BUSINESS AND ENTREPRENEURSHIP

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GREEN FINANCE AND THE ENTREPRENEURIAL STATE: PATHWAYS TO SUSTAINABLE FINANCIAL TRANSITION IN THE REPUBLIC OF ARMENIA

The article explores the challenges of developing green finance in Armenia within the context of global sustainable finance trends. The study is based on the hypothesis that the transition to a green economy and its financing cannot be achieved only through market mechanisms without the proactive role of the state as a "green entrepreneur" and the involvement of the central bank as a strategic actor. Drawing on best practices from the EU, China, and the UK, the paper highlights governance models where the state functions not only as a regulator but also as an active participant in shaping financial markets and directing capital flows toward sustainability.

The research identifies several challenges specific to the Armenian financial system: the absence of clear criteria for defining "sustainability" and a unified taxonomy of financial instruments, insufficient mechanisms for coordinating green capital flows, and the limited integration of climate-related risks into financial risk management frameworks. These issues are further complicated by Armenia's dependence on external financing and its dual task of aligning with international benchmarks while simultaneously building domestic institutional capacity.

To model the role of the state in the green transition process, it is first necessary to form an institutional structure, ensure its effective management and control, which will become the basis for creating a new sustainable financing structure. By examining three

fundamentally different models of green finance management: regulatory (EU), market-based (UK), and state-centered (China), we have identified the regulatory and institutional mechanisms that, when combined, can help develop and implement a hybrid model of green finance management in Armenia to promote a sustainable and resilient green finance ecosystem. Ultimately, Armenia's successful transition to a green financial system depends on a balance between global integration and endogenous capacity development.

INTRODUCTION. The 21st century has seen the global economic system enter a new phase of global challenges that have had a revolutionary impact on the traditional way of managing global finances. Against the backdrop of green processes, the issues of structural improvement of the financial system and financing of the economy have once again intensified. The problem is especially relevant in developing countries, such as Armenia, where the financial system is quite stable, but is trying to maintain this stability while moving towards a new, "green" structure. The current global financial system, formed after the Bretton Woods principles, is not flexible enough to meet the financing needs of developing countries. State sponsorship and supervision play an important role in managing the financing processes of the green transition and mitigating the risks of green laundering. However, state intervention must also be justified and manageable to avoid the "green debt trap". Armenia is consistently making efforts to transition to a new financing model based on the SDGs, facing structural and institutional constraints, including the insufficient development of green financial instruments, the absence of agreed regulatory platforms, and the lack of modelling of the impact of climate risks. In this context, the state acts not only as a regulator but also as a guiding force, which is called upon to redefine the roles of the public and private sectors in this process. Here, the role of the state is evident not only as a regulator but also as a guiding link, redefining the functions of the public and private sectors in this process.

Driven by the urgency of addressing the above-mentioned issues, the purpose of this study is to examine the evolving institutional and policy framework for green finance in Armenia and assess the role of the state in these processes. To achieve the objectives of this study, the following research questions are addressed: (1) What kind of institutional governance model should be established so that the state, including the Central Bank of Armenia, can function not only as a regulator but also as a "green entrepreneur"? (2) What are the structural and institutional barriers that hinder the Armenian financial system in its transition toward green finance? (3) How can Armenia effectively adopt and adapt international best practices in its transition to green finance?

LITERATURE REVIEW. This article is based on a comprehensive review of the academic literature, government reports, international policy documents, including the strategic frameworks on green finance and sustainable development of the European Commission and a number of international bodies, including institutions such as the Organization for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF), and the United Nations Environment Programme (UNEP). It examines the EU Taxonomy Regulation and the Sustainable Finance Disclosure Regulation (SFDR). It also looks at national approaches in the European Union, the United Kingdom and China, each of which offers specific regulatory and institutional models for the development of green finance. In this context, the review also examines the structural limitations of Armenia's financial system that hinder its advancement, particularly when assessed against international developments. It considers the potential for aligning national financial and regulatory frameworks with globally tested models. As such, this review serves as a conceptual basis for analyzing Armenia's prospective pathways for advancing green finance within the broader context of climate transition and sustainable development.

