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**CABINET OF MINISTERS OF UKRAINE**

**RESOLUTION**

of \_\_\_ \_\_\_\_\_\_\_\_\_ 2019 No. \_\_\_\_

Kyiv

**To approve Concept of Green Bond Market Introduction in Ukraine and Affirm Action Plan of Its Implementation**

1. Approve the Concept of Green Bond Market Introduction in Ukraine annexed hereto.

2. Approve the Action Plan of Concept of Green Bond Market Introduction Implementation (hereinafter, ‘the Action Plan’) annexed hereto.

3. Ministries, other central bodies of the Executive, the Council of Ministers of the Autonomous Republic of Crimea, Oblast, Kyiv and Sevastopol City State Administrations shall ensure execution of the Action Plan.

4. The National Commission for Securities and Securities Market, the National Bank and bodies of local self-government shall provide necessary support throughout Action Plan implementation.

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| **Prime Minister of Ukraine** | **O. HONCHARUK** |

APPROVED   
by Cabinet of Ministers

of Ukraine Resolution   
of \_\_\_\_\_\_\_\_\_\_\_\_ 2019, No. \_\_\_\_\_\_\_

**CONCEPT**  
**of Green Bond Market Introduction in Ukraine**

**General Provisions**

This Concept identifies the objective, main directions and tasks of green bond market introduction in Ukraine, which is of strategic importance for financing environmentally friendly projects, improving the environment, developing the domestic stock market and the economy of Ukraine in general.

The Concept is aimed at implementation of provisions of the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Ukraine, of the other part, ratified by Law of Ukraine of 16 September 2014, No. 1678-VII; Paris Agreement ratified by Law of Ukraine of 14 July 2016, No. 1469-VIII; The Sustainable Development Goals of Ukraine for up to 2030, approved by Decree No. 722/2019 of the President of Ukraine dated 30 September 2019, Security, Energy Efficiency, Competitiveness Energy Strategy of Ukraine Until 2035 approved by Cabinet of Ministers of Ukraine Resolution of 18 August 2017, No. 605-r and Action Plan to Implement its Phase of Power Sector Reform (Until 2020) approved by Cabinet of Ministers of Ukraine Resolution of 6 June 2018, No. 497-r; National Action Plan on Renewable Energy Sector Until 2020 approved by Cabinet of Ministers of Ukraine Resolution of 01 October 2014, No. 902-r; National Action Plan on Energy Efficiency Until 2020 approved by Cabinet of Ministers of Ukraine Resolution of 25 November 2015, No. 1228-r; National Action Plan to Reduce Emissions from Large Incineration Plants approved by Cabinet of Ministers of Ukraine Resolution of 08 November 2017, No. 796-r., the Action Plan to put in practice the Concept of Implementation of the Public Policy on Climate Change for up to 2030 approved by Decree No. 878-p of the Cabinet of Ministers of Ukraine dated 6 December 2017.

The Concept is based on best international and European practical experience of green bond market implementation, also from countries with low sovereign credit ratings that managed to implement respective markets.

At the core of the Concept is modelling of alternative scenarios of green bond market making and development with identification of approaches corresponding to institutional peculiarities and potential of securities market development in Ukraine.

**Issues That Need Solving**

The energy intensity of the Ukrainian economy is three to four times higher than the average indicator across European countries. For the past 20 years, European countries have drastically reduced energy resource consumption; in Ukraine however, a considerable proportion of these is still wasted because of outdated equipment and inefficient housing and utility economy. High energy losses create extra burden for enterprises and reduce their competitiveness while non-energy efficient technologies cause considerable СО2 emissions to the atmosphere.

The economic development of the country has been accompanied for a long time by an imbalanced exploitation of natural resources and a low priority of environmental issues, which prevented the achievement of a balanced (sustainable) development. This problem resulted from the following challenges of the Government:

resource- and energy-intensive industries structurally dominate the economy, usually affecting the environment in a negative way;

worn-down and obsolete fixed assets in all sectors of the national economy;

ineffective public administration in environmental protection and the use of natural resources;

unsatisfactory monitoring of compliance with environmental laws;

failure to take environmental impacts into account in laws and regulations of government authorities;

the lack of funding of environmental protection activities from the state and local budgets.

On the part of the private sector, this problem is still mainly due to the private companies' lack of financial resources to invest in an upgrade of production facilities subject to environmental protection requirements. This problem is compounded by the inability to raise long-term debt at an acceptable cost due to an underdeveloped stock market and lacking financial instruments designed to finance green projects.

