

# INVESTMENT PLANS OF THE EU:

—  
OPPORTUNITIES FOR UKRAINE IN THE AREA  
OF THE EUROPEAN GREEN DEAL IMPLEMENTATION



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## Executive summary

The European Union has ambitious plans on climate change and environmental investments in the upcoming decade, aiming to become carbon neutral by 2050. Under the European Green Deal framework, the EU will mobilize €1 trillion of investments for sustainable projects and policies that will come from the EU and national budgets, private capital and loan guarantees. Half of this financing is expected to be provided from the next budget of the Union, the 2021-2027 Multiannual Financial Framework.

Most of the EU financing under the European Green Deal will be available for member states – governments, private and non-profit sectors, and individuals. Yet, there still are ways for the Ukrainian businesses to get involved. One of such ways is to identify **the areas where additional exports of goods or services will be needed**, facilitate Ukraine-EU trade, and attract additional foreign investments in the national economy. As the EGD prioritizes certain areas, European businesses and governments will drive demand in biodiversity protection, sustainable agriculture, clean energy, sustainable industry, building and renovating, sustainable mobility, eliminating pollution, circular economy and digital technologies. Financial instruments such InvestEU, Just Transition Mechanism, Horizon Europe, Next Generation EU, Modernization Fund, Cohesion Fund, Connecting Europe Facility, Innovation Fund will be used to achieve the set goals.

With regard to the potential of Ukrainian businesses, as well as the EU needs, possible areas

for growing exports and attracting more investments are biodiversity protection, sustainable agriculture (organic fertilizers and organic products), clean energy, in particular hydrogen production and transportation, digital technologies, construction materials, and biofuels. For **the Ukrainian private sector**, this means a need to follow the progress of the EU member states in developing strategic plans and other policies related to renewable energy sources, digital services, climate plans; identify and research markets with low self-sufficiency in resources needed to implement these plans; assess investment options for developing relevant projects; invest in new production technologies to improve the quality of materials to be imported to the EU; and research opportunities for potential partnerships with the EU market players in the defined areas.

For the **Ukrainian government**, this means a need to follow on the EU policy progress in the defined sectors; identify opportunities, such as the set targets that the European countries aim to achieve and inform businesses and business associations in Ukraine of existing opportunities, supporting them by all means; monitor changes in the EU regulation on imports of goods and services in the defined areas and inform Ukrainian exporters; and develop regulatory framework where necessary to align with the EGD policies. Further growth of the Ukrainian exports to the EU, as well as an increase in foreign investments in the national economy, largely depends on the collaboration of government and the private sector.



Furthermore, there are funding options available for Ukraine **directly from the next EU budget** within the EGD framework. The main EU mechanism for international development will be the Neighbourhood, Development and International Cooperation Instrument (NDICI), which consists of the European Neighbourhood Instrument, the Development Cooperation Instrument, the Partnership instrument, the European Fund for Sustainable Development Plus and the External Action Guarantee. These instruments support, inter alia, sustainable economic, social and environmental development and are available for Neighborhood countries.

Another instrument of direct funding for 2021-2027 is Horizon Europe, which Ukraine has already used before as associated member of its predecessor, Horizon 2020. Projects with climate change goals will receive a substantial

amount of funding from Horizon Europe, and if Ukraine becomes an associate member again, it may involve more support for research, industrial and social projects.

Finally, **strategic partnerships** are another way of getting involved in the EGD for the government, businesses, and research institutions. The examples include Clean Hydrogen Alliance, Battery Alliance, and forthcoming alliances on low-carbon industries, on industrial clouds and platforms, and on raw materials. This will help to attract financial flows by Ukrainian businesses and economy in general, but also to receive some technical and technological assistance.

To use the existing tools of financial assistance from the EU, **the Ukrainian government should** follow the progress on developing foreign aid mechanisms and establish a dialogue at their earliest stage; identify opportunities



in the EGD-related sectors, such as the newly created partnerships, and inform businesses thereof; and develop regulatory framework where necessary to align with the EU. Importantly, Ukrainian government should be consistent in implementing the reforms and harmonization of its legislation with the EU *acquis communautaire* under existing framework, notably the Association Agreement and relevant sectoral documents (e.g. the Memorandum of Understanding on the Strategic Energy Partnership) to maintain good relationship with the EU and be a trustworthy partner.

In their turn, **Ukrainian businesses should** monitor the progress on developing relevant mechanisms as well; identify priority areas and invest in their assets accordingly, including physical assets, research and development, increasing own expertise etc. They should also fully use the networking opportunities of new industrial alliances created

as platforms to match business interests. Finally, there is also room for Ukrainian educational institutions, civil society organizations and other non-profit actors to cooperate with the government if necessary to accelerate the reforms, promote the EGD goals, and increase the chances of Ukraine using European financial instruments.

At this moment, it is crucial for Ukraine to see the European Green Deal not as a threat but as a set of opportunities for developing new industries, technologies and expertise, as well as finding new niches in the European market and establishing new partnerships. The Ukrainian government, private sector, civil society organizations, research institutions and other stakeholders should all seize these opportunities on the way to common carbon-neutral future.

# 1. Introduction

In 2019, the European Union has declared a new course – the European Green Deal (EGD), setting a goal of achieving carbon neutrality for Europe by 2050. This comprehensive policy course will be a game changer for all sectors of the EU economy, from agriculture and energy to mobility and digital technologies. The Union is setting new climate change related targets in its strategic documents, such as on energy, industry, buildings and other areas. It is also at the stage of approving the Multiannual Financial Framework – the budget for the next period with the total amount of around €1.7 trillion. The goal of the EU is to ensure green post-COVID-19 recovery and to build a more resilient economy. This direction will have an impact on other countries, especially those in the neighborhood striving to become the EU members, – their environmental and climate policies, exports and investments in their economies.

In addition to the necessity to harmonize its legal framework with the European regulation at some point, the EGD will have other implications for Ukraine. While it is often perceived as a source of threats for the country, it creates a number of opportunities at the same time. Since the EU will prioritize the development of certain sectors, and other areas will develop indirectly as a result of this prioritization, there will be changes in the patterns of public spending, and of private investment flows. These trends, if timely tracked and reacted to, may give a competitive advantage to businesses, both in the EU member states and in third countries.

The Ukrainian private sector can become an important partner for the European Union in

helping it achieve the European Green Deal goals, both through strengthening the existing and through building new collaborations. While financing from the EU budget is mainly available for member states, setting certain policy targets, such as the share of energy sourced from renewables or ecosystems restoration, will result in more public and private spending in those areas. Therefore, Ukrainian businesses can be a part of the EU-wide post-COVID-19 green recovery, if they use the new opportunities to unlock potentially available investment funds of European countries.

