E-FIX

Financing Baseline
Country Report: GEORGIA

Project acronym:	E-FIX
Project full title:	DEVELOPING AND TRANSFERRING INNOVATIVE ENERGY FINANCING MIX IN ORDER TO ACTIVATE PRIVATE SECTOR INVESTMENTS IN SUSTAINABLE ENERGY PROJECTS
Grant agreement no.:	785081
Doc. Ref.:	E-FIX-WP1-1 – Financial Sector Overview
Responsible:	Energy Investment Consultants, LLC
Author(s):	Energy Investment Consultants, LLC Caucasus University Georgian Leasing Company, LLC
Date of isuue:	29/06/2018
Status:	Final
Security:	Public

This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 785081. Disclaimer: The content of this material does not reflect the official opinion of the European Union. Responsibility for the information and views expressed lies entirely with the author(s).

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1. INTRODUCTION

This report is part of the baseline analysis of the E-FIX project. The E-FIX project aims at triggering private finance for sustainable energy projects using innovative financing mechanisms. In the target countries of Central and South Eastern Europe as well as the countries of the Caucasus region there is considerable idle potential for sustainable energy products and services. Both potential energy project developers and financers face diverse financing barriers. An innovative energy financing mix is needed in order to activate new source of finance and facilitate an increased implementation of sustainable energy projects. Accordingly, the objective of the E-FIX project is to facilitate the take up and intensified usage of innovative energy financing mechanisms in the energy sector.

In order to accurately assess the idle potential of both financing sources and energy project implementation in each of the focus countries the E-FIX experts are conducting a baseline study including Gap Analysis. The present report presents one part of the baseline analysis focusing on the financial sector for the Georgia.

2. FINANCIAL SECTOR OVERVIEW

The Georgian financial system is dominated by 16 commercial banks, whereas the banking sector itself is highly concentrated: Bank of Georgia (BoG) and TBC Bank account for 72 percent of assets. Other types of FIs, although relatively large in number, play an insignificant role. There are 8 non-bank FIs (NBFIs), 73 microfinance institutions (MFIs), 17 insurance companies, and three pension funds (as of March 2018).

Recent developments: total number of banks decreased from 21 to 16 during 2014-2017, one microfinance institution "Credo" received a banking license.

Table 1: Financial Sector Overview

Commercial Banks					NBFIs	MFIs	Insurance Companies	Pension Funds
Total	Foreign Controlled	o/w. Branches of Non-resident Commercial Banks	Branches	Service Centers				
16	15	-	134	809	8	73	17	3

The following sub-sections provide a more detailed overview of the banking and MFI sectors including the leasing sector although not directly subsumed under FIs. NBFIs, insurance companies, credit unions and pension funds are not considered relevant for the purpose pf this study.

2.1. BANKING SECTOR

The banking sector has been consolidated significantly over the past two decades, reducing the number of banks from 102 (1995) to 16 (March 2018). 15 banks are majority foreign-owned; the total share of foreign capital is 69.6 percent. Several IFIs hold ownership stakes in Georgian banks. For instance, EBRD, IFC, FMO, and DEG jointly own 26.7 percent of TBC Bank (see Figure 4 in section 5.1.2). The only Georgian-owned bank is Progress Bank. There are no state-owned banks; all institutions were privatised in the immediate post-Soviet era.

Table 2. List of commercial banks in Georgia

	Name of FI	Total Assets (EUR)	Net Loans (EUR)	Market share (% of total as-sets)
1	Bank of Georgia	4,057,981,358	2,312,305,790	36.16%
2	TBC Bank	3,961,946,264	2,633,044,265	35.30%
3	Liberty Bank	599,381,414	265,464,006	5.34%
4	Procredit Bank	403,167,190	295,726,835	3.59%
5	VTB Bank - Georgia	534,228,181	298,442,817	4.76%
6	Cartu Bank	347,066,209	227,374,618	3.09%
7	Basisbank	369,414,993	239,441,026	3.29%
8	PASHA Bank Georgia	90,828,491	41,934,940	0.81%
9	Finca Bank Georgia	93,158,203	71,493,994	0.83%
10	Halyk Bank Georgia	134,225,871	100,552,677	1.20%
11	International Bank of Azerbaijan	18,256,090	1,137,807	0.16%
12	Isbank Georgia	72,888,217	50,087,572	0.65%

13	Silk Road Bank	17,549,172	2,709,776	0.16%
14	Ziraat Bank A.S., Tbilisi Branch	25,342,491	5,878,577	0.23%
15	Credo Bank	228,533,681	172,843,392	2.04%
16	Terra Bank	269,254,502	186,855,484	2.40%

In March 2018, total assets were EUR 11.2 billion, increasing by 10.7 percent (in current prices) from March 2017. The sector is highly concentrated; five banks constitute 85.15 percent of the total assets. Two banks dominate the sector: BoG (36.16 percent of total assets) and TBC Bank (35.3 percent). Both banks have benefited substantially from foreign support (including IFI funding) over the past decade. Both are listed on the London Stock Exchange Premium List and owned by a broadly diversified investor community. Other major players are Liberty Bank (5.34 percent of sector assets), ProCredit Bank (3.59 percent), and VTB Georgia (4.76 percent).

From March 2017 to March 2018 the total lending volume increased by EUR 0.9 billion (14.4 percent) to reach EUR 6.9 billion.

Table 3. Lending trends to legal entities (in thousands EUR)

Period	Total	Agriculture, Forestry, Fishing	Industry	Construction	Trade	Hotels and Restaurants	Transport and Communication	Financial Intermediation	Real Estate, Researches	Education	Health Care and Social Services	Other Services
March 2017	423,360	7,262	91,703	23,427	163,065	15,769	6,907	64,723	14,111	2,043	4,200	30,147
March 2018	554,554	6,887	85,577	34,660	146,750	21,828	86,025	125,379	20,661	5,151	3,081	18,551

Commercial banks' interest rates to ultimate borrowers have been constantly decreasing since 2009. In 2017 (latest available data), the annual interest was 17.3 percent for national currency loans and 8.9 percent for foreign currency loans (weighted averages).

