

Nefco Green Recovery Programme for Ukraine

Contents

Nefco Green Recovery Programme for Ukraine	2
1. Background.....	2
2. Approach.....	3
3. Objective	3
4. Conditionality	4
5. Organisation	4
6. Financing, structure and processes	4
7. Use of local resources and security considerations.....	5
8. Timetable.....	6

***Nefco, the Nordic Green Bank**, is an international financial institution founded in 1990 by the governments of five Nordic countries: Denmark, Finland, Iceland, Norway and Sweden.*

Nefco has financed and implemented over 1,500 projects in energy efficiency, renewable energy, clean water and sanitation, waste management, and cleaner industrial processes, among others. By focusing on small and medium-sized projects with tangible results, Nefco has demonstrated how to implement energy-saving and environmentally friendly projects in a sustainable and cost-efficient way. Nefco serves the interests of its owners and takes concrete actions to accelerate the green transition.

Nefco Green Recovery Programme for Ukraine

Nefco Green Recovery Programme for Ukraine is proposed to be set up by Nefco as a multi-contributor programme. It will work directly with municipalities and help them to plan and finance sustainable recovery from the damage caused by the Russian military invasion of Ukraine. The programme activities will initially be funded by transferring contributions made to existing trust funds and facilities for activities in Ukraine and supplemented by new contributions made directly to the programme. The programme will provide financial and technical assistance to municipalities for their repair and rebuilding in an environmentally sound way and will support them in designing Local Green Recovery Plans. In this way, it will swiftly improve living conditions for internally displaced people and ensure that recovery investments generally will provide Ukraine with a new and EU-aligned pathway for sustainable reconstruction and a faster green transition by building back better.

1. Background

Russia's war in Ukraine has led to thousands of civilian casualties¹, 5.5 million Ukrainian refugees and approximately 7.7 million internally displaced people in Ukraine. Reportedly (ReliefWeb), more than 1.4 million people in Ukraine are currently without running water, and 4.6 million are at risk of losing access to piped water. Moreover, the war risks tipping more than 1.7 billion people globally into poverty, destitution and hunger.

In addition to immediate basic humanitarian assistance, Ukraine will need significant reconstruction and financial development support over several years to overcome the destruction caused by the war. To ensure that new investments are impactful and feed into a sustainable recovery phase that builds on and further strengthens the resilience of the Ukrainian society, local authorities must have swift access to technical assistance to develop the required capacities to build back better. Local governments will need skills development support to be able to plan an environmentally sustainable recovery in a manner that catalyses reduced dependence on fossil fuels and cuts harmful pollution while appropriately harnessing opportunities for renewable energy, energy efficiency and modern, clean technology solutions.

Nefco is uniquely positioned to support this process and adequately address environmental recovery needs together with municipalities in Ukraine. Nefco has partnered with over a hundred Ukrainian municipalities and successfully completed environmentally sound projects in energy efficiency, district heating, and other municipal services during the last decade. Due to its broad experience in financing and work on municipal projects, Nefco has developed an exceptional network of people working in Ukrainian municipalities who are experienced in implementing projects with international funding. The experience and insight of this network have already been activated – to map reconstruction needs – and can quickly be put to new use when rebuilding Ukraine under the changed circumstances shaped by the war.

Nefco has already started practical recovery project preparations by reaching out to its existing client network in municipalities, and this has already been welcomed by the Ukrainian Ministry of Communities and Territories Development.

¹¹ OHCHR has recorded over 6,000 civilian casualties. Ukrainian sources mention significantly higher numbers.

Nefco has long experience in green financing and managing grant-based trust funds and concessional loan facilities on behalf of its owners and Nordic and EU institutions. Nefco has typically been involved in energy efficiency in public buildings, street lighting, district heating, water and wastewater, and solid waste management.

These existing financial instruments for measures in Ukraine can be repurposed and immediately be put to use for broader environmental recovery needs. With its Ukraine-specific expertise and 100% focus on green financing, Nefco is exceptionally well-positioned to further catalyse green reconstruction and accelerate sustainable societal development in Ukraine.

