

ANALYSIS OF GAPS IN THE LEGAL AND REGULATORY FRAMEWORK OF UKRAINE REGARDING DEBT SECURITIES

(Including green bonds based on current developments by the NSSMC and NBU)



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List of completed works for the period



Participated in the Kick-off meeting with the UCO/GIZ team and confirmed the methodology.



Developed the first draft analysis of gaps in Ukraine's legal and regulatory framework, including sectors where green bonds can be applied.

Key results and achievements

1. Conducted an analysis of Ukraine's legislative framework — researched the Budget Code of Ukraine, laws and regulations governing the issuance of municipal and green bonds, as well as decisions of the National Securities and Stock Market Commission and NBU regulations.
2. Assessed the practice of bond issuance in Ukraine — collected and systematised data on municipal bond issuances in different cities, determined the volumes, terms and features of repayment
3. Compared the Ukrainian market with international standards — studied the requirements of the EU Green Bond Standard, examples based on the experience of the United Kingdom, Poland, China, Lithuania, Hungary and other countries.
4. Identified key gaps and barriers — the lack of a national taxonomy, a system for accrediting reviewers, mandatory reporting, incentive mechanisms for municipalities, etc.
5. Identified key recovery sectors for green bonds (energy, heat supply, housing and communal services, transport, water supply, digitalisation), aligned them with the European taxonomy and post-war reconstruction priorities, and supported the analysis with data from the State Agency for Energy Efficiency (USD 36 billion by 2030) and showed practical areas of application for the instrument.
6. Developed practical recommendations — proposed steps for harmonisation with European standards, preparation of municipalities, launch of pilot issuances and creation of an incentive system.



Problems and risks

Legal and regulatory gaps

- Lack of a national taxonomy of «green» projects — there is no clear list of what is considered «green,» investors rely on international standards, which creates legal uncertainty.
- There is no system for accreditation of external reviewers — the lack of an official register of verifiers reduces trust and increases the risk of greenwashing.
- The recommendatory nature of the NSSMC decisions — the rules and requirements are not mandatory, so issuers are not obliged to comply with them.
- There is no mandatory impact reporting and KPIs — investors cannot measure the real effect of the use of funds.
- Lack of regulation of social and transition bonds — limited range of instruments compared to international practice.

Financial and economic risks

- High borrowing costs for municipalities — competition with government Domestic government bonds makes domestic bonds «expensive.»
- Short turnover times (3–5 years) — not suitable for long-term green projects that require 7–15 years of financing.
- High cost of certification and low market liquidity are a barrier for small and medium-sized cities.

Political and geopolitical risks

- Ukraine's low credit rating (Ca, RD) increases risk and forces investors to demand additional premiums.
- The lack of special derisking mechanisms (state guarantees, international insurance, IFI guarantees) means that investors avoid investing in a country with high military instability.

Organisational and practical barriers

- Complexity and overregulation of issuance procedures — lengthy document preparation, numerous approvals, additional costs.
- Lack of human and financial resources in communities — the issuance procedure becomes almost impossible.

Appendices – developed documents and materials

- **Annex 1.** Report. Analysis of gaps in the legal and regulatory framework of Ukraine regarding debt securities (including green bonds based on current developments by the NSSMC and NBU).

INTRODUCTION

The legal framework of Ukraine has already created mechanisms for issuing debt securities, including municipal and green bonds. The Budget Code of Ukraine regulates local borrowings, but limits its purpose and debt burden. These processes are supervised by the National Securities and Stock Market Commission (NSSMC), while the Ministry of Finance of Ukraine maintains a register of local borrowings and local guarantees and monitors compliance with the established rules. However, there are still a number of gaps that complicate the use of debt instruments for large-scale financing of recovery.

Today, communities are looking for long-term, cheaper and transparent sources of financing for infrastructure development, energy efficiency improvements, urban mobility modernisation and the implementation of environmental projects aimed at reducing emissions and improving the quality of the environment. The capital market can play the role of such a source, provided that clear rules are followed, information is disclosed in a high-quality manner, and a list of projects is prepared.

Full-scale war has significantly increased risks for investors, which is holding back the active development of the municipal and green bond market. In these conditions, additional guarantees of transparency and trust become particularly important, including state support programmes, international insurance mechanisms and effective control over the use of funds raised. At the same time, the war has shown that recovery cannot be postponed: financing for critical infrastructure, energy and transport must be launched now, as these areas form the basis for the stability and development of the state during the war and post-war period.

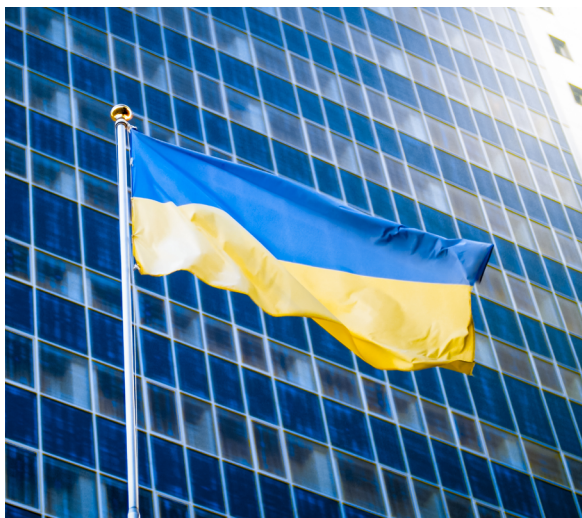


2. REGULATORY AND LEGAL FRAMEWORK OF UKRAINE

The sphere of local and green bonds in Ukraine is regulated by a set of budgetary, financial and stock market legislation. The foundation for the functioning of the bond market is the Law of Ukraine *«On Capital Markets and Organised Commodity Markets»*, which defines the main types of financial instruments, the procedure for their issuance, the requirements for disclosure of information by issuers and the role of the National Securities and Stock Market Commission (NSSMC) as a regulator. In the field of green bonds, the provisions of this law on transparency and timely information disclosure to investors are of particular importance, as they create a basis for trust and the development of sustainable financing. This framework is complemented by the Law of Ukraine *«On State Regulation of the Securities Market in Ukraine»*, which defines the powers and functions of the NSSMC as the main market regulator.

