Government of Georgia.

It was agreed that the draft overview report will be completed, taking into account comments and suggestions made during the meeting.

Annex I: Meeting agenda

Thursday, 5 June 2014

Session 1	**Welcoming remarks, adoption of the agenda and round of introduction**
14:00	• *OECD Secretariat*
Session 2	**Introduction of the project on access to private finance for green investments in the EU Eastern Partnership countries**
14:30	• *Nelly Petkova, OECD ENV/EPI*
Session 3	**Public policies and incentives for enabling private finance for green investments**
15:00	• Government intervention to mobilise private investments in green infrastructure — *Robert Youngman, OECD ENV/CBW* • Private finance for green investment: The role of the public sector – some lessons from WRI's experience — *Shilpa Patel, World Resources Institute*
16:15	***Coffee break***
Session 4	**Financing of green investments by commercial banks**
16:45	• Unlocking private finance for sustainability – a shared responsibility - *Yuki Yasui, UNEP Finance Initiative* • Benefits from responsible finance in transition economies – *Mikhail Babenko, WWF Russia*

Friday, 6 June 2014

Session 5	**Design and implementation of environmentally related IFI-supported credit lines in the EU EaP countries**
9:30	• Overview of existing environmentally-related credit lines in the EU EaP countries and main barriers to private green investments — *Matthew Savage, Oxford Consulting Partners* • Lessons learnt from the EBRD experience with Sustainable Energy Financing Facilities established in selected EBRD countries of operation — *Janina Ketterer, Energy and Climate Change Economist, Ian Smith, Energy Efficiency and Climate Change, EBRD, London* • Experience with establishing donor-supported credit lines in selected EaP countries — *Sandra Lutz, KfW Berlin*
11:15	***Coffee break***
Session 6	**Challenges with disbursing credit line resources by local banks at a country level**
11:40	• Experience of a state-owned bank from Ukraine – *Sergiy Khudiyash, UkrEximBank* • Private bank perspective on reaching out small and medium enterprises — *Tamar Khizanishvili, Bank of Georgia, Georgia*

12:45	***Lunch break***
Session 7	**New green investment initiatives in the EU EaP countries**
14:00	• IFC strategy for mobilising private sector financing for clean energy – *Martin Dasek, Senior Climate Solutions Financing Specialist, Europe & MENA IFC Financial Institutions Group* • UNIDO initiatives for facilitating investments in resource efficient and cleaner production in the EaP countries – *Patrick Nussbaumer, UNIDO*
15:00	***Coffee break***
Session 8	**Methodology for an in-depth review of environmentally-related IFI-supported credit lines and discussion**
15:30	• Presentation of the Draft methodology – *Matthew Savage, Oxford Consulting Partners*
Session 9	**Closing session — Next steps in project implementation**
17:30	• Next steps in advancing the project – identification of country case studies • Concluding remarks and wrap-up of the meeting

Annex II. List of participants

Countries	
Azerbaijan	Mr. Elchin AHMADOV Deputy Director Department for Cooperation with International Organizations Ministry of Economy and Industry Government House 84 U. Hajibeyli St. AZ1000 Baku
Belarus	Mr. Stanislav APALKOV Consultant Investment Projects Department Ministry of Economy 14 Bersona St. 220050, Minsk
Georgia	Ms. Lali GOGOBERIDZE Head Economic Analysis and Policy Department Ministry of Economy and Sustainable Development 12 Chanturia St. 0108 Tbilisi
India	Mr. Rakesh SHARMA First Secretary Multilateral Economic Affairs & Protocol Embassy of India 15 rue Alfred Dehodencq 75016 Paris France
Kazakhstan	Mr. Zhomart MOMINBAYEV General Director LLP «Samruk-Green Energy» 15A Kabanbay Batyr Avenue, Block B Astana
Moldova	Mr. Andrei URSU Senior Advisor Investment Policies and Expert Promotion Division Ministry of Economy 1 Piata Marii Adunari Nationale MD-2033 Chisinau
Ukraine	Ms. Olena KUCHERENKO Director of Department Department for Cooperation with International Financial Institutions and Coordination of International Technical Assistance Ministry of Economic Development and Trade 12/2 M. Hrushevskoho St. 018008 Kyiv

