

# NEFCO'S Investment Fund



Nordic Environment Finance Corporation

## Investment Fund

The NEFCO Investment Fund provides financing for economically viable projects with favourable environmental impacts in Armenia, Belarus, Estonia, Georgia, Latvia, Lithuania, Moldova, Poland, Russia or Ukraine. Investment priority is given to small and medium-sized projects, which have positive environmental effects not only for the project country but also for the Nordic region as a whole. Emphasis is on projects that reduce harmful discharges into water bodies or soil and on projects that reduce cross-border airborne emissions.

Through the Investment Fund NEFCO can, for example, finance:

- modernisation of industrial production processes
- installation of best available technology in new industrial facilities
- wastewater treatment and waste management
- production of equipment for pollution abatement
- energy efficiency measures
- modernisation of district heating
- environmental consultancy
- production of renewable energy—biomass, wind energy, geothermal energy, small scale hydro power

The Investment Fund provides loans and equity financing in the form of share capital. In some cases subordinated loans and loans with equity features can also be provided. The loans are from medium- to long term, and are provided at market lending conditions.

Projects financed should meet reasonable profitability criteria and generate positive environmental impacts. A prerequisite for financing is the long-term participation of a Nordic partner in the project. This may include various forms of direct investment by a private or public enterprise or long-term Nordic interest. Cooperation with Nordic partners within the municipal sector is also acceptable.



## Terms and conditions

### FINANCIER

Nordic Environment Finance Corporation (NEFCO)

### PROJECTS

Private or public sector projects in Armenia, Belarus, Estonia, Georgia, Latvia, Lithuania, Moldova, Poland, Russia or Ukraine.

### ELIGIBILITY CRITERIA

Projects financed shall be economically viable. However, the primary focus is on positive environmental impacts. Projects financed should have a Nordic interest.

### FINANCING AMOUNT

Through its Investment Fund, NEFCO may provide loans or capital investments. Generally, the maximum investment amount per project is EUR 5 million. Regarding share capital, the contribution can be up to 35 per cent of total equity. The total NEFCO financing, including loans and equity is normally 30–40 per cent of the total project costs, but can in exceptional cases reach 50 per cent of the total investment costs.

### TERMS OF FINANCING

Loans are provided at market rates and the loan terms are negotiated for each project individually. The loans are from medium- to long term, with pay-back periods or maturities of up to 10 years. With regards to equity investments, NEFCO exits after 5–7 years and exit terms are negotiated upfront.

### PROCUREMENT

Procurement of goods and services financed by NEFCO shall be open and fair.



## Project cycle

### Project proposal

The investor presents the project idea, and NEFCO makes a preliminary financial and environmental assessment of the project.

### Business plan

After NEFCO has examined the project proposal, the applicant is requested to present a business plan as a basis for further evaluation and appraisal of the project. NEFCO examines the environmental impact, technical feasibility and financial profitability of projects.

### Project approval

The project is reviewed by NEFCO's Investment Committee and is then presented to NEFCO's Board of Directors.

Terms and conditions of financing, including the incorporation of environmental commitments into the agreements, are negotiated with the investor.

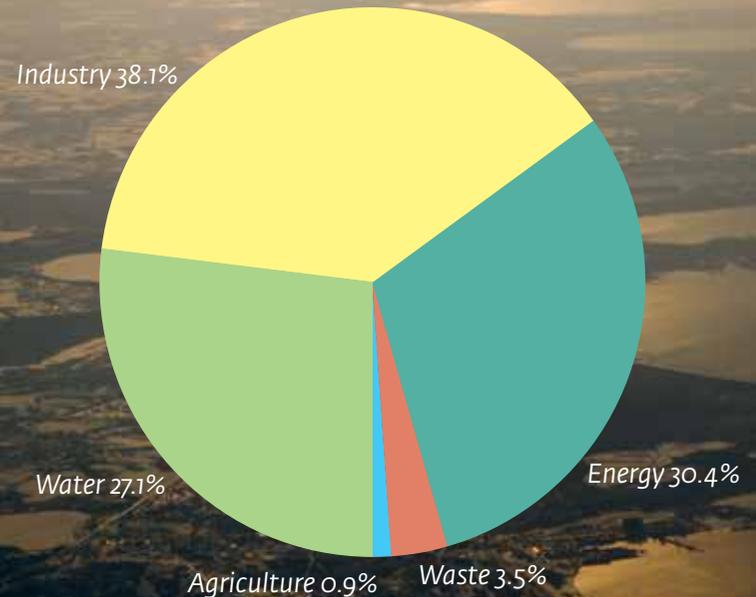
### Agreement

Loan disbursement or equity investment.  
The investor implements the project.