Key provisions regarding local borrowing are set out in Article 74 of the *Budget Code of Ukraine*. They establish permissible limits on the debt burden for municipalities (no more than 10% of the general fund budget revenue) and regulate the procedure for carrying out such operations. An important subordinate act is *Regulations on the Procedure for Issuing Domestic Local Loan Bonds, approved by the Decision of the National Securities and Markets Commission of Ukraine dated June 14, 2018 No. 391*, which defines the procedure for issuing, circulating, registering and reporting on municipal bonds.

The procedures are detailed in *Resolution of the Cabinet of Ministers of Ukraine dated February 16, 2011 No. 110 «On Approval of the Procedure for Implementing Local Borrowings»*, and a number of orders of the Ministry of Finance of Ukraine:



- *Order of the Ministry of Finance of Ukraine dated 25.07.2012 No. 866 «On Approval of the Procedure for Maintaining the Register of Local Borrowings and Local Guarantees».*
- *Order of the Ministry of Finance of Ukraine dated 02.04.2024 No. 171 «On Approval of Forms of Calculations during Local Borrowing».*
- *Order of the Ministry of Finance of Ukraine dated 02.04.2024 No. 172 «On Approval of Forms of Calculations when Providing Local Guarantees».*
- *Order of the Ministry of Finance of Ukraine dated 16.05.2024 No. 239 «Methodological recommendations on the organisation of local borrowing, provision of local guarantees, and management of local debt».*

An important strategic document is the *Order of the Cabinet of Ministers of Ukraine dated 21 July 2022 No. 175-r «On Approval of the Concept for the Introduction and Development of the Green Bond Market in Ukraine.»* It is the first time that green bonds have been defined at the state level as a separate financial instrument to support the energy transition and reconstruction of the country. The concept envisages the phased development of the market through the development of a national taxonomy of green activities, the introduction of a system for accrediting external reviewers, the preparation of regulations on issuer reporting, and the harmonisation of Ukrainian regulations with the European Green Bond Standard (EU GBS). It serves as a “roadmap” for market development and sets guidelines for the NSSMC, the Ministry of Finance, the NBU and other regulators.

Special attention is paid to market transparency: from 01 January 2024, [the Regulation on Disclosure of Information by Securities Issuers, approved by Decision No. 608 of the NSSMC's dated 6 June 2023, as in force.](#) According to this act, all issuers must ensure transparent and timely disclosure of information to investors regarding issuances. The introduction of this act was an important step towards increasing the transparency of the stock market and harmonizing Ukrainian standards with European practice. Its main goal is to ensure timely, complete and reliable information to investors about the activities of issuers, their financial condition, the results of securities issuance, and significant events that may affect the value of instruments or investment decisions.

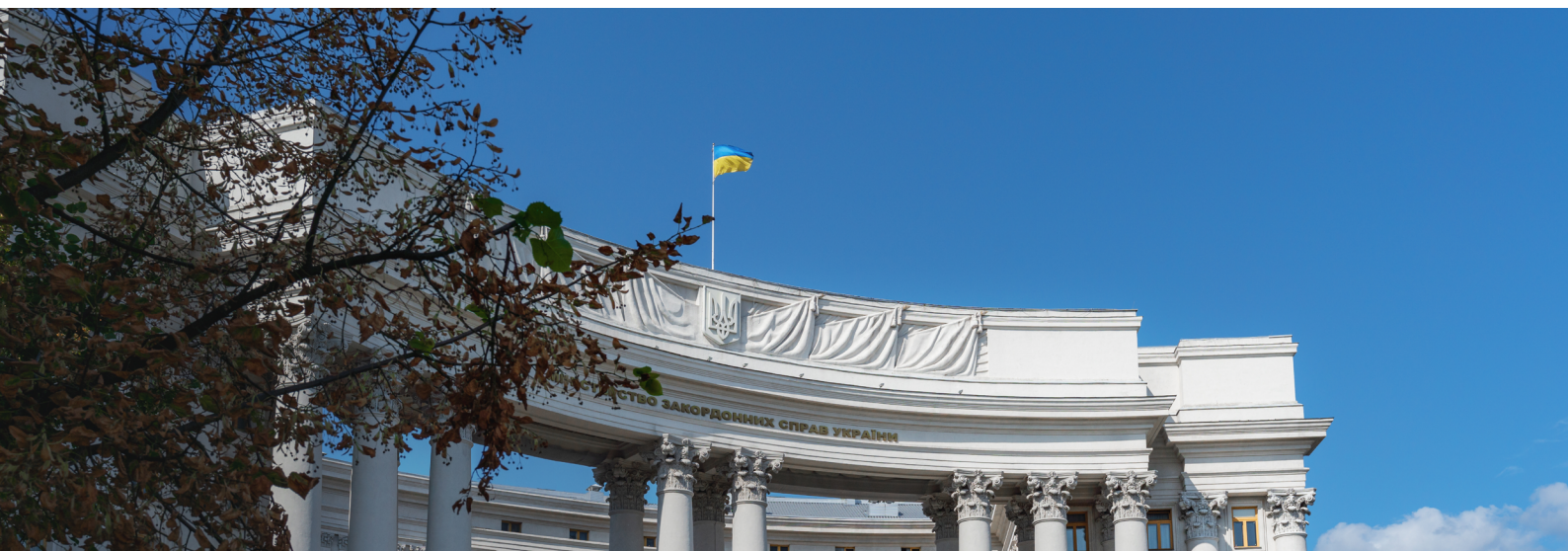
The Regulation applies not only to issuers of securities, but also to persons providing security for such securities, as well as to advisors involved in corporate law, making the disclosure system comprehensive. The document clearly structures the types of information that must be disclosed: regular (annual and interim financial statements and other mandatory data), special (information about significant events, changes in ownership or management, major transactions, restructuring, etc.), as well as special information about issues, including prospectuses and reports on the results of the placement. Unified forms and standardized cover sheets of notifications are provided, which ensures a uniform approach to their publication and facilitates investors' access to data. Reporting in XBRL format provides automated processing and increases transparency for the regulator and market participants. Disclosure deadlines are set quite clearly.

