



UNDP – IFC – Oschadbank Financial Support Mechanism

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Background

- Project: Development and Commercialization of Bio-energy Technologies In the Municipal Sector of Ukraine.
- Project had quite a broad remit, but aimed to make use of agricultural waste to provide heating for municipalities.
- A key aim of the project was to develop a Financial Support Mechanism.

The Beginning

- Review of other financial support mechanisms in the region and in Ukraine.
 - Direct subsidy and grant based systems
 - Technical support
 - Interest rate subsidy
 - Investment funds

What we have seen

- Simply providing studies where the beneficiary is not motivated usually ends with a drawer full of unused studies.
- Grants might work as long as funds are being provided, but progress stops when the grants stop.
- Funds are usually very limited in the volume of funding and can negatively impact the market

Issues Raised

- First we have to acknowledge that all projects have a (long) timeline and a large number of variables that influence their successful outcome, financing is just one of these.
- Motivation of the initiator is likely the key variable influencing success.

Key Themes in our FSM (1)

- Loans not Grants
 - Loans impose a level of discipline at all levels of project implementation, from conception through to completion.
 - (Ukrainian) Financial institutions that would provide the loans have the financial firepower to make a difference.
 - Loans are sustainable as financial institutions are in a position to continue financing after a Project is finished.

Key Themes in our FSM (2)

- Technical Assistance not Funding
 - What is lacking at a municipal level is often simple knowledge or experience.
 - Assistance can take a number of forms, including assistance with interacting with financial institutions and assisting with technical aspects of project development and implementation – proviso – the beneficiary has invested some of their own money.



Cooperation UNDP - IFC

- We wanted to create a financial instrument and in effect a new financial market – financing municipalities
- IFC clearly had the experience and knowledge in developing financial instruments.
- UNDP had the technical experience and market knowledge.



Cooperation with Oschadbank

- Financial muscle and geographic presence.
- Experience with “Warm Credits”.
- Position as a social partner.
- Desire to create and enter into a new market.

Creating a New Product

4 Main Group of Issues Faced

- Regulatory Issues - NBU
- Procedural Issues – Min Fin
- Project Issues – Approval process, technical development
- Bank Issues – Approval process, documentation

A Financial Product

- Borrower: Municipality (potentially communal company)
- Use of Funds: Municipal infrastructure including projects for biomass and energy efficiency.
- Amount: from 1 million UAH
- Portion of Project financed by Bank: up to 70-80%
- Term: up to 5 years
- Interest Rate: Refinance Rate + Margin
- Security: unsecured (lending decision based on credit rating)
- Other Conditions:
 - Energy reductions/cost savings as confirmed by energy audit or other technical documentation
 - Independent credit rating



Technical Assistance

- Creation of a roster of technical experts available on short notice to provide assistance where needed – Project Support Platform.
- Banking Consultants to assist with loan application and documentation.
- Funding for credit rating.

Current Situation

- Over 20 biomass projects currently under review by UNDP with technical assistance to be provided on an as required basis.
- Oschadbank is actively developing its portfolio of municipal financing – currently more than 500 million UAH under review.