Furthermore, the EU is interested in approximation of Ukrainian policies and economy-wide targets to its own regulation, particularly, in the European Green Deal principles adoption. Therefore, the Ukrainian government can use the EU funds for international development if any. The government of Ukraine will be the main beneficiary of such technical assistance funding as there is a constant lack of resources for introduction and enforcement of more sustainable approaches in line with its international obligations. This will require monitoring of current investment policies within the EU budget and its approved plans for the next periods, including framework and sectoral documents, as well as ongoing discussions on the future regulation and budgeting.

Ukraine has already become the first country to establish a dialogue on the European Green Deal with the European Union. However, to benefit from the EGD implementation, Ukrainian government and businesses will have to act – constantly monitor the situation,

**Key questions of this research will be as follows:**

-  Identification of areas that will be prioritized for development in the EGD strategic policies as those which will provide investment and export opportunities.
-  Research of funding mechanisms for priority areas of the EGD that will be prolonged or created for the next EU budget period (2021-2027).
-  Analysis of the potential of Ukrainian businesses to meet the growing demand from the EU countries in certain areas, the development of which will be accelerated by the EGD.
-  Research of the EU plans in terms of international aid in its budget for the next period and under the EGD framework; selection of those available for Ukraine;
-  Development of recommendations for different stakeholders in Ukraine, with a focus on the government and the private sector.
-  Consideration of COVID-19 recovery aspect, with regards to both Ukrainian policies direction and its alignment with the EU course, and to financing available for economic and social indicators improvement in terms of third countries recovery.

initiate the dialogue whenever there is such a need, change their strategies and approaches accordingly, look for new partnerships and alliances, and cooperate with each other.

The paper is aimed at studying potential ways of Ukraine’s involvement in the European Green Deal from the financial perspective. It assumes that the Ukrainian private sector can be an important partner for the European Union in helping it achieve the European Green Deal goals. In other words, it makes an assumption that the Ukrainian businesses can be a part of the EU green recovery if they unlock potentially available investment funds of European countries. Hence, this paper will overview possibilities for the EU and Ukrainian businesses to cooperate with a goal of achieving EGD objectives.

Another goal of the paper is to explore the ways of Ukrainian potential participation in the EGD

and in the Multiannual Financial Framework for 2021-2027 in terms of external aid from the EU. The Union is interested in approximation of Ukrainian policies and economy-wide targets to its own regulation, particularly, in the European Green Deal principles adoption. Therefore, the Ukrainian government can use the EU funds for international development if any. Other types of involvement will be researched as well, including partnerships and alliances under the European Green Deal framework.

The study will primarily use qualitative methods including the analysis of the EU strategic documents, policy priorities and targets defined therein, existing financial mechanisms or instruments that are planned to be created, including those available for member states only and tools of international aid, newly created alliances and those planned to be established in the course of the European Green Deal implementation.

## 2. Ukrainian potential for the EU investments in light of the EGD

The Ukrainian private sector can be an important partner for the European Union in helping it achieve the European Green Deal goals. This can occur through strengthening the existing and building new collaborations. Ukrainian businesses can be a part of the EU post-COVID-19 green recovery if they timely identify emerging opportunities and take action to use them.

Although direct investments from the EU and national budgets are generally not available to third countries, the Ukrainian private sector can find new niches and become a supplier of goods and services for the European companies and governments. As the EU businesses will receive support and financing from their governments, and will be subject to new

regulation, they will drive the development of new sectors as well as some of the older ones. Hence, the Ukrainian private sector should identify and seize those B2B opportunities.

### 2.1. Overview of the investment opportunities arising from the European Green Deal

The European Commission has rolled out a comprehensive [action plan](#) to implement the principles of the European Green Deal, with the Sustainable Europe Investment Plan being its core element. Overall, the EGD will spur investments in two main ways – through directly allocating funds from the EU budget to the development of certain sectors or regions, and with the help of regulation that will set specific targets for national governments and result in the increased investments as a part of the effort to reach them.

**Direct financing.** The Commission has suggested contributing [25%](#) of all its programs spending on climate and environment related projects in 2021-2027. Part of these funds will be directed to the Sustainable Europe Investment [Plan](#), a framework that sets foundations of the European Green Deal investment direction for the next decade and plans to attract €1 trillion for sustainable projects. This amount will be sourced both from public and private funds, including co-financing by national governments which will be required to obtain financing from the EU budget in some instances. In particular,



the EU will allocate €503 billion from its budget (Multiannual Financial Framework) in 2021-2030, and €114 billion will come from national

governments via co-financing. As for the private funds, the EU will provide guarantees for the investors under the InvestEU Programme.



**Table 1. EU investment areas under the EGD**

Investment area	Specific programs	General programs
 <p><b>Clean, affordable and secure energy supply</b></p>	<ul style="list-style-type: none"> <li>● EIB Energy Lending Policy;</li> <li>● Modernization Fund (for EU members only);</li> <li>● Cohesion Fund (2021-2027) (for EU members only);</li> <li>● LIFE Programme (third countries eligible in exceptional cases);</li> <li>● Connecting Europe Facility (for EU members only);</li> <li>● Innovation Fund (for EU members only).</li> </ul>	<ul style="list-style-type: none"> <li>● 30% of the European Regional Development Fund (2021-2027) (for EU members only);</li> <li>● 35% of the InvestEU budget (third countries can make contributions to be part of financial products);</li> </ul>
 <p><b>Transition to a clean and circular economy</b></p>	<ul style="list-style-type: none"> <li>● Modernization Fund (e.g. energy efficiency in waste management) (for EU members only);</li> <li>● Innovation Fund (for EU members only).</li> </ul>	<ul style="list-style-type: none"> <li>● Just Transition Mechanism (2021-2027) (for EU members only);</li> <li>● Horizon Europe (2021-2027) (open for associated countries);</li> </ul>
 <p><b>Energy and resource efficient buildings</b></p>	<ul style="list-style-type: none"> <li>● Modernization Fund (for EU members only);</li> <li>● LIFE Programme (third countries eligible in exceptional cases).</li> </ul>	<ul style="list-style-type: none"> <li>● Next Generation EU (2021-2027) (for EU members only).</li> </ul>

