A framework for Member States to support business in improving its resource efficiency

An Analysis of support measures applied in the EU-28

Measure synthesis

Improving financing
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Improving financing

Financial support can be an effective way to encourage resource efficiency in businesses that might not otherwise have the capacity to make resource efficiency improvements. Inter alia, the following types of financing, which can offer improved support for resource efficiency:

- Encouraging private equity funding (e.g. through setting up green bonds for resource efficiency measures of companies);
- Encouraging public-private partnerships (PPPs);
- Low-interest loans to SMEs for investments in resource efficiency;
- Improving SME access to funding by pooling loan demands of groups of SMEs to create larger loan demands that may be more readily approved by banks/lending institutions.

State financial support to improve financing for companies to foster resource efficiency is widely used in five Member States (18%; Bulgaria, Denmark, Germany, Malta, and Poland) and used a little in 17 Member States (61%) (see Figure 1). In six Member States (21%) there is no national policy in place for this support measure.

Figure 1: Scope of application of support measure 3 across the EU-28

Good practice examples

In the following section, we provide selected good practice examples for this support measure from five different Member States (see Figure 2; the full list can be found in the separate Annex document): Bulgaria and Malta (each with wide use of this measure); Croatia, Latvia, and Slovenia (each with a little use of this measure).
Figure 2: Good practice examples and scope of application for support measure 3 across EU-28
There is wide use of this support measure in Bulgaria, a prominent example being the National Innovation Fund. The overall goal of the National Innovation Fund is to support research and development activities and technology innovations for increasing economic efficiency of SMEs. Promoting resource efficiency in SMEs (e.g. development of new technology for metal recycling, construction of biogas plants for organic waste recycling) is among its objectives. The Fund was established in 2005 and targets all sectors nationwide. The budget is adjusted annually, with the sum of the annual budgets for the period 2005 – 2012 around 27 million EUR. The overall budget for 2014 amounts to approximately 5.1 million EUR, of which 99% have already been granted to SMEs in Bulgaria. In 2014, 52 projects have been approved.

Several examples were found for the use of financing instruments to support resource efficiency in businesses in Malta. These were largely based on financial support from EU-level funds. For instance, the European Regional Development Fund ERDF Innovation Actions Grant Scheme (Environment) aims to help SMEs investing in eco-innovation solutions in support of long-term competitiveness and environmentally sustainable business activities, by providing grants for activities related to, inter alia, waste streams (e.g. reduction of waste through reduced use and material reuse/recycling) and resource use (e.g. better use of water resources, substitution of toxic and poorly degradable substances). Grants were in the form of co-financing, to a maximum 50% of total costs and were generally expected to be in the range of 20,000 to 150,000 EUR (Malta Enterprise 2012). Grants could be used for plant, machinery, equipment and costs related to the attainment of environmental certification. Call 1 of the Grant Scheme was launched in January 2009 with the last payment for Call 4 carried out in February 2014. Currently, the aid scheme for the period 2014-2020 is still being discussed. This support measure was available to eligible SMEs in line with the eligibility and selection criteria published by the Intermediate Body. A total of 13 projects were awarded grants amounting to a total of over 642,000 EUR.

A number of governmental financial support programmes exist in Croatia, which cover measures to increase resource efficiency in businesses. The Ministry of Entrepreneurship and Crafts (MEC) aims to support technological innovation in the SME sector. Through an “Entrepreneurial Impulse” support programme, the ministry and the Croatian Agency for SMEs, Innovations and Investments (HAMAG BICRO) make grants available to projects in the manufacturing, environmental protection and information technology sectors, which can include eco-innovation projects. The measures stimulating the eco-innovations are not directly focused on specific technological areas.

