



European-Ukrainian Energy Agency

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Position

About importance of integration of two state initiatives:

"Affordable Mortgage" and "Green Deal"

Introduction

On January 27, the Government of Ukraine approved a resolution on "Affordable Mortgages": the interest rate on loans was set at 7% per annum, which will operate under the program "Affordable Loans 5-7-9%".¹

The mechanism provides that the Business Development Fund will compensate the interest rate to 7% per annum on mortgage loans provided to borrowers to purchase housing, in order to reduce its value.²

The Fund will provide compensation to borrowers who have received a mortgage in the national currency at an authorized bank. Only housing built after 2015 can participate at this program, the maximum mortgage term is 20 years, and the minimum down payment is set at 15% of the cost of housing.³

At the same time, the Government of Ukraine has repeatedly stressed that the European Green Deal is important for Ukraine, which provides for large-scale decarbonisation of all economic sectors, and includes the energy sector, as well as, in particular, energy efficiency in buildings. In particular, on March 3, 2021, the Cabinet of Ministers of Ukraine approved the National Economic Strategy until 2030. The strategy defines the main steps for the development of various sectors of the country, where the key principles include decarbonisation of the economy (energy efficiency, development of renewable energy sources, development of a circular economy and synchronization with the European Green Deal initiative).

The state program "Affordable Mortgage" is a priority for Ukraine, but it does not require criteria for the sustainability of buildings and the level of energy efficiency. Energy efficient buildings have a much lower level of energy consumption compared to conventional buildings, and accordingly the monthly costs of maintaining sustainable and energy efficient real estate are lower and do not create an economic burden on the population.

¹ <https://zakon.rada.gov.ua/laws/show/63-2021-%D0%BF#Text>

² <https://www.epravda.com.ua/news/2021/02/9/670837/>

³ https://www.kmu.gov.ua/npas/pro-zatverdzhennya-nacionalnoyi-eko-a179?fbclid=IwAR1RVluB3XN_pSW5oCXIQyOuR2tbslYlpJ_pjkwQG9Ht56rM-g5hUQIZT8



- *According to statistics, residential buildings in Europe consume an average of 40% of energy and emit about 36% of CO₂.*
- *The construction industry accounts for about 30% of total waste, which is a very big number.*

Nowadays, in order to achieve the terms of the Paris Agreement, the EU's climate and energy goals for 2030 and the European Green Deal, it is essential to invest in projects and measures aimed at ensuring sustainable living conditions for people, the environment and energy efficiency, in particular in the field of construction.

The effect of reducing energy costs for the population can be achieved by providing subsidies for various economic models: budget transfers of state funds, state-induced transfers between producers and consumers, tax exemptions, or lowering their levels, thereby reducing the final price of energy goods and services. Therefore, policymakers should decide which economic model (or hybrid) to apply. This requires assessing the current situation and tracking the effect of the reform on many macroeconomic indicators: economic growth, gross domestic product (GDP), balance of payments, government fiscal instruments, labor market (employment, wages, unemployment and labor supply), financial market (inflation, interest rates and exchange rates). These macroeconomic indicators are key to building the proper implementation of energy subsidy reform. For example, rising unemployment is likely to remain unchanged if the country's economic level is high. Similarly, the introduction of subsidy reform is not always, but leads to higher prices, and sometimes to inflation.

Banking Sector

The European Green Deal plays an important role for banks, emphasizing the importance of a coherent approach to risk management. By choosing the principles of economic strategies of modern countries "sustainability and greenness", banks must adapt to the new world's circumstances.

According to the official forecast of the European Commission, the cost of implementing the European Green Deal is one trillion euros, which will be mainly financed by banks, respectively, these are the banks that will play a key role in the transition period, both in the EU and in Ukraine.

- In December 2019, the European Banking Authority (EBA) published an Action Plan outlining the EBA's plans for results and actions related to environmental, social and managerial factors and risks. The Action Plan also highlights some key policy messages on sustainable financing in order to provide some clarification to the relevant financial institutions regarding the EBA's high-level policy direction and expectations regarding climate risk management.⁴
- On 27 November 2020, the European Central Bank (ECB) published a final and updated Guide to Climate-Related and Environmental Risks following a public consultation. The

⁴https://www.eba.europa.eu/sites/default/documents/files/document_library/EBA%20Action%20plan%20on%20sustainable%20finance.pdf



guide explains exactly how the ECB expects banks to exercise sound governance and transparently disclose such risks, in accordance with the applicable prudential rules. The ECB will now work with banks in two specific stages. In early 2021, it will ask banks to conduct an independent audit, taking into account the supervisory expectations set out in the manual, and draw up action plans on this basis. The ECB will then conduct a comparative analysis of inspections and banking plans with a call for a supervisory dialogue. In 2022, it will conduct a full supervisory review of banking practices and will be able to take certain measures, if necessary.⁵

Among other things, in order to achieve the EU's climate and energy goals for 2030 and to achieve the goals of the European Green Deal, it is essential to focus investments on sustainable projects and activities. The COVID-19 pandemic has reinforced the need to redirect capital flows to sustainable projects to adapt our economies, businesses and societies, including health care systems, to a more sustainable model, to climate and environmental shocks and risks, with health benefits.

