

Business plan for Green Investment Fund of Ukraine

Project background

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| Name of applicant | SAEE |
| Project info/Project name | Green Investment Fund of Ukraine (business plan) |
| Contractor | Climate Wedge Oy |
| Project duration | January 2020-November 2021 |
| Contract value | EUR 286,965 |

Project summary

1 Project summary

The development of a Green Investment Fund (GIF) mechanism in Ukraine is a priority in the Finland-Ukraine Trust Fund agreement. Substantial financing needs are evident in the energy sector due to the high renewable energy and energy-efficiency targets, for instance the national renewable energy plan and the National Strategy in Ukraine both include targets to increase the use of renewables to 25%.

The works commenced in January 2020, including, for instance, an in-depth review of the Ukrainian energy market; an analysis of green finance currently available in Ukraine; an analysis of barriers and bottlenecks for green investments in Ukraine; an analysis of the legislative and regulative basis for a new green investment fund; the development of a long list with 17 green investment fund options within renewable energy, energy efficiency and waste management; and the development of an analytical framework to condense the long list of fund options into a short list consisting of two options.

Of the 17 initial investment opportunities, the following were selected for short-list review:

1) an ESCO Market Accelerator Fund and 2) a Small-Scale Solar Aggregation Fund, and finally the ESCO Market Accelerator Fund (EMAF) was selected for implementation.

2 Project conclusions

The proposed ESCO Market Accelerator Fund (EMAF) targets the large untapped potential for financially viable public sector energy-efficiency projects in Ukraine. The EMAF will support Ukraine's small but growing ESCO market and facilitate foreign investment in this sector. Ukrainian ESCOs represent a private sector catalyst for growth in the energy-efficiency market.

ESCOs in Ukraine are companies that invest in energy-efficiency measures in clients' facilities and are remunerated from the savings following the principle of no savings – no payments (so-called shared savings ESCO contract). The ESCO thus bears the technical, credit and commercial risks of an energy-efficiency project.

To date, Ukrainian ESCOs have implemented more than 500 energy-efficiency projects in the public sector, relying predominantly on their own funds and entrepreneurial spirit. However, market growth is constrained by the ESCOs' lack of access to finance.

By supporting continued and increasing growth in the ESCO market, the EMAF will increase private sector investment in energy efficiency and provide the IFI

community an opportunity to support this important area at an institutional level as well as a systemic change of the ESCO market through investment practices introduced by the EMAF.

The growth in the ESCO market will lead to a potential EMAF demand of EUR 50 million in the years 2023-2026. The project offers to support the ESCO market through: 1) a guarantee facility (EUR 15 million) offering guarantees to decrease the cost of debt for ESCOs and 2) a factoring facility (EUR 50 million) to purchase contract receivables from the ESCO at a discount. The EMAF will thus increase access to capital and facilitate quicker recycling of ESCO equity by accessing hitherto unavailable capital, allowing ESCO companies to accelerate project implementation and engage in more comprehensive rehabilitation projects.

The report contains a legal analysis and a fund strategy with the terms and structure including management and governance. The EMAF has been conceived and designed as an opportunity to mobilise private sector investment, empower Ukrainian SMEs, and contribute to the Ukrainian green agenda, energy security and improved public sector finances. The relevant investors for the EMAF are assumed to be found mainly within the IFI/DFI space.

In addition, the report contains a proposed road map until the fund closes. Both the timeline and specific steps are indicative and highly dependent on the preferences and capacity of the institution that will take the EMAF further. The State Agency for Energy Efficiency is the current owner of this EMAF concept. However, its further development will need to be transferred from the government to a suitable outside stakeholder, or stakeholder working group, to bring this EMAF concept to fruition.

3 Impact on Human Rights and the project's Sustainable Development Goals (SDGs)

The project would positively impact human rights as it aims to support improvements in infrastructure and living standards, ensuring environmental sustainability and energy security, so all consumers, including vulnerable groups, would have access to affordable, reliable and modern energy services. The project concerns the following SDGs:



4 Project deviations

The outbreak of COVID-19 prolonged the project timetable, and face-to-face contacts with relevant stakeholders were cancelled, interviews conducted in writing and meetings held virtually, but without any major impact on the project outcome.

5 Project lessons learnt

Lessons learnt

In summary, several Ukrainian ESCO companies have commented that EMAF would be a useful tool to further boost energy-efficiency investments in Ukraine. Attention should be paid, already during the planning stage, to how to bridge and ensure a successful transition from the planning stage to implementation:

- Ensure proper involvement and continuous commitment by the key stakeholders on the beneficiary's side;
- It should be established if there is a need to consult and involve further stakeholders, organisational units and/or decision-making levels to ensure a full buy-out of the outcome and further steps;
- In order to execute the road map outlined below, an entity, a Lead Initiator, needs to take responsibility for the overall continuation of fund development until closing.

Benefit of the project

The project improved cooperation between Finnish and Ukrainian experts on important topics. The project also contributed to the following FUTF targets:

- consultation on policy – although the ESCO concept is established in Ukraine, legislation concerning factoring on which the EMAF is strongly reliant needs to be further developed.
- Finnish content: Finland is a forerunner in energy efficiency. The identified technical concepts that EMAF would target include individual heat substations,

pumps and frequency converters, of which there are several strong Finnish manufacturers.

Effectiveness of the project

The project was implemented successfully, and project deliverables complied with the study targets as well as FUTF objectives to promote cooperation between Finland and Ukraine. The project managed to identify a relevant, high-impact field (ESCO financing) that is currently not well covered by local or international development financing, unlike, e.g., renewable electricity. Most importantly, the dialog with IFIs and DFIs indicated an encouraging level of interest in the proposed investment focus and vehicle outlined. This should be nurtured further in a timely manner without losing the momentum in order to achieve the actual results, i.e. the establishment of a GIF.

The ESCO companies in Ukraine have expressed strong support and the local financing institutions are also interested. At present, the main reason for the halt to progressing the initiative further seems to be the somewhat unclear situation on the Ukrainian side regarding the support and leadership for further steps – where SAEE has a key role.

The wide analysis of the green investment market, financing needs and barriers in Ukraine provides a useful basis for understanding various types of development opportunities throughout the green investment scene.