Improving the financing of Latvian enterprises through the “Green Technology Incubator” mechanism can be considered one of the most significant support measures in Latvia to support resource efficiency in business. The immediate objectives of financial support are: (i) creation of new knowledge-intensive businesses via the ‘incubation mechanism’ and support to green industry growth; (ii) stimulation and management of knowledge exchange between universities, research organisations and green industry companies; and (iii) facilitation of international business and institutional cooperation within the green technology sector, particularly with Norwegian partners. The implementation period is from July 2014 to April 2016. Any project/enterprise can participate in the Green Technology Incubator if it develops a product, technology or process contributing to, inter alia, production of green (energy efficient) products and materials for buildings, waste management or eco-design. Incubation grants (<140,000 EUR) are available for proof of concept, commercialisation and business development. For Incubation grants (3rd stage), the available total financing is approximately 450,000 EUR.

This support measure has been applied a little more than a year in the business environment of Latvia and it enjoys a positive uptake. Some 370 ideas were received so far, of which 84 ideas have been accepted.

for a pre-incubation phase. Until March 2016, there will be approximately 15 – 20 companies within the incubation phase. However, while the current use of this measure is limited, the potential for its expansion in the future is significant.

An interesting example of this support measure for Slovenia is the Eko sklad – the Slovenian Eco Fund. Through the Eko sklad, the government offers soft loans and non-repayable subsidies (grants) for environmental investments that private entrepreneurs (as well as municipalities and other legal entities) undertake in order to, inter alia, make waste management more efficient (e.g. systems and equipment for the collection, treatment, recovery and reuse of waste in technological processes). Launched in 1993, the Fund is still running, not targeted at specific sectors. The financial resources for Eco Fund’s soft loans are repayments of loans approved in past years (revolving fund). Activities are further co-financed by domestic and foreign banks (Slovenian Investment and Development Bank and European Investment Bank (EIB)). Total funds spent in 2013 amounted to 49.8 million EUR, of which 29 million EUR were soft loans and 20.8 million EUR were grants. There are more than 400 companies who received the loan from Eco Fund so far (Bijedić 2013).

Lessons learnt from the application of the support measure

From the application of this support measure in the above five Member States, the following lessons learnt could be derived.

According to the Bulgarian Executive Agency for Promotion of Small and Medium Enterprises the absorption of the National Innovation Fund funds in 2013 has increased. Overall, 82% of the budget that has been approved is already used, which is above average of the previous sessions, where only about half of the funds were absorbed. Just for comparison, Bulgarian EU fund absorption is still very low: the country ranks 23rd by EU funds absorption among the EU-28.

A part of the financial support through the Croatian “Entrepreneurial Impulse” support programme is specifically targeted at SMEs. Financing through international programmes plays an important role for the realisation of resource efficiency projects in Croatia.

The success factors of the Latvian Green Technology Incubator encompass (i) the concentration of relevant and needed competencies (in technologies, finances, in start-up business and venture capital sector, and in international networking) in decision making (through the board of directors); (ii) involvement of independent representatives of stakeholders in decision making (three board members are representing interests of shareholders; two board members are independent persons representing interests of stakeholders – venture capitalists, investors); and (iii) a motivated and competitive core team of the incubator with clear tasks. However, through the first year of its application, it has become apparent that the “Green Technology Incubator” should be focused on results (developed business models; made prototypes, etc.) rather than on processes, in order to minimise administrative procedures, and that the incubator could be more flexible to make decisions. Minimising formal procedures and administrative processes could increase the effectiveness of the incubator and other start-up business support mechanisms.

The main success factor for application of measures to improve financing for resource efficiency for businesses in Malta was that the grant scheme used financing from the EU ERDF fund. EU funding seems to be an important source of support for resource efficiency-related support measures in Malta, possibly due to the small size of the country, which may place limits on the desirability of making large business support investments. While the ERDF scheme was able to support enterprises to address environmental sensitive issues through co-funding, a rather limited uptake and the fact that the participating enterprises linked the investment to their productive capacity seems to indicate that in the

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case of SMEs, the funding provided (albeit being the maximum allowed) was still insufficient to address market failure. The importance of EU co-funding also holds true of the BOV (Bank of Valletta) JEREMIE Financing Package, which aimed (amongst other non-resource efficiency-related objectives) to provide financial support for investment in green technology from 2007-2013, and was also co-financed using EU funds. A key success factor was the complementarity of the JEREMIE Financial Instrument with the products offered by the selected Financial Intermediary. In addition, the selected Financial Intermediary made an effort to increase awareness of the JEREMIE Financial Instrument.