Investment area	Specific programs	General programs
 <p><b>Decreasing pollution</b></p>	Not specified	
 <p><b>Preservation and restoration of ecosystems and biodiversity</b></p>	<ul style="list-style-type: none"> <li>● LIFE Programme (third countries eligible in exceptional cases).</li> </ul>	
 <p><b>Fair, healthy and sustainable food systems</b></p>	<ul style="list-style-type: none"> <li>● 40% of the Common Agricultural Policy budget (for EU members only);</li> <li>● Modernization Fund (for energy efficiency) (for EU members only).</li> </ul>	<ul style="list-style-type: none"> <li>● 30% of the European Regional Development Fund (2021-2027) (for EU members only);</li> <li>● 35% of the InvestEU budget (third countries can make contributions to be part of financial products);</li> </ul>
 <p><b>Smart mobility; digital infrastructure</b></p>	<ul style="list-style-type: none"> <li>● 60% of the Connecting Europe Facility (for EU members only);</li> <li>● Modernization Fund (for energy efficiency) (for EU members only);</li> <li>● Cohesion Fund (2021-2027) (for EU members only);</li> <li>● Next Generation EU (2021-2027) (for EU members only).</li> </ul>	<ul style="list-style-type: none"> <li>● Just Transition Mechanism (2021-2027) (for EU members only);</li> <li>● Horizon Europe (2021-2027) (open for associated countries);</li> <li>● Next Generation EU (2021-2027) (for EU members only).</li> </ul>
 <p><b>Break-through low-carbon technologies in renewable energy and energy intensive industries (carbon capture, use and storage, and energy storage)</b></p>	<ul style="list-style-type: none"> <li>● Modernization Fund (for EU members only);</li> <li>● Innovation Fund (for EU members only).</li> </ul>	

The Sustainable Europe Investment Plan specifically emphasizes the need to invest in the energy efficiency of buildings, transport (vehicles), agriculture, and transition to circular economy. It considers digital technologies to be an important facilitator of the European Green Deal. Furthermore, according to the Plan, **state aid rules** that set out conditions for public support of businesses will be revised. Under the Treaty on the Functioning of the European Union, any aid provided by Member States to certain companies which distorts competition is prohibited ([Article 107](#)). However, as the Treaty allows for some exemptions, the Commission developed Guidelines on State aid for environmental protection and energy, that were in force during 2014-2020. The Commission will develop new guidelines by 2021, which will be similar to the [previous policy](#).

**Decarbonization of the electricity sector, mainly through the development of renewable energy, as well as development of infrastructure for electric transport will likely remain in the revised rules. They will also allow for [state support for](#):**

- Changes in production processes aimed at electrifying them or achieving climate neutrality;
- Energy efficiency of buildings;
- Development of district heating distribution networks (in some cases);
- Closure of coal fired power plants;
- Promotion of circular economy approaches (e.g. reuse of waste heat, reuse of CO2 and recycling of waste).

Additionally, the **InvestEU programme** – the successor of the European Fund for Strategic Investments and some other instruments for the period of 2021-2027 – will deploy €650 billion and support the EGD goals. It is expected to attract additional €195 billion of private

funding. InvestEU [will support](#) a wide range of sectors, with sustainable infrastructure being one of four key policy areas. The examples of sub-areas are energy, digital connectivity, transport, circular economy, water, and waste.

The **European Investment Bank** (EIB) will play [a leading role](#) in the EGD implementation, as it will bring additional €600 billion of investments to finance the transition to a sustainable and carbon-neutral economy in all EU member states. Part of these funds will be disbursed under the InvestEU programme. One of the priority areas, defined by the new Energy Lending Policy, will be energy efficiency, renewable energy sources, new technologies and infrastructural development. Importantly, financing fossil fuels projects, including natural gas, will be phased out.

With the goal of leaving no one behind, the EU [will launch](#) the **Just Transition Mechanism**, sourced by the EU budget, national budgets, InvestEU and the European Investment Bank. Around €150 billion will be invested through the mechanism in 2021-2027. It will help the most vulnerable regions shift to carbon-neutrality, especially those reliant on fossil fuel mining and exploration or carbon intensive industries. The areas of investment will be energy efficiency in buildings, affordable energy, renewable energy sources, business development, public and sustainable transport, digitalization, energy infrastructure, district heating and transportation networks.

As for the research and innovation, the European Commission has proposed to continue the current program (renamed as **Horizon Europe**) for 2021-2027 with a budget of around €85 billion. The preliminary agreement on the programme and its budget is to be approved by the European Parliament and Council by the end of 2020. Horizon Europe will support research on climate change, clean



energy, mobility and other topics related to green transition, in particular, through its Global Challenges and European Industrial Competitiveness pillar.

The EU is currently preparing its budget for the next period – **the Multiannual Financial Framework 2021-2027**. Among its key priority areas are natural resources and environment, accounting for nearly one third of the whole budget – 29% or [€378.9](#) billion (out of total €1279.4 billion). This amount was planned in the [draft of 2018](#), on which the final budget will build on. Large share of this spending will go to agriculture, i.e. direct payments to farmers, with stronger environmental conditionality. The EU will also continue its environment and climate action program LIFE, aimed at increasing energy efficiency and developing clean energy. Additionally, the Commission has proposed to spend 25% of all programs' budget on climate change measures.

Moreover, in addition to the MFF, the European Commission has presented a recovery plan

with a budget of €750 billion for 2021-2027 – **Next Generation EU** or the European Union Recovery Act – as a response to the COVID-19 crisis. The financing will come from different sources, such as the EU budget and borrowings from the market. The goal of the Act is to ensure resilient and sustainable economic recovery. To receive financing under the Act, member states have to prepare draft recovery plans with an outline of their investment goals. **Among the stated priority areas to be covered in national plans are:**

- Development of renewable energy sources;
- Energy efficiency in buildings;
- Smart and sustainable transport, extending relevant infrastructure;
- Digitalization of government and public services;
- Development of industrial data cloud capacities, and others.

**Policy priorities.** Changes in the overall policy direction and specific regulations do not necessarily indicate planned funding for a certain area, but may be an indicator of its accelerated development. Understanding which sectors will be promoted under the EGD will help to identify the expected growth in the investment flows directed to those sectors in the future.

