The Recovery of Ukraine Energy Sector: A Call for Support and Collaboration with Municipalities

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The post-war sustainable recovery of Ukraine has started. It is time for international partners to cooperate with Ukrainian municipalities and explore various models to finance clean energy projects.

This brief outlines the current state of play in the field of green energy recovery in Ukraine. It provides recommendations to foreign governments, international partners, and national authorities to partner with local communities and rebuild the energy sector. The main objective is to boost local communities' energy resilience by providing loans, equipment rental, leasing, grants and co-financial mechanisms.

Reconstruction has already begun and cities are ready to rebuild green

Ukrainian municipalities have not waited for the end of the war to rebuild and provide water, heat, electricity, transport, medical care and other vital services to the population. The recovery is at an active stage of implementation and the main work is happening at the municipal level.

The energy sector is of particular importance and offers a set of advantages to start with the immediate reconstruction: projects in renewable energy sources and energy efficiency for municipal sector infrastructure are already bankable. They help to increase resilience of communities in war time during power outages and lead to decentralisation. Despite all challenges induced by the war, such as the migration of inhabitants and work forces, as well as the lack of resources, municipalities are conscious of the necessity to "build back better". They know that they have to use sustainable approaches and to modernise their infrastructure.

The rise of decentralised renewables for reconstruction

Ukrainian communities have recently endured a challenging winter due to the impact of Russian attacks, which led to widespread destruction and extended power outages. This difficult period has underscored the importance of renewable energy sources (RES) in ensuring the continued operation of critical infrastructure such as water supply and hospitals.

Despite the ongoing war, Ukrainian environmental NGOs such as Ecoclub, Energy Act for Ukraine, Ecoaction, and Greenpeace have successfully partnered with local communities and various stakeholders to install solar power plants, demonstrating the feasibility and attractiveness of renewable energy projects in Ukraine. In 2022, a study conducted by Ecoaction demonstrated that more than 80% of respondents (to the study) agreed that 'Ukraine should reduce the use of fossil fuels (coal, oil and natural gas) as much as possible and increase the production of electricity from renewable energy sources.'

Renewable energy projects have proven financially viable, with solar power plants at hospitals and water utilities expected to recoup their investment within three to five years. While RES may not currently serve as the sole backup power supply option, they have a potential to significantly contribute to the resilience and functioning of communities during disruptions in grid-connected power supply. Furthermore, when electricity is available, RES can help address pressing issues by reducing electricity costs, thereby retaining more funds within communities for local development.

The progress made in deploying RES in communities can be attributed to various factors, including political will among local authorities, grant support from foreign donors, and experience and knowledge of the private sector, as well as higher energy prices for public institutions.

Challenges and solutions for municipalities

Some of the main obstacles to RES installations are:

- insufficient local budget funds,
- need for substantial upfront investments,
- fear of violating regulatory requirements,
- low awareness among local decision-makers.

To foster the development of RES in Ukrainian municipalities, it is crucial to establish an enabling environment that provides municipalities with access to financial mechanisms, introduces new development systems such as net-billing for public institutions, and includes capacity-building programmes about sustainable energy resources. This environment should also involve standardised documentation packages, showcase successful cases of community recovery exemples and promote public-private partnerships in the RES sector.

Foreign governments and the Ukrainian authorities are respectfully urged to support the ongoing decentralisation reform. They should assist Ukrainian communities in their RES development. This includes integrating local government capacity-building efforts on sustainable energy into all green recovery activities and providing support and risk insurance for foreign investors' investments in Ukraine.

Recommendations

To the G7 Coordination Platform and IFIs:

- Establish risk insurance mechanisms. These mechanisms should include insurance of risks related to (1) inflation, (2) changes in currency rates, (3) changes in energy pricing, (4) war-related physical damages to energy facilities. Both sides should be insured - municipalities and lenders/donors.
- Create financial instrument(s) that Ukrainian municipalities will have direct access to without the need to obtain approval from the national authorities. This instrument should combine grants and soft loans.

- Create low-interest loans in Hryvnia (Ukrainian currency, UAH) for municipalities to implement reconstruction and modernisation projects during the war. The financing should be linked to the targets on strengthening energy resilience, sustainability, greenhouse gas emissions reduction etc. As an option: establishment of a credit line in a state bank dedicated to financing renewable energy projects in municipalities such as the successful credit lines of the state-owned Ukrgasbank financing energy efficiency projects in the residential sector.
- Ensure prompt and efficient decision-making process to support municipalities. The time between the project application and its approval should be reduced from years to months. Technical assistance should be provided to municipalities for project preparation.
- Scale down loans available to municipalities, as not all municipalities have the capacities to absorb large sums of money. Support of collaborative projects for several small towns and support to local project offices should be considered.

To governments willing to support Ukraine's green reconstruction:

- Support of establishment of low-interest loan programmes for Ukrainian municipalities. Explore different financing models for RES, such as loans, equipment rental, leasing, and co-financing.
- Create capacity-building programme(s) for Ukrainian municipalities in the field of renewable energy and energy efficiency that could be linked to financial support instruments.
- Appoint an envoy/ambassador on Ukraine's Reconstruction (such as in Czechia and Slovakia) who could establish contacts with regional and municipal authorities, also keeping in mind the EU's and Ukrainian green agendas.
- Establish direct cooperation with municipalities. Consider cooperation options on reconstruction between a country and a Ukrainian city or region (such as Denmark - Mykolaiv cooperation), and city-to-city cooperation.
- Ensure civil society participation through new projects and programmes empowering active involvement, implementation and leadership by Ukrainian stakeholders. Direct support of local stakeholders could help ensure effective use of international aid.

To the Ukrainian government:

- Establish a supportive framework for municipalities to design and implement renewable and energy efficiency projects during the war. The framework should include legal, financial and institutional aspects, and support establishment of connections between municipalities and foreign donors and institutions. Government agencies should provide support to municipalities in the form of training, resources, and guidance to help them improve their capacity to absorb funds. They could also review and streamline the funding application process to make it easier for municipalities to access funds.

- Provide political risk protection and investment guarantee schemes for new investments into sectors important for Ukraine's Green Hub of Europe ambition, such as production of renewable energy equipment, energy efficient materials, heat pumps etc.
- Introduce new mechanisms for prosumers (including net-billing) for public institutions, so that excess solar energy produced on public buildings could be sold to the grid at a wholesale price.
- Ensure civil society's and regional municipalities' involvement in the green reconstruction of Ukraine programming and implementation.

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