Rural Small & Medium
ENTERPRISES DEVELOPMENT
GEORGIA

# Green Finance Landscape in Georgia and Regional Best Practices

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*Photo by Yashas Chandra*

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# Acronyms and Abbreviations

ADB – Asian Development Bank
BOG - Bank of Georgia
EG – Enterprise Georgia
EBRD - European Bank for Reconstruction and Development
DCFTA - Deep and Comprehensive Free Trade Area
EIB - European Investment Bank
GCAP - JSC Georgia Capital
GCF - Green Climate Fund
GCPF - Global Climate Partnership Fund
GEFF - Green Economy Financing Facility
GGF - Green for Growth Fund
GGU - JSC Georgia Global Utilities
GRPO - JSC Georgian Renewable Power Operations
GSE – Georgian Stock Exchange
GSS+ - Social, Sustainable, and other Labeled bonds
IBRD - International Bank for Reconstruction and Development
IFC - International Finance Corporation
NBG - National Bank of Georgia
NGFS - the Network for Greening the Financial System
SBFN - Sustainable Banking and Finance Network
SRBs - Sustainability-related bonds
SDGs - United Nations Sustainable Development Goals
SF - Sustainable Finance
SMEs - Small and medium-sized enterprises
TFP - Trade Facilitation Programme
UNEP - United Nations Environment Programme

# What is Green Finance



Green finance, as defined by the World Economic Forum, refers to any structured financial activity created to ensure a better environmental outcome. It includes a broad array of financial products and services such as loans, debt mechanisms, and investments aimed at promoting eco-friendly projects or mitigating the environmental risks of traditional activities. In the business context, green finance supports projects that have a positive environmental impact, including renewable energy, energy efficiency, and climate-resilient infrastructure.

The transition to a sustainable and resilient economy has become a global priority, and green finance plays a critical role in achieving this transformation. By prioritizing green investments over traditional, unsustainable growth patterns, businesses can achieve economic success through reduced operational costs and emissions while enhancing their public reputation as socially and environmentally responsible organizations. Regulatory incentives such as tax breaks, subsidies for green projects, and the issuance of green bonds further boost the private sector's engagement with green finance.

Georgia is making significant strides in developing its green finance ecosystem through robust regulatory frameworks, partnerships, and international support. The National Bank of Georgia (NBG) has developed a Sustainable Finance Framework and Taxonomy to classify green activities and encourage sustainable investments. International partnerships with organizations like the EBRD, ADB, and IFC provide credit lines, technical support, and advisory services. Notable progress includes $313 million in green loans in 2023, marking a 73% annual increase, and the issuance of $300 million in green bonds in 2024.

Banks play a pivotal role in advancing green finance by offering a range of products tailored to promote environmentally friendly practices and technologies. Green loans, for example, provide funding for energy-efficient equipment, renewable energy installations, and sustainable building upgrades. These financial instruments reduce upfront costs for businesses, enabling them to invest in sustainable solutions while lowering long-term operational expenses. Additionally, sustainability-linked loans (SLLs) incentivize businesses to meet specific environmental targets, driving accountability and measurable outcomes.

Despite this progress, Georgia faces challenges in advancing green finance. These include the limited adoption of sustainable financial practices among small and medium-sized enterprises (SMEs), a pressing need for diversified funding sources with greater participation from private investors, and insufficient integration of gender perspectives within green finance initiatives. Addressing these challenges requires targeted strategies to ensure inclusive and broad-based progress in sustainable finance.

# What is Green Finance

Along with Georgia, the document also examines green finance practices in neighboring countries and EU nations, highlighting advanced frameworks in countries like the Netherlands and Estonia compared to emerging systems in Armenia and Azerbaijan. Success cases include the Netherlands' innovative green bond market, which has financed significant renewable energy projects, and Estonia's digital solutions for tracking and promoting sustainable investments. In contrast, Armenia and Azerbaijan are at earlier stages of development, focusing on capacity building and establishing foundational regulatory frameworks for green finance.

The review of green finance practices in various countries has shown that many green finance instruments implemented by ecosystem participants can be grouped into three categories: debt instruments, equity instruments, and credit enhancement and risk transfer instruments. This classification aligns with the methodology for including relevant financial instrument classes in the financial accounts and balance sheets of national accounts (Source: unstats.un.org), while also reflecting the categorization used by the World Bank, Climate Bonds Initiative, and the Global Environment Facility (GEF).

Debt instruments are the most widely used form of green finance. They involve the issuance of financial obligations, such as bonds or loans, to fund sustainable initiatives. Equity instruments, on the other hand, allow investors to take ownership stakes in businesses or projects that prioritize environmental sustainability. Credit enhancement and risk transfer mechanisms, however, are designed to lower financial barriers to green investment by reducing risk. These instruments can decrease the cost of capital, increase project feasibility, and attract investors to projects or businesses that might otherwise be considered too risky.

**Table: Categorizing Green Finance Instruments**

| Category | Instrument |
|---|---|
| **Debt** | Debt securities (Green Bonds, Sustainability Bonds, Sustainability-linked Bonds, and other debt securities) |
| | Green Loans; Sustainability-linked Loan; Sustainable Leasing |
| **Equity** | Listed and unlisted shares; Investment Funds; etc. |
| **Credit Enhancement and Risk Transfer Instruments** | Interest-rate Softening Mechanisms; Guarantees; Technical Assistance Packages; First-Loss Provisions; A/B Loans or Grants*; Contingent Loans; etc. |

*A/B loans or grants are where a Multilateral Development Bank (MDB) offers the "A" portion of the loan while attracting other lenders to join in a second (or "B") tranche.

Sources: unstats.un.org; worldbank.org; climatebonds.net; Sustainable Debt 2023; GEF; GEF-2; World Leasing Yearbook;

# What is Green Finance

Along with risk-mitigating instruments, one may also find instruments that incentivize green activities. For example, commercial banks may offer cashback or technical assistance in conjunction with green loans or other similar products.

However, a major catalyst for green investments can be fiscal incentives. Fiscal incentives for green investment take various forms, such as grants, tax exemptions, and deductions. For instance, tax breaks can be granted if a company engages in environmentally friendly activities, produces low-carbon products, and/or implements cleaner technology. Annex 4 describes common forms of fiscal incentives for green investment.

Overall, by presenting an overview of achievements, challenges, and opportunities, this document serves as a comprehensive resource for understanding and advancing green finance in Georgia. It underscores the importance of collaborative efforts among public and private sectors, international partners, and financial institutions to achieve a sustainable and inclusive future.

# Green Finance Ecosystem in Georgia

# Green Finance Ecosystem in Georgia



Georgia is making steady progress toward sustainable development by recognizing green finance as a critical enabler of economic and environmental resilience. Green finance, which includes financial instruments and investments that promote environmental sustainability, is becoming increasingly important in the country's policy and businessagendas. As global concerns such as climate change, resource depletion, and environmental degradation increase, Georgia has realized the importance of aligning its actions with sustainability goals in order to facilitate a green transition.

This chapter exploresinto Georgia's green finance ecosystem, focusing on its framework, important stakeholders, and sustainable investment drivers. It highlights the importance of private sector, international organizations, and government activities in promoting green finance.
*Please note that all information provided in this document is derived from desk research and secondary data sources.*

The National Bank of Georgia (NBG) recognizes its crucial role and mandateto support the advancement of sustainable economic growth. The National Bank of Georgia has been advancing sustainable finance to address climate risks and support economic growth since 2017. It has developed a Sustainable Finance Framework, Roadmap, and Taxonomy to standardize green classifications and foster market readiness. By creating a stable regulatory environment and directing resources to sustainable industries, the NBG aims to achieve long-term financial and ecological benefits.

In parallel with the NBG's regulatory efforts, international financial institutions (IFIs) are playing a key role in advancing green finance systems in Georgia. Through partnerships with local banks and other public and private stakeholders, IFIs are channeling funds into sustainable projects. They utilize tools such as credit lines, green bond issuances, technical support, and advisory services to encourage the implementation of eco-friendly practices. Thus, Georgian businesses have access to green finance to assist investments in energy, resource efficiency, and green supply chains. However, credit lines provided by international financial institutions (IFIs) and disbursed through local banks are the primary source of long-term funding for green developments in Georgia.

The funds provided by IFI to local financial institutions are disbursed as green loans. In 2023, Georgia reported a notable volume of green loans, totaling about $313 million (around GEL 843 million), within its finance sector. These green loans constituted 1.8% of the total loans issued during 2023. This data indicates a positive trajectory, reflecting a 0.6 percentage point increase compared with the previous year. This underscores the growth potential toward green financing within Georgia's banking sector, signifying an increasing commitment to green finance practices and environmentally responsible investments. (Source: ADB, NBG) Another channel of disbursing green finance is the green bond[1]. Only in 2024, $300 million worth of green bonds were issued by a Georgian companies. (For more details see annex 2)

1. There isa code of conduct that defines what constitutes a green bond. To qualify, a bond must adhere to criteria on the use of proceeds, have a process for project evaluation and selection, ensure proper management of any proceeds, and offer detailed reporting. (Source: NBG)

# Green Finance Ecosystem in Georgia

Despite attempts to promote sustainability, there is still a long way to go. Various international organizations monitor and assess the green finance development in Georgia and provide useful guidance through identifying challenges and opportunities. For example, according to the ADB, Georgia encounters difficulties with fully integrating green finance into its operations, emphasizing the need for more investment and collaboration to advance the environmental responsibility agenda in the banking sector. To effectively address environmental risks and climatic issues, financing sources must be diversified to include private finance for sustainable initiatives, as well as government support. (Source: ADB)

According to ADB, focusing and supporting SME and especially women-led SMEs will be a step forward for Georgia. Based on bank's analysis, small and medium-sized firms (SMEs), with their large presence and importance in Georgia's economy, have the potential to promote widespread adoption of sustainable and green practices and technology. Thus, providing SMEs with access to green finance resources and support is critical for driving the transition to a more sustainable and resilient economy. (Source: ADB)

Moreover, ADB offers to facilitate access to green finance for women-led SMEs and reduce certain gender-specific climate change risks, as this may also help women realize their full economic potential. Report states that green finance has yet to give chances to women-led firms in sustainable sectors. And, it is critical to incorporate gender concerns into the design and implementation of dedicated green financing systems, as well as the development of green credit products geared toward women. ADB recommends to put further efforts to enable the application of a gender lens to green finance by developing tools, resources, and skills that can impact Georgian financial institutions and lead to green and socially inclusive economies. (Source: ADB)

On the other hand, World Bank has identified the problems and challenges that needs to be addressed - when it comes to a more responsible approach to the environmental impact of production, according to the World Bank, "Georgia lags especially in incentives and mandates to industry and commerce, financing mechanisms, energy utility programs, carbon pricing and monitoring, energy efficiency performance standards, labeling systems, and energy codes. Also, the country ranks at the bottom in terms of renewable expansion planning, incentives, regulatory support, and financing of renewable energy projects." Moreover, The World Banks states that "since 2017, improvements in energy efficiency at the firm level have reversed and worked against greening the Georgian economy. ... Briefly, these are ultimately driven by deeper problems such as lack of incentives and perceived low returns to investments, an underdeveloped green innovation ecosystem, and barriers to financing green projects." (Source: The World Bank)

However, critical assessments does not mean that Georgia's progress towards greening is not recognized. According to ADB, Georgia has "undertaken dedicated actions and efforts supporting green finance initiatives, especially in renewable energy and energy efficiency, to cultivate green finance markets and promote the shift towards sustainable development. This aligns financial activities with international climate agreements, advancing energy efficiency and promoting renewable energy sources." (Source: ADB)

Following pages provides deeper dive into the major stakeholders of green finance ecosystem of Georgia, grouped in three categories: Public sector, international organizations, and local financial institutions. Please note, that private sector (except financial sector), is not a focus for this document.

In order to better handle the risks posed by climate change, central bank of Georgia – National Bank of Georgia (NBG) has updated frameworks and modified processes while recognizing the crucial role that financial sector plays in reducing its negative consequences. The National Bank of Georgia is mandatedto support the advancement of sustainable economic growth. As a result, the NBG actively supports efforts related to sustainability and greening.

The National Bank of Georgia has been working on the development of the Sustainable Finance Framework since joining Sustainable Banking and Finance Network (SBFN)2 in 2017. Later to support strengthening the role of the financial sector in the sustainable development of the country, NBG developed a for Sustainable Finance (SF) Roadmap together with International Finance Corporation (IFC) and SBFN. All potential steps the NBG plans to take in the near future to advance sustainable finance development are outlined in the Sustainable Finance Roadmap for Georgia (Source: NBG), along with the associated timeline. This roadmap's ultimate objective is to prepare the market for the shift to sustainable finance by offering a reliable, stable, and predictable regulatory environment.

Apart from that, NBG has specifically embraced climate concerns by being an active member of the Network for Greening the Financial System (NGFS)3 since 2020.

In order to standardize green classifications among Georgian financial institutions, NBG has also adopted Sustainable Finance Taxonomy in 2021. The Sustainable Finance (SF) Taxonomy provides a classification system for identifying activities that deliver on key climate, green, social, or sustainability objectives. Taxonomy categories and corresponding technical criteria are developed in accordance with the best international practice, while the characteristics of the Georgian economy are also well-integrated. All this contributes to the usability of the taxonomy and guarantees its credibility both locally and internationally. (Source: NBG). Thus, reporting on green efforts is guaranteed to be credible and comparable.

For years, NBG has taken other numerous steps to support sustainable finance in Georgia (for further details visit nbg.gov.ge). As a result of its activities, in April 2024, the NBG moved to the Maturing Stage4 of the SBFN Progression Matrix, which measures the progress of SBFN member countries in promoting sustainable finance (Source: Sbfnetwork.org)

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2. The Sustainable Banking and Finance Network (SBFN) — formerly the Sustainable Banking Network — is a community of financial sector regulators, central banks, ministries of finance, ministries of environment, and industry associations from emerging markets committed to advancing sustainable finance for national development priorities, financial market deepening, and stability. (Source: SBFN)
3. The Network for Greening the Financial System (NGFS) is a group of Central Banks and prudential supervisory authorities willing, on a voluntary basis, to exchange experiences, share best practices, contribute to the development of environment and climate risk management in the financial sector. (Source: NGFS)
4. The SBFN monitors progress of member countries in advancing sustainable finance. Progression Matrix showcases market-wide progress across three typical stages of development: Preparation, Implementation, and Maturing. (Source: SBFN)

Overall, the primary aim of the NBG is to establish a robust regulatory framework that enhances market discipline, readiness, and transparency, thereby fostering sustainable finance. These efforts also facilitate the channeling of resources toward sustainable industries, resulting in enduring financial and environmental advantages.

