

European Platform on Financial Support to Eco-Innovation

- Eco-Innovation Invest -

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INTRODUCTION

"The next technological revolution will be led by eco-innovation".
Timo Makela. Director DG Environment



Eco-innovation is a term used to describe a novelty in products and processes, which aims to prevent or reduce environmental risks, pollution or other negative impact of resource use and which can contribute to sustainable development and add market value. The term is often used to describe a range of related ideas, from environmentally

friendly technological advances to socially acceptable business practices.

Developing and deploying clean environmental capabilities is essential if the EU economy is to achieve sustainable growth, to become less demanding of natural resources and more efficient. Tailoring financial

schemes, products and services meeting the needs in terms of eco-innovation, eco-efficiency and energy efficiency is paramount to move the current state of society along sustainable patterns.

Environmental Technologies are all around us: wind turbines and solar panels, cleaner cars, biofuels and geothermal systems, recycling methods for waste or water, etc. These are basically any technologies that are designed to prevent or reduce the environmental impacts, at any stage of the life cycle of the products and activities. They have the potential of reducing pollution, serve as a pioneering

business model and drive forward eco design of energy using products, processes and management methods.

Sectors in which Environmental Technologies play a key role include:

- Agriculture
- Construction
- Renewable energy
- Industrial processes
- Resources management
- Transport
- Forestry
- Organic farming
- Waste and water management

BARRIERS TO ECO INNOVATION AND PLATFORM SPECIFIC OBJECTIVES

While it is generally agreed that avoiding or limiting environmental damage makes perfect business sense, there are undoubted practical or perceived barriers holding companies back from choosing an eco-efficient option. There is always some reluctance in the market and new products in the starting phase can be more costly than comparable products, which are not so innovative. Heavy investments may be needed, with perhaps 15-20 year periods in which their costs can be recovered, but several setbacks hamper business efforts to obtain them, for instance the difficulty in raising venture capital for introducing new products and processes to the market combined with a lower risk for mainstream products.

The specific objectives of the Platform are to speed up eco-innovations by developing tools for effective financing and public private cooperation at a national, local and EU level, specifically:



- Stimulate demand among citizens and governments for **green financial instruments with attractive benefits for savers/investors, private companies and the government.** Change the tax system (tax

advantage to savers, tax credit to green investors so that banks could loan capital at lower interest rates) to provide stimulus to eco-innovation and broade take-up of environmental technologies (through for instance accelerated depreciation of environmental investments or through certificates). The green projects profit from cheaper loans and the private investor/saver helps these projects to get off the ground while still receiving a reasonable return on savings and shares;

- Make citizen aware of the potential of **financial instruments other than subventions** to mobilize funding in support to eco-innovation and eco-technologies such as the green fund schemes. These are partnerships

between Ministries (Energy, Environment, Agriculture, Transport), the Central Bank, the Government Tax Department and Green Banks aiming at financing green projects at a lower interest rate. To put this into perspective, for 1 € invested in a green fund scheme, government can generate up to 40 € of private funds invested in eco-innovation and the environment;

- Explain the importance of **public-private partnerships** aimed at developing synergies between public and private financial instruments in the field of eco-innovation, eco-

technologies and the energy/water sector including renewables and efficient use of resources;

- Explore ways and means to **transfer good practice** between Member States at local, regional and national level and address special needs related to (i) the management of public-private partnerships and (ii) risk assessment;
- Establish **support from the private sector** to mobilize funding in promotion of eco-innovation far beyond what one could expect from public grants.

GREEN FUNDS SCHEME

The Green Funds Scheme is a government tax incentive instrument that has been used by the Dutch government since 1995 to encourage environmentally initiatives. Investing in the Green Funds Scheme means that individual investors lend their own money to banks, at a lower interest rate, which is then compensated by a tax incentive (environmental tax credit). The "green banks" can then offer cheaper (1-2% lower) loans to environmental projects. This encourages the implementation of innovative environmental projects that are less profitable but can thus still receive financing. The government issues green certificates (maximum duration 10 years) for projects that meet the required criteria, thus ensuring that the investments qualify for green funding.

PROGRAM

The platform is organising a one-year programme of experts meetings to address financing eco-innovation from three perspectives:



1. R&D and innovation (through the complementary project FUNDETEC);
2. Supporting Eco Innovation at European level;
3. Awareness for investors, citizens and governments.

The findings of the platform and the awareness campaign will be submitted to a High Level Group of Ministers of Finance and Bank CEOs representing public and private-sector banks hosted by the President of the European Investment Bank (EIB).

The platform works in synergy on one hand with a R&D Consortium FUNDETEC and on the other hand with the ECREIN (European clusters and regions for eco-innovation and eco-investments network) launched by 6 European Regions (Rhône-Alpes, Lombardia, Bade-Wurtemberg, Andalucia, Ile-de-France, Malopolska) and aiming at suggesting to the European Commission some frameworks and conditions of implementation, at regional level, for financial and economic instruments in support to eco-innovation.