2. Approach

The Nefco Green Recovery Programme for Ukraine will provide technical and financial support to municipal recovery projects to build a much-needed bridge between humanitarian crisis management and longer-term sustainable development. The programme will achieve this through:

Building partnerships with municipalities that will assess immediate recovery and development needs, identify green rebuilding measures, support swift implementation of projects and help ensure co-ordination with other programmes.

Implementing three categories of project activities addressing: (a) short-term repair and restore needs, (b) medium-sized rebuilding needs of utilities and facilities serving internally displaced people, and (c) capacity development needs to assess and integrate environmental aspects into the Local Green Recovery Plans.

Making use of Nefco's unique, existing capacity and outreach, which will ensure rapid and transparent implementation and environmentally positive impacts.

3. Objective

The Nefco Green Recovery Programme for Ukraine will provide grants, concessional loans, and technical assistance for green recovery measures to 30–50 municipalities in the government-controlled areas of Ukraine. The programme will address both direct and indirect consequences of the war. With its investments in green recovery, it will help municipalities accommodate and serve internally displaced people; support the maintenance, repair and upgrade of critical public service buildings, and integrate environmental considerations into all recovery actions. The programme will aim to maximise the positive impacts for internally displaced people and environmental benefits per investment.

The programme will be fully aligned with the 1.5-degree objective of the Paris Agreement. The Recovery will be geared towards a green transition and transformation of the economy and society.

4. Conditionality

The programme will be subject to Nefco's rules and policies, including Nefco's Environmental and Sustainability Policy² and Guidelines³, and the requirements under Nefco's EU and Green Climate Fund accreditations.

The programme will partner with municipalities and other beneficiaries that (a) assess short- and longer-term green recovery needs related to critical infrastructure, sustainable livelihoods, physical environment and vital ecosystems, and (b) develop a Local Green Recovery Plan to guide recovery activities including aspects of nature restoration. Nefco, with its means and capabilities, will provide guidance to develop these plans, and the programme will enable technical assistance for this purpose.

5. Organisation

Nefco will set up the programme as a separate multi-contributor financing mechanism. The programme's funds will be separated from Nefco's own funds.

The Nefco Ukrainian Fund Management Team (the 'Team') will be responsible for project preparation, implementation support and monitoring. The Team will also ensure a continuous active dialogue with relevant Ukrainian stakeholders and put in place appropriate coordination mechanisms between them and other development finance institutions. The Team will be co-located in Kyiv and Helsinki.

The programme will establish partnership agreements with municipalities to structure and govern the collaboration process and ensure Nefco procedures and policies are adhered to (Local Project Partner Agreements).

Bilateral agreements will govern new contributions to the programme, concluded with each contributor separately. The contributors will receive periodic progress reports and annual financial reports with an account of the usage of funds.

6. Financing, structure and processes

The initial size of the programme encompassing repurposed existing facilities already managed by Nefco is estimated to be EUR 50-60 million. In addition, new contributions of EUR 30-40 million have already been indicated, making the total initial size of the programme EUR 100 million. The programme could accommodate a further EUR 100 million of new funding, making the total size up to EUR 200 million.

The programme will provide **(1) Grants and loans** for (a) small-scale (EUR 0.1–2.5 million) restoration and renovation projects, (b) medium-size (EUR 2.5-10 million) rebuilding and refurbishing project repair, and **(2) Technical Assistance** for environmental needs assessments, environmental compliance assessments, project identification, project preparation and support in project implementation.

² <https://www.nefco.int/wp-content/uploads/2022/05/Environmental-and-Sustainability-Policy-20220318.pdf>

³ <https://www.nefco.int/wp-content/uploads/2022/05/Environmental-and-Sustainability-Guidelines-20220502.pdf>

The programme may co-finance projects together with other international financial institutions, provided the projects are in line with the objectives of the Nefco Green Recovery Programme for Ukraine and Nefco's general policies and green requirements.

