

# OUTLOOK OF EXISTING FINANCIAL / DEVELOPMENT PROGRAMMES

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## List of acronyms

<b>Acronym</b>	<b>Full title</b>
<b>BAE</b>	Business Angels Europe
<b>DG RTD</b>	Directorate-General for Research and Innovation (European Commission)
<b>EBAN</b>	European Business Angels Network
<b>EFSI</b>	European Fund for Strategic Investments
<b>EIB</b>	European Investment Bank
<b>EIC</b>	European Innovation Council
<b>ESG</b>	Environmental, Social, and Governance factors
<b>EU</b>	European Union
<b>EUR</b>	Euros (€)
<b>GDP</b>	Gross Domestic Product
<b>GHG</b>	Greenhouse Gas
<b>IPO</b>	Initial Public Offering
<b>MS</b>	Member State
<b>NBS</b>	Nature Based Solutions
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>R&amp;D</b>	Research and Development
<b>R&amp;I</b>	Research and Innovation
<b>SF</b>	Structural Funds
<b>SFDR</b>	Sustainable Finance Disclosure Regulation
<b>SMEs</b>	Small and medium-sized enterprises
<b>TRA</b>	Technology Readiness Assessment
<b>TRL</b>	Technology Readiness Level
<b>UN SDGs</b>	United Nations Sustainable Development Goals
<b>Water4All</b>	European Partnership on Water Security for the Planet

## Glossary<sup>1</sup>

**Action Plan:** the European Action Plans define the agenda to accomplish a determined objective. They contain all the actions with this orientation.

**Bank lending:** a form of financing whereby a company borrows funds from a bank and commits to repay them in full over a defined period at a specified interest rate. Bank lending can be presented in different forms and products. However, for the purpose of this report it is being classified into two key areas of financing: financing investment costs and financing working capital.

**Blue Economy:** Blue Economy refers to any economic activity relating to oceans and seas. It covers a broad range of established and emerging sectors.

**Bootstrapping:** a process that involves establishing and building a business with personal savings, earnings from initial sales, and borrowed or invested money from family and friends. This is a way to build a small business without giving up equity or taking out substantial bank loans.

**Business angel:** a private individual, often with a high net worth, and usually with business experience, who directly invests part of their assets in new and growing private businesses. Business angels can invest individually or as part of a syndicate where one angel typically takes the lead role.

**Crowdfunding:** an emerging alternative source of financing. It refers to open calls to the public, generally via the Internet, to finance a project through either a donation, or a monetary contribution in exchange for a reward, product pre-ordering, lending, or investment. Any type of project can launch a crowdfunding campaign: Small and Medium-sized Enterprises (SMEs), artists, innovative start-ups, and social entrepreneurs may all benefit from different forms of crowdfunding. Crowdfunding – this alternative form of fundraising that is collective, participatory, and interactive – is becoming increasingly important. It has the potential to bridge the financing gap many start-ups face and to stimulate entrepreneurship.

**Delegated act:** a legal instrument that is subordinate to an EU (European Union) regulation or directive. Delegated Acts are used to specify and implement the technical details of legislation, providing more specific rules and guidelines on how a particular law should be applied. These acts are typically used to fill in the gaps or provide further clarification on the provisions of the main legislation. Delegated Acts are a way for the European Commission, which is responsible for proposing and implementing EU legislation, to have the authority to adopt rules or measures that are needed to ensure the effective application of a given regulation or directive. However, these acts are subject to control and scrutiny by the European Parliament and the Council of the European Union, which can object to a Delegated Act within a specified period if they believe it exceeds the Commission's implementing powers or is not in line with the EU's.

**EU Green Bond Standard:** this initiative aims to establish a unified standard for green bonds within the EU. Green bonds are to be used to finance environmentally friendly projects, and a common EU standard under development is expected to increase transparency and trust among investors.

**Grants:** a type of financial assistance typically given by a government or an organisation to a wide range of beneficiaries such as private individuals, companies, public institutions, or non-profit organisations. Grants are typically awarded in support of a specific policy or purpose that serves some larger good. For example, education, research, innovation, culture, social welfare, environment, economic development,

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<sup>1</sup> This glossary will be updated and completed in further deliverables. It provides standard definitions to support dialogue between innovators and investors.

or humanitarian aid. Grants assistance is channelled for projects that are characterised by high-risk and/or long-term benefits. Unlike loans, grants do not have to be repaid. Increasingly, grant funding is combined with a variety of other public and private finance (so-called 'blended finance').

