

ENVIRONMENT IN SEE

Overview of environmental situation and environmental financing in SEE

Zagreb, Croatia, 14 June 2005
UNEP FI conference



THE REGIONAL ENVIRONMENTAL CENTER
for Central and Eastern Europe

REC Mission

- **non-partisan, non-advocacy, not-for-profit organisation with a mission to assist in solving environmental problems in Central and Eastern Europe**
- **promoting cooperation among non-governmental organisations, governments, businesses and other environmental stakeholders**
- **supporting the free exchange of information and public participation in environmental decision-making**



The REC

15 CEE COs

+ Turkey

+ 3 FOs

Banja Luka
Kosovo/a
Podgorica

Head Office

Szentendre,
Hungary



THE REGIONAL ENVIRONMENTAL CENTER
for Central and Eastern Europe

REC in Croatia

- **established in 1993 as the foreign non-governmental organisation**

Country office expertise

Capacity building (MoE, NGOs, businesses)

Public participation in environmental decision making

NGO grants management

Environmental Law

Strategic Environmental Assessment

Business and Environment

Projects related to environmental financing

EcoLinks Partnership Grants Program

Business Planning for Cleaner Production and Energy Efficiency Projects

Priority Environmental Investment Program

Political and economic situation in SEE

- break-up of former Yugoslavia and war conflicts
- EU accession
- Stability Pact for South East Europe
- Stabilisation and Association Process
- CARDS assistance
- different EU funding opportunities

Situation characterized by:

- market-economy
- large-scale privatisation
- development of financial sector
- increase in domestic and foreign investment
- GDP overall growth



General environmental situation

Air quality

- **closure and/or lower capacity operations at industrial facilities in the region – decreased air emissions**
- **operating sources of pollution use low-quality fuel, lack of end-of-pipe treatment and are highly energy intensive**
- **trend in the region of increased pollution from mobile sources, mainly due to the greater number of cars**



General environmental situation

Waste sector

- old contaminated industrial sites (brownfields)
- lack of facilities for hazardous waste management
- landfilling as the main waste management practice
- lack of sanitary landfills
- illegal dumpsites
- lack of other waste management facilities (recycling, composting, etc.)



General environmental situation

Water sector

- **underdeveloped water-supply systems and sub-standard water quality**
- **underdeveloped sewerage systems, discharges directly into surface waters**
- **lack of WWTPs for municipal/industrial wastewater**



Major drivers for env. investment

- **EU accession process (EU key-investment heavy directives)**
- **new policies and programs**
- **economic growth**
- **macroeconomic stabilisation**
- **economic instruments**
- **increasing financing possibilities**
- **decentralisation**
- **public awareness increasing**
- **technology and know-how widely available**

- **increasing costs of resources and services**
- **market requirements**
- **commitment of project leaders/managers**



Major barriers for env. investment

- **weak environmental enforcement**
- **ambiguous legal framework for past pollution**
- **state-subsidies to enterprizes and co-funding for municipalities**
- **low economy of enterprizes**
- **lack of flexible and fast financing schemes**
- **lack or rarely existing suitable economic instruments**
- **low level of user charge coverage**
- **difficulty in evaluating economic and environmental benefits**
- **lack of awareness and local know-how on developing project proposals**
- **insufficient number of high quality project proposals**



Environmental situation in Croatia

- **transposition of EU Directives and enforcement of env. laws**
- **waste management and landfilling**
- **water supply, sewerage and WWTP**
- **air pollution (energy production, industrial)**

- **institutions**

Environmental Protection Agency

Environmental Protection and Energy Efficiency Fund

- **EU pre-accession assistance (CARDS, ISPA, PHARE)**
- **co-financing needed**



Environmental Financing in Croatia

- **multilateral organisations**
- **venture capital funds**
- **governmental institutions**
- **commercial banks**
- **EU assistance – pre-accession instruments (ISPA/IPA)**

Environmental programs in commercial banks

- standard lending programs
- lack of promotion of subsidized programs
- interest in company's viability, and not in project profitability

- company's ownership
- lack of capacity to prepare bankable projects
- equity, collateral, guarantess



Major barrier to investment?

