



Ukraine reconstruction project

The newsletter on the main recent developments

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Dear all,

As Christmas approaches, we are delighted to present our 8th newsletter on Ukraine's reconstruction and economic recovery. In this final edition of 2023, you will discover crucial developments for Ukraine's path to the EU integration, namely the opening of negotiations with Ukraine for EU accession. We will also speak about the preparation of the Ukrainian Development Fund by Black Rock, and international financial support by IMF, Japan and Norway, as well as the grand from KfW.

In this edition, we are making a special focus on showcasing how businesses actively contribute to the reconstruction projects in Ukraine's communities. Specifically, we will conduct a case study on two types of projects in the liberated areas of the Kyiv region, focusing on water supply and housing, both being successfully realized by Egis-Ertle Engineering.

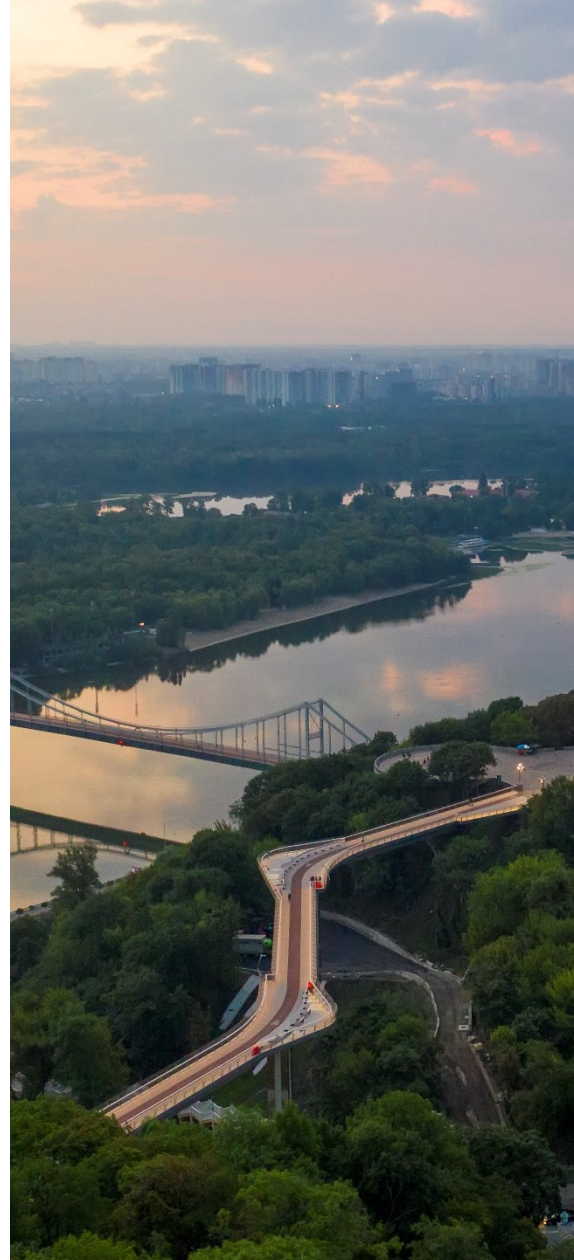
Have a nice reading and best wishes for the holiday season!

Ukraine reconstruction: key figures

Macro

Thanks to international support and effective policies, Ukraine has achieved economic stability, positively acknowledged by partners. State budget funding includes military bonds, loans from international organizations, and bilateral loans/grants. Ongoing financial stability depends on continued support, particularly from major partners like the EU and USA. In 2024, Ukraine aims to secure \$40 billion in direct budget support, highlighting the importance of sustained international cooperation.