**The European Green Deal focuses on eight policy areas, each of them having specific targets and sub-priorities.**

- **Biodiversity protection.** The EU Biodiversity [Strategy](#) for 2030 sets a goal of protecting 30% of land and 30% of sea, stricter protection of forests, 25,000 km of rivers restoration, planting 3 billion trees, restoration of degraded ecosystems, organic farming, limitations on fertilizers and pesticides etc. These goals will be reflected in the upcoming national strategic plans and imply future spending of public, private and the EU funds.
- **Sustainable agriculture.** The Farm to Fork [Strategy](#) by 2030 aims at ensuring healthy, affordable and sustainable food for all, while protecting the environment and biodiversity. Its targets are the decrease in chemical and more hazardous pesticides by 50%, reaching the target of 25% organic farmlands in agricultural lands, reduction of fertilizers use by at least 20%, decrease in sales of antimicrobials for agriculture by 50%, reduction in nutrient losses by at least 50%. These actions will likely lead to investments and spending in climate-smart methods of agriculture, including the promotion of new technologies and practices, and production of alternatives to traditional substances, such as fertilizers and pesticides. The European Common Agricultural [Policy](#) when approved for 2021-2027 will also pursue the objectives of climate change action, and preservation of landscapes and biodiversity. The EU [aims at](#) establishing alliances with its neighbors to create sustainable food systems.
- **Clean energy.** The European Commission will review energy legislation by June 2021. It is already [known](#) that it will rely on stronger energy systems interconnection, modern technologies and infrastructure, energy efficiency, and empowerment of consumers. The Commission has already developed the EU Energy System Integration [Strategy](#) that sets a goal of creating a more circular energy system, accelerating the development of renewable electricity and charging stations, and low-carbon fuels, including hydrogen, for areas that are difficult to decarbonize. As for renewable energy, the emphasis will be on using the potential of offshore wind and hydrogen. The EU Hydrogen [Strategy](#), in particular, outlines the ways of clean hydrogen promotion, such as creation of viable markets and enabling regulation, promoting research and innovation, building partnerships with neighboring countries and others.
- **Sustainable industry.** In 2020, the Commission published the New Industrial [Strategy](#) for Europe that plans to preserve the competitiveness of European industry, while making it greener, more circular and digital. This Strategy provides for establishing alliances in low carbon industries, industrial clouds and platforms, and raw materials. Furthermore, the EU strives to gain leadership in some new areas, including cloud and data applications and increase support for research and technology use in artificial intelligence, 5G, data analysis etc. The Commission has also developed a [Strategy](#) on Shaping Europe's Digital Future to outline how it plans to further develop digital technologies.
- **Building and renovating.** The European Green Deal [strives for](#) a "renovation" wave in the buildings sector – an increase in their energy efficiency, digitalization, imposing rules on their energy performance, and promoting



climate resiliency of buildings. To this end, the Commission will create a platform where buildings and construction sector, engineers and municipalities can meet. The EU will particularly focus on social housing, schools and hospitals renovation.

- **Sustainable mobility.** The overall [goal](#) for transport set in the EGD is to reduce sectoral emissions by 90% by 2050. This will be achieved through automation and smart traffic management systems, development of rail and water freight transportation, ending of fossil fuels subsidies, including maritime transport in the EU ETS, extending infrastructure for zero and low-emissions vehicles, as well as supply of alternative fuels.
- **Eliminating pollution.** In 2021, the EU will approve a zero-pollution [action plan](#). The Commission [will target](#) pollution in multiple sectors, such as agriculture, industry, but also in more broad areas, including clean air, soil,

water and marine environment, protection of citizens from dangerous chemicals, development of more robust health policies, decreasing pollution from micro-plastics and pharmaceuticals.

- **Climate action.** This [policy area](#) is more encompassing than other directions, as it is a cornerstone of the European Green Deal. On the way to climate neutrality goal, the EU plans to include this goal in the European Climate Law and has already agreed on the 2030 target to reduce net greenhouse gas emissions by at least 55%. Some additional areas include sustainable development and trade, international cooperation and development, research and innovation. The EU will continue to address climate change in all these areas, strengthening its ambition and involving even more stakeholders under the European Climate Pact.

Additionally, the European Green Deal aims to promote sustainable investments for both

public and private sectors. The **renewed sustainable finance strategy**, in particular, plans to create the taxonomy of sustainable activities, the EU Green Bond Standard and labels for green financial products, rules on sustainability factors for investment advisers' activities, sustainability benchmarks for investors, and take other measures to enhance sustainability disclosure and to promote long-termism in capital markets. As a part of **the Sustainable Europe Investment Plan**, the Commission [will suggest](#) minimum green targets for public procurements of national state agencies. Setting a common definition of green procurement will encourage public authorities to incorporate the suggested criteria and labels in their purchases. The Commission will also help the member states on their green budgeting practices and promote the use of green budgeting tools.

The EGD priority areas represent an opportunity for Ukraine and its private sector, especially those where the EU sees potential for alliances. However, all other sectors should thoroughly be studied by the relevant stakeholders in Ukraine, as their development will entail not only grants or other EU direct support not available to third countries, but also spending of public agencies and businesses. That is where the multiple opportunities are and will be created for some goods or services suppliers.



## 2.2. Overview of the Ukrainian industry and services that could help the EU in de-carbonization and meeting its climate goals

**Biodiversity protection.** Preservation and restoration of ecosystems and biodiversity mainly aims at protecting the EU forests, rivers and sea. While the EU Biodiversity Strategy will lead to jobs creation for local people in the areas where lands will be protected, it will result in the need for certain goods, services and expertise as well. Ecosystems restoration, green and blue (water) infrastructure development is where the Ukrainian businesses can get involved. Ukraine has rich soils and climate similar to many European countries, its agricultural sector is well-developed. Ukrainian businesses already export agricultural trees, medicinal and ornamental plants. As the EU will set mandatory targets on degraded ecosystems restoration for national governments, facilitate the creation of ecological corridors, plant 3 billion trees, and promote green urban plans adoption by its member states, this will create a strong demand for plants supply. Although this might not be the area where most Ukrainian businesses specialize in, some of them could re-orient their production, which is relatively easier for SMEs. Businesses who provide related services, such as contaminated soil cleanup, may seize these opportunities as well.

**Sustainable agriculture.** While the EU strives to ensure fair, healthy and sustainable food systems in its member states largely by means of supporting its own farmers, there still are ways for the Ukrainian companies to act. For instance, the EU will need more organic and waste-based fertilizers as opposed to traditional fertilizers. While the goal is to decrease the use of fertilizers [by 20%](#) by 2030, the market demand for alternative fertilizers will grow, and it might not get fully filled

by the European businesses. The Ukrainian businesses producing organic fertilizers, as well as organic pesticides, should explore the exporting options in the near future. Despite the fact that this sector is not export-oriented in Ukraine, working mainly for the internal market, growing demand from the EU countries, alongside higher prices, can spur sectoral growth. This industry in Ukraine has a potential for development, since much of organic matter that could be used for organic fertilizers is [not utilized](#). Another sub-sector is organic food, the production of which is growing in Ukraine and can satisfy part of the higher demand in the EU. The number of organic food producers in Ukraine has increased from around [400](#) in 2016 to [501](#) in 2018. Ukraine is already the EU's [second largest](#) trade partner in organic products (10% of total imports), however, the share of Ukrainian businesses can increase as the demand will rise.

