

Municipal and environmental infrastructure in Ukraine



European Bank
for Reconstruction and Development

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The EBRD is committed to improving municipal and environmental services in Ukraine, in line with its mandate to promote environmentally sound projects. At the EBRD, the municipal and environmental infrastructure (MEI) sector covers direct revenue-earning services, such as water supply, wastewater collection and treatment, solid waste management, district heating and urban public transport.

MEI activities in Ukraine

The Bank has so far developed 11 projects in Ukraine in the water and wastewater, district heating and urban transport sectors, working directly with the municipalities and utilities to promote institutional reforms and corporatisation.

The loan made in Zaporizhzhia has supported the rehabilitation of municipal water treatment facilities and water distribution networks, reducing leakage and improving water quality and water demand management. The project helped to solve a major environmental issue in Zaporizhzhia given that the new wastewater treatment facilities prevented discharge of untreated wastewater into the Dnipro river. Under the project, the company developed and implemented a new tariff policy setting a single tariff for all customer groups thus eliminating cross-subsidisation. This helped the company to turn into a profitable and sustainable entity, servicing the EBRD loan from its own resources.

In Cherkasy, Ivano-Frankivsk and Zhytomyr investments are financing the respective company's priority capital expenditure programmes, aimed at reducing energy losses, reducing gas and electricity consumption and improving the quality of heat and hot-water supply services in the city.

In Kiev and Lviv, loans have been utilised to improve urban transport and traffic management. In Kiev, loans in favour of the metro and bus companies in the city cover rolling stock renewal. In Lviv, the loans for road rehabilitation and public transport improvement are being used for the rehabilitation of the tram tracks, streets and underlying utilities along the two busiest tram lines in Lviv, plus the implementation of traffic management systems along the rehabilitated corridors.

In the near future, the Bank will continue to focus on financing energy efficiency in district heating, water/wastewater, solid waste and public transport investments in large and medium-sized cities. The Bank is keen on supporting decentralisation of financing responsibilities and contributing to the enhancement of the creditworthiness of municipal borrowers, while promoting financial and operational performance improvements and full-cost recovery through tariffs while at the same time taking into account affordability constraints.

With the introduction of the Eastern Europe Energy Efficiency and Environment Partnership (E5P – see over for more details), the EBRD, alongside other international financial institutions (IFIs), is being provided with an additional platform of support for investments and to promote further policy dialogue.

Case study: Zhytomyr District Heating

The EBRD is providing a loan of up to €10 million to finance a priority investment programme aimed at reducing energy loss in gas and electricity consumption and improving the quality of heat and hot-water provision in the Ukrainian municipality of Zhytomyr.

A 10-year loan will be extended to the Zhytomyr municipal district heating utility which supplies heat and hot water services to approximately 75,000 residential apartments in the city. The loan proceeds will be used to install mini CHPs (co-generation plants for simultaneous generation of heat and electricity), introduce individual heating substations equipped with heat meters, rehabilitate and modernise boiler houses and replace obsolete network pipes with pre-insulated pipes.

This is the first municipal project in Ukraine to receive grant funding under the E5P, the establishment of which was ratified by the Ukrainian parliament in July 2011. A €5 million grant from the E5P will complement the EBRD loan and will finance the installation of bio-mass plants using mainly locally available wood waste as well as financing the installation of additional individual heating substations and subsequent conversion from four- to two-pipe distribution networks.

The project is expected to result in the significant reduction of gas consumption by 3.7 million cubic metres per year, electricity savings of up to 29,000 MWh per year and an overall increase in energy efficiency. The implementation of the project will also achieve substantial reductions in carbon dioxide and nitric oxide emissions (34,381 tonnes and 6.2 tonnes per year, respectively).

Case study: Dnipropetrovsk Metro Project

The City of Dnipropetrovsk, with the support of the government of Ukraine, has secured joint co-financing from the EBRD and the European Investment Bank (EIB) to improve urban transport by expanding the current metro system. The project consists of a loan to Ukraine for the amount of up to €152 million from EBRD, expected to be co-financed with a similar loan of an equivalent amount from the EIB.

The key objective of the project is to improve the provision of mass transport in Dnipropetrovsk as part of an overall strategy to achieve sustainable and clean urban transport in the city. With a population of well over one million enhanced by a large student base, the current transport system based on buses and minibuses, most of them old and polluting, no longer enables efficient urban mobility.

The project entails the completion of the city's existing six-station metro line (Metro Line I), which currently only serves the city's suburbs, thus supporting the expansion of clean, zero-emission urban rail mass

transit to serve as the backbone of the city's urban transport system. Specifically, the project will extend the line by four kilometres and add three new stations.

By completing the full line, the metro will reach the city centre and will ensure sustainable public mobility in one of Ukraine's major industrial cities. Substantial increases in passenger numbers and an improved urban transport scheme are key factors underpinning the economic justification of the project. The project will also achieve important institutional and regulatory improvements by devolving the metro company ownership to the city and by introducing a public service contract to ensure sustainability and high-quality services over the long term. Lastly, the Bank will help the company with the monetisation of the reduced carbon emissions resulting from the project, demonstrating new ways of financing green investments.

Eastern Europe Energy Efficiency and Environment Partnership (E5P)

The E5P is a grant fund established in 2010 by international donors to co-finance investments, initially in the Ukrainian municipal sector, but with planned expansion to other Eastern Partnership countries (Armenia, Azerbaijan, Georgia and Moldova). The purpose of E5P is mid-term delivery of coordinated and effective international financial support by combining grant contributions with IFI loans to focus predominantly on demand-side energy efficiency improvements which will result in significant environmental benefits. The contributions to E5P, for the benefit of Ukraine, total over €90 million and come from Denmark, Estonia, the European Union, Finland, Iceland, Latvia, Lithuania, Norway, Poland, Sweden, Ukraine and the USA.

The foremost argument for energy efficiency investments lies in decreased costs for electricity, natural gas, mazut and other fuels – a direct effect which can be seen immediately on the utilities income statement. Since the existing equipment in many district heating and water and wastewater utilities have deteriorated at the same time as the equipment is overdesigned, the potential for energy savings is huge. Decreased energy usage leads to lower emissions, improving the environment as well as numerous other positive effects that arise from energy efficiency investments.

The EBRD has been entrusted with the role of the fund manager of E5P. The EBRD, EIB, NIB, NEFCO, IBRD, and IFC act as implementing agencies for E5P.

EBRD's strategy for future engagement in the municipal sector

In Ukraine, the Bank will continue financing investments across all municipal sub-sectors.

The key themes include:

1. financing energy efficiency and environmental investments, in particular in the context of the E5P
2. continuing to support commercialisation of municipal utilities and enterprises
3. supporting public-private partnerships (PPPs) and private sector involvement in the provision of municipal services working on innovative approaches to improve energy efficiency in buildings through EnPCs and ESCOs or involving private housing maintenance companies to finance energy efficiency measures
4. developing new products and intermediated facilities to reach out to small and mid-sized municipalities.

Where the preferred sub-sovereign financing model is not practicable for structural or credit reasons (including large infrastructure projects which are regional in nature or not affordable for the local communities), the Bank will consider sovereign financing.

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