The soft loans provided through the Slovenian Eco Fund have a rather modest interest rate of 3-month EURIBOR + 1.5%. The range of loans, from 25,000 to 2 million EUR or up to 90% of eligible investment costs, makes them attractive to companies of various sizes. The repayment period can last up to 15 years and includes a grace period of up to one year; for purchase of certain equipment and vehicles, repayment period is up to 5 years (Bijedić 2013).

In addition, further lessons learnt emerged from the information obtained for the other Member States where this support measure is being applied:

The **Austrian** domestic environmental support (Umweltförderung im Inland, UFI) programme for area resource management supports investments in resource efficiency measures. For investments in production processes (to significantly reduce resource use within existing production processes while maintaining the functionality of the product), up to 30% of the investment costs can be covered and for investments in innovative services, up to 20% of overall costs (e.g. Chemical Leasing). Launched in 2010, the measure aims to improve resource efficiency, support the voluntary implementation of resource efficiency measures and support the switch to bio-based resources and materials. Maximum subsidy per project is 500,000 EUR. The programme sets an incentive for the voluntary implementation of environment protection measures that do not pay off within reasonable periods of time.

The **Estonian** Green Investment Scheme, launched in July 2010, aims to assist businesses in implementing environmentally friendly projects (modern technologies, alternative ways of producing energy, more renewable energy sources, saving measures in energy production, etc). The Ministry of Environment and the Environmental Investment Centre (EIC) signed an administration agreement that gives EIC the rights to trade with the CO$_2$ units and implement the Green Investment Scheme in Estonia by allocating grants from the income. All money from the trading must be channelled to environmentally friendly projects that lower the emission of CO$_2$ and other greenhouse gases. 21 deals have been concluded in order to sell 72.6 million Assigned Amount Units for 388 million EUR. The deals have been concluded with the Republic of Austria, the Kingdom of Spain, the Grand Duchy of Luxembourg and Japanese corporations. Specific factors for success include that the projects are coordinated by the state (EIC) and negotiated closely with quota buyers to find good solutions for Estonia. Also, Estonia’s small size has helped to implement these projects quite effectively.

In **Germany**, the KfW Bank (German government-owned development bank) launched the Green-Bond- Portfolio in 2015, under which KfW plans to purchase green bonds in the amount of 1 billion EUR, aiming to help financing suitable projects in the fields of resource efficiency, renewable energies, waste management, (waste) water management, biodiversity and non-polluting transport systems. A further aim of the measure is to contribute to the development of the Green Bond market. Specific factors for success encompass (i) **definition of minimum requirements** for the quality of green bonds in cooperation with the Federal Environment Ministry, particularly in regard to the transparency of the projects which are to be financed; (ii) **detailed and regular reports on the financed projects** in order to strengthen the trust of the market participants in the green bonds; (iii) **involving external experts** and making public their opinions; and (iv) **gradually raising the minimum requirements** to meet even higher quality standards.

Since 2005, the **Greek** Inter-Ministerial Committee for Public-Private Partnerships (ICPPP) evaluates and selects PPP projects and provides funding to public entities, inter alia, for waste management. The initiative is co-financed through the Joint European Support for Sustainable Investment in City Areas

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(JESSICA). To date, approximately 70 tenders were approved under the initiative, out of which 13 concerned the development of waste treatment facilities. **EU funds contributed significantly** to the funding of the PPPs.