Table 4: Annual interest rates on commercial bank loans (weighted averages in %)

	Total			**National currency**			**Foreign currency**		
	Total	Short-term loans	Long-term loans	**Total**	Short-term loans	Long-term loans	**Total**	Short-term loans	Long-term loans
2012	16.9	21.6	15.4	22.1	26.2	19.4	14.4	16.2	14.1
2013	15.9	19.9	14.5	20.7	24.7	18.1	13.5	14.6	13.2
2014	14.3	18.3	13.1	18.2	22.5	15.9	11.9	12.6	11.7
2015	13.2	17.5	12.2	17.6	21.9	15.7	10.8	11.7	10.6
2016	12.9	18.3	11.9	18.3	23.7	16.5	10.0	10.6	9.9
2017	12.2	16.8	11.4	17.3	21.6	16.1	8.9	9.3	8.8

2.2. MICROFINANCE SECTOR

Georgian financial system includes 73 microfinance institutions, accounting for about 5% (GEL 0.5 bn) of total financial sector assets as of March 2018. Aside few larger players, the market share of most individual institutions is very small.

The NBG is responsible for supervision of microfinance institutions by registering them, revoking their licence, auditing them and imposing sanctions. Operations of microfinance organizations and the conduct of their activities are regulated by the Law of Georgia on Microfinance Organizations, which was enforced in 2006. Microfinance institutions are authorized to engage in the following activities: extend loans; invest in state and public securities; provide money transfers; operate as an insurance agent; provide consultation services in microcredit; receive loans; provide operations as micro leasing, factoring, foreign exchange, etc. However, a microfinance organization shall not receive a deposit from either individuals or legal entities.

MFIs offer loans, money transfers, insurance, and other services such as leasing, factoring, and foreign exchange. Micro loans are roughly defined as those under GEL 25,000 (approximately EUR 8,000). Loans to single borrowers are limited to GEL 50,000 (approximately EUR 17,000).

MFIs are not allowed to mobilise deposits and hence depend solely on external funding. More than 80 percent of the sector's funding is senior loan borrowing, of which over 74 percent come from IFIs and other international investors. The remaining funding is subordinated liabilities and the MFIs' own debt securities. Subordinated liabilities made up a small, 0.58 percent of total funding, with only some larger MFIs reporting subordinated debt on their balance sheets.

Together with providing financial services, some MFIs work for social development in the areas in which they operate and generally have the following characteristics:

- Providing small loans for the working capital requirements of the rural low income population.
- Softer appraisal of borrowers and investments as compared to commercial banks.
- Collateral demanded to a lesser extent by those MFIs having more capacity to operate sound versus safe credit practices, applying innovative guarantee schemes.

Flexibility to provide increasing larger loans to the individual members, based on their loan repayment history.

Table 5. List of MFI's in Georgia

N	Microfinance Organizations	N	Microfinance Organizations
1	LLC MFI "4Finance"	38	LLC MFI "Giro Credit"
2	JSC MFI "Alpha Express"	39	LLC MFI "Global Credit"
3	LLC MFI "Axifina"	40	LLC MFI "Imercredit"

4	LLC MFI "B Credit"	41	LLC MFI "Imperial Credit"
5	LLC MFI "Bani Credit"	42	LLC MFI "Intel Exspress Georgia"
6	LLC MFI "BB Credit"	43	JSC MFI "Invest Georgia"
7	LLC MFI "B I G"	44	JSC MFI "Lazika Capital"
8	LLC MFI "Bonako"	45	LLC MFI "Lider Credit"
9	LLC MFI "Capital Credit"	46	LLC MFI "Lendo"
10	LLC MFI "Capital Express"	47	LLC MFI "Lendup"
11	LLC MFI "Caucasus Micro Credit"	48	JSC MFI "Micro Business Capital"
12	LLC MFI "Continental City Credit"	49	LLC MFI "MBS"
13	LLC MFI "Central"	50	LLC MFI "Micro Invest"
14	LLC MFI "Cream Finance Georgia"	51	JSC MFI "MicroFin"
15	LLC MFI "City Credit"	52	LLC MFI "MJC"
16	LLC MFI "Credex"	53	LLC MFI "MoMoney Credit"
17	LLC MFI "CredFin"	54	LLC MFI "Moneta Express Georgia"
18	LLC MFI "Credit Centre"	55	LLC MFI "Nova Credit"
19	JSC MFI "Credit Plus Georgia"	56	JSC MFI "Nyke Credit"
20	LLC MFI "Credit Service"	57	JSC MFI "Okay"
21	LLC MFI "Creditor"	58	LLC MFI "PIAZZA CAPITAL"
22	LLC MFI "Creditservice+"	59	LLC MFI "Profinance"
23	LLC MFI "Cross Credit"	60	LLC MFI "Rico Express"
24	JSC MFI "Crystal"	61	LLC MFI "RivalCredit"
25	LLC MFI "EasyCred Georgia"	62	LLC MFI "Smart Fianance"
26	JSC MFI "eCapital"	63	LLC MFI "SmartInvest"
27	LLC MFI "Euro Credit"	64	LLC MFI "Solva"
28	LLC MFI "Express Capital+"	65	JSC MFI "Swiss Capital"
29	LLC MFI "Family Credit"	66	LLC MFI "Swiss-Credit"
30	LLC MFI "Fin Credit"	67	LLC MFI "TAM Credit"
31	JSC MFI "Finagro"	68	LLC MFI "Tbilicrocredit"
32	JSC MFI "Georgian Capital"	69	LLC MFI "Universe Credit"
33	JSC MFI "Georgian Credit"	70	LLC MFI "Bermeli"
34	LLC MFI "Gorgian International MFI"	71	JSC MFI "CaucasusCredit"
35	LLC MFI "Georgian Financial Credit-GFC"	72	LLC MFI "Lazare"
36	LLC MFI "GFS Group"	73	LLC MFI "Business Startup Credit"
37	JSC MFI "GIC"		