This requires a clear definition of what is "sustainable". Therefore, the Action Plan on Financing Sustainable Growth called for the creation of a common classification system for sustainable economic activity or the "*EU taxonomy*".⁶ In particular, this project implies third party certification agreed with the EU Taxonomy (EUT), that is a classification system, establishing a list of environmentally sustainable economic activities.

The EU taxonomy is an important enabler to scale up sustainable investment and to implement the European Green Deal. Notably, it is expected to create security for investors, protect private investors from green-washing, help companies to plan the transition, mitigate market fragmentation and eventually help shift investments where they are most needed by providing appropriate definitions to companies, investors and policymakers on which economic activities can be considered environmentally sustainable,

The EUT classification system for sustainable economic activity *is based on screening criteria*, established by the Technical Expert Group (TEG). Currently the criteria are undergoing EU legislative procedure before they will be formally adopted and will enter into force. These criteria are classified into three main elements (environmental, transitional and incentive activities), that will provide a more reliable, accurate and holistic way to assess the impact of economic activity on the world and the environment. As a result, the EUT taxonomy is a tool for sustainable environmentally-oriented financing, that will be good to implement in any country.

The Taxonomy Regulation (Regulation (EU) 2020/852 (Taxonomy) on the establishment of a framework to facilitate sustainable investment)⁷ was published in the Official Journal of the

5

<https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmentalrisks~58213f6564.en.pdf>

⁶https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en#why

⁷ https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852_en



European Union on 22 June 2020 and entered into force on 12 July 2020. The Taxonomy Regulation establishes six environmental objectives:

- climate change mitigation;
- climate change adaptation;
- the sustainable use and protection of water and marine resources;
- the transition to a circular economy;
- pollution prevention and control;
- the protection and restoration of biodiversity and ecosystems.

Different means can be required for an activity to make a substantial contribution to each objective.

Conclusions:

As follows, the weaker the country's national economy, the more it risks weakening due to the use of subsidies for the population provided to reduce energy costs. However, in a stronger economy, it is more appropriate to implement social support programs and green financial instruments to stimulate energy efficiency. Of course, there will be always a part of subsidies, as each country has a percentage of the population that cannot afford to pay for energy needs in full. However, economic incentive programs for energy efficiency contribute to economic development, in turn, the implementation of subsidies worsens the economies of poor countries even more.

Therefore, due to the implementation of the state program "Affordable Mortgage", it is appropriate to introduce an additional criterion estate for participation in this program — criterion of sustainability/energy efficiency of buildings, which should be confirmed by the relevant certificate of energy consumption and sustainability. The relevant criterion introduction will be motivating factor for existing developers to comply with the appropriate level of new buildings sustainability, as well as for owners of previously built real estate, and reduce the current and future owners energy costs of such real estate.

As regulatory pressure increases, it is extremely important, that banks have a clear plan for solving climate risks and financing environmental programs. Ukrainian banks should reflect the climate vision within the overall risk system and capital allocation processes, as it is already doing advanced international banking and financial institutions. This is a new era in which banks around the world should seek for new solutions, information and technology, which have a future perspective, and should establish a comprehensive climate risk management system.

Banks' mortgage portfolio will be much more efficient and will have bankruptcy lower risks under mortgage agreements, if home buyers choose sustainable, energy efficient and cost-effective homes with a long-term financial forecast for the maintenance of such property, which will be taken into account at the time of registration of the mortgage.



Green Home Green Mortgage, established by **SMARTER Finance for Families** — is a unique mortgage product for buildings, that banks can offer by providing a discount on the interest rate when buying a certified "green" house. Making a "green" mortgage for the bank will reduce the risk of default under the mortgage agreement (due to lower monthly utility costs by building sustainability), compared to traditional houses.

SMARTER is developing the Green Home Green Mortgage program in various countries to stimulate demand for low-carbon, energy-efficient green buildings, to slow down and reduce CO2 emissions in real estate industry. If banks cooperate with the program to provide reduced mortgages, they will be part of a solution to protect our planet and improve the life quality and well-being of people.

Given all the above, it is extremely important to establish cooperation between banks as the main capital holders, that can be used to achieve the goals of the European Green Deal and the Goals of Sustainable Development, and between the state, that has introduced the Program “Affordable Loans 5-7-9”, which includes the Program “Affordable Mortgage”, in order to include in the financing program a mandatory real estate criterion of sustainability and energy efficiency, participating in the Program “Affordable Mortgage”.

Information reference

European-Ukrainian Energy Agency⁸ — *is an independent non-profit organization open to all stakeholders in the Ukrainian Energy Efficiency (EE) and Renewable Energy (RE) sectors who want to work constructively with like-minded company-members. Together we strive to contribute to the transparent development of these markets in Ukraine, through the promotion of fair and sustainable business practice, raising of public awareness of energy issues, and by influencing government energy policy.*

The European-Ukrainian Energy Agency is implementing the **SMARTER Finance for Families** project in Ukraine.

SMARTER Finance for Families — is a project of Horizon 2020 for the implementation of ambitious but practical programs "Green Homes and Mortgage" in 12 European countries, including cooperation and participation of 17 expert organizations of green building, clean energy, research and other organizations.⁹

The meaning of a green mortgage is very simple - it is an affordable mortgage for homes that have a certified level of energy efficiency and/ or environmental friendliness.

⁸ <https://euea-energyagency.org/uk/>

⁹ <https://c2e2.unepdtu.org/smarter/>