Financing for Innovation and Innovative Finance

One obstacle to accessing finance for innovation in the water sector is the fact that *"the sector is mature and therefore it is difficult to find solutions that adapt existing systems and existing technologies*", Monica Scatasta explained in a session on *"Stimulating investment in water innovation from the financial sector."*

"The flip side of this, however, is the large number of opportunities for renovation of existing infrastructure," particularly in Western Europe.

But the clock is ticking. *"In terms of timing, it would be a good time to start thinking of another good solution, not only in terms of technology, but in terms of financial structures as well."*

Market fragmentation also makes it much more difficult for an innovative technology supplier to provide a solution and to scale it up. Since *"a company has to deal with procurement processes, public procurement rules, and fragmentation of demand... the uptake of innovation can often be relatively slow."*

New regulations can encourage innovation, but regulation of the sector also means that the *"potential for failure can have grave consequences, further slowing the adoption of innovative solutions."*

There is a social component as well that makes water different from other sectors, so that *"the lack of incentives for water users, specifically for innovations that are linked with increased efficiency in the use of water resources, is also due to the fact that the price of water is often at a level that does not include scarcity values."*

Water-intensive industries are already aware of scarcity values and increasingly include them in their risk assessment.

"Companies are increasingly looking beyond the immediate boundaries of their plants; they are looking much more broadly at their value chain and at the risks that are water-related for their inputs as well as their outputs," Scatasta noted.

"By taking the systemic view, in terms of water stewardship," they *"move beyond the plant, to look at ways in which the whole activity is impacted, to find solutions that are sometimes not even technical or [related to] physical infrastructure, but have to do with better planning or better partnering with other entities, suppliers or others."* This could also lead to identification of an additional source of funding for water stewardship and improved water resources management.

"*It could be possible, should be possible, to harness the interest of water-intensive private businesses in identifying new financing solutions.*" Based on these reflections, Monica Scatasta indicated that water professionals need to improve their capacity to *"speak to the voter, to the consumer, to create an understanding for the value of water, voters' demand for improved water resources management, consumers' demand for goods and services with a lower water footprint and therefore ultimately demand for innovation."*

The EIB serves as the "EU water bank," and is possibly the largest lender to the water sector, with over 18 billion euros in water sector loans in 2009-2013. Ninety percent of that funding goes to water projects in the EU. On average, EIB loans cover 30 percent of the investment cost of water projects, meaning that the Bank has supported investment in the sector for almost 55bn EUR in the last 5 years.

The bank has some flexibility in terms of how it provides funding; its financing instruments go beyond loans, and the bank can work directly with either public or private entities, or through intermediaries. It can blend its funding with grants from the EC or other sources and it provides advisory services to its clients, both on technical and financial matters.

Prompted by EIP Water's work identifying barriers to financing for innovation, the EIB commissioned a report on the issue from the international consultancy Ernst & Young.

"One of the first points that emerged when discussing the options put on the table by the Ernst & Young report was that, in fact, financial instruments for innovation already exist, and that maybe one of the first barriers that needs to be torn down is the barrier related to awareness," Scatasta explained.

"How can a large financing institution manage the transaction cost of dealing with small borrowers or projects? Should we aggregate them? Should we use intermediated financing? Should we use special financial instruments? We may need different solutions for different cases."

Monica Scatasta, EIB

Enter *"InnovFin – EU Finance for Innovators"*, which is a joint initiative launched by the European Investment Bank Group (EIB and EIF) in cooperation with the European Commission under its Horizon 2020 research program.

InnovFin consists of a series of integrated and complementary financing tools and advisory services offered by the EIB Group, covering the entire value chain of research and innovation (R&I). Different instruments can be accessed by SMEs, Mid-Caps, and large companies; these include guarantees and venture capital for SMEs (managed by EIF) as well as guarantees and growth finance for MidCaps, as well as financing and advisory products for larger projects. Guarantees for SMEs and MidCaps as well as Venture Capital will be provided through financial intermediaries. Up to 2020, EU and the EIB Group will contribute close to €3bn each as a risk buffer to InnovFin. This is expected to result in total debt financing of > EUR 24bn, of which > EUR 5.5bn to SMEs and small MidCaps. The overall economic impact in terms of investment in Research & Innovation in Europe over the next 7 years is expected to reach €48bn. The expected number of transactions is estimated at 300 (of which around 110 direct operations with midcaps).