Table 6. Some consolidated KPI's of MFI Sector

Assets	Total (EUR)
Cash	17,084,371
Cash on Bank accounts	60,573,107
Total Loans	384,873,675
Less: Loan Loss reserve	(25,731,393)
Net Loans	359,142,282
Securities	15,981
Accrued receivable Interest and Dividends	14,036,648
Appropriated movable and immovable property	5,461,425
Equity Investments	645,596
Fixed Assets and intangible Assets	23,232,708
Other Assets	25,516,095
Total Assets	**505,708,213**
Liabilities	
Borrowed funds from financial institutions	179,948,827
Borrowed funds from physical and legal entities	122,222,410
Own Debt Securities	47,012,453
Accrued payable Interest and Dividends	9,690,654
Other Liabilities	19,720,599
Subordinated Liabilities	5,157,749
Total Liabilities	**383,752,693**
Capital	
Authorized capital	27,930,518
Share Premium	6,911,445
Donations and Grants for Capital	129,452
Retained earnings	84,510,022
Assets revaluation reserve	2,474,082
Total Capital	**121,955,520**
Total Liabilities and Capital	**505,708,213**

The larger MFIs (Credit Service+, Kristali, Rico Express, and Lazika Capital) reported an average cost of funds of 7 percent to 9 percent, in both fixed and floating rates, while smaller MFIs pay between 13 percent and 18 percent on borrowings. In general, the larger MFIs report easy access to short term USD funds, with local currency funding being much harder to obtain.

Until recently, the sector was underdeveloped in terms of unmet demand. Today, there are 73 registered MFIs, up considerably from only 27 in 2008.

Table 7. MFI's Lending trends (in EUR as for March 2018)

		2018	2008
1	**Loans Issued to Individuals**	**1,159,966,485**	**920,324**
1.1	Trade and Service	208,455,183	41,607
1.2	Custom Loans	324,960,250	126,165
1.3	Agriculture	101,048,443	20,563
1.4	Online Loans	165,315,582	372,296
1.5	Pawn Shop Loans	297,099,761	320,435
1.6	Installments	12,140,387	27,554
1.7	Other	50,995,406	11,735
2	**Loans Issued to Legal Entities**	**15,322,257**	**707**
3	**Total Loans**	**1,175,288,743**	**921,031**

LEASING SECTOR

The Georgian leasing market is dominated by three main leasing companies: Georgian Leasing Company LLC (ID: 204972155), TBC Leasing JSC (ID: 205016560); Alliance Group Leasing JSC (ID: 204496401). Some of the Leasing Products are also offered by MFIs (Mentioned in article 2.2), providing services mainly for retail customers, whereas above mentioned companies have been targeting both retail and business clients including Micro, SME & Corporate sectors.

Leasing, as an alternative financing model was introduced to Georgian market in 2001 by Georgian Leasing Company, followed by TBC Leasing in 2003 and Alliance Group Leasing – in 2006. GLC and TBCL are owned by commercial banks, mentioned in article 2.1, relatively Bank of Georgia and TBC Bank.

Leasing is a financial model, used to finance the purchase of fixed assets (plants & equipment).

Below table provides consolidated information of the leasing companies (in EUR) by March 2018.

Table 8. Consolidated info of the leasing companies

Consolidated Data	
Assets	92,067,017
Equity	14,641,856
Lease Portfolio	80,638,026
Repossessed Assets	5,207,540
Fixed Assets	2,779,265

Table 9. Consolidated Portfolio distribution (in EUR) by March 2018.

Sector	Portfolio EUR	% of Total Portfolio
Consumer	106,371	0.13%
Education	-	0.00%
Agriculture	3,671,102	4.55%
Communication	9,299	0.01%
Construction and real estate	16,718,137	20.73%
Distribution	1,508,280	1.87%
Food & Beverages production	2,132,455	2.64%
Light Industry	8,070,555	10.01%
Medicine	7,924,090	9.83%
Mining industry	1,472,923	1.83%
Polygraph	657,485	0.82%
Power Engineering	1,927,422	2.39%
Road Construction	5,051,444	6.26%
Service	13,139,197	16.29%
Trade	3,304,311	4.10%
Transportation	2,800,628	3.47%
TMT	998,982	1.24%
Financial institutions	785,988	0.97%
Other	10,359,347	12.85%
TOTAL:	80,638,026	100%

There are several main products offered by leasing companies:

- Financial Leasing – mainly used to purchase new or secondary assets from local or international suppliers. After making certain down payment by the lessee, the lessor purchases the asset and leases it to the client for monthly payments in return. Equipment remains in lessor's ownership until all the payments are made by the client, after which the ownership of the asset is transferred to the lessee.
- Leaseback – is a financial transaction in which the owner sells an asset to the leasing company but still continues to use it. Leaseback enables companies to release amount of funds already invested in fixed assets. Once the payments are fully covered, the lessee returns back the ownership of the asset.
- Operating Lease – is a financial transaction, where unlike financial leasing at the end of the leasing term the company is given following options: Return the asset back and terminate the contract; Pay the residual value and buy out the asset; or Replace an asset with the newer version.

Table 10. General Leasing Terms

Micro, SME & Corporate	
Leasing Amount	Min. USD 5,000 – Max. Not Determined
Leasing Term	Max 5 Years.
Down Payment	Min 10%
Interest Rate GEL	Average 16 – 19%
Interest Rate USD	Average 13 – 16%
Interest Rate EUR	Average 12 – 15%

Leasing projects are made in three main currencies: GEL, USD and EUR. Due to Georgian regulations, all the payments are made in GEL considering daily official exchange rates published by National Bank of Georgia.