The concept of Green Economy (GE) starts its development from its policy roots in the 1992 Rio Conference to its formalisation in 2011 by UNEP, along with its academic emergence in the late 1980s: "Blueprint for a Green Economy". Although the concept of the "Green economy" was formed much later, the Rio Summit established the idea that economic development should not be at the expense of the environment, laying the foundation for future Green Economy policies. The same source also points to the authors' observation that "The involvement of the financial services sector in the development of the green economy is crucial (Barbier and Markandya, 2013). In 2019-2025, numerous studies were conducted on the interaction and balance assessment of green finance and sustainable growth, which once again highlight the important role of green finance in shaping macroeconomic trends. Academic research, modelling theoretical approaches with practical implications for policy frameworks, corporate strategies and applications, highlight the transformative potential of green finance as an important factor for sustainable economic growth (Irfan et al., 2022; Luo et al., 2023). Considering different regional and sector-specific dynamics, the analyses have been documented and used as important indicators for public policy development. There are also many country case studies of how green finance is fostering economic sustainability, depending on the policy and regulatory contexts (Marín-Rodríguez et al., 2024).

In the last century, it was difficult to imagine that the financial system, when accompanied by effective policies, could become a pillar of macroeconomic stability. Today, however, green finance is considered one of the key components of building a green economy and ensuring economic stability (Jones, 2017). Recent research has also shown that the application of

ESG criteria in the context of assessing the financial performance of commercial banks in Armenia is still limited (Hakobyan & Margaryan, 2025). The need for changes in structural models is also emphasized, indicating that the effectiveness of ESG integration depends not only on market mechanisms but also on the active involvement of the management and regulatory system. The transition to a green economy certainly requires large-scale financial realignments, especially when economic growth and environmental sustainability must coexist. In Pearce's observations, the main challenge in managing transition processes is the question of *how much change should actually be and what strategies can be used* to create an effective fit to achieve economic and environmental goals. When managing the transition, it is also essential to consider, in the scenarios considered, *how much of traditional economic growth can be replaced by environmental protection, under what conditions and how such a transition can be financed.*

But how to finance these changes? Policy-makers should certainly consider the possibility of short-term trade-offs to design mechanisms to keep potential growth slowdowns within manageable limits.

But also, with the conviction that in the long term, the foundation is being laid for more resilient and inclusive economic development. Countries need to develop and implement strategies that strike a sustainable balance between growth and sustainability, while promoting long-term resilience. The claim that a green economy not only delivers growth but also provides opportunities for stronger, more inclusive and sustainable economic development over time is supported by a growing body of research and empirical evidence. The global imperative to combine economic growth with environmental protection, based on Porter's theory of mutual benefits (Pearce, 1992) and formulated at the 1992 Earth Summit, requires a profound transformation of global financial governance processes. Naturally, financing the green transition (approximately 1-2.5% of global GDP (UNEP, 2011)) is a serious challenge that is shaking up the global financial system. The role of private investment in these processes is also important. The critical financing gap of $4 trillion (Bazán Fuster et al., 2023), which is most acute in developing countries, highlights the indispensable role of state intervention in mobilizing and channeling capital. By examining the financial structure of different countries, as measured by the relative weight of banks, Lin et al. (2013) identified two important trends in the evolutionary development of the financial structure (Lin et al., 2013):

1. The more developed the economy is, the higher the share of the stock market in the financial structure.
2. The share of the stock market in the financial structure shows a steady upward trend, due to the fact that economies are gradually moving to a more advanced stage of development.

Differences in financial structure have been recorded between countries in the same income group, but since the 2000s, their financial structures have approached a similar profile.

