PRESOURCE

Analytical report for market and stakeholder analysis

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Based on expert interviews with financial stakeholders

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Content

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The expert interviews aimed to provide an overview on the most important stakeholders and financing tools regarding eco-innovations in Hungary. The focus was on covering a wide variety of information on financing options. For that purpose private and public financiers were interviewed on one hand; on the other hand also different professionals from different organizations (private businesses, NGO sector, public bodies), who have a general overview on the different financial mechanisms for eco-innovations available also to SMEs on the Hungarian market.

In the following sections the market and relevant stakeholders in the field of eco-innovation with particular focus on resource-efficiency actions will be identified and analyzed. A review and discussion of public, private and further financing instruments is provided. As at the moment public funding is far the most relevant for financing eco-innovations at the SME-level, this domain is discussed most in details.

Additional information on the expert interviews and interviewees is provided as an appendix.

1. Relevant public organizations and financing tools

1.1. Sufficiency of public financing instruments

Different public authorities and other organizations are of key relevance in Hungary for fostering eco-innovations as they are the ones responsible for setting targets in the field as well as providing partly the financial background for that. The top-down push for eco-innovations is mainly originating from the EU-based national action plans. The National Action Plan for Renewable Energy aims to achieve a share of 14,5% renewable energy by 2020, while the National Action Plan for Energy Efficiency has a goal to increase energy efficiency on a continuous basis.

Far the most important stakeholder for financing is the National Development Agency (NDA) that is responsible for distributing the EU-based funds in Hungary that provides subsidies based on public tenders. There are some other institutions (HITA – Hungarian Investment and Trade Agency or IFKA – Development of Industry Non-profit Ltd.) providing public funding for eco-innovations but these are almost insignificant compared to the NDA.

Most interviewees mentioned the role of subsidies (usually based on public tenders). The main advantage of this financing tool for SMEs is that it is cheap money. On the other hand, there may be very significant administrative requirements and fix costs for applying and thus not always appropriate for SMEs.

Most important subsidy budgets belong to the Environment and Energy Operative Programme (EEOP – many options in the field of energy efficiency improvement, building energetics, application of renewable energy etc.) and the Economy Operative Programme (EOP – mainly technology development regarding eco-innovations). These budgets are funded by the Hungarian state, partly through EU resources.

The subsidy intensity for SMEs may achieve 60 to 70% (and a minimum of about 10%). On the other hand, cheap money may somewhat decrease efficiency of these projects and maintain a little bit high prices regarding materials, accessories and implementation costs in these fields.

In general, perceived policy directions and availably subsidies are very important to market players, especially for SMEs to make decisions regarding eco-innovations. Most interviewees highlighted the role of motivating subsidies, while some of them also stressed that policy should also go further with internalizing external costs of non-sustainable practices (with economic tools like waste landfill fees, water resources fees etc.) and this way indirectly support the payback of eco-innovations.

Based on the expert interviews it seems that public financing (subsidies) is the number one financing tool, but because of uncertainties in the system and high administrative requirements for SMEs it may not provide sufficient results, especially for fostering eco-innovations in the SME field.

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1.2. Main obstacles to receive public funds

There was also a general consensus on the importance of policy support (and an important role in the financing itself, too). However, as many interviewees agreed, it is not easy to apply for public funding as an SME, as there are relatively high fix costs (mainly because of administrative requirements) raising high risks for applicants that are applying for relatively small amounts of funding.

Furthermore, even if energy and resource prices will get more expensive worldwide in the next couple of years – as most interviewees highlighted – current policy messages do not point unequivocally to this direction, energy prices may even fall in the short run, making discouraging SMEs and investors to put money in energy and resource efficiency increasing projects.

Based on the interviews the most important recommendation towards policy makers are:

- to ease the administrative requirements for SMEs in the application process for public funds
- do not keep energy prices artificially below market prices as this does not motivate eco-innovations,
- policy makers should broadcast the message that eco-innovations are important and also pay back both for individual enterprises and also for the national economy. (The current existence of this message was missed by many interviewees).

1.3. Best practice examples for public financing instruments

Even if there are significant critiques towards the public funding system (see earlier), the current funding system through the EEOP and the EOP via the National Development Agency can be regarded as a successful financing instrument.

1.4. Perspectives of financial actors concerning public financing instruments

- financial actors are interested in a stable and well-functioning public financing framework, as in this case there is a stronger push towards eco-innovations and thus higher demands for further (even private) financing.

