

# LCT deployment in Ukraine

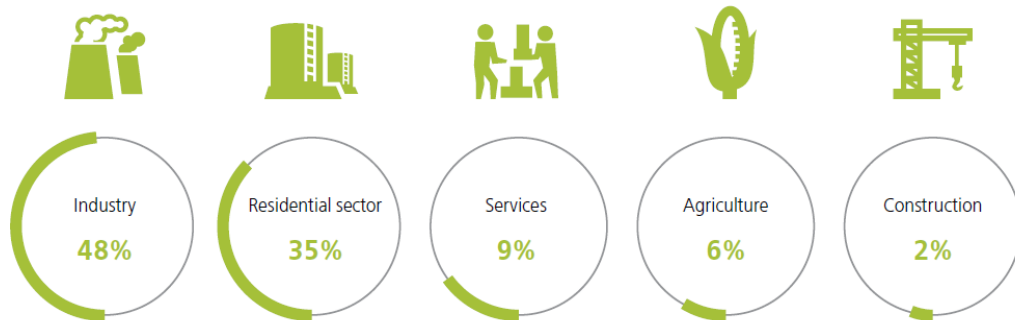
## A practice based overview of market barriers to investments

Quentin Boulanger,  
Research and Policy Director



# A Market characterised by structural underinvestment

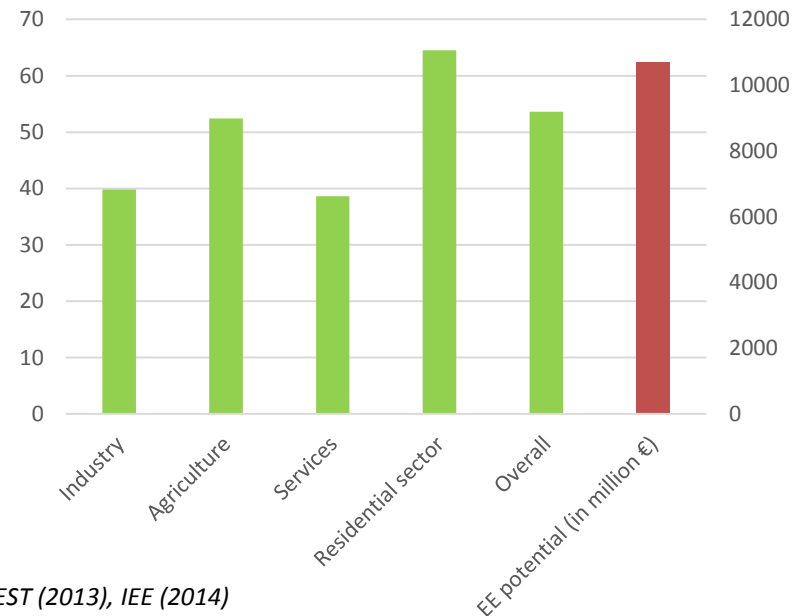
## Sectors' weight in the energy saving potential



Source: BEST Analytical Centre (2013)

■ EE (% of EU 27)  
■ Energy potential (in million €)