Differences in financial structure have often been explained by legal differences, emphasizing that countries with weak investor protection tend to have less developed capital markets (La Porta et al., 1997). Some studies have also suggested that culture is an important factor in explaining variations in financial structure. Stultz and Williamson (2003) argue that cultural differences, such as differences in religion and language, cannot be ignored when examining why investor protection varies across countries. A third view argues that historical evolutionary development also plays a role (Monnet and Quintin, 2007). The comparative advantages of an economy and its development opportunities are determined by the structure of resources and production, which change over time, also determining the evolution of the financial structure. The financial structure, as the ratio of the banking system and capital markets, largely depends on the technological and sectoral requirements of the real economy. Banks are more effective in financing traditional and mature industries, while capital markets contribute to the development of innovative, technologically advanced projects (Lin, 2012).

Of particular note is the study by Allen et al. (2018), who analyzed the interaction between industrial structure and the financial system based on panel data for 108 countries for the period 1972–2015. They found that in countries where material-intensive industries prevailed, the dominance of the banking system was characteristic, while in conditions of growth of services and high-tech sectors, capital markets grew much faster. These observations suggest that financial systems are flexible, able to respond to industrial and technological demands. Research confirms that the financial system adjusts in line with changes in industrial structure.

In summary, while legal differences, culture, and history help to explain variations in financial structure to some extent, they cannot explain changes in financial structure over time. Changes in the financing needs of the real economy require structural adjustments in the financial system. Perhaps this approach can explain variations in financial structure across countries and the evolutionary development of financial structure within a country. The financial system of Armenia remains focused on traditional bank financing (82.7% share of financial system assets, the CBA, FSR 2024), while the requirements of sustainable development imply diversification of the financial structure. Green growth is possible only when the financial structure can support high-risk, long-term and innovative investments, which requires strengthening capital markets and adapting regulations to new realities.

Case Studies: The article examines the experiences of countries with developing and diversified green finance ecosystems, particularly the European Union, the United Kingdom and China, to identify patterns, institutional strategies and regulatory frameworks from which we can draw important lessons for Armenia. The latter represent different but effective models of state involvement: the EU's framework based on rules and taxonomy, the UK's

institutional structure and policies, and China's multi-layered and centrally managed financial system. By comparing the experiences of these countries, the analysis presents how government intervention, market structure and regulatory institutional bodies contribute to the expansion of green finance. The study highlights the potential for adapting similar mechanisms to the Armenian financial system.

RESEARCH METHODOLOGY. The article uses a mixed methods approach, combining qualitative institutional analysis and quantitative descriptive analysis, to identify the challenges and development directions of green finance policy in Armenia. Qualitatively, the research conducts a systematic document and literature review of national policy decisions, CB reports, international regulations and academic studies, and a comparative case study (EU, UK, China) to draw institutional and regulatory lessons. Primary sources (CB documents, government decisions and roadmaps) are triangulated with secondary data (international reports and academic literature) to validate the findings and provide justification for the recommendations. The lack of systematic statistics and common standards on green finance limits the applicability of in-depth econometric analyses, which is why the quantitative part of the report focuses on descriptive and general analysis. However, the approach provides policy-relevant and institutionally relevant conclusions that can be used in the process of policy reform and strategic decision-making.

The selection of the EU, UK and China as case studies presents three fundamentally different models of green finance governance: regulatory (EU), market-based (UK) and state-centered (China). The selection criteria were: (i) the level of maturity of the financial market, (ii) the institutional structure of financial regulation, (iii) the depth of integration of green policy instruments and (iv) the relevance of the experience for the Armenian context. This methodological approach allows us to identify the most effective regulatory and institutional mechanisms that can be useful in managing processes in the RA.