Aside from developing policies, adjusting frameworks to international best practices and creating clear roadmaps for development of green finance, various public agencies or programs incorporate sustainable or green components. However, such actions are rather occasional. The following are examples of such cases.

**Enterprise Georgia**

Enterprise Georgia (EG) sporadically finances green projects within the framework of various projects. For example: the Managerial Training Program, "Green Technologies", which was announced for the period of July-September 2023. This was a manager training program, the aim of which is to promote green technologies and develop international trade opportunities for small and medium-sized businesses.

Aside from that, several green projects were financed within the framework of various Enterprise Georgia projects. For example:

- A Georgian company producing wooden toys and functional furniture, financed within the framework of export promotion, which established the first energy-efficient and green technology-equipped enterprise in the mountainous Adjara ("Gogra"). The company
- "Jinventor" was financed under the Agency's loan co-financing program. It manufactures green concept USB cables - "Tene", for the production of which the cups of recycled plastic bottles are used.

*Business Universal*

Since September 2023, EG has added a new economic activity to its Business Universal program - small hydropower, solar and wind power projects. We are talking about projects with a capacity of up to 0.5 MW. Through this component, companies and individuals gained the opportunity to start generating electricity with the help of the agency, whether for enterprises, hotels, other facilities or personal consumption.

Within the framework of this program, EG subsidizes the loan interest rate for the full term of the loan - in the amount of 5% minus the NBG refinancing rate. It is also possible to receive additional benefits in the form of collateral.

**Rural Development Agency** The agency has a number of programs, although only a few are focused on financing green projects. For example, the energy-efficient stove co-financing program is implemented in cooperation with GIZ. The program provides, on one hand, co-financing/reimbursement of the cost of determining the compliance of an energy-efficient stove with the specified criteria for entrepreneurs and legal entities producing energy-efficient stoves, and, on the other hand, co-financing the cost of purchasing an energy-efficient stove for a natural person who is a citizen of Georgia.

**Georgian Energy Development Fund** The main task of the Georgian Energy Development Fund is to find promising renewable energy projects and promote their development and through their activities, the Fund indirectly support green finance flow into Georgian economy. Specifically, in agreement with the investor, in order to promote the development of the project, the Fund can provide the following services:

- Preparation of all necessary documentation for construction, including obtaining rights and licenses
- Search for a design organization and purchase of a complete construction project
- Preliminary schematic development of the project or preparation of a preliminary feasibility study report
- Construction monitoring

International Financial Institutions (IFIs) has been a main driver of green finance development in Georgia for years. Through partnerships with local banks and other public and private stakeholders, IFIs are channeling funds into sustainable projects. They utilize tools such as credit lines, green bond issuances, technical support, and advisory services to encourage the implementation of eco-friendly practices. Credit lines provided by international financial institutions (IFIs) and disbursed through local banks are the primary source of long-term funding for green developments in Georgia.

In fact, this is a common practice. Local intermediaries are frequently used by international financial institutions to channel funds, especially when supporting green and climate initiatives. Non-concessional financing is made accessible through credit lines at local commercial banks in nations with highly established banking systems. (Source: unfccc)

In some cases, donor-funded initiatives play an important role in filling the financing gap for green-oriented investment, such as the EU-financed "Promoting Green Lending in the Eastern Partnership" project, which channels green financing to SME through local commercial banks (Source: SME Policy Index)

**Examples of IFIs and Donor-funded initiatives for green financing in Georgia**

- *European Bank for Reconstruction and Development (EBRD) Green Economy Financing Facility (GEFF)*

**Green Economy Financing Facilitiy**(GEFF) seeks to develop local financing markets for resource efficiency and sustainable energy initiatives. The EBRD provides credit lines and technical support to local partner financial institutions through the GEFFs, which in turn help individuals and companies looking to engage in green technologies. Georgia is one of 30 countries where the EBRD's Green Economy Financing Facility is operational.

The Green Economy Financing Facility (GEFF) in Georgia offers financial assistance and guidance to help households lower their domestic energy expenses and enterprises become more competitive by implementing energy-efficient practices and investing in high-performance technologies. The European Bank for Reconstruction and Development (EBRD), with assistance from the Austrian Federal Ministry of Finance (BMF) and the Green Climate Fund (GCF), support the facility in Georgia. Through participating local financial institutions5, the Facility now provides US$82.75 million to promote Georgia's transformation to a green economy. The financing programme operates under two approaches:

1. **Pre-approved investments**. GEFF financing is automatically available to all technologies that are included in the pre-approved green technology list (link). This means that those items do not require additional technical due diligence. All measures included in the list uses renewable energy sources or conserves water or energy.

5. ProCredit Bank, TBC Bank, BasisBank

2**. Investments assessed as part of a free technical consultation**. The GEFF local team offers professional guidance at different phases of project implementation if the project does not fit into the pre-approved list. This ensures that the investment proposal is technically eligible and that GEFF is used to finance the most suitable green technology and services.

(For more details see annex 1)

v *EBRD's Trade Facilitation Programme*

**Through local banks**, the EBRD's Trade Facilitation Programme (TFP) provides supporting mechanisms tailored to the import and local distribution of green economy technologies. In particular, the EBRD provides guarantees to banks in Georgia under this initiative to address political and commercial payment risks in local distribution and import transactions. (Source: EBRD,tfp-ebrd.com,tfp-ebrd: Georgia)

v*EBRD Financing Ruisi Wind*

In June 2024, EBRD signed the loan ofuptoUSD119million,forthedevelopment,construction and operation of a wind power plant with an installed capacity of 206 MW located in the Gori andKarelimunicipalitiesofGeorgia. According to EBRD, theProjectisinlinewiththeBank's Green Economy Transition (GET) Approach6 and will deliver 'Green' transition impact, with strongclimatechangemitigationbenefits. (Source: EBRD)

v *EU4Business-EBRD Credit Line (EU Deep and Comprehensive Free Trade Area (DCFTA) Facility, EBRD DCFTA Programme)*

The Deep and Comprehensive Free Trade Area (DCFTA) initiative provides financial and technical assistance to Georgian small and medium-sized enterprises (SMEs), including green investments. The programme aims to provide businesses with a range of benefits, including:

- Reduced energy, water and other resource consumption and related costs;
- Improved product quality and enhanced company image;
- Reduced fuel costs (in the case of vehicles);
- 20% more energy-efficient and/or 20% less CO2-emitting, manufacturing

(Source: eu4business-ebrdcreditline.ge)

v *European Union (EU) - Green for Growth Fund (GGF)*

ThThe Green for Growth Fund (GGF) is a special financial instrument of the European Union, specifically the European Commission's Neighborhood Policy, that aims to help partner countries increase energy efficiency and develop renewable energy by providing financing to financial institutions. This fund will give money to Georgia, Armenia, Azerbaijan, Moldova, and Ukraine.

6. The Green Economy Transition (GET) 2021-25 is the Bank's new approach for helping economies where the EBRD works build green, low carbon and resilient economies. (Source: EBRD)

The fund supports not only the establishment of new green firms, but also the retrofitting of existing ones to improve energy efficiency.

The project will run until the end of 2030 and will involve several commercial institutions, including the Bank of Georgia, TBC Bank, BasisBank, and Ishbank. (Sources: ir.crystal.ge)

v *European Union (EU) - Promoting Green Lending in the Eastern Partnership*

This project channelsgreenfinancingtoSMEsthroughlocalcommercialbanks. (Source: eu4business.ge)

v*The World Bank Group - Georgia Relief and Recovery for Micro, Small, and Medium Enterprises*

On May 11, 2021, the World Bank Group's Board of Directors approved the 'Support and Recovery of Micro, Small and Medium-sized Enterprises in Georgia' project. This is a five-year project worth 85 million euros, financed by the International Bank for Reconstruction and Development (IBRD), with a completion date of December 31, 2025.

The Ministry of Economy and Sustainable Development (MOESD) is responsible for the implementation of the project, while the Implementing Organizations are LEPL "Enterprise Georgia" (EG) and the National Bank of Georgia (NBG). Within the framework of the project, at least 15% of the total financing (10.5 million GEL) will be directed to investments in the green economy and climate finance (Sources: EG, World Bank).

v*Global Climate Partnership Fund (GCPF)*

The Global Climate Partnership Fund (GCPF) is an innovative public-private partnership fund that pools funds received from both public and private organizations and individuals to invest in the creation of a green economy. The Global Climate Partnership Fund (GCPF) is a novel financing tool that encourages broad-based investments in climate-related projects in specific nations. To this purpose, it provides credit lines to local financial institutions, which are then used to give loans for investments in renewable energies, energy efficiency, and greenhouse gas reduction. The fund focuses on small and medium-sized businesses. (Sources: bb.ge, cbw.ge; ndcpartnership.org)

v*Promoting Green Deal Readiness in the Eastern Partnership Countries (ProGRess) by International Climate Initiative (IKI)*

The project facilitates the transition of Eastern Partnership countries toward climate-focused, sustainable, and resilient economic growth. Its primary goal is to enhance the framework for transforming key agricultural and food-related industrial value chains, strengthening their relevance to local economies and trade relations with the EU. (Source:international-climate-initiative.com)

As previously indicated, commercial banks play a vital role in providing access to green finance for the private sector. “However, market conditions in the European Union Eastern Partnership (EaP) countries constraint the involvement of commercial banks. Generally, they have only established specific environmental credit lines when supported by international financial institutions (IFIs). Only a small number continue to offer such products once IFI support is withdrawn. ” – is outlined in a report by OECD (Source: OECD)

Thus, external funding is crucial. According to OECD, “The tenor of the credit lines offered by IFIs is often longer than that available to banks on the local market. Being able to match maturities and benefit from cheaper cost of capital provides some comfort to local banks, making them more willing to lend... They also make it more feasible for these companies to borrow over timescales that match the payback periods for energy-efficiency investments.” (Source: OECD)

Several leading commercial banks are key players in green finance in Georgia, while microfinance institutions account for a small portion of the country’s green funding. For example, MFO Crystal is involved in lending to energy-efficiency projects and smaller-scale, sometimes decentralized, renewable energy facilities.

While local financial institutions mostly act as lenders to private sector clients using funds from IFIs and donors, the end-users, as well as the banks themselves, sometimes benefit from consulting services and training too.

**Green Loans** The funds provided by IFI to local financial institutions are usually disbursed as green loans. A green loan is a form of loan that is explicitly intended to fund projects or activities with apparent environmental advantages. These loans are consistent with sustainable finance principles and aim to facilitate the transition to a low-carbon, environmentally sustainable economy.

In 2022, the NBG enacted the Regulation on Loan Classification and Reporting in accordance with the Sustainable Finance Taxonomy (see page 9). This rule not only specifies green, social, and sustainable loans, but it also requires commercial banks to report on loans that are taxonomy-aligned. Starting from2023, banks are providingmonthly reports on green loans using the Green Loan Monthly Reporting Form prescribed by the Taxonomy Regulation. To verify the accuracy of these reports and to prevent greenwashing7, the NBG evaluates the reported green loans on a regular basis (at least once a year). As a consequence, the NBG concluded that banks accurately identify green loans, and no evidence of greenwashing was discovered.(Source: NBG) In 2023, banks reported issuing total volume of green loans of roughly GEL 843 million (USD 313 million). It represents a 73% increase over green loans issuedin 2022, disregarding the exchange rate effect. The majority of the loans granted in 2023 were still denominated in USD. The share of green loans in total loans issuedin 2023 is 1.8%, 0.6 percentage points higher than the previous year. Among the banks that provided data on green loans, green loans accounted for around 2.7% of total loans issuedin 2023.

7. Greenwashing is the act of making false or misleading statements about the environmental benefits of a product or practice.

As of the end of 2023, the total amount of green loans outstandingwas over GEL 1.9 billion. The overall stock of green loans went up by 30% in 2023 compared to the previous year (15% annual growth in 2022), excluding the currency rate effect.

**However, not all green loans comply withthe SF Taxonomy.** As of December 2023, the SF Taxonomy-aligned green loan portfolio totaled over 932 million GEL, accounting for roughly half of the total green portfolio and 1.7% of the total lending portfolio. Taxonomy-aligned green loans accounted for around 58% of green loans disbursed in 2023, totaling around 491 million GEL. (Source: NBG)

In terms of sectoral breakdown,the renewable energy industry received the majority of green loans (65%), with hydropower projects receiving a significant 57%. Furthermore, 14% of these loans are directed toward sustainable buildingsand construction, with 10% going to green transportation. Overall, as of December 2023, taxonomically aligned green loans had been given in eight distinct sectors. (Source: NBG)

**Chart: Distribution of green Loans Issued by Currency**

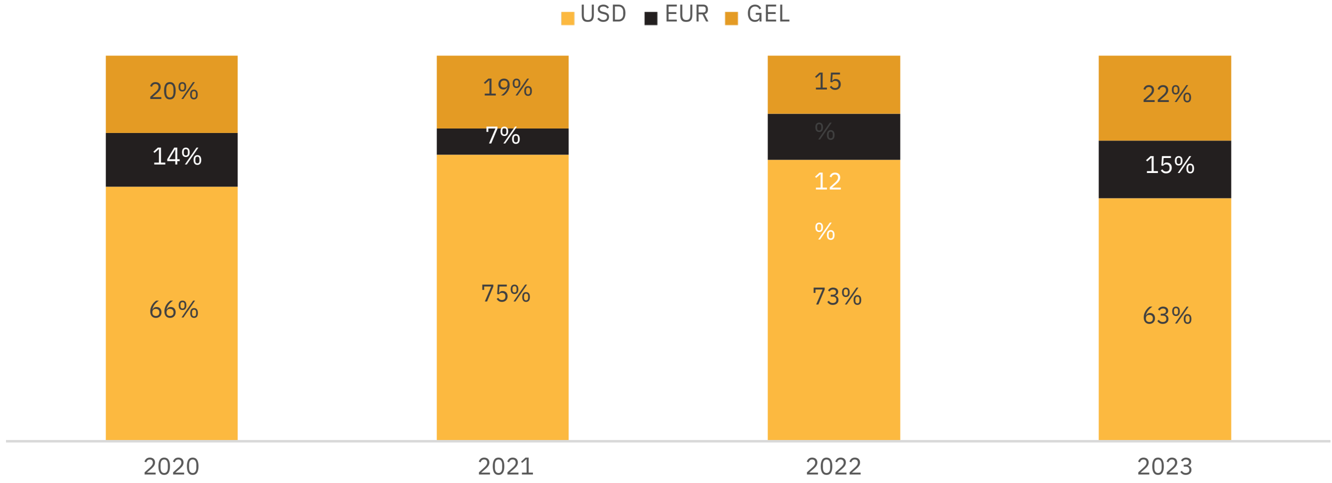
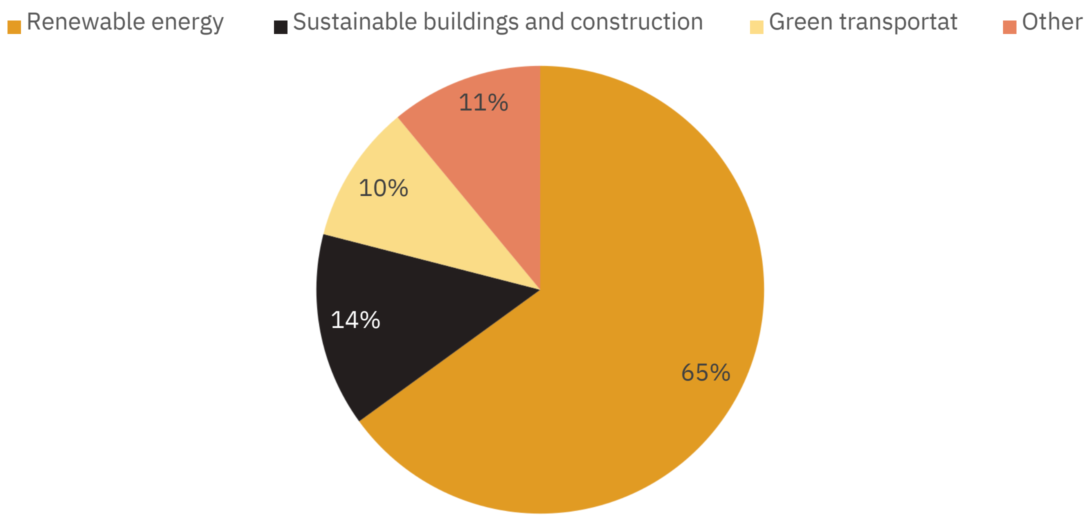



