

# GREEN INTERVIEW



## Please introduce yourself, how long you have been at the current position and what do you love about your current position?

Interviewer: EUEA

Respondent: Oleksiy Savin, Head of the eco-department of JSB UKRGASBANK

Greetings! Thank you for the opportunity to share with you and your readers about the UKRGASBANK experience and the prospect of green projects financing in Ukraine.

My name is **Oleksiy Savin** and I am a long-term sustainability activist :-). Just joking..., as you may have mentioned to your readers above, I am the **Head of the eco-department of JSB UKRGASBANK**. The department has many names, such as "green" and "eco", and lately it's the department of "sustainable development", but officially its "Department of environmental reengineering and implementation of resource efficiency projects", which sounds a bit mouthful. I have been working in this unique for the Ukrainian market department since its inception in 2016, and I have been leading it for the last 2+ years. The work is unusual and very different from everything I have done before in the banking sector. On the other hand, it is even more interesting to work in the field where you are a pioneer in Ukraine.

I am proud to be here and now, to be taking a major role in **popularizing sustainable development** in such terrible times because I am convinced that our activities play a strategically important role in Ukraine's development. Every Ukrainian hryvnia invested by the Bank in financing renewable energy projects, implementing the best modern energy efficiency solutions and principles of the circular economy, providing domestic medicine with the best world equipment, etc. is a significant real contribution to building a better future for the next generations of Ukrainians.

**Our contribution** helps to preserve the planet's resources, including the biological diversity around us, to introduce innovative technologies, to build a healthy and just society. And understanding that we play a crucial role for Ukraine - and, in fact, for the world at large, promoting leading ESG trends in Ukraine - inspires me to continue to be active in what we do.

Moreover, I would like to note that **our experience** is in demand both in Ukraine and internationally, our Department is actively involved in preparing reports for international organizations in the field of sustainable banking. In addition, in 2020 our department, together with our strategic partner - IFC (International Finance Corporation, World Bank Group) participated in the development of a green transition strategy for the banking segment of one of the countries in the Central Asia region.

**We understand that Ukrasbank is one of the top leading banks that finance the RES and EE sectors in Ukraine, what are the current problems bank faces during the active war within its already financed projects in RES and EE sectors?**



Currently, Ukrasbank is a leading bank in financing sustainable development projects, including renewable energy, resource and energy efficiency projects. Since 2016, the Bank has financed such projects in Ukraine for **\$ 1.1 billion**.

There is one main problem for all Ukrainian citizens and it is Russian aggression. But we now have a healthy banking sector in Ukraine, which with the help of the NBU has been repeatedly reviewed by stress tests, and recapitalized, with an even distribution of risks. I should note the lightning response of the NBU on February 24 - in the morning **the resolution № 18** was adopted, which clearly regulated the algorithm of priority steps of banking market participants. Therefore, literally in the first days, we started relocating employees, physical media, and databases. However, I am not saying that everything is stable in the sector, that are not damaged or destroyed shopping malls and office centres, production is stopped, cars are stolen or damaged, the sowing campaign was almost disrupted this spring, infrastructure and housing are destroyed in some regions, etc. These factors lead to a certain increase in overdue debt. These problems are the same for the entire loan portfolio of the bank, including its "green" part. Some of the RES facilities are located in the temporarily occupied territories or in the immediate vicinity of the area where active hostilities are taking place, and therefore there is a significant risk of damage.

A separate surprise for the bank was **the Order of the Ministry of Energy № 140**, which sets significant restrictions on payments for "feed-in" tariff (up to 15% for solar and 16% for wind generation accordingly). It was adopted a month after the war, when country separated from Russia and Belarus energy systems, but has not yet joined the European ENTSO-E energy network on a permanent basis. At that time, those actions helped to avoid the complete shutdown of the majority of RES stations, but made it impossible for some of them to operate or pay off debts to the banks.

I believe the victory will be for Ukraine, perhaps not immediately, it will take some time but we will prevail against the aggressor. Another question is will we get back the funded RES facilities and in what condition, will they be able to work in the future, will they be needing reconstruction or overhaul?

Despite these challenges, Ukrasbank is doing everything possible to eliminate or minimize the risks caused by the war. So now, we are reviewing our portfolio of funded projects, and we going towards our clients by doing a reasonable restructuring of some of our projects.

## Does Ukgasbank offer RES investors any restructuring of existing loans in wartime, or what interesting mechanisms did you employ to help your clients?

As the Bank with the largest portfolio of green energy in the country (JSB "Ukgasbank" financed a little more than 13% of all RES capacities in Ukraine), **we are constantly keeping abreast of our RES projects.** For example, we constantly monitor the situation at the stations of our clients - both those in the enemy-occupied territory and those in the so-called "red zone" - near the front line. I would like to note that despite the threats, our stations continue to generate electricity, only two of our projects are currently out of order - one was mothballed by the owner, and the other one was under repairs at the beginning of the war and remains in this state to this day.

At the same time, we understand that even those stations that are not directly in the combat zone are in a problematic situation - primarily due to uncertainty and instability of payments for the "feed-in" tariff. The war deepened and exacerbated all the negative effects with the payments that existed for the RES before. In my opinion, the government, relevant state agencies, associations and active players in the "green" energy market, including us, should move towards the development and **approval of a new stable model for the RES segment**, which will replace the "feed-in" tariff in the long run. For example, one possible solution may be for RES producers to sell electricity on the market and pay the difference between the market price and the "feed-in" tariff as a feed-in premium.