The problem should be resolved by introducing the market in Ukraine for green bonds, which have become one of the main vehicles for raising funds for green projects worldwide in the past few years. Internationally, green bonds are any type of bonds issued in accordance with the Green Bond Principles created and approved by the International Capital Market Association (ICMA). They define:

1. utilisation of proceeds from bond placement;

2. process for project evaluation and selection;

3. administering proceeds from bond placement;

4. reporting.

According to the Green Bond Principles, projects that address the following areas, among others, are treated as green projects:

Renewable energy sources;

Development of alternative energy sources;

Efficient energy use;

Thermo modernisation of residential buildings;

Waste utilisation and treatment;

Environmentally clean transport;

Efficient use of land resources;

Protection of flora, fauna and water resources;

Adaptation to climate change.

The creation of a green bond market is a challenging cross-sectoral undertaking that covers matters such as the stock market and securities, energy, industry, transport, water resources, housing, the agro-industrial complex and land use, the conservation and reproduction of ecosystems. Politically and economically substantiated decisions in matters of green bond market introduction have to be adopted for many economy sectors and be agreed with key market players.

This makes the adoption of this Concept urgent due to:

The need to prepare and improve legislative framework in this area;

Insufficiently clear distribution of functions, low levels of action coordination and institutional capacity of government bodies in respect of planning and carrying out actions in the mentioned area;

Lack of coherence between the policy in the area and legislative and other regulatory acts in other financial and economic areas;

Insufficient knowledge among bodies of government of all aspects of green bond market introduction.

The introduction of the green bond market in Ukraine requires an integrated and consistent public policy harmonized with international laws that would take into account global best practices and special features of the national context, opportunities, needs, and priorities.

**Concept Objective and Duration of Implementation**

The objective of the Concept is to identify directions, mechanisms and deadlines of shaping the national model of green bond market, which will allow attracting investments in environmentally clean projects as well as create legal and institutional preconditions for such market set up in Ukraine and for increasing its attractiveness for investments.

The Concept determines grounds for developing draft laws, other legal regulations and action plans for various components of the national policy in the area of green bond market introduction.

The Concept will be implemented in 2020 to 2022 based on objectives that have been identified.

**Ways and means of resolving the problem**

Experience of the world’s leading countries in green bond market organisation shows trust is one of the key factors of corresponding market development. The legal regulatory framework must be transparent as investors want to be sure of fair play rules on the market. To achieve this, the majority of countries had to re-organise some key components of their financial system as well as identify and adopt new international investment standards.

International financial institutions and international development banks play an important role in the shaping of the green bond market. Getting them to enter the green bond market has improved the investment appeal of green bonds and spurred the growth of this asset class in emerging markets.

Governments in many countries use incentive measures for green bond market development. The incentives are offered for both investors and issuers. Their implementation contributes to mobilisation of necessary financial resources and entry of new investors to the market.

Special focus is also placed on ensuring the transparency of green bond trading mechanisms and the maintenance of effective reporting requirements to green bond issuers, in particular regarding disclosures on the intended use of funds and the real environmental impact of a green bonds finance project.

The Concept will allow presenting a wholesome model of national green bond market introduction and development as well as substantiations for an action plan of its implementation.

To achieve Concept objective, it should be necessary to ensure execution of comprehensive measures along the following directions:

Establishing legal preconditions for green bond market introduction;

Ensuring that investment is raised for the green bond market;

Contributing green bond market development.

Legal preconditions for green bond market introduction shall be established by way of:

Amending laws to define green bonds as a variety of securities based on international best practices;

Implementing international principles on green bonds in the national legislation;

Drafting and providing a regulatory foundation for guiding procedures of the green bond market, including as regards the selection of environmentally friendly projects funded by the state and local budgets, mechanisms of their financing and refinancing, monitoring of the use and management of funds generated by green bond issuance, control procedures and reporting standards;

Introducing incentives for the development of the green bond market in national laws and designing respective special-purpose government programs;

Drafting laws on securitization and secured bonds subject to the special features of green bonds.