- Lack of financing sources
- Lack of bankable projects

EU acquis --- capital investment in infrastructure (waste, water, air quality)



Priority Environmental Investment Programme (PEIP)

PEIP – a tool for institution strengthening and capacity building support

Identification and prioritization of infrastructure investment projects (EU directives).

Building pipelines of investment projects and assistance in projects formulation.

Facilitating dialogue between proponents and IFIs and exchange of expertise.



PEIP (cont'd)

EU Accession - key word!

Key features of the approach:

Regional - all SAP countries plus regionally agreed criteria (Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Serbia and Montenegro, Kosovo)

Process - enabling a long term process of compliance with the *EU acquis*.

Stakeholders - multi-stakeholders approach.

Collaboration - key investment initiatives in the region - for example DABLAS, PPC.



PEIP (cont'd)

Targeting the investment challenge

Challenges

- **Limited knowledge of procedures and requirements of IFIs.**
- **Lack of information/data about hot spots.**
- **Coordinating hot spots identification/prioritisation.**
- **Understaffed MoE in SEE.**
- **Limited co-financing capacities.**



PEIP (cont'd)

Achievements

- **Regional framework for prioritisation of investment projects.**
- **Identification of a long list of hot spots (144 locations).**
- **Analyses of national environmental priorities.**
- **Development of a pipeline of priority environmental investment projects (79).**

Outputs approved by the SEE Ministers of Environment and appointed senior officials.



PEIP (cont'd)

Under implementation

Institutional Strengthening/Capacity building

- 3 regional workshops on environmental investment projects development (air, waste, water).**
- 3 regional workshops on tariffs and economic instruments.**
- Regional Meeting for decision makers and donors community (back to back with REReP TF meeting September 2005).**



Under implementation

Technical Assistance

- **Guidebook on options for financing investment projects,**
- **Study on the status of environmental investment planning,**
- **Inventory of sites not complying with selected EU directives,**
- **Formulation of 33 investment projects (strategies)**
- **Study on tariffs in SEE,**
- **Updated list of priority projects.**



PEIP (cont'd)

Cooperation with IFIs

Project Preparation Committee (PPC)

- Participation in PEIP workshops

DABLAS Task Force

- water related projects included in DABLAS database for financing

Infrastructure Steering Group (ISG)

- ISG involvement in the planning stage,
- Participation of ISG members in PEIP events,
- Strategic advice and input to PEIP products,
- Meetings between ISG and PEIP.

• Investment projects will be presented at the Regional Meeting for decision makers and donors (Sep 2005).