The introduction of this regime has a systemic impact on the market. First, it significantly reduces information asymmetry between issuers and investors, creating conditions for making more informed investment decisions. Secondly, standardization of forms and procedures increases data granularity and the level of trust in Ukrainian issues among institutional and international investors. Third, issuers' responsibility for the timeliness and completeness of disclosure is increasing, and failure to comply with the requirements may be grounds for sanctions. Thus, the Regulation on Disclosure of Information by Securities Issuers, approved by the decision of the NSSMC dated 06.06.2023 No. 608, lays the foundation for greater transparency and discipline in the capital market, which is critically important in wartime conditions and at the same time corresponds to the strategic goal of Ukraine's integration into the European financial space.

The development of the green bond market in Ukraine is based on a combination of legislative norms and special recommendations from the regulator. General requirements for disclosure of information by issuers are set out in Article 17 of the [Law of Ukraine «On Capital Markets and Organised Commodity Markets»](#), which establishes the obligation to provide timely, complete and reliable information to investors about the financial condition, securities issuances and significant events in the issuer's activities.

These provisions are specified by the decisions of the NSSMC:

- [Decision of the National Securities and Markets Commission of Ukraine dated 07.07.2021 No. 493 «Recommendations on the implementation or financing of environmental projects through the issuance of green bonds».](#)
- [Decision of the National Securities and Markets Commission of Ukraine dated 07.02.2024 No. 157 «Recommendations on the preparation of environmental impact reports for environmental projects that are fully or partially financed and/or refinanced with funds».](#)
- [Decision of the National Securities and Markets Commission of Ukraine dated 10.04.2024 No. 433 «Recommendations on the selection of environmental projects that can be financed by green bonds».](#)



In parallel, market functioning is affected by restrictions and requirements of the National Bank of Ukraine (NBU), in particular in the field of currency transactions and clearing and payment infrastructure. The basic document during the war period is [*Resolution No. 18 of the NBU Board dated 24 February 2022, «On the operation of the banking system during the period of martial law»*](#), which sets out the rules for transactions in national and foreign currency and regulates capital transactions.

Thus, the regulatory framework covers both local borrowing rules and the requirements for issuer transparency, instruments for green bonds and NBU regulatory

restrictions, which together determine the possibilities and limits for the development of the municipal debt market in Ukraine.

At the same time, it should be noted that the current regulatory framework is fragmented and incomplete: some of its elements are not yet harmonised with European standards, there is no national taxonomy of green projects, and there is a lack of clear mechanisms for accrediting external reviewers and standardised reporting requirements. This creates gaps that hinder the development of a fully-fledged market for green and municipal bonds in Ukraine.

3. RELEASE PRACTICE IN UKRAINE

The municipal and green bond market in Ukraine has limited but gradually growing experience. According to Article 15 of the [*Law of Ukraine «On Capital Markets and Organised Commodity Markets»*](#), decisions on the issuance of local loan bonds are made by representative bodies of local self-government. Such issuances are registered by the NSSMC in accordance with the [*Regulations on the Procedure for Issuing Domestic Local Loan Bonds, approved by NSSMC Decision No. 391 of 14 June 2018*](#).

In total, between 2003 and 2022, the NSSMC registered 90 issuances of municipal bonds worth over UAH 12.4 billion, and as of 2025, the total volume of issuance in Ukraine exceeded UAH 17.6 billion. About 20 municipalities have experience in using this mechanism, including 12 regional centres and a number of cities of regional significance. It is important to note that since Ukraine gained independence, there has not been a single case of municipal default that would have led to bad debt.

According to the National Securities and Stock Markets Commission, the most indicative is the experience of individual cities that have systematically used the municipal bond mechanism.