Investments for the green bond market are secured by:

Supporting the preparation of pilot projects of green bond issuance by different issuers under assistance programs of the EU, foreign governments, international organizations and institutional donors;

Raising stakeholder awareness of the introduction of the green bond market in Ukraine;

Starting cooperation with international financial institutions, foreign investment companies, and donor funds on raising green funds and investing in Ukrainian green bonds;

Promoting the creation of domestic investment demand for green bond investments on the part of various groups of potential investors, for example, by engaging the local public and local institutional investors;

Facilitating the promotion of national green bond issuers to foreign capital markets;

Holding road shows of issues on international capital markets to support the engagement of international investors in investing in Ukrainian issues of sovereign and municipal green bonds.

The development of the green bond market is promoted by:

Eliminating barriers to the development and operation of the secondary bond market, in particular, to make green bonds more liquid in the stock market;

Engaging international development banks in cooperation to improve the credit quality of green bonds of Ukrainian issuers;

Engaging special institutions in independent external due diligence on the conformity of green bond issues to international standards;

Creating a register of environmentally friendly projects, including projects of national significance, under which sovereign green bonds may be issued;

Creating a technical office for due diligence on the conformity of green bond issues to international standards, and providing technical support of environmentally friendly projects funded by the state and local budgets;

Facilitating the creation of green platforms at Ukrainian stock exchanges for the listing of green bonds;

Improving the protection of rights of creditors that invest in green bonds on the Ukrainian stock market.

**Expected Results**

The implementation of the Concept will:

Raise investments in environmentally friendly projects, including private projects;

Increase guarantees for investors investing in environmentally friendly projects;

Encourage the development of the securities market in Ukraine based on global experience and best practices;

Reduce the consumption of fuels and energy in the national energy balance of the country and reduce greenhouse gas emissions;

Raise the awareness of environmental and social risk management, the environmental impact;

Achieve national strategic goals and international commitments assumed by Ukraine;

Improve investment appeal, business climate, and competitiveness of the country;

Encourage the socio-economic development in Ukraine.

**Scope of Financial, Material and Equipment and Labour Resources**

Under the Concept, a number of comprehensive legal and organizational activities need to be carried out, such as modifying the existing regulatory framework, drafting new regulations, and carrying out certain organizational activities.

The preparation for these activities will involve evaluating and justifying the scope of required financial, logistical, and human resources based on the capacity of the state and local budgets and the existence of other statutory sources.

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|  | APPROVED by the Cabinet of Ministers of Ukraine under Directive No. \_\_\_\_\_\_ dated \_\_\_\_\_\_\_\_\_\_ 2019 |