1. R&D and Eco Innovation (FUNDETEC)

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Lack of access to funding for technology development is often cited as a significant barrier to innovation, development and commercialisation. This is particularly the case for investments in environmental technologies, which are often considered riskier than conventional investments. Consequently, the Environmental Technologies Action Plan (ETAP) called for the mobilisation of financial instruments to minimise the risks involved in investing in environmental

technologies (defined as all technologies whose use is less environmentally harmful than relevant alternatives).

Together with the complementary R&D project FUNDETEC (funded by DG Research, Dutch and French Ministries of Environment and the Private Sector) the platform will throughout 2007 examine funding of development and commercialisation of eco technologies. It will focus on commercial-type funding schemes such as loans and associated

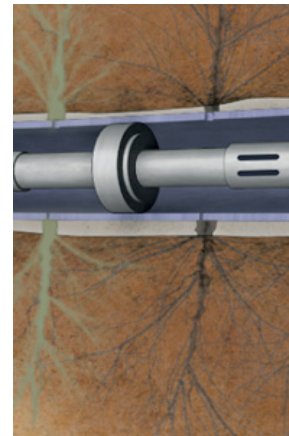
guarantee mechanisms, equities and risk capital including venture capital. Subsidies and fiscal incentives are not excluded, but will not be the core target.

The project aims to bridge the gap between developers and funders and between early stage innovation and commercialisation, such funding schemes to support the growth of downstream applications and the societal and economic welfare that flows from them. The project will increase the competitiveness of private sector organisations funding technological development by assisting investors in better targeting the needs of developers at specific stages of a project development.

Indeed, the more competitive commercial funders become, the higher the risk they may be willing to accept. Eventually this enables them to fund more technology development projects at riskier stages of development, such as early-stage projects. Hence when commercial investors earn the return they need to grow and compete, they can invest in more projects at earlier stages and in turn earn greater returns.

A virtuous cycle of funding and development success can be created, which is a feature of successful

technology innovation and funding systems globally.



Competitive funds mean more technology developers will be properly capitalised, which increases their competitiveness in a two key ways. First, they can afford the resources (especially human) needed for further research and innovation, which may create new development and investment opportunities. Second, they can commercialise their technologies faster, and take them further toward the market-ready stage where access to funding becomes easier. The planned research and consultation may also yield innovative investment friendly business structures or practices that make developers more investment ready.



2. Supporting Eco Innovation at European Level

Commercialising and using environmental technologies requires a broad mix of financial instruments. These range from classical loans through guarantee mechanisms to venture capital. Currently the EU has a range of financial instruments that can support investments in environmental technologies. In addition to the Framework-Programme on Research and Development and programmes such as LIFE-Environment, Structural and Cohesion Funds, a new Competitiveness and Innovation Programme (CIP) has been introduced as a specific support to facilitate the broader up-take of eco-innovation and to promote renewable sources of energy as well as energy efficient solutions.

The platform outcomes will facilitate further deployment of eco investments and will call upon the banking sector to offer more attractive finance packages e.g. making available green investment funds, specifically aimed at promoting eco innovation. Specifically, the outcome of the platform is expected to contribute to the development of:



- **Revision/Improvement of National ETAP Roadmaps**

To foster experience sharing on eco-innovations and on best practices, Member States were invited to formalize their national transposition of strategies and action plans towards environmental technologies at the end of 2005. The findings of the projects are meant to feature in national regulations in terms of clear referencing and they should serve as spin-offs for concrete initiatives on financing eco-innovation to be developed through public-private partnerships.

3. Awareness of/for investors, citizens and governments

In order to present the objectives and tools offered by existing public and private financial instruments, the platform will host expert workshops to identify, exchange and disseminate good practices and raise awareness among a wider public. In doing so, the platform will enhance synergies between EU and national financing instruments and facilitate public private partnerships meeting the specific expectations of public authorities on the one hand (implementation of political objectives)

- **Strategic Energy Technology Plan**

The SET-Plan will "embrace all aspects of technological innovation, as well as the policy framework required to encourage business and the financial community to deliver and support the efficient and low carbon technologies that will shape a common future". The European Union has three key objectives in the development of its energy technology: to lower the current cost of renewable energy, to facilitate the efficient use of energy and to place European industries in the leading position in low carbon technologies. The Platform should contribute to the Commission consultation process in relation with the first European Strategic Energy Technology Plan for endorsement by the 2008 Spring European Council.

- **Member States Action Plans**

The platform should contribute to Member States national transposition and adaptation of community policies promoting eco-technologies for what concerns in particular the following legislation:

1. Implementation of the Eco-design Directive
2. National Action Plans on Energy Saving
3. National Cohesion Funds Operational Programs

and the financial sector on the other hand (market development).

The Platform will organise specific conferences on the following topics:

- **Create a Citizen's support** – Presentation on green fund schemes work addressed to representatives of civil society and local authorities to develop a larger support for a fiscal reform to support innovative green funding schemes.

- **Competitiveness and Innovation Program (CIP)** – Presentation of CIP as well as the objectives, means, tools offered by existing public and private financial instruments.
- **Green and White Certificates** – How can a certificate system be developed to promote eco-innovation and how can this be a further tool to trigger increased financial support.
- **Horizon 2020** – Presentation to private banks and financial experts on the Commission lead initiative to de-pollute the Mediterranean Sea by 2020.
- **CEE Countries** – Presentation addressing specific barriers met in CEE Countries in developing financial products.