**Clean energy.** As the EU will increase its targets on renewable energy supply, energy efficiency and modern infrastructure, Ukraine can play a role in a few ways to help the EU meet its goals. In its Hydrogen [Strategy](#), the European Union has defined Ukraine as a key partner. Ukraine has already started to test its gas transmission system to transport hydrogen and mixed gases, having defined three [key strategies](#) to develop this area (for the short-, mid- and long-term perspective). Importantly, Europe will be interested in [renewable](#) hydrogen, i.e. hydrogen produced with the electricity from renewable sources. This means Ukraine will have to develop a renewable energy sector, which faces multiple problems at the moment. To build partnerships in renewable hydrogen supply and increase renewable energy generation, the Ukrainian power system will also need more energy storage and flexible capacities. Another push for the development of RES capacities will be synchronization of the Integrated Power System of Ukraine with the ENTSO-E.

There is a possibility that the EU will price imports of electricity from fossil fuels, with the help of a carbon border adjustment mechanism. In this case, electricity producers from RES will have an advantage, provided Ukraine introduces a green certificates system or other system to guarantee origin of renewable electricity.

**Sustainable industry.** One of the EU goals is to further develop digital technologies to make industry more efficient and productive, and decarbonize the European economy. The EU aspires to strengthen its digital sector, including artificial intelligence, 5G and data analysis. The Ukrainian businesses can play a role in helping the EU achieve its goals in this direction. The IT sector in Ukraine is dynamic and well-developed. Over [190,000](#) specialists are currently employed in the industry, and this number is growing by 20-25% annually. The export value of the IT sector exceeds \$5 billion a year. The Ukrainian IT industry is mature, highly professional, innovative, and cheaper than European or American software services sector. Therefore, it has a high potential to help the EU industry get ever-more digital, offering new solutions and providing digital services of high quality.

**Building and renovating.** Under the EGD strategies, European countries [will focus](#) on preparing their buildings for the effects of climate change and increasing their energy efficiency. The Ukrainian businesses that supply goods and services in the construction sector can participate in the future platform set by the EU and extend their market share. For instance, this opportunity could be seized by insulation materials producers. This market constituted [8.5](#) million cubic meters in 2018, demonstrating growth for three years and being represented by stone and glass wool, expanded and foamed polystyrene. As of 2018, key export markets for Ukrainian insulation materials are Russia (38%), Poland (31%) and [Moldova](#) (11%).

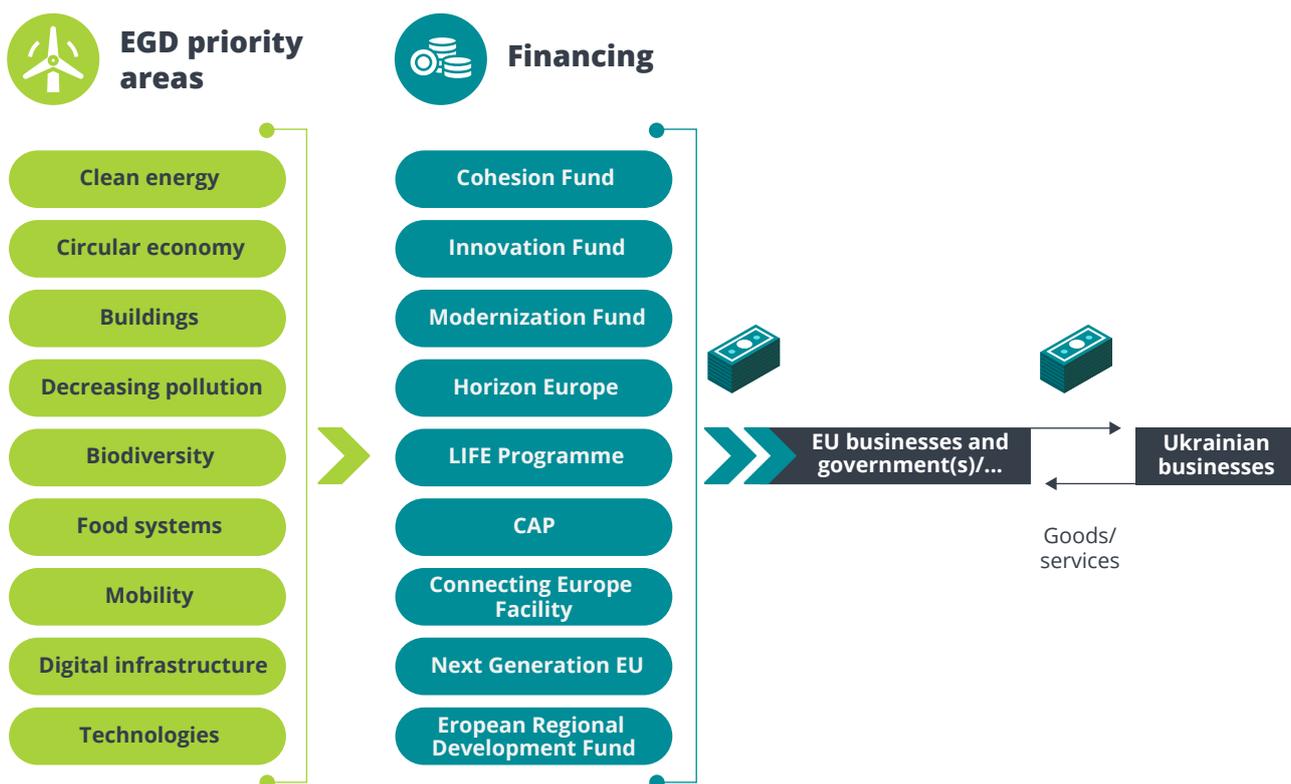
At the same time, if the EU introduces a carbon border adjustment mechanism, this at a certain stage may have a negative impact on manufacturers of carbon-intensive construction materials in Ukraine.

**Sustainable mobility.** This area does not offer many options for the Ukrainian businesses to get involved, although the biofuels sector has some potential. As the demand for low-carbon fuels in the EU will grow, Ukraine can increase its export of biofuels or energy plants to satisfy larger demand. However, export of rapeseed and other energy plants is currently under threat due to the [lack of reporting](#) on greenhouse gas emissions from the agricultural sector in Ukraine. In addition, uncontrolled growth of such production may lead to soil depletion in Ukraine, which is contrary to the EGD goals. Therefore, government action will first be needed to develop this area.

**Eliminating pollution.** The areas of eliminating pollution and transition to a circular economy are those that can potentially offer opportunities for foreign businesses. At the same time, they will likely be more difficult to be utilized in Ukraine due to low development of the national market. The Ukrainian chemical industry may get involved in the EU attempts to create a circular economy, as the European economy will need new materials that can be upcycled and reused with relatively little effort. This will require the use of modern technologies, scientific research, new collaborations and substantial investments in the Ukrainian chemical industry.

All in all, financial flows from the EU are possible through investments and purchases of exported goods or services provided by public and private institutions (see Chart 1).

