



Aligning policy reform and financing for green investments in Eastern Europe, Caucasus and Central Asia (EECCA)

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Emissions: world has four times the work or one-third of the time

The gap is so huge that governments, the private sector and communities need to switch into **crisis mode**, make their climate pledges more ambitious and focus on early and aggressive action.

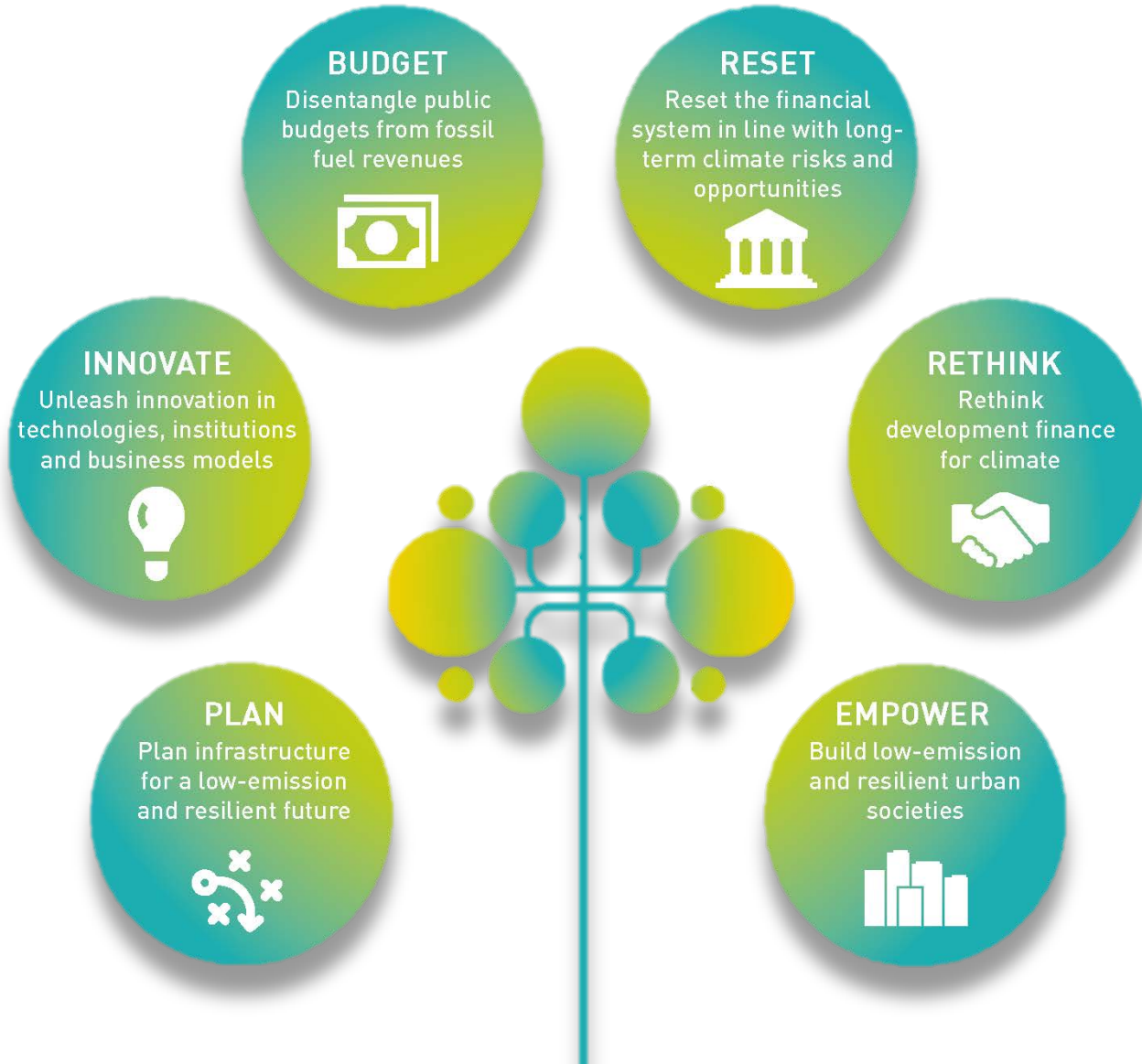
Otherwise, the Paris agreement's long-term goals are out of reach.

We do not have another ten years...

<https://www.nature.com/articles/d41586-020-00571-x>



Six transformative areas to align financial flows with a low-carbon future




<https://www.oecd.org/cgfi/>

Green/climate finance and investment in Eastern Europe, Caucasus and Central Asia (EECCA)

What is a key challenge to scaling up green investment in the EECCA region:

- Not enough money, or
- Not enough good projects?





