

CLIMATE INVESTMENT FUNDS

September 21, 2016

**[APPROVAL BY MAIL] ARMENIA: CAUCASUS GREEN ECONOMY FINANCING FACILITY
(GEFF) – SREP ARMENIA RENEWABLE ENERGY GRANT SUPPORT (SREP) (EBRD)--
PSREAM039A**

RESPONSE FROM EBRD TO COMMENTS RECEIVED FROM THE UNITED KINGDOM

Project Risks related to the EBRD Caucasus Green Economy Financing Facility (GEFF)**SREP Armenia Renewable Energy Grant Support (SREP)**

Sustainable Finance Barriers	
<p>Overall, the uptake of new, especially new sustainable technologies is often associated with uncertainty and risk. The application of new renewable energy technologies in Armenia therefore remains low at present. There are a number of specific economic, social and technical barriers, including:</p> <ul style="list-style-type: none"> • Access to suitable financing terms in local currency; • The risks perceived by local financial institutions and their clients of investing in unfamiliar such technologies; • Limited awareness about the longer-term benefits of investing in high performance technologies. • Limited local expert knowledge to identify and enhance investment opportunities; • Lack of affordable technologies available on the local market. <p>These barriers are addressed by the comprehensive technical assistance programme, which includes marketing and outreach to potential borrowers and technology suppliers, and the provision of local currency to PFIs.</p>	
Macroeconomic Risks Potentially Affecting Demand	
<p>A range of macro-economic risks potentially affect the success of the programme.</p> <ul style="list-style-type: none"> • Destablising economic and political developments and depreciating currencies in the region, • Lack of local currency at acceptable pricing for longer-term financing <p>EBRD will mitigate these by observing the market closely, and by providing local currency to PFIs.</p>	
Specific Risks	
Credit risk of the individual partner banks.	EBRD will assess the creditworthiness of each potential PFI as part of the due diligence process and design appropriate credit quality monitoring benchmarks and covenants.
New capital requirements will come into force end of 2016. Many local banks still need to comply	EBRD expects all local banks to comply when the new requirements come in force and will monitor the market and client banks accordingly.
Slow uptake/low utilisation due to other actual or rumoured financial products with more attractive headline financial conditions (from both DFIs and governments) which can result in delayed decision-making.	The risk will be mitigated by planned technical assistance and EBRD's accumulated expertise in the area working alongside potentially overlapping support programmes.
Market potential/Attractiveness to banks and Sub-borrowers. The difficult economic environment may reduce the appetite of banks for new and more complicated products.	Local currency offer from EBRD at acceptable conditions, streamlined eligibility procedures, and the availability of SREP grants to support the uptake of specific technologies with low market penetration will mitigate this risk.
Misuse of Funds.	PFIs shall be required to comply with the eligibility criteria of the Caucasus GEFF Programme. The EBRD will perform periodic spot-checks of a sample of the portfolio of sub-loans, as per existing procedures, to ensure compliance.
Difficulty for financial institutions in identifying eligible sub-projects.	EBRD is putting in place technical assistance to support marketing and market development.