**Chart: Distribution of green Loans Issued in 2023 by Sectors**



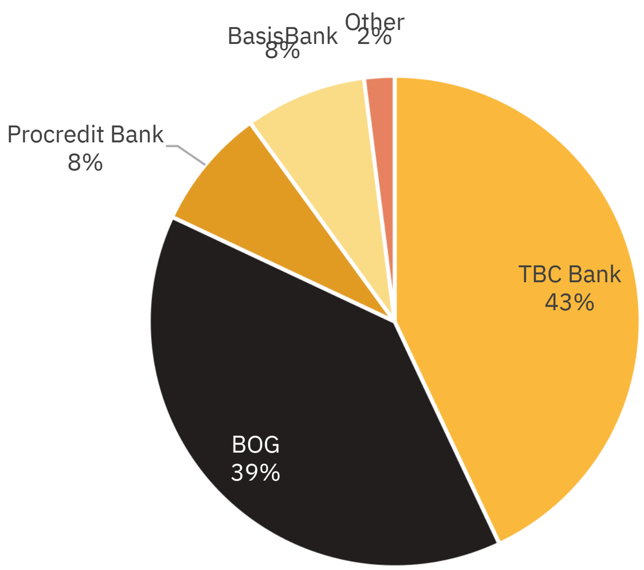

Source: NBG

Taking into account the entire green loan portfolio, which comprises both Taxonomy-aligned and other green loans, TBC Bank commands the largest market share at 43%. With a 39% stake, Bank of Georgia (BOG) comes in second, and Basis Bank and ProCredit Bank are tied for third place with 8% each. However, BOG loads the market if only Taxonomy-aligned green loans are considered. Specifically, BOG holds 78% share, followed by TBC with 19% and ProCredit Bank with 3% of taxonomy-aligned green loans. (Source: NBG)

The following pages will provide a more extensive overview of each of the aforementioned financial institutions' green financing operations. Please keep in mind that the material presented is based exclusively on desk research, with no interviews or other primary research methods used. However, desk research has revealed the need for primary research to uncover more details about FIs' activities in green finance development, as green financial products are not actively displayed (or emphasized) on FI websites, whereas bank reports, NBG reports, and IFI project details reveal significant activities.

It is important to note that although some banks have dedicated sections for green funding offers on their websites, they do not provide specific details regarding interest rates or loan terms.

**Chart: Distribution of Total Green Loan Portfolio by the end of 2023**




Source: NBG

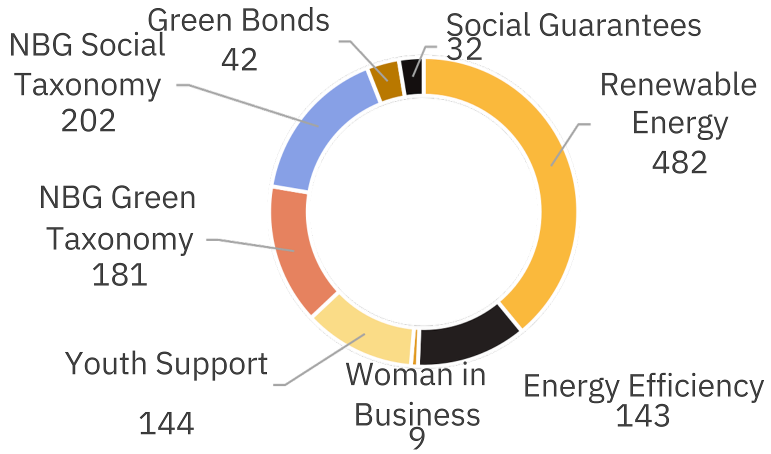
**TBC Bank** In 2021, TBC Bank Group PLC became the first commercial bank in the Caucasus region to gain accreditation from the Green Climate Fund (GCF). This milestone provided TBC Bank with direct access to GCF funding, enabling it to finance climate change adaptation and mitigation projects while advancing sustainable development in Georgia. Furthermore, in 2022, following its GCF accreditation, TBC signed an Accreditation Master Agreement (AMA)8, granting the bank authorization to access and mobilize GCF financial resources and formalizing its responsibility for effectively implementing GCF-approved projects. (Sources: TBC, Sustainability report 2023)

TBC has successfully collaborated with partner organizations9 in 2023 and attracted green facilities of up to GEL 663 million (GEL 108 million in 2022)10. Mobilized green funds allow TBC Bank to continue financing energy-efficient, renewable energy, and resource-efficient projects while supporting customers in their sustainable transformation. Additionally, these green facilities are complemented by technical assistance programs, offering support from energy-efficiency experts and consultants. This assistance helps TBC identify green investment opportunities, evaluate the technical potential of eligible projects, and work directly with customers to facilitate the implementation of green investments.. (Source: Sustainability report 2023)

Moreover, in 2022, TBC Bank implemented own green lending procedure, and in 2023 harmonized this green lending procedure and the Green Taxonomy of the National Bank of Georgia (Source: Sustainability report 2023) As a result of bank's sustainable activities, the total volume of its sustainable portfolio in 2023 reached GEL 1.23 billion, with a 57% annual growth, targeting GEL 1.4 billion in 2024.

The bank's website is currently being updated, and no green financing offers are available on the newer version at this time. However, the previous version of the site provided brief information about funding opportunities through the Green Economy Financing Facility (GEFF) under business financing options.

**Chart: Breakdown of TBC Bank's Sustainable Portfolio (Million GEL)**




Source: Sustainability report 2023

8. A central instrument setting out the basic terms and conditions to work with the Green Climate Fund (GCF).
9. International partners, such as EIB, EBRD, GGF, GCPF, FMO, and ProParco
10. For example, EIB signed a credit line with TBC Bank by the end of 2023 and part of the funding should have been dedicated to green and gender equality investments. (Source: EIB)

**Bank of Georgia (BOG)**

Bank of Georgia has various partner IFIs and together they provide green finance to various areas. For example:

•With IFI partners, BOG provides green financing solutions to clients through 'Energy Credit' initiative, which offers loans for solar panel installations. Bank also support large-scale renewable energy projects, such as the construction of hydropower plants. (Source: BOG)

•Through the Green Economy Financing Facility (GEFF), the European Bank for Reconstruction and Development (EBRD) and the Green Climate Fund (GCF) provide the Bank of Georgia with funding to promote green financing in the country, enabling businesses to invest in energy efficiency. Additionally, as part of the program's technical assistance framework, the bank offers clients consulting services to help make their operations greener and more sustainable.
In October 2024, the Bank of Georgia secured an additional loan of up to $100 million under this program.(Sources: GGF, EBRD)

•Bank of Georgia is a partner of the European Investment Bank (EIB) too, and together they are financing investment projects in Georgia with at least 30% of the funding directed to green loans with better terms. (Source: Annual Report 2023, EIB)

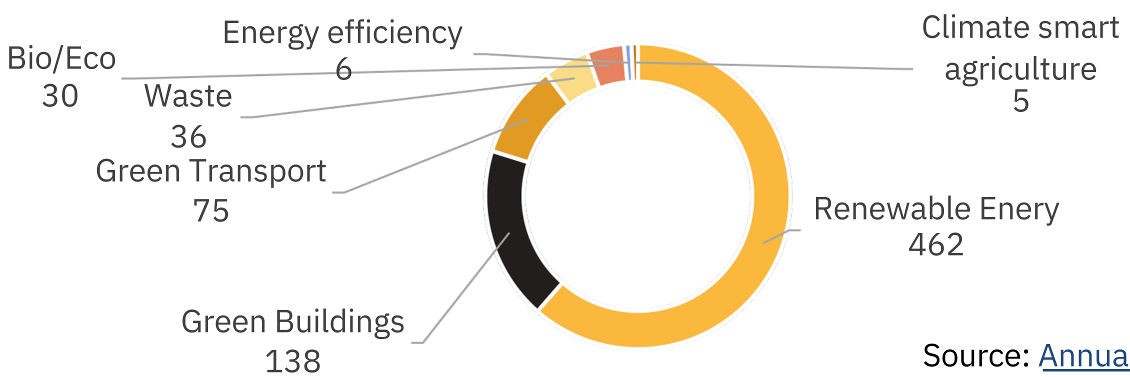
•The Bank of Georgia leverages the Deep and Comprehensive Free Trade Area (DCFTA) program under the EU4Business-EBRD credit line to support local MSMEs. This support includes cashback incentives and technical assistance from international advisors, with a particular emphasis on boosting investments in green technologies and advancing green transformation efforts.

Aside from this, The Bank of Georgia is tackling environmental challenges by leveraging financing from the Global Climate Partnership Fund (GCFP) to reduce global energy consumption and $CO_2$ emissions. While in collaboration with the EBRD and Swedfund, the bank secured additional Tier 1 Capital and is channeling an equivalent amount of the AT1 loan into green projects.

However, there is limited information available on the bank's website. The only green offering for businesses is the "energy credit for solar power plants," designed to help businesses replace their existing electricity sources with solar power.

Overall, total green portfolio of the Bank of Georgia stood at GEL 875 million in 2023. And BOG's total outstanding green portfolio is 3.7% of the Bank's gross loan portfolio. (Source: Annual Report 2023)

**Chart: Total outstanding green finance as at 31 December 2023 (GEL million)**




Source: Annual Report 2023

**ProCredit Bank** ProCredit Bank is third largest player of the banking sector of Georgia and in terms of green finance too. Unlike TBC Bank and BOG (that briefly mention green finance opportunities on their web-pages), ProCredit Bank has clear list of available green financing for business and individuals on its web-site. Under the section of business financing options are:

1. Eco Loan,

2.Loans under the Green Economy Financing Facility (GEFF) program

3.Loans for Solar Power Plant financing

ECO Loans are loans for businesses are designed to help businesses to improve energy efficiency, increase competitiveness and reduce negative impact on the environment. ECO Loan can be used for:

•Production processes – replacing old machines or equipment or purchasing additional machines or equipment

•Building envelope – applying thermal insulation to external walls/ceilings/floors and installing double-/triple-glazed windows or doors

•Electrical equipment – purchasing high-efficiency electric motors, new lighting systems, appliances rated A+ and above, etc.

•Heating or cooling – installing new central heating/cooling systems, boilers, air conditioners, etc.

•Waste management – separation of waste, recycling (paper, plastic, glass) prevention of waste, etc.

•Renewable energy sources – installing solar water heating systems (flat collectors, vacuum tube collectors), ground heat pumps or biomass boilers (wood, pellet, etc.).

Under the Green Economy Financing Facility (GEFF) program, ProCredit Bank provides funding options to SMEs that intend to invest in environmentally friendly projects, energy-efficient projects, and renewable electric power. Through GEFF funding, businesses can build multi-component "green" projects and obtain free technical assessment and financial resources, or they can purchase any modern technology given in a pre-defined list.

Loans for Solar Power Plant financing have preferential interest rates in GEL/EUR/USD And 0% loan disbursement fee. Moreover, bank offers Collateral Flexibility and business can secure the loan solely with purchased solar panels, eliminating the need for additional collateral.

On the other hand, ProCredit Bank's offers for individuals includes: •Eco Loan – that finances eco-friendly initiatives and allows to make homes energy efficient

- Loan for Solar Power Plant designed for personal use
- Loan for Purchasing an Electric Car

Source: [ProCredit bank]

**BasisBank** BasisBank is actively involved in providing green loans, supported by various initiatives. One such program is the Green Economy Financing Facility (GEFF), which offers businesses both financial resources and professional consultations to invest in "green" technologies and execute environmentally sustainable projects.

Additionally, with backing from the Global Climate Partnership Fund (GCPF), BasisBank extends green loans to businesses. Companies seeking funding for specific projects can access loans under favorable conditions. The eligible project categories include:

- Thermal insulation of the building;
- Energy efficient lighting;
- Heating, ventilation and air conditioning;
- Household solar systems;
- Energy efficient transport;
- Drip irrigation systems;
- Energy efficient or heat-collecting industrial installations;
- Renewable energy projects.

(Source: BasisBank)

BasisBank has one more offer to the business: **TheDeepandComprehensiveFreeTrade Agreement(DCFTA)project,** supported by EBRD and EU4Business programme11. This long-term financing is designed to help businesses enhance energy efficiency, develop competitive products for the EU market, and benefit from favorable lending terms, along with a 10-15% cashback on the loan amount. (Source: BasisBank) BasisBank's website features a "Green Credit" section under its business funding options, which outlines all the abovementioned green financing opportunities.