Kyiv City Council:	7 issuances totalling around UAH 2.6 billion, most of which have already been repaid; the latest series have a maturity date of 2026. The largest placements are in 2022 (UAH 1.5 billion) and 2021 (UAH 1.1 billion). Kyiv's total issuance volume in 2003–2022 exceeded UAH 10.8 billion (including UAH 5.4 billion in 2012 and UAH 2.6 billion in 2014).
Kharkiv City Council	6 issuances totalling approximately UAH 2 billion (2020), which have been fully repaid. The largest offering was UAH 1.5 billion in 2020 . In total, Kharkiv's issuance volume exceeded UAH 2.7 billion in 2005–2020.
Lviv City Council	6 issuances totalling UAH 1.64 billion. The largest packages were carried out in 2020 (UAH 900 million) and 2018 (UAH 740 million). In 2007–2020, the total volume of Lviv's emissions exceeded UAH 2.6 billion.
Ivano-Frankivsk City Council	3 issuances totalling UAH 300 million (2018), aimed at developing transport and municipal infrastructure. The total volume of Ivano-Frankivsk's issuance amounted to UAH 305.5 million (UAH 5.5 million in 2005 and UAH 300 million in 2018).

Odesa City Council

Had several small issuances, the largest of which took place in 2005 for UAH 150 million. The total volume of Odesa's issue was UAH 155 million.

Cherkassy City Council

Carried out 2 issues for a total amount of 65 million UAH (5 million in 2005 and 60 million in 2011).

In Ukraine, despite the absence of municipal green bond issuances, some corporate companies have already entered international markets with similar instruments.

In 2019, DTEK placed green bonds on the Irish Stock Exchange in the amount of € 325 million to finance renewable energy projects.

Also, in 2021, NPC Ukrenergo issued green bonds on the London Stock Exchange worth \$825 million to develop electricity transmission infrastructure.

These cases demonstrate the market's potential, but at the same time show that municipalities remain on the sidelines. The reasons for this lie in a number of systemic challenges, the key one being the high cost of borrowing.

One of the main barriers for municipalities is the need to compete with domestic government bonds (DGB). Income from DGB is not taxed, and the instrument itself is considered risk-free, so investors prefer them. To make local bonds attractive, issuers are forced to offer an interest rate that is not lower than the yield on DGBs with similar parameters, plus an additional premium to cover the tax burden on the investor and the risk premium associated with the fact that the issuer is not the state. As a result, the funds raised by communities become «expensive». In addition, the issuer's costs increase due to the need to act as a tax agent for all bondholders, ensuring the administration of income payments and redemptions, which is particularly relevant in the case of public placements among an unlimited circle of persons.

An important barrier is that when issuing bonds, the issuer (e.g., the city council) receives the entire amount of funds raised immediately after the placement is completed. This means that the city immediately assumes the obligation to service the full amount of the debt — to pay interest to investors on the entire loan amount, regardless of whether the actual work on the project has already begun or only part of the funds have been used. This feature creates an additional financial burden on the local budget, as interest payments begin to accrue from the first day after the funds are received.

In comparison, in the case of a bank loan, the financing mechanism is usually more flexible. The bank can provide funds in installments, in accordance with the investment project implementation schedule. In other

words, the money is allocated gradually, as the need for financing individual stages of work arises. This is convenient for the borrower, as interest is charged only on the amount that has actually been received and used. Accordingly, in the first months or even years of debt servicing, the financial burden may be significantly lower than in the case of bonds.

The process of issuing municipal bonds in Ukraine involves lengthy preparation of documents, numerous approvals and checks, registration of the issue with the NSSMC, and conclusion of agreements with depository institutions. Even for large cities, such as Lviv, the bond issuance procedure is complicated due to excessive regulation and significant organisational costs, but for small communities with limited human and financial resources, such requirements become an almost insurmountable barrier.

It should be noted that one of the significant barriers is Ukraine's low sovereign credit rating. According to Moody's, the country's rating is currently at Ca, which means «high speculation» and the likelihood of default. Fitch keeps Ukraine in the «Restricted Default» (RD) category, which indicates significant risks of debt default.

These assessments directly influence investor decisions: the high probability of default forces them to charge additional risk premiums, which increases the cost of raising funds for issuers — especially for municipalities.

In addition, standard terms of municipal bonds in Ukraine are usually only 3–5 years. Green projects (energy efficiency, transport infrastructure, renewable energy) require a longer financing horizon — at least 7–15 years. This discrepancy makes municipal bonds of limited use for financing long-term investments in sustainable development.

All these issues were discussed during a professional discussion held on September 12, 2025, also at the initiative of GIZ. It was attended by representatives of the Office of the President of Ukraine, central authorities, local governments and international experts. The

discussion focused on the practical aspects of issuing municipal and green bonds, as well as on the possibilities of adapting European experience to Ukrainian conditions.

4. COMPARISON WITH EU AND INTERNATIONAL STANDARDS

4.1 EU and EU Green Bond Standard

The European Union has taken a decisive step in forming a unified approach to green bonds by adopting Regulation (EU) 2023/2631. The document entered into force in October 2023 and applies from December 21, 2024. It established the EU Green Bond Standard (EU GBS) as a mandatory benchmark for the issuance of green debt instruments in the EU.

The EU GBS provides for the following key requirements:



Compliance with EU taxonomy

All projects financed must meet the technical criteria for sustainability and the «Do No Significant Harm» principle.



Transparency and accountability

Issuers are required to provide an annual allocation report (on the distribution of funds) and at least one impact report (on the environmental effect). The formats of these documents are standardised and set out in the annexes to the regulation (Annexes I–III).



External control

All issuances are subject to independent verification by external reviewers who must be accredited by the European Securities and Markets Authority (ESMA).



Financial discipline

The funds raised must be accounted for in separate accounts or in specially designated portfolios to prevent mixing with other financial flows.



