

# **Ekološki Sklad Republike Slovenije, Javni Sklad Environmental Fund of the Republic of Slovenia, Public Fund**

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## **Fund overview:**

The Slovenian Environmental Development Fund (the Fund) was established in 1993 as a legal public entity under the 1993 Environmental Protection Act. It was constituted as a non-profit, joint stock company with a start-up capital of SIT 10 million (EUR 65,000) allocated from the state budget in 1994. The Fund does not directly finance biodiversity related projects, but provides loans on favourable terms with a bellow market interest rates for investments in environmental protection, which consequently has beneficial effects on biodiversity.

Based upon the Law on Public Funds, the Slovenian Environmental Development Fund was transformed into a public financial fund on January 1, 2001. In accordance with the new 2004 Environmental Protection Act the Fund changed the name into the Environmental Fund of the Republic of Slovenia (since January 1, 2005), however its purpose stayed the same. It manages in public interest assets earmarked by the Republic of Slovenia for environmental protection. The Fund is an independent legal entity, with the Ministry of the Environment and Spatial Planning being represented in the Supervisory Board.

The Fund's main purpose (as defined by the Constituent Act) is to promote development in the field of environmental protection by granting loans on favourable terms with a bellow-market interest rate or guarantees for environmental investment projects in compliance with the national environmental protection strategy, as well as with the environmental policy of the European Union.

Perhaps the most significant aspect of the Fund's operating environment is the requirement that the Fund maintains the real value of its earmarked assets. For this reason, the Fund has provided support for environmental investments through loans on favourable terms and developed a strong focus on the financial sustainability of the projects it supports. The Fund utilises two loan financing programmes, namely:

- for legal entities (municipalities and/or providers of public utility services, enterprises and other legal entities) and sole proprietor, to support investments in environmental friendly infrastructure, investments in environmentally sound technologies and products, energy

efficient and energy saving investments, and investments in use of renewable energy sources; and

- for individuals (households), to support conversion from fossil fuels to renewable energy sources, energy saving investments, investments in water consumption reduction, connections to sewage system, small waste water treatment plants.

The Government of the Republic of Slovenia has an important competency in the management of the Fund, whose managing authority is the Supervisory Board, constituted by a chairman and four members. The chairman of the Supervisory Board is the minister competent for environmental protection, who is during the time of absence substituted by one of the members appointed by the chairman. The members of the Supervisory Board are appointed by the Government at the Minister's proposal for a term of four years with the possibility of re-appointment. The management of the Fund is performed by the Fund's director.

International financing institutions have been involved in co-financing the Fund's activities, as follows:

#### ***International Bank for Reconstruction and Development (IBRD)***

In 1996, the Fund signed a loan agreement with the IBRD in the amount of DEM 30 million. The loan has been used for co-financing the Air Pollution Abatement Programme. Within the programme, the Fund administered individual loans for conversion from dirty solid fuels and heavy oils to more environmental friendly sources of energy. Financing consisted of a 25 percent contribution from the Fund's own resources and 75 percent from IBRD loan revenues.

#### ***European Commission Phare Programme***

Within the framework of the Environmental Credit Scheme, the EC Phare Programme provided two grants (non-repayable funds for 10 years) to the Fund. The Phare grant is used to co-finance the Environmental Investments Programme for enterprises and public sector (50 percent by Phare and 50 percent by the Fund). The grant was disbursed as follows:

- EUR 4 million within Phase I (disbursed in 1998 and 1999); and
- EUR 3.37 million within Phase II (disbursed in 2001 and 2002).

Based on both Financing Agreements repayments of loans are used as revolving funds for financing additional environmental investments projects within these programmes.

#### ***European Investment Bank (EIB)***

In 2001 the Fund signed a loan agreement with the EIB in the amount of EUR 10 million. The loan has been used to co-finance different environmental projects: upgrading, improvement, modernisation and expansion in the sector of wastewater systems, facilities using renewable

energy sources and other environmental projects reducing water and air pollution, carried out by municipalities, private or public companies.

In the year 2006 the Fund began negotiating with the EIB for another loan, up to 30 million EUR for the financing of different environmental projects, especially energy efficiency and renewable energy projects. The finance contract will be signed at the end of September 2007.