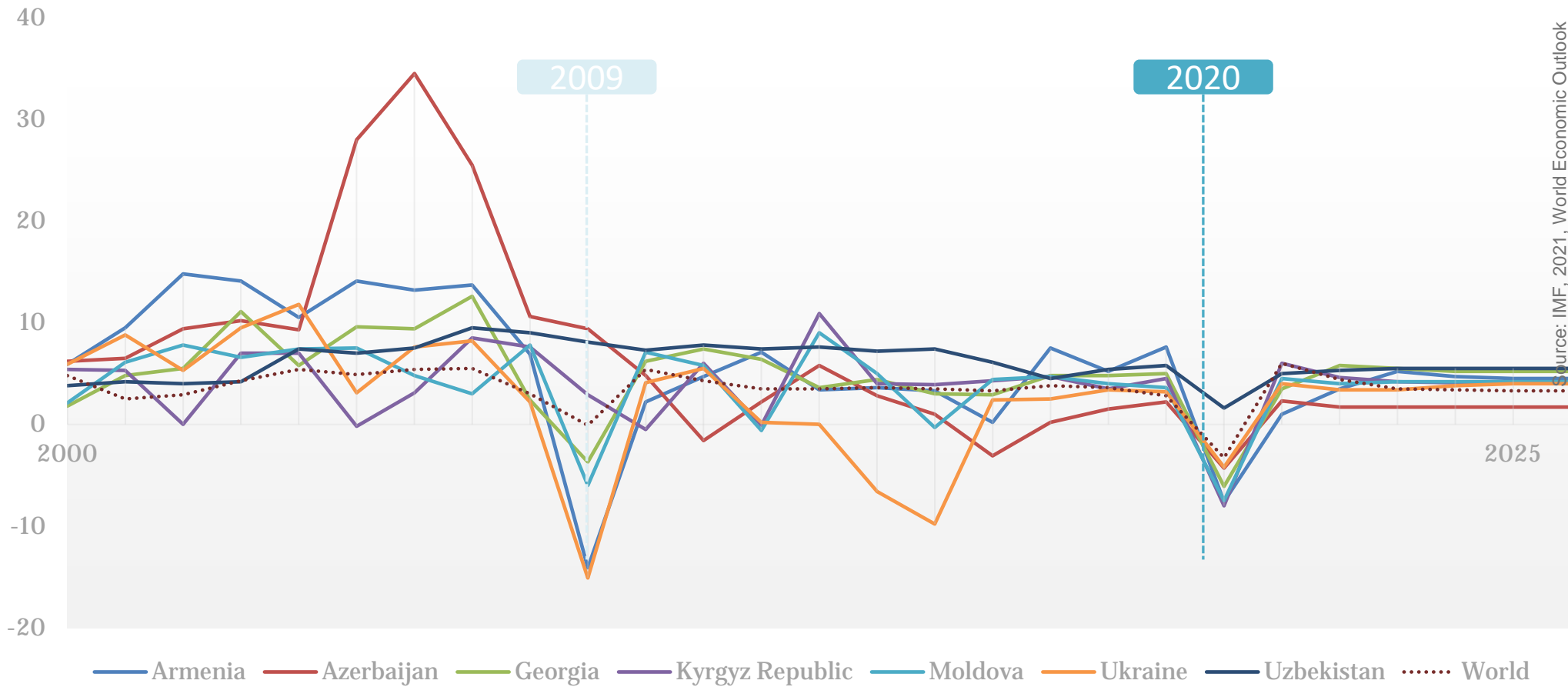
Green/climate finance and investment in Eastern Europe, Caucasus and Central Asia (EECCA)

- ❖ Relatively **high economic grow**; quest for new engines of growth
- ❖ **Ambitious commitments** to reduce energy-, GHG-, water-, material-intensities
- ❖ **Aging/inadequate technologies and infrastructure**, continued investment in high carbon assets (also through subsidies)
- ❖ **Competing demands on public resources**, weak implementation plans and insufficient implementation capacities
- ❖ **Fragmented and under-utilized existing domestic sources of finance** (often also mismanaged) and largely untapped **private finance**
- ❖ **Shallow domestic financial markets and high cost of capital/high risks** (high interest rates, high collateral requirements, short tenors, 'dollarization', low country credit rating)
- ❖ Increasing **supply of funding from external sources** (dominant position of IFIs as main source of long-term green finance)
- ❖ **Low project preparation capacity** and no green/climate factors in project appraisals
- ❖ **Difference in needs for finance between large enterprises, SMEs** (resource efficiency/pollution reduction) and **public services** (infrastructure, biodiversity)



Covid-19 impacts

Annual percentage change, real GDP





EECCA need massive investment in climate action

- Gross investment needs can be several billions per year until 2030 and beyond to achieve EECCA's national goals on climate change and green growth.
- Both public and private, domestic and international finance have important roles in meeting the needs.