Uniform disclosure standards

All data for investors is provided in a standardised form, which facilitates comparison of issuances and increases confidence in the instrument.

4.2 International practices

Global Green Bond Market is developing dynamically, and examples from different countries confirm that the key to success lies in a combination of a clear regulatory framework, investor confidence and innovative instruments. Ukraine, which is in the process of developing its own approach, can use this experience to avoid mistakes and accelerate its integration into the European financial space.

Global Sustainable Bond Market (green, social, sustainable and sustainability-linked) is growing rapidly. In 2024, the volume of new issuances exceeded \$1.1 trillion, and cumulatively, by the end of the year, reached \$5.7 trillion. Green bonds account for the largest share — 62% (USD 3.4 trillion). Already in the first quarter of 2025, the cumulative market volume grew to USD 5.93 trillion, confirming the dynamics and significant interest of investors.

European Investment Bank and World Bank

In 2007–2008, European Investment Bank and World Bank launched the world's first green bond issuances, laying the foundation for all subsequent practices. It was their model of transparency, independent auditing and regular reporting that became the prototype for the modern Green Bond Principles and later the EU Green Bond Standard. Today, these institutions remain leading issuers, setting the tone for the global market.

Great Britain

Issued its first «green gilts» in 2021, raising £10 billion with demand exceeding £100 billion. This showed that with transparent rules and political support, demand for such instruments can far exceed supply. In total, the government received £16.1 billion in green financing in 2021–2022. Importantly, the UK's Green Financing Framework combines environmental and social criteria, thanks to which investors perceive green gilts not only as a financial instrument but also as an «impact» instrument.

China

Demonstrates how the market can scale up thanks to coordinated government policy. While the volume of issuances in 2020 was around \$44 billion, by 2024 it will be almost \$70 billion. This success can be explained by three factors:

1. The inclusion of green financing in national development strategies.
2. The harmonisation of national taxonomy with European taxonomy through the Common Ground Taxonomy.
3. The active participation of state-owned banks, which have become the main issuers and investors.

China's experience confirms that without a clear government policy, the market develops slowly.

Hungary

In April 2025, Hungary made history as the country that issued the world's longest green bonds, with a maturity of 30 years. This move opened up the market to long-term institutional investors, such as pension funds and insurance companies. At the same time, Hungary carried out its first multi-currency issuances (euro, yuan, yen), thereby diversifying its buyer base and strengthening confidence in its own financial system. This example is valuable for Ukraine because it shows that even a country with high political risks can attract investors thanks to the innovativeness of the instrument.

Netherlands

Netherlands to pioneer digital green bonds in 2023 by placing them on a public blockchain. This ensured maximum transparency, the ability to track funds in real time, and reduced transaction costs. This innovative approach allows for expanding the circle of investors, including retail ones, and making the market more accessible. For Ukraine, this is a signal: digitalisation can become a tool for increasing confidence in the bond market even in high-risk conditions.

Poland

In 2016, Poland became the first country in the world to issue green government bonds. *Since then, the country has regularly issued bonds, with a total value exceeding €2 billion.* The Polish model is based on regularity, which creates stable demand and investor confidence. The funds are directed towards transport development, housing modernisation, waste management and renewable energy.

Lithuania

Lithuania entered the green bond market in 2018, and municipalities subsequently followed suit. Lithuania's practice is valuable in that it was based from the outset on compliance with EU taxonomy, which guarantees compatibility with EU GBS. This allows the country to attract international investors even despite the relatively small volume of issuances.

Romania

In 2023, Romania adopted the Green Bond Framework, which fully took into account the requirements of the EU GBS, and in 2024, it made its first sovereign green bond issue on the international market. Despite its lower credit rating, the country successfully attracted investors thanks to its compliance with European standards and transparent reporting.

International experience shows several key patterns:

- **High demand** arises when there is trust in the regulatory system (United Kingdom, Poland).
- **Market scaling** is only possible through coordinated government policy and national taxonomy (China, Lithuania, Romania).
- **Innovative tools** increase trust and expand the circle of investors (the Netherlands, Hungary).
- **International institutions** (EIB, World Bank) remain a pillar that shapes rules and ensures transparency.

For Ukraine, this experience means that in order for the green market to become a driver of recovery, it is necessary to combine European standards, regular issuances, digitalisation of instruments and international support.



4.3 Ukrainian context

In Ukraine, the foundation for the development of green financial instruments has already been laid at the legislative level. Green bonds are officially recognised as a separate type of debt securities. In 2022, *Concept of Development of the Market for Green Financial Instruments* was adopted, and *the Energy Strategy of Ukraine until 2050* identifies green bonds as one of the key instruments for financing the energy transition. This demonstrates political recognition of the importance of this market and its potential for post-war reconstruction.

At the same time, in practice, the Ukrainian framework remains incomplete and contains a number of significant gaps:

Lack of national taxonomy

There is no single approved list of activities and criteria that are officially recognised as «green». This creates legal uncertainty and forces investors to rely on European or international standards, which are not always adapted to Ukrainian conditions.

Lack of an accreditation system for external reviewers

Ukraine does not have a register of independent verification organisations that could confirm the «greenness» of projects. This reduces the confidence of international investors, as verification remains unsystematic and often expensive.

The advisory nature of the NSSMC's decisions

The 2021 and 2024 documents contain useful methodological advice on green issuance, project selection and reporting. However, they do not have the force of law and therefore do not create binding rules for issuers. This limits their practical effectiveness and leaves the market in a «grey» area.

