



Financing Resource Efficient and Cleaner Products by SMEs in the EU Eastern Partnership Countries

A Stakeholders' Guidebook

April 2018

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Foreword and acknowledgement

This Stakeholders' Guidebook presents a range of financial sources and mechanisms that can be used by Small and Medium-sized Enterprises (SMEs) in the European Union Eastern Partnership countries to support Resource Efficient and Cleaner Production (RECP) measures in their operations. The report aims to help SMEs find the efficient and effective financial solutions for their particular needs for RECP investments by detailing requirements and indicating which financial institutions are involved in each country.

This Stakeholders' Guidebook focuses on addressing information gaps in SMEs' familiarity with government subsidies and financial products and programmes. It is principally intended for owners, management and practitioners of SMEs who are interested in RECP investment.

The Guidebook first provides a brief overview of the regional context of RECP activities, opportunities and barriers in the EaP countries, and currently or potentially available capital sources. Chapter 2 consists of six sub-sections by country (i.e. country-specific guidebooks). Each sub-section contains information on SME support programmes by the national government and its development co-operation partners, as well as local financial institutions, if any. The Guidebook also aims to provide contact information for each of the programmes, so that it can serve as a directory for SMEs interested in RECP investment. Information on the individual programmes was accessed on 27 February 2018.

| Ch 1. Regional analysis | Ch 2. Country-specific Stakeholders' Guidebooks (for each EaP country) |
|--|--|
| 1.1. Regional context of resource efficient, cleaner production (RECP) in EaP countries | Programmes offered by the national government |
| 1.2. Overview of opportunities and barriers regarding RECP finance for SMEs in EaP countries | Programmes supported by international providers of finance (e.g. donor governments, development banks and funds) |
| 1.3. Overview of capital sources available for RECP by SMEs such as: <ul style="list-style-type: none"> • Bank lending • Non-bank financing • Risk mitigation instruments (e.g. guarantees) | Programmes offered by local private-sector financial institutions |
| | Contact information for each of the programmes described in the chapter |

This Stakeholders' Guidebook was developed within the framework of the project "Greening Economies in the Eastern Neighbourhood Project" (EaP GREEN), funded by the European Union and implemented by four implementing partners: the Organisation for Economic Co-operation and Development (OECD), the United Nations Industrial Development Organization (UNIDO), the United Nations Environment Programme (UN Environment) and the United Nations Economic Commission for Europe.

This Guidebook was drafted jointly by Takayoshi Kato (Policy Analyst, Environment Directorate, OECD) with Marko van Waveren Hogervorst (international finance expert for UNIDO). Tatiana Chernyavskaya (UNIDO) provided administrative and substantive support and the co-ordination role in the RECP work stream of the EaP GREEN project under which this analytical work was conducted. Valuable inputs were provided by: Ana Chorgolashvili, Malkhaz Adeishvili (Georgia); Alexander Shushkevich (Belarus); Andrii Vorfolomeiev and Ivan Omelchuk (Ukraine); Nune Harutyunyan (Armenia), as well as by colleagues from the OECD, Guy Halpern, Jean-François Lengelle, Krzysztof Michalak and David Šimek on the content, and Lupita Johanson and Victoria Elliott on the publication process.

The information and analysis presented in this Guidebook is the result of desktop research by the authors and the findings of the national RECP Clubs and Programs in general, including a needs-based analysis supported by a web-based survey conducted by UNIDO. In the course of drafting this Guidebook, UNIDO and the OECD also conducted a follow-up survey to obtain updated information on the existing support programmes for RECP in EaP countries. Further input was received during various conferences: the EaP GREEN Roundtable organised by UNIDO in April 2017 in Tbilisi, Georgia, the EaP GREEN Conference "Unlocking Private Finance for Energy Efficiency and Greener, Low-carbon Growth" organised by the OECD in June 2017 in Brussels, Belgium, and the Workshop on Green Finance Mobilisation in Georgia, organised by the OECD in June 2017 in Tbilisi, Georgia.

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Executive Summary

An increasing number of small and medium-sized enterprises (SMEs) in the EU Eastern Partnership (EaP) countries consider resource efficient and cleaner production (RECP) to be an important business issue. They are interested in better understanding how they use input materials, what their environmental impact is and what opportunities there are to improve material efficiency of production and reduce pollution. Meanwhile, many SMEs are not fully conversant with the potential of resource efficiency and how to calculate the possible economic benefits of RECP measures.

A survey¹ conducted by the United Nations Industrial Development Organization (UNIDO) in the EaP countries² showed that SMEs consider insufficient access to finance to be the greatest obstacle to implementing RECP in their operations, followed by insufficient human resources to ensure adequate compliance with environmental regulations. SMEs may be reluctant to take loans from banks, even when such loans are available from local financial institutions. Such factors as high interest rates, short repayment periods, high collateral requirements, currency risks and political and economic instability discourage SMEs in EaP countries from assuming loans to invest in RECP measures. Indeed internal funding is by far the largest financial channel through which SMEs obtain financial resources.

The survey also showed that while all EaP countries have some form of fiscal support for the development of SMEs, micro and start-up firms, only a few EaP countries (e.g. in Ukraine) have programmes with a specific focus on RECP or green investment for SMEs. Nonetheless, those general SME support programmes do not exclude RECP investment and thus could provide SMEs with funding for the RECP measures.

At the same time, adding RECP considerations to the mandates of government SME support programmes could be a powerful tool for raising awareness among SMEs of the opportunities for RECP financing. Strengthening the mandate of existing entities to support RECP measures (or establishing a separate national funding entity, if relevant) can provide dedicated support for RECP at SMEs and can also provide a mechanism for blending finance from different sources (i.e. domestic, international, public and private). The Germany-Armenia Fund and the Energy Efficiency Fund of Ukraine are two good examples.

Given the high interest rates prevailing in the EaP countries, reducing capital costs and

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