- **4,5% of real GDP growth in 2023** is the revised baseline projection by IMF.
- **\$ 53,1 billion in total of attracted state budget financing in 2023** as of December 15 from which:
 - **\$ 38,4 billion received from international partners** in loans and grants for budget financing in 2023 as of December 15, 2023 (VS \$ 31 billion in 2022);
 - **\$ 14,7 billion of budget financing from government bonds**, including military ones.
- **15% interest rate set by National Bank of Ukraine in December 2023**, a reduction from the 25% at the beginning of the year.
- **5,1% yoy is a level of inflation in November** that decreased from 26,6% for the 11 months of 2023.



Key developments for Ukraine's reconstruction

European Council decides to open negotiations for Ukraine's accession to EU

On December 14 during the **European leaders' summit, the European Council (Council of European Union) decided to open accession negotiations with Ukraine** and with the Republic of Moldova. The European Council decided as well to adopt the respective negotiating frameworks once the relevant steps set out in the respective Commission recommendations of 8 November 2023 are taken. It means that before the launch of the talks with Ukraine, the Council should agree on a negotiating framework. During this summit, the Council also granted the status of candidate to Georgia. The decision came after Hungarian Prime Minister Viktor Orban left the room during the process to allow unanimous agreement.

This is the historic turn for Ukraine, Moldova and Georgia on their path to the European integration.

However, the Hungarian Prime Minister Viktor Orban blocked the €50 billion aid package under Ukraine Facility mechanism between now and 2027. It is still to be agreed further.

Source: European Council, Le Monde



The Black Rock unveils details on Ukraine Development Fund

According to the comments provided end of November by Black Rock spokesperson to Ukraine Rebuild News, **the UDF will seek between \$500 million and \$1 billion of "catalytic capital" as a step toward attracting \$2 billion to \$4 billion in commercial capital**. For reminder, the Government of Ukraine announced in May 2023 its plans to launch a national development finance institution, the Ukraine Development Fund (UDF) coordinated by Black Rock.

The fund, which is being created pro-bono for the Ukrainian government by BlackRock's Financial Markets Advisory team with help from JPMorgan, McKinsey and others, would then deploy the money toward reconstruction projects after the fighting stops. The fund aims to

use "blended finance" to attract a mix of private and public sector capital to the reconstruction of Ukraine.

Earlier the Ukrainian Economy Ministry Yulia Svyrydenko said to Forbes Ukraine that BlackRock would launch a "project team" in the first quarter of 2024 to work on establishing the UDF.

The BlackRock team together with the Government of Ukraine are focused on the legal structure of the fund, establishing the management structure, determining key investment principles and governance elements, developing a preliminary investment pipeline to help refine the proposition of the fund, and continuing engagement with other public and private stakeholders around the initial capitalization of the fund.

Sources: Ukraine Rebuild News

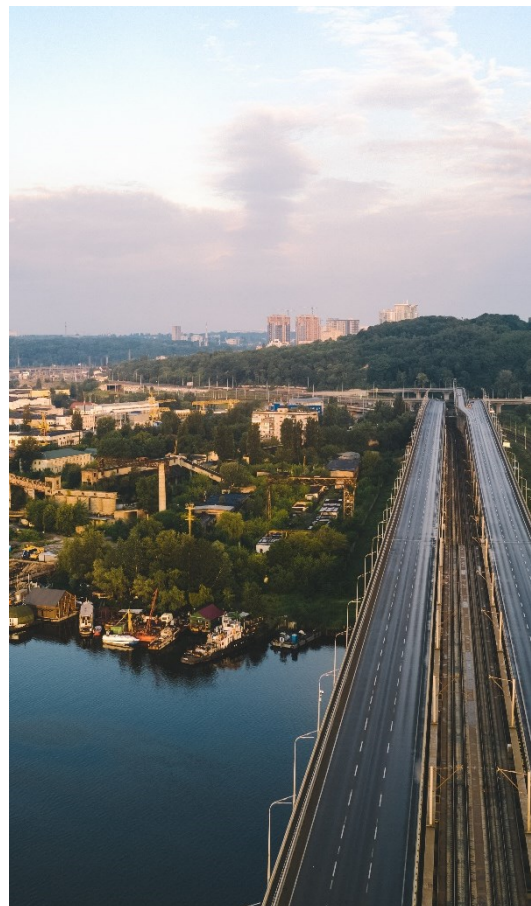
International benchmark

The IMF approves \$ 900 mln for Ukraine as a part of EFF

On December 11, the International Monetary Fund's executive board completed the **Second Review of the extended arrangement under the Extended Fund Facility (EFF) for Ukraine and approved a \$900 million disbursement for Ukraine**, which will be channeled for budget support.