**Greenwashing** refers to the practice of making misleading or false claims about the environmental benefits of a product, service, or company in order to present it as more environmentally friendly or sustainable than it actually is. This deceptive marketing tactic is used to capitalize on the growing consumer demand for eco-friendly and sustainable products and services. In essence, it involves painting a false "green" image to attract environmentally conscious consumers and boost sales.

**Growth capital:** a form of venture capital used to consolidate the company's financial structure for the next stage of its growth, including acquisitions, internationalisation, or the development of new product ranges, for example. Growth capital funds will only invest in companies with a recurring cash flow.

**Net zero:** net zero emissions describe the state where emissions of carbon dioxide due to human activities and removals of these gases are in balance over a given period.

**Private equity:** refers to capital that is directly invested in private companies. Private equity consists of taking minority or majority stakes in private companies (which are not listed on stock exchanges). The two most common types of private equity investment are Growth capital and venture capital.

**Startup:** an independent organization, which is younger than five years and is aimed at creating, improving, and expanding a scalable, innovative, technology-enabled product with high and rapid growth.

**Scaleup:** a company seeing accelerated growth after demonstrating a product or service-market fit, which is looking to grow in market access, revenues, and the number of employees.

**Spinoff:** not a company or an independent organization but a part of an institutional organization, e.g. university, school of economics, or an organization.

**Sustainability linked loan:** a type of loans that are available exclusively to those entities that can accomplish the environmental objectives of the investor.

**Sustainable Finance Disclosure Regulation:** the Sustainable Finance Disclosure Regulation (SFDR) is an EU regulation designed to enhance transparency and disclosure of sustainability-related information within the financial sector. It requires financial market participants, including investment managers, to disclose the Environmental, Social, and Governance (ESG) factors that may impact their investment decision-making processes. The SFDR also establishes specific disclosure obligations for financial products, such as funds and investment portfolios, to inform investors about the sustainability characteristics of those products. By providing this information, the SFDR aims to ensure that investors can make informed decisions and allocate capital to investments that align with their sustainability preferences. It is part of the EU's broader efforts to promote responsible and sustainable financial practices and increase the flow of investments into sustainable activities and projects.

**Taxonomy Regulation:** the Taxonomy Regulation is a regulatory framework within the EU that aims to set up a unified and standardized classification system for economic activities that can be considered environmentally sustainable. It provides clear criteria and definitions for what constitutes a "green" or environmentally friendly activity. The Taxonomy Regulation serves as a foundation for sustainable finance by helping investors, companies, and financial institutions identify and promote investments that align with the EU's environmental and sustainability objectives. It contributes to the EU's goal of

facilitating sustainable economic growth and transitioning to a more environmentally responsible financial sector by providing clarity on which activities are considered sustainable.

**Technology Readiness Level (TRL):** a method for estimating the maturity of technologies during the acquisition phase of a program. TRLs enable consistent and uniform discussions of technical maturity across different types of technology. TRL is determined during a Technology Readiness Assessment (TRA) that examines program concepts, technology requirements and demonstrated technology capabilities. TRLs are based on a scale from 1 to 9 with 9 being the most mature technology.

**Venture capital:** Venture capital can take several forms, for example from seed funding to scale from a prototype to a product or service, to early-stage funding to help entrepreneurs grow a company and expand working capital, to late-stage to contribute to market expansion. This type of investment is mainly directed at spinoffs and startups seeking financing, primarily for new, innovative, and disruptive technologies and services.

## Abstract

This deliverable is the **sixth release** of a biannual series of regular **updates on the Outlook of the Financial Programmes for Water Investments**. The outlook is part of the demonstration activities included in **Water4All's Pillar D** aimed at connecting innovators to development/investment programmes to support an enabling environment for a wider and faster implementation of water innovations.

The **first deliverable**<sup>2</sup> provided an **overview of perspectives of investments in water development and water innovation** and, after making the balance of the size of the effort required in the current decade, presented an **analysis of the opportunities and challenges these financial perspectives represent for the progressive uptake of innovative solutions**.

