



Georgia

Gap Analysis

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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 financiers 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 Gaps identified during preparation of financial sector overview for the Georgia.

2. POTENTIAL DEMAND FOR EE/RE FINANCE

As it was outlined in the Financial Market Overview, the Georgian economy and especially residential, transportation, and industrial sectors still have a great potential for energy savings.

According to International Energy Agency statistics (2016), the “other” sectors, including residential, commerce, public services, agriculture, and forestry, account for over 44 percent of final energy consumption (79.6 PJ). Industry accounts for approx. 15.6 percent of TFC (28.4 PJ), transport for 33.4 percent (60.6 PJ).

Transportation accounted for about 33.4 percent of TFC (2016), and represents the second largest sector after residential. Georgia’s transportation system includes five sectors: road, rail, sea, air, and pipeline. Due to the geopolitical location of Georgia, the development and effective functioning of the country’s transport sector plays a vital role in the overall economy

In the industrial sector (with 15.6% of TFC), energy consumption is mostly concentrated in active production companies. The country’s location creates an excellent opportunity for the development of food and beverage sub-sectors such as: wineries, mineral water bottling, and touristic infrastructure. All of these are operating with outdated and inefficient technologies (with a few exceptions).

In 2014 Georgia has signed an EU Association Agreement that incorporates introduction of mandatory regulations on energy including energy efficiency and renewable energy related topics. Up to now no actual regulations or binding laws that would enforce certain EE investments, have been introduced.

Local banking sector is dominated by two large banks that have a combines over 70% 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.

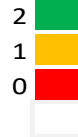
Local microfinance sector, presented by about 70 sector members, is mainly concentrated on residential and retail sector financing and at the moment has very limited capacity of financing EE/RE projects.

Changes in banking sector regulations that were introduces during 2017-2018 by the National Bank of Georgia are limiting lending opportunities for Local Bank and MFI’s.

Current regulations are not affecting leasing sector and therefore potential niche for E-FIX development could be leasing companies. Although leasing sector is quite small (total assets are EUR 92 million), leasing companies are active in sectors such as transport, construction, production, which include components and opportunities for investment in EE/RE.

The potential niche for E-FIX development in leasing sector is clearly presented in the below matrix.

- > common practice
- > rarely used
- > not used
- > not applicable



| Sources of funds | Projects in need of financing | | | | | | | | | | |
|--|--------------------------------|---------|---|-----------------|------|-----------------------|-------------------------------------|-----------|----------------------|------------------------------------|---|
| | Improvement in building sector | | Financing of energy performance improvements incl. ee equipment | | | | Project preparation and development | | | Renewable energy production plants | |
| | Public | Private | Industry | Large companies | SMEs | Public infrastructure | R&D projects | Start-ups | Large/ utility scale | Small-scale | |
| Equity financing | 1 | 2 | 2 | 2 | 2 | 1 | 2 | 2 | 2 | 2 | 2 |
| Financing through local finance institutes | 1 | 1 | 2 | 2 | 2 | 1 | 1 | 1 | 2 | 2 | 2 |
| Financing through intern. finance institutes | 2 | 1 | 2 | 2 | 1 | 2 | 1 | 1 | 2 | 2 | 2 |
| Microfinancing | | 0 | | | 0 | | | | | | |
| Subsidies | 1 | 0 | 1 | 1 | 0 | 0 | 0 | 1 | 1 | 0 | 1 |
| Leasing | | 0 | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 |
| Energy Performance Contracting | | | | | | | | | | | |
| Investment funds | 0 | 1 | 2 | 2 | 1 | 0 | 1 | 1 | 0 | 2 | 2 |
| Green bonds | | | | | | | | | | | |
| Crowdfunding/ Energy Cooperatives | | | | | | | | | | | |

The matrix gives an indication how the leasing sector is less developed in terms of EE/RE financing compared to other LFIs.

Therefore, attempts to support local leasing companies in development of innovative financing mechanisms for EE/RE investments will trigger additional opportunities for local businesses to start investing in EE/RE projects/technologies as well as improve environmental standing of the business sector.

3. BARRIERS TO EE INVESTMENTS

There are number of barriers that affects development of innovative financing mechanism in Georgia and particular in leasing sector. The following barriers identified:

Legislative - There is still no legal framework regulating Energy Efficiency and Renewables in the country. The National Renewable Energy Action Plan (NREAP) has yet to be developed by the government, meaning that the requirement set by the EU Renewable Energy directive 2009/28/EC is not yet fulfilled. National Energy Efficiency Action Plan (NEEAP) hasn't yet been adopted and is under revision. Currently, there is also no Construction code yet in force in the country, which would include EE requirements for buildings.