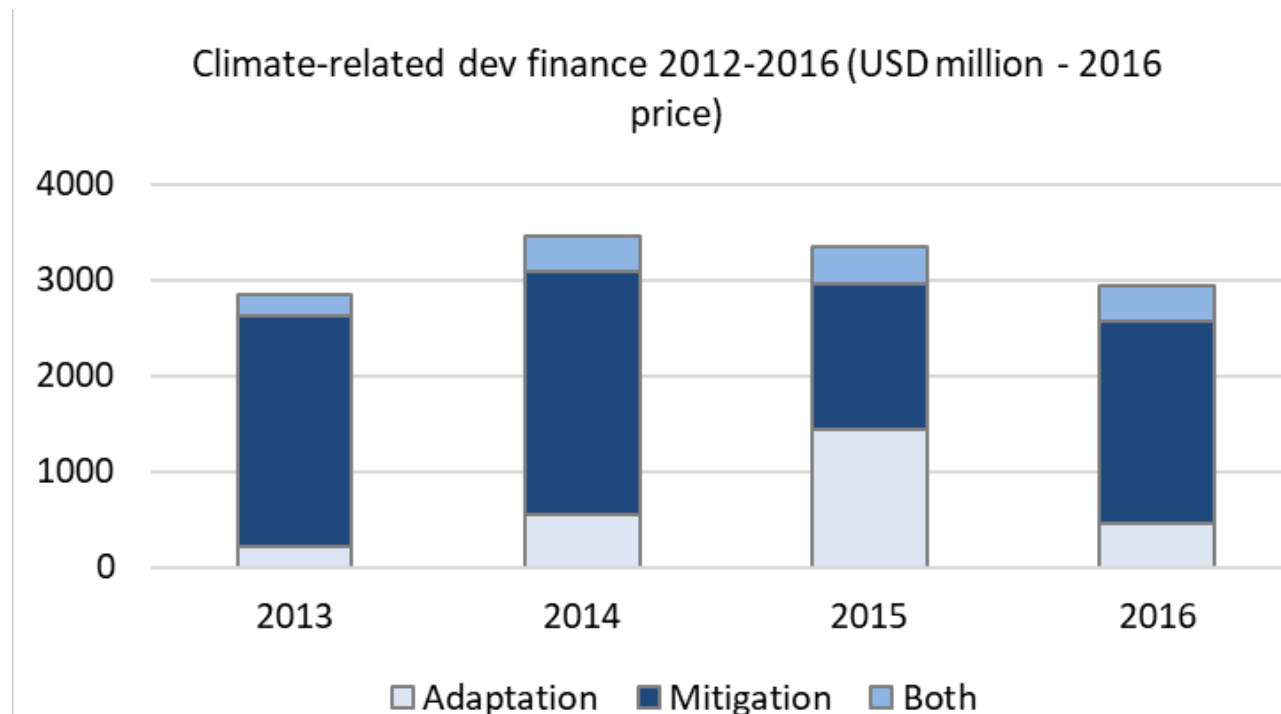
Country	Estimated investment needs/year ave.	Period
Kazakhstan	USD 3.3 bln/ year	2014 - 2049
Georgia	USD 1.6 bln/ year	2017 - 2030
Moldova	USD 340 mln/ year	2015 - 2030

Source: Based on Government of Kazakhstan (2013), [OECD \(2018\)](#), [Republic of Moldova \(2015\)](#)



Development finance is, and will remain, one of the most important sources

Bilateral and multilateral providers committed more than USD 3 billion/year to 11 EECCA countries, which target climate action as primary or significant objectives (2013-2016)



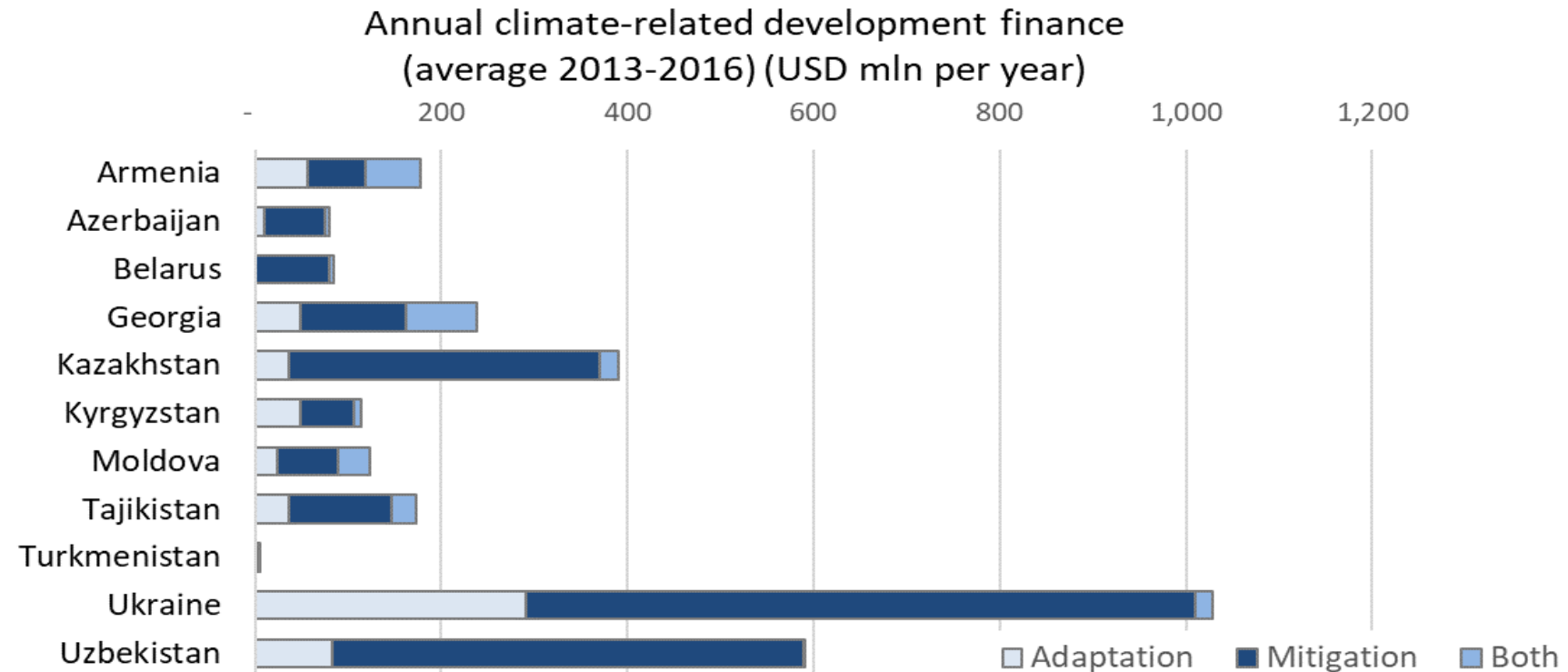
Source: [OECD DAC \(2018\)](#)

