



# Barriers to Commercial Lending for Cleaner Production Projects

Improved Investment Analysis Tools:  
Links to Sustainable Development

Lisbon, Portugal, 19-21 November

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# Agenda

- Overview of the project
- Methodology
- Key findings
- Outputs



# Introduction

- Aim of project
  - To convince bring cleaner production projects into the mainstream of commercial finance
  - To develop a methodology that can be replicated in other countries
- Players
  - European Bank for Reconstruction and Development
  - UK Department for International Development
  - AEA Technology Environment
  - Polish Cleaner Production Centre
  - Business Consulting



# Methodology

- Concentration on private sector
  - Working with three Polish banks
  - Taking notice of Polish Environmental Funds but no direct co-operation in project financing
- Marketing campaign
  - To identify a project pipeline and raise awareness of cleaner production
  - Press campaign (announcement and interview)
  - Direct mail-out to members of the Polish Cleaner Production Movement



# Methodology

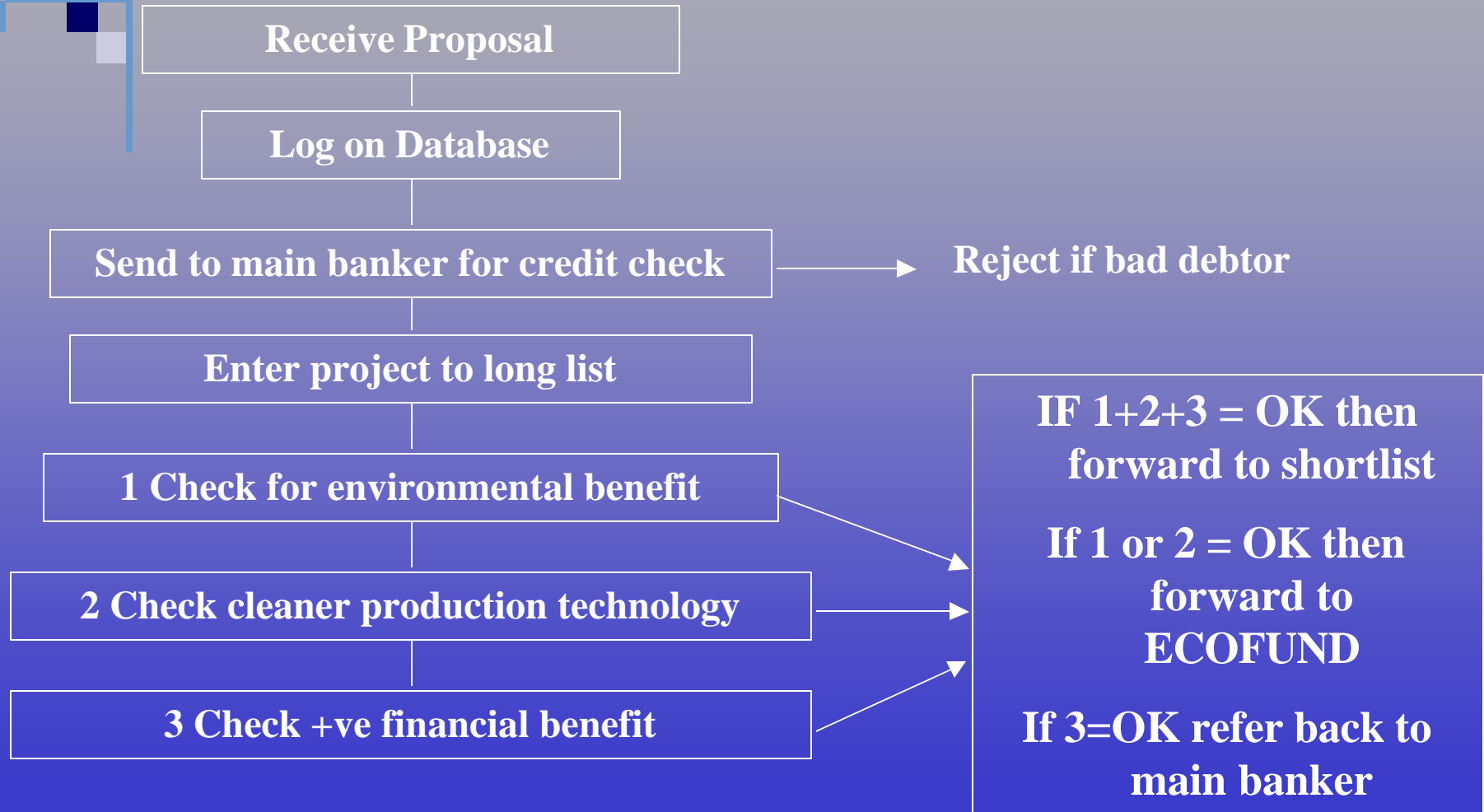
- Facilitation role
  - Project partners working as an interface between the project sponsors and the financiers
  - Screening project proposals for cleaner production criteria
  - Advising sponsors on how to package a bank application
  - Giving limited technical advice on technical applications
- Monitoring the process and the project results