**Isbank Georgia** Isbank Georgia also has green financing offers for businesses backed by international organizations.

The Green for Growth Fund (GGF) began collaborating with Isbank in 2021 to promote green finance. In July 2024, GGF and Isbank Georgia formalized a EUR 7 million financing agreement aimed at supporting energy efficiency and renewable energy initiatives. This funding allows the bank to provide loans to corporate and SME clients intending to invest in energy-related projects, including energy installations and efficiency measures, such as those involved in the construction of residential buildings. (Source: Isbank)

In April 2024, IFC committed new financing to Isbank Georgia amounting to $10 million equivalent in EUR to support Georgia’s smaller businesses. Around 20% of financing earmarked for climate finance to boost energy efficiency and renewables. This is part of the Baseofthe PyramidPlatform12 (Source: Isbank)

11. EU4Business-EBRD creditline
12. IFC’sproject Piraimid Platform launched in 2021 to support financial services providers in delivering funding to smaller businesses and low-income households, to support economic growth and job creation.

**MFO Crystal** Crystal, the largest non-banking financial institution in Georgia, primarily serves microentrepreneurs and farmers, with a particular emphasis on rural clients. What sets Crystal apart from other microlenders in Georgia is its strong commitment to addressing the energy efficiency needs of this client group. The institution has significantly expanded its portfolio of green energy products, including financing for solar energy systems in remote areas. Crystal launched its "Green Financing" initiative in 2017, offering customers financing support for eco-friendly, environmentally sustainable products. The initiative aims to reduce emissions and minimize environmental impact. Crystal's goal is to grow its green financing portfolio to 50 million GEL by 2026. (Source: crystal.ge)

Currently, the focus is on promoting the benefits of 7 key low-carbon emitting alternatives:

- Renewable energy technology (solar water heaters, solar panels);
- Eco-friendly building materials;
- Energy efficient home appliances, including lightbulbs, washing machines and other white good;
- Central heating systems;
- Electric and Hybrid cars;
- Compressed Natural Gas (CNG) systems;
- Drip irrigation systems;

Crystal is the only non-bank partner of Green for Growth Fund (GGF ). In July 2024, the GGF provided a senior loan of $1.5 million to Crystal to help expand its green energy lending activities in Georgia. In addition to the loan, GGF is supporting Crystal in measuring and promoting its green impact, developing energy-efficiency products, and raising awareness about green energy among its clients. (Source: crystal.ge) Crystal promotes the development of the energy-efficient and alternative fuel market by offering customers special installment plans for purchasing energy-efficient (EE) stoves. This product is part of the ECO. Georgia project, which aims to reform the Georgian forest sector, and in which Crystal has been involved since 2021. The project is financed by the Green Climate Fund (GCF), the German Federal Ministry for Economic Cooperation and Development (BMZ), the Government of Georgia, and the Swiss Agency for Development and Cooperation (SDC). (Source: ir.crystal.ge)

# International Experience Regarding the Green Finance

# International Experience Regarding the Green Finance



This chapter offers an overview of green finance developments across six countries—Armenia, Azerbaijan, Estonia, Ireland, the Netherlands, and Türkiye. These countries can be categorized into two groups based on geographic and economic similarities: Georgia's neighboring countries (Armenia, Azerbaijan, and Türkiye) and European nations (Estonia, Ireland, and the Netherlands). While each group shares certain regional characteristics, they are at different stages in the development of green finance. The first group, comprising Georgia's neighbors, reflects relatively emerging green finance frameworks and practices, whereas the European countries demonstrate more mature and advanced systems for sustainable finance. This comparative analysis, based on desk research, offers insights into green finance context in each country.

Green financing is fast gaining traction in Georgia's neighborhood as countries in the region work to transition to sustainable and low-carbon economies. With increased awareness of environmental concerns and international climate agreements, governments and financial institutions are prioritizing green investments in renewable energy, energy efficiency, and eco-friendly technologies. Countries have set ambitious climate targets and are using legislative frameworks and international financing to promote sustainable finance. Countries are aggressively incorporating green finance techniques into their economic policies to combat climate change and achieve long-term growth. These initiatives are backed by international support from institutions such as the European Bank for Reconstruction and Development (EBRD) and the World Bank, which give finance and expertise to help speed the green transition.

On the other hand, European nations, such as Estonia, Ireland, and the Netherlands have made significant strides in advancing sustainable finance through well-established regulatory frameworks, innovative financial instruments, and alignment with the European Union's climate goals. As members of the EU, they are advancing green finance in alignment with the European Green Deal, the EU's comprehensive growth strategy launched in 2019. This initiative outlines a series of policies aimed at achieving climate neutrality by 2050. To turn this vision into action, the European Council and the European Parliament have passed legislation that enforces the Green Deal's principles across all EU member states.

Over time, the Green Deal has become more specific, providing banks with clear guidelines and criteria to assess whether a firm or project supports or harms environmental sustainability. As a result, the financial landscape is shifting—companies with environmentally harmful practices are likely to face higher borrowing costs, while those promoting sustainability will benefit from lower interest rates.

Banks in EU nations are particularly motivated to build greener portfolios, as doing so grants them access to more affordable funding through EU-backed sustainable finance programs. These include instruments such as the European Investment Bank's (EIB) Multiple Beneficiary Intermediated Loans, guarantee schemes under the EU's InvestEU Programme, the Recovery and Resilience Facility, and the European Structural and Investment Funds. These programs not only incentivize sustainable lending but also help channel resources toward projects that drive the green transition. (Sources: arbonics.com; europa.eu; nortonrosefulbright.com).

# Green Finance in Armenia

Armenia continues to make strides in establishing a robust regulatory framework for green financing, supported by international funding to facilitate its green transition. These efforts are expected to play a vital role in ensuring the sustainable development of its financial sector.

According to the Asian Development Bank (ADB), as of 2022, approximately 29% of the Armenian banking sector's loan portfolio was allocated to sectors vulnerable to climate-related risks, such as agriculture, tourism, and infrastructure development. Additionally, about 19% of loans were tied to mortgages linked to real estate properties, including buildings and housing. These statistics highlight the need to integrate green finance practices within Armenia's banking sector to address climate risks and leverage opportunities for sustainable and resilient investments. (Source: ADB)

To tackle climate-related risks and foster sustainability, Armenia is in the process of developing a Green Taxonomy. In February 2023, the World Bank Group, the Ministry of Economy of the Republic of Armenia (RA), and the American University of Armenia (AUA) Acopian Center for the Environment launched the "Developing Green Taxonomy in Armenia" project. This year-long initiative aims to establish a policy and legal foundation for green investments in the country. (Sources: worldbank.org; ebrdgeff.com)

Further supporting green transition efforts in the financial sector, the Central Bank of Armenia (CBA) introduced a National Sustainable Finance Roadmap in 2023. This roadmap seeks to mobilize capital for green and social investments through instruments such as Green, Blue, Social, Sustainability, and Sustainability-linked loans and bonds. (Source: afi-global.org; sbfnetwork.org)

Moreover, under the EU-Armenia Comprehensive and Enhanced Partnership Agreement, effective since March 1, 2021, Armenia has committed to aligning its economy with the EU's climate goals and achieving climate neutrality by 2050, as outlined in the European Green Deal. (Source: sei.org)

International donors and multilateral development banks (MDBs) continue to play a significant role in supporting Armenia's policy reforms and sustainable development initiatives. For instance, the World Bank recently allocated over $100 million to promote green, resilient, and inclusive development in Armenia. Additionally, it is assisting in implementing Armenia's Energy Sector Development Strategy to 2040, focusing on clean energy advancement. (Source: worldbank.org; worldbank.org)

Another notable initiative is the Green Agenda project, led by the Stockholm Environment Institute and funded by the Swedish International Development Cooperation Agency (Sida). This project is designed to help Armenia achieve climate neutrality by 2050. It includes preparing a readiness assessment for green transition, creating a detailed roadmap, conducting awareness campaigns, and providing technical support and capacity building. (Source: sei.org)

For over two decades, Armenia has received financial assistance from both targeted and non-targeted climate funds to support green finance initiatives. These funds are typically distributed through commercial banks or state agencies via structured frameworks, ensuring effective allocation to projects that promote sustainability and combat climate change in businesses.

One prominent program supporting green finance in Armenian banks is the EBRD's Green Economy Financing Facility (GEFF). This initiative provides credit lines to Armenian banks to finance green projects. Currently, GEFF operates a credit line facility of up to $37 million, enabling participating financial institutions to lend to SMEs and corporate clients investing in energy efficiency and renewable energy projects. (Source: ebrdgeff.com)

For example, ACBABank financed through the GEFFProgramme inArmenia has green loan offer to businesses. The only major difference between standard business loan and green loan for business is interest rate. If for standard business loan fixed interest rate for loans in AMD starts from 11.5% (however, if the loan term is up to 12 months, rate can start at 9.5%), green business loan offers opportunity to take out a loan with fixed interest rate as low as 8.35%. Please note that loans can also be issued in other currencies and with floating interest rate. (Source: ~~ACBA~~)

The United Nations Development Programme (UNDP) Armenia, with funding from the Green Climate Fund (GCF), is promoting climate-resilient and low-emission development by collaborating with local financial institutions. At present, GCF has seven active projects in Armenia, with total financing exceeding $157 million. For example, the "Greening Financial Systems: Delivering Climate Finance for All" program, approved in October 2024, includes lending to banks, microfinance institutions, and leasing companies. It also features a grant-funded technical assistance facility to help financial institutions develop green transition plans.

Additionally, companies seeking loans for green technologies can access investment incentives supported by the Climate Investment Funds (CIF). CIF's contributions to Armenia are primarily channeled through its Scaling up Renewable Energy Program. (Source: ~~cif.org~~)

The Global Environment Facility's (GEF) Small Grants Programme (SGP) in Armenia also supports energy-efficient measures and renewable energy solutions. These include grid-tied and mobile hybrid PV systems, solar thermal systems, LED lighting upgrades, and biomass fuels. Moreover, SGP Armenia has raised awareness about reducing the use of persistent organic pollutants (POPs) and toxic chemicals in agriculture, highlighting their hazards and promoting sustainable alternatives. (Source: undp.org)

Thanks to these programs and the efforts of other development finance institutions (DFIs), numerous Armenian financial institutions have accessed international green credit lines. They have successfully delivered green financial products to businesses and consumers, fostering sustainable development at the local level.

However, government plays important role in green finance development too. The National Mortgage Company, in partnership with the French Development Agency and the European Union, offers the Warm Hearth program, which focuses on enhancing housing quality and energy efficiency. Targeting low- and middle-income households, the program encourages energy-efficient home renovations and facilitates access to small-scale, long-term loans through financial institutions to finance such improvements. This support is notable through discounted interest rate. For example, Acba Bank offer under Warm Hearth program starts at 12.8% annual interest rate. While standard mortgage offer starts at 13.5% fixed annual interest rate. (Source: ~~NMC~~)

Another example of government's involvement in green finance development is the German-Armenian Fund (GAF). It was established through cooperation between the Governments of the Federal Republic of Germany and the Republic of Armenia. It administers the Program for the
Promotion of Renewable Energies, which focuses on encouraging the use of renewable energy—particularly Small Hydro Power Plants (SHPP)—by improving access to loans for private entrepreneurs and enterprises. Additionally, GAF implements the "KfW Energy Efficiency for MSMEs Program," aimed at promoting energy efficiency investments in Armenian businesses. The program seeks to assist MSMEs in lowering their energy consumption and reducing $CO_2$ emissions. (Source: GAF)

Thus, the green financing product offered in commercial banks of Armenia are as follows:

- Green loans for business in terms of EBRD's Green Economy Financing Facility (GEFF).
- Green loan for business in terms of Energy Efficiency Programme by German-Armenian Fund
- Green loan for business in terms of Program for the Promotion of Renewable Energies by German-Armenian Fund
- Green mortgages in terms of Warm Hearth program by the National Mortgage Company

# Green Finance in Azerbaijan

Azerbaijan, endowed with significant oil and gas reserves, has historically depended on fossil fuels to meet its energy demands. However, recognizing the need to diversify its economy and reduce greenhouse gas emissions in line with global climate goals, the Azerbaijani government has prioritized sustainable development. This commitment is reflected in strategies such as "Azerbaijan 2030: National Priorities of Socio-Economic Development" and the "Socio-Economic Development Strategy of 2022-2026," which align with the 17 Sustainable Development Goals (SDGs). Azerbaijan has been a party to the United Nations Framework Convention on Climate Change (UNFCCC) since 1995 and has pledged to cut GHG emissions by 35% by 2030 compared to 1990 levels, and by 40% by 2050. Furthermore, the government has set a goal to establish a "zero emission zone" in the liberated territories and raise the share of renewable energy to 30% of total energy production by 2030. Source: bakudialogues.ada.edu.az)

Following this strategic vision, the Central Bank of Azerbaijan (CBA) has integrated sustainable finance into its key priorities to align the financial sector with SDGs and climate objectives. In 2023, the CBA introduced the Sustainable Finance Roadmap (SFR), emphasizing the development of green financial instruments, including green bonds, as a cornerstone of sustainable development and climate action efforts. Additionally, on November 7, 2024, the CBA approved a green taxonomy. This classification framework identifies and categorizes green activities across various sectors, establishing technical criteria and specific subtypes to ensure transparency and consistency. (Sources: azernews.az; bakudialogues.ada.edu.az; greencentralbanking.com; e-cbar.az)

Azerbaijan's Social and Economic Development Strategy 2022-2026 further promotes a vision for a "clean environment and green growth country." This includes initiatives for eco-friendly industrialization, with goals spanning waste management, biodiversity conservation, aquaculture, land preservation, renewable energy adoption, and energy efficiency improvements. Moreover, Azerbaijan's Entrepreneurship Development Fund has started incorporating ESG criteria into its financing decisions for concessional loans. (Source: SME Policy Index)

Despite these efforts, Azerbaijan faces challenges in supporting green small and medium-sized enterprises (SMEs) outside the renewable energy sector. According to the SME Index 2024 (OECD), there is a lack of focus on broader green enterprises. Although some regulatory and financial tools to promote sustainable practices among SMEs have been introduced, they remain limited in scale. (Source: SME Policy Index)

International financing has long supported green finance initiatives in Azerbaijan and continues to do so today. Currently, the Global Climate Partnership Fund (GCPF) provides funding to commercial banks in Azerbaijan to promote energy efficiency and renewable energy projects for micro, small, and medium-sized enterprises (MSMEs). This funding is complemented by technical assistance and advisory services, which enhance expertise in green lending and ensure effective allocation of loan proceeds to eligible projects. (Source: Accessbank.az)

Recently, Bank Respublika, one of Azerbaijan's largest commercial banks, signed a major loan agreement with the Dutch Development Bank (FMO) to finance green projects. Under the agreement, FMO will provide a loan in Azerbaijani manats (AZN) equivalent to USD 40 million, with a four-year term. The loan will support MSMEs in the agricultural sector, as well as young and women entrepreneurs, contributing to Azerbaijan's efforts to reduce greenhouse gas emissions. (Source: bankrespublika.az; trend.az)

In addition, the European Bank for Reconstruction and Development (EBRD) extended a local currency loan of up to USD 7.5 million to Bank Respublika in October 2024 to support green businesses. Meanwhile, the International Finance Corporation (IFC) is providing USD 20 million in local currency financing to improve access to finance for MSMEs, low-income households, and climate finance projects. Source: ifc.org; EBRD)

Azerbaijan's banking sector has shown strong commitment to eco-friendly initiatives, incorporating environmental and sustainability assessments into business loan decisions. For instance, Access Bank evaluates sustainability factors when processing loans. This commitment is reflected in sectors like transportation, where electric buses have been introduced in Baku, and agriculture, where innovations such as drip irrigation systems, supported by bank financing, address water scarcity. Furthermore, in November 2024, Azerbaijan's banking sector pledged to allocate 2 billion manats (approximately USD 1.1 billion) to finance sustainable and green projects by 2030. This commitment highlights the sector's dedication to supporting climate action, renewable energy, sustainable infrastructure, and other green initiatives. (en.trend.az; en.trend.az)

# Green Finance in Estonia

Estonia is among the most carbon- and energy-intensive economies in the EU. As of 2020, its greenhouse gas emissions intensity was double the EU average, although it has been gradually decreasing. While the share of renewable energy in Estonia's electricity mix rose significantly—from 29% in 2019 to 41% in 2021—the reliance on fossil fuels remained high, accounting for 71%
of the energy mix. (Source:economy-finance.ec.europa.eu)

To meet its green transition goals, Estonia requires annual green investments equivalent to approximately 4% of its GDP until 2030. Consequently, the country has undertaken substantial efforts to advance sustainability.