* Note: Definition of climate-related development finance and scope of the database, please see: [Definition and Guidance for the Climate Rio Markers](#) and its accompanying documents.



The levels of committed amounts greatly differ among EECCA countries

...reflecting varying sizes of economy, stages of development, geopolitical interests, countries' needs and readiness to access climate finance...





Domestic Environmental Funds

Evolution of National Environmental Funds

● **Late 1980s**
System of pollution charges and fines
Earmarked extra-budgetary funds

● **2000 - 2014**
Earmarked budgetary funds
Full consolidation in the budget and closure of some Funds
2000 – Kazakhstan
2008 – Turkmenistan
2011 – Belarus
2014 – Ukraine
National Fund but not local Funds

● **Mid-2000 and ongoing**
New types of funds appeared
Sector specific

Typology of Environmental Funds

Traditional Environmental Funds fully consolidated into state budgets and year of their closure	Traditional budgetary Environmental Funds in operation	Specialised Clean Energy Funds
Belarus: National and regional Nature Protection Funds (closed in 2011)	Azerbaijan: State Fund for Environmental Protection	Armenia: Renewable Resources and Energy Efficiency Fund (est. 2005)
Kazakhstan: State Environmental Protection and regional Funds (closed in 2000)	Kyrgyz Republic: Republican and 4 local Environmental Protection and Forestry Development Funds	Georgia: Georgian Energy Development Fund (est. 2010)
Turkmenistan: State Environmental Fund (closed in 2008)	Moldova: National Ecological Fund	Ukraine: Energy Efficiency Fund (est. 2018)
Ukraine: National (special budget) Environmental Fund (closed in 2014) (but local Environmental Funds continue to exist)	Uzbekistan: National Ecology, Environmental Protection and Waste Management Fund and 14 local Funds	



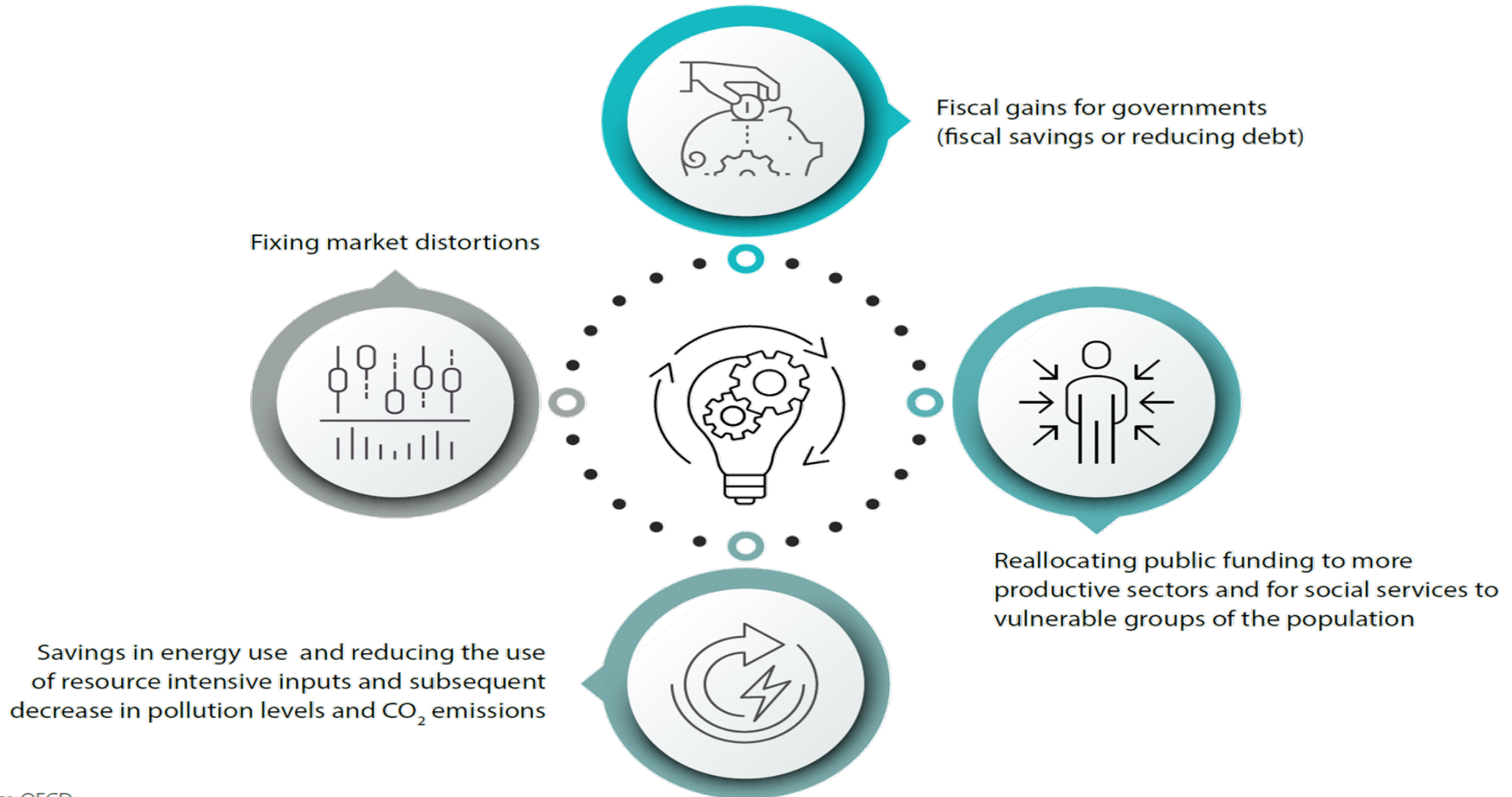
Accounting of public and private environmental finance (Kazakhstan)

