

## BE-Rural Policy Brief

# Funding for bio-based business models



### Main recommendations:

- **Strengthen governance arrangements, synergies and complementarities.** Strategic guidance is required from policymakers at all levels. Sectoral and territorial policies should operate complementarily, with the involvement of regional stakeholders in the design and implementation of policy measures.
- **Invest in place-based strategies and capacities.** Territorially defined integrated strategies, developed bottom-up are able to use local knowledge and potential. Potentially useful frameworks are, for instance, LEADER or CLLD Local Action Groups.
- **Support cooperation and strategic alliance.** Establishing cooperation and dialogue with key partners and operators in the value chain is crucial. This can include the requirement to cooperate territorially, within the territory itself and with neighbouring ones.
- **Ensure financial support across all stages of business innovation.** Sufficient funding needs to be available throughout the innovation process, from research to commercialisation. Public policies can facilitate the uptake of private funding streams.
- **Provide complimentary 'soft' support.** This can include simplifying market-entry regulations at EU and at national level, as well as making use of innovation services related to improving awareness on funding opportunities and brokerage.

## Context

Policy efforts in support to green and sustainability transitions have been increasing, however, *raising funds for innovative small-scale bio-based businesses is still a challenge*. Among the key reasons are the scarcity of funds that are deployed on the basis of place-based needs and potentials, lack of capacities of local actors who take initial steps in the bioeconomy to tap into national or EU level financing, challenges to receive advisory or networking support in rural settings, and the lack of complementarities among public initiatives. Moreover, in Central and Eastern Europe, *permanent* national or regional public investment frameworks and business support services dedicated specifically to the bioeconomy are often lacking, making stakeholders dependent on *temporary project financing*. Investing in small-scale businesses is further challenged by the fact that the profitability of circular bio-based businesses is still considered uncertain, which is why *companies, especially SMEs, often rely solely on public support*.

At the same time, funding opportunities for small-scale place-based solutions play a particularly important role for the sustainable bioeconomy. They allow local communities, SMEs and rural entrepreneurs to create economic, social and ecological value through innovative business solutions, reinvesting the profit in local places and people. Currently, one typically available funding stream is support via EU territorial instruments such as LEADER/CLLD frameworks. However, these

are often not sufficiently funded and, in some cases, bear high administrative burden.

Funding for the commercialisation of bio-based products and services and the entry into (international) markets is also crucial, as the *lack of consumer acceptance and awareness* makes it difficult for emerging business ideas to scale up to an industry uptake. Funding streams, though, are often unevenly distributed and focused on the initial research and development phase, while scaling up and commercialisation often lack public funding support. Private financing, such as venture capital, which could provide a response to this, is rarely considered, and more difficult to access by small-scale enterprises.

Apart from direct capital investments in new bio-based business models, networks and entrepreneurial ecosystems provide supporting frameworks for developing bio-based businesses. These are *best coordinated at the regional level*, which can promote complementarities among multiple local initiatives and with national programmes. The importance of networks and ecosystems also raises the *role of hubs, incubators or other types of entities* that bring actors together and facilitate knowledge sharing and cooperation. In Romania, for instance, bioeconomy-related clusters work with start-ups, providing accelerator programmes and mentoring with the aim of giving direction to entrepreneurs on how to develop their business plans in a circular way. Nevertheless, creating critical mass for



clusters can be challenging in rural settings, which often lack R&I infrastructure.

Despite these challenges, there are clear signs that the focal regions covered in BE-Rural have targeted *diverse bio-based business models* with capacity to create diverse economic, social and ecological value. The currently prevalent business models related to product and process innovations are increasingly balanced and combined with emerging innovations enhancing socio-ecological systems, for instance in the domain of tourism in Poland and forestry in Latvia.

## Methodology

This policy brief is informed by BE-Rural outputs and activities, including a research and innovation capacity-building workshop, the development of regional bioeconomy strategies and roadmaps, and the design of small-scale bio-based business models. As these strategic documents and activities were carried out together with various regional stakeholders, they allowed the collection of on-the-ground experiences and views related to success factors and challenges in financing and scaling up bio-based business models. On this basis, this policy brief provides concrete and evidence-based recommendations to policy makers at different governmental levels.

## Recommendations

### Strengthen governance arrangements, synergies and complementarities

In order to grow a sustainable bioeconomy, the strategic goals and the investment channels managed by various stakeholders must be aligned. First of all, this requires *directionality* – clearly articulated bioeconomy objectives coupled with strategic guidance from policy at all levels. Additionally, national governments need to steer complementarities between territorial (rural, regional) and sectoral (RTDI, industrial) policies, and related to these public programmes which could support different aspects of emerging bio-based business models. In the cases where national bioeconomy strategies are absent, the need for this is even stronger. To ensure that policies and programmes respond to local needs and potentials and create ownership, they also need to involve regional stakeholders – businesses, community leaders, civil society organisations, research and rural entrepreneurs – in the design and implementation of related policy initiatives.