1.5. Enterprise perspectives concerning public financing instruments

- minimizing of administrative burdens, when applying for lower amounts, there should be costly requirements (certificates, audits or other documents raising relatively significant costs),
- funding scheme should be predictable

2. Relevant private organizations and financing tools

Most important stakeholders for providing private funding are commercial banks and other financial institutions, venture funds and capitalists or even individual investors.

On the whole, private financiers do not really make a difference whether a project is an eco-innovation or not, they usually use the conventional set of financial criteria (indicators, strategic documents, business plans etc.) thus there is no special stakeholders in the private domain specialized for financing only eco-innovations.

Most important financing instruments in this aspect are the followings:

- Conventional bank loans. A straightforward option for financing option may seem to be bank loans. Mainly based on the three interviews with commercial banks it seems that there are a variety of

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different bank loans available for SMEs (investment loans, current asset loans, liquidity loans, EU-subsidy pre-financing etc.).

- Venture capital. Venture capital, as a source of private financing may also be available for SME eco-innovations, even for start-ups. Venture competitions and other similar events may help start-ups to get in touch with potential financiers.
- ESCO-financing. Third party (or ESCO-) financing regarding eco-innovations is very common in the municipality sector, it is not so widespread regarding business investments.

2.1. Main barriers to obtain private capital for eco-innovation investments

On the whole, main barrier seemed to be the lack of liquid capita in the financial system and the relative higher risks of the SMEs (and thus their comparative disadvantage towards liquid financial resources). Some specific issues for the different financing options:

- Conventional bank loans. SMEs do not always pass the evaluation criteria of commercial banks (high risks) especially if there is lack of liquid capital in the financial system. Commercial banks do not yet have special products or evaluation criteria for eco-innovations (although this may change in the future), and as payback time for eco-innovations is many times relatively high, SME eco-innovations are usually not prioritized.
- Venture capital. This source of financing is very expensive, capital costs can achieve as much as 20% per year, which makes their role unclear (related to projects other that regarding the core activity of these enterprises).
- ESCO-financing. Lack of many examples in the business sector (high risks from the financiers side, or in case of financially were stable enterprises, project owners realize these efficiency increasing projects from own resources). The lack of ESCO-financing in the corporate sector seemed not only to be a Hungarian phenomenon, interviewees could not mention too many examples on the European level, either.

2.2. Best practice examples for private financing instruments and services

Currently there are not too many examples where eco-innovations on the SME-level are realized with private financing. ESCO-projects (in the field of energy efficiency improvement) were quite popular in the recent years, but project owners received such funding were mainly municipalities and other public organizations and not SMEs or the business sector on the whole.

2.3. Perspectives of financial actors concerning private financing instruments

- eco-innovation projects should be well-founded also from a business perspective, project owners should provide clear business plans;
- interest for eco-innovations from the SME side,
- policy regulation framework on sustainable development (including energy prices, price schemes for renewable energy etc.) should be stable and predictable for business stakeholders as well

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2.4. The enterprise perspective concerning private financing instruments

- cost of funding,
- availability of funding also for SMEs
- policy regulation framework on sustainable development (including energy prices, price schemes for renewable energy etc.) should be stable and predictable for business stakeholders as well

3. Further innovative financing instruments

There are several further forms of financing where public and private elements of financial instruments are combined.

3.1. Best practice examples for innovative financing instruments and services

- Subsidized bank loans. In 2013, the Hungarian National Bank started providing funding for commercial banks at a zero interest rate so that commercial banks can provide cheap (maximum 2.5% interest rate per year) loans for the business sector, especially for SMEs. These products are originally not intended to cover eco-innovations, but in theory can also be applied for these purposes. But similarly to other forms of private financing, these instruments do not prioritize eco-innovations.
- JEREMIE-funding. JEREMIE-funding is also a mixture of public and private money. Ultimately the funding comes from the EU, but the budget is managed and distributed by licensed private bodies and the funding can be supplemented by private (for example venture) capital. This mechanism may again cover projects at start-ups that would otherwise not be supportable by conventional bank loans (because high risks). But also in this case usually core projects are financed and not eco-innovations.