Credit Bank for Reconstruction (KfW)	Ms. Sandra LUTZ Project Manager Financial Systems Development Eastern Europe, Caucasus and Central Asia KfW Palmengartenstraße 5-9 60325 Frankfurt am Main Germany
European Bank for Reconstruction and Development (EBRD)	Ms. Janina KETTERER Economist, Energy and Climate Change EBRD One Exchange Square London United Kingdom Mr. Ian SMITH Senior Manager Banking / Energy Efficiency and Climate Change EBRD One Exchange Square London United Kingdom
European Investment Bank (EIB)	Mr. John WARBURTON Senior Policy Adviser (Climate and Environment) Operations outside Europe EIB 98 – 100 Konrad Adenauer Boulevard Luxembourg
International Finance Corporation (IFC)	Mr. Martin DASEK Senior Climate Solutions Financing Specialist, Europe & MENA IFC FIG (Financial Institutions Group) IFC - World Bank Group IFC IOC, Buyukdere Cadd, Kanyon Istanbul Turkey
Bank of Georgia JSC	Ms. Tamar KHIZANISHVILI Deputy Corporate Banking Director Corporate Banking Department Bank of Georgia JSC 29a Gagarini St. Tbilisi Georgia
Development Bank of Austria	Ms. Sabine GABER Head of Investment Finance Investment Finance Development Bank of Austria Strauchgasse 3 A-1010 Vienne Austria

State Export-Import Bank of Ukraine	Mr. Sergiy KHUDIYASH Head of Department IFI Programs State Export-Import Bank of Ukraine 127 Gorkogo St. 03150 Kyiv Ukraine
Vnesheconombank (VEB)	Mr. Sergey SEMENTSOV Head of Division Department of Strategic Analyses and Development Vnesheconombank 9 Akademik Sakharov Ave. 107996 Moscow Russian Federation
UNEP Finance Initiative	Ms. Yuki YASUI Deputy Head UNEP Finance Initiative 15 Chemin des Anemones, Chatelaine CH1219 Geneva Switzerland
UN Industrial Development Organisation (UNIDO)	Mr. Patrick NUSSBAUMER Industrial Development Officer Environmental Management Branch UNIDO Vienna International Centre Wagramerstr. 5 P.O. Box 300 A-1400 Vienna Austria
World Wild Life Fund International	Mr. Mikhail BABENKO Head of Green Economy Programme WWF Russia 19 Nikoloyamskaya St., Building 3 Moscow Russian Federation
Finance in Motion	Ms. Maja GIZDIC Director Investment Management Department Finance in Motion Theodor-Stern-Kai 1 60596 Frankfurt am Main Germany
Central Asia Regional Environmental Center (CAREC)	Mr. Heinrich WYES Deputy Executive Director Regional Environmental Centre for Central Asia 40 Orbita-1 480043 Almaty Kazakhstan

Regional Environmental Center (REC) for Central Europe	Mr. Ruslan ZHECHKOV Senior Expert Environmental Financing Topic Area Environmental Financing REC for Central Europe 9-11 Ady Endre St. 2000 Szentendre Hungary
Energy Design Sp. z o.o. Sp. k	Mr. Jan RACZKA Leading Consultant Energy Design Sp. z o.o. Sp. k 39a/5 Pulawska St. Warsaw Poland
Kommunalkredit Public Consulting GmbH	Mr. Wolfgang DIERNHOFER Head of Department Energy, Environment and Climate Change Department Kommunalkredit Public Consulting GmbH Türkenstrasse 9 1092 Vienna Austria
Mace	Mr. Marek STEFANOWICZ Group Treasurer Finance Department 31, Randolph Crescent London W9 1DP, United Kingdom
Oxford Consulting Partners	Mr. Matthew SAVAGE Expert Energy - Climate Change - Sustainability Oxford Consulting Partners 1 Barrett St. OX2 0AT Oxford United Kingdom
SST-CONSULT	Mr. Rafal STANEK Senior Partner SST-CONSULT Pekowice, 17 Ojcowska St. 32-087 Zielonki Poland
Volvendo Consulting	Ms. Verena PFEIFFER Head of Volvendo Consulting Volvendo Consulting Hebbelstr. 46 14467 Potsdam Germany
World Resources Institute (WRI)	Ms. Shilpa PATEL Principal Advisor Private Sector Climate Finance WRI 10 G ST NE, 8th Floor 20002 Washington United States

OECD	Mr. Brendan GILLESPIE Head of Division ENV/Environmental Performance and Information (EPI) Division OECD Marshall Building 0025 2 rue André-Pascal 75016 Paris France
	Ms. Angela BULARGA Principal Administrator ENV/EPI OECD Marshall Building 2216 2 rue André-Pascal 75016 Paris France
	Ms. Nelly PETKOVA Economist/Policy Analyst ENV/EPI OECD Marshall Building 2214 2 rue André-Pascal 75016 Paris France
	Mr. Robert YOUNGMAN Principal Policy Analyst ENV/Climate, Biodiversity and Water Division OECD Marshall Building 0139 2 rue André-Pascal 75016 Paris France
	Ms. Irina MASSOVETS Assistant ENV/EPI OECD Marshall Building 2220 2 rue André-Pascal 75016 Paris France