In some cases, the Fund has acted as an **intermediary financing institution**, co-financing investments from outside sources:

- *Global Environmental Facility (GEF)* supplied a grant of USD 6.2 million to the Republic of Slovenia for phasing out ozone depleting substances in 6 Slovenian companies.
- *Global Environmental Facility (GEF)* supplied a grant of USD 4.3 million to the Republic of Slovenia for the project “Removing Barriers to the Increased Use of Biomass as an Energy Source”. The project has promoted the increased use of wood biomass as an energy source in Slovenia. The project has been completed. In the period from June 2004 to December 2006, 8 district heating wood biomass projects have been financed in small towns through venture capital investments within the framework of the GEF project. This should provide a solid basis for the follow up projects.

### **Results and impacts:**

The Fund has not offered any loans for financing projects directly dealing with biodiversity issues. Nevertheless, favourable loans of the Fund earmarked for environmental protection contribute to the quality of the environment and can thus positively contribute also to the conservation of biodiversity.

Such loans are an important public finance instrument for financing environmental protection investments. They are supplemented by other public finance instruments: earmarked funds arising from environmental taxes, non-refundable funds from the budget of the Ministry of the Environment and Spatial Planning for environmental investments and funding received from the European Union programmes and funds.

The Fund encourages through the provision of favourable loans investments contributing to the realisation of the objectives from the strategic documents adopted – National Environmental Action Programme (NEAP), National Energy Programme and implementation programmes. The NEAP is a strategic document, the objective of which is to improve the general quality of the environment and life as well as protect natural resources in compliance with the European Union Environmental Programme.

The recipients of the Fund’s loans are municipalities and providers of mandatory local public services of environmental protection, as well as companies and other legal entities, sole proprietors and individuals investing in the fields of environmental protection, in particular water protection, waste management and protection of air and climate.

In order to mitigate climate change it is absolutely necessary to decrease greenhouse gas (GHG) emissions. Therefore one of the Funds priorities is providing favourable loans for investments dealing with climate change mitigation measures. This mainly involves financing various measures aiming at efficient use of energy and use of renewable energy sources for the production of heat and electricity. This also contributes to the realisation of international obligations of Slovenia regarding the climate change mitigation measures.

Favourable funds provided by the Fund contribute also to the achievement of one of the principal objectives of the NEAP, namely, the waste management, where the aim is to establish an efficient waste management system, substantial increase in energy utilization from the waste and the reduction of GHG emissions.

As regards the protection of water the objective is to ensure adequate collection, discharge and purification of urban waste waters. For the protection of the aquatic environment and water as a natural resource the Fund is contributing by way of favourable financing of investments by municipalities and public utility companies in facilities and plants for the implementation of mandatory local economic public services of environmental protection, namely supply with drinking water and discharge and treatment of waste water, and by way of providing loans to companies and sole proprietors implementing investments with effects of decreasing the burden on waters and aimed at efficient use of water.

### **Success and Challenges:**

Environmental Fund of the Republic of Slovenia is the only specialised institution in Slovenia that provides financial supports for environmental projects. The financial assistance is offered through favourable loans from revolving funds. In comparison with commercial banks, the Fund's principal advantages in the market for environmental financing are the provision of favourable loans at lower interest rates than prevailing commercial market rates and the possibility of being able to lend for significantly longer periods than commercial banks.

In 2000 the OECD reviewed the Fund. Based on its review of the Fund's operations, the review team concluded that the Fund operated effectively and efficiently in fulfilling its official mandate. During its operation the Fund was presented as one of the most effective funds in Central and Eastern Europe. Consequently, it shared its experience with other funds that were set up later.

In the future, the Fund intends, besides offering favourable loans, to use other financial instruments promoting the mobilisation of risk finance. According to expectations, this would reinforce the availability of venture capital for different projects, in particular for investments in renewable energy technologies as well as investments in improved energy efficiency. Using this new instrument the Fund wishes to continue with the approaches carried out within the framework of the GEF project and also expand them to other fields of exploiting renewable

sources of energy. In this way, the Fund wishes to achieve a substantially greater use of these systems in Slovenia.

**Basic Fund information:**

Operational since: 1994

Total income (US\$):

2002:	6,421,744.00 \$
2003:	6,581,931.00 \$
2004:	7,636,046.00 \$
2005:	6,469,520.00 \$
2006:	7,836,928.00 \$

Major revenue sources in 2006 were interest revenue with 98.5 % of Fund's total revenues.

Total expenditure (US\$):

2002:	1,657,539.00 \$
2003:	1,929,578.00 \$
2004:	2,061,575.00 \$
2005:	2,250,050.00 \$
2006:	2,237,093.00 \$

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