According to IMF, the Ukrainian economy continues to show remarkable resilience, although the outlook remains subject to exceptionally high war-related uncertainty. Despite Russia's war in Ukraine, macroeconomic indicators have been stronger than expected, contributing to an upward revision in the growth outlook. Economic resilience has resulted in better growth outturns, continued sharp disinflation, and a stable foreign exchange market, including following the National Bank of Ukraine's successful transition to a managed exchange rate regime, backed by strong reserves. **The baseline projection for real GDP growth in 2023 has been revised up to 4.5 percent.**

Sources: IMF



Japan commits another EUR 160 mln for Ukraine's recovery

End of November, the Ukraine's Prime Minister Denys Shmyhal met in Kyiv with Japanese State Ministers Kiyoto Tsuji (Foreign Affairs) and Kazuchika Iwata (Economy, Trade and Industry), accompanied by the representatives of the Japanese business community.

The representatives of the Japanese Government have committed to provide EUR 160 million to fund various economic recovery projects. The State Ministers also assured that Japan's position on support for Ukraine would remain unchanged.

Crucial sectors targeted to attract private investment encompass defense, agricultural production, renewable energy, gas production and storage, green metallurgy, environmentally sustainable transport, healthcare, and pharmaceuticals.

Japanese firms possessing expertise in these domains, along with steel production, modular bridge manufacturing, cybersecurity, and bio-manufacturing, have shown enthusiastic interest in establishing operations in Ukraine.

Source: Governmental Portal, CFC Big Ideas

Reaffirmed support from Norway to Ukraine

During the meeting with the President Zelensky in Oslo mid-December, the Norwegian Prime Minister Jonas Gahr Store reaffirmed that Norway will continue to support Ukraine's fight for freedom. Norway will be donating additional air defence equipment to help protect the Ukrainians against Russian attacks and will provide financial assistance to the Ukrainian government administration to maintain critical public services such as schools and health care.



Prime Minister Store announced four key allocations to Ukraine under the Norwegian NOK 75 billion long-term support package (6,5 bn EUR).

- **Budget support: NOK 135 million (11,8 mln EUR)** to enable delivering critical services such as education, health care and payment of pensions. In addition, Norway will disburse **NOK 3 billion (260 mln EUR)** in budget support to Ukraine early next year, channelled through the World Bank.
- **Defence equipment: NOK 335 million (29 mln EUR)** for additional donations of air defence equipment to protect the Ukrainians against Russian attacks.
- **Defence industry: NOK 1 billion (87,5 mln EUR)** in co-financing to strengthen the capacity of the defence industry to produce more ammunition and missiles.

- **Humanitarian support: NOK 137 million (12 mln EUR)** in support to the UN's Winter Response Plan for Ukraine, earmarked for food and water, warm clothes, blankets, and places for people to stay if their housing is destroyed during the winter.

This funding is in addition to the contributions already announced in 2023.

Source: Norwegian Government

EUR 50 million grant from German KfW to support the affordable loans programme for SMEs

On 14 December, **Ukraine received EUR 50 million on a non-refundable basis from the German development bank KfW as part of the state support programme "Affordable Loans 5-7-9%"**.

The funds will be used to refinance the costs of the state support programme "Affordable Loans 5-7-9%", which will allow small and medium-sized businesses in Ukraine to continue to have access to concessional lending.