Local Project Partner Agreements with each partnering municipality will be established to define the scope, collaboration processes, rules and policies, and guide the project development and implementation. These agreements will require that each municipality partner will prepare an environmental plan on how to catalyse green recovery actions most efficiently. Nefco, drawing on its resources and capabilities, will aim to provide technical assistance and expertise to support partner municipalities' development of the Local Green Recovery Plans and implementation of the environmental recovery actions.

Nefco will engage its network of municipalities to identify a long list of potential projects. Nefco will assess the long list of project ideas and prepare a shortlist of projects. Scoping missions with dedicated experts will develop the Local Green Recovery Plans, project proposals and procurement plans as appropriate to prepare relevant documentation for a fast decision-making process.

Nefco procurement rules will be applied. Financing decisions will be taken by Nefco's Trust Fund Investment Committee. Nefco's procedures will be effective, transparent and ensure that projects can be efficiently executed with high operational and environmental performance standards.

All projects within the programme's scope must comply with the Nefco sustainability safeguards and meet the Nefco environmental standards as established in the Nefco Environmental and Sustainability Guidelines. To catalyse further sustainability impacts, municipalities will be able to receive technical support in developing environmental needs assessments.

7. Use of local resources and security considerations

The programme will promote the use of local resources. Given that much of the foreseen works do not require complex technologies, it is expected that most of the equipment and materials will be available locally. Nefco has worked with many professional local consultancies and construction companies in Ukraine, which have the experience and ability to comply with Nefco's environmental standards. While the programme will focus on measures for immediate green recovery assistance, it will also engage Nordic green technology, knowledge and solutions in the planning and implementation of financed post-conflict reconstruction efforts in Ukraine.

Nefco will continuously assess the security situation to ensure the safety of its own and hired personnel. If access to sites should be limited, mitigation measures may be necessary by down-scaling and simplifying the projects in the relevant area. Unpredictable safety situations may influence the geographical scope of the proposed actions. As a main rule, it will be required that Nefco personnel and hired experts can visit the sites regularly without danger to their lives. Nefco will focus on already established relationships, which will make it possible to act in changing security situations. Should lack of physical access restrict on-site monitoring for Nefco personnel or Nefco's consultants, Nefco will apply other local monitoring measures.

8. Timetable

The programme will start to operate promptly and be agile and flexible in how it prioritises matters such as project options, instruments and geographical focus within Ukraine. The foreseen phases of making the programme operational are as follows:

The Preparatory Phase has already started and is comprised of (a) contributor discussions to establish an agreement on how to repurpose existing arrangements and to solicit and agree on new contributions, (b) screening of the needs expressed by members of Nefco's network among 100+ Ukrainian municipalities as well as an assessment of the potential to resume and expand already identified projects and initiatives, (c) establishment of the institutional arrangements and capacities with Ukrainian municipalities. The extraordinary Nefco Board meeting scheduled on 7 June 2022 will review and discuss these preparations, and, subject to a favourable Board decision, the programme will be launched in late June 2022.

The Initial Implementation Phase is expected to continue until the end of 2022 (provided activities will start as planned in late June) and comprise (a) completion of the contributor agreements, (b) building a pipeline of potential projects, (c) prioritising the pipeline of potential projects, (d) initiating project preparations and commencing implementation of the first set of projects, and (e) establishing coordination mechanisms with municipalities and other parties.

The Full-scale Implementation Phase is expected to start in 2023 and comprise (a) measures enabling receipt of additional, new contributions to the programme, (b) preparation and implementation of an agreed number of projects, and (c) design of collaboration measures with other finance facilities, and (d) consideration of means to use the programme for mobilising blending with ordinary, non-concessional financing from Nefco and other financiers.

“The damages on the environment are severe, even catastrophic, as air, water and soil are being polluted and biodiversity destroyed. This has a huge negative impact on the communities and people, as well.

Therefore, it has become even more important to restore the environment and introduce green solutions in municipal infrastructure. We are keen to continue the path towards a greener future, not only restore destroyed infrastructure but rebuild based on environmental assessment and impact, using modern energy-efficient equipment and solutions, and promoting a green economy. We highly value collaborating with Nefco now and also in the future, after the war.”

Oleksandr Tretiak
Mayor of the City of Rivne