**Chart 1. Ukrainian businesses involvement where direct financing is not available**



## 2.3. Recommendations for the government and private sector

For the purposes of increasing exports and opening new niches of the European Union national markets, as well as attracting foreign investments in the national companies who will then supply their goods and services to the EU countries, **relevant Ukrainian businesses should:**

- Follow the progress of member states on the EU Biodiversity Strategy for 2030 implementation at the national and the local level. It is also worth monitoring the results of the Convention on Biological Diversity (CBD) COP 15 in Kunming, China, which was [rescheduled](#) for May 2021. After the conference, member states to the Convention, including the EU countries, will have [to review](#) their National Biodiversity Strategic Action Plans. As the EU countries will update their national documents on biodiversity following the CBD COP 15 and the EU Biodiversity Strategy for 2030 adoption, additional demand for certain goods and services will arise from both the public and the private sector. Timely identifying these opportunities, as results of ongoing monitoring of the countries of interest, their markets and government policies development, will give the Ukrainian businesses an advantage. Phytosanitary rules for imports to the EU should also be checked for changes. For instance, from 2019 on, all plants entering the EU [should have](#) a phytosanitary certificate, meaning plant or plant products are free from indicated quarantine pests and meet [other requirements](#).
- Monitor the development and adoption of Common Agricultural Policy (CAP) strategic plans and other policies related to agricultural sector, especially those countries with high levels of fertilizers and pesticides imports (Belgium, Netherlands, Germany, Spain, Lithuania), as there should be a gradual switch occurring from traditional to organic substances; invest in research and development of alternative fertilizers and pesticides to be the initiator of new production technologies and increase own competitiveness; study and monitor changes in rules on fertilizers and pesticides entering the EU market (e.g. the EU Circular Economy Fertilising Products Regulation (EU 2019/1009)); invest in climate-smart, regenerative and organic agricultural practices and explore new trade partnerships in the EU member states;
- Develop or continue to develop, as well as attract foreign investments in renewable energy sources, as those that will be a primary source of energy for hydrogen production to meet the growing demand for renewable energy from the EU sectors that cannot be electrified; invest or attract foreign investments in the construction of storage and flexible capacities which will be in demand with the increase in RES penetration; gain expertise in the area of future hydrogen deployment in Ukraine, such as potential areas of industrial-scale electrolyzers location, needs for transportation infrastructure and conformity of existing networks to these needs, ways to generate hydrogen, including new technologies etc., with a goal of providing consulting services to the Ukrainian government and future national and foreign investors in this sector;
- Further look for opportunities in the EU digital market, be it a demand for qualified IT specialists for new projects or a demand for already developed software products and services. This could involve both the Ukrainian companies creating products ordered by foreign clients and the companies developing software products independently and then selling them to the EU market (including 'IT as a service' model); invest in research and development in the IT sector and relevant technologies;

explore the options of creating new partnerships with companies operating in the EU market in areas of cloud applications, data analysis, AI, cyber, super- and quantum computing, quantum communication and blockchain;

- Explore integrated national energy and climate [plans](#) of the EU countries for 2021-2030, particularly in part of the measures planned in buildings energy efficiency and renovations, as well as market trends in the construction sector of the EU countries; identify and research markets with low self-sufficiency in materials needed for implementing their national plans related to construction sector; assess investment options for installing low-carbon production technologies to lower the risk of negative carbon border adjustment mechanism effects if implemented; invest in new production technologies to improve the quality of materials to be exported to the EU, which will allow to increase export volumes; research opportunities for potential partnerships on the EU platform for the construction sector players when established, inter alia by companies providing services in architectural design and engineering.
- Identify opportunities in the defined sectors, such as the targets these countries aim to achieve at national or local levels, and inform businesses and business associations in Ukraine of existing opportunities, support them with developing relevant guidelines, and organization of workshops, roundtables and meetings with investors for the defined subsectors;
- Monitor changes in the EU regulation on imports of goods and services in the defined areas and inform Ukrainian exporters thereof;
- Develop regulatory framework where necessary to boost the development of and investments in the abovementioned sectors, for instance, legislation that will define and support renewable hydrogen production and transportation, or regulation that will require reporting on greenhouse gas emissions in the agricultural sector (under the Renewable Energy Directive);
- Align general policy goals in the fields related to the EGD implementation, e.g. develop and approve the integrated National Energy and Climate Plan by 2030, set respective targets for emissions reduction, RES deployment, e-mobility etc.

Furthermore, to help the private sector increase its presence in the EU and attract more foreign investments in the sectors that have potential to develop as a result of the EGD policies, **the Ukrainian government should:**

- Follow the progress of the EU on its strategic documents in the areas of biodiversity, agriculture, energy and energy efficiency, industry, digitalization, mobility and pollution, as well as development of national sectoral plans and policy measures of its member states who might be potential partners for the Ukrainian private sector in a certain area;
- Promote digital literacy at all levels of education, as a necessary competence for all areas of economy and with a view to further development of the IT sector in Ukraine; develop an action plan on digital literacy and competences.

Attracting investments in the Ukrainian economy in light of the European Green Deal and increasing the Ukrainian exports to the countries of European Union will depend on collaboration of government and the private sector, as without consistent government policies and favoring investment climate, it will be more difficult for exporters to get a larger share of the European market or unlock additional financing.



#### 2.4. (Post)COVID-19 recovery aspect

Until November 2020, Ukraine has demonstrated more support for the fossil fuels sector than for 'green' policies. According to the Energy Policy Tracker tool, from the beginning of 2020, Ukraine has committed at least [\\$63.34 million](#) to fossil fuel sectors either from the state budget or in the form of spending from state-owned enterprises. When it comes to renewable energy sources, the government has decreased feed-in-tariff, by around \$2.2 billion in total by 2030, and the state enterprise Guaranteed Buyer owes around [\\$1 billion](#) to RES producers. This is also the case for policies in mobility, agricultural, and industrial sectors. The government has allocated some funds for energy efficiency in buildings; however, these programs had functioned before the start of the pandemic and, therefore, are not a part of

recovery policies. From the public COVID-19 Relief Fund, which was around [\\$2.5 billion](#) in total, the government spent \$270 million to fight unemployment, \$616 million on the health system, and \$1.3 billion on road reconstruction.

Hence, Ukraine may not be considered a case of successful green recovery, while the support of national producers in relevant industries taking the form of public procurements or favoring regulation, or the lack of support for grey industries would make them more competitive both at national and international markets. Furthermore, stronger commitment for green policies from the government will make Ukraine a more appealing partner for the EU, and will make it easier for green industries to grow domestically and increase their exports.