2.3. CROWDFUNDING SECTOR

This type of financing mechanism is not applicable for Georgia. At this moment there is no show case of such financing due so several obstacles such as lack of legislative and regulatory basis, etc.

3. ENERGY EFFICIENCY/RENEWABLE ENERGY FINANCE ACTIVITIES

International financial institutions (IFIs) play a crucial role as a source of financing for EE projects. Finance is either provided as credit lines to local FIs, or directly to larger projects or industries. IFIs often offer concessional terms, combined with consulting and technical assistance (TA), and/or packaged with other types of incentives/grants for the borrower.

The following sub-sections give an overview about i) international development banks/funds that provide EE finance facilities, and ii) local banks and MFIs that already offer EE/RE lending.

3.1. INTERNATIONAL AND LOCAL FINANCE INSTITUTIONS WORKING IN EE SECTOR

KREDITANSTALT FÜR WIEDERAUFBAU (KfW)

KfW has been a major player in financing large infrastructure projects. For instance, KfW provided EUR 100 million of the total EUR 290 million for the Black Sea Transmission Network (BSTN). Other investors were EIB, EBRD (EUR 80 million each), OeEB (EUR 20 million risk sub-participation), and the EU Neighborhood Investment Facility (EUR 8 million grant, also administrated by KfW). Financing for the project was provided until 2013.

As far as EE/RE lending to industry and households is concerned, KfW activities have been rather limited. There was a revolving fund for local commercial banks to promote RE infrastructure, particularly hydro power. As a follow-up project, KfW provided a EUR 25 million credit line for small hydro to BoG – with risk sub-participation of OeEB. According to KfW, this line has not been very successful. EBRD and BoG’s own funds are highly competitive, and the overall investment climate seems difficult.

There is currently no other EE/RE program with a local FI. KfW does not work directly with private banks anymore. DEG has taken over this segment, including provision of credit lines, mostly to larger banks, but not (yet) for EE (see below). KfW still works with MFIs though, for instance in agro finance.

Furthermore, it was mentioned in the interview that compared to other countries in the Caucasus (for instance Armenia), households do not seem to be as active (and perhaps not as interested) in refurbishing buildings. Households are considered to be the key target group of a credit line, given the relatively small size of the Georgian economy – and hence the limited EE lending potential in industries and SMEs. In general and despite huge EE potential, EE finance in the residential sector is seen as difficult, not least due to the multi storey building structure in many cities.

KfW is not active in direct lending to local companies. Despite not being among the company’s activities, the potential is considered relatively limited.

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

EBRD plays a significant role in developing and modernizing the country's finance and energy sectors. The current portfolio amounts to EUR 736 million (March 2018), of which almost half is invested in energy.

The Caucasus EE Project (CEEP) started in 2007 as a EUR 60 million credit facility for Georgia and Armenia. Initially, EBRD did not offer any incentives and only limited TA to two partner banks. Based on lessons learnt, the project was restructured and expanded in 2013 (CEEP II):

- Provision of another EUR 40 million credit line;
- Provision of investment incentives (grants) and enhanced TA;
- Enlargement to 9 partner FIs, of which 6 are in Georgia (BoG, TBC Bank, Bank Republic, VTB Bank, Basis Bank, and MFI CREDO);
- Branding of individual country programs as "Energocredit".

Of the total EUR 125 million credit facility, more than EUR 100 million has been committed to local partner banks. All committed funds have been disbursed by end of 2017. Today, Energocredit Georgia accounts for roughly 70 percent of the CEEP, while essentially only two banks utilize the funds.

The program focuses on EE. Roughly 50 percent of funds are lent to the corporate sector (average loan amount is EUR 2.5 million), and another 50 percent to the residential sector (including building efficiency but also household appliances for only a few hundred EUR). According to EBRD, challenges are low creditworthiness of potential borrowers, and, especially, low incentives to invest in EE (particularly in the residential sector where there are no regulatory EE standards for buildings and no effective regulations for condominium blocks).

Private companies and individuals who pursue the highest EE standards and take out an Energocredit loan will be rewarded. EBRD together with the EU Neighborhood Investment Facility (EU-NIF) offer cashback of 10 percent or 15 percent of the Energocredit loan amount.

All successfully verified sub-projects deemed eligible through an eligibility check or the eligible equipment, products, and materials (LEME) procedure are eligible to receive a 10 percent incentive, calculated on the sub-loan amount disbursed to the sub-borrower net of VAT or other taxes.

All successfully verified sub-projects undergoing an Energy Audit and subsequently implementing a recommended best available technology solution are eligible for a higher incentive of 15 percent of the sub-loan amount disbursed to the sub-borrower net of VAT or other taxes.

As for RE, other IFIs apparently have better conditions for small/medium-sized projects, and direct lending for large RE investments is not done via CEEP. For instance, EBRD separately financed EUR 150 million of a large hydropower investment in 2014.

GREEN FOR GROWTH FUND (GGF)

The GGF is an initiative of IFIs already active in EE/RE finance in Southeast Europe (including Turkey and the Caucasus), and it was designed to be complimentary to existing programs and funding sources. Its main investors and donors for the TA facility are the European investment Fund (EIF), EBRD, EIB, KfW, IFC, EU, BMZ, FMO, and OeEB, but also private companies like Sal. Oppenheim and the Fund/TA manager is Finance in Motion.

In September 2014, GGF signed a EUR 15 million credit line with BoG aimed at financing EE in the housing sector. Challenges so far have been the generally low awareness about EE and the low creditworthiness of many SMEs and households. In addition, most local FIs (including BoG) have sufficient funding, and there is a high level of competition among IFIs. GGF considers the main investment potential to be in SHPP, but has not yet become active in this field.

EUROPEAN INVESTMENT BANK (EIB)

By the end of April 2015, EIB opened a regional representative office in Georgia demonstrating its strong and firm intention to move into an important regional market. It will contribute to project identification and screening, appraisals of new operations, and the development of new products to finance the public and private sectors.