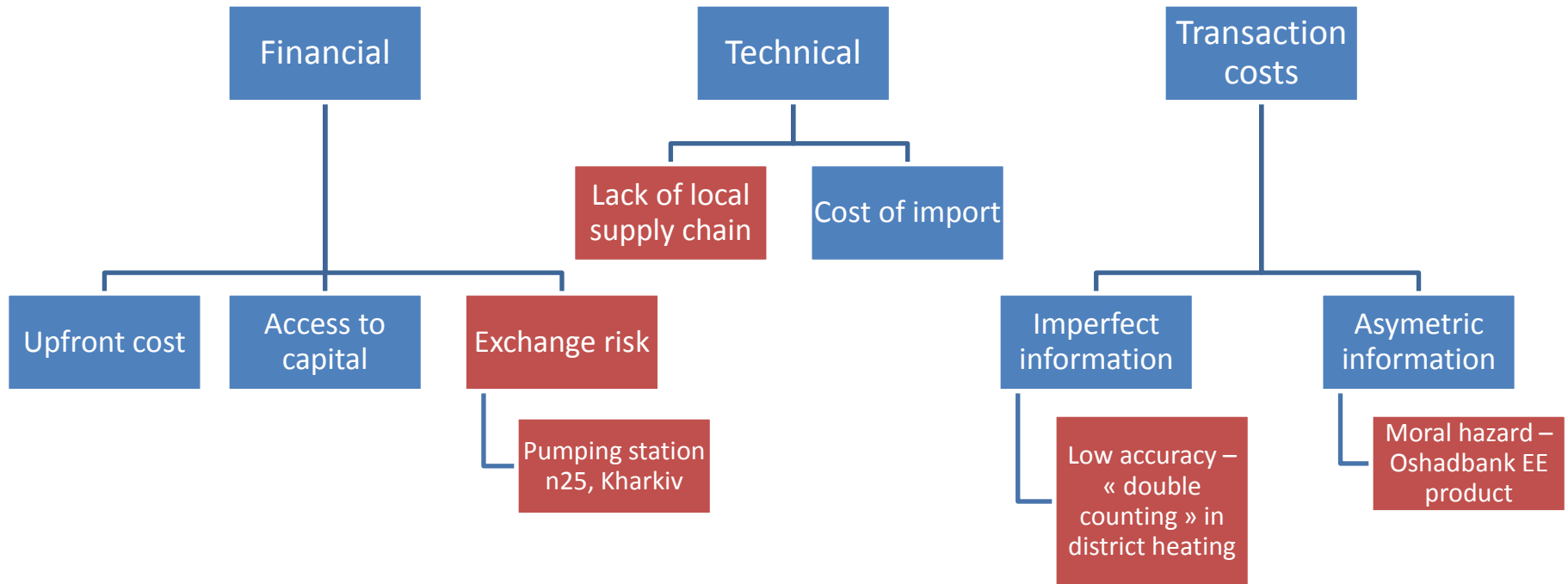
## Ukraine Energy Efficiency potential



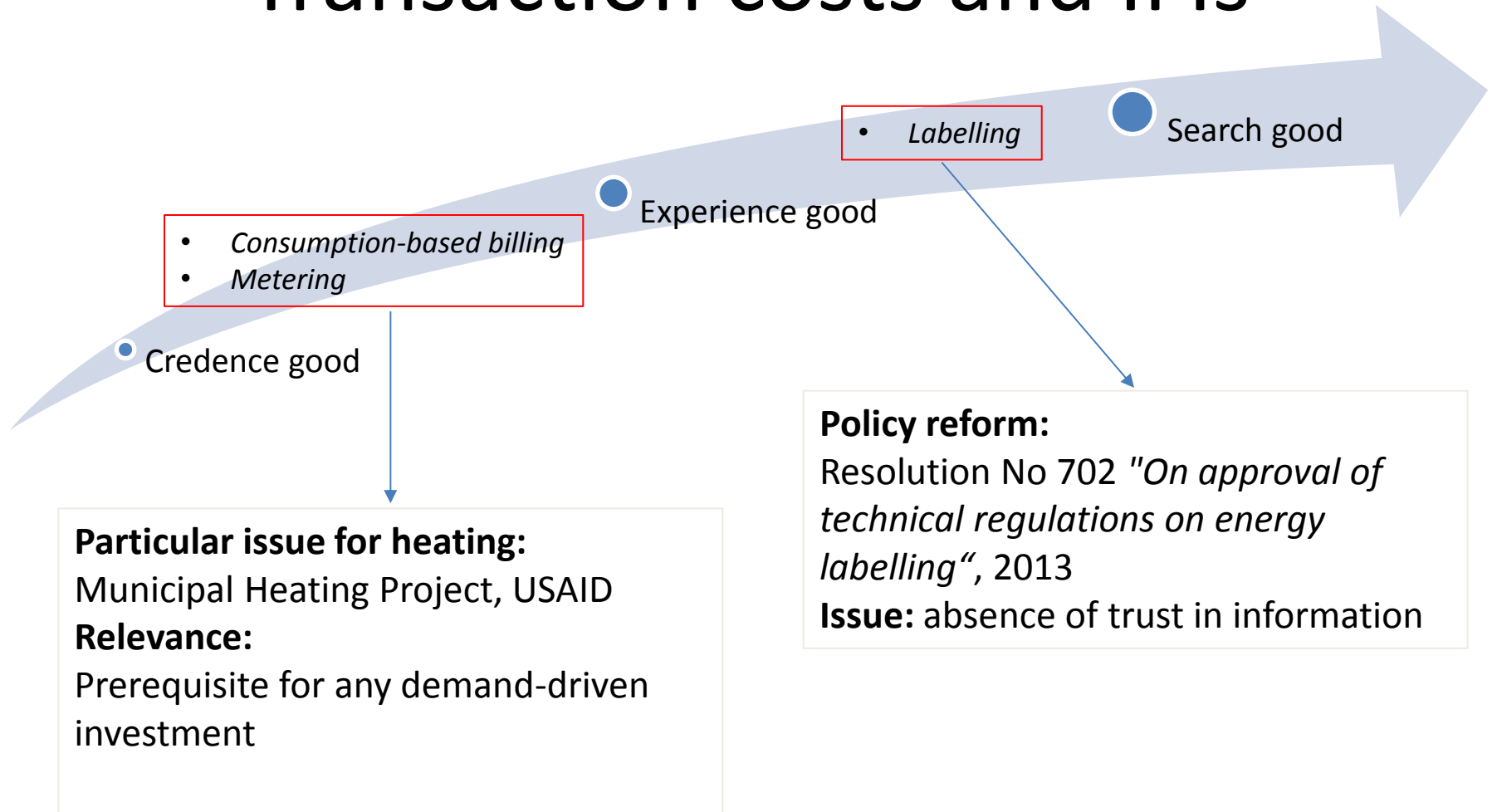
Source: BEST (2013), IEE (2014)