## 3. Potential of the EU investments in the course of the Green Deal implementation

### 3.1. The EU investment plans and mechanisms to be available for international aid

The European Union investment plans and mechanisms within the EGD framework generally envisage to support the EU member states, although some of the documents contain provisions on creating alliances and partnerships with third countries. Despite the fact that the European Green Deal is focused on sectoral strategies for the EU countries, **there are several ways in which it may support other states if they have similar targets.**

Communication on the European Green Deal [states](#) that the EU will continue its ongoing initiatives with non-member states on climate and

environmental issues, particularly, on cutting subsidies for fossil fuels, enhancing sustainable finance, and phasing out coal power plants. The EU will also engage with multilateral institutions so that they stop financing fossil fuels infrastructure. The main ways for third countries to receive support from the EU is some limited direct funding from the budget and international aid programs.

#### 3.1.1. Direct funding available

While the EU funding is mostly available for member states, there are a few sources open for third countries as well. Those sources present an opportunity for Ukraine to approximate its political and economic course to the new policy framework of the EU.

**Horizon Europe** which will support research and innovations in 2021-2027 is likely to get around [€85 billion](#) from the EU budget. Projects pursuing climate objectives will receive [35%](#) of the funds under Horizon, and its [second pillar](#) also includes such research areas as health, inclusive and secure society, digital technologies and industry, food and natural resources. Additionally, [five missions](#) will shape the work of the programme, such as adaptation to climate change; cancer; climate-neutral and smart cities; healthy oceans, seas, coastal and inland waters; soil health and food.



Ukraine was one of [16](#) associated countries for the programme's predecessor – Horizon 2020 – which is a special status allowing to participate under the same conditions (“as far as possible”) as member states. However, Ukraine has this status under the previous programme, and it will have to apply for membership again. According to some [media](#), the EU will start negotiations with third countries in 2021 and will conclude agreements in the second half of the year. While an associate status will require making a financial [contribution](#), it will give Ukraine access to Horizon Europe funds. The [amount](#) of financial contribution will be based on the country's GDP and a bilateral agreement it concludes with the EU.

Previously, Ukraine's contribution to Horizon 2020 was defined on the basis of its GDP and the EU member states' GDP. It was agreed that part of Ukraine's financial contribution (up to 50%) could be covered by the EU aid instruments if requested by the country. In the period of 2014 to July 2020, the Ukrainian participants attracted [€31.8 million](#) under 182 grants. Importantly, SMEs received 50.8% of all financing, the rest went to scientific and educational institutions, public executive authority agencies.

The Horizon Europe programme will also introduce European Partnerships aimed at bringing different stakeholders to solve some biggest challenges the EU faces through research and innovations. The proposed candidates are broken down into six [clusters](#) – including Health; Digital, industry and space; Climate, energy and mobility; Food, bioeconomy, natural resources, agriculture and environment. A few of the proposed candidate partnerships will involve third countries, although if Ukraine becomes an associate member it may participate in all of them. Partnerships, inter alia, may be [co-founded](#) by the European Commission,

which means Ukraine could get involved in the research of special interest to its national priorities and get part of financing for a project from the EU.

Ukraine intends to become an associate country for Horizon Europe, and the EU has already welcomed this willingness, as was stated at the [22<sup>nd</sup>](#) EU-Ukraine Summit.

**InvestEU** is a proposed investment [programme](#) of the EU for 2021-2027 that should help member states recover after the economic and social crisis. The main function of InvestEU is to provide guarantees for investments of implementing partners, such as the EIB, and unlock public and private investments ([45%](#) of total guarantees or €34 billion). Some non-member countries may be part of certain financial products if they make contributions to the EU compartment of InvestEU in the areas of sustainable infrastructure, research, innovation and digitalization, SMEs, and social investments.

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### 3.1.2. Funds on international development

Part of the EU budget will be set aside specifically for international aid, for the goals that align with European objectives, in particular, those aligning with the European Green Deal course – environmental and climate action, and sustainable growth. The EU planned to finalize its framework for foreign policy funding by the end of November 2020. Some of the instruments of international development suggested under the Multiannual Financial Framework for 2021-2027 will fund climate change and environmental actions, as they remain core objectives of the EU.



**The Neighbourhood, Development and International Cooperation Instrument (NDICI)** will be a key instrument of external action. It will provide assistance to neighboring and other countries for green recovery, climate and biodiversity action and SDGs achieving. NDICI was proposed to have [€86 billion](#) of funding (in 2018 prices, €96.4 billion in current prices), of which 25% will likely be allocated for climate action. Part of this amount will be financed by Next Generation EU recovery instrument. As in the previous period, geographic programmes will receive most of the funding (around [76%](#) of total amount). Ukraine as a neighboring country can count on receiving financing under NDICI in case it applies. **As for climate change and environmental governance assistance, NDICI will consist of the following instruments (see Charts 2 and 3):**

- The European Neighbourhood [Instrument](#) has existed in the previous period (2014-2020) and will be prolonged. It has climate action and disaster resilience among its targets, while energy cooperation is a priority area. The instrument supports neighboring countries based on the bilateral Action Plans that set priority areas of partnerships. In fact,
- the European Commission and the European Council have already welcomed the signature of the Eastern Neighbourhood Instrument financial agreements on climate.
- The Development Cooperation [Instrument](#) has existed in the previous period (2014-2020) and will be prolonged. While the elimination of poverty is the primary objective, the instrument has an objective of contributing to sustainable economic, social and environmental development. Thus, areas of environmental and climate action, sustainable energy, and sustainable food systems are among its priority areas.
- The Partnership [instrument](#) for cooperation with third countries has existed in the previous period (2014-2020) and will be prolonged. Combating climate change and promoting the environmental standards of the EU are its objectives. Among the thematic priorities are actions by countries aimed at decoupling economic growth from greenhouse gas emissions, promoting green standards in production and trade, fostering renewable energy and developing energy partnerships.



● The European [Fund](#) for Sustainable Development Plus (EFSD+) and the External Action Guarantee will provide grants and guarantees for projects and reforms in various areas ensuring blended finance is used, complemented by technical assistance. Guarantees will be given to trusted financial institutions that will provide funding to risky projects in non-member

countries that meet the EU objectives. The EU will announce the priority areas for this instrument later.

NDICI includes other financial instruments as well; however, they do not focus on climate change, sustainable development, circular economy or other EGD areas.

