European Partners for the Environment

ANNEX I

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FUNDETEC PROGRAMME 2007

FUNDETEC R&D and Innovation.
The FUNDETEC implementation plan has five parts:

1. Mapping universes of entire environmental technology development and funding mechanism in EU
2. Analysing (both success and failures) that universe to identify obstacle and catalysts
3. Comparing that analysis to other analyses of other universes (esp. US and Japan)
4. Develop and identify innovative instruments and policies that can better support the development and deployment of environmental technologies.
5. Disseminating the results and maximising opportunities for exploitation

The 8 Workpackages and the packages project leaders are:

1. Typology and characterisation of commercial funding instruments (TBLI project leader n°2)
2. Assessment of commercial instrument performance (TBLI project leader n°2)
3. Identification and analysis of private funding gaps and obstacles (SDRC project leader n°3)
4. Public finance mechanisms (FORSEO project leader n°4)
5. Comparison of EU with Japan and North America (TBLI project leader n°2)
6. Evolution of existing financial schemes (TBLI-FORSEO project leaders n°2&4)
7. Stakeholder consultation process and proposals for innovative financial schemes (EPE project leader n°1)
8. Project management (EPE project leader n°1)

Lack of access to funding on terms that suit the needs of riskier, growth-oriented technology development enterprises is often cited by technology developers 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 alternative technology investments. Consequently the Environmental Technologies Action Plan (ETAP) called for the mobilisation of financial instruments that share the risks of investing in environmental technologies (defined as all technologies whose use is less environmentally harmful than relevant alternatives).

A R&D Program, called FUNDETEC, funded by DG Research and the Private Sector, in charge of a consortium composed of TBLI, Banque Populaire, SDRC, FORSEO, IZT, EPE will, during 12 months, focus on commercial-type funding: loans and associated guarantee mechanisms, equities, and risk capital including venture capital. Subsidies and fiscal incentives are not excluded, but are not its core target. The research does, however, necessarily address certain public support measures, such as public-private partnerships. These measures, and other evolved private sector funding mechanisms, can have a strategic impact well beyond their immediate outputs. By helping bridge the gap between developers and funders, and between early stage innovation and commercialisation, such funding schemes support the growth of downstream applications and the societal and economic welfare that flows from them.

Technology developers and funders exist in a form of symbiotic relationship: the success of each fuels the further success of the other. Successful funders offer a package that includes capital, business structuring and development advice, and networks of relationships to assist with further capital raising and commercialisation.

The project research and innovation activities will increase the competitiveness of private sector technology funders by helping close information gaps, and assisting investors in better targeting the needs of developers at specific stages of the technology development pipeline. Better targeted funding schemes effectively reduce risk. This means more projects will meet funding criteria, a greater number will be funded, and they will have a higher probability of success.

Furthermore, the more competitive commercial funders are, 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, and at earlier stages, and in turn earn greater returns. A virtuous cycle of funding and development success can be created, and indeed this type of self-perpetuating cycle is a feature of successful technology innovation and funding systems globally.

Competitive funders in turn 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.

Government funding for R&D and gap financing must be based on existing market mechanisms to work. Financing should be structured in a market-oriented manner, aligned with EU macro-economic concerns - avoiding excessive controls or regulatory provisions that stifle innovation or prevent the ability of researchers from being able to capitalize on their developments and move them rapidly to the market. If such measures align with basic economic concerns, they are more

likely to be successful in the long run.

The FUNDETEC project will examine funding of environmental technology development and commercialisation. The objectives are to: measure the performance of existing funding schemes (emphasising commercial-type funding); determine how environmental aspects are dealt with; identify obstacles; and suggest evolution of new schemes. It will also include development of environmental technology typologies, analysis of funding gaps, and comparison to Japan and the USA.

The overall project aim is to build upon ETAP to assess and compare funding mechanisms for investment in environmental technology development, identify obstacles and suggest improvements or new mechanisms.

Closing the financing gap can be assisted by research and related recommendations that deal with information failures among both developers and funding providers. Such recommendations are likely to include supply side solutions (e.g. new financial product development) and demand side solutions (e.g. better structuring and measures to be more investment ready). Public-private partnerships can provide highly effective structures to facilitate both ends of that gap-closing process.

In the public realm, there is a range of applicable non-subsidy financial instruments. More modern instruments aim to increase leverage by combining public and private money, or by using public money as a guarantee. The area of intervention includes instruments that increase the availability of risk capital, instruments that provide equity financing, and loan guarantees to encourage the start-up of new technology-based firms. Examples include specific investment funds, investment guarantee funds, revolving investment returns funds, and European level instruments like the European Investment Fund. Some of these instruments are specifically targeted on improving the environment.

The review of existing schemes should lead to clear guidelines on the way in which ‘value proposition’ should be articulated by those seeking finance in order to enable more eco-innovation to gain “Access to Finance”.

Key events will include the TBLI Annual SRI Conference in Paris, which since 1997 has been the world's largest global conference on sustainable investment. European Partners for the Environment will leverage their Platform on Public-Private Partnership for Sustainable Investment, which will host European workshops with banks and venture capital funds to explore new forms of financing for clean technology investment. FORSEO will leverage its status as a United Nations Environment Programme (UNEP) Collaborating Centre) SDRC in Scotland will host a conference on public-private partnerships.

European Partners for the Environment

First Joint meeting with advisory board
March 16 2007

IZT Workshop
May 31, 2007 in Berlin

FORSEO Forum
May 31, 2007 in Berlin

TBLI (Asia)
May 24-25, 2007 in Bangkok

Workshops for Experts of CEE Countries
Date to be fixed

European Regions and SME's
June 2007. Date to be fixed

Med Countries
September 2007. Date to be fixed

SDRC Conference
October 31 – November 1, 2007 in Scotland

Final Conference TBLI Conference
November 14-15, 2007 in Paris

Second meeting with advisory board. Debriefing, adoption of the final report
November 27, 2007

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