

Financing mechanisms of environmental investments– case NEFCO

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The starting point

- ◆ **Implementation of env. projects require investments leading to emission reductions**
- ◆ **Business enterprises are both project (problem) owners and providers of solutions**

Drivers

Business enterprises react to incentives:

Carrots

- ◆ **Improved profitability (win-win solutions)**
- ◆ **New business opportunities**
- ◆ **Economic incentives (subsidies, tax rebates)**
- ◆ **Image**

Sticks

- ◆ **Enforcement of environmental regulation
(e.g. threat of business being stopped)**
- ◆ **Penalties, fees & other sanctions**
- ◆ **Economic instruments (taxes)**

The role of financing

Lack of financing is frequently mentioned as a reason for insufficient environmental action.

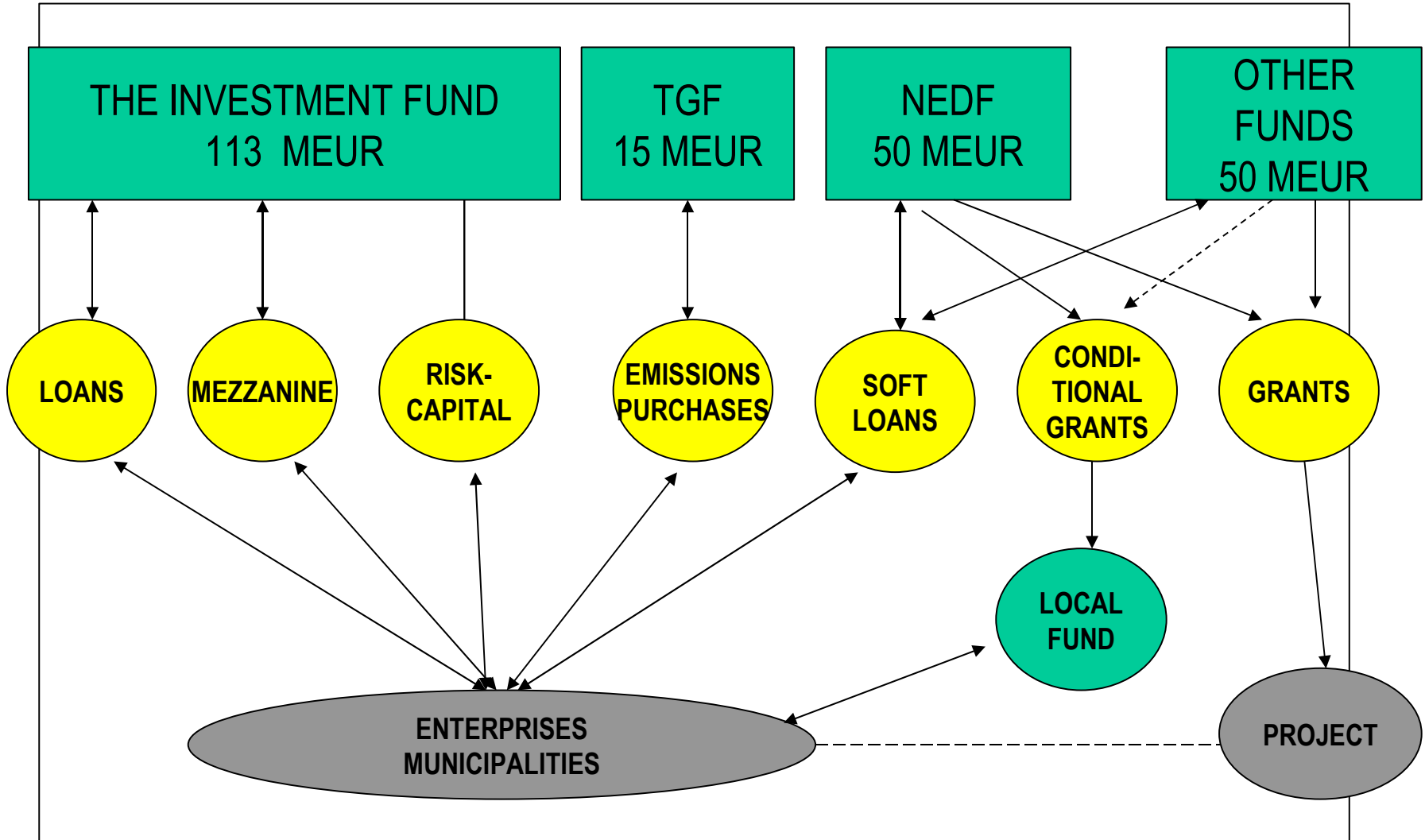
The generality of this can be disputed (“there is not a lack of money but a lack of good projects”) but in the case of environmental investment a number of projects do fall below the requirements of investors and lenders at large (because of lower return and/or higher risk).

Under these circumstances specialized financing instruments can play a constructive part and spearhead development by:

- ◆ actively focusing on the environmental sector and showing successful examples**
- ◆ accepting higher risk (due to higher risk-absorption capacity and/or specialized knowledge of market segment)**
- ◆ accepting lower than market return on investments**

- ◆ **A multilateral financial institution established in 1990 by the 5 Nordic countries**
- ◆ **Has as its purpose to promote cost effective solutions to reduce the environmental load from the adjacent region (Baltic Sea Region, EECCA)**
- ◆ **Mainly focuses on small and medium sized projects**
- ◆ **Provides**
 - **Risk capital**
 - **Risk loans**
 - **Soft loans**
 - **Carbon financing**
 - **Grants (in special cases)**

NEFCO activities





NEFCO instruments

NEFCO INVESTMENT FUND (RU, UKR, EST, LAT, LIT, BR)

- ◆ Equity investments
- ◆ Loan on market terms, subordinated loans, mezzanine financing

NORDIC ENVIRONMENTAL DEVELOPMENT FUND (RU, UKR, BR)

- ◆ Soft Loans, Contingency financing
 - ◆ Cleaner Production Lending Facility
 - ◆ Energy Savings Recycled Grants Programme
 - ◆ Agricultural Environmental Lending Programme
 - ◆ Social Energy Savings Loan Facility

TESTING GROUND FACILITY (RU, POL, EST, LAT, LIT)

- ◆ Finances JI-projects through purchase of credits

OTHER FUNDS

- ◆ Barents Hots Spots Facility (project preparation and demo projects)
- ◆ Arctic Council Project Support Instrument (ditto)
- ◆ Project specific funds



NEFCO experience

Country	Targeting	Period	NEFCO	Total
LIT	Climate; SO2, Nox, Dust, HM, Dioxins, Insulation	2004-	1,40	27,70
LIT	WWT, eutrophication	1994-	2,30	78,10
POL	Climate; SO2, Nox, Dust, HM, Dioxins, Smelter	2000-	2,10	13,50
POL	Climate; SO2, Nox, Dust, HM, Dioxins, District Heating	2003-	3,80	13,20
RUS	WWT, eutrophication	2001-	4,90	187,70
RUS	Climate; SO2, Nox, Dust, HM, Dioxins, Insulation	2004-	4,70	54,00
RUS	Waste management	1993-	0,30	1,30
EST	Climate; SO2, Nox, Dust, HM, Dioxins, Shipping oil & waste	2003-	1,90	2,70
RUS	Climate; SO2, Nox, Dust, HM, Dioxins, energy	2004-	2,50	5,00
RUS	Chemicals, VOC	2004-	3,00	13,80

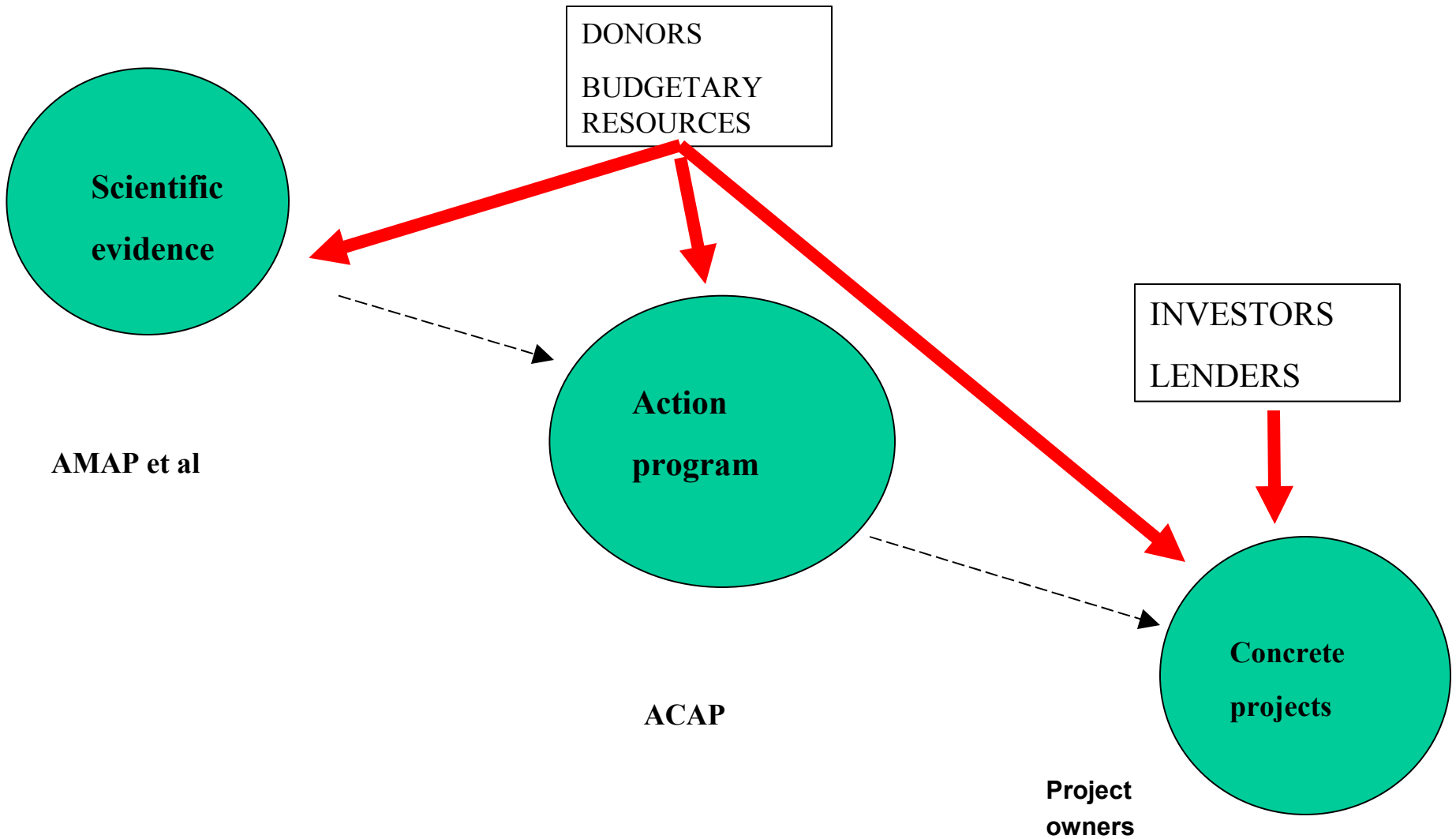
- ⇒ **Financiers concentrate on specific projects, not programs**
- ⇒ **The sad reality: good programs do not necessarily lead to project financing without identification of real projects**
- ⇒ **After identification of bankable projects they are included in the project cycle of the Financier**
- ⇒ **Some examples:**

Arctic Council / SAO

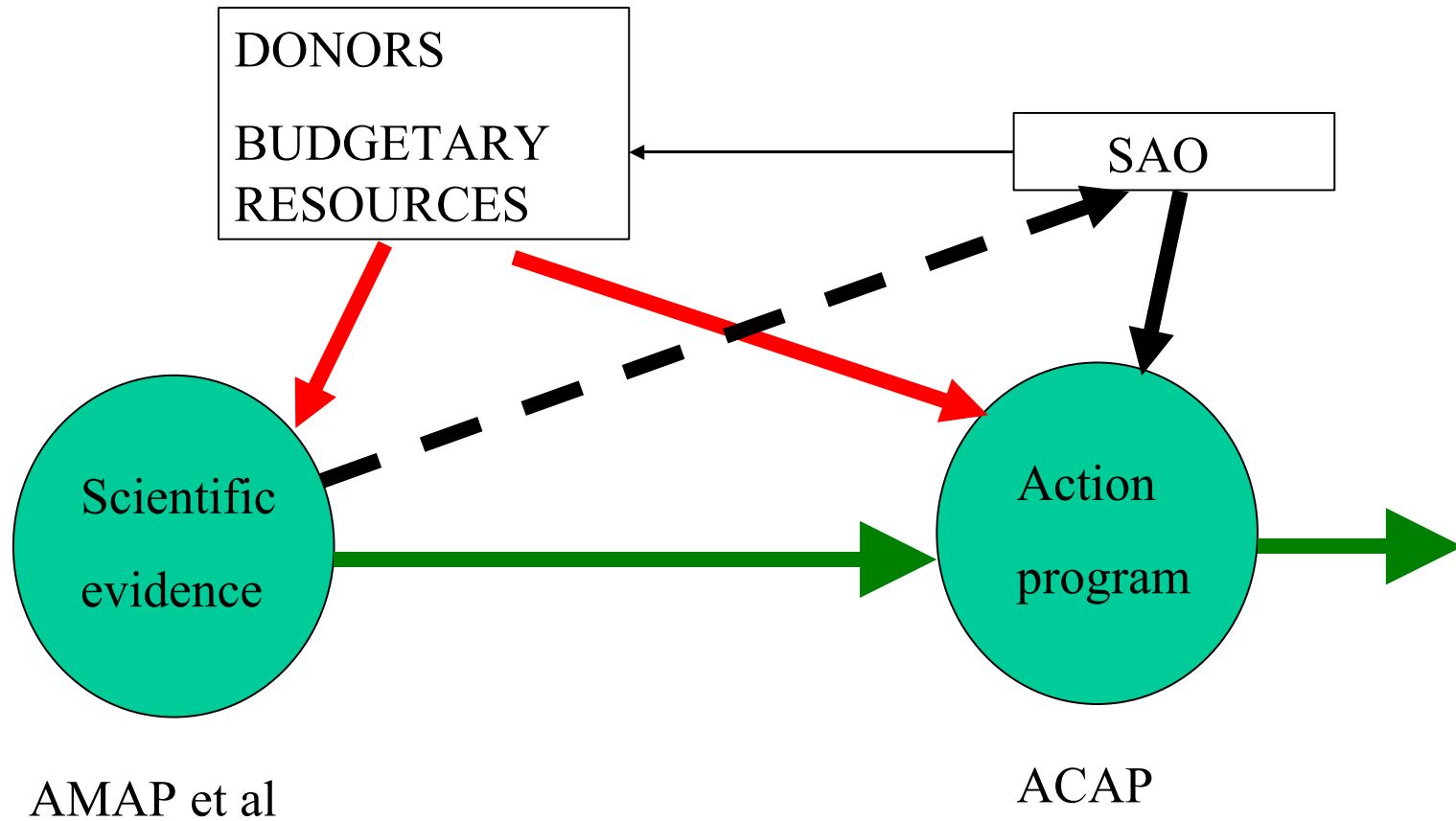
Project development and financing

-An Arctic Council Trust Fund

The Challenge:



STEP 1- FROM RESEARCH TO PROGRAMMING



AN AC TRUST FUND - RATIONALE

- ◆ **POOLING OF RESOURCES**

FUNDS AVAILABLE AS AND WHEN NEEDED FOR SWIFT ACTION

- ◆ **CONCERTED ACTION**

A TOOL FOR AC/SAO

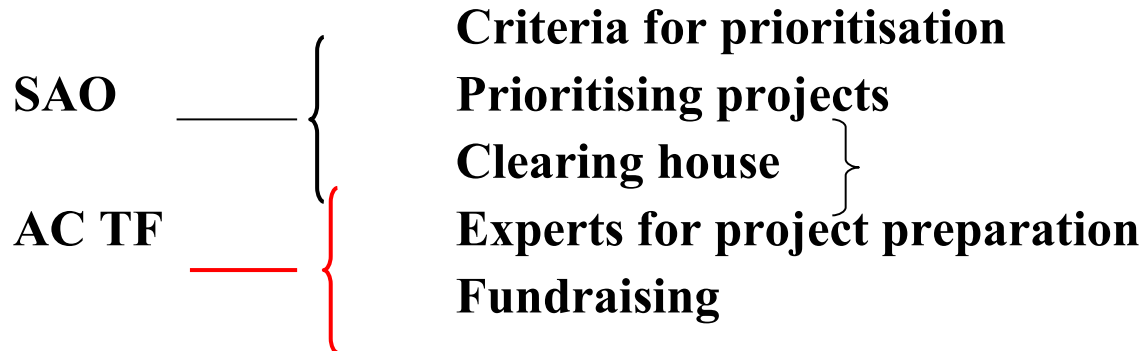
- ◆ **RESOURCES AND COMPETENCE FOR THE PROJECT PREPARATION PROCESS**

TF MANAGER WILL BRING EXPERIENCE OF PROJECT DEVELOPMENT AND FINANCING

“BANKABILTY” REQUIREMENTS WILL BE TAKEN INTO ACCOUNT THROUGHOUT THE PROCESS, MAKING MOBILIZATION OF SUBSEQUENT FINANCING EASIER

AN AC TRUST FUND – RATIONALE (contd)

SAO FINANCING ISSUES :



PROJECT PREPARATION PROCESS

PROJECT IDENTIFICATION

CONCEPT DEVELOPMENT

PRE FEASIBILITY STUDY

FEASIBILITY STUDY

BUSINESS PLAN

FINANCING PLAN

TENDERING (if applicable) – TENDER DOCS, EVALUATION

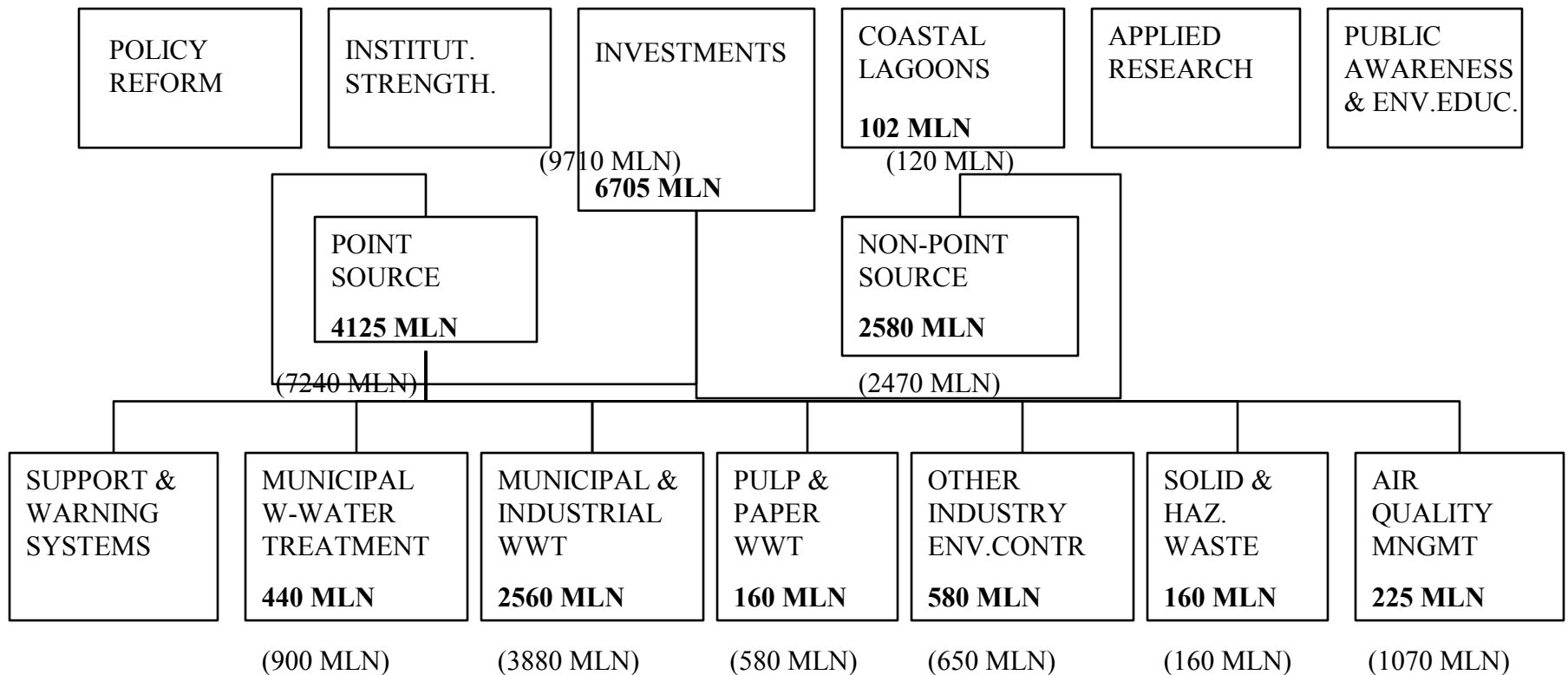
**Environmental investments in the framework of
the Baltic Sea Joint Comprehensive Action
Programme**

SEVERAL REGIONAL / SUB-REGIONAL PROCESSES (PARTLY OVERLAPPING)

- HELCOM / JCP
- ENVIRONMENT FOR EUROPE / EAP
- BEAR / EAP
- AEPS > ARCTIC COUNCIL
- BALTIC AGENDA 21
- NUCLEAR SAFETY / CEG
- NORDIC ENVIRONMENTAL
STRATEGY
- BILATERAL COOPERATION

HOT SPOTS (EUR 6.800 MLN)

1998 ESTIMATE & (1992 ESTIMATE)





Summing up:

- ⇒ Programs as such do not attract investors**
- ⇒ Programs should from start focus on starting concrete projects**
- ⇒ Concrete projects a necessity for entrance into project cycle**
- ⇒ Carrots and sticks for project owners (win-win or taxes/penalties)**