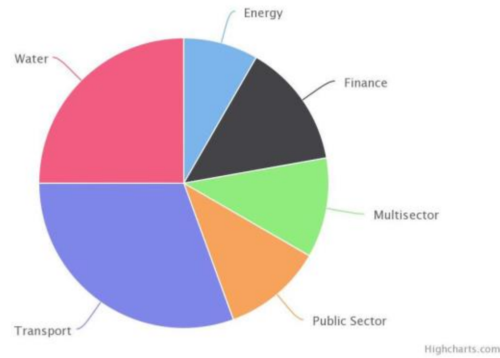
The EIB has accelerated its lending activities in the region over the past five years, and at the end of 2014 EIB's signed lending commitments have reached EUR 533 million in Georgia.

EIB has signed an agreement for a EUR 25 million loan facility with TBC Bank. The seven year facility provides funding to TBC Bank's small and medium enterprise (SME) clients with a special focus on energy sector projects.

ASIAN DEVELOPMENT BANK (ADB)

ADB has been represented with a country-resident mission since 2007. Generally ADB supports and implements municipal transport, infrastructure and services, financial and public sector development projects so far. Currently, ADB does not offer any support program related to EE, although the bank is quite active in financing RE projects through direct financing or co-financing with other IFIs.

Figure 1: ADB loan distribution



By the end of 2014, the sovereign assistance of ADB to Georgia reached USD 1.42 billion in approved loans – USD 765 million in ADF (Asian Development Fund) loans, and USD 651 million in OCR (ordinary capital resources) loans. Non-sovereign assistance amounted to USD 200 million. Cumulative disbursements to Georgia for lending and grants financed by OCR, the ADF, and other special funds amounted to USD 711.9 million.

ADB's support for Georgia intensified in the aftermath of the global financial crisis of 2007–2008. ADB extended budget support assistance to the government through three program loans totaling USD 250 million in 2008–2010. This included funds for roads, water supply infrastructure, and sanitation systems, with more than 100 subprojects bringing potable water and improved roadways to communities across Georgia.

The Road Corridor Investment Program, a 7-year multi-tranche financing facility (MFF) of USD 500 million, was approved in 2009 to promote trade and regional connectivity.

The Sustainable Urban Transport Investment Program, an 8-year MFF of USD 300 million, was approved in 2010 to revitalize the public transport network and develop efficient transport systems in key urban areas.

The Urban Services Improvement Investment Program, an 8-year MFF of USD 500 million, was approved in 2011 to deliver safe water and sanitation to seven towns and secondary cities across Georgia. Tranche 4 of the program, amounting to USD 108 million, was approved in 2014 to support improved infrastructure in Poti and Zugdidi.

ADB's Trade Finance Program (TFP) fills market gaps by providing guarantees and loans through partner banks in support of trade. The TFP has completed over 10,300 transactions supporting over USD 20.5 billion in trade and over 6,000 small and medium-sized enterprises since 2004.

In Georgia, the TFP works with two banks and has supported almost USD 66.5 million in trade with 29 transactions. In Georgia, 34.3 percent of the USD 66.5 million in trade supported through the TFP was co-financed by the private sector.

Co-financing operations enable ADB's financing partners, governments or their agencies, multilateral financing institutions, and commercial organizations, to participate in financing ADB projects. The additional funds are provided in the form of official loans and grants, other concessional financing, and commercial financing such as B loans, risk transfer arrangements, parallel loans and equity, guarantee co-financing, and co-financing for transactions under ADB's TFP.

INTERNATIONAL FINANCE CORPORATION (IFC)

IFC has been present in the country since 1995. In December 2014, financing in the agribusiness, manufacturing, financial services, infrastructure, and advisory sectors totaled about USD 665 million. Additionally, through its trade finance program, the IFC supported country trade flows worth more than USD 292 million.

Regional priorities of the IFC include the following:

The Europe and Central Asia Sustainable Energy Finance Program works to increase EE in industrial sectors and reduce GHG emissions through its collaboration with the financial sector. The program aims to create a platform to support local FIs in the development and marketing of EE lending products to SMEs, and to the corporate and residential sectors, to build awareness and market demand for EE finance. The program is being implemented in the Balkans, Eastern Europe, Turkey, the Caucasus, and Central Asia. This program is supported with funds from the Ministry of Finance of Austria and the Ministry for Foreign Affairs of Finland and therefore could be considered a potential partner for OeEB.

Agribusiness Standards Advisory Program in Europe and Central Asia assists local companies in applying food safety, environmental, and social standards throughout the agribusiness value chain, while strengthening the capacity of local consultants. Improved standards will help agribusiness firms meet regional and export market requirements while building a foundation to mobilize investments and help the agribusiness industry realize its full potential.

The Program is being implemented in Armenia, Azerbaijan, the Balkans, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Ukraine, and Uzbekistan and is supported with funds from the Ministry of Finance of Austria.

IFC Bank Advisory Program in Europe and Central Asia is designed to support FIs in Europe and Central Asia in their recovery from the global economic crisis. Its goal is to help develop a market for distressed assets to stimulate new lending by the FIs, thus supporting long-term sustainable economic development in the region.

The program is supported with funds from the Swiss Confederation, the Austrian government, the Ministry of Foreign Affairs for Finland and the Netherlands Agency for International Business and Co-operation.

Europe and Central Asia Resource Efficiency Program aims to stimulate investment into the adoption of resource efficient technologies and best practices, to improve management processes and operational practices in industry across all sectors, and to raise awareness among policy makers and FIs.

The program is supported with funds from the Federal Ministry of Finance of Austria and the IFC.

WORLD BANK

The World Bank has been present in Georgia since 1992, and during this period has financed 55 projects in different sectors of the country totaling over USD 1.8 billion. These sectors include: central government and public administration, general energy, industry and trade, and urban and rural transportation sectors.