The **second deliverable**<sup>3</sup> took stock of the **challenges** mentioned in the previous one and continued with **mapping the main financial opportunities available for water innovations from idea to market uptake and scaleup**. This report explored the connection between financial tools and strategies with water innovation, highlighting key financial methods and opportunities available for innovators to progress through the innovation process, starting from the seed stage and advancing to market uptake and scale-up. It also provided a map of funding opportunities for water-related investment projects, within the framework of the European Union's recovery instrument Next Generation EU (e.g. the Recovery and Resilience Facility, the Programme InvestEU -including the new Strategic Investment Facility, the European Fund for Strategic Investments (EFSI)- and Structural Funds -and Cohesion policy programmes).

The **third deliverable**<sup>4</sup> assessed the recent developments in European Union (EU) **Sustainable Water Financing**, offering a comprehensive framework and strategy to **align investor priorities with the EU Green Deal objectives**. The key aims of the **EU Sustainable Finance Agenda** are to incentivize the mobilization of private financial resources, in conjunction with public funds, to support the EU's sustainability objectives, particularly in the sustainable use and protection of water and marine resources. The report provided an overview of the **EU sustainable financing agenda** and its primary initiatives, including the **EU taxonomy for sustainable activities**, highlighting its relevance for mobilizing financial resources in the water sector, reducing financing for environmentally and socially detrimental activities, and improving transparency and disclosure of sustainability-related information for informed investment decisions.

The **fourth deliverable**<sup>5</sup> offered a general map and a comprehensive overview of the **financial instruments accessible for innovation within the water sector**, delineated across three key dimensions: their **function in the innovation process, geographic applicability, and thematic scope**. The referred map will be instrumental for forthcoming releases of the Outlook of Financial/Development Programs for categorizing existing financial opportunities for water innovation in the three aforementioned dimensions

The **fifth release**<sup>6</sup> was focused on the **recent progresses made towards the compliance of the goal of the European Union Mission: Restore Our Ocean and Waters**. In the last few years, a series of actions have taken place with relation to this mission, defining the European approach towards the fulfilment of the water objectives. This information was therefore of relevance for innovators in the sector, as these European actions define the framework in which their activity must be oriented.

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<sup>2</sup> [OUTLOOK OF EXISTING FINANCIAL/ DEVELOPMENT PROGRAMMES. Deliverable D4.1 - November 2022](#)

<sup>3</sup> [OUTLOOK OF EXISTING FINANCIAL/ DEVELOPMENT PROGRAMMES. Deliverable D4.2 - May 2023](#)

<sup>4</sup> [OUTLOOK OF EXISTING FINANCIAL/ DEVELOPMENT PROGRAMMES. Deliverable D4.3 - November 2023](#)

<sup>5</sup> [OUTLOOK OF EXISTING FINANCIAL/ DEVELOPMENT PROGRAMMES. Deliverable D4.8 - May 2024](#)

<sup>6</sup> [OUTLOOK OF EXISTING FINANCIAL / DEVELOPMENT PROGRAMMES. Deliverable D4.12 - November 2024](#)

This **sixth release** details the **criteria related to the successful procurement of resources from different types of financial instruments** with relevance to the water sector and complements the second and fourth edition of the outlooks by deepening in what is needed to obtain financing depending on the financial instruments and also in defining the **key success elements** when applying to them. This is of particular relevance to investors, as it enables them to **make informed decisions** about the most suitable instrument for accessing resources (especially taking into account, as highlighted by the fifth release, that one of the primary objectives of recent **European water initiatives is to encourage the mobilisation of private capital towards achieving European environmental objectives**).

### ***About Water4All***

**Water4All** is a Research and Innovation Partnership set up in Horizon Europe. It aims at enabling water security for all in the long term by boosting systemic transformations and changes across the water research and innovation pipeline, fostering the matchmaking between problem owners and solution providers. In addition to the launch of calls for research and innovation (R&I) proposals, **Water4All** offers a portfolio of additional activities including the alignment of water programmes, demonstration projects, international cooperation, the wide transfer and dissemination of activities and results, networking, and capacity building.

The Partnership will provide relevant outcomes for a better understanding of water processes in several scientific fields, and it will support European and international policy-oriented initiatives, notably the European Green Deal and the United Nations Sustainable Development Goals (UN SDGs). At the date of publication of this deliverable, the consortium counts 90 partners stemming from national research funding agencies, public authorities including local authorities, research performing organisations, water associations, and networks at European, national, or regional levels. Partners have decided to join forces to address the big challenge of water for all. The Partnership is structured around five operational pillars looking at strategic issues (Pillar A), development of knowledge through calls for proposals (Pillar B), