INTERNATIONAL RENAISSANCE FOUNDATION

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Green Transition Office

Exploring the Green Finance landscape in Ukraine: Analysis of the Investment opportunities

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The Green Transition Office is an independent advisory body under the Ministry of Economy of Ukraine that helps to implement reforms in the field of green transition, energy and climate policy of Ukraine. The Green Transition Office operates with the financial support of the UK International Development and is implemented by DiXi Group.

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Introduction

The Paris Agreement was adopted on December 12, 2015, at the 21st Conference of the Parties (COP 21) to the United Nations Framework Convention on Climate Change (UNFCCC), providing a comprehensive framework for global climate action. The Paris Agreement seeks to limit global temperature rise to well below 2 degrees Celsius above pre-industrial levels, with an aspirational target of limiting the increase to 1.5 degrees Celsius before 2100.

Achieving these ambitious objectives requires comprehensive economic transformation and substantial financial mobilization. The agreement recognizes the critical role of finances in enabling developing countries to mitigate and adapt to climate change. Article 9 of the Paris Agreement established a clear framework for financial assistance, defining the significant role of developed countries in supporting developing economies in their climate efforts. Joint efforts include both reducing greenhouse gas emissions and adapting to climate change. The agreement also encourages other nations to contribute to this global financial effort on a voluntary basis. The expectation is for developed countries to lead in mobilizing climate finance through diverse sources, instruments, and channels, with a particular emphasis on public funding.

Regarding the numerical financial commitment of COP 21, developed countries pledged to maintain their collective mobilization goal amounting to at least $100 billion annually through 2025[1], with transparency and meaningful mitigation actions. Before 2025, the Conference of the Parties had to establish a new collective quantified financial goal (NCQG) for climate finance, which shall not be lower than previously agreed commitments. This goal will be carefully calibrated to address the specific needs and priorities of developing countries, ensuring a more equitable approach to global climate finance.

In November 2024, COP 29 was held in Baku, Azerbaijan, bringing together representatives from almost 200 countries. The main focus of the conference was the mobilization of climate finance, with the main topic being the NCQG definition. The agreement was reached to provide $300 billion annually by 2035 and to secure efforts of all actors to work together to scale up finance to developing countries to the amount of $1.3 trillion per year by 2035[2]. Although this target means a de facto tripling of previous annual commitments, it was coldly received and even called a betrayal by some of the representatives of developing countries.

Given the dynamics of climate finance commitments and the expected increase in sustainable finance flows, this paper aims to advocate green investment opportunities in Ukraine. The report reviews and discloses the potential of climate finance in Ukraine by providing an overview of decarbonization-contributing activities in Ukraine and looking at specific investment opportunities.

1 OECD, https://www.oecd.org/en/topics/climate-finance-and-the-usd-100-billion-goal.html

2 UNFCCC, https://unfccc.int/news/cop29-un-climate-conference-agrees-to-triple-finance-to-developing-countries-protecting-lives-and

Ukraine’s context of climate finance

International context and Ukraine's commitments

As one of the parties to the Paris Agreement, Ukraine has set a medium-term decarbonization target of reducing GHG emissions by 65% from 1990 levels by 2030[3]. In addition, Ukraine has adopted a climate law setting a long-term goal of achieving carbon neutrality by 2050[4]. In this way, Ukraine demonstrates its intention to contribute to climate mitigation, which benefits the mobilization of external and internal sources of climate finance.

In addition to attracting climate finance under Article 9, Ukraine seeks to activate other options for increasing green finance flows under the Paris Agreement. The Ukrainian government has signed several cooperation agreements under Article 6 of the Paris Agreement. In 2024, the Ministry of Environmental Protection and Natural Resources of Ukraine and the Ministry of the Environment of Japan[5] signed a Memorandum of Cooperation under Article 6 of the Paris Agreement. Also, a corresponding agreement between the governments of Ukraine and Switzerland was signed at the 2022 Ukraine Recovery Conference in Lugano. It is expected that the successful implementation of Article 6 mechanisms will create new climate finance channels in Ukraine and green development incentives for Ukrainian businesses.

An obvious motivation for Ukraine's climate action is also the country's intention to become an EU member. The EU is a global leader in climate action and the green transition, which, among others, includes mobilization and streamlining of green finance. The EU's declared goal is to reduce GHG emissions by 55% from 1990 levels by 2030 and to achieve climate neutrality by 2050. As Ukraine aspires to EU membership, it shall contribute to the fulfilment of these ambitious goals.

In view of COP 29, the EU declared delivering €28.6 billion in international public finance and €7.2 billion in mobilised private finance[6]. Public finance includes climate finance sources from public budgets and other development financial institutions and has been calculated based on commitments for bilateral contributions and disbursements of multilateral ones. The numbers on mobilised private finance include financial support through public interventions (guarantees, syndicated loans, direct investment in companies, credit lines, etc.). So, it does not include any amounts of public finance utilised for the mobilisation of this private financial support.

3 United Nations, https://ukraine.un.org

4 Law of Ukraine On the basic principles of state climate policy, https://zakon.rada.gov.ua/laws/show/3991-20#Text

5 Ministry of Environmental Protection and Natural Resources of Ukraine, https://mepr.gov.ua/ukrayina-doluchylasya-do-mehanizmu-spilnogo-kredytuvannya-yaponiyi-joint-crediting-mechanism

6 Council of the European Union, https://data.consilium.europa.eu/doc/document/ST-14567-2024-INIT/en/pdf

National context and Ukraine's strategic priorities

On 29 February 2024, the European Parliament adopted Regulation (EU) 2024/792 establishing the Ukraine Facility[7]. The Ukraine Facility is a dedicated instrument which will allow the EU to provide Ukraine with up to €50 billion from 2024 to 2027 in financial support for recovery, reconstruction and modernisation efforts. Funding is provided under three Pillars:

- Pillar 1 – Direct financial support for implementing reforms under the developed and adopted Ukraine Plan 2024-2027[8]. The total budget amounts to €38 billion, up to €33 billion of which are loans.
- Pillar 2 – Ukraine Investment Framework with the main objective to enable investors to take advantage of EU budget guarantees and a blend of grants and loans from public and private institutions, making investing in Ukraine more attractive. The Ukraine Investment Framework has a total budget of €9 billion in guarantees and grants and is expected to mobilise up to €40 billion in public and private investments in Ukraine over the coming years.
- Pillar 3 - Technical assistance and related support to help Ukraine align with EU laws and increase capacity to carry out the reforms necessary on its EU accession path, to be provided to authorities at national, regional, and local levels, as well as to civil society organisations. The total budget amounts to €5 billion.

Paragraph 9 of Article 29 of the Ukraine Facility Regulation provides that at least 20 % of the overall amount corresponding to support under the Ukraine Investment Framework and to investments under the Ukraine Plan shall contribute, to the extent possible in a war-torn country, to climate change mitigation and adaptation, environmental protection, including biodiversity conservation, and the green transition.

The National Energy and Climate Plan for the period by 2030 (NECP) was adopted by the Government of Ukraine in June 2024[9]. This document contains various targets, as well as 144 policies and measures in the dimensions of decarbonization, energy efficiency, energy security, domestic electricity and gas markets, and research and innovation. The NECP combines Ukraine's decarbonization commitments and offers a structured roadmap of future activities to accomplish them. From the perspective of mobilizing and streamlining climate finance, the NECP can be considered an investment policy framework that defines decarbonization priorities.

Ukraine has suffered massive destruction as a result of the full-scale war started by russia on February 24, 2022. The russians deliberately conducted terrorist attacks on Ukraine's infrastructure, including energy generation, transmission and distribution facilities. Ukrainian thermal power plants suffered the greatest

7 Regulation (EU) 2024/792 of the European Parliament and of the Council of 29 February 2024 establishing the Ukraine Facility, https://eur-lex.europa.eu/eli/reg/2024/792/oj/eng

8 The Ukraine Plan, https://www.ukrainefacility.me.gov.ua/wp-content/uploads/2024/03/ukraine-facility-plan.pdf

9 The Cabinet of Ministers of Ukraine Order on approval of the National Energy and Climate Plan for the period up to 2030, https://zakon.rada.gov.ua/laws/show/587-2024-%D1%80#Text

damage. Thus, the state-owned energy-generating company Centrenergo declares the loss of 100% of its generating capacity as a result of russian attacks. The private company DTEK, which is the largest player in the market of electricity generation from thermal power plants, claimed to have 80% of its generating capacity destroyed.

In its recovery plans, the government of Ukraine declares the principles of build-back-better and build-back-greener, emphasising decentralized energy sources and paying special attention to the development of renewable energy. Given that the energy sector is one of the drivers of economic recovery, as well as Ukraine's climate commitments, mobilizing climate finance from public and private sources in Ukraine for investment projects related to decarbonization, energy independence and energy efficiency seems to be not only a short-term priority but also a long-term strategic measure.

Despite significant developments in climate and environmental finance, there is no nationally defined process for monitoring the flow of such finance in Ukraine, which makes it impossible to determine the annual amount of funds mobilized and their targeted use. In October 2024, the Cabinet of Ministers of Ukraine approved the Strategy for the Implementation of Sustainability Reporting by Enterprises[10], which aims to implement European reporting practices. One of the requirements for companies is to disclose information on the amount of funding allocated to climate and environmental goals as defined in the EU Taxonomy for sustainable activities. The introduction of relevant legislation would provide a system for the annual assessment of sustainable finance mobilized from private sources in Ukraine and, in combination with the introduction of similar monitoring of public and municipal expenditures, would allow for the annual assessment and management of sustainable finance in Ukraine.

10 The Cabinet of Ministers of Ukraine Order On approval of the Strategy for the Introduction of Sustainable Development Reporting by Enterprises, https://zakon.rada.gov.ua/laws/show/1015-2024-%D1%80#Text

Potential in place to absorb climate finance

This report presents the results of a study that compares the investment proposals available in Ukraine with the criteria of sustainable development. The list of activities includes available investment projects, concepts and reconstruction needs that are publicly available and have been prepared by private and public stakeholders. The source of investment proposals was the official resources of the Ministry of Economy of Ukraine - Single Project Pipeline[11] and Ukraine Investment Project Portal[12].

EU Taxonomy as the comprehensive set of criteria for sustainable activities

The European Taxonomy was used to ensure compliance with climate and environmental criteria. The EU Taxonomy is part of the EU's overall efforts to reach the objectives of the European Green Deal that provides a classification system establishing a list of environmentally sustainable economic activities to facilitate sustainable investment.

The EU Taxonomy Regulation established the following climate and environmental objectives:

- Climate change mitigation;
- Climate change adaptation;
- Sustainable use and protection of water and marine resources;
- Transition to a circular economy;
- Pollution prevention and control;
- Protection and restoration of biodiversity and ecosystems.

To be considered Taxonomy-aligned, a specific economic activity shall meet several requirements, including substantially contributing to one or more of the defined environmental objectives, does not significantly harm any of the environmental objectives, comply with the technical screening criteria and minimum safeguards. The above requirements are highly detailed, so their direct application to investment projects does not seem appropriate.

To be considered Taxonomy-eligible, a specific economic activity shall meet the description provided in the Climate and Environmental delegated acts, irrespective of whether that economic activity meets any or all of the technical screening criteria laid down in those delegated acts.

Due to reasonable projects' information constraints and the complexity of Technical Screening Criteria, the analysis included the identification of the green projects based on the description of activity and high-level requirements of the Technical Screening Criteria provided in the Climate Delegated Act and Environmental Delegated Act.

11 Ministry of Economy of Ukraine, https://me.gov.ua/Documents/Detail?lang=uk-UA&id=da2c11c7-c395-40c6-b149-6fa1abf5f0e2&title=SingleProjectPipeline-spp-

12 Ukraine Investment Portal, https://investportalua.com/projects/

Single Project Pipeline

As part of the Public Investment Management (PIM) reform that started in 2024, Ukraine's Ministry of Economy published a Single Project Pipeline (SPP). The SPP presents a consolidated prioritized list of public investment concepts and projects based on sectoral portfolios, formed by public authorities, considering the level of their maturity. Each item on this list has been evaluated according to certain criteria, including Strategic feasibility; Social and economic feasibility; Financial feasibility; Technical feasibility and institutional capacity. The criteria and assessment process have been established by the resolution of the Cabinet of Ministers of Ukraine[13]. The evaluation was conducted by key central executive authorities following their competencies, namely:

- The Ministry of Economy - in terms of strategic feasibility (compliance with national and sectoral strategies) and socio-economic feasibility (assessment of social and economic impact, population coverage, etc.);
- The Ministry of Finance - in terms of financial feasibility (assessment of financial capacity and acceptability);
- The Ministry of Infrastructure - in terms of compliance with the strategic goals and priorities of the State Strategy for Regional Development of Ukraine, technical (infrastructure) and institutional capacity (assessment of operational readiness, energy efficiency, implementation capacity, etc.).

The importance of green criteria in project evaluation

One of the significant gaps in the current approach to appraisal, management and evaluation of the Single Project Pipeline is the lack of environmental and climate criteria, as well as insufficient disclosure of these aspects in the project description. The development and implementation of such criteria in the future, and ideally the evaluation of projects against the criteria by the relevant competent authorities, should be the next step towards increasing the potential for mobilizing green finance. This will allow, on the one hand, the government to make more informed decisions on public investments, and, on the other hand, will open access to additional financing programs through the categorization of sustainable activities.

According to the Government's action plan for the implementation of the Roadmap for Public Investment Management Reform for 2024-2028[14], the Ministry of Economy is currently working on amendments for PIM legislation that will transform approaches to the preparation, submission, evaluation and monitoring of public investment projects. The updated model will be presented in 2025 and implemented in the DREAM system to enable the formation of an updated SPP starting from the community level and working with it in different dimensions, such as regional or sectoral.

The SPP contains a list of 750 (as of the date of preparation of this report) investment projects proposed by government agencies, state companies, and communities. The projects have rather brief descriptions that do not allow the activities envisaged by the project to be concluded, but more information is available on the DREAM platform by project ID. Project descriptions also include geographic location and stage of project implementation. In terms of finance indicators, each project contains estimated CAPEX, OPEX, as well as information on the amount already financed and the desired source of financing (loans, grants, state funds, etc.).

13 The Cabinet of Ministers of Ukraine Resolution "On some issues of preparation, submission, evaluation and prioritization criteria for public investment project concepts for 2025", https://zakon.rada.gov.ua/laws/show/903-2024-%D0%BF#Text

14 The Ministry of Finance of Ukraine, https://mof.gov.ua/storage/files/PIM%20roadmap_final.pdf

Each of the projects has been assigned a sector and a sub-sector depending on the area of economic activity. The sectors are the following:

- Agriculture, forestry, fisheries;
- Communications and IT;
- Education;
- Energy and mining;
- Healthcare;
- Industry, trade and services;
- Public administration;
- Social protection;
- Transportation services;
- Water, sanitation and waste management.

The largest number of projects was represented in the Healthcare, Transportation services and Education sectors, with 146, 122 and 115 projects, respectively. These sectors account for more than half of the public investment projects portfolio.

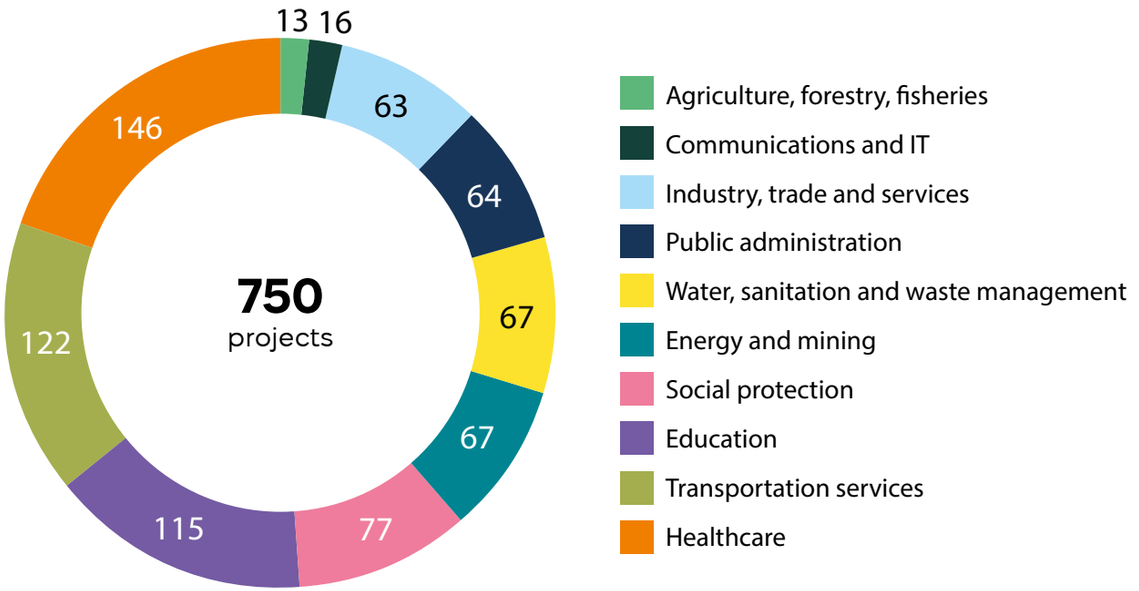

Figure 1 – Breakdown of public investment projects by sectors

The analysis of 750 projects identified 151 projects that potentially meet the green criteria outlined above. The sectors that provided the largest number of green projects were Water, sanitation and waste management, Energy and mining and Transportation services with 55, 37 and 22 such green projects, respectively. The analysis of the identified green projects in terms of their contribution to achieving the environmental goals

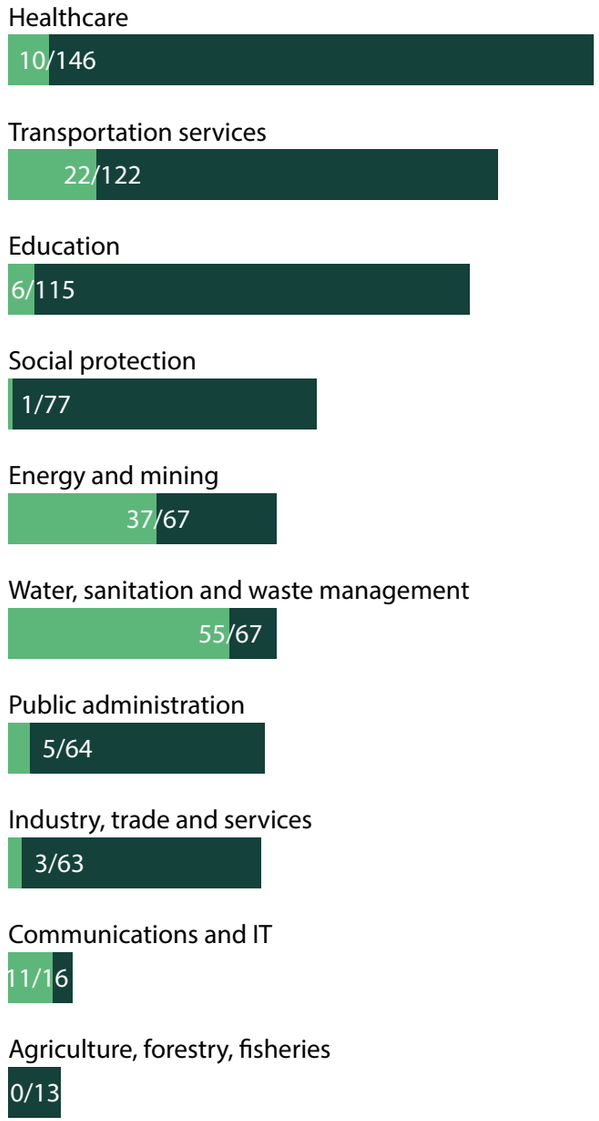

Figure 2 – Overview of public projects meeting green criteria by sectors

of the EU Taxonomy revealed that, by far, most projects are aimed at climate change mitigation – 91 projects. The next most common type of projects is those contributing to the sustainable use and protection of water and marine resources. Although some of the projects can contribute to two or more goals, the analysis was limited to identifying the most obvious climate and environmental impacts of the project, given its specifics.

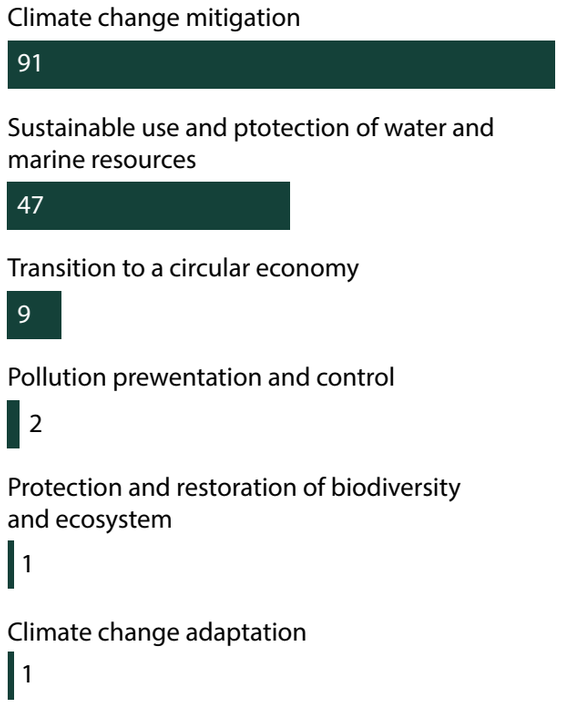

Figure 3 – Overview of public projects meeting green criteria by EU Taxonomy objectives

Lack of details as a limiting factor

The analysis also identified a large number of projects that could potentially contain a green component or meet green criteria, as well as projects that could be brought into compliance with green criteria without requiring significant additional investment. These include, in particular, many projects for the restoration and renovation of buildings for various purposes, which should include compliance with applicable energy efficiency standards. However, this does not provide a basis for unambiguously determining the potential of projects to be aligned with the Technical Screening Criteria set out in the Climate Delegated Act. These projects were classified as a separate category of projects and are not considered in this study.

Water, sanitation and waste management projects

Projects in this sector are represented in the SPP by 67 individual items, of which 55 meet the green criteria. Among the sub-sectors, Water supply, Sanitation and drainage and Waste management systems dominate with 25, 15 and 9 projects respectively. The identified green projects in this sector are characterized by relatively small investment requirements, with an average value of about $35 million.

Figure 4 – Overview of Water, sanitation and waste management green projects by subsectors

Projects in the water supply sub-sector mostly consist of major repairs and reconstruction of various sections of water pipelines and are characterised by relatively small financing needs, mostly amounting to several million US dollars. The largest financing needs are for water supply system construction projects in Kyiv and the Kyiv region, which reach up to $80 million. All projects in the water supply sub-sector have been identified as contributing to the Sustainable use and protection of water and marine resources EU Taxonomy objective and relate to paragraph 2.1. Water supply of Annex I to the Environmental Delegated Act.

In the sanitation and drainage sub-sector, 15 green projects were identified. Almost all of the projects consist of reconstruction activities of wastewater treatment plants and sewage networks. The financing needs range from $200 thousand to $74 million, with an average financing need of $24 million. These projects contribute to the achievement of the goal Sustainable use and protection of water and marine resources following paragraph 2.2. Treatment of urban wastewater of Annex I to the Environmental Delegated Act.

The waste management systems sub-sector is represented in the SPP by 9 projects, most of which involve the construction of waste processing plants in several regions of Ukraine. The construction of such facilities has a significant financing need, ranging from $123 million to $238 million per project. Relatively small projects in the waste management systems sub-sector are the projects for the reclamation of an existing landfill, which requires about $400 thousand in financing, and the project «Development of infrastructure for household waste management facilities in the Kyiv region» with financing needs of almost $4 million. These projects were categorized as green according to the criteria set out in paragraphs 2.3. Collection and transport of non-hazardous and hazardous waste and 2.7. Sorting and material recovery of non-hazardous waste of Annex I to the Environmental Delegated Act.

Energy and mining projects

Out of 67 projects in this sector, 36 projects were identified as green according to the criteria laid down in the EU Taxonomy. The identified green projects are projects for the reconstruction, expansion and modernization of the main power transmission network, as well as projects for the development of renewable energy sources. Funding needs range from hundreds of thousands of US dollars for small projects to multi-billion-dollar projects.

The analysis identified 14 green projects in the energy transmission and distribution sub-sector. Projects' funding needs mentioned in the description range from $30 million to more than $300 million in the case of complex projects. These projects contribute to climate change mitigation per paragraph 4.9. Transmission and distribution of electricity of Annex I to the Climate Delegated Act. Although these projects do not have a direct decarbonization effect, they are defined as enabling ones according to the EU Taxonomy. To be considered as enabling contributing to one of the EU Taxonomy's objectives, the activity shall not lead to a lock-in of assets that undermine long-term environmental goals, considering the economic lifetime of those assets and have a substantial positive environmental impact, on the basis of life-cycle considerations.

A significant part of the SPP green projects in the energy and mining sector are renewable energy sources (RES) development projects. A total of 17 RES projects have been identified. The project financing needs range from $55 thousand to more than $1 billion. The largest part of RES projects was presented in the hydropower sub-sector, due to the significant need for recovery after the russian shelling and resulting damage, as well as their crucial role in regulating the frequency of the power system.

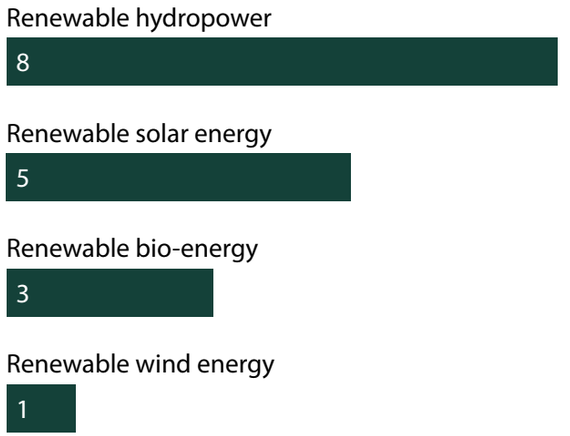

Figure 5 – Overview of renewable energy projects in the SPP

The analysis also identified a small number of projects that can be classified as green according to the criteria set out in the EU Taxonomy, including nuclear energy projects and projects for the reconstruction and expansion of district heating networks - 3 and 2 respectively. A characteristic feature of nuclear power projects is the significant cost, which, according to the SPP figures, can be more than $3 billion. We should also note a large number of requirements set out in the Technical Screening Criteria and Do Not Significant Harm to nuclear energy projects, which complicates the achievement of EU Taxonomy-aligned status.

Critical raw materials

The SPP includes several projects aimed at developing the extraction of critical raw materials, including titanium and graphite. These projects do not fall under the classification of sustainable activities according to the EU Taxonomy. Although the extraction of these materials is critical for decarbonization measures, they were not considered in this study due to their non-compliance with the EU Taxonomy activities. The EU list of critical raw materials is defined by Regulation (EU) 2024/1252 known as the Critical Raw Materials Act, which recognizes their significant role in the green transition and achievement of the European Green Deal goals.

At the same time, some of the green policies of development banks and IFIs include the development of materials that contribute to the green transition in the list of eligible activities. This shows that, despite the comprehensiveness and complexity, the list of sustainable activities eligible for green financing may sometimes lie outside the activities and criteria defined by the EU Taxonomy.

Transportation projects

Projects in this sector are represented in the SPP by 122 individual items, only 22 of which can be classified as green according to the criteria set out in the EU Taxonomy. These projects include the electrification of intercity rail transport and the development of urban transport infrastructure. The financing needs vary from $1 million to almost $500 million, depending on the scale, and the average cost estimate is $166 million. All of the identified projects contribute to the achievement of the Climate change mitigation objective of the EU Taxonomy.

The 16 green projects in the railroad sub-sector include the renewal of the locomotive and railcar fleet aimed at their electrification and the development of railway infrastructure. The financing needs of these projects start from $1 million and end at $495 million, excluding the share of financing already available for some of these projects. These projects meet the description of sustainable activities in accordance with paragraph 6.1. Passenger interurban rail transport, 6.2. Freight rail transport and 6.14. Infrastructure for rail transport of Annex I to the Climate Delegated Act.

4 out of 6 green projects that are not related to the railroad network are urban transport development projects. These projects include metro expansion projects in Dnipro and Kharkiv, as well as procurement of urban electrified transport. The financing needs for these projects reach $320 million. These projects correspond to paragraph 6.3. Urban and suburban transport, road passenger transport of Annex I to the Climate Delegated Act.

Figure 6 – Overview of transport projects in the SPP

Green Finance Potential in the Ukraine Investment Project Portal

In 2024, the international Ukraine Recovery Conference (URC 2024) was held, with one of its main topics being attracting investment for the post-war economic recovery. The conference featured the presentation of the Ukraine Investment Guide[15] which is a result of collaborative efforts of the Kyiv School of Economics and the Ministry of Economy of Ukraine. The document overviews on significant investment opportunities and economic developments in Ukraine, presenting about 100 investment projects from various economic sectors as the most mature and promising in terms of readiness and economic feasibility. The document also features a section on green transition, which outlines the prerequisites for decarbonizing Ukraine's economy, attracting appropriate green investments, and the results of the analysis of existing investment projects for their compliance with climate and environmental criteria.

The Ukraine Investment Project Portal (UIPP)[16] is the next step in the advocacy of investment opportunities in Ukraine. It features an overview of the promising investment projects in Ukraine. At the time of this report, the UIPP features 126 public and private sector investment projects in 9 sectors of Ukraine's economy:

- Energy
- Transport
- Housing, reconstruction, building materials
- IT and communications
- Agriculture
- Green steel
- Pharmaceutical and Medical
- Critical materials
- Machine building

The total investment needs for the presented projects amount to almost $29 billion. The projects presented on the UIPP have even shorter descriptions that lack significant disclosures on potential environmental and climate impacts.

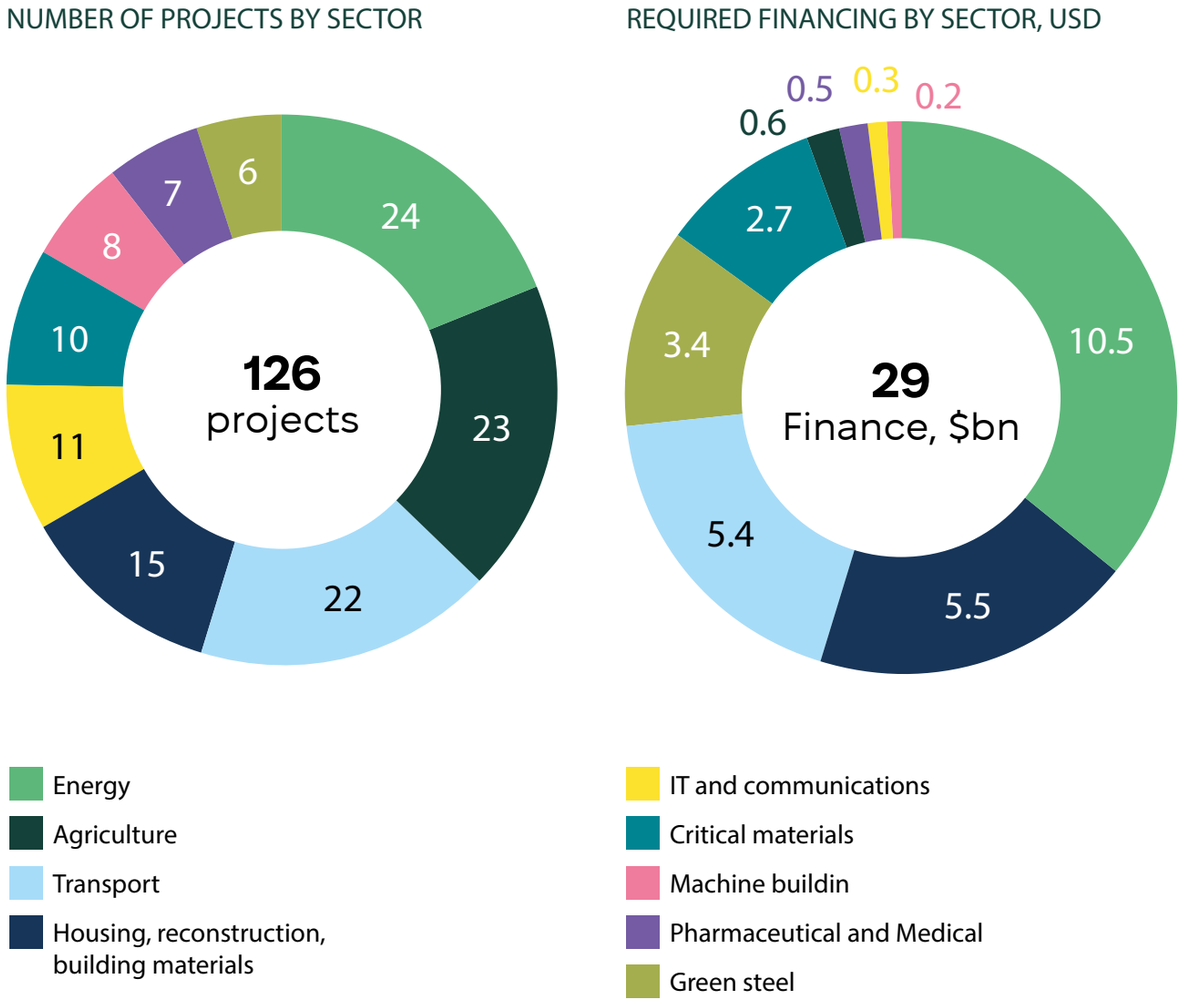

Figure 7 – Breakdown of projects presented on the UIPP by sectors

15 Ukraine Investment Guide, https://investportalua.com/wp-content/uploads/2024/09/ukraine-investment-guide-2024.pdf

16 Ukraine Investment Portal, https://investportalua.com/projects

Although a significantly larger number of investment projects were analyzed during the preparation of the Ukraine Investment Guide, the analysis results presented in this report focus on the investment opportunities available on the UIPP. The total of 126 projects were analyzed for compliance with the green finance criteria outlined above and 40 eligible projects were identified. 37 out of 40 green projects meet the climate change mitigation goal as defined by the EU Taxonomy.

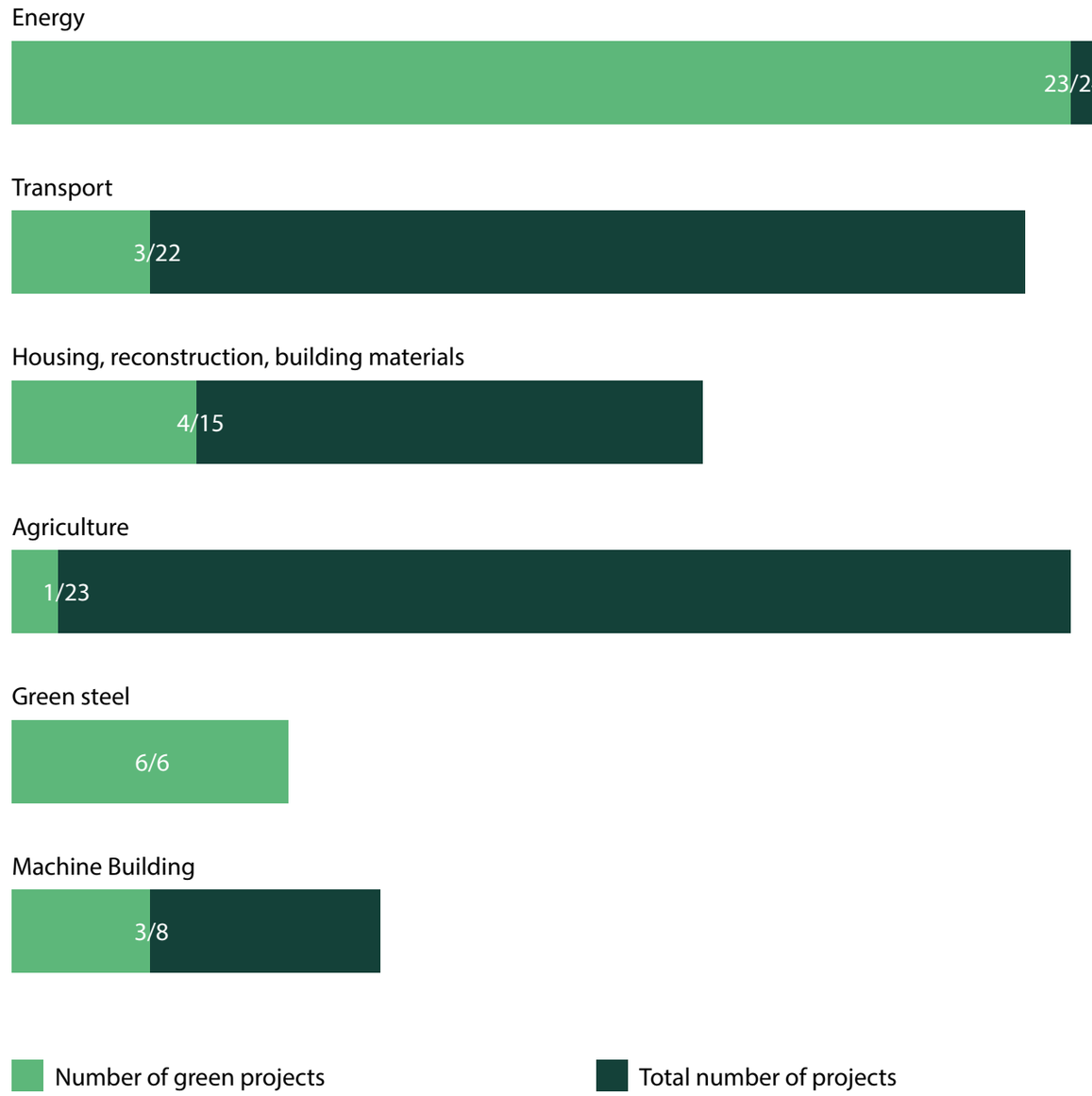

Figure 8 – Overview of UIPP projects meeting green criteria by sectors

Energy projects

The largest number of projects submitted to the Ukraine Investment Project Portal and the largest number of green projects are in the energy sector, 24 and 23 respectively. Among the sub-sectors, Wind generation, Hydrogen production and Biogas and biofuel production dominate, collectively presenting 16 projects. Funding needs range from $2 million to $1.5 billion depending on the particular project's scale and complexity.

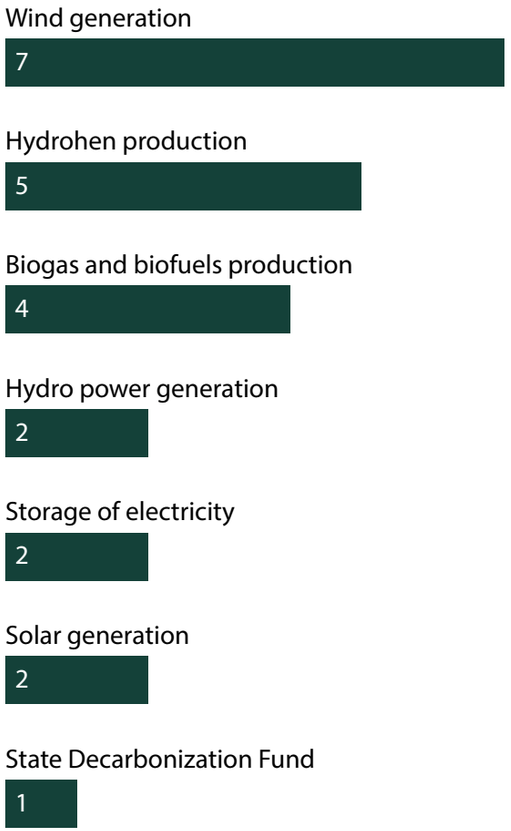

Figure 9 – Overview of UIPP energy sector green projects by subsectors

The energy sector projects include support of the State Fund for Decarbonization and Energy Efficient Transformation. It was launched in early 2024 and does not currently have a clear list of implemented projects in open sources. In January 2024, the Verkhovna Rada adopted the Law of Ukraine on Amendments to the Budget Code of Ukraine to Update and Improve Certain Provisions, which[17] aimed at reforming the distribution of capital expenditures within the state budget. This step envisages the creation of a general public investment fund, which will be distributed by the Strategic Investment Council's decisions, including the Decarbonization and Energy Efficiency Transformation Fund. The Fund has the following targeted uses of funds[18]:

- financial support for measures and targeted state programs in the field of energy efficiency, expanding the use of renewable energy sources and alternative fuels, and reducing carbon emissions;
- financial support to compensate, reimburse and reduce the cost of obligations of individuals and legal entities under loan agreements concluded for the implementation of energy efficiency measures, introduction of energy services, increase in the use of renewable energy sources and alternative fuels, and reduction of carbon emissions;
- fulfillment of debt obligations on borrowings received by the state for the implementation of investment projects in the field of energy efficiency, increase in the use of renewable energy sources and alternative fuels, and reduction of carbon emissions.

17 Law on Amendments to the Budget Code of Ukraine on Updating and Improving Certain Provisions, https://zakon.rada.gov.ua/laws/show/4225-IX#Text

18 The Resolution of Cabinet of Ministers of Ukraine on Approval of the Procedure for the Use of the State Fund for Decarbonization and Energy Efficient Transformation, https://zakon.rada.gov.ua/laws/show/761-2024-%D0%BF#Text

Green steel projects

The UIPP investment projects in this sector include 6 projects with financing needs ranging from $60 million to $1 billion.
The projects are aimed at increasing the efficiency and decarbonization of steel production processes and contribute to the achievement of the climate change goals as defined in the EU Taxonomy.
The activities envisaged by the projects include both changes in technological processes and improvements in recycling and renewable energy generation practices that contribute to a decline in the carbon footprint of steel products.

Steelmaking as an example of "transitional" activity

The peculiarity of the Green Steel sector projects in the analysis is the specific definition of such activities in the EU Taxonomy. According to the Taxonomy Regulation, steel manufacturing activity is "transitional", i.e. one for which there is no technologically and economically feasible low-carbon alternative but it significantly contributes to climate change mitigation by supporting the transition to a climate-neutral economy. Although the economic activity of steel production is included in the Climate Delegated Act and therefore is a "Taxonomy-eligible" activity, in order to be fully Taxonomy-aligned, among other requirements, steel products must meet specific carbon footprint benchmarks set out in the Technical Screening Criteria.

The brief description of the UIPP projects does not provide sufficient insight into the current state of operations and the impact of their implementation in the context of the carbon footprint of steel products. On the other hand, all of these projects contribute to the decarbonization of the steelmaking industry. Therefore, for the purposes of this report, it was decided to define the UIPP projects listed in the Green Steel sector based on their contribution to reducing the carbon footprint of the products, rather than on their compliance with the benchmarks set out in the EU Taxonomy.

Other sectors green projects

All other sectors are represented in the UIPP by an even smaller number of projects that meet the EU Taxonomy criteria. In total, these are 11 projects with a total funding requirement of $1.3 billion from 4 sectors: agriculture, machine building, transport, and housing, reconstruction, building materials. The projects contribute to the achievement of climate change mitigation, sustainable use and protection of water and marine resources and transition to a circular economy.

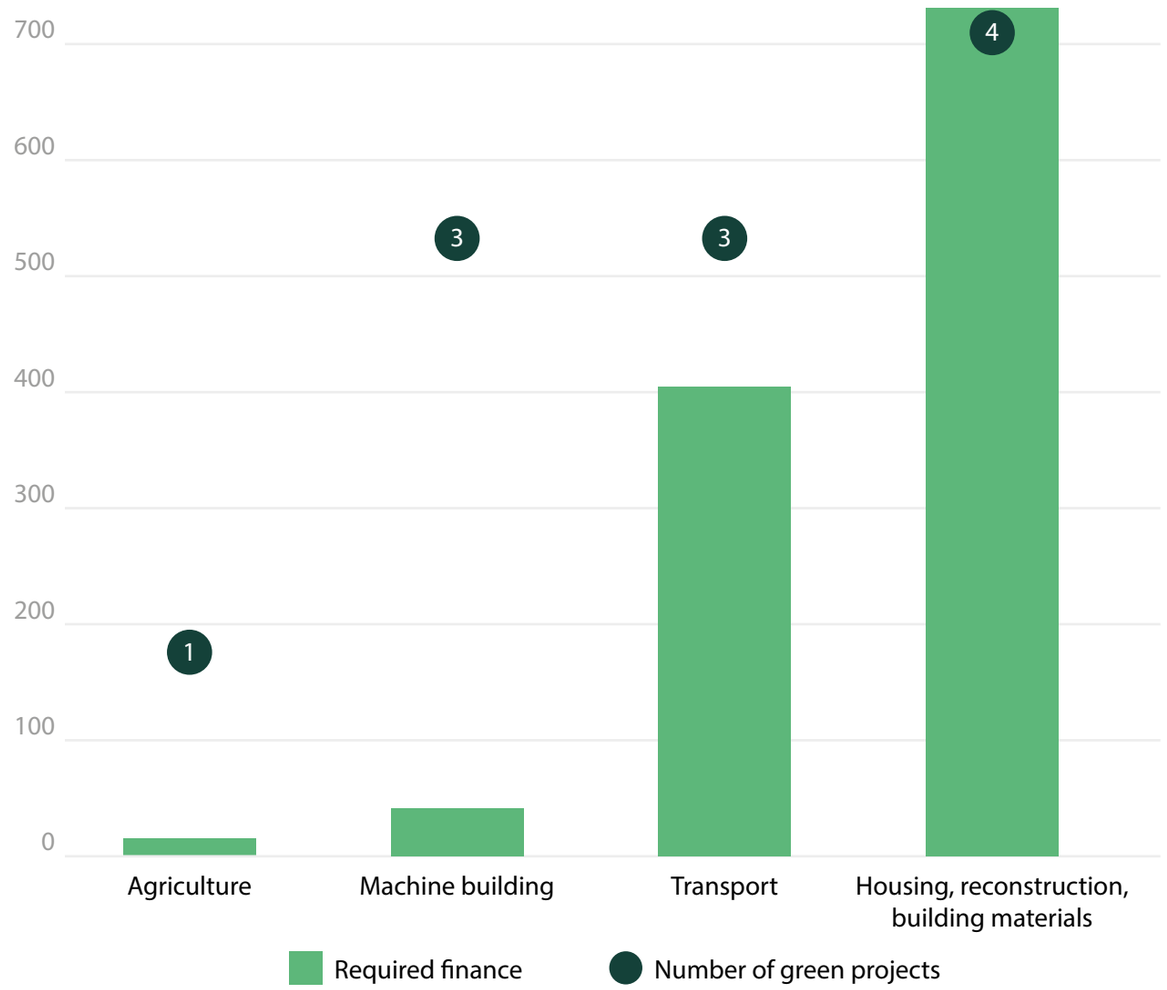

Figure 10 – Overview of UIPP green projects in selected sectors and financing needs

The largest sector in terms of both green projects and financing needs is the housing, reconstruction, building materials. Out of 4 projects, 2 contribute to the goal of sustainable use and protection of water and marine resources. These are the Mykolayiv Water Supply and Sanitation Project and the Regional Water and Sanitation Improvement Project, both initiated by public authorities. The investment requirements for these projects are quite high, amounting to $436 million and $156 million respectively. The other 2 projects contribute to the objectives of Transition to a circular economy and Climate change mitigation and represent activities of waste management improvements and district heating systems reconstruction.

Conclusions and Next Steps

There is no lack of investment projects aligned with the sustainability criteria

According to the analysis, at least 151 out of 750 projects in the Single Project Pipeline and 40 out of 126 projects on the Ukraine Investment Project Portal can be considered as potentially meeting the “green” criteria according to the EU Taxonomy. These projects are represented by private and public actors in various sectors of the economy, have a wide range of financial needs, and contribute to various environmental and climate goals of the EU Taxonomy. Given the external incentives and the national context of striving for a sustainable economy, green investment projects will gain a greater competitive advantage in attracting financing. With the implementation of appropriate policies and legislation that will promote sustainable development, this is an opportunity for Ukraine’s stakeholders to raise funding for reconstruction and recovery.

EU Taxonomy is a key to promoting sustainable finance

The transition to a sustainable economy requires the creation of an appropriate regulatory context. Implementation of the Taxonomy Regulation and related EU acquis is crucial to foster climate and environmental finance flows. The introduction of nationally defined green finance criteria harmonized with EU legislation will enable the effective channelling of private and public investments into sustainable activities. It will also provide labelling of financial products or corporate bonds as sustainable investments to enhance investor confidence and awareness of the environmental impact and to address ‘greenwashing’. Additionally, the EU law provides a requirement for disclosure of the taxonomy-aligned CAPEX and OPEX by undertakings under mandatory non-financial disclosure requirements, establishing the system for monitoring sustainable finance flows.

Climate and environmental considerations shall be addressed in Public Investment Management

The introduction of the sustainability-related criteria for projects that are subject to Public Investment Management disbursements may be an effective measure to attract sustainable finance and can be implemented in the short term. The transition to a sustainable economy requires that public investments are identified, assessed and prioritized with due regard to their social and environmental impacts. Implementation of climate and environmental consideration in the PIM will provide proper disclosure of information for investors, IFIs and donor organizations focused on sustainable development. Also, the continuous analysis of public investment projects for their compliance with climate and environmental criteria will allow for the introduction of an identifier for green projects that can be submitted for relevant funding initiatives.

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