Estonia benefits from substantial EU cohesion funds, with EUR 2.6 billion allocated for green transition investments under the 2021–2027 cohesion policy programs. Additionally, Estonia's recovery and resilience plan (RRP) addresses key challenges related to the green transition, focusing on energy efficiency, sustainable transport, digital transformation, and social protection. The plan includes 25 investments and 16 reforms, structured around 124 milestones and targets, supported by EUR 863.5 million in grants.

To further promote sustainable development, Estonia has established a Green Fund aimed at supporting the growth and scaling of innovative green technologies in the private sector. Investments and reforms are also being directed toward strengthening electricity grid capacity and encouraging renewable energy production and adoption.

The European Bank for Reconstruction and Development (EBRD) plays a key role in advancing Estonia's green transition. It supports the development of a low-carbon and resilient economy through investments, policy reforms, and advisory services. EBRD initiatives focus on helping SMEs adopt green technologies, particularly improving energy and resource efficiency. It also promotes energy-efficient solutions in industries and renewable energy generation. Additionally, EBRD collaborates with local banks to facilitate lending to service providers—such as energy service and construction firms—fostering energy-efficiency improvements in residential buildings.

(For more details see ec.europa.eu)

However, the European Council has recommended that Estonia take additional steps to further support green finance:

"Several macroprudential instruments are currently being implemented in Estonia. These instruments include requirements such as a loan-to-value ratio of 90% and a debt service-to-income limit of 50%. To further encourage sustainable investments, the Bank of Estonia has the potential to introduce more attractive criteria specifically for energy-efficient buildings or other sustainable investments. One possible measure could be to increase the loan-to-value ratio allowed to banks when financing energy-efficient buildings, thus reducing the downpayment for potential homeowners. Increasing the loan-to-value ratio for energy-efficient buildings may decrease credit risk, as the operating costs are lower, which leads to improved cash flow."
(Source: ec.europa.eu)

# Green Finance in Estonia

The Estonian financial sector is primarily bank-focused and relatively concentrated. Four systemically important credit institutions—Swedbank, SEB Pank, Luminor, and LHV—dominate the market. The five largest banks collectively account for over 90% of total banking-sector assets, reflecting the underdevelopment of Estonia's local capital market.

Banks in Estonia offer a wide range of green loans for both individual customers and businesses. Any purchase that helps mitigate climate change can qualify for a green loan, providing borrowers with access to lower interest rates. For instance, while standard consumer loans may have an interest rate of 8.9%, green loans for eco-friendly purchases start at 6.9%. Loans for installing solar panels are even more affordable, starting at 4.9% interest. (Source: seb.ee)

Mortgage lending has also seen significant growth in recent years, driven by low interest rates, rising incomes, and increased savings. This surge in mortgage activity has made green mortgages particularly important13. LHV, for example, was the first bank in Estonia to introduce a green home loan in 2020, specifically designed for purchasing energy-efficient homes. These loans offer highly competitive rates—currently 1.49% + 6-month Euribor (totaling 4.12% as of December 24, 2024). Their popularity has grown rapidly, with one in six home loans issued by LHV classified as green by the end of 2021, up from one in ten the previous year. Other banks have since followed suit, expanding their offerings to include green mortgages.

In addition to green home loans, LHV provides green leasing options for electric vehicles, solar panels, and energy-efficient equipment, as well as a green pension fund that prioritizes sustainable investments. (Source: lhv.ee )

SEB, another major player, offers green loans to businesses for activities such as energy- efficient construction, renewable energy projects, clean transportation, and sustainable water and wastewater management. Meanwhile, Swedbank supports environmentally friendly car leasing, offering lower rates—starting at 1.49% + 6-month Euribor—compared to 2.29% + 6-month Euribor for standard car leasing. (Source: swedbank.ee)

Overall, Estonia’s banking sector has made meaningful strides in promoting green finance, providing individuals and businesses with attractive financing options to support sustainability and the transition to a low-carbon economy. Green finance products are widely accessible in Estonian banks. Many commercial banks in Estonia provide a variety of financial solutions designed to promote sustainability and support the green economy. The following examples illustrate these offerings; however, this list is not exhaustive.

- **Energy storage** – for energy (esp. electricity) storage capacity.
- **Green Mortgages**
- **Green Agriculture** - for agricultural storage modernization, harvester replacement, tractor replacement,
- **Home energy efficiency loan – for individuals willing to finance** insulating, changing the heating system, or other works. solar panels, LED lighting, etc.
- **Loan for renewable energy usage –** for businesses purchasing and installing solar panels, wind turbines, heat pumps.

13. KredEx, public Estonian development bank, offers public loan guarantees to partner credit institutions to support households in purchasing energy-efficient buildings or renovating existing buildings to improve their energy efficiency. Buildings qualify as green according to the institutions’ internal criteria. (Source: eba.europa.eu)

# Green Finance in Estonia

- **Loan for renewable energy generation** – for establishing renewable energy generation capacity
- **Purchase of energy-efficient equipment–** for business willing to purchase of energy-efficient equipment
- **Renovating commercial or apartment buildings -** for improving energy-efficiency of existing commercial buildings
- **Solar Panel loan -** for the purchase and installation of a heat pump and solar panels by individuals
- **Zero-emission vehicles loan**

# Green Finance in Ireland

Ireland has made substantial progress in advancing green finance to facilitate its transition to a low-carbon and sustainable economy. The country's green finance framework aligns with the EU Green Deal and broader climate objectives, including achieving net-zero emissions by 2050. Ireland's strategy emphasizes mobilizing capital for sustainable investments, expanding green financial products, and enhancing environmental, social, and governance (ESG) practices.

The Irish government actively supports green finance through various programs, often backed by EU funding. One notable initiative is the Green Transition Fund (GTF), which assists companies at different stages of their decarbonization journey. The fund focuses on two main areas:

1. Encouraging manufacturing companies reliant on fossil fuels to adopt carbon abatement technologies.

2. Supporting businesses of varying sizes to increase awareness of carbon reduction opportunities, develop sustainability strategies, and enhance decarbonization capabilities.

Enterprise Ireland, under the GTF, offers grants and training programs to support these efforts. (enterprise-ireland.com; gov.ie)

Another key initiative is the Ireland Strategic Investment Fund (ISIF), a sovereign development fund with a mandate to invest on a commercial basis while promoting economic activity and employment in Ireland. ISIF actively supports green finance by funding sustainable projects and integrating ESG factors into its investment decisions. (Source: isif.ie)

The Irish government also issues sovereign green bonds to finance environmentally sustainable projects. These bonds support initiatives such as renewable energy, clean transportation, water management, and climate adaptation measures. (Source: centralbank.ie).

In addition to listed government-backed programs, Ireland provides affordable green finance options through financial institutions. Examples include:

1. Green Transition Finance: This loan product is flexible lending to support the green and sustainable transition of SMEs and Small Mid-Cap companies. Sceme is being implemented in cooperation with the European Investment Fund by the Strategic Banking Corporation of Ireland (SBCI).

2.Growth and Sustainability Loan Scheme (GSLS): is established and offered by the Strategic Banking Corporation of Ireland (SBCI) and benefits from a guarantee that has been provided by the European Investment Bank Group (EIB). The scheme provides SMEs and Small Mid-Caps14, including farmers and fishers, with long-term financing to invest in climate action and environmental sustainability measures designed to improve their performance.

14. Mid-cap (or mid-capitalization) is the term that is used to designate companies with a market cap (capitalization)—or market value—between $2 and $10 billion. (Source: www.ig.com)

# Green Finance in Ireland

3. Home Energy Upgrade Loan Scheme: Managed by the Sustainable Energy Authority of Ireland (SEAI), this government-backed €500 million scheme supports homeowners investing in energy efficiency improvements. SEAI offers three main programs:

- - Energy Upgrade Loan Scheme
- - Better Energy Homes and Solar PV Grants
- - Warmer Homes Scheme

PTSB was the first bank to offer loans under this scheme, with interest rates starting at 3.55%. (Source: seai.ie)

In general, Irish banks have increasingly adopted sustainability principles, offering a variety of green finance products to individuals and businesses. These include preferential mortgage rates for energy-efficient homes, loans for renewable energy installations, and financing for electric vehicles.

Along with abovementioned schemes, banks offers other types of green loans too. For example:

•**Forestry Development Loan** – given in terms of Afforestation Scheme that provide financial support to encourage to develop and manage sustainable forests.

•**Green Business Loan** – a discounted finance to businesses looking to implement energy-saving initiatives in order to reduce their carbon footprint and costs.

•**Green Mortgage -** with lower fixed rate option for energy efficient homes.

•**Green personal loans** – for new car or home improvementshelping to reduce emissions and fight climate change.

•**Sustainability linked loan** - to support and enable farmers to improve the environmental footprint of their farms

# Green Finance in Netherlands



The Netherlands is a frontrunner in green finance, promoting sustainability and supporting the transition to a low-carbon economy. Its strategy aligns with the EU Green Deal and the target of achieving climate neutrality by 2050. The country focuses on mobilizing public and private capital to fund renewable energy, energy efficiency, and sustainable infrastructure projects.

The Dutch government offers various grants, subsidies, and guarantee schemes to make green investments more attractive. Belowarefewschemesandmechanismsactiveinthe Netherlands makinggreen investments attrative:

•GreenProjectsSchemefinancingstimulates new developments in environmental technology, circular economy, and durable and innovative (construction) projects. Allowing banks to offer interest lower than they would normally offer. (Source: business.gov.nl)

•The National Heat Fund, operating on behalf on the central government, offers subsidized loans to improve every owner-occupier's home energy efficiency. The subsidized loan is accessible by any owner-occupier, regardless of the age of the owner-occupier. (Source: eba.europa.eu, warmtefonds.nl)

•BMKB-Groen - SMEs can access SME green credit guarantee scheme, which specifically targets investments in economic activities improving sustainability. The programme offers higher guarantees to partner commercial credit institutions and to other financing institutions based on technical criteria set by the national regulation. The programme also includes reduced fees and commissions on the loan and can grant access to tax deductions conditional on the achievement of specific energy efficiency criteria. (Source: eba.europa.eu, business.gov.nl)

Other examples include: Accelerated climate investments industry (VEKI) subsidy; Climate-Neutral Economy Manufacturing Investment Subsidy (IMKE); Energy Investment Allowance (EIA); Sustainable energy investment subsidy scheme (ISDE); and Sustainable Agriculture Investment Fund loan (IDL). (Source: business.gov.nl)

Usuallybanks and other investment institutions are able to offer lower interest rate on green loans thanks to "Green Fund". Green Fund is filled by savers and investors, who deposit money and possibly benefit from a tax advantage. As a result, the green funds can provide loans at a lower interest rate (For more details see link)

Aside from loans, the Netherlands is a leader in EU in terms of green bond issuance. In Europe, Dutch companies and the government are the leading issuers of green bonds as a share of total outstanding debt. At the end of July 2023, the proportion for the Netherlands was 6.0%. For comparison, the euro area average was 3.5%, and the global average was 1.5% at that time. (Source: dnb.nl)

# Green Finance in Netherlands



Banks in the Netherlands provide a diverse range of green finance loans, catering to both businesses and individuals. While the following examples highlight some of the available options, this list is not comprehensive.

- **Business Leasing of sustainable assets** - for businesses willing to lease an electric van
- **Energy Saving Loan for homeowners Association** – for upgrading energy efficiency of houses
- **Green financing to renovate business premises sustainably**
- **Loan for Circular economy** - for businesses recycling
- **Loan for Biobased economy** - For businesses using biogas, or bioplastics
- **Loan for Water - for** business to improve water treatment, efficiency, desalination
- Loan with EIB interest rate discount for:
    - Energy transition
    - Making buildings more sustainable (for own use)
    - Circular entrepreneurship
    - Sustainable mobility
- **Renewable energy –** for generating solar, wind energy or creating battery storage.
- **Solar energy system installation –** for own use
- **Sustainable heat** - to support sustainable heating methods, **such as** residual heat or geothermal energy

Aside from widely applied types of loans, ING bank offers Sustainable investment fund – a tailor-made solution for companies looking for financing to grow your sustainable business, but are you not yet eligible due to company's risk profile

- For subordinated loans and similar instruments, the size varies between €5 million and €20 million.
- For minority interests and quasi-equity with an 'upside' element, the bandwidth is between €1 million and €10 million.