The **Finnish Funding Agency for Innovation, “TEKES,”** provides grants and loans to companies, especially through the “Green Growth Programme,” aiming to create long-term benefits for the economy, to identify potential new growth areas for the sustainable economy, to increase energy and material efficiency of production and service chains over the entire life span of products, and to support the growth and access to international markets of SMEs. Grants and innovation loans only cover a certain percentage of the overall project costs. 25 successfully realised projects under the Green Growth Programme have been presented in a brochure on the website. Specific factors for success include (i) **public funding in the early stages of projects**, where it is difficult to find private funders; (ii) **support for technological and also service-related, design, business and social innovations**; and (iii) loans have a **low rate of interest and are without collaterals**.

The **Polish E-KUMULATOR: Ecologic Accumulator for Industry (Ekologiczny Akumulator dla Przemysłu)** supports entrepreneurs in the field of low-carbon, resource-efficient economy to improve resource efficiency in their industrial activities. Some specific objectives are: to reduce the consumption of primary raw materials in industry by 1 million tonnes every year and to reduce air pollution (strongly related to the IED standards). Projects that may receive support include those concerning recycling waste for use as fuels, reducing basic resource use and reducing harmful emissions. The E-KUMULATOR was launched in 2014 and is planned for continuation until 2023, with an allocated budget of 250 million EUR for the Polish territory. It is anticipated that by the end of 2017, over 80 million EUR will be spent on new investments. Success factors encompass (i) a **broad public consultation preceding** the preparation of the programme and (ii) **adaptation of the offer to real market needs**, thereby addressing the main concerns of Polish entrepreneurs, such as competitiveness and compliance with EU regulation. Support will be allocated in the form of preferential loans, and the **partial redemption of the loan** is tied to efficiency of investment made.

The **Swedish Agency for Economic and Regional Growth (NUTEK)** funds an Environment-driven Business Development programme, aiming to stimulate product and business development from sustainability perspectives as well as to strengthen the competitiveness of domestic SMEs. The programme ran from 2001 to 2004, co-financing 28 million SEK (approximately 2.8 million EUR) in total for a wide range of projects. 390 SMEs participated in the programme investing approximately 50 million SEK (approximately 5 million EUR) in terms of time and money. Through this programme, about 60 products and services have been made more environmentally sound and over 100 companies have ensured a system of continuous improvement. Specific factors for success include **phone calls from NUTEK to SMEs** in order to encourage submission of project proposals – NUTEK received and assessed 161 project ideas. For 54 proposals, a **preliminary study** was conducted, **co-financed** by NUTEK through a grant of 80,000 SEK (approximately 8,000 EUR). The preliminary studies helped to identify committed companies and minimise the risk of project failures and delays. The **programme was run with the involvement of various actors**: regional development organisations, municipalities, consultants, universities and other research institutions.

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Across the examples obtained from literature review and Member State responses, the following aspects could be identified as key success factors for improving financing for businesses to improve resource efficiency in the EU:

- Designing financial mechanisms to (i) minimise formal procedures and administrative processes, (ii) have low/modest interest rates, (iii) include a range of loans in order to make them attractive to companies of various sizes, and (iv) offer a reasonable grace period, loan redemptions and repayment period in order to mitigate (too) long payback periods.

- Defining (and gradually increasing) minimum requirements for eligibility and quality of projects applying for financial support, and issuing detailed and regular reports on the financed projects in order to increase transparency.

- Ensuring relevant and needed competencies (in technologies, finances, in start-up business and venture capital sector and in international networking) and involvement of independent representatives of stakeholders in decision-making procedure of the funding institution.

- Involving companies in the preparation of call programmes (e.g. through public consultations) in order to as best as possible adapt the offer to real market needs. This includes making phone calls to businesses (SMEs, for instance) to encourage and support submission of project proposals.

- Co-funding preliminary studies helping to identify committed companies and to minimise the risk of project failures and delays.

- Keeping the administrative processes and application procedures for companies simple.

- Financial and administrative support through EU and international funding programs (e.g. ERDF, European Investment Bank).

References used