Currently no dedicated credit line or financing facility is established for EE/RE development in the country. Nevertheless, the WB is actively involved in the country's development through implementation of a variety of state- and private-institution-empowering projects.

THE EASTERN EUROPE ENERGY EFFICIENCY AND ENVIRONMENTAL PARTNERSHIP (E5P)

The Eastern Europe Energy Efficiency and Environmental Partnership ("E5P") unites the Eastern Partnership countries, European Commission and other bilateral donors, and the main IFIs active in the region to coordinate and accelerate the implementation of important energy efficiency and environmental projects.

The E5P Fund was initiated in 2009 to encourage investment in energy efficiency, renewable energy and environmental projects in Ukraine and was later expanded to Moldova, Georgia, Armenia and Azerbaijan.

The Fund provides access to both loans and grants for municipal sector projects. The E5P participates in projects as a co-financier. The donor contributions are used as grants to complement loans provided by six international Implementing Agencies: European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), International Finance Corporation (IFC), Nordic Environment Finance Corporation (NEFCO), Nordic Investment Bank (NIB), World Bank (WB). The fund is being managed by EBRD. Both investment and technical assistance grants are available from E5P.

E5P does not provide any direct support for private companies and should not be considered as a direct funding source for Energy Efficiency projects. But possibility of indirect benefits exist.

THE NORDIC ENVIRONMENT FINANCE CORPORATION (NEFCO)

NEFCO is an international finance institution established in 1990 by the five Nordic countries: Denmark, Finland, Iceland, Norway and Sweden. NEFCO administers a range of different funds for a variety of purposes. NEFCO provides loans and makes capital investments in order to support environmentally relevant and financially feasible projects across the world. Only projects that offer measurable reductions in GHG emissions are eligible for NEFCO financing.

The main criteria for NEFCO's participation in projects are:

- The project is located in one of NEFCO's countries of operation.
- The project has a relevant environmental effect.
- The project is based on long-term cooperation through investments in enterprises, primarily though the formation of joint venture companies or corporate acquisitions.
- The project has a Nordic company or institution as business partner.
- The project is economically, financially, institutionally and technically viable

NEFCO can participate in a project through:

- Subscriptions of equity and shares, facilitating mobilization of the necessary equity base for a project. NEFCO then participates as a partner in the project.
- Medium and long-term loans and guarantees, which are usually provided on market terms. In some cases subordinated loans and loans with equity features may be provided. Often the loans are extended in addition to NEFCO's equity participation in the project.
- Since 1996 NEFCO also administers a special Nordic facility for concessional financing of selected environmental projects within the neighboring region.

NEFCO has financed a wide range of environmental projects in Central and Eastern European countries, including Russia, Belarus and Ukraine. NEFCO's had not been active in Georgia until 2014 when NEFCO and the Georgian government signed a new framework agreement that acknowledges NEFCO’s status as an international financial institution in Georgia.

In the end of 2016 NEFCO has signed agreements with the consultancy companies NIRAS and ALLPLAN aimed at promoting energy-efficiency measures in Georgia. The upcoming projects will be financed through a Danish trust fund that is administered by NEFCO. Feasibility study was ongoing in the beginning of 2018 and the results are not known yet.

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

The Overseas Private Investment Corporation (OPIC) is the U.S. Government’s development finance institution. It mobilizes private capital to help solve critical development challenges and in doing so, advances U.S. foreign policy. As OPIC works with the U.S. private sector, it helps U.S. businesses gain footholds in emerging markets, catalyzing revenues, jobs and growth opportunities both at home and abroad. OPIC achieves its mission by providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds.

OPIC financing provides medium- to long-term funding through direct loans and loan guaranties to eligible investment projects in developing countries and emerging markets. By complementing the private sector, OPIC can provide financing in countries where conventional financial institutions often are reluctant or unable to lend on such a basis.

OPIC can meet the long-term capital investment financing needs of any size business in a wide variety of industries. The majority of OPIC’s financing is used to cover the capital costs (such as design/engineering services, facility construction or leasehold improvements, equipment) associated with the establishment or expansion of a project in a non-financial industry or to fund the expansion of lending capacity (such as microfinance, SME lending or mortgage lending) by a financial services provider.

OPIC does not consider financing requests that are solely for working capital needs or for making an acquisition, though limited working capital or acquisition costs may be financeable if they are a portion of overall project costs.

OPIC has increasingly focused on projects that encourage the use of renewable resources, which represent not only an urgent global need but also a significant investment opportunity. Another key priority is impact investing, which aims to produce positive social impacts while generating financial returns sufficient to make these projects sustainable.

OPIC has made investments in Georgia in several sectors, including USD 58 million loan financing of development, construction and operation of a 46.4 MW hydropower generation facility located on the Mtkvari River in Georgia in 2011.

Also in 2012 OPIC funded Project related wit EE is the acquisition and renovation of a Georgian American University (GAU) building in Tbilisi in order to develop a new School of Natural Sciences & Engineering, as well as relocating its existing schools of Business and Law & Social Sciences to the new building. The building was designed with energy efficiency measures and uses energy efficient lighting, low-flow showerheads and faucets and has energy efficient windows and doors. Loan amount is USD 3.5 million.

LOCAL FINANCIAL INSTITUTIONS

Till end of 2017, six commercial banks and one MFI (currently transformed to bank) offer dedicated EE/RE lending products. The majority of such lending products have been developed, introduced, and supported through IFI cooperation. Table 11 presents the currently active EE lending program. BoG and TBC Bank are the key players in the market, including EE/RE lending.