(source: ing.nl)

# Green Finance in Türkiye

Türkiye has set ambitious climate goals, aiming to reduce emissions by 41% by 2030 and achieve net zero by 2053. To meet these targets, the country needs to mobilize over $500 billion for investments in green energy, sustainable buildings, and eco-friendly transportation.
Supporting this transition, Türkiye's Banking Regulation and Supervision Agency (BRSA) introduced the 2021–2025 Sustainable Banking Strategic Action Plan. This plan establishes a regulatory framework for green finance, promotes environmental risk assessments by banks, and enhances data collection and sustainability reporting to drive sustainable finance practices. (Source: odi.org)

Growing environmental and social awareness prompts regulators in Türkiye to strengthen the green finance framework. For example, the "Green Deal Action Plan", enacted on July 16, 2021, through "Presidential Communiqué No. 2021/15", outlines strategies for fostering a green finance ecosystem and promoting sustainable banking. (Source: mondaq.com)

Further steps include the Capital Markets Board (CMB)15 issuing "Guidelines on Green Debt Instruments, Sustainable Debt Instruments, Green Lease Certificates, and Sustainable Lease Certificates" on September 22, 2022. These guidelines establish a regulatory framework for sustainable financial instruments. (Source: turkishlawblog.com)

Most notably, on September 25, 2024, the Ministry of Environment, Urbanization, and Climate Change released a "Draft Regulation on Türkiye's Green Taxonomy", creating clear criteria for defining environmentally sustainable activities. (Source: iklim.gov.tr)

However, experts highlight that Türkiye's banking sector offers the greatest potential for driving green transformation through green finance, as it accounts for 90% of the country's financial markets. Türkiye's financial sector is predominantly bank-driven, with banks playing a central role in advancing sustainable and green finance initiatives. In 2014, the Banks Association of Türkiye (BAT) introduced voluntary Sustainability Guidelines for the Banking Sector, developed with input from 18 banks. Additionally, several leading Turkish banks16 have endorsed the UN Principles for Responsible Banking, reinforcing their commitment to sustainability practices.

Commercial banks have been particularly active in financing renewable energy and energy sector investments. Notably, Tier 1 and Tier 2 banks, which collectively represent over 65% of Türkiye's banking assets, have made substantial progress in adopting global sustainability practices and aligning with international sustainability frameworks. Green financial products, including green loans and green bonds, are being actively used to channel capital into sustainable development. At the same time, funding for coal-fired power plants is being phased out in favor of renewable energy investments. This strong foundation positions the banking sector as a key player in advancing Türkiye's green finance agenda and supporting the transition to a sustainable economy. (Source: dergipark.org.tr; odi.org; mondaq.com) The growing trend is seen in data. By December 2020, total loans to the energy sector amounted to $30 billion, with $12 billion allocated to renewable energy projects. Remarkably, within just nine months, this figure surged to $22.6 billion by September 2021—representing nearly 5% of all loans issued by the Turkish banking sector. (Sources: tbb.org.tr; odi.org)

15. Capital Markets Board of Türkiye (CMB) is the regulatory and supervisory authority in charge of the securities markets in Türkiye
16. Akbank, Garanti BBVA, Isbank, Sekerbank, TKYB, TSKB, and Yapi Kredi. Also, Anadolu Hayat Emeklilik, a private pension fund, signed the UN's Principles for Sustainable Insurance.

# Green Finance in Türkiye

International capital plays a vital role in supporting Türkiye's green transition by financing sustainable projects and promoting eco-friendly technologies. The Green Economy Financing Facility (GEFF) program, led by the EBRD and backed by EUR 6.3 billion, supports green investments through partnerships with local financial institutions. In Türkiye, over €700 million has been allocated to projects in renewable energy (solar, hydro, wind, and biomass), electric vehicles, energy-efficient buildings, and transformative technologies in sectors like cement, textiles, and chemicals.

For instance, in August 2022, GEFF Türkiye provided USD 127 million to renewable energy, resource efficiency, and women-led small enterprises, while an additional USD 100 million from the IFC supported İşbank to finance mortgages and green mortgages. Similarly, in April 2023, Deniz Bank received USD 143.25 million to finance green projects, women-led businesses, and earthquake relief and reconstruction efforts. (Sources: turkishlawblog.com; aa.com.tr; odi.org)

Another example is the World Bank's Green Industry Project, which offers affordable credit to SMEs to adopt green technologies and meet regulatory requirements while maintaining financial stability. This initiative is implemented by Türkiye's Ministry of Industry and Technology (MoIT), KOSGEB, and TÜBİTAK, with World Bank financing. (Source: worldbank.org)

In addition to international support, the Turkish government is actively advancing green finance initiatives. In December 2023, the Ministry of Treasury and Finance introduced the "Türkiye Green Fund," aimed at financing green transformation activities, including investments in green technologies and promoting transaction diversity. As part of this effort, the World Bank approved a USD 155 million loan, which was allocated to TSKB bank to support green finance projects. (Source: turkishlawblog.com)

# Green Finance in Türkiye

Green finance products are widely available in Turkish banks. Many commercial banks in Türkiye offer a diverse range of green financial products. The following is a selection of products that support the Green Economy, though it is not an exhaustive list:

- **Electric Charging Station Installation Loan –** for EV owners
- **Energy Efficiency Loan -** financing needs of the real sector on energy efficiency, which include energy efficiency as well as water efficiency, raw material efficiency and waste management.
- **Financing Renewable Energy Generation (licensed and uniicenced)-** electricity generation investments in renewable sources
- **Green or Eco-friendly Vehicle Loan -** financing eco-friendly brand new electric and hybrid vehicles
- **Green Mortgage –** for energy efficient real estate purchase
- **Green Office Premises Loan –** for customers who will buy office premises from "green buildings" that save energy
- **Marine Conservation Loan -** for commercial customers who generate waste water in their production processes
- **Real Estate Reconstruction Loan** - for real estate reconstructions to be more energy efficient
- **Solar Energy Usage Loan -** solar energy plants to be installed on the roofs of the industrial facilities for self-consumption

Banks claims that they offer more favorable terms on green laons, including extended terms However, to receive detailed information about the products, one must visit the branches. Nevertheless, the list of green offers can be easily found on banks' web sites.

**Table: Green Finance Practices of Banks in Türkiye**

| Bank Name | Green Finance Practices |
|---|---|
| Denizbank | In accordance with the agreement signed between the Bank and the European Bank for Reconstruction and Development, the Bank provides its customers with Green Economy Financing Facility (GEFF) Türkiye financing for sustainable energy investments. |
| Halkbank | In 2021, the Bank disbursed 45 billion in loans for GF and sustainable financing. It provided 14 billion credit support within the scope of energy efficiency and renewable energy. The Bank also launched loans such as renewable energy, energy efficiency, green workplace investment, green light commercial vehicle, green certified construction project, and electric vehicle charging station within the green energy loan package. |
| İşbank | After 2015, all of the financing allocated to electricity generation investments was allocated among renewable energy investments. In 2019, the first Green Bond was issued. Financing support is provided for GES investments through rooftop and self-consumption models. In addition to these investments, it sells financial products such as urban transformation, unlicensed electricity generation, energy efficiency, and environmentally friendly vehicle loans. |
| Industrial Development Bank of Türkiye | The Bank signed loan agreements to support the green economy. Within the framework of the EUR 53.5 million green economy financing with the European Bank for Reconstruction and Development, investments supporting the green economy in Türkiye will be financed. |
| ING Bank | In 1997, the first environmental and social risk policy was implemented. In 2015, an integrated climate action approach was launched by ratifying the Paris Climate Agreement. In 2015, a Green Bond was also launched. |
| Vakıfbank | In 2020, within the scope of the green housing project with the French Development Agency, EUR 100 million of the EUR 200 million resource was transferred to the market in 2022 and the remaining EUR 100 million in 2023. In addition, cooperation with the European Investment Bank, the World Bank and the European Reconstruction Banks in the field of GF continues. |
| Garantibank | In the first 9 months of 2023, a total of TL 59.4 billion of sustainable financing was provided, including TL 12 billion of green and social financing to the corporate segment. The Bank launched green loan products in 2018, a green public offering in 2021, and a green direct collection system in 2022. |
| Akbank | For the first time in Türkiye, the Bank launched a blue tourism loan under green transformation for tourism, port and maritime activities. Akbank aimed to reduce its environmental footprint with the Çatı GES investment loan. A low carbon economy transition loan was developed to ensure the green transformation of the export and production sectors. |
| Ziraat Bankası | The Bank launched green house (TL 353 million), green vehicle (TL 36 million), residential thermal insulation (TL 23 million), and SPP investment and operation loans as financial products for green transformation and sustainability. |

Source: dergipark.org.tr

Savvy

# International Experience: Success Cases

# International Experience: Success Cases

This chapter builds upon the key findings presented in the previous chapter, which analyzed six countries' approaches to green finance. Specifically, it highlights two green finance products that are consistently present across nearly all reviewed countries and demonstrate significant potential for adoption in Georgia's financial sector. These products are green mortgages and green loans tailored for the construction and development sectors.

Both green mortgages and green loans for the construction sector play a vital role in promoting green building standards and sustainability in real estate. By tying financing options to environmental performance, these financial products encourage the adoption of sustainable practices and energy-efficient technologies across the industry. On the other hand, Those new products can diversify bank's portfolio, help attract new clients expanding its portfolio, and support its sustainable transformation.

In addition to these products, the analysis revealed the widespread availability of specialized green funds that provide financing for sustainable projects under favorable conditions. These funds play a critical role in accelerating green transitions by directing funds to energy-efficient and environmentally friendly initiatives.

In Georgia, green finance is primarily driven by international organizations that fund local financial institutions, which then channel these resources to the business sector. Examining the structures and mechanisms of such funding models provides valuable insights into frameworks that could be replicated or adapted to Georgia's context. This approach can help diversify green finance flows across the economy. Leveraging such models may help establish robust funding mechanisms to finance Georgia's sustainable development goals and further integrate green finance into its economic landscape.

In the end, a brief overview of green finance instruments designed to mitigate risk and enhance the attractiveness of sustainable projects aims to provide information on available tools that could potentially be adapted to the Georgian context. This chapter, therefore, aims to summarize these key findings and explore actionable pathways for integrating similar green finance products and fund structures into Georgia's financial sector.

# Green Mortgages

Briefly stated, a green mortgage is a mortgage specifically targeted at green buildings. Green mortgage offers preferential terms for properties that meet certain environmental standards. Essentially, a green mortgage is a standard mortgage with beneficial terms.

There can be various forms of green Mortgages. For instance:

•Mortgages that offer lower interest rates for purchase or building an energy efficient home

•Mortgages that offer cashback to buyers who purchase an energy efficient home (for example in Estonia)

•Mortgages that offer lower interest rates for renovation of the property to make it more energy-efficient.

According to international practice, these are considered as retail products, designed for individuals/households. However, in developing countries, such as Georgia, micro and small enterprises often are registered as individual entrepreneurs (under natural persons). Thus, making it suitable for rural MSMEs.

This product is designed for individuals, willing to purchase green building. Meaning that borrower needs to address the developer/constructor to receive relevant documentation, proving eligibility of the building for green mortgage.

Eligibility is a key for green mortgages, as property must meet predefined energy efficiency criteria, such as having some type of high energy performance certificate. Borrowers must provide such certificates (received from developer or builder) as proof of energy efficiency, which will serve as a basis for granting green mortgage (and not standard mortgage).

Thus, introduction of green mortgage requires some sort of certification or accreditation practices to be in place. There should be government or private body, certified professionals or procedures that should be used for assessing the energy-efficiency of the building making it eligible/ineligible for green mortgage.

For example, in Estonia there is an energy label, which is a document that indicates how much energy a building or part of a building consumes per square meter of heated area and year. The energy label provides information on the planned energy requirements or the actual energy consumption of a planned or existing building. Energy requirements and consumption are scaled from A to H allowing the comparison of the buildings. Having energy label is a prerequisite for receiving various support measures, such as KredEx guarantees17 and green loans. Both existing and new buildings are given an energy label by a specialist whose competence is proven by an occupational qualification certificate. The procedure for issuing energy labels is stipulated by Regulation No. 36 of the Minister of Economy and Infrastructure "~~Requirements for issuing an energy label and for the energy label itself". (Sources: kliimaministeerium.ee; ttja.ee~~)

17. KredEx, public Estonian development bank, offers public loan guarantees to partner credit institutions to support households in purchasing energy-efficient buildings or renovating existing buildings to improve their energy efficiency. Buildings qualify as green according to the institutions' internal criteria. (Source: eba.europa.eu)

# Green Mortgages



**Why Green Mortgages?** Green mortgages offer benefits not only to homeowners but also to the environment. Buildings account for a substantial share of energy consumption, making energy efficiency a critical factor in addressing climate change targets. Promoting green mortgages encourages the construction and purchase of energy-efficient homes, thereby supporting the growth of sustainable building practices. By providing financial incentives for green home purchases, banks play a key role in driving the development of eco-friendly buildings. These incentives also push sustainability and energy efficiency to the forefront for both property owners and developers, who are likely to integrate such standards early in the design, construction, or renovation phases.

Moreover, preferential mortgage terms motivate buyers to prioritize environmentally friendly homes. Prospective homeowners seeking financing are more likely to evaluate properties based on their sustainability features, fostering greater demand for green buildings and accelerating the shift toward a more sustainable housing market.

Moreover, experts increasingly view green buildings as lower-risk investments for banks. This perspective is supported by two key factors: 1. Lower Operating Costs: Green buildings typically have reduced utility expenses due to higher energy efficiency. These lower running costs improve the financial stability of borrowers, reducing the likelihood of default. 2. Higher Property Value: Properties with green certifications are often valued higher than similar properties lacking sustainable features. This increased value provides greater security for banks, as the assets are more likely to retain or appreciate in value over time As a result, green buildings not only support environmental goals but also represent financially sound investments, making them attractive for lenders and borrowers alike. (Source: worldgbc.org)

As a result, Green mortgages are quite wide-spread green finance product. For example, in Estonia green mortgages have seen significant growth in recent years. (Their popularity has grown rapidly, with one in six home loans issued by LHV bank classified as green by the end of 2021, up from one in ten the previous year). Those mortgages are offered at discounted price - currently 1.49% + 6-month Euribor (totaling 4.12% as of December 24, 2024). Ireland has the same practice of offering green mortgages with lower fixed rate. In Türkiye Garanti BBVA was the first to introduce the "Green Mortgage" product, in cooperation with the EBRD and IFC. While in Armenia there is the National Mortgage Company, in partnership with the French Development Agency and the European Union, offers the Warm Hearth program, which focuses on enhancing housing quality and energy efficiency. (Source: garantibbva.com.tr; NMC)

**In summary, the benefits of a green mortgage can be:**

- Lower Borrowing Costs
- Energy Savings
- Environmental Impact
- Higher Property Value

# Green Mortgages



Overall, retail green mortgages primarily drive demand for energy-efficient homes, promote sustainable construction practices, and offer financial support to developers.