Investment and current expenditures of environmental protection and certain resource management activities from 2015 to 2017 (Million tenge, nominal)

Activity	CEPA class	Investment cost			Current cost		
		2015	2016	2017	2015	2016	2017
Protection of atmospheric air and problems of climate change	CEPA 1	24 936	18 128	22 764	50 613	41 624	48 912
Wastewater treatment	CEPA 2	15 186	10 128	5 966	46 221	44 166	47 842
Waste management	CEPA 3	14 131	8 464	6 210	51 883	42 105	50 153
Protection and rehabilitation of soil, groundwater and surface water	CEPA 4	10 449	4 278	8 826	10 998	16 182	13 578
Noise and vibration effects reduction	CEPA 5	-	4	-	31	36	39
Conservation of biodiversity and habitat	CEPA 6	688	461	420	903	880	635
Radiation safety	CEPA 7	192	90	81	1 120	1 110	1 135
Scientific research	CEPA 8	333	621	129	2 935	3 333	4 038
Other areas of environmental protection	CEPA 9	16 969	1 761	42 568	9 946	2 770	9 112
Total (Environmental protection)		82 883	43 937	86 962	174 650	152 206	175 445
Renewable energy sources	-	7 488	956	18 885	n.a.	n.a.	n.a.
Energy-saving technologies and energy efficiency	-	656	155	15 612	n.a.	n.a.	n.a.
Other measures to reduce GHG emissions	-	1 115	218	n.a.	n.a.	n.a.	n.a.
Total (Resource management)		9 258	1 329	34 497	n.a.	n.a.	n.a.