# Initial Responses

- Responses from industry
- Types of project
- Attitudes
- Needs

# Screening





# Screening Results

- Category 1: technical good, financial good, take forward (6)
- Category 2: good project but needs more information (5)
- Category 3: Promising but need an application form (5)
- Category 4: Not CP but good environmental and good commercial (7)





# Screening Results

- Category 5: Not environmental but good commercial (1)
- Category 6: Not commercial but environmental (6)
- Category 7: Not suitable (4)
- Category 8: Withdrawn (2)



# Initial Conclusions

- Response from industry promising
- Companies prepared high quality applications, especially in terms of environmental aspects
- Competition from soft funds is a significant barrier
- Some skepticism from banks needs to be overcome at high level
- Banks only look at financial health of company not at project cash flows
- Companies pay little attention to Net Present Value - prefer simple payback

# Biscuit Factory

- Factory producing a variety of biscuits
- Wafers produced using old machinery (1970s)



# Biscuit Factory

- Better quality wafers would lead to better market position
- Process modification has led to small improvements
- New oven could produce step change in quality



# Biscuit Factory

- Product quality variability leads to process waste





# Bank Responses

- Delays
  - appraising projects at head office
  - Sending project details to branch office
- Terms and conditions
  - Poor when compared to preferential “environmental” funds
- Methods of appraisal
  - Only considered the financial health of the company rather than the profitability of the project
  - Cleaner production seen as an environmental issue (discretionary) not a business issue (cash generating)



# The Company View

- Investment appraisal process
  - NPV & IRR calculations are rare
  - Perceived cost of capital is key determinant especially if the investment is seen as discretionary
- Critical decision making criteria
  - Bank interest rates
  - Cleaner production seen as an environmental issue (discretionary) not a business issue (cash generating)



# The Competitive Environment

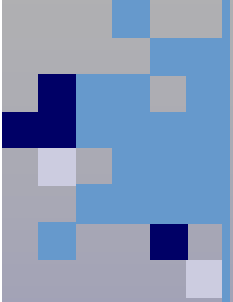
- Competition with other banks
- Competition with preferential environmental funds (Market distortions)
- General economic and financial situation - opportunities for discretionary investments limited





# Barriers – Banks

- Perception of cleaner production
  - Difference between end-of-pipe and at source prevention
  - Concept of material reduction producing cash flows, or the acceptance of these as being able to repay debt
- Customer service
  - Speed of response
  - Processing time for applications is a key selling feature
- Clear terms and conditions not published up front
- Size of project not large enough to warrant special attention



# Barriers - Sponsors

- Little consideration of value generation
- No separation of the investment decision and the financing decision
- Cleaner production benefits still underestimated
- Cleaner production is a discretionary investment



# Recommendations

- Information and dissemination
  - Guidelines of financing cleaner production projects
  - Targeted information programme
  - Help-lines
- Training
  - Project identification
  - Investment appraisal
- Intensified co-operation
  - Co-ordination of technical assistance activities