Green Recovery of Ukraine: Environmental Risks of International Financing and Mechanisms for Their Prevention

How to ensure that reconstruction projects meet not only investment priorities but also Ukraine's environmental obligations

Author: Tymur Pliushch

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Relevance of the Issue

Russia's fullscale aggression has inflicted enormous physical and economic losses on Ukraine. According to the joint Rapid Damage and Needs Assessment (RDNA5) by the Government of Ukraine, the World Bank, the European Commission and the United Nations, as of the end of 2025 direct physical damage amounted to USD 195.1 billion, economic and social losses to USD 666.7 billion, and recovery needs over the next decade to USD 587.7 billion. The KSE Institute estimates indirect losses incurred and projected through the end of 2026 at USD 1.7 trillion in lost revenue and USD 600 billion in lost value added. These figures describe different economic categories and must not be added together.

Given the scale of destruction, external financing is indispensable for reconstruction. Yet scarce resources make it essential to consider not only the speed and volume of investment but also its longterm environmental consequences. Reconstruction should not reproduce the prewar energy and resourceintensive economic model; it should support decarbonisation, more efficient resource use and the preservation of natural capital.

Ukraine's commitments under the Paris Agreement and its European integration objectives require progressive emissions reductions and stronger environmental protection. In particular, Ukraine's second Nationally Determined Contribution (NDC2) sets a greenhouse gas emissions reduction target for 2035. At the same time, renewable energy development does not automatically make every individual project environmentally acceptable: climate benefits do not eliminate risks to natural habitats, biodiversity and water resources.

In this context, proper application of the environmental impact assessment (EIA) procedure established by the Law of Ukraine "On Environmental Impact Assessment" is particularly important. Its purpose is not merely to complete procedural steps and obtain an EIA conclusion, but to identify significant impacts, examine reasonable alternatives, consider public comments and establish conditions for preventing environmental harm. A purely formal EIA unsupported by sufficiently comprehensive studies risks financing decisions being made on incomplete environmental information.

Risks of Financing Environmentally Harmful Projects

The cases below illustrate a common problem: formal procedural compliance or a positive climate profile does not always ensure substantive consideration of environmental impacts. The subject of the research is not whether renewable energy or transport modernisation are desirable per se, but the quality of ecological reasoning supporting the financing of specific projects.

Formalistic EIA and Project Fragmentation

Construction of a 156 MW wind farm on Mount Runa is taking place amid Ukraine's urgent need for new electricity generation capacity. However, according to an analysis by CEE Bankwatch Network, the project raises concerns about impacts on valuable mountain ecosystems, natural habitats and protected species. A particular issue is socalled "salami slicing", whereby access roads and other interconnected infrastructure components may be assessed separately rather than as a single project. This creates a risk of underestimating cumulative impacts on landscapes, soils, vegetation and biodiversity.

Another issue concerns financing ancillary assets. Oschadbank reported a UAH 147 million loan to Friendly Wind Technologies for the purchase of a LIEBHERR LG 1750 crane. This itself does not prove that the loan was financed with EBRD funds; asserting otherwise without additional documentation would be inaccurate. Nevertheless, the case raises a fundamental question: does environmental due diligence consider the intended use of an asset and its connection to a larger infrastructure project that may have significant environmental impacts?

Incomplete Assessment of Impacts and Alternatives

Wind energy facilities with a combined capacity of 147 MW in Volyn region received EUR 157 million in debt financing involving the EBRD, IFC and the Black Sea Trade and Development Bank. The anticipated production of renewable electricity and reduction in greenhouse gas emissions are significant project benefits. However, these outcomes must be considered alongside, rather than in place of, an assessment of risks to natural habitats, birds and bats.

The EBRD project documentation identifies environmental risks and provides for management measures. The subject of critical scrutiny is therefore not the absence of assessment, but its adequacy: whether cumulative effects have been covered, realistic alternatives in siting and technical design examined, and measures to avoid biodiversity impacts properly substantiated. Specific allegations that impacts on the Luha nature reserve were overlooked require corroboration by the relevant EIA documentation.

Focusing on Procurement Rather Than Systemic Outcomes

Urban public transport modernisation projects supported by the European Investment Bank reveal another risk: financing individual purchases without sufficiently ensuring longterm environmental outcomes. According to a 2025 CEE Bankwatch Network study, more than 95% of funds disbursed within the mentioned programme were spent on vehicle purchases, while only 4.8% went towards infrastructure modernisation. Of the 296 vehicles financed under the first project, 159 (53.7%) were diesel buses.