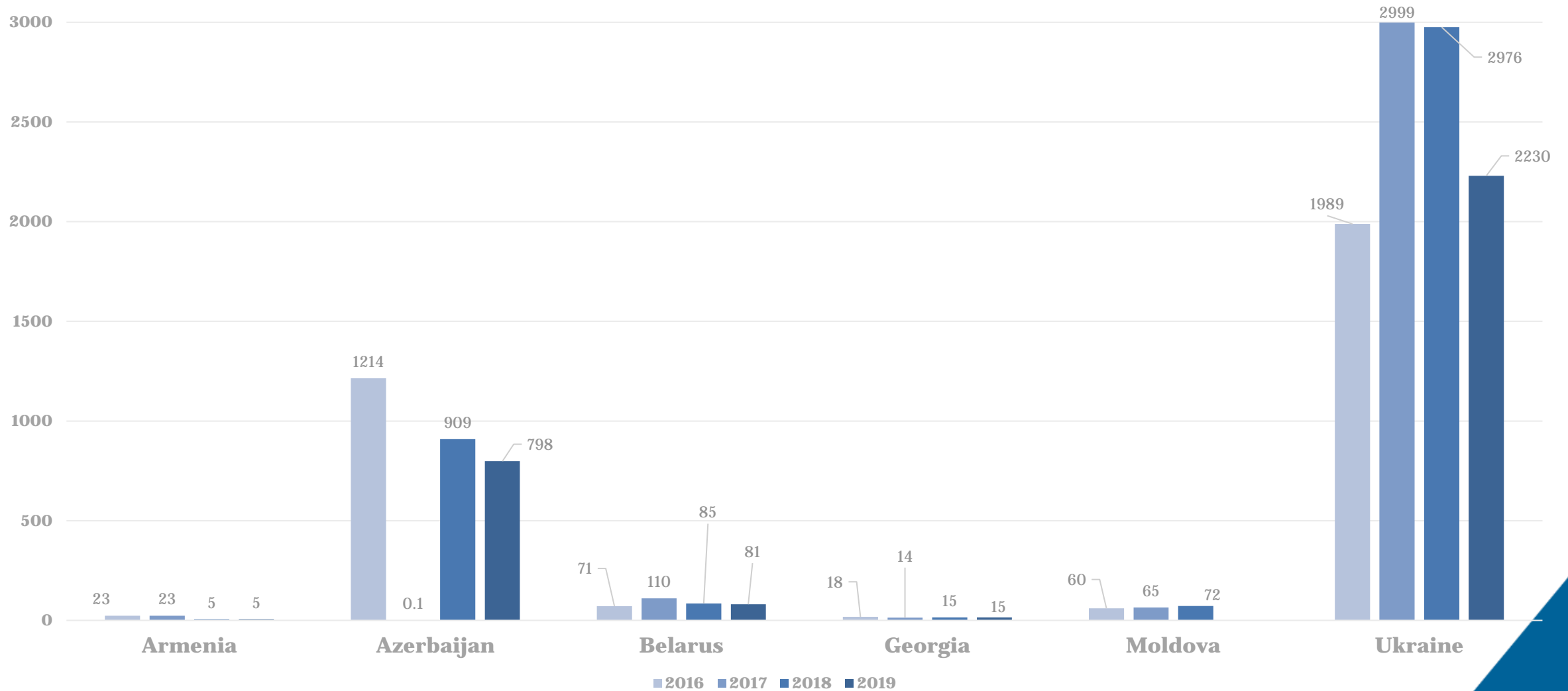


Before anything else: subsidy reform



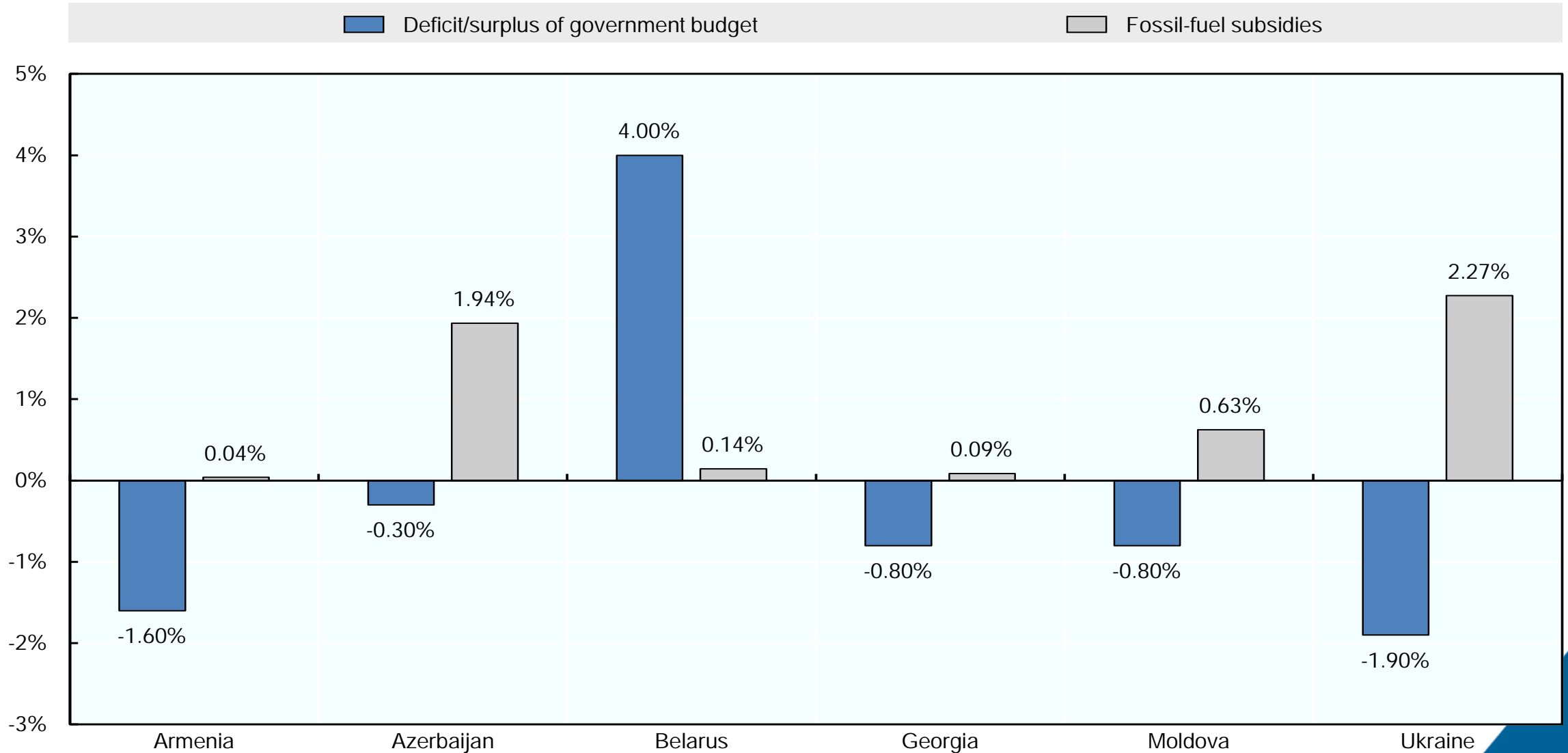


Quantified fossil-fuel subsidies in the EU Eastern Partnership countries, 2016-19, mln USD





General government deficit/surplus and quantified fossil-fuel subsidies as a share of GDP





Financial channels, currently or potentially available for green finance (Georgia)