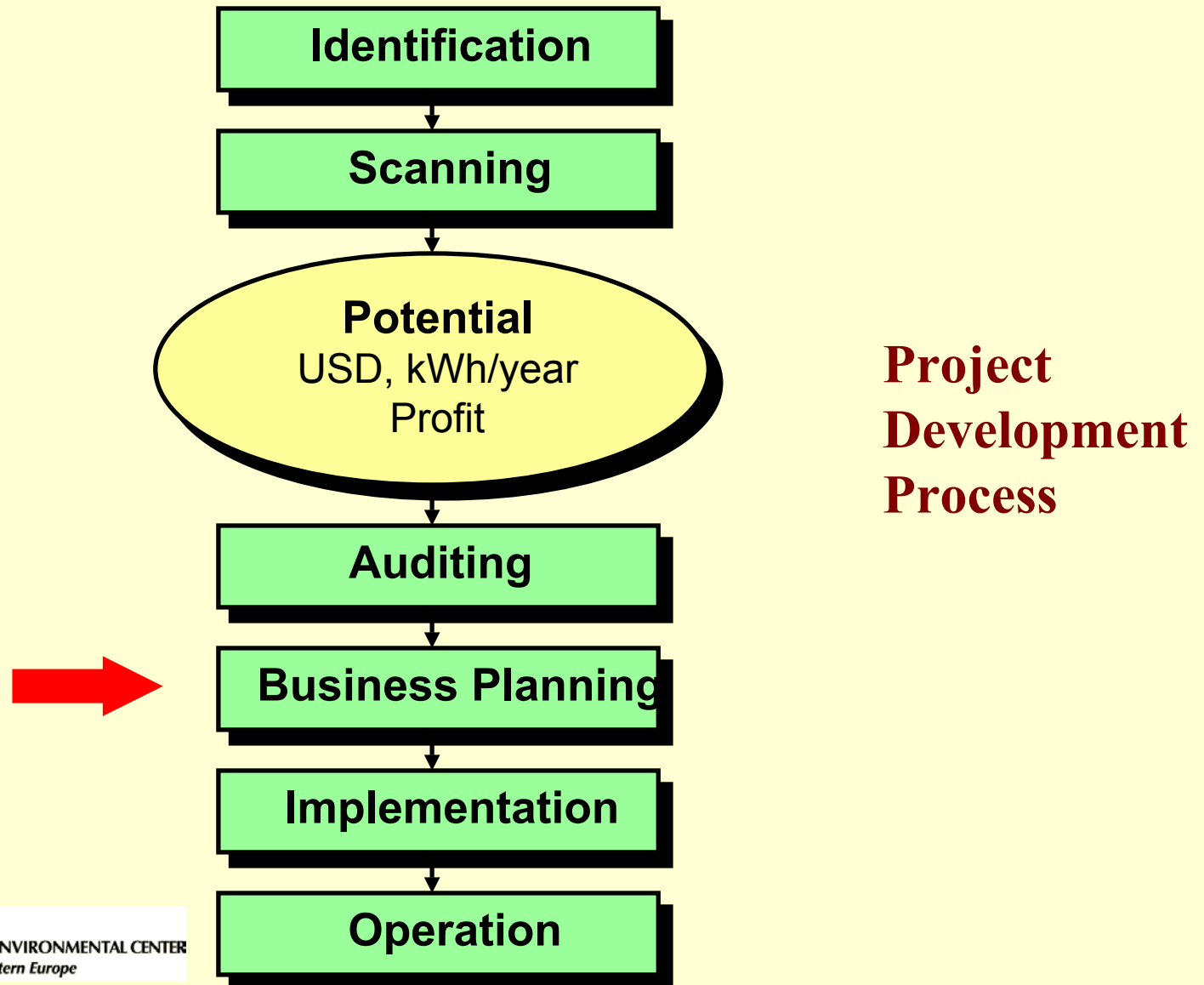


Financial Engineering for Cleaner Production and Energy Efficiency Projects in Croatia

The upcoming Programme



Financial Engineering (cont'd)



Financial Engineering (cont'd)

Main concerns

For project owners, Business plan is suitable for:

- ✓ Marketing of the project towards investors and financial institutions
- ✓ Loan application
- ✓ Basis for negotiations with investors and financial institutions
- ✓ Internal selling of the project proposal to the company management

Financial institutions seek:

- ✓ **Creditworthy borrower**
- ✓ **Guarantees and securities**
- ✓ **Sufficient cashflow (income/savings) generated to repay the loan/investment**



Financial Engineering (cont'd)

The aim is to:

**Train project owners/managers and developers on
Business Planning and Presentation skills**

- ✓ Develop the first version of the Business Plan
- ✓ Presentation to Financial Institution
- ✓ Collaborate on further development of the Business Plan

Financial Institutions will be invited to give advise.