Although Euro 6 vehicles can reduce emissions of certain air pollutants compared with older buses, they do not eliminate greenhouse gas emissions from burning fossil fuels. Insufficient upgrading of depots, overhead contact networks and substations also limits the potential for further development of electric transport. Investment performance should therefore be assessed not only by the number of vehicles purchased, but also by their contribution to longterm decarbonisation and the functional sustainability of transport systems.

Summary of Risks

Taken together, these cases reveal a tension between the need to restore infrastructure rapidly and the obligation to account for longterm environmental consequences. Exceptional circumstances may justify accelerated procedures, but must not substitute for risk analysis, meaningful examination of alternatives and transparent oversight. Otherwise, investments may finance assets that generate additional environmental costs, degrade natural ecosystems or fail to meet communities' longterm needs.

Recommendations for International Financial Institutions

These examples demonstrate the need to focus on the quality of environmental safeguards and the evidence underpinning financing decisions, rather than merely increasing procedures.

First, ensure proper implementation of the environmental impact assessment procedure prescribed by Ukrainian law.

Financing decisions should verify not only the existence of an EIA conclusion but also the completeness of the underlying materials and compliance with Article 6 of the Law of Ukraine "On Environmental Impact Assessment". In particular, the report must contain a reasoned analysis of alternatives, an assessment of direct, indirect and cumulative impacts, and consideration of effects on biodiversity and other environmental components. Artificially dividing interconnected project components must not narrow the scope of EIA or conceal their combined impacts. Where national law provides exceptions to the EIA procedure, lenders should ensure appropriate environmental due diligence under their applicable standards.

Second, link financing decisions to substantive analysis of environmentally acceptable alternatives.

Taking the mitigation hierarchy into account, priority should be given to avoiding harm, not compensating for it after project implementation. This approach is consistent with the European Commission's Do No Significant Harm (DNSH) principle, whereby an activity contributing to one environmental objective should not significantly harm others.

According to the European Commission's technical guidance on applying DNSH, the environmental acceptability of investments should be assessed, taking the six EU environmental objectives into account, including climate change mitigation, protection of water resources, and biodiversity and ecosystem conservation. Compliance with legally required procedures, including EIA, does not in itself guarantee DNSH compliance. Financing decisions must therefore consider potential harm beyond climate impacts, alternative locations and technologies, and ways to prevent harm to natural habitats and protected species.

At the same time, DNSH should be regarded not only as a requirement of particular European financing mechanisms, but also as a guiding principle for international financial institutions. Even where specific European Commission technical guidance is not legally mandatory, its approaches can help ensure environmental integrity in investment. Institutions supporting green recovery should align their environmental commitments with financing practice. Projects advancing decarbonisation while risking significant harm to biodiversity or ecosystems question their alignment with the Sustainable Development Goals (SDGs).

Third, strengthen environmental oversight of financing channelled through financial intermediaries.

The use of intermediary banks enables international financial institutions to expand access to financing, but also creates risks of insufficient transparency and limited oversight of the environmental consequences of final projects.

A joint study by Counter Balance and CEE Bankwatch Network (2020) identified weaknesses in the EIB's disclosure, due diligence on final recipients, and oversight of environmental and social standards.

These findings underline the need for appropriate environmental oversight not only at the financial intermediary level, but also at the level of the ultimate project. International financial institutions should ensure traceability of funds, verify links between financed assets and larger infrastructure projects, and apply relevant environmental and social standards to final beneficiaries. Particular attention should be paid to projects that may significantly affect biodiversity, protected areas and other sensitive ecosystems. Channelling funds through an intermediary must not weaken EIA requirements or accountability for environmental consequences.

Fourth, assess longterm environmental outcomes and ensure transparent monitoring.

Investment effectiveness should be measured not only by funds disbursed and construction works completed, but also by actual impacts on natural ecosystems, compliance with binding EIA conditions, lifecycle emissions reductions and prevention of fossil fuel dependency. Key environmental commitments, monitoring findings and corrective actions should be disclosed to the extent compatible with lawful restrictions on sensitive information.

Conclusion

International financing will determine not only the pace of Ukraine's postwar recovery but also the environmental quality of its future economy. The cases examined show that even projects with clear energy or transport benefits require proper assessment of impacts on biodiversity, natural habitats and the climate. Formalistic EIA, inadequate examination of alternatives and fragmented financing risk leaving significant environmental consequences outside investment decisions.

International financial institutions should ensure that assessment procedures are genuinely aimed at preventing harm, not merely at meeting formal requirements. Combining infrastructure reconstruction with effective environmental law enforcement and longterm oversight must form the foundation of Ukraine's sustainable development.

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