Armenia is a small and open economy, where financial regulation is centralized in the hands of the Central Bank of Armenia (IMF, 2023). Reflecting on the experience of green finance management in RA, it can be noted that the main initiator here is the state, which acts through laws and state programs. The role of state policy in the processes of guiding the development vectors of the economic system is high (World Bank, 2024). In this regard, considering the experience of China and the EU is important in terms of structural reforms of regulation, as both legal systems are based on a combination of highly institutionalized supervision and state policy (OECD, 2022). The EU experience is particularly important, given the fact that the main path of green finance development in Armenia is shaped by the EU Green Agenda, and the focus of financing is largely from EU programs and instruments (EU Commission, 2020). It is essential to note that the EU green

finance development strategy is based on a combination of systemic regulation, institutional strengthening and financial instruments: it combines the definition of sustainable performance standards, the link between budgetary and investment policies with the green agenda, and the mobilization of private capital (European Commission, n.d.). Attaching great importance to the role of finance, China is actively building a multi-layered green financial market system. The Chinese model is characterized by the multi-faceted role of the state, which not only sets the strategic direction of green finance but also actively shapes market structures through centralized regulatory reforms, making finance a key tool for achieving national climate goals. While the EU focuses mainly on regulation, accountability and investment transparency, and China emphasizes state incentives, financial institution guidance and rapid market expansion, the UK experience stands out for its systemic approach. At the same time, the UK experience is valuable in terms of market mechanisms and conduct-based regulation, given its highly competitive and prudential system (FCA, 2019). During its presidency of COP26, the UK placed the financial system at the heart of its strategy to advance climate policy. The implementation of the strategy relied not only on regulatory incentives but also on institutional mechanisms, including the creation of a national infrastructure bank. Thus, the state not only formed a set of instruments for directing capital but also formed a system within which the financial sector redefined its role, striving to become a leader in the global race to finance the "green industrial revolution". All of the above experiences show that the success of green financing is conditioned by both clear political frameworks and public-private cooperation (HM Treasury, 2023).

DISCUSSION. Due to the impact of climate-related physical and transition risks on all components of financial risks, the Central Bank of the Republic of Armenia (the CBA) is continuously introducing new tools and trying to develop mechanisms to promote sustainable finance (the CBA, FSR 2022). Considering ensuring financial stability as the main goal, the CBA approved the National Roadmap for Sustainable Financing at its meeting on September 5, 2023 (Protocol No. 25, points 18) (the CBA, 2023). The roadmap coordinates the involvement of the financial system in green agendas and defines strategic directions, creating a basis for the formation of new sustainable financial instruments and investment flows, contributing to the construction of a resilient and green economy in Armenia. It is noteworthy that the roadmap also emphasizes the CBA's commitment to strategic sustainable development in the financial sector through four pillars: mobilization of finance, expansion of markets, introduction of sustainable development principles, and raising awareness. These pillars are fully consistent with the G20 roadmap and localize the latter's global strategic principles (G20 Sustainable Finance Working Group, 2021).

The CBA, acting as a leading institution for the promotion of sustainable finance, the development of sustainable finance, regulation and supervision, actively cooperates with reputable international organizations in the field of sustainable finance, is a member of reputable organizations that develop and develop regulatory and supervisory agendas, including the Network for Greening Financial System (NGFS) since April 15, 2020, and the Sustainable Banking and Finance Network (SBFN) since November 24, 2021(the CBA, FSR 2023), and Global Financial Innovation Network (GFIN) since July 17, 2025 (the CBA, 2025). Within the framework of its membership in these platforms, the CBA works in thematic working groups on sustainable finance, cooperating with other member countries in the development of policy documents and knowledge exchange.

The next important initiative implemented by the CBA in the process of developing sustainable finance concerns the development of *climate risk assessment tools.* In 2022, in cooperation with the German Sparkassenstiftung for International Cooperation (DSIK), two innovative tools for the financial sector were developed: "Risk Radar" and "Heat Map". These tools will enable a more systematic and accurate assessment of climate risks and the integration of the results into the risk management processes of financial institutions, which allows increasing the stability and adaptability of the system to climate challenges. Moreover, the results of the Risk Radar analysis by the CBA (identified sectoral risks) are fully comparable with the sectoral priorities defined in both the national climate policy strategic documents and the European taxonomy, which once again proves the high efficiency of the "Risk Radar" tool (the CBA, FSR 2022).