		Capital Sources										
		Domestic						International				
		Public			Private			Public		Private		
Financial instruments	Debt (lending, bonds, on-lending etc.) & Mezzanine	2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		N/A	N/A	N/A	3	3	3	3	2	N/A	?	?
		N/A	N/A	3	3	N/A	3	3	3	N/A	3	3
		N/A	N/A	2	1	2	?	N/A	1	1	1	N/A
		N/A	N/A	N/A	(channel)	N/A	N/A	N/A	1	1	N/A	N/A
		N/A	N/A	2	2	N/A	2	?	2	?	?	?
	Equity	N/A	N/A	N/A	2	N/A	3	1	3	3	2	2
		1	1	1	2	3	2	2	1	2	?	?
		?	?	?	?	?	?	?	?	?	?	?
	Risk mitigation instruments	2	2	3	N/A	N/A	N/A	N/A	2	1	N/A	N/A
		1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		2	2	N/A	N/A	N/A	N/A	N/A	1	1	N/A	N/A
		2	N/A	N/A	N/A	N/A	N/A	N/A	?	2	N/A	N/A
		?	?	2	?	3	N/A	N/A	1	1	3	N/A
		3	3	3	3	3	N/A	N/A	1	1	3	N/A
		?	?	?	?	?	?	?	?	?	?	?
		?	?	?	?	?	?	?	?	?	?	?
		?	?	?	?	?	?	?	?	?	2	?

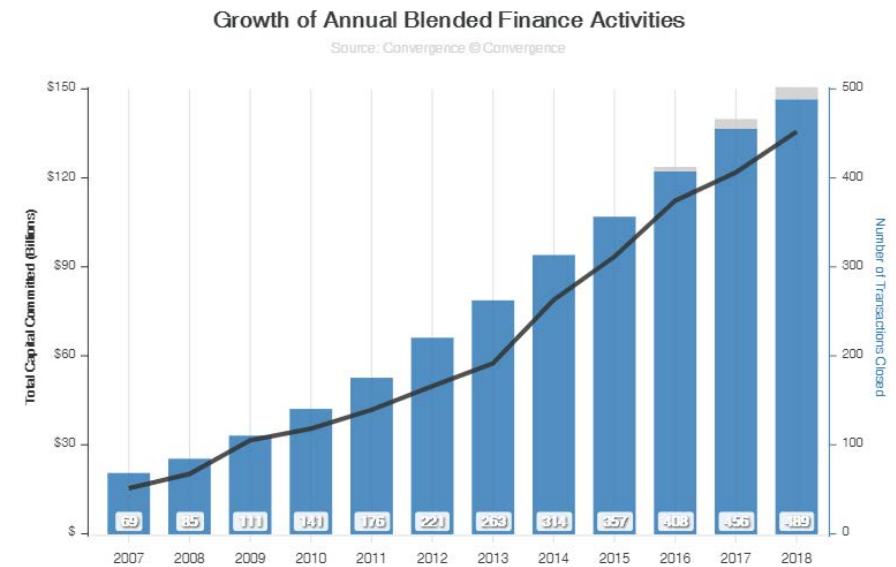
1; widely used,
 2; used but not commonly (or just emerging),
 3; possibly used, but does not exist yet
 N/A; Not applicable
 ?; further information needed

Source: OECD analysis



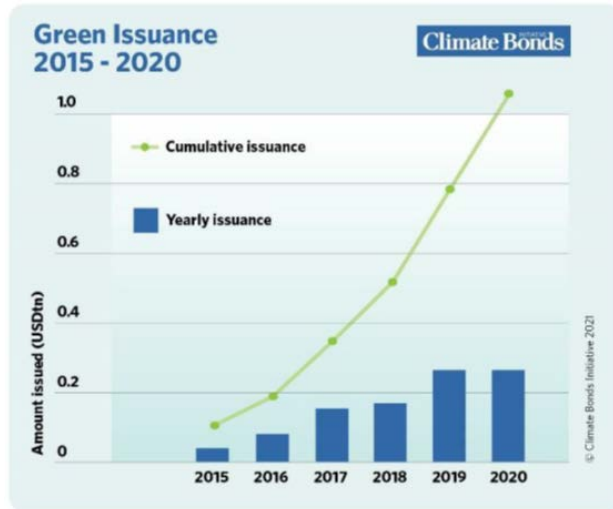
Selected financial instruments

- **Institutional investors** (pension funds, insurance companies, sovereign wealth funds) usually invest in low or zero-return government securities or bank deposits and generally do not play a role in financing investments in EECCA
- **Blended finance** is becoming more used (combining financing sources that have a developmental mandate with those that have a commercial mandate, while the investment could be either private or public)
- Development of local capital markets, including the establishment of **non-bank financial institutions** (NBFI): investment funds, insurance companies, venture capital and private equity funds (e.g. Armenia's *Granatus Venture Fund*, Azerbaijan *Investment Company*, Georgia *Regional Development Fund* and *CFS Investment Bank*; Ukraine's *Horizon Capital*)