The state programme "Affordable Loans 5-7-9%" is implemented by the Business Development Fund, which provides financial support to Ukrainian businesses aimed at their recovery and development under martial law.

Source: Ministry of Finance of Ukraine

Reconstruction Case Study

Egis Ertle Engineering and reconstruction projects in Kyiv region

The reconstruction in Ukraine is driven by the private sector, which involves delivering projects in the public sphere at both the national and community levels, as well as operating and expanding facilities within Ukraine. Businesses, especially engineering and construction companies, are already actively involved in reconstruction projects in Ukraine with their solutions and expertise and by providing general design, civil works, and construction services. In this case study, **we will focus on several public projects implemented by Egis Ertle Engineering in the Kyiv region, exploring the challenges they pose, the strategies employed to overcome them, and the positive impact they have on the communities.**

Egis Ertle Engineering is an international engineering company specializing in industrial and infrastructure design. Primary working mostly with industrial projects in Ukraine, Egis Ertle Engineering works today on several reconstruction projects in the

Ukrainian communities. We had a chance to receive more details on two of them in the communities in Kyiv region, liberated in April 2022.



From left of right: Oleksandr Nazarov, Chief Engineer at Egis Ertle Engineering ; Vitalii KHOMAIIKO, Director of Egis Ertle Engineering

Project 1. Repair and modernisation of water supply systems in Ivankiv and Dymer

- **Funding: European Union**
- **Financing institution: Nordic Environment Finance Corporation (NEFCO)**
- **Procurement support: iC Consulanten and Urban Technology Alliance (UTA)**
- **Amount: ~4 mln euro**
- **Beneficiaries: Ivankiv and Dymer communities**

In December 2022, the European Union and Nefco announced an initiative for the reconstruction and repair of critical municipal infrastructure in Ukraine. The EUR 50 million action is being funded by the EU and managed by Nefco. In total, 12 severely damaged cities and urban villages in the Kyiv region, without the internal resources to design and implement reconstruction of critical infrastructure, have signed agreements with Nefco to receive grant funding from the EU.

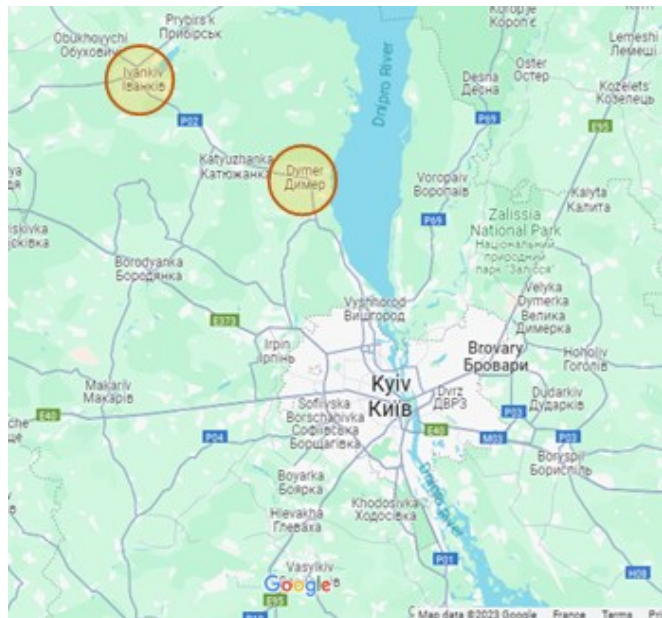
To build capacity, the communities and their project implementation units are receiving technical assistance throughout the project implementation phase. This includes project design, preparation of financial plans and procurement support from Nefco and contracted

consultants – CES-Clean energy solutions in association with iC Consulanten and Urban Technology Alliance (UTA).