The results of the heat map analysis, developed based on the volume of loans granted to residents in Armenia, show that as of December 2024, 21.53% of the banking sector's loans are concentrated in sectors highly exposed to climate risks, and 27.86% are in vulnerable sectors. Thus, the impact of climate change on the financial sector is tangible, which emphasizes the need for the financial system to integrate climate risk management methods into its risk assessment processes (the CBA, 2025).

The above-mentioned important steps of strategic importance initiated by the CBA were complemented by a broader regulatory framework by the Government of Armenia. The adoption of the RA Government's Decision No. 852-L "On approving the classification system (taxonomy) of types of green, transitional and enabling programs and measures in the RA" (2025) was another important step for the attraction of green finance in the RA.

The RA Green Taxonomy defines criteria for recognizing sustainable economic activities in line with the logic of the EU taxonomy, while adapting them to Armenia's economic context. Accordingly, the taxonomy defines which economic sectors and programs may be considered sustainable, aligning Armenia's framework with international practice while reflecting national

priorities (European Commission, n.d.). The significance of the taxonomy is not limited, however, only to the orientation of investments in sectors of the economy or programs. It has a dual and interrelated function, which includes both the classification of economic activities and the criteria for recognizing the "sustainability" of financial instruments. The issue of developing green recognition criteria for financial instruments is often overlooked in developing countries. However, this is where the practical applicability begins. At this level, the taxonomy helps to define which financial market instruments are considered "sustainable", "green" or "social". For example, what are the clear criteria according to which a given loan can be classified as a green loan?

We can confidently assert that Armenia is also moving along this logic, following the EU framework for the development of the sector. In the EU, the sustainable finance sector and the issues of setting standards are regulated by the SFDR (Sustainable Finance Disclosure Regulation, Regulation (EU) 2019/2088) and the Green Bond Standards (Regulation (EU) 2023/2631), which specify the criteria according to which a financial product is classified as "Article 8" or "Article 9" under SFDR.

Battiston & Monasterolo (2021) note that without a clear classification of financial instruments, it is difficult to assess the real impact of the financial system on sustainable development. In other words, simply targeting "green" investments is of little use if we do not know which loans and bonds actually are green. OECD (2021) also emphasizes that the classification of financial instruments is essential for the development of sustainable capital markets, in order to reduce the risk of greenwashing and investor mislead.

The G20 Sustainable Finance Roadmap also highlights the important role of private finance in the process of expanding markets. The main issue here is the effectiveness of the institutional governance of financial systems, which will enable market participants, considering sustainability considerations in all financial decisions, to support market growth and development (G20 Sustainable Finance Working Group, 2021). To align investments with sustainability principles, an acceptable classification of financial market instruments, as well as international coordination and unification of mechanisms used to manage capital flows, will help minimize the risks of greenwashing, fragmentation between green and sustainable development goals, and ensure the transparency and integrity of a sustainable financial market.

Although the entire global financial system has been making efforts for several years to support and align the current architecture of the financial system with the 2030 Agenda and the goals of the Paris Agreement, sustainable financial markets (sustainable bond markets, private equity/venture capital and impact investment products) represent only a small part of financial markets and are largely concentrated in developed economies and a limited number of developing countries.

Amid declining global FDI flows, the sustainable finance market demonstrated notable resilience, expanding to $8.2 trillion in 2024 - a 17% increase from the previous year. The growth was mainly driven by the large volume of issuance in the sustainable bond market, exceeding $1 trillion. Investor caution has increased significantly, and new fund issuance has stagnated, and net inflows have declined. However, green bonds continue to dominate the bond market, accounting for almost two-thirds of total issuance, financing renewable energy and infrastructure projects (World Investment Report 2025). By 2024 alone, the cumulative volume of the climate bond market is expected to reach around $5.7 trillion, including 54,025 GSS+ instruments (Climate Bonds Initiative, 2025).