Lack of mandatory impact reporting

Issuers are not required to report regularly on the specific environmental results achieved with the funds raised. Similarly, there are no unified KPIs (e.g., reduction of CO₂ emissions, production of additional MWh of clean energy, reduction of water consumption, or waste recycling).

High certification costs and low liquidity

For potential issuers (especially municipalities), green bond certification remains too expensive, and the secondary market is almost undeveloped. This makes the instrument unattractive for widespread use.

As a result, unlike the EU and leading countries, where clear standards and external control mechanisms are already in place, **Ukraine is only at the stage of implementing recommendations**. Because of this, the level of trust in Ukrainian green bonds on the part of international investors is limited, and access to global markets is significantly complicated.



4.4 Conclusions for Ukraine

The experience of the EU and international practices confirms that Ukraine needs to take several key steps for the successful development of the green and municipal bond market.

1. Harmonisation with EU GBS

Harmonisation with the European Green Bond Standard (EU GBS) should be a priority for the NSSMC, the Ministry of Finance and the NBU. This will ensure Ukraine's integration into the single European capital market, enable Ukrainian issuances to meet the expectations of institutional investors and reduce borrowing costs by increasing confidence.

2. National taxonomy of green projects

A single national taxonomy needs to be adopted to define which activities are considered «green». It should be linked to the priorities of post-war reconstruction – renewable energy, modernisation of heating and power utilities, transport infrastructure, and waste management. This will help avoid confusion and ensure transparent allocation of funds to critically important areas.

3. Register of accredited reviewers

The lack of an accreditation system for external verification organisations in Ukraine creates a serious barrier to trust. The creation of a public register of accredited reviewers (based on the *European Securities and Markets Authority* model in the EU) will allow investors to be confident that the assessment of the «greenness» of projects is carried out professionally and independently. It will also minimise the risks of greenwashing, where projects are only formally declared as environmentally friendly.

4. Mandatory impact reports and KPIs

The introduction of mandatory impact reporting with specific KPIs (e.g., CO₂ reduction, clean energy production, number of modernised buildings) will increase transparency and allow investors to truly measure the effectiveness of their investments. This is critically important for international funds that invest in green instruments precisely because of their long-term effect.

5. Learning from neighbours

Ukraine can significantly accelerate the formation of its own system, drawing on the examples of neighboring countries:

- **Poland** is a pioneer among sovereign green bonds, where the regularity of issuances has created market confidence.
- **Lithuania** ensured from the first steps compatibility with the EU taxonomy, which allowed it to attract international investors.
- **Romania**, even with a lower credit rating, was able to successfully issue thanks to a transparent framework that takes into account EU GBS requirements.

5. KEY GAPS IN THE LEGAL AND REGULATORY FRAMEWORK

Despite the existence of a regulatory framework for the issuance of municipal and green bonds, Ukraine's legal framework remains incomplete and fragmented. An analysis of documents (the Budget Code of Ukraine, the Law of Ukraine «On Capital Markets and Organised Commodity Markets», decisions of the National Securities and Stock Market Commission, resolutions of the National Bank of Ukraine) reveals a number of key gaps that hinder the development of this market segment.

5.1 Lack of a national taxonomy of green projects

Ukraine has not yet adopted its own taxonomy of green activities that would determine which projects can be financed through green bonds. *The Concept for the Development of the Green Financial Instruments Market (2022)* provides for the development of a taxonomy, but the document remains at the development stage. The existing recommendations of the National Securities and Stock Market Commission: decision dated 07.07.2021 No. 493 «Recommendations on the implementation or financing of environmental projects through the issuance of green bonds», decision dated 07.02.2024 No. 157 «Recommendations on the preparation of environmental impact reports for environmental projects that are fully or partially financed and/or refinanced with funds raised from the placement of green bonds» and decision dated 10.04.2024 No. 433 «Recommendations on the selection of environmental projects that can be financed through green bonds» — cover only general criteria and reporting requirements, but do not contain clear lists of sectors and indicators.

Unlike the EU Taxonomy and the Common Ground Taxonomy (EU-China), the Ukrainian framework does not establish the principle of «Do No Significant Harm», does not define limits for social or climate risks. This creates legal uncertainty, reduces investor confidence and complicates Ukraine's integration into the EU market.

5.2 Lack of a system of accreditation and oversight of external reviewers

Currently, Ukraine lacks a mechanism for official accreditation of independent verifiers, who confirm the environmental friendliness and targeted use of funds from bond placements. The *NSSMC Decision No. 433 of 10 April 2024*, «Recommendations on the selection of environmental projects that can be financed by green bonds,» mentions the need for environmental expertise but does not provide for the creation of a systematic register of verifying organisations. In the EU, such reviewers are accredited by **ESMA** in accordance with the EU GBS.

However, in Ukraine, inspections can be carried out by private companies, but the lack of a single standard increases the risk of **greenwashing** (when projects are only formally called «green»).



5.3 Lack of incentives for municipal green issuances

The Law of Ukraine «On Capital Markets and Organised Commodity Markets» and the Budget Code of Ukraine regulate local borrowing, including through the issuance of green bonds, but do not contain provisions that would stimulate or simplify «green» issuances at the municipal level. The NSSMC Regulation No. 391 of 14 June 2018 establishes a general procedure for issuing domestic local loans, but does not provide for special requirements or preferential mechanisms for green projects. As a result, despite the existence of basic legislative regulation, the instrument of green municipal bonds is not currently used.