In fact, there are no action plans, regulations, or technical requirements (building code or the like) in place to force local industry or businesses to consider EE/RE financing.

Energy tariffs and sources – In recent year's tariffs on the energy sources in Georgia have increased as well as overall energy consumption of the country, but still it can be qualified as low compared to EU countries practices. Such environment is not stimulating development of EE/RE investments as financial indicators are negative. During the stakeholders meeting held in Georgia, it was highlighted that the quality of energy sources (diesel, petrol, natural gas, etc.) is low or below certain quality that is resulting various difficulties for EE investments.

Another indicator of the relatively lower demand for EE financing is the cost of energy: the long-term contracts for natural gas (with fixed tariffs) and the surplus of RE sources, especially hydropower, pushes borrowers to go for cheaper solutions when modernizing their production facilities instead choosing energy efficient measures.

Technologies – Georgia is not an industrial country that can produce advanced technologies itself, so all the equipment and material required for EE/RE projects are imported. As a result, overall investments in EE/RE projects are more costly and less attractive from financial standing.

In general, there is a lack of incentive to implement EE measures; although local companies across industrial sectors are mostly using outdated, obsolete machinery. The lack of incentives (like tax deductions, grants, or free TA) plays a crucial role in the decision making process.

Financing mechanisms – Georgian economy does not allow to attract affordable financial sources to support EE/RE investments. Although several IFIs are supporting local FIs (banks and MFIs) to attract affordable (incentivized) financial sources, currently leasing sector has no access to such financial sources.

Costly technologies and low energy tariffs are creating difficulties (long pay-back period, negative NPV and low IRR) for local financial institutions to initiate investments in EE/RE projects.

The cost of the available financial resources can impact the demand for EE finance. Due to the low awareness and skill of the company personnel, local FIs tend to prefer investments in projects with shorter

pay back periods (i.e. trade financing, capital turnover, etc.) rather than invest in EE/RE projects that usually require comprehensive technical studies, longer implementation, and larger pay back periods.

Lack of awareness – Georgian businesses have low awareness on the possibilities and benefits (energy and OM savings, improved production quality and increased competitiveness, increased environmental responsibility) of EE/RE investments and reluctant to initiate such investments as a result of all above mentioned barriers.

A lack of effective information campaigns on EE measures, and thus there is only limited interest in investing in EE.

4. PROPOSED E-FIX FINANCING MECHANISM

As a result of E-FIX project implementation in Georgia and based on the identified demand for EE/RE investment financing that are described in the report above, project partners (EIC, GLC and CU) agreed to introduce innovative financing mechanism for leasing sector.

It was agreed to introduce and further pilot a new leasing product – **eLeasing** – that will support local businesses to identify and finance possible EE projects within the company activity. With this product, local companies will be able to get access to affordable financing mechanism, receive qualified technical assistance, as well as benefiting from modern technologies and product quality. On the other hand, the leasing company will minimize technology risks by investing in modern equipment and increase its portfolio liquidity.

It is planned that Georgian Leasing Company (GLC) will introduce eLeasing under its available product list and Energy Investment Consultants (EIC) together with Caucasus University (CU) will support with technical assistance in identification of EE projects and capacity building.

During the E-FIX project implementation, project partners developed a country baseline for identification of EE technologies that would fit to common leasing products, as well as financial benefits that would encourage local businesses to invest in EE technologies.

Common leasing technologies that are considered for eLeasing are

- Construction machinery and equipment;
- Agriculture machinery;
- Road construction machinery;
- Mobile production lines;
- Transportation machinery;
- Renewable energy technologies;

Eligibility criteria identified for above listed technologies are

- for transport – EURO 4 and above/TIER 3 and above;
- for production machinery – at least 20% of energy efficiency compared to the previous year of operation or defined baseline for new “greenfield” investments or CE certification;
- for RE projects (wind/solar) - up to 100 kw capacity

Financial benefits of eLeasing:

- Initial payment: -5% from standard payment;
- Interest rate: -2% from standard interest rate;
- Pre-Payment: 0% on triple monthly amount;
- Approval/Disbursement time: 2-3 days

During the E-FIX project implementation period (2018-2021) it is envisaged to finance in total EE/RE investments up to EURO 5.0 m under eLeasing.

Considering the average project investment cost it is expected to finance 50-70 EE/RE investments that will generate targeted eLeasing portfolio.

eLeasing was introduced to relevant stakeholders during the stakeholders meeting in Georgia, which took place on January 28, 2019. Stakeholders, representing worldwide known technologies and equipment in Georgia, expressed their interest to participate in further development of eLeasing and agreed to pilot the project together with GLC, as well as support in public awareness campaign.

5. ANNEXES

5.1. ANNEX A: BIBLIOGRAPHY

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