ERP-ENVIRONMENT AND ENERGY-SAVING PROGRAMME

A large public bank in Germany provides low-interest loans to specified renewable energy projects that promote the use of environmental technologies. Only private companies, particularly small and medium enterprises may apply. The credit term for these loans ranges between ten and twenty years with a two to five year redemption holiday. The interest rate is 2% below market level and there is a 50% lending limit. Together with a loan from the bank's environmental program, the aggregate financing share can total 100% of investment costs.



EXPECTED RESULTS

Fix Targets

The Platform will agree on targets for financial products in support to eco-innovation, in particular for what concerns:

- Green Fiscal Incentives
- Green Credit Cards and Savings Accounts
- Green Venture Capital
- Private Investments Funds Including Pension Funds
- Public Funds

Mobilize private funding. Attract Private Investors to clean the Mediterranean

The 3rd Euro-Mediterranean Ministerial Conference on the Environment which

was held in Cairo of 20 November 2006 has endorsed the timetable for de-pollution of the Mediterranean Sea by 2020. It has also welcomed the Platform Conference on Private Investor's contribution to Horizon 2020 to be hosted in Athens October 22- 23, 2007 and urged banks, other financial institutions and CleanTech Venture Capital Funds to participate in this endeavour.

Propose Fiscal Incentives and new Public-Private Partnership Instruments

Fiscal instruments to promote innovation are leading to heavy discussion in many member states. However, under some Member States regimes where fiscal instruments could be used to influence

market conditions in the rise and application of environmental technologies, their success is overwhelming and very cost effective from a governmental perspective. Certification system should help investors and fiscal Incentives and new Public-Private Partnership Instruments need to be tailored to meet the needs of specific markets and cultures. Specific proposals will be made for CEE Countries.



Explore an enhanced co-operation between Member States

As suggested by Commissioner Dimas (Turku - Finland July 2006), the EU will explore "an enhanced co-operation between Member States on Fiscal matters related to a Green Scheme addressing eco-innovation and energy efficiency".



How to Join

For more information please contact:

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WEB LINKS ON FINANCING ECO INNOVATION AND GLOSSARY

To download a list of weblinks on financing eco-innovation and the glossary of the terms mostly used in this folder, please visit: www.epe.be and click "Weblinks on Financing Eco-Innovation and Glossary".

FINANCING ECO – INNOVATION

- Calendar 2007 -

(1) European Platform on financial support to eco-innovation - ECOINNOVATION INVEST -

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European Expert Workshop 1 (Meeting between Banks and Ministries of Finance)

Date to be fixed

Theme: Fiscal incentives and Green Fund Schemes.

European Expert Workshop 2 (Meeting between Banks and Ministries of Environment and Energy)

Date to be fixed

Theme: Green and White Certificates.

European Expert Workshop 3 (Meeting with the EU Commission)

October 2007, Date to be fixed

Theme: CIP (Competitiveness and Innovation Programme 2007 – 2013).

Conference "Create a Citizen's support"

February 28, 2007 Brussels (Belgium)

Theme: A Workshop on how Green Fund Schemes work addressed to representatives of civil society and local authorities.

Meeting with the Steering Committee

February 28, 2007 Brussels (Belgium)

Briefing and Exploratory meeting 1 (CIP)

March 27, 2007 (Ireland)

Theme: Implementation of CIP in Member States as well as a presentation of the objectives, means, tools offered by existing public and private financial.

Briefing and Exploratory meeting 2 (Horizon 2020)

22-23 October 2007, Athens (Greece).

Theme: Seminar for Governmental and Public and Private Banks Experts of Mediterranean Countries in support of Horizon 2020.

Briefing and Exploratory meeting 3 (CEE Countries)

April 2007, Budapest (Hungary), Date to be fixed.

Theme: Seminar for Governmental and Public and Private Banks Experts from CEE Countries.

High Level Group Meeting

October 2007, Luxemburg, Date to be fixed.

Theme: A presentation of the platform findings to a high level group composed by President of the EIB, Ministers of Finance and Banks CEO's.

(2)
Funding Development of Environmental Technologies
- FUNDETEC -

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First joint meeting of the steering committee and advisory board

March 16, 2007 in Brussels (Belgium)

IZT Symposium

May 31-June 1, 2007 in Berlin (Germany)

FORSEO Forum

May 31-June 1, 2007 in Berlin (Germany)

TBLI Asia Conference

May 24-25, 2007 in Bangkok (Thailand)

Workshops for Experts of CEE Countries

June 14, 2007 in Brussels (Belgium)

Workshops for European Regions and SME's

June 14, 2007 in Brussels (Belgium)

Workshops for Med Countries

June 14, 2007 in Brussels (Belgium)

SDRC Asia Conference

October 31 – November 1, 2007 in Scotland

Final Conference - TBLI Conference

November 14-15, 2007 in Paris (France)

Debriefing and adoption of final report

November 27, 2007