### Invest in place-based strategies and capacities

Place-based strategies are able to integrate valuable local knowledge and enhance local understanding of the potential to use biomass from different sources like agriculture, forestry and fisheries for bioeconomy purposes. Local communities are also the ones able to tap into other strategic assets for value creation outside

renewable resources, such as traditions, craftsmanship and history. While the investments in place-based strategies in rural areas are not abundant, in some countries and regions such strategies are supported by LEADER/CLLD Local Action Groups (LAGs), providing an opportunity for bottom-up initiatives.

The development of bioeconomy strategies was specifically linked to LAGs in the Polish and Bulgarian open innovation platforms (OIPs). In both countries, national level commits a high share of rural development funding to CLLD, which provides important funding potential.

Source: Bioeconomy strategies in the Polish and Bulgarian OIPs

LAGs are already existing structures in rural areas that are linked to the implementation of local development strategies funded by European Structural and Investment Funds (ESIFs), via LEADER/CLLD. It is important that LAG strategies recognise the local potential in the bioeconomy and, if possible, include bioeconomy objectives, thereby directing investments to it in order to reduce the gap of funding for small-scale projects. Similar potential to support the regional bioeconomy have local and regional development strategies and related investment programmes.

## Support cooperation and strategic alliance

A key field of support to new business models is the establishment of *cooperation and dialogue with key partners and operators in the value chain*, stimulating strategic alliances of actors with complementary knowledge, from obtaining the raw material to transport and pre-treatment and then production. This includes

the stimulation of partnerships across sectors such as forestry and agro-food, between more traditional and circular bioeconomy activities, and the consolidation of the link between SMEs and universities.

The regional bioeconomy roadmap of Covasna, Romania, recognises that collaboration and coordination between stakeholders need to be carefully managed, particularly with the transport sector, but also with SMEs, clusters, and R&D institutions. In this line, the roadmap considers that the development of a strategy for R+D+I in the region would be beneficial.

Source: Roadmap for a bioeconomy strategy in Covasna county, Romania

As investments in innovation infrastructure, including accelerators and incubators, are often limited or absent in rural areas, it is recommended to support *cooperation among neighbouring rural or rural-urban areas, as such cooperation could facilitate sharing of infrastructure*. This can be leveraged already with existing tools, such as the above-mentioned EU territorial instruments, which in some countries are designed to promote cooperation activities amongst neighbouring municipalities.

## Ensure financial support across all stages of business innovation

If the bioeconomy is to scale up, entrepreneurs need to raise capital investment across all stages of the innovation process, from research to commercialisation.

Public funding is not sufficient for all of these stages. However, public policies can facilitate the uptake of private funding streams by



supporting low-interest business loans, especially for small companies, which often find it harder to access private finance. The need to involve national and regional promotional banks, which can provide loan facilities for bioeconomy investments, is therefore highlighted, together with the role of national and regional investment promotion programmes and agencies.

As foreign investment in the Strumica region, North Macedonia, plays an important role, it can be a significant factor in the development of a regional bio-based economy. Therefore, finding ways of attracting these investments for the bioeconomy is crucial.

Source: Bioeconomy development roadmap for Strumica region, North Macedonia

## Provide complimentary 'soft' support

To be successfully taken up, available financing needs to be coupled with steps towards *simplifying market-entry regulations at EU and at national level*, together with providing local and regional administrative support to entrepreneurs to handle complex regulatory

requirements and legislation related to intellectual property. Additionally, innovation services related to improving awareness on funding opportunities and brokerage under national and EU programmes and services, such as Horizon Europe and EIP-AGRI, are considered highly valuable. These are especially needed when it comes to young researchers, scientists and entrepreneurs, who are usually the ones most lacking knowledge and experience on how to participate in EU or nationally funded projects, but who are also highly dynamic and innovative.

At regional level, it is recommended to provide support services that help entrepreneurs to identify how their funding needs match with different sources of funding. Such services can also assist applicants with less experience to prepare their applications.

In Latvia, the Investment and Development Agency is a key provider of financial, but also mentoring support. Smaller business support programmes also exist at regional level.

Source: Vidzeme and Kurzeme regional bioeconomy strategy, Latvia



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## About the project

The transition towards a new, bio-based regional economy with opportunities for rural employment and sustainable growth requires the active involvement of a broad spectrum of stakeholders and the sustainable use of agricultural, forest and marine ecosystems. Building on this idea, BE-Rural explores the potential of regional and local bio-based economies and supports the development of bioeconomy strategies, roadmaps and business models. To this end, the project focuses on establishing Open Innovation Platforms (OIPs) within selected focal regions in five countries: Bulgaria, Latvia, North Macedonia, Poland and Romania. More information on the project can be found at <https://be-rural.eu/>.

## Imprint

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