3.2. Perspectives of financial actors concerning innovative financing instruments

- (similar to those at private instruments, plus)
- financial actors use at least partly public money, so they can also include other aspects than short sighted profit maximization and risk minimization (at least regarding the inclusion of SMEs in funding)

3.3. The enterprise perspective concerning innovative financing instruments

- (similar to those at public and private instruments)

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4. SWOT-analysis of financing instruments

4.1. Strengths

- High inflow of European Union funding since joining the EU
- Preferential treatment of SMEs within EU funding schemes
- High priority on energy efficiency in national strategic documents
- Developed education system

4.2. Weaknesses

- Instability of the institutional environment (frequent changes concerning the public institutions and instruments aimed at fostering eco-innovation and resource efficiency)
- Innovation policy is based on a narrow interpretation of innovation, equating innovation with research and development – this means that there is less support for the adoption of existing technological solutions.
- Frequent delays in public funding decisions and in the disbursal of funds awarded create serious problems in terms of planning innovation projects.
- Some of the funding opportunities not available to SMEs (e.g. because of small size of companies)
- Local lack of expertise (e.g. green building construction, etc.)
- Lack of available information on green solutions
- Lack of cooperation between stakeholders

4.3. Opportunities

- High potential of resource efficiency measures compared to developed countries
- High and (on the long run) increasing energy and resource prices which foster resource saving measures
- Increasing awareness of population and company decision makers relating to the importance of efficient resources use

4.4. Threats

- Measures to foster innovation and resource efficiency may be pushed in the background in the face of more pressing economic problems.
- Regulatory environment may continue changing.
- Risk aversion of banks and other private funding organizations.

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5. APPENDIX: Organizations covered by the interviews

Altogether 21 organizations have been contacted on the phone (and provided supplementary background information per e-mail), 17 have accepted our request, while 4 have rejected for certain reasons. The following tables provide a brief overview on the organizations approached.

5.1. Interviewees

Organisation	Type	Interviewee	Field of activity of organization
IFKA – Development of Industry Non-profit Ltd.	Other	Dr. Annamária Virág, senior expert	Knowledge transfer
HITA – Hungarian Investment and Trade Agency	Public	Mr. Balázs Dietrich, senior expert	Promoting the international business activities of Hungarian SMEs
Alteo Ltd.	Private	Ms. Bea Fodor, financial director	Energy service company and investor
Cashline Holding Plc.	Private	Mr. Csaba Major, senior expert	Investor group
CIB Bank Hungary Inc.	Private	Ms. Eleonóra Léhi, SME consultant	Commercial bank
Valor Capital Inc.	Private	Mr. Gergely Szűcs, managing director	Venture capital managing fund
Öko Ltd.	Other	dr. Judit Rákosi, project director	Environmental consultant
(a major public tender management organization)	Public	Mr. Márk Tokaji	Former expert at the public financing sector
Budapest Bank Inc.	Private	Mr. Nándor Csíki, SME and residential consultant	Commercial bank
K&H Bank Inc.	Private	Mrs. Sándorné Kálmán, account director	Commercial Bank
Caminus Ltd.	Private	Mr. Tamás Rimóczi, project director	ESCO and energy efficiency consulting and engineering company
SEED Foundation	Other	Mr. Tibor Balázs, executive director	Knowledge transfer organization for supporting SMEs
Raiffeisen Bank Hungary	Private	Mr. Attila Hajba, Senior product manager	Commercial Bank

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Századvég Economic Research Ltd.	Other	Mr. Ferenc Molnár PhD, Business Development Director	an associate institution of Századvég Foundation, conducting economic and social research
Battersea Ltd.	Private	Mr. Sándor Gyula Nagy PhD, director	consultant firm and an academic research centre
MAPI Hungarian Development Agency Corporation	Private	Mr. Árpád Szőcs, Business Development Director	the firm is focusing on company's development projects, carrying out investments partially funded by EU subsidies
Mindspace Nonprofit Ltd	Other	Miss Szilvia Zsargó	the organisation focuses on bottom-up initiatives and creates links to international networking initiatives in 3 areas: social innovation, smart city and knowledge management

5.2. Rejections

Organisation	**Field of activity of organization**	**Reason**
Wallis	Jeremie financing (in this respect)	No specific reason provided
Raiffeisen Bank	Raiffeisen Energy financing renewable projects	No specific reason provided
National Innovation Office	Supporting Innovations	Expert responsible for the field was temporarily not available
National Development Agency	Responsible for subsidies and public tenders in the field of environmental protection and economic development	Expert responsible for the field was temporarily not available