In 2024, national and regional governments continued to strengthen their commitment to developing and implementing policies and regulatory frameworks for sustainable finance. According to UNCTAD's Global Sustainable Finance Observatory, 73 new sustainable finance policy measures were adopted by G20 members, as well as 15 leading emerging economies outside the group and a number of financial centers together accounting for more than 93% of global GDP (World Investment Report 2025, IMF, 2025) [1].

The developments recorded in the financial system of the RA are comparable to global trends. Unfortunately, Armenia still lacks statistics on a sustainable financial market. There is some data from the stock exchange and different banks, but it does not provide a complete picture of sectoral distribution and development trends. The CBA still does not present statistics on the volume of green loans allocated by the banking system, which carries out the main financing of the economy. Unfortunately, there are also no criteria for a loan considered green, as well as mechanisms for its control, which distorts the incomplete statistics available even for individual banks. The situation is slightly better in the securities market, where one can find statistical data on green and sustainable bond issues in the country. Data gaps hinder a complete and timely assessment of the vulnerabilities of the system, which is a challenge for policymakers, both from the perspective of ensuring the stability of the financial system and from the perspective of making the right decisions.

If we are guided by the classical approach that the main role of finance is to finance the real sector of the economy, then it is also important to study the question of how finance can better meet the financing needs of the economy. When defining strategic directions for the development of the financial system, each state should be able to answer the following interrelated questions: (1) What determines the effective structure of the financial system in the economy?

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[1] Notes: Regulations and policy measures encompass seven key policy areas for sustainable finance: national strategy, national framework and guidelines, taxonomy, product standards, sustainability disclosure, sector-specific regulations, and carbon pricing. Other selected economies and territories include Switzerland, as well as 13 developing economies (Bangladesh, Chile, Colombia, Egypt, Kenya, Malaysia, Nigeria, the Philippines, Singapore, Thailand, the United Arab Emirates and Viet Nam, as well as Hong Kong, China), and ASEAN. Relevant measures of the European Union are included in the number for the Group of 20. The number of policy measures in 2021 was updated to include incentive-related measures.

(2) What are the determinants of the structure of the financial system in the economy and its development? and (3) what is the role of the state in determining the financial system and its development, and how can it be improved?

We suggest using the concept of the "entrepreneurial state" as an aid to understanding the role of government in the construction of financial markets (Robison, 2006). The concept of the entrepreneurial state is centered on the idea that the state plays an active strategic role in nurturing and shaping markets, instead of just controlling those markets (Rethel & Sinclair, 2014). Positioning Armenia *as "an entrepreneurial state"* can be an effective strategy to promote green growth and attract investments. By positioning itself as an entrepreneurial state issuing green bonds, Armenia can attract international investments that are looking for opportunities in emerging markets. The role of the CBA is also important in the development of the green bond market, as an important regulatory and supervisory link.

From this point of view, green entrepreneurship is the main driving force of the green economy. The concept of green entrepreneurship is growing in response to the need for sustainable development (Jiang & Zheng, 2021; Khan et al., 2021). Of course, this transition cannot be achieved by green entrepreneurs alone. A comprehensive policy approach and a legal framework for implementation are needed. In constructing an economy that fits the SDGs, the entrepreneurial state in its dual character as an entrepreneur and a regulatory entity is vital to the development of private equity markets.

Markets cannot develop in a vacuum, and public policies at both global and local levels profoundly influence both the pace and direction of their development. The development of the green bond market from a global perspective has been driven by policy decisions, the active involvement of international institutions, and the support of developed countries. Countries that have shown strong political leadership in the fight against climate change, such as the European Union (EU) and China, have played an important role in the development of green financial markets, including green bonds. Without government leadership, policy frameworks, and the right incentives, the green bond market is unlikely to achieve the growth and scale needed to address pressing global environmental challenges.

