Executive summary

Georgia has undertaken a wide range of economic reforms, significantly improving economic and social indicators. However, its environmental performance has lagged. In response, the government of Georgia and Georgian municipalities, often in collaboration with development co-operation partners, have been actively developing policy for climate action and green growth. Policy documents include the nationally determined contribution (NDC), Low Emission Development Strategy (LEDS), National Energy Efficiency Action Plan (NEEAP) and Nationally Appropriate Mitigation Actions (NAMAs). Eleven Georgian municipalities have submitted their own Sustainable Energy Action Plans (SEAPs) under the "Covenant of Mayors" initiative. The government of Georgia has also started developing a Green Economy Strategy, a National Renewable Energy Action Plan and a Climate Action Plan as an implementation strategy for the NDC.

These strategic policy documents make it clear that Georgia needs to further scale up finance from various sources to implement climate action in the country. It is also widely recognised in Georgia that finance for climate action should not only benefit the environment, but also enhance business opportunities, technology transfer and job creation. This, in turn, will contribute to stable and inclusive economic growth. While it is challenging to have a complete picture, the estimated investment needs in some areas are already detailed. These include energy-efficiency measures calculated under NEEAP and LEDS, as well as hydropower projects (about USD 2.4 billion over the same period). Investment needs for other sectors and topics (e.g. non-hydropower renewable energy and adaptation) remain less detailed or unavailable.

The availability of low-cost, long-term capital, especially from the private sector, in Georgia is limited. This severely hampers investments in climate- and environment-related projects and other types of fixed assets. The potential for investment is also exacerbated by high collateral requirements, information gaps in available technologies and financial products, and limited capacities in both providers and recipients of finance in Georgia, among other factors. Finance for climate action from commercial banks, institutional investors and businesses does exist. However, it is largely concentrated on hydropower; mobilisation of finance for energy efficiency from these sources remains limited. A national-level, central data depository could partly help solve the issues around information gaps. Such a depository could collect, collate and maintain information on, for example, loan-level data, performance track records of investment projects and technologies, and hydro-meteorological data.

Despite progress in policy development, the government of Georgia, together with the National Bank of Georgia (the country's central bank) and other public and private financial institutions, needs further reforms. Revamped policies should enable finance to flow to achieve Georgia's targets on climate change and green growth. Such effort is needed to drive demand for investment in climate action within the country. It also needs to enhance the financial system, other sectoral policies and enabling conditions, which are conducive to meeting the demand for such finance.

Creating demand for investment in climate action relies on a strong and stable policy signal, reasonably stringent environmental regulations and their enforcement, and effective communication to, and engagement with, stakeholders. Georgian enterprises, from small- to large-sized ones, consider stricter environmental policies to be the most important lever for an investment decision e.g. resource efficiency and cleaner production measures. Georgia's State Procurement Agency can also consider "greening" its public procurement system to promote investment in climate action and to trigger industrial and business model innovation.

Ensuring coherence among existing and upcoming climate- and green growth-related strategic policy documents will be crucial to create the demand for finance. Such policy coherence can help build confidence among Georgian stakeholders, in both public and private sectors, to direct their financial resources to climate action. Better coherence will also help the government of Georgia avoid inefficiency and unexpected obstacles. Further, it will reduce confusion among relevant stakeholders around implementation of strategic measures. Financing climate action is needed at both national and municipal levels. Municipalities (including large cities such as Tbilisi and Batumi) face severe financial constraints to improve environmental quality and efficiency of their public infrastructure such as transport and public buildings.

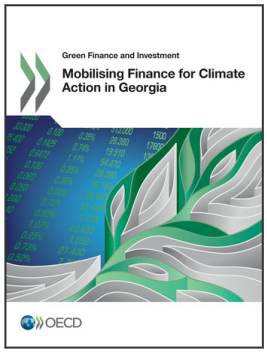
Further rationalising the energy prices in Georgia will greatly help mobilise finance for energy-efficiency measures and smaller-scale renewable projects (e.g. decentralised solar power). Although the Georgian government has indeed taken steps to increase tax rates on certain fossil fuels (e.g. amendments to the Tax Code in 2017), energy prices remain too low to attract finance for the measures mentioned above. Nonetheless, issues around energy affordability for end-users often make energy subsidy reforms political sensitive as in many other countries.

On the supply side of finance, a broader range of capital channels than collateral lending would help lower financial cost and complement commercial bank loans, including for climate action in Georgia, over time. The government of Georgia and the central bank are making progress in reforming the country's financial market (e.g. securities market, money market and payment system). This could help develop a comprehensive financial sector conducive to green finance mobilisation. Establishing a green bank/fund, or strengthening an existing sovereign equity fund, could help investors mitigate financial risks and costs associated with climate-related projects.

Interest in green bonds is increasing in Georgia, although none has been issued as of August 2017. Challenges still exist, such as scalability of projects and the nascent bond market in Georgia. The government, in collaboration with, for instance, the central bank and the Georgian Stock Exchange, can develop its green bond standard or adopt an existing one(s) developed by other institutions or countries.

Microfinance institutions, institutional investors and non-financial sector corporations could play a greater part in financial flows to climate action in Georgia. Some microfinance institutions and commercial banks are making progress in designing and providing loan products for climate action.

The government of Georgia should fully seize opportunities that stem from the Energy Community Treaty to drive further development of the competitive electricity market. Such a market, if designed properly, can create further space for investments in renewable energy and energy efficiency. In parallel, state-owned enterprises in the energy sector, such as the Electricity System Commercial Operator, the Georgian State Electrosystem, and the Energotrans LLC could also promote the government's green growth agenda.



From:

Mobilising Finance for Climate Action in Georgia

Access the complete publication at:
https://doi.org/10.1787/9789264289727-en

Please cite this chapter as:

OECD (2018), "Executive summary", in *Mobilising Finance for Climate Action in Georgia*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264289727-3-en

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