Why LCT investments that would be **cost-effective at current energy prices** are not conducted?

# Barriers to LCT investments



# Transaction costs and IFIs



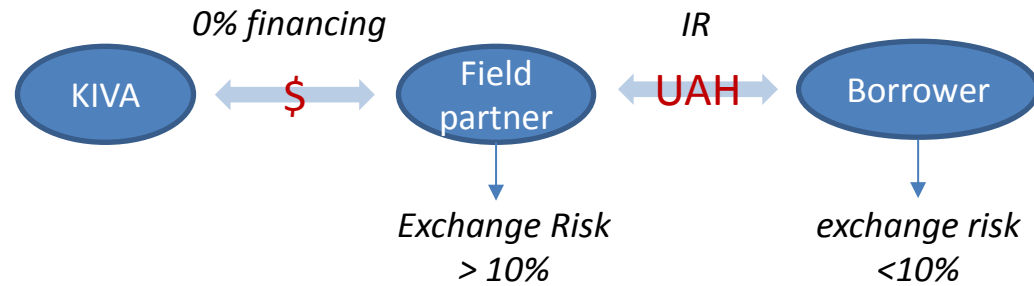
# Exchange rate hedging: new priority?

Kharkiv pumping station 25	
Technical characteristics	✓
Supply chain	✓
Administrative and contractual aspects	✓
Energy saving potential – 30%	✓
Operation cost saving – 256k€/y	✓
RoI – 4 to 6 years	✓
Upfront financing – 3% NEFCO loan	✓



Project frozen due to unwillingness of Vodokanal to take a **€ loan** and impossibility of getting a **State guarantee** on exchange rate

## Best practice example: microfinancing



### General Benefits:

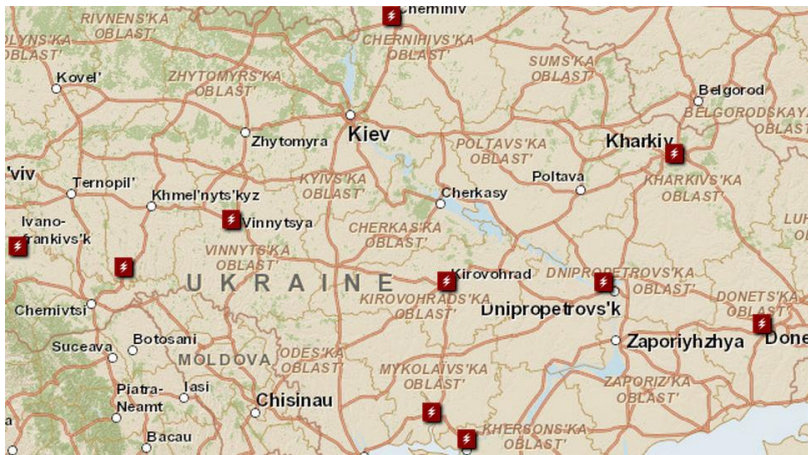
1. 0% financing allows for lower IR
2. Currency risk shared
3. Loan in local currency

### Risks for energy loans:

1. External: « Bad driving out good »
2. Internal: « reinventing the wheel »

# Technology transfers and diffusion

- Need to move from Ukrainian **recipients to partners** of projects
  - inclusion of LCR in tenders: *EBRD call for the renovation of district heating systems in 3 cities*
- An « International Aid receivers' club »



# Overestimated institutional barriers

## Law of Ukraine 1313:

*“On the Introduction of New Investment Opportunities [...] for Large-Scale Energy Modernization”*

→ Answers Legal Security risks:

1. Defines key notions & terms of the contract : « Energy Service », « Energy Service Contract », contract period, etc...
2. Sets a mechanism for tenders



50% reduction of gas consumption  
15 years extension of building lifetime



3 mln UAH savings per year  
Leverage 200 bln UAH of investments



Procurement services for 98000  
public organizations

## Law of Ukraine 1409:

*“On Introduction of the Changes to the Budget Code of Ukraine Regarding New Investment Opportunities [...] for Large-Scale Energy Modernization”*