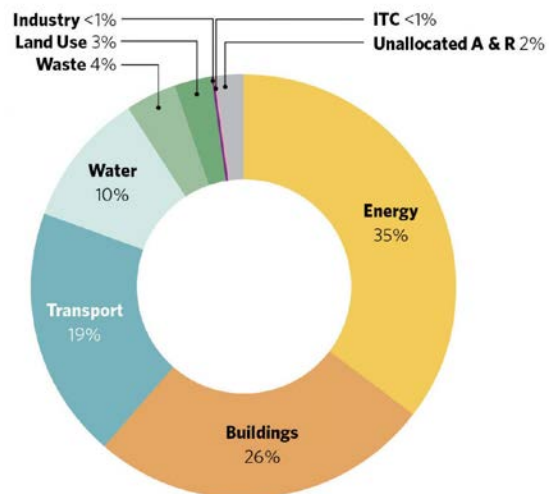




Green bonds



The \$1 trillion: use of proceeds



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- **Bonds** are among the key instruments of the capital market traditionally used to raise debt for projects which need a significant amount of financing
- **Green and climate-aligned bonds** are similar to regular bonds but their proceeds are explicitly earmarked for green investments
- Globally, the **green bonds market has grown exponentially** over the last 10 years.
- Compared to bank lending, **bonds provide:**
 - an alternative and often competitive source of finance for real sector companies
 - lower cost of capital,
 - longer maturities and are more liquid
 - the absence or the relatively low level of collateral requirements.
- Examples of **issuance of green bonds in Ukraine and Georgia**



Greening COVID-19 economic recovery measures in EECCA countries

	Green elements in COVID-19 response and recovery plans	Acceleration of green elements of pre-existing national plans	Green support to MSMEs	Green elements in international initiatives in support of COVID-19 response	Mixed recovery measures					Recovery measures with potential negative implications
					Air quality	Energy	Agriculture	Waste management	Water, sanitation and hygiene	
Armenia	✓		✓	✓		✓		✓		✓
Azerbaijan		✓		✓	✓	✓		✓		
Belarus				✓		✓		✓		✓
Georgia			✓	✓	✓	✓	✓	✓		
Kazakhstan	✓	✓	✓	✓		✓	✓	✓		✓
Kyrgyzstan	✓	✓		✓	✓			✓		✓
Moldova	✓	✓	✓	✓		✓				
Tajikistan	✓			✓		✓				
Turkmenistan				✓						
Ukraine				✓	✓			✓	✓	✓
Uzbekistan		✓		✓			✓		✓	

Source: OECD, 2021. COVID-19 and greening the economies of Eastern Europe, the Caucasus and Central Asia. OECD Policy Paper.
<https://www.oecd.org/coronavirus/policy-responses/covid-19-and-greening-the-economies-of-eastern-europe-the-caucasus-and-central-asia-40f4d34f/>

Steps to scale up green finance

- ✓ **Align policies:**
 - eliminate **environmentally-harmful and economically inefficient fossil-fuel subsidies**,
 - develop **smart regulations** that create genuine demand for green investments
 - adjust **pricing of utility services** (e.g. energy, water, transport) to set economically justified tariffs that encourage efficiency
- ✓ **Strengthen statistical information** to provide more granular, comparable and robust data and information on finance flows (revenues and expenditure, “green” and “brown” activities) and make use of the **EU taxonomy on sustainable economic activities** adapting it to national conditions as needed
- ✓ **Create pipelines of green projects, particularly infrastructure**
 - Strengthen integrated infrastructure planning and aggregate projects to create bigger portfolios that can attract investors
 - improve transparency in public expenditure and project selection
 - Use limited public resources in a smart way, setting risk mitigation mechanisms for investments in new technologies
- ✓ Strengthen existing, and develop new, instruments to **mainstream environmental concerns in financial regulations and evaluation**
- ✓ **Develop capacity** at all levels and among actors in private sector (including SMEs)
- ✓ **Ensure incorporation of green measures in the COVID-19 related economic recovery packages, including by development partners**

OECD work on Green Finance and Investment in EECOA

- **analysis of investment needs and developing strategies** (e.g.. turning NDCs into investment strategies)
- **better expenditure management and greening domestic public finances:** reforming energy subsidies, tracking green finance flows, review of national funding entities, development of green investment programmes at national and sub-national level)
- **enhancing access to domestic private finance** (e.g.. strengthening role of banking and financial sector regulations for green finance mobilization, greening finance for SMEs, new finance instruments)
- **enhancing access to international finance** (analysis of credit lines, blending, risk mitigation, building project preparation capacity)
- **national and regional policy dialogues**

Examples of results



- **Green finance roadmaps** for Georgia and Kyrgyzstan
- **Tracking green finance** in Kazakhstan
- Comprehensive **inventories of fossil fuel subsidies** in Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine countries
- **Public investment programmes** for low-carbon mobility in cities of Kazakhstan, Moldova and Kyrgyzstan, for waste management in Georgia and for water management in Azerbaijan
- Strengthening **environmental funds** in Moldova and Ukraine
- Reform of **environmental payments and taxation systems** in Kazakhstan and Ukraine
- Analysis of financing options for **greening SMEs**
- Engagement of the **National Bank of Georgia** and the **National Bank of Kyrgyzstan** in discussions on green finance
- Analysis of the **market for green bonds** in the EU Eastern Partnership countries
- **Regional and national dialogues** on green finance and investment



Thank you for your attention!

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<http://www.oecd.org/environment/outreach/GREEN-Action-Task-Force>

<https://www.eu4environment.org>



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