25 experts and representatives developing 8-10 projects

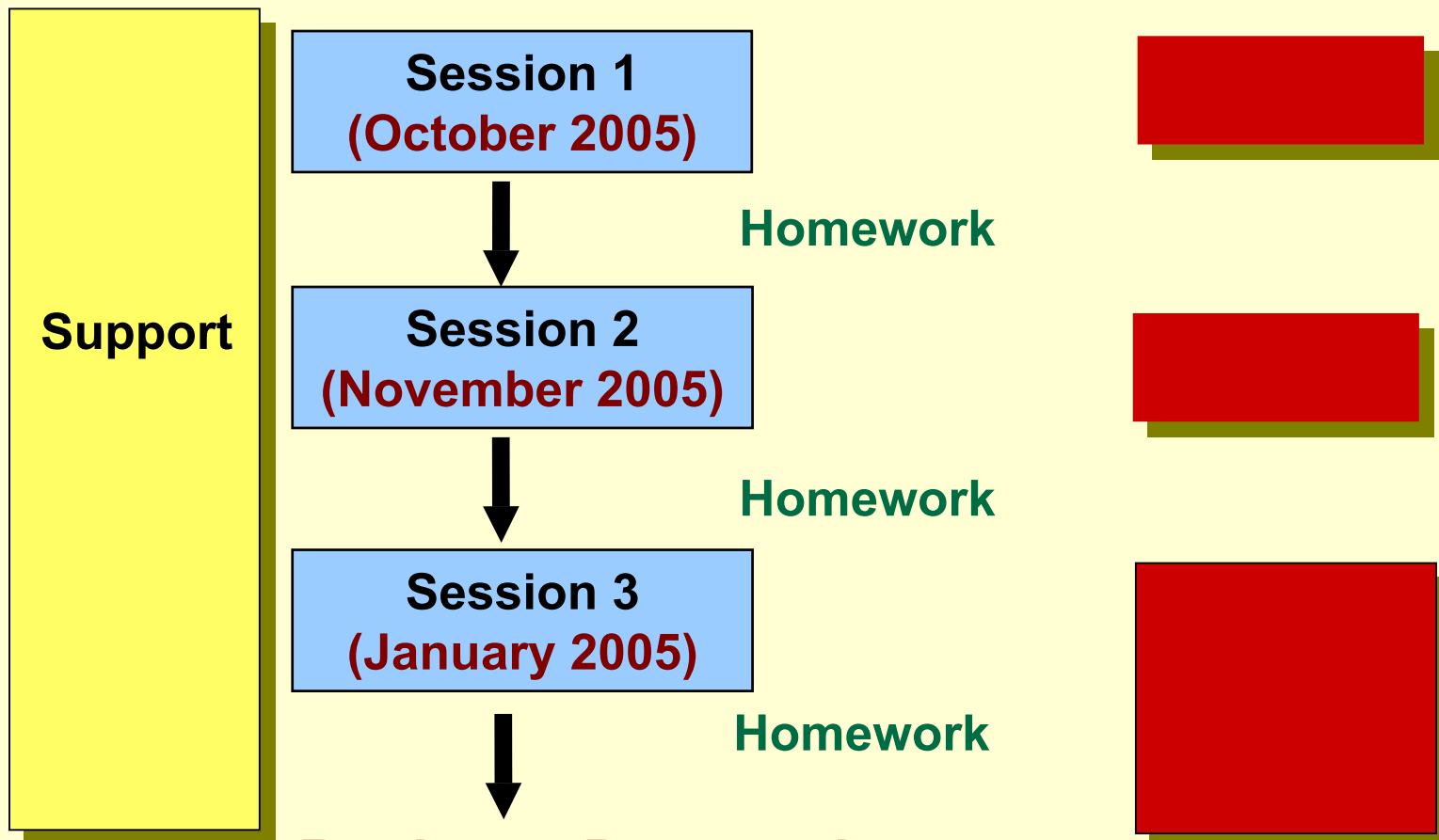


Financial Engineering (cont'd)

Structure of the Training Programme

ENSI and REC

Financial Institution(s)

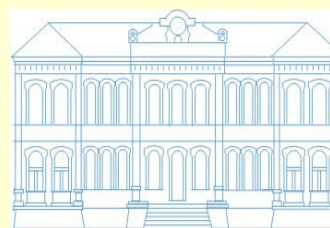


**Business Plans to be presented
to Financial Institutions**



Financial Engineering (cont'd)

Business plans for 10 projects developed in 2005!



Dr. Josip Bencevic

Enerkon
Bieco
Politin
Zadar



Total investments: EUR 11 million

Financial Engineering (cont'd)

Basic requirements for participation

Project owners

- Feasibility Study for a suitable project already developed
- Sufficient equity can be provided

Financial institutions

- invited to participate in the program as lecturers and advisors!

**Information seminar will be held in Zagreb on July 6 –
announce your interest prior to the seminar!**



How to decrease barriers to environmental technology investment?

- revising and identifying investment needs
- using investment more efficiently (well defined priorities, prioritisation criteria and funding strategies)
- coordinating sources of finance
- increasing absorption capacity
- public-private partnerships
- improving risk management



Options for the future

1. capacity building

- preparation of bankable project documentation
- fundraising, negotiation of strategies with financing institutions
- increasing capacity for foreign financing

2. economic instruments

- funding feasibility studies during project preparation stage
- environmental loans
- project financing
- tax exemptions/subsidies for env. sound investments

3. informational instruments

- proactive approach of financing institutions
- joint “environmental – financing” events
- strategic advice during project identification and preparation stage



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