However, we must also take into account the fact that there are structural differences in resources and production factors between developed and developing countries, due to different stages of development. Therefore, when developing policies and setting goals for a new structure of the financial system, policy-making bodies should not be guided by the financial structure of developed countries, but should objectively assess what financial structure will be more effective at a given stage of development to meet the financing needs of the real sector of the economy with a given structure. It is also important to

outline the effective structure of the financial market that best corresponds to the comparative and absolute advantages of the economy.

Two main instruments of sustainable finance have developed internationally: green loans and green bonds. Given the fact that the bank-based financial system in Armenia is developing, green loans are the most developed direction for the development of green finance. However, the development of the green bond market is also important for balancing the country's financial structure. The transition from a bank-based financial system to a more market-based financial system in Armenia represents a significant transformation in the country's financial sector operations, risk management, and financing of economic growth. Also, the development of the green bond market will help reduce the large volume of deposits (the volume of deposits amounted to AMD 6,463,958 million AMD, recording a 14% increase (the CBA, Statistical Overview IV.2025), which is essentially the most inefficient way of financing the real sector of the economy in the green transition process. This financing option provides the economy with long-term capital for projects with long payback periods, providing direct funding for green projects, and attracting international investment. The shift marks a move toward greater financial market integration, efficiency, diversification, and a resilient financial system. The shift from a bank-intermediated financial system to a system of disintermediated market finance does not make banks obsolete, but it fundamentally changes their role (Hardie & Howarth, 2013). Thus, green finance changes the structure of the financial market.

It is also important to consider that it is not possible to make a leap from one financing structure to another. It has long been recognized that financial development, rather than financial structure, is important in determining long-term economic growth (Levine, 2002). Of course, there are also opposing claims that financial structure plays a significant role. However, the vast majority of this research concerns traditional, so-called "brown" economic growth and development. And in the context of green growth and sustainable development, the issue of the relationship between financial structure and sustainable development still does not have a clear theoretical or empirical solution. Therefore, each country should develop a policy based on its economic, institutional, and financial characteristics that will simultaneously promote both financial development and structural shifts towards sustainability.

The experience of the EU, the UK, and China confirms that the state should act not only as a structure creating legal mechanisms but also take the initiative to create *a national green finance institutional system*, which will offer political, regulatory, and financial solutions. History shows that only strictly coordinated and targeted steps by the state can ensure the systematic and effective development of green finance, excluding the risks of green laundering and misallocation of resources. The functions of the three main regulatory bodies in the UK: the Financial Conduct Authority (FCA), the Prudential

Regulation Authority (PRA), and the Financial Policy Committee (FPC) are carried out in Armenia by the Central Bank (Grigoryan & Babayan, 2023). Given that the functions of financial supervision and regulation in Armenia are centralized within the Central Bank, which certainly ensures systemic stability, it can be noted that this model can simultaneously limit the dynamics and flexibility of the development of green finance. The effectiveness of the system significantly depends on the institutional structure of governance. The structural analysis of the Armenian financial system shows that the policy of green finance development is not coordinated by a separate structure. World experience shows that the presence of such a body (e.g., Green Finance Institute, UK; European Green Deal Investment Plan, EU Platform on Sustainable Finance and European Investment Bank, EU; Green Finance Committee, China) stimulates sustainable financial innovations, the direction of investment resources, and effective cooperation between the public and private sectors.

In Armenia, despite the draft "Strategy for Green and Sustainable Economic Development" in circulation since 2023 and various programs implemented by the government to promote the green economy, the government's programs of various years (Karapetyan & Khalatyan, 2024), the taxonomy adopted in 2025, green financing steps are still not being implemented at a systematic and practically effective level. This situation creates a need not only to strengthen the legislative and regulatory environment, but also to create new institutional structures with the aim of making the state's involvement more targeted and systematic.