→ Enables public actors:

1. Allows pluriannual budgetary commitments
2. Guarantees contractors' payment

# New approaches to EE :

## Comprehensive approach:

### *EBRD residential EE Facility*

- **Aim:**
  - Insulate 20000 households from rising energy costs
- **Advantages:**
  - Exchange risk mitigation
  - Multi-stakeholder capacity building (ESCOs, policy makers, general public)
- **Risks:**
  - Split incentives
  - Behavioural barriers

## Demand-driven approach:

### *OSBB empowerment*

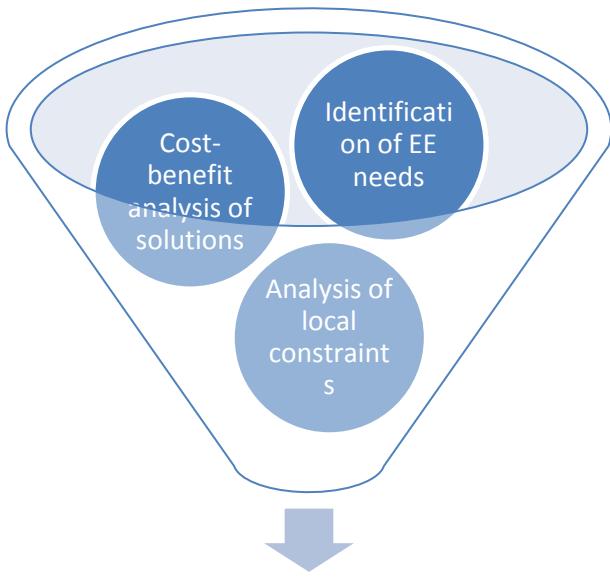
- **Aim:**
  - New law giving competence to request installation of metering and thermostat systems
- **Advantage:**
  - OSBB in 50% of residential buildings
  - Spill-over effect
- **Risks:**
  - Administrative burdens
  - Information cost
  - Split incentives

As much as « hard projects », **resource centres** are required to **disseminate** skills and **break into the empowerment cycle**

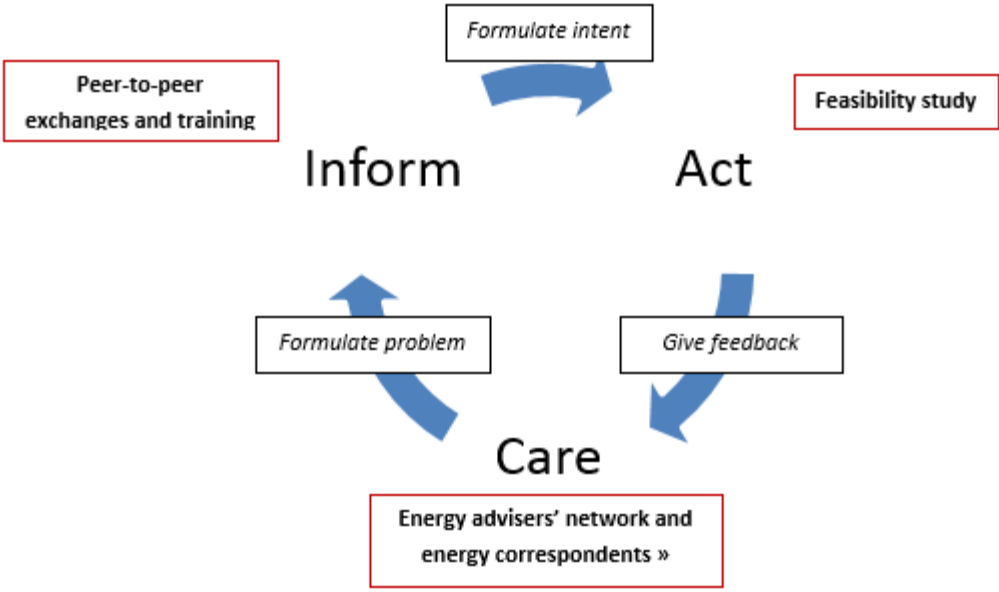


# Focus: IEE's UM2E programme

**Hard pillar** | **Soft pillar**



Strategic action plans and actions playbook



Economic rationale + Participatory approach + Inclusive character  
*Cost-effectiveness*      *Multistakeholders' consultations*      *Local clusters*

Thank you for your attention!

тел: +38 (0)6 65 64 43 55

e-mail: [Quentin.boulanger@ieeu.org.ua](mailto:Quentin.boulanger@ieeu.org.ua)

[facebook.com/IEEUkraine](https://facebook.com/IEEUkraine)

