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## UNIDO/GEF UKR IEE PROJECT “INTRODUCTION OF ENERGY MANAGEMENT SYSTEM STANDARD IN UKRAINIAN INDUSTRY”

### FINANCIAL MECHANISM: DESCRIPTION AND KEY CHARACTERISTICS

#### BACKGROUND

The UNIDO/GEF UKR IEE Project “Introduction of Energy Management System Standard in Ukrainian Industry” (the Project) aims to contribute to a sustainable transformation of industrial energy consumption practices in Ukraine. The Project will reach this goal by establishing and promoting the concept of Energy Management Systems (EnMS) and Energy Systems Optimization (ESO), along with introduction and promotion of implementation of the ISO 50001 standards on Energy Management at the Ukrainian enterprises.

One of the key instruments of the Project in achieving its objectives is the establishment of a Financial Mechanism to support commercial lending process and stimulate capital attraction and financing availability for energy efficiency and energy saving projects at the Ukrainian industrial enterprises.

#### FINANCIAL MECHANISM DESCRIPTION

The Financial Mechanism that the Project aims to establish is a Loan Guarantee Fund (LGF). With such mechanism the funds can be reused and new loans issued by the LGF after repayment of previous loans.

##### **Loan Guarantee Fund: purpose and main principles.**

*The Loan Guarantee Fund (LGF) is a financial instrument aimed to facilitate access to capital (loans) for industrial enterprises, including small and medium-sized, via the provision of loan guarantees for financial institutions to mitigate the risk of non-repayment.*

*In practice such funds replace or reduce the need for other forms of guarantees and open access to more or larger loans for the enterprises.*

*Essentially, the loan guarantee provided by the Loan Guarantee Fund is a commitment to cover (all or some) risks associated with the loan issuance to borrowing companies that do not have access to standard commercial loans due to their inability to meet requirements for collateral, reporting and/or provision of sufficient financial standings.*

***The LGF wants to remove barriers to financing for certain borrowers and, depending on the guarantee level, allows them to receive loans on better conditions.***

The **Guarantee** will be provided to the selected Financial Partner to manage and operationalize the LGF and its projects portfolio. In practice, this will **accelerate the decision-making process on the loan issuance and, in case the borrower fulfils the terms of the loan, to compensate the borrower for all or the major part of the paid interest.**

**General objective of the proposed Financial Mechanism is to provide access to loan financing with special terms to facilitate implementation of the Energy Management Systems (EnMS), Energy System Optimization (ESO) and in general energy efficiency (EE) measures.**

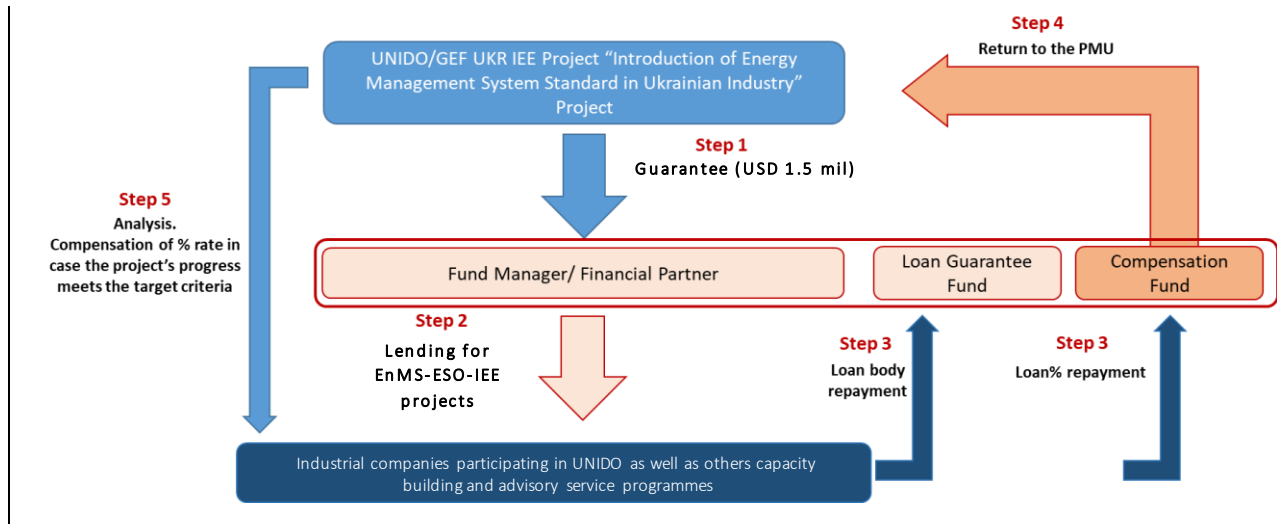
### FINANCIAL MECHANISM CHARACTERISTICS

**Form:** Loan Guarantee Fund (LGF). Portfolio guarantee or bank deposit (cash) will be used as a guarantee for a Financial Partner, covering the potential risks and losses of loans. This will allow to introduce a new loan product for the IEE market.

**Guarantee size:** up to USD 1.5 million.

**Guarantee coverage ratio:** initially up to 100% of the loan portfolio amount during the first Project cycle. Further, the coverage ratio will depend on the level of financial risks.

### DRAFT DESIGN



The LGF will support eligible enterprises with **up to USD 150,000 loans** depending on the size of an enterprise and the EnMS/ESO/EE measures the enterprise would like to realize with the loan.



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After the loan (principal and interest) has been fully repaid and evidence that the loan was used as supposed for implementation of EnMS/ESO/EE measures has been produced, the borrower can apply for **up to 100% paid interest compensation** from UNIDO UKR IEE Project.

In case of a loan non-repayment by the borrower, **UNIDO UKR IEE Project will compensate up to 100% of the borrower's debt to the Financial Partner** within the total value of the portfolio guarantee (USD 1.5 million) during the first cycle of the Project.

### PRELIMINARY FINANCING TERMS

#### Target companies:

1. Ukrainian industrial enterprises participating in the capacity building and advisory service programmes of UNIDO industrial energy efficiency projects in Ukraine.
2. Other Ukrainian industrial enterprises meeting the eligibility and financial requirements of the LGF and of its Manager

**Loan purpose:** implementation of energy management systems in line with ISO 50001; optimization projects of energy systems (steam systems, compressed-air systems, pumps systems and others); other eligible energy efficiency measures.

**Loan currency:** Ukrainian hryvnia (UAH).

**Loan size:** initially up to eq. USD 150,000

**Loan interest rate:** within the market rates as of the date of a loan disbursement.

**Loan tenure:** up to 2 years due to the fast repayment of investments.