### Monitoring and exit

NEFCO monitors environmental and financial performance of the project. NEFCO withdraws from the project.  
Post-evaluation of the project.

## Distribution by sector Investment Fund \*



\*Percentage of EUR Loans outstanding



## Production of environmentally friendly plastics in Russia

The Finnish company Rani Plast, supported by a EUR 3 million loan from NEFCO's Investment Fund, produces environmentally friendly plastics in Kaluga, Russia. Rani Plast manufactures a wide range of plastic films for packaging materials. In Russia, the company uses polyethylene, a much more environmentally friendly material than polyvinylchloride (PVC), a common packaging product, which involves the use of various phthalates as plasticisers and poses risks to the environment. The EU has classified certain types of phthalates as harmful to human health.

The manufacturing process at Kaluga is based on a closed-circuit production system and all the surplus plastic is recycled, a move that results in reduced consumption of raw materials. And because the factory makes use of the best available technology, energy consumption levels are also much lower than at equivalent Russian production facilities.

The factory was inaugurated in an industrial estate established by Lemminkäinen, a Finnish construction company, and the long-term plan is to house 20 to 30 cleantech factories in the area.



## Reducing the phosphorus load

NEFCO has approved a loan of EUR 5 million from its Investment Fund for the modernisation of several small wastewater treatment plants in St. Petersburg.

The overall aim of this investment is to upgrade the treatment of wastewater at small and medium-sized plants by, among other things, installing modern equipment, which will enable enhanced removal of phosphorus. The project is expected to reduce discharges of phosphorus into the Neva River and the Gulf of Finland by some 40 tonnes per year—a figure equivalent to the discharge of untreated wastewater by more than 53,000 people per year. After the modernisation process, the city of St. Petersburg will comply with the recommendations stipulated by HELCOM.

Improved wastewater treatment in St. Petersburg will improve water quality, promote biodiversity and reduce the spread and proliferation of toxic algae (cyanobacteria) into the Gulf of Finland.

Apart from NEFCO, other financiers of the scheme are the Finnish Ministry of the Environment, the Northern Dimension Environmental Partnership (NDEP) and the local waterworks company Vodokanal, which will implement the project.



## Water-based paint production in Ukraine

In Ukraine, NEFCO has financed the building of a paint factory in Odessa. The factory, which is operated by the Swedish company Eskaro, manufactures water-based paints, which are more environmental-friendly than oil-based ones.

The manufacturing process is based on a closed-loop system to prevent harmful discharges into the surrounding watercourses.

One of the advantages of producing water-based paint is that emissions of volatile organic compounds (VOCs), typically emitted from oil-based paints, are avoided. Certain VOCs are carcinogenic and contribute to the creation of ground-level ozone. Reduction in release of VOCs thus benefits vegetation and human health.

The Odessa water paint project is expected to reduce releases of VOCs by some 870 tonnes per year. Eskaro operates four similar factories in Finland, Estonia, Russia and Belarus. One additional advantage of the Odessa factory is that it will reduce unnecessary transport costs and decrease carbon dioxide emissions by about 800 tonnes per year.

NEFCO has injected EUR 2.4 million of equity into the factory from its Investment Fund. The other financiers are Swedfund and Eskaro Group AB.



## Biogas from pig manure

The Ukrainian agricultural company, Danosha Ltd, which is owned by the Danish company, Axzon A/S, and NEFCO have signed a loan agreement to finance the production of biogas from pig farms in the Kalush region of Western Ukraine.

Under the terms of the agreement, NEFCO will grant a loan of EUR 1.8 million for the construction of a biogas plant in Kopanki, which is expected to reduce carbon dioxide emissions by some 27,300 tonnes per year when operational. The project both decreases the releases of methane and the leakage of organic substances into waterways. NEFCO gives high priority to this kind of projects with multiple environmental benefits.

The total investment cost for the project, whose 1 megawatt biogas reactor will consume some 100,000 cubic metres of pig slurry per year, is EUR 4 million. Plans are underway for similar facilities at three other Danosha-managed sites in Western Ukraine.

*The Nordic Environment Finance Corporation (NEFCO) is an international financial institution, which was established in 1990 by the five Nordic countries Denmark, Finland, Iceland, Norway and Sweden. NEFCO finances a wide range of environmental projects mainly in Eastern Europe in order to generate positive environmental benefits for the Nordic region.*

*NEFCO provides financing for projects aimed at reducing environmentally harmful emissions and discharges, such as greenhouse gases and toxic pollutants. Currently, NEFCO's portfolio contains over 500 projects.*

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