CONCLUSION. To model the role of the state in the green transition of the economy, it is important to establish a sustainable financing structure, which will allow for the promotion of ***Blended Finance***. As an innovative approach to development financing, it will allow for the strategic combination of public, philanthropic, and private capital to finance sustainable development initiatives, especially in low-income and developing countries. The OECD defines Blended Finance as "the strategic use of development finance to mobilize additional finance for sustainable development in developing countries". This is an opportunity, using public or philanthropic funds (privileged capital) to stimulate private sector investment in projects that contribute to sustainable development, but cannot otherwise attract commercial finance due to high perceived risks or low returns. The established structured institutional body will have the following priority functions. Within this framework, ***the structured institutional body*** to be established will have the following priority functions:

- Develop and implement a coordinated green finance policy in cooperation with state bodies, the private sector, and international organizations.

- Ensure the issuance of green bonds and other instruments, market development, and investor attraction.
- Provide technical and financial assistance to financial institutions for the introduction of green lending standards and risk management.
- Create transparency and accountability systems, ensuring the mandatory application of ESG principles and control of financial flows.
- Import and adapt advanced global experience, taking into account the specifics of the Armenian economy.
- Contribute to the modernization and resilience of the financial system, stimulate innovation, improve risk management, and ensure compliance of infrastructure with the principles of sustainable development and long-term economic stability.

The institutional body can operate within the cooperation of the CBA, with a clear separation of functions and within a legally defined framework of accountability, or it may function under the direct supervision and regulation of the Central Bank to ensure a smooth and coordinated transition to sustainable financing. The proposed green and blended finance mechanism will optimize the risk-return ratio. In particular, state or preferential funds absorb the initial losses of the project, acting as a "buffer capital", which reduces the risk of private investors and improves the structure of the distribution of returns (risk absorption effect). State-sponsored mechanisms together form an institutional environment where the state acts not only as a regulator, but also as an active "entrepreneurial state". Partial absorption of risks, provision of guarantees, and use of preferential financing create conditions in which the participation of private capital becomes not only possible, but also profitable. This approach is consistent with international experience (e.g., OECD, World Bank, Climate Bonds Initiative), where blended finance instruments are considered the main path to a sustainable financial transition (UNESCO, n.d.).

International experiences provide valuable lessons for Armenia, as summarized in Table 1:

Table 1

International Experience and Its Applicability to the Institutional Framework of Green Finance in Armenia

Country	Nature of experience	Potential application in Armenia	Alignment with institutional functions	Main approach
EU	Systematic regulation, Taxonomy, SFDR, ESG standards	- National taxonomy aligned with EU standards - Implementation of ESG standards in financial instruments	- Develop and implement green finance policy - Localize international experience - Establish transparency and ESG-compliant reporting systems	State-Regulatory
UK	Institutional framework, market incentives, national infrastructure bank	- Introduce market mechanisms - Establish intermediary bodies, e.g., Green Finance Institute	- Ensure issuance of green instruments and market development - Provide technical and financial support to commercial banks	Market-Centered

| China | State-centered, multi-layered market governance, rapid market expansion | - State guidance and market building
- Joint programs for public-private cooperation | - Mobilize financial resources
- Active state participation ("entrepreneurial state")
- Risk management and modernization of financial system | State-Market Hybrid Model |

Source: *Compiled by the author based on the analysis conducted in this study.*

Thus, these practices show that Armenia can benefit from a hybrid model that combines regulatory levers, market incentives, and active state participation to promote a sustainable and resilient green finance ecosystem. These mechanisms provide an opportunity to create an organized and controlled environment for the development of green finance in Armenia, while reducing asymmetric market risks and ensuring the stability of the financial system. This process should be carried out in cooperation with the CBA or an appropriate institutional body, in my opinion, with clearly defined functions and a clear framework of accountability, to ensure a combination of green finance efficiency and financial stability, taking into account also the warnings of international institutions emphasizing the importance of risk management to prevent instability or "green" financial bubbles (IMF, 2024).

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