Table 11. EE lending program in Georgia

Bank	Associated IFI credit line	Type of clients	Currency	Nominal Interest rate	Loan amount	Duration	Grant
BoG	EBRD – Energocredit	Corporate/SME/ Residential	USD	ND	Up to 2.5 mil USD	Up to 5 year	10-15% of loan amount
BoG	KfW – SHPP Facility	Corporate/SME	EURO	Up to 9% annual	ND	Up to 5 year	NA
BoG	EBRD – DCFTA	Corporate/SME	GEL	ND	Up to 3 mil GEL	Up to 5 year	10-15% of loan amount
BoG	GGF – EE housing	Residential	EURO	ND	ND	ND	NA
TBC	EBRD – Energocredit	Corporate/SME/ Residential	USD	ND	Up to 2.5 mil USD	Up to 5 year	10-15% of loan amount
TBC	EBRD – DCFTA	Corporate/SME	GEL	ND	Up to 3 mil GEL	Up to 5 year	10-15% of loan amount
TBC	EIB	SME	USD	ND	ND	ND	NA
Basis Bank	EBRD – Energocredit	Corporate/SME	USD	ND	Up to 2.5 mil USD	Up to 5 year	10-15% of loan amount
VTB Bank Georgia	EBRD – Energocredit	Corporate/SME/ Residential	USD	ND	Up to 2.5 mil USD	Up to 5 year	10-15% of loan amount
Credo bank	EBRD – Energocredit	SME/Residential	USD	ND	Up to 0.05 mil USD	Up to 5 year	10-15% of loan amount
Pro Credit Bank	OeEB credit line	SME	USD	ND	ND	ND	NA
Pro Credit Bank	Own funds	Corporate/SME/ Residential	USD/EUR/GEL	ND	Residential – up to 6 years Corporate/SME - ND		NA

NA – Not Available

ND – Not Defined

3.2. PUBLIC SUPPORT MECHANISM

There are several state supported financing mechanisms in Georgia that are active in EE/RE sector. This are State Owned Funds and State Programs such as Partnership Fund, Georgian Energy Development Fund and Enterprise Georgia.

PARTNERSHIP FUND

JSC Partnership Fund (PF) is a state owned investment fund, established in 2011.

The fund is assigned Fitch rating "BB-", which is equal to sovereign ceiling of Georgia.

PF was created on the basis of consolidating the ownership of the largest Georgian state owned enterprises operating in transportation, energy and infrastructure sectors

PF is split in two separate business units:

1. Asset management – PF has assets under management with combined annual turnover of over USD 750 million in 2012. PF's portfolio is comprised of Georgia's strategically important assets:

- Georgian Railway - 100% of shares
- Georgian Oil and Gas Corporation (GOGC) - 100% of shares
- Georgian State Electrosystem - 100% of shares
- Electricity System Commercial Operator - 100% of shares
- JSC Telasi - 24.5% of shares

Georgian Railway and GOGC are the main source of financing for PF's investment activity.

2. Investment activity – the number of the projects implemented or under implementation in various sectors with a total value of over USD 2.5 billion. PF has a mandate to invest only in Georgia. PF's strategy is aimed at attracting and supporting private investors. Energy, agriculture, manufacturing, real estate/tourism and logistics/infrastructure sectors are on the top of the priority list as these sectors are largely untapped and have great potential for further development. PF co-invests in commercially viable investment projects with an experienced partner or specialized operator. PF acts as financial partner for private investors and provides mid to long-term financing. Fund provides Greenfield as well as Brownfield financing and acts as a "Sleeping Partner" with a predetermined, clear exit strategy. Moreover PF enables projects to attract senior financing from commercial sources or IFIs.

PF provides equity financing, mezzanine and in some cases subordinated loan (both convertible and non-convertible). PF's participation in projects is limited to minority share (up to 50%). PF co-finances companies and assists its partners and management teams in developing plans to create sustainable long-term value.

GEORGIAN ENERGY DEVELOPMENT FUND

JSC "Georgian Energy Development Fund" is a joint-stock company, which is founded by Ministry of Economy and Sustainable Development of Georgia. 100% of Fund's shares are in the state ownership and passed to the Government of Georgia with management rights.

The main goals of Fund are search for perspective projects of renewable energy sources and promotion of their development. Based on this, Fund is engaged in following activities:

- Carrying out preliminary research works;
- Preliminary feasibility assessment of projects;
- Preliminary environmental impact assessment;
- Finding investors and awakening their interest in existing projects.

One of the directions of Fund activities is providing service in the field of Energy, which includes design and research, law and financial services.

In case of investor's interest, is signed memorandum between investor and GEDF (also, including third party, is such exists), where mutual responsibilities of Fund and investor are defined.

Company can provide following services:

- Preparation of all necessary documents for construction, including obtaining right of construction and licenses;
- Finding of designing organization and purchase of completed construction project;
- Preliminary project schematic processing or preparation of preliminary feasibility study report;
- Monitoring of construction process.

ENTERPRISE GEORGIA

Enterprise Georgia, under the Ministry of Economy and sustainable development of Georgia, is directed towards the development of entrepreneurship through establishing new enterprises, expanding existing ones and promoting entrepreneurial culture in the country. Having three major pillars Enterprise Georgia – Business, Enterprise Georgia – Invest, and Enterprise Georgia – Export, the agency focuses on increasing the competitiveness of private sector, enhancing country's export potential and promoting/supporting foreign direct investments in Georgia.

ENTERPRISE GEORGIA – BUSINESS

Enterprise Georgia – Business division aims to develop entrepreneurship in Georgia by supporting entrepreneurs, creating new enterprises and promoting the expansion or re-equipment of existing enterprises.

General Conditions:

- In case the beneficiary implements a new enterprise, he/she is obliged to start production within 24 months from disbursement of the loan/leasing subject, and in case of expanding the business entity, the beneficiary shall start production, within 12 months after disbursement of the loan/leasing subject.
- Co-financing the interest rate accrued on the loan/lease issued by the commercial bank/leasing company during the first 24 months.
- Collateral guarantee up to 50% of the loan amount for the first 48 months (no more than 2,500,000 GEL)

Production directions:

- Building materials
- Mechanical engineering
- Rubber & Plastics
- Paper and paperboard
- Textile production
- Pharmaceutical
- Wood processing
- Electrical equipment
- Food products
- Metal products
- Mineral water
- Mineral products
- Chemical manufacturing
- Bitumen products

PRODUCE IN GEORGIA – EXPORT

The aim of Enterprise Georgia – Export division is to promote the export potential of Georgia, increase the competitiveness of local products on international markets, increase the export volume of domestic products and diversify Georgian export markets.

