

The Ukraine Energy Support Fund Explained

Why a Ukraine Energy Support Fund?

The Ukrainian population depends, now more than ever, on the backbone of a functioning energy sector and infrastructure. Under the conditions of war, this backbone has become fragile and is under serious risk of breaking. Close to two million Ukrainians are already without electricity and heating. Support given to the energy sector is humanitarian by nature and strengthens the resilience of Ukraine.

What value does the Ukraine Energy Support Fund add?

Much support is already offered to the Ukrainian energy sector in its struggle to keep the light and the heat on, by private and by public donors. The Fund aims at complementing these efforts by providing capital to the energy companies not able to raise the financial means to pay for their most-needed procurements. This is based on the assumption that the energy companies generally know best what they need, how urgently they need it and whether or not their financial situations allows them to engage in a procurement. The Fund matches demand for financing necessary procurements upon initiative of the companies and thus effectively channels available donations to where they can make the most useful impact. The Fund also makes it possible to support the Ukraine energy sector for those donors unable to provide assistance in kind.

What is the Ukraine Energy Support Fund?

The Fund is the sum of all grants to Ukraine (represented by the Ministry of Energy of Ukraine) transferred by donors to a special purpose bank account at a bank in Austria.

What kind of purchases does the Ukraine Energy Support Fund cover?

Eligible for disbursement from the Fund are 1) purchases of necessary equipment, spare parts, other gear etc., 2) all types of fuels needed to generate heat and electricity as well as electricity itself, 3) services such as repairs or reinforcements and 4) capital inflow. In this latter respect, the Fund can be used as a collateral (e.g. an interest-free guarantee) for public or private loans to energy companies in Ukraine. Besides the four categories of eligible purchases, the Fund will also cover necessary ancillary costs such as transportation, procurement, taxes, duties and fees.

Which energy companies in Ukraine are eligible for grants on the Ukraine Energy Support Fund?

The Ministry of Energy of Ukraine keeps and updates a comprehensive list of eligible energy companies in Ukraine, public and private. In the current version, it includes 23 companies active in gas and electricity production, supply, transmission and distribution.

How will energy companies in Ukraine procure the necessary equipment, fuels, services or capital inflow?

Under normal circumstances, an energy company in Ukraine would use its established supply channels, markets and following Ukrainian procurement rules. To the extent this is not possible during the state of war, the procurement of equipment, fuels or services will be supported by EU-based governmental procurement agencies, which offer their services on the basis of arrangements with the Ministry of Energy of Ukraine. This introduces transparency in the process. Given the time-sensitivity, the time for procurement through these agencies is strictly limited. In any case, the supply contract will be concluded directly between the Ukrainian energy company and the selected supplier.

What is the procedure for grants made to the Ukraine Energy Support Fund to reach their beneficiaries?

Before a supply contract is procured, an amount corresponding to the likely price of the transaction will be reserved by the Fund for five days, to avoid that grants get stuck. Upon the conclusion of a supply contract, grants corresponding to the transaction price (as well as associated costs, if any) will be disbursed either directly (by a bank transfer to the bank account of the supplier with whom the Ukrainian energy company has concluded a contract), or the issuance of a guarantee in favour of the latter. Thus, grants go straight to the provider of needed equipment, fuel, services or capital inflow, and not indirectly through the energy companies' or the Ministry's accounts. Before any disbursement is being made, however, the Ministry of Energy of Ukraine will approve the transaction and hence confirm usefulness, urgency, lack of capital etc. based on information provided by the energy companies.

Is there any prioritization in the demand of Ukrainian energy companies to be matched with grants from the Ukraine Energy Support Fund?

To ensure a certain level of prioritization, the Ministry of Energy of Ukraine will classify requests for disbursement in accordance with objective and predetermined prioritization. The criteria chosen will not allow for discretionary decisions. The Ministry is likely to be supported by international experts in this task.

Will the donor be involved in any individual transactions?

The donor is not involved in individual transactions to be made between a Ukrainian energy company and its suppliers, confirmed by the Ministry of Energy of Ukraine and settled by disbursements from the Fund. Disbursements will not be attributed to individual donors, unless they have requested so. Donors may unilaterally limit the use of their grants to certain types of purchases and/or companies.

Under which circumstances will grants be returned to the donor?

Grants not disbursed will be returned to the donor upon termination of the Fiduciary Agreement, the contract which creates the legal framework of the Fund. Donors may terminate the Agreement unilaterally and at any time with a notice period to be agreed bilaterally. Immediate termination and repayment is envisaged in events defined as 'change in control' or 'force majeure'.

What is the Fiduciary Agreement?

The Fiduciary Agreement is a trilateral agreement between a sponsor, the Ministry of Energy of Ukraine and the fiduciary of the special purpose account. It is complemented by a so-called Framework Agreement between the Ministry of Energy of Ukraine and individual Ukrainian energy companies. The Framework Agreement stipulates the procedures leading up to the disbursement of funds.

Who manages the Ukraine Energy Support Fund?

The Fund is managed by the Energy Community Secretariat, the independent executive institution of the Energy Community, an international organization based in Vienna, Austria. The Secretariat acts as fiduciary of the grants made by donors, and disburses them strictly in line with the provisions of the Fiduciary Agreement and its strict accounting, reporting and auditing rules. The Secretariat will report regularly to the donors. Its services are free of charge. As the Secretariat also coordinates the supplies of equipment in kind to Ukrainian energy companies, its role as fiduciary will create important synergies.