Regardless of which model will be adopted and implemented as a result, our Bank stands for fair, transparent, mutually beneficial and, most importantly, predictable conditions at the energy market.

As for the near future - we understand the problems of our clients and are constantly in touch with them, and as a way of supporting them provide a deferral of payment of the loan for them. We hope that in a few months, with the establishment of new rules of the market, the RES segment will become predictable, the discount rate will be reduced and we will be able to implement effective restructuring mechanisms.

In addition, we work with our international partners, in particular, to attract cheap resources that could reduce the credit burden on our clients.

## What is the bank's view on lending money towards new RES or EE projects during an active war period? What is your personal opinion on this?

The Bank is very careful about all investment projects without exception. We meet with clients, negotiate, and advise. Several different RES projects are currently under consideration, including solar and wind power, and there are even biogas and biomass projects. However, one of the main conditions that must be met for them is that energy generated in those projects must be for client's own consumption, or concluded for the purchase of this energy under bilateral contracts with the consumer, so that the bank can check the financial model and its forecast. I think that loan agreements on these projects will be signed later on. Of course, there is now a pause due to the adoption of a new discount rate. For some time banks and clients have been working through this news, getting used to it, but now we have returned to the process of negotiating concerning new financial models. Due to significant risks, it is too early to talk about a full-fledged resumption of funding for RES projects. I think that **the active phase will begin after the war**, when Ukraine will have a significant chance to launch modern energy at once - and it's not just classic Solar and Wind PPs, we analyze the proposals of hydrogen based generation, closely monitoring the EU's green taxonomy in terms of nuclear power plants and study various possibilities of energy storage systems. I am confident that together with our international partners we will offer interesting and unique lending products.





**In your opinion, describe what would you change in the banking system, to make it more efficient?**

**The Ukrainian banking system is already quite efficient;** we started our conversation with this. Proof of this is how steadfastly it endures wartime. The banking system continues to work stably despite all negative impacts. This indicates that the banking sector reforms since 2014 have been effective. Another indication is that the Baltic countries are beginning to use our experience in reforming and preparing the banking system for various challenges. As for the even greater efficiency of the banking system, we can speak more after the victory in the war because, unfortunately, we can expect anything from the russian invaders. In such times, more conventional systems are more stable, so it's not worth discussing any revolutionary changes. Revolutionary changes are not about the financial sector; everything should be gradual and predictable so that there are no unnecessary losses. In the Ukrainian banking system, we mainly operate with our client's funds, and we cannot risk them too much.

In addition, after the war, it is necessary to return to the strategy for developing the banking sector implemented by the NBU. At the end of this year, all banks were supposed to **introduce environmental and social risk management (ESRM) divisions**. This implementation is on pause now, but this is the right direction, and later, after the victory, the banks should return to it.

After the end of the war, there will be a significant leap in the banking sector, as we will have to deal with the post-war recovery, work towards economic growth, provide concessional lending to critical industries, create new lending programs, review credit risk assessment requirements, further develop digitalization in the banking sector. As part of the branches will move into the virtual world and expand the ideas of the financial supermarket.

Our banking sector needs to be allowed to implement the best solutions, and by 2030, we will be among the top ten world leaders. All this will be, but a little later.

**Finally, out of all the renewable energy projects that your bank has financed, do you have one that is the most interesting and why?**

I would like to emphasize that we work with a full range of green energy technologies, from more traditional solar and wind farms to projects for degassing solid household waste landfills and small hydropower plants. Each of the RE projects financed by the Bank went through a comprehensive analysis and consulting support by our technical office, so we can say that we support each of the projects we have launched, and I can note that each of our projects is interesting and unique in its way. Thus, over the past six years of implementing "green" banking, **we have financed more than 170 large renewable energy projects.**

Therefore, it isn't easy to single out a specific renewable energy project at first glance. However, I can remember one rather interesting and, in turn, demonstrative project, which Ukgasbank financed. This is one of the **largest biomass power plants in Ukraine** in the city of Dnipro, with a capacity of 16 MW, which stably generates more than 110 MWh of clean energy annually. The main feature of this power plant is that it forms a closed cycle together with the nearby oil extraction plant. Wastes from the oil production process - sunflower husks - are transferred from the plant to a nearby biomass thermal power plant and used as an ecological biofuel. This project demonstrates a smart approach to waste management and allows the plant to earn additional income from resources spent on oil production.

From an ecological point of view, the operation of this station annually reduces greenhouse gas emissions by about 70 thousand tons of CO2 annually, which is 4.6% of the total annual effect of decarbonization due to the work of all Bank-financed "green" projects. I also note that, unlike most domestic biomass thermal power plants, this station has no problems with biofuel supply for its operation.

Projects like this are becoming increasingly popular worldwide and belong to the circular economy or the economy of a closed production cycle, where the waste from one of the production units becomes a raw material for another and does not pollute the environment. Such solutions at the intersection of ecology, waste management, and renewable energy are the focus of the Bank, and from our point of view, they have significant prospects.



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