Export promotion / development

The organization of international exhibitions – Coordination, organization and co-financing of B2B exhibitions, in order to support local companies in making new business connections, acquiring potential partners and diversify on export markets.

- The organization of trade missions - Planning, organizing and co-financing of B2B meetings for Georgian export oriented companies in order to find new partners and diversify on export markets.

- Connecting foreign buyers with Georgian producers – In accordance with the demands addressed to the agency from the international stakeholders, connecting the Georgian companies to the interested buyers.
- Registering the companies on Trading Platform www.tradewithgeorgia.com - The goal of the platform is to promote Georgian products and services on international markets.
- Providing information on export procedures in Georgia - Description of export procedures, delivering information on export documents and certificates.
- Providing information on customs tariffs in foreign markets - Identifying tariffs for Georgian manufacturers in specific markets.
- Education (training of export managers) - the aim of the course is to increase professional skills of employees of Georgian export oriented companies.

ENTERPRISE GEORGIA – INVEST

Enterprise Georgia - Invest division plays a role of moderator between foreign investors and the Government of Georgia, ensuring that the investor gets different types of updated information and has means of effective communication with the Government bodies. The aim of the Invest division is to attract, promote and develop direct foreign investments in Georgia. It serves as a "One-stop-shop" for investors to support companies before, during & after investment process.

Services:

- Information support – providing general data & statistics information, sector-specific researches;
- COMMUNICATION – connecting investors with Government bodies and potential local partners
- Organization of business visits – preparation of site visits to potential investment locations and accompanying of investors
- AFTERCARE – supporting existing investors and reinvestment activities

4. CONCLUSIONS

The Georgian residential, transportation, and industrial sectors offer great potential for energy savings. However – although Georgia has signed an EU Association Agreement on energy matters there are no national action plan or binding laws that would enforce certain EE investments. This is particularly challenging for residential sector investments, where there are no regulatory EE standards for buildings and no effective regulations for condominium blocks. Besides, energy prices are still relatively low, overall economic conditions are difficult (resulting in low creditworthiness of potential borrowers), and there is only a low level of awareness about EE issues, especially among households.

The banking sector is relatively well developed (compared to other post-Soviet countries), with two banks clearly dominating the market. BoG and TBC Bank have a combined 72 percent of market share in terms of total assets. Both have been benefitting from significant capacity building, including EE and RE lending, within the scope of IFI cooperation.

The MFI Sector is well developed and diversified by 72 sector members. Mainly concentrated on Residential and Retail segment financing the MFI sector is not capable to support EE/RE projects financing.

A potential niche for E-FIX development could be leasing companies, which at the moment are not targeted by any existing programs. Although the market is quite small (total assets are EUR 92 million), leasing companies are active in sectors (transport, construction, production) that include EE/RE components.

Financing activities

0… no cases or not applicable
1 … used in some cases but not extensively
2 … common practice

Projects in need of financing / Sources of funds	Improvement in building sector		Financing of energy performance improvements incl. ee equipment			Project development (feasibility studies, energy audits, preparation of tender)	R&D projects/ start-ups	Renewable energy production plants	
	Public	Private	Industry	Large companies	SMEs			Large/ utility scale	Small-scale
Financing through local finance institutes	1	2	2	2	2	2	1	2	2
Financing through intern. finance institutes	2	2	2	2	2	2	1	2	2
Microfinancing	0	1	0	0	1	0	1	0	0
Leasing	0	2	2	1	2	0	0	0	0
EPC	0	0	0	0	0	0	0	0	0
Investment funds	0	0	1	1	0	1	1	2	2
Green bonds	0	0	0	0	0	0	0	0	0
Crowdfunding	0	0	0	0	0	0	0	0	0

5. ANNEXES

5.1. ANNEX A: BIBLIOGRAPHY

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5.2. ANNEX B

ADB	Asian Development Bank
ADF	Asian Development Fund
BMZ	Federal Ministry of Economic Cooperation and Development
BOG	Bank of Georgia
BSTN	Black Sea Transmission Network
CEEP	Caucasus Energy Efficiency Program
DCFTA	Deep and Comprehensive Free Trade Agreement
DEG	German Investment and Development Cooperation
EBRD	European Bank for Reconstruction and Development

EE	Energy Efficiency
EIB	European Investment Bank
EPC	Energy Purchasing Contracts
ESCO	Energy Service Company
EU	European Union
EUR	Euro
FI	Financial Institution
FMO	Dutch Development Bank
GEDF	Georgian Energy Development Fund
GEL	Georgian Lari
GGF	Green Growth Fund
GHG	Green House Gas
GOGC	Georgian Oil and Gas Corporation
IFC	International Financial Corporation
IFI	International Financial Institution
JSC	Joint Stock Company
KfW	German Development Bank
KPI	Key Performance Indicator
LEME	List of Eligible Materials and Equipment
LLC	Limited Liability Company
MFF	Multi-tranche Finance Facility
MFI	Microfinance Institution
mil	Million
NA	Not Applicable
NBFI	Non-Bank Financial Institution
ND	Not Defined
NIF	Neighborhood Investment Facility
OCR	Ordinary Capital Resources
OeEB	Austrian Development Bank
PF	Partnership Fund
RE	Renewable Energy
SHPP	Small Hydro Power Plant
SME	Small and Medium Enterprise
TA	Technical Assistance
TFP	Trade Finance Program
TMT	Technology, Media and Telecom
USD	United States Dollar
VAT	Value Added Tax