**ACTION PLAN**  
**on Implementation of Concept of Green Bond Market Introduction in Ukraine**

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| Measure name | | Deadlines | Officers in charge |
| Legal Regulation | | | |
| 1. | Draft the Law of Ukraine *On Amending the Law of Ukraine " On Securities and the Stock Market"* (to define green bonds and special features of the issuance of such bonds) | 2020 | MEEP (Ministry of Energy and Environmental Protection) SAEEEC (State Agency on Energy Efficiency and Energy Conservation) NSSMC (National Securities and Stock Market Commission) (subject to consent) MoF (Ministry of Finance) MRDCHUS (Ministry of Regional Development, Construction and Housing and Utility Services) MoE (Ministry of Economy) Anti-Monopoly Committee National Bank (subject to consent) |
| 2. | Draft a resolution of the Cabinet of Ministers of Ukraine on amending Resolution No. 110 of the Cabinet of Ministers of Ukraine *On Approving the Local Borrowing Procedure* dated 16 February 2011 in terms of implementing the principles of green bonds conforming to international standards, and enhancing the liquidity of financial instruments in the bond market | -"- | MEEP SAEEEC  MoF NSSMC (subject to consent) National Bank (subject to consent) MRDCHUS MoE |
| 3. | Draft an NSSMC decision amending NSSMC Decision No. 425 *On Approving the Procedure for the Issuance of and Trading in Corporate Bonds* dated 21 June 2018 and NSSMC Decision No. 578 *On Approving the Procedure for the Issuance of and Trading in Domestic Local Bonds* dated 29 April 2014 in terms of implementing the principles of green bonds conforming to international standards | -"- | NSSMC (subject to consent) MEEP SAEEEC  MoF MRDCHUS MoE |
| 4. | Draft the Law of Ukraine on amending the Laws of Ukraine *On Collective Investment Vehicles* dated 5 July 2012 and *On Non-Government Pension Insurance* dated 9 July 2003 in terms of recognizing green bonds as an asset authorized for collective investment vehicles and non-government pension funds | -"- | MEEP SAEEEC  NSSMC (subject to consent) MoF MoE Anti-Monopoly Committee Pension Fund |
| 5. | Draft the Law of Ukraine on amending the Tax Code of Ukraine dated 2 December 2010 in terms of abolishing the tax on income in the form of an interest (discount) obtained by the holder of domestic government and domestic local green bonds from their issuer | -"- | MEEP SAEEEC  MoF STS (State Tax Service) NSSMC (subject to consent) MRDCHUS MoE Anti-Monopoly Committee |
| 6. | Drafting a resolution of the Cabinet of Ministers of Ukraine *On Approving the Procedure for Selection and Support of Environmentally Friendly Projects Funded by the State and Local Budgets*, which determines the procedure for expert examination and selection of environmentally friendly projects, financing and refinancing of environmentally friendly projects, monitoring of the use and management of funds raised to finance and refinance environmentally friendly projects, the monitoring procedure and reporting procedures with respect to the implementation of environmentally friendly projects, the procedure of generation of the register of environmentally friendly investment projects of national significance for which sovereign green bonds may be issued | 2021 | MEEP SAEEEC MoF STS MoI (Ministry of Infrastructure) MRDCHUS MoE NSSMC (subject to consent) Anti-Monopoly Committee |
| 7. | | Working together with NSSMC to draft laws on securitization and secured bonds that take into account special features of green bonds, eliminate barriers to the development and operation of the secondary bond market, enhance the liquidity of financial instruments in the bond market, and improve the protection of rights of creditors investing in green bonds | -"- | NSSMC (subject to consent) MEEP SAEEEC National Bank (subject to consent) MoE |
| 8. | | Designing special-purpose government programs to encourage the green bond market, including by allocating funds raised through the issuance of sovereign green bonds, and compensating the issuing municipalities for interest payments to green bond holders or compensating for the discount on such bonds | -"- | MEEP SAEEEC MoF MRDCHUS the Council of Ministers of the Autonomous Republic of Crimea, local state administrations,  local government |
| Organizational activities | | | |
| 9. | Supporting and organizing pilot projects of green bond issuance by different issuer categories under assistance programs of the EU, foreign governments, international organizations and institutional donors | 2020 | MEEP SAEEEC MoF MRDCHUS MoE MoI the Council of Ministers of the Autonomous Republic of Crimea, local state administrations,  local government |
| 10. | Holding information campaigns to raise stakeholder awareness of the introduction of the green bond market in Ukraine | -"- | -"- |
| 11. | Facilitating the creation of green platforms for the selection of environmentally friendly projects based on relevant line ministries and departments, the generation of a register of projects of national significance for the issuance of sovereign green bonds | -"- | -"- |
| 12. | Using SAEEEC as a basis for a technical office for expert examination and support of environmentally friendly projects under assistance programs of the EU, foreign governments, international organizations and institutional donors | 2021 | MEEP SAEEEC MoE MRDCHUS MoI |
| 13. | Facilitating the engagement of special institutions in independent external due diligence on the conformity of green bond issues to international standards | -"- | MEEP SAEEEC  NSSMC (subject to consent) MoF MoE MRDCHUS MoI |
| 14. | Creating green platforms at Ukrainian stock exchanges for the listing of green bonds | -"- | MEEP SAEEEC NSSMC (subject to consent) National Bank (subject to consent) MoF |
| 15. | | Working together with the National Bank to analyze potential for applying preferential capital requirements for banking operations in green bonds | -"- | MEEP SAEEEC National Bank (subject to consent) NSSMC (subject to consent) MoF |
| 16. | Facilitating the raising of green finance for Ukraine by promoting domestic issuers of green bonds on foreign capital markets, holding related road shows of issues on foreign capital markets to support the engagement of foreign investors investing in Ukrainian issues | 2022 | MEEP SAEEEC MoF MRDCHUS MoE MoI the Council of Ministers of the Autonomous Republic of Crimea, local state administrations,  local government |
| 17. | Starting cooperation with international financial institutions, foreign investment companies and donor funds on raising green funds for Ukraine | -"- | MEEP SAEEEC MoF MRDCHUS MoE MoI |
| 18. | Engaging international development banks in investing in green bonds of Ukraine and in enhancing the credit quality and investment appeal of green bonds of Ukrainian issuers | -"- | MEEP SAEEEC MoF MRDCHUS MoE MoI |

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