**Chart 2. The EU external action funding under the Multiannual Financial Framework for 2021-2027**



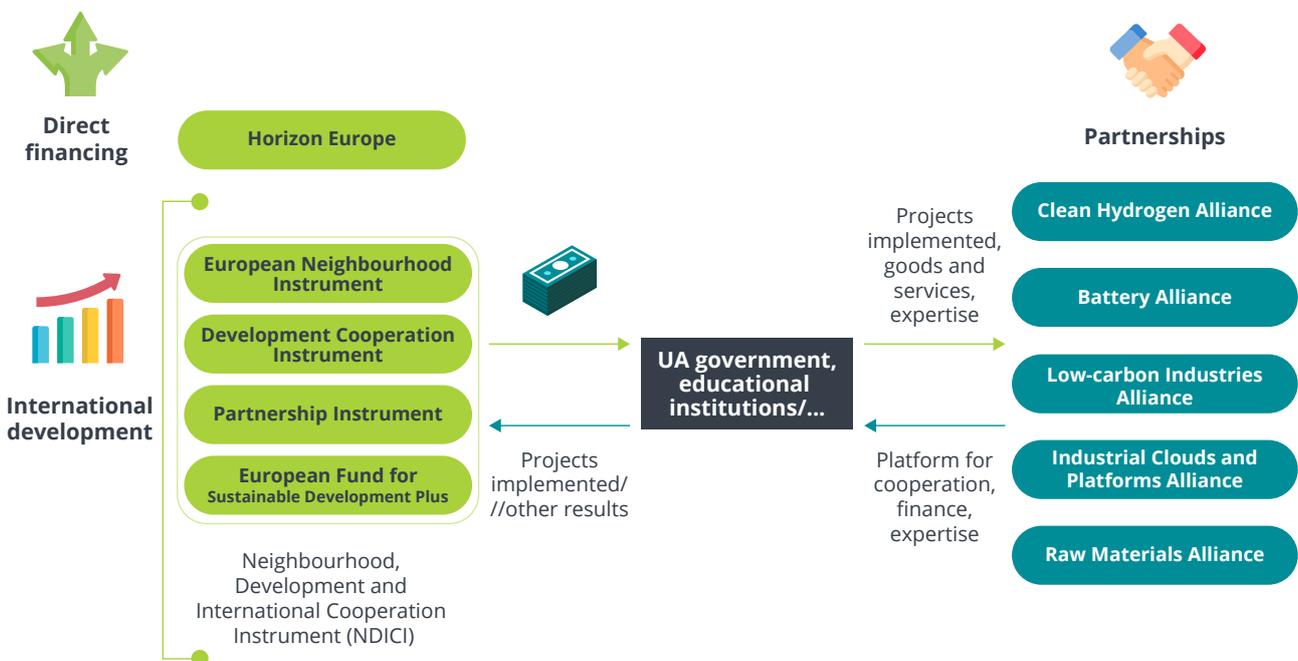
Source: European Commission

### 3.1.3. Partnerships and alliances

Ukraine could also seek support from the European Union not only through purely financial instruments, but also use opportunities to develop partnerships whenever they are mutually beneficial. At the moment, Ukraine considers joining a number of alliances that are or will be created under the European Green Deal framework, such as Clean Hydrogen Alliance (with many public and private companies already having joined), Battery Alliance, [alliances](#) on low-carbon industries, on industrial clouds and platforms and on raw materials. This would allow to attract financial flows by Ukrainian businesses and economy in general, but also to receive some technical assistance.

Another area where partnerships between the EU and third countries will develop is biodiversity. In its Biodiversity [Strategy](#) 2030, the Union pledges to support countries worldwide in their fight against **biodiversity loss**, including its neighbors. The European Union has already helped third countries in this area, having increased its financial assistance twice over the previous decade, and will continue this support after 2020. The EU will likely prolong some of the existing programmes and instruments, supplementing them with the new ones. Although a bulk of funds is usually allocated for African and least developed countries, there will be international development funding for the EU eastern neighbors. Therefore, Ukraine could seek assistance for preserving biodiversity from European Union.

**Chart 3. Ukrainian government involvement where direct financing is available**



### 3.2. Recommendations for the government and private sector

Direct funding and new partnerships are the opportunities arising from the European Green Deal priorities and financial plans of the EU for the next period. Multiple national actors can seek for support through prolonged and newly created instruments.

#### ■ The Ukrainian **government should:**

- follow the progress of the EU on developing, setting rules for and approving financial mechanisms that are meant for member states but allow for some form of participation of third countries, initiate negotiations and establish a dialogue to conclude agreements necessary to use the mechanisms (e.g. on associated membership for Horizon Europe);
- follow the progress of the EU on developing, setting rules for and approving financial mechanisms that are meant for international



aid, and prepare for application at the stage when instruments are not finalized;

- identify opportunities in the sectors prioritized in the EGD policies, such as the newly created partnerships, and inform businesses and business associations in Ukraine of existing opportunities, support them with developing relevant guidelines, and organization of workshops, roundtables and meetings with investors for the defined subsectors;

- develop regulatory framework where necessary to boost the development of and investments in the abovementioned sectors.

#### ■ The Ukrainian **businesses should:**

- monitor the progress of the EU on developing, setting rules for and approving financial mechanisms available for third countries, and cooperate with the government to facilitate using these tools by Ukraine if government's participation is necessary;
- join new alliances in target industries to explore partnerships and use the networking opportunities these platforms provide for the purpose of establishing joint production, research and development clusters, and other types of cooperation along the value chains to promote technology transfer and learning;
- identify, based on continued monitoring and analysis, the areas that will develop under the recently set priorities of the EU, where international assistance will be provided for neighboring countries, and invest in their assets accordingly, including physical assets, research and development, increasing own expertise etc.



### 3.3. (Post)COVID-19 recovery aspect

Although most EU support will be disbursed for the member states, the Union intends to provide some assistance to third countries, including grants, guarantees and technical assistance. The European Commission [has offered](#) the External Action Guarantee and the European Fund for Sustainable Development Plus (EFSD+) as the main mechanisms to assist third countries in their COVID-19 recovery.

**The External Action Guarantee** will be used to decrease risks of public and private investments in eligible countries. It will be provided for EFSD+ loans and for Macro-Financial Assistance loans to governments, with the total proposed amount of €130 billion (in current prices), and a possibility to cover 50% of the loan or equity portfolio (under EFSD Guarantee). [Businesses](#), governments and administrations will be eligible for guarantees to recover after the crisis. However, to receive guarantees for loans or investments under the External Action

Guarantee, the European (e.g. EIB) and international financial institutions will have to make a request to the Commission themselves. **EFSD+** will also include grants together with bank loans and technical assistance. Ukraine will be eligible for these instruments as a country of the EU Neighborhood.

Importantly, Ukraine has already received some financial support from the EU to deal with the crisis caused by COVID-19. The Union has decided [to provide](#) €190 million in the form of a support package and €1.2 billion as macro-financial assistance. The support package (€190 million) [is aimed at](#) addressing immediate consequences of the pandemic, and will be used for improving the health care system and responding to negative effects in the socio-economic sector. While €190 million is grant support, €1.2 billion of macro-financial assistance will come in the form of a long-term [loan](#), divided in two equal tranches. Ukraine will receive the second instalment after implementing the required reforms.



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