However, green mortgages are not limited to homes—they can also be tailored for corporate clients, providing financing solutions for various property types, including:

- Offices: Energy-efficient office spaces helps businesses lower operational costs
- Retail Spaces: Green-certified retail properties attract eco-conscious consumers, improving reputation
- Manufacturing Facilities: Sustainable manufacturing facilities to reduced energy consumption, thus lower production costs.

By extending green mortgage options to non-housing market, banks can further promote sustainability across sectors, encouraging broader adoption of green building standards.

# Green Loans: Financing Green Construction



Green loans for construction are loans designed for business clients and directed to construction of green buildings. Those loans are issued to developers and builders that have a project requiring financing. Needless to say, this project must meet some eligibility criteria demonstrating its “green” characteristics.

Thus, to qualify for green loans, developers/builders are typically required to meet specific energy efficiency and sustainability criteria. But, please note, that those criteria apply to specific project to be financed, rather than the developer/builder itself. Usually, “green” characteristics of the project are demonstrated via labels, certificates, or something of the same kind, that is obtained by the borrower prior to applying for loan. Thus, for green loans to be effectively implemented, the establishment of accreditation or certification bodies is essential. These institutions can verify compliance with green building criteria, provide ratings, and issue certifications. An example of form and way of obtaining such label/certificate is described under “green mortgage” section.

**Why Green Loans For Green Buildings?**

Similar to green mortgages, green loans for developers or construction companies are specifically designed to finance the construction of environmentally sustainable and energy-efficient buildings. These loans provide builders with the financial resources needed to adopt eco-friendly construction practices while offering favorable terms, such as lower interest rates or extended repayment periods. For example, Turkish bank Garanti BBVA offers real estate developers that present a class A or B energy efficiency certificate ability to benefit from credit with advantageous interest rates, free of fees or commissions (Source: bbva.com). The availability of cheaper funding serves as a strong incentive for developers to prioritize sustainability in their projects.

On the other hand, labeling/certification requirement promotes the use of certified materials, renewable energy systems, and modern technologies, ensuring compliance with recognized green building standards. Meeting these standards not only reduces the environmental impact of new developments but also positions developers as leaders in sustainable construction.

Moreover, by focusing on eco-friendly construction, developers can attract environmentally conscious buyers and investors. Certified green buildings appeal to a growing market segment that prioritizes sustainability, enhancing property values and boosting marketability. Additionally, green buildings ensure long-term energy savings for property owners, making them both cost-effective and environmentally beneficial.

Overall, green loans for developers play a crucial role in advancing sustainable construction. By offering financial incentives and promoting compliance with sustainability standards, these loans drive the development of environmentally friendly buildings. At the same time, proper certification systems are necessary to ensure credibility and reinforce the benefits of green construction. As the demand for energy-efficient buildings grows, green loans present an opportunity for developers to align commercial success with environmental responsibility.

# Funds for Green Finance



This section explores green funds that finance sustainable projects under favorable conditions. These funds play a crucial role in accelerating the green transition by directing capital into energy-efficient and environmentally friendly initiatives. They provide accessible financing, enabling businesses and individuals to invest in sustainable projects more easily.

In Georgia, green finance is largely driven by international organizations that fund local financial institutions, which then allocate these resources to the real sector. In contrast, green finance in European countries relies more on government support—both local and EU-backed—rather than donor funding. Given that green finance is more advanced in the EU and Georgia is following a similar development path, examining the structures and mechanisms of funding models in these countries could offer valuable insights. Such frameworks may be adapted or replicated to suit Georgia's context. Additionally, successful examples from neighboring countries may also provide relevant lessons alongside those from EU member states

**Green Funds – The Netherlands** In the Netherlands, "Green Funds" play a crucial role in promoting sustainable investments by enabling banks and financial institutions to offer loans at lower interest rates. These funds are financed by savers and investors who deposit money and, in return, may benefit from tax advantages. The availability of lower interest rates through green funds encourages the development of environmentally friendly projects and supports the transition to a sustainable economy.

Banks and investment institutions that operate Green Funds are officially recognized by the government as green institutions. Under the Green Projects regulation, they are categorized as "banks or investment institutions with a green fund." A full list of these institutions can be accessed through link. (Source: www.rvo.nl)

According to the Netherlands Tax Authority, individuals who contribute to sustainability and innovation through green savings and investments may qualify for tax exemptions and credits. Specifically, green investments and savings are exempt from taxes, meaning investors are only taxed if the combined value of their investments and savings exceeds a certain threshold. As of 2024, this exemption limit is set at €71,251. In addition to tax exemptions, investors are also eligible for a tax credit amounting to 0.7% of the exempted value in 2024. These financial incentives make green funds an attractive option for both savers and investors while driving sustainable growth and innovation. (Source: belastingdienst.nl)

# Funds for Green Finance

**National Heat Fund – The Netherlands** The National Heat Fund, operating on behalf on the central government, aims to stimulate the energy transition in Dutch households, and provides loans to private individuals for this purpose. To make sustainability (more) possible, you can qualify for an interest-free loan. The fund offers subsidized loans to improve every owner-occupier's home energy efficiency. The subsidized loan is accessible by any owner-occupier, regardless of the age of the owner-occupier. The loan amount can vary from €1,000 to €28,000, while effective interest rate varies between 3.60% and 4.05% based on loan term (from 7 to 20 years).

(Source: eba.europa.eu, warmtefonds.nl, moneywood.nl)

The loan is deigned to finance improvements in the house for sustainable:

- Isolation
- Heating
- Ventilation
- Energy generation and storage

**Türkiye Green Fund** In December 2023, the Ministry of Treasury and Finance launched the "Türkiye Green Fund," a venture capital investment fund designed to support green transformation activities, including investments in green technologies and promoting transaction diversity. The Türkiye Green Fund will initially be financed by the World Bank and implemented by TSKB (Industrial Development Bank of Türkiye). The World Bank has already approved a USD 155 million loan for this initiative.

This fund marks Türkiye's first venture capital investment fund financed through loans, specifically dedicated to reducing emissions and promoting sustainable and inclusive transformation. The Türkiye Green Fund aims to reach a total equity amount of USD 405 million, combining the World Bank loan with additional contributions from both the private and public sectors. The primary objective of the fund is to stimulate private sector participation by providing capital investment opportunities to companies engaged in green transformation. Beneficiary companies will gain access to strategic growth opportunities through equity investments, enabling them to adopt more balanced and sustainable borrowing structures. Furthermore, the fund is expected to make a positive impact on the development of Türkiye's capital markets while fostering sustainable economic growth.

(Source: turkishlawblog.com; tskb.com.tr)

# Funds for Green Finance

**German-Armenian Fund** - Armenia The German-Armenian Fund (GAF) was established through cooperation between the governments of Germany and Armenia. Its primary purpose is to manage and implement loan programs financed by KfW, the World Bank, the European Investment Bank, the Asian Development Bank, and the Government of Armenia. GAF works in partnership with financial institutions to distribute loans under its programs. Its activities include selecting partner organizations, monitoring and evaluating program performance, and reporting to key stakeholders.

The financing structure within GAF programs operates as follows: GAF refinances eligible loans issued by partner financial institutions, provided these loans meet the specific criteria of each program. Refinancing is carried out in local currency, with the Central Bank of Armenia assuming the foreign exchange risk.

Local financial institutions disburse loans to enterprises in the real sector based on their own lending procedures, with credit risk managed by these institutions. The long maturities of GAF resources—ranging from 5 to 12 years, with grace periods of up to two years—enhance the appeal of the programs.

To ensure the sustainability of funding, repayments and interest received are reinvested into financing new projects, enabling the continuous operation of GAF programs. (Source: GAF)

**Ireland Strategic Investment Fund** The Ireland Strategic Investment Fund (ISIF), managed by the National Treasury Management Agency (NTMA), is a sovereign development fund with a distinct mandate. Its statutory objective is to invest on a commercial basis while supporting economic activity and job creation in Ireland. ISIF operates under a “double bottom line” approach, requiring all investments to deliver both financial returns and positive economic impacts within the country. Unlike many other investment funds, ISIF has a long-term investment horizon, enabling it to provide stable, patient capital. Its flexible structure allows it to operate across various levels of the capital structure, addressing evolving funding needs and market gaps.

In 2021, ISIF committed €1 billion over five years to climate-related projects. Of this, more than €600 million has already been invested. Focusing on “climate-positive” investments, ISIF supports Ireland’s transition to a sustainable economy by funding renewable infrastructure, innovative technologies, and business models aligned with long-term environmental goals. (Source: isif.ie; ifswf.org; top1000funds.com

# Annexes

# Annex 1: Green Economy Financing Facility (GEFF)



*Green Economy Financing Facility* (GEFF) provides financing through local financial institutions. General terms and conditions of loan financing:

Maximum financing amounts of a loan:

- up to US$ 300,000 for small and clearly defined project that comprise high-performing equipment and materials from the Green Technology Selector,
- up to US$ 1 million equivalent for all other large scale energy efficiency and renewable energy projects, where GEFF team can provide advice – to Individuals.
- up to US$ 5 million equivalent for all other large scale energy efficiency and renewable energy projects, where GEFF team can provide advice – to Businesses, Service Providers, Vendors and Producers.

Financing is subject to the usual financing criteria and assessment process of each participating financial institution. Thu, the project must comply with the financial criteria set by the financial institution and undergo a standard evaluation process. (Source: GEFF)

# Annex 2: Green Bonds

As previously stated, green bonds represent another tool within green finance. For several years now, Georgian companies have been issuing green bonds in both domestic and international markets. In recent years, they have also begun issuing Green, Social, Sustainable, and other Labeled (GSS+) bonds on foreign and Georgian stock exchanges. Nevertheless, the World Bank notes that Georgia's domestic capital market for government and corporate debt securities remains relatively small compared to its peers, with most large issuances in the past occurring offshore. (Source: The World Bank)

The National Bank of Georgia (NBG) highlighted 2022 and 2023 as notably active years for GSS+ bonds in the country. During this period, local companies began issuing these bonds primarily in the Georgian national currency on the domestic bond market. Recent developments in the local bond market indicate a rising interest among Georgian companies in GSS+ bonds.

“By the end of 2023, the size of the corporate bond market amounted to 1.947 billion GEL. to the previous year, in 2023, market grew by 39.6%, reaching 5.32% of the gross domestic product. Of the issued bonds, 54.4% were denominated in GEL and issued by international financial institutions. The market for bonds issued by international financial institutions grew by 6.4%, while the corporate bond segment saw a substantial increase of 121.9%. The average growth rate of the public corporate bond market over the past 5 years reached 38.7%.” (Source: NBG)

In 2023, the corporate bond market achieved greater diversification, featuring issuers from eleven different industries. Investment companies accounted for the largest share of the market at 21%, whereas power generation held the top position at 26% in 2022. Furthermore, issuers from the financial services, automotive trade and services, and energy sectors collectively made up nearly 46% of the market. (Source: NBG)

Few examples of Green Bonds are:

- GGU - Aqualia Green Bond Project: In July 2024, Georgia Global Utilities JSC (GGU) issued $300 million in 5-year green bonds with a bullet repayment structure. These bonds are listed on the Irish Stock Exchange, operating as Euronext Dublin (GEM). (Source: **ADB**)
- LLC Prime Concrete Green/Blue Bond Issuance: In September 2023, LLC Prime Concrete, a marine and infrastructure contractor and material producer in Georgia, launched its inaugural public green/blue bonds, raising USD 7.5 million. (Source: NBG)
- BasisBank Sustainability Bond Project: The Asian Development Bank (ADB) invested $15 million as an anchor investor in a 3-year sustainability bond issued by Joint Stock Company BasisBank. This bond, certified as the first sustainability bond by a commercial bank on the Georgian Stock Exchange, is intended to finance both green and social sector projects. (Source: ADB)

  Additionally, BasisBank plans to issue a parallel sustainable tranche targeted at local investors. The issuance, arranged by TBC Capital and Galt and Taggart, allocates 50% of proceeds to climate-friendly investments and the remaining 50% to social initiatives, adhering to the NBG's Sustainable Finance Taxonomy (SFT). (Source: ADB)

# Annex 2: Green Bonds

Georgia Capital Sustainability-Linked Bond: The Asian Development Bank (ADB) collaborated with Joint Stock Company Georgia Capital (GCAP) to issue GCAP's first sustainability-linked bond. With a total issuance of $150 million and a 5-year maturity, it was the largest bond listed on the Georgian Stock Exchange at the time. (Source: ADB)

Various financial institutions participate in placing green bonds. Those are:

***TBC Capital***

TBC capital plays as an agent supporting green bond development. In 2023, TBC Capital served as the placement agent for three ESG bonds that embraced both green and sustainability-linked initiatives. Moreover, in 2023 TBC Capital placed first ever GEL denominated green bonds on local markets.

***TBC Leasing***

TBC Leasing is also actively involved in the financing of green, renewable and energy-efficient assets through various initiatives. Only in 2023:

•TBC Leasing successfully placed GEL 15 million green public bonds. The placement was the first national currency denominated green issuance on the local capital market among financial institutions. The proceeds from the issuance have been directed to finance growth of TBC's green leasing portfolio.

•In addition, TBC Leasing commenced a collaboration with the Green for Growth Fund (GGF) to develop a digital platform, which will allow customers to submit requests for funding for prospective solar photovoltaic projects and obtain quotes from TBC Leasing in a more efficient way. This platform is integrated into TBC Leasing's website.