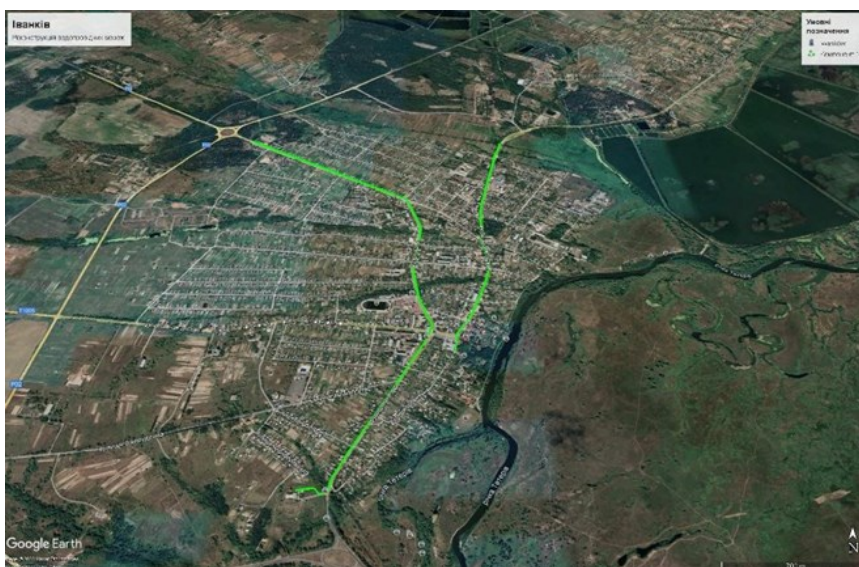
Egis Ertle Engineering is working in two urban villages alongside with their partner Watzenrode to repair the water supply systems, Dymer and Ivankiv, 50km and 80 km on the north from Kyiv respectfully, liberated in the beginning of April, 2022.

The working project envisages:

- Replacement of water supply networks on critical sections of key streets with high-density polyethylene pipelines (see the maps below);
- Installation of the maximum number of gravity-fed connections for existing subscribers, including multi-store residential buildings;
- 'Closed' method of laying pipelines without disrupting the landscaping and destroying green areas, using the of horizontal directional drilling (HDD) technology.



The total length of pipelines to be modernized is 11km: 6 km for Ivankiv and 5km for Dymer. In relation to critical infrastructure, the project’s objective is not only to repair damaged elements but also to modernize them, significantly enhancing their energy efficiency. It is worth highlighting that the system repair and modernisation is being executed without disconnecting from the old water supply system, ensuring continuous water supply to the population.



Ivankiv, water supply system map. Provided by Egis-Ertle Engineering.



Dymer, water supply system map. Provided by Egis-Ertle Engineering.

The implemented energy-efficient and sustainable engineering solutions will ensure water supply access for over 6,500 inhabitants in Ivankiv and Dymer, meeting the most of community’s needs.

It will improve the municipal services overall and will simply significantly the connections to water supply system in the municipality. Namely, according to Egis-Ertle Engineering, the project:

- will ensure the sustainable water supply in the communities for 5-10 years without major repairs;
- will minimize the water losses through gravity-flow connections;
- will ensure water disinfection and up to 20% reduction in water treatment chemicals.

The project is currently in its final construction stage, with the design and implementation phases spanning approximately 3 months in total.

Project 2. Restoration and thermomodernization of 5 multistore residential buildings in Borodianka, North-West from Kyiv

- **Funding:** European Union
- **Financing institution:** Nordic Environment Finance Corporation (NEFCO)
- **Procurement support:** iC Consulenter and Urban Technology Alliance (UTA)
- **Amount:** ~4 mln euro
- **Beneficiaries:** Ivankiv and Dymer communities

Another reconstruction project in Kyiv region, **Egis-Ertle Engineering is working on today is the project design of restoration of 5 multistore residential buildings in Borodianka, which have been severely damaged** during the first months of the full-scale war, 40km to the North-West from Kyiv.

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About Mazars

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[1] Where permitted under applicable country laws.