Additional issuances that need to be addressed include:

- reducing the burden on municipal budgets when issuing bonds through state programmes, in particular by compensating for the principal debt and partially paying interest on the bond issue;
- elimination of excessive regulatory barriers to bond issuance;
- increasing the institutional capacity of regions to use bonds;
- establishing a special procedure for the issuance of bonds by local authorities in frontline territories.

5.4 Uncertainty regarding the frequency of reporting

NSSMC Decision dated 07.02.2024 No. 157 Recommendations on the preparation of environmental impact reports for environmental projects that are fully or partially financed and/or refinanced with funds raised from the placement of green bonds” it provides for environmental impact reporting but is of a recommendatory nature and does not establish mandatory frequency or unified KPI formats. In contrast, in the EU, issuers are required to submit an annual **allocation report** (report on the use of funds) and at least one **impact report** (report on environmental impact), prepared in standardized forms (Annexes I–III to Regulation 2023/2631). In Ukraine, however, the lack of clear requirements leads to a situation where investors do not have sufficient confidence in the measurement of actual results.

5.5 Lack of regulation of other sustainable instruments

The Ukrainian regulatory framework covers social, sustainability or transition bonds, which are already actively developing in international markets.

- This limits the possibilities for financing a wide range of projects, from the restoration of social infrastructure to the gradual transition from coal to clean energy.
- In international practice, these instruments often go hand in hand with green bonds and form a comprehensive framework of Sustainable Bonds.

5.6 Lack of rules for disclosing military risks

- Under martial law, investors expect special rules on the disclosure of military risks, insurance mechanisms or guarantees from international partners (drawing on the experience of the Export Credit Agency in insuring military risks).
- The documents of the NSSMC or the Ministry of Finance currently do not contain separate provisions that would reduce the risk for investors (e.g., state guarantees or the participation of international financial institutions as underwriters).
- This limits the attraction of private capital, as even investors with an ESG mandate avoid markets with high geopolitical instability without transparent protection mechanisms.

The fragmentation of the regulatory framework and the lack of mandatory standards and accreditation mechanisms prevent the Ukrainian green and municipal bond market from becoming a fully-fledged element of post-war financing.

6. RECOVERY SECTORS FOR GREEN BONDS (INCLUDING MUNICIPALITIES' POSITIONS)

Local governments see green bonds as a possible tool for financing critical infrastructure. They are most interested in developing distributed generation, which simultaneously reduces emissions and increases the energy security of communities. To implement such projects, communities need standard technical solutions and co-financing from international partners.

The heat supply segment is a key entry point for municipal green bonds, as most operators are owned by communities. Green issuances can be a source of funding for network modernisation and reducing gas dependence.

In the field of housing and communal infrastructure, green bonds can finance large-scale energy efficiency programmes, such as the insulation of multi-storey buildings and the renovation of schools, hospitals and kindergartens. This is directly in line with the priorities for reconstruction.

Communities also express interest in transportation, particularly the modernisation of electric transport and charging infrastructure. Experience of cooperation with the EBRD and EIB has already demonstrated the effectiveness of credit mechanisms, and green bonds can complement this practice.

A separate area is water supply, sanitation and waste management, where municipalities are responsible for management. Potential projects include the modernisation of treatment facilities, the degassing of landfills and the construction of waste processing complexes.

Also, within the taxonomy, green bonds can finance the development of digital infrastructure in cities, including smart energy consumption and public service management systems.

According to the State Agency for Energy Efficiency, the potential of the Ukrainian green bond market by 2030 is about \$36 billion. This opens up significant opportunities for financing energy efficiency, transport modernisation, renewable energy, water supply systems and the development of a circular economy. The key task will be to form a pool of bankable projects that meet the requirements of the EU Taxonomy and allow Ukraine to integrate into the global sustainable finance market.

7. RECOMMENDATIONS

1. Regulatory harmonisation and standardisation

Taking into account the provisions of Article 18 of the *Law of Ukraine «On Capital Markets and Organized Commodity Markets»*, it is advisable to detail the requirements for issuers and environmental projects in accordance with European standards. First of all, the specified article should be supplemented with norms that will provide for mandatory compliance of environmental projects with the criteria of *European Union Regulation (EU) 2020/852 (EU Taxonomy Regulation)*. In addition, it is necessary to introduce a requirement for external verification of environmental projects before and after the placement of bonds in accordance with the provisions of *Regulation (EU) 2023/2631 (EU Green Bond Standard)*.

To propose to the Cabinet of Ministers of Ukraine to develop and approve a regulatory act that will establish the classification of environmentally sustainable (green) sectors of the economy, technical criteria for classifying activities as sustainable, as well as the procedure for its updating and application in accordance with the provisions of *European Union Regulation (EU) 2020/852 (EU Taxonomy Regulation)*. The said resolution should also determine the procedure for creating and maintaining the National Register of Independent Verifiers of Green Bonds, the procedure for their accreditation, re-certification and activity control.

To amend Article 18 of the *Law of Ukraine «On Capital Markets and Organized Commodity Markets»*, providing for the mandatory annual submission by issuers of green bonds of an environmental impact report (impact report)

containing key performance indicators (KPIs) determined by the National Securities and Stock Market Commission in accordance with international standards and provisions of *Regulation (EU) 2023/2631 (EU Green Bond Standard)*, with the provision of an external audit (post-issuance review) by an independent verifier.

To propose to the NSSMC to develop and approve the Regulation «On environmental (impact) reporting of green bond issuers», which would determine the structure, content, and list of main environmental KPIs.

To propose to the NSSMC to review the current regulatory legal acts regulating the procedure for registering bond issues and prospectuses in order to simplify procedures for green bond issuers.

It is advisable to provide for a reduction in the time limits for document review, the possibility of submitting materials in electronic form, the introduction of a simplified procedure for approving issue prospectuses for projects that meet the requirements of *Regulation (EU) 2023/2631 (EU Green Bond Standard)*, as well as eliminating duplication of approval procedures between state bodies.

In conditions of martial law, develop special rules for disclosing military risks, and also provide for insurance mechanisms or guarantees from international partners, using the experience of the Export Credit Agency of Ukraine in insuring military risks.

Responsible bodies

NSSMC, Ministry of Economy, Ministry of Finance.



2. Practical guidelines for municipalities

- Prepare step-by-step methodological guides and templates for issue prospectuses focused on the needs of local governments (for example, a scientific and practical guide for specialists of local governments «Financial Instruments: Municipal Bond Issuance» by V. Kozak, S. Moskvina and V. Pospolitak).
- Organize a system of education, training and consultations for representatives of local governments on the procedures for issuing, placing and servicing bonds.
- Engage international donors and partner institutions to finance the preparation of training materials and programs.
- To increase the institutional capacity of regional authorities is to develop their professional competencies, organizational processes and technical resources for the effective use of municipal bonds. This includes training specialists in planning, issuing and servicing bonds, improving internal procedures and work standards, as well as ensuring access to modern information and analytical materials. The ability to assess the financial needs of the community, predict the consequences of issuing bonds and integrate them into budget strategies is formed.

Responsible bodies

Ministry for Communities and Territories Development, NSSMC, international organisations.

3. Pilot issuances as success stories

- Launch several demonstration issues of securities (in particular in Lviv, Kyiv and other large cities). Such issues of securities should become practical examples of the effective use of the instrument and confirm its effectiveness in real economic conditions. The pilot issue should be carefully prepared. It is necessary to determine the volume of the issue, the purpose of the funds, the terms of service and repayment mechanisms. It is also important to record the conditions for attracting investors, the procedure for distributing risks and a system for controlling the use of the resources involved.
- Transparency of all stages, from planning to reporting, will ensure market trust and create a basis for further practices. The results of each pilot issue should be made public in an open format — through reports, presentations, public discussions and other communication mechanisms. This will contribute to increasing transparency, exchange of experience and dissemination of best practices among communities.
- Involve international organizations as anchor investors or guarantors.

Responsible bodies

NSSMC, Ministry of Finance, local councils, international partners (EIB, World Bank).



4. Фінансовий сектор і інтеграція ESG

- Integrate climate risk assessment into banks and insurance companies.
- Encourage the development of «green credit lines».
- Use the EU experience in transitioning to floating rates.

Responsible bodies NBU, Ministry of Finance, NSSMC.

5. Financially sustainable projects

- Create a state pool of priority infrastructure and green projects.
- Ensure independent verification of such projects.

Responsible bodies Ministry of Economy, Ministry for Communities and Territories Development, Ministry of Finance, international partners (IFC, EBRD).

6. Incentives and support from the State

Develop and amend the Tax Code of Ukraine, providing for tax benefits for issuers of green bonds and investors financing environmental projects, in particular:

- consider the possibility of exempting from taxation income (profit) received from transactions with state and municipal green bonds, or applying a reduced tax rate to income from corporate green investments.
- consider the possibility of including the costs of verification and preparation of the issue in the tax credit.

Instruct the Cabinet of Ministers of Ukraine to develop a mechanism for partial compensation of the costs of external verification of green projects and bond issuance at the expense of the state budget or international technical assistance.

Consider the possibility of introducing a mechanism for subsidizing interest rates on «green» loans and

municipal bonds aimed at financing energy efficiency projects, waste recycling, decarbonization of production, and development of sustainable infrastructure. To this end, amend the resolutions of the Cabinet of Ministers of Ukraine regulating programs of state financial support for business entities (in particular, the program «Affordable Loans 5–7–9%»), providing for a separate direction of «green financing», within the framework of which the state will compensate part of the interest rate to investors or local governments implementing environmental projects.

Provide for a separate program of support for local borrowing in the form of green bonds in the State Budget of Ukraine, which will provide partial compensation for the costs of local governments related to the issuance and placement of such bonds, as well as the possibility of compensating part of the principal debt or interest at the expense of state programs.

Responsible bodies Ministry of Finance, Ministry of Economy, Ministry of Development, Verkhovna Rada of Ukraine (legislative changes).

7. Joint release model

Develop a legal mechanism for joint issuance of municipal bonds by several territorial communities, providing for amendments to the *Budget Code of Ukraine, the Law of Ukraine «On Local Self-Government in Ukraine»* and the *Law of Ukraine «On Capital Markets and Organized Commodity Markets»* in order to determine the legal basis for joint local borrowing.

Instruct the Cabinet of Ministers of Ukraine to prepare a relevant draft law and submit it for consideration by the Verkhovna Rada of Ukraine, and the National Securities

and Stock Market Commission to develop a by-law on the procedure for joint local borrowing and registration of joint issues of municipal bonds.

Combining strong and weaker communities will allow for the distribution of costs and increase investment attractiveness.

Establish a special procedure for issuing bonds by local authorities in frontline territories.

Responsible bodies

Ministry for Communities and Territories Development (coordination), NSS-MC (regulation), local councils (initiative).