***Galt& Taggart***

The chart below offers the list of bonds places by Galt&Taggart.

| Issuer | Bond type | Amount | Interest/ maturity | Subscribed by | Second Party Opinion issued by | Comment |
|---|---|---|---|---|---|---|
| Georgian Renewable Power Company | Green | US$ 80,000,000 | 7.00%; 5-year | EBRD, ADB, IFC and FMO | SUSTAINALYTICS | First and largest green bond locally |
| GEOSTEEL | Sustainability-linked | US$ 15,000,000 | 9.00%; 2-year | Mostly retail subscribed | DNV | First ever sustainability-linked bond locally |
| GEOSTEEL | Sustainability-linked | US$ 5,000,000 | 8.50%; 2-year | Mostly retail subscribed | DNV | First ever sustainability-linked bond locally |
| GEORGIA CAPITAL | Sustainability-linked | US$ 150,000,000 | 8.50%; 5-year | EBRD, ADB, IFC and AIIB; Pension Fund and retail investors; | SUSTAINALYTICS | Largest sustainability-linked bond locally |
| crystal | Social | GEL 25,000,000 | 3m TIBR + 475 bps; 2-year | ADB anchored transaction | SCOPE | First social bond in Georgia |

Source: Annual Report 2023

# Annex 3: Current and Future Sustainability Practices of Banks in Türkiye



| Sustainability Investments | Goal |
|---|---|
| **Industrial Development Bank of Türkiye**<br>**Sustainability-themed funds including Renewable Energy, efficiency and Circular Economy** | Ensure access to sustainable finance to achieve the 2053 net zero emissions goal |
| **Yapı Kredi Bank**<br>**By categorizing sustainability activities into three main groups: environmental impact, social impact and governance, low-carbon energy sources and sustainable financial funds** | Acting with the awareness of its responsibility in the transition to a low carbon economy and developing sustainable financial products in line with this awareness |
| **Akbank**<br>**Long-term commitment to sustainable finance in Türkiye, sustainable loan financing of TL 200 billion and investment funds balance of TL 1 billion in Türkiye by 2030** | By 2030, increase the number of financially empowered people, become a carbon neutral bank by 2025, reduce the impact of the loan portfolio on climate change by 2030 |
| **Şekerbank**<br>**Inclusion of women in production through women's banking and inclusive finance, 1,843 supported women artisans, 1,500 women receiving financial literacy training and more than 5,000 women supported in agriculture** | Carbon footprint is monitored, verified and reported annually. In this context, setting an annual carbon footprint reduction target of 5% reduction compared to the previous year within Scope 1 and Scope 2 |
| **İşbank**<br>**2.3 billion TL sustainable investment fund, 98.1 million MWh of clean energy generated by projects financed by İşbank in the last 3 years, 75% renewable energy projects/energy generation portfolio, 27,994 person per hour of sustainability training provided to employees** | It aims to accurately determine the actions that credit customers can take on the path to decarbonization and to guide customers in this context, to provide the financial support required for the green and sustainable practices that customers will need in the decarbonization process, to create financial impact models within the framework of sectorally differentiated needs and to monitor the development of customers in this field. |
| **Vakıfbank**<br>**The banking processes of all branches were harmonized with the IS 9001 Quality Management System, ISO 14001:2015 Environmental Management System certification was obtained in 2017, all Vakıfba employees were enabled to work in ISO 14001 certified buildings, energy policies were determined and ISO 50001 Energy Managemen System certification was obtained in 2023 in line with the goals and t arget s.** | VakıfBank aims to identify the environmental and social impacts that may arise from its customers' projects to be financed and to ensure that mitigating measures are taken by commissioning the Environmental and Social Risk Management System as of December 2022 within the framework of the Policy on the Management of Environmental and Social Impacts in Lending Processes. |
| **ING Bank**<br>**Investing in solutions to increase operational efficiency, utilizing 10 renewable energy in offices, financing renewable energy projects al over the world to be used in green loans and bonds and sustainability-related products, offering advantageous ING Sustainable Business Loans to customers within the scope of the program launched for Corporate Banking customers** | Achieving zero carbon emissions in operations, Bringing the portfolio to net zero by 2050 or earlier, Guiding customers to net zero economy and providing financing, managing climate and environmental risks |
| **Alternatif Bank**<br>**In 2022, a project agreement was signed with Escarus, Türkiye's leading consultancy company, for more efficient and strategic management of sustainability efforts, including gap analysis, review of strategy and management structure, system documentation and preparation of training content.** | By the end of 2023, to ensure that the necessary infrastructure is in place to more clearly monitor and report both the organization's own impact and the activities realized as a result of the financing it provides in terms of Environmental Social Governance |
| **Albaraka Türk**<br>**Founded in 2020 by Inovasyon Venture Capital, it has met customer needs with projects such as Insha Ventures and fintech. Conducted many environmental projects such as Green Building, Carbon Disclosure and Zero Waste Projects** | The Bank's ultimate goal is Net Zero Emission. Therefore, the Bank strives to formulate its sustainability strategy within the framework of environmental, social and governance |
| **Ziraat Bank**<br>**Within the scope of the SDG, SME financing and collateral products, sustainable agricultural loans, financial literacy trainings for customers, financing renewable energy projects, special loan projects for priority development regions and carbon footprint measurement studies were carried out.** | To strengthen the Bank's position in the national competitiveness market and worldwide via corporate, environmental, and social sustainability practices. |
| **Halkbank**<br>**Approximately 502,075 tons of CO2 emission reduction in 2022 due the renewable energy plants assessed by Halkbank. 8,133 firms we scored within the scope of Sustainability and Environmental Assessment in 2022. Saving 102 million pages through paperless banking practices. A Digital Credit Package for Women Entrepreneu was introduced to customers on the Digital Credit Platform in July 2021. With the "Digital Women Entrepreneur Loan", 406 million TL was provided to 6,808 entrepreneurs in 2022 and a total of 530 million T was disbursed to 11,688 entrepreneurs.** | Combating climate change, information security and customer privacy, increasing access to financial services, social responsibility and contribution to social welfare in line with SDGs. In 2022 and beyond, the Bank aims to lower the environmental impact caused by its banking operations. In addition to enhancing the financing it provides to environmentally- friendly projects and sectors, the Bank will continue to apply digitization methods that will speed up the transition to emission reduction, waste management, and paperless banking to minimize the footprint of its operations. |

Source: dergipark.org.tr

# Annex 4: Common Forms of Fiscal Incentives for Green Investment



| Measure | Description |
|---|---|
| Accelerated depreciation | Accelerated (or free) depreciation (allowing businesses to write off depreciation of assets more rapidly). |
| Corporate income tax rate (CIT) reduction | Corporate income tax reduction over a defined period. |
| Customs/sales tax exemption | Exemption from import duties, export taxes, VAT, or sales tax. |
| Grants | Financial support towards specific investment costs. |
| Investment tax credit or investment allowance | Reductions in taxes that are based on the amount of investment and are in addition to normal depreciation. Tax credits are deducted from income before gross income is determined. Typically, the business must own or have built the relevant equipment/structure and it must meet specific quality and performance standards. |
| Land/property tax exemption | Exemption from land/property registration fees, stamp duties. |
| Tax deduction | Deductions of certain expenses from taxable income, such as employment taxes paid for specialist labor hired or sales taxes/VAT on certain inputs. Tax deductions are taken when calculating tax due, reducing net taxable income. |
| Tax holiday | Total income tax exemption over defined period, possibly linked to the location of the relevant activity in a special zone (e.g., ‘special enterprise zone,’ ‘free port,’ ‘export-processing zone’). |

Source: Bowen, Alex. Fiscal Incentives for Green Private Investment. Washington, D.C. : World Bank Group.

# Annex 5: Credit Enhancement and Risk Transfer Mechanisms



| Credit Enhancement Mechanisms | Definition |
|---|---|
| Full or partial credit guarantee (PCG) | A credit guarantee or PCG is created to absorb part or all the debt service default risk of an infrastructure project, irrespective of the cause of default. PCGs can be used for any commercial debt instrument (loans, bonds) from a private lender. The existence or proposed implementation of a PCG is indicative of confidence in the product being floated by the guaranteeing entity and can even assist in bringing new lenders to the table. |
| Partial risk guarantee / Political risk guarantee | PRGs cover private lenders and investors for certain risks of lending to sovereign or sub-sovereign borrowers. A PRG needs to include private participation in the project. A PRG can cover a number of sovereign or sub-sovereign risks such as currency inconvertibility, repatriation, expropriation, political force majeure such as war, regulatory risk and government payment obligations (such as tariffs). |
| Partial risk swap guarantees | Partial Swap Guarantees cover investors against the risks arising from currency swaps in cross-border transactions or where the debt service cash flow is in a different currency from the deal cash flows, which would require the issuer to hedge the currency mismatch to provide comfort to investors that payments can be made in the debt currency. |
| First-loss provisions | First-loss provisions refer to any device designed to protect investors from the loss of capital that is exposed first if there is a financial loss of security. These could be debt, equity or derivatives instruments including mezzanine finance, cash facilities or guarantees. They could also take the form of insurance that insures debt security providers who are liable to pay compensation to the investors, irrespective of the cause of the loss. |
| Contingent loans | Contingent loans are often used in project finance to backstop the main debt by providing a payment option for specific case scenarios. For instance, if the government fails to obtain quality cash flows, the contingent loan is triggered, and investors are paid. |
| Concessional loan | Concessional loans are loans that are granted on substantially more generous terms compared to market loans, which is achieved through below-the-market interest rates, longer grant periods or a combination of both. |
| ESCOs | Energy Service Companies (ESCOs) provide technical and financial services for the implementation of energy efficiency solutions. Under a Guaranteed Saving Schemes, the ESCO guarantees a certain level of energy savings, thus assuming the performance risk. With a Shared Savings Model, higher energy savings determine a lower cost of the energy service. In both schemes, financing can come either from the ESCO or a third party. |
| Viability gap funding (VGF) | VGF is used specifically in infrastructure to cover for the heavy upfront funding that is required to kick start projects. An analysis of the viability of a proposed project points out the weak areas that prevent large-scale funding from being obtained. A VGF scheme can be implemented through capital grants, subordinated loans or even interest subsidies to target specific issues that are affecting the viability of the project. A blended finance approach could also be used to reduce project risk. |
| A/B loans or grants | A/B loans or grants are where a Multilateral Development Bank (MDB) offers the "A" portion of the loan while attracting other lenders to join in a second (or "B") tranche. The MDB will be the lender-of-record, lead lender and administrative agent in the transaction. This reduces part of the risks of the operations, by also being covered by the "umbrella" of the MDBs that include a preferred creditor status and de jure immunity from taxation. |

Source: ASEAN Green Financial Instruments Guide

# Annex 5: Credit Enhancement and Risk Transfer Mechanisms



| Risk Transfer Instruments | Definition |
|---|---|
| First-loss capital | May provide a risk-buffer for green structures and thereby encourage institutional investors. First loss capital incorporated into the capital structure usually as a junior equity tranche or as subordinated debt. |
| Synthetic green capital notes or securitization | Risk management (de-risking) to release loss reserves, with the use of freed capital to fund green projects. Reduce risk weighting of assets, while keeping the assets tied to the banks' balance-sheet and the current operations. |
| Loan loss reserves | Pooled public funds set aside by a financial institution to partially recover loss in their loan portfolio in the event of borrower defaults. If the institution issues green bonds, loan loss reserves can improve the risk profile of the deal by providing additional assurance on the issuer's cash flows. |
| Risk sharing facility (RSF)/Default swap | These structures support a transaction involving a loss-sharing agreement, where the originator will be reimbursed in the case of a loss of principal on a portfolio of eligible assets (mortgages, consumer or student debt, energy efficiency loans, SME loans, receivables). Originators are mainly banks and corporations. |

Source: ASEAN Green Financial Instruments Guide

Green mortgages, green loans for construction sector, and funds for green finance, that fall under the debt and equity instrument categories. However, there is a third category of green finance instruments: Credit Enhancement and Risk Transfer Instruments. This category has wide
variety of instruments offering investment risk reduction.

This section investigates several instruments available in the global finance environment, with the goal of finding those that can be effectively adapted and applied within Georgia's emerging green finance ecosystem. Credit Enhancement and Risk Transfer Instruments are financial tools aimed at lowering the
repayment risk associated with debt and securities. Their main objective is to strengthen the creditworthiness of borrowers, increasing investor confidence by addressing both perceived and real risks. This ultimately broadens the financing opportunities available to borrowers. Several examples of such tools are given below:

Ø**First-loss provision/capital** is mechanism designed to protect investors from the initial loss of capital in the event of erratic cash flows or financial setbacks. These mechanisms shield investors from predefined losses, typically by absorbing the first portion of any financial loss. They can take the form of debt, equity, or derivative instruments, such as cash facilities, or guarantees, and may also include insurance policies that cover debt security providers responsible for compensating investors, regardless of the loss's cause.

For example, the IFC’s Managed Co-Lending Portfolio Program (MCPP) is a pooled syndication model that enables institutional investors to partner with the IFC in funding projects in emerging markets. In some cases, the MCPP structure may incorporate credit enhancement, with IFC offering first-loss coverage for the portfolio, ensuring that investor exposure aligns with a target risk level. (Source: IFC,IFC-2, OECD

Ø**A/B Loans or Grants** involve a Multilateral Development Bank (MDB) providing the "A" portion of the loan, while attracting other lenders to participate in the second ("B") tranche. The MDB acts as the lead lender, lender-of-record, and administrative agent for the transaction. This arrangement reduces some of the risks for the additional lenders (the "B" lenders) by offering protection under the MDB’s "umbrella," which includes preferred creditor status and immunity from taxation.

For instance, the Inter-American Investment Corporation (IIC), the private sector branch of the IDB Group, arranged a US$56 million senior A-loan and a US$25 million B-loan from BBVA to Terna, Europe's largest transmission system operator. The funding was used to construct a transmission line in Uruguay, linking projects that produce renewable energy for the country's power grid. (idbinvest.org) Ø**Contingent loans/credit lines** are financial instruments used in project finance to support the
primary debt by offering a payment option in specific situations. For example, if predetermined scenarios occur and the project fails to secure adequate cash flows, the contingent loan is activated, ensuring that investors are paid. These loans are approved in advance to provide cash resources for debtors in the event of severe external shocks, such as natural disasters or political and economic instability. Contingent loans help mitigate risks that private investors may be unwilling to take, fostering a more favorable environment for government projects and encouraging investment.

For example, The IBRD's Development Policy Loan (DPL) with a Deferred Drawdown Option (DPL DDO) is a contingent credit line designed to help borrowers quickly address financing needs in the event of resource shortages caused by negative economic conditions, such as economic slowdowns or unfavorable fluctuations in commodity prices or terms of trade. (Source: World Bank)

Ø**Viability Gap Funding (VGF)** is a financing tool primarily used in infrastructure projects, particularly in Public-Private Partnership (PPP) initiatives, to address the significant upfront costs required to start these projects. It is typically employed when an analysis identifies weak areas in the project's viability that prevent large-scale funding from being secured. VGF can be provided through various mechanisms, such as capital grants, subordinated loans, or interest subsidies, aimed at resolving specific issues hindering the project's financial viability. For example, if the long-term revenue generation from a project, like tolls, is uncertain, government grants or guarantees can enhance the project's attractiveness to private investors. VGF may also incorporate blended finance strategies to reduce overall project risk and make it more feasible for investment.

For example, in June 2024, India approved the Viability Gap Funding (VGF) scheme to support the installation and commissioning of 1 GW of offshore wind energy projects. This scheme is intended to provide financial assistance to Public-Private Partnerships (PPPs) in infrastructure and is managed by the Department of Economic Affairs, Ministry of Finance, Government of India. (Source: pib.gov.in, pppinindia.gov.in) Other sources: Climate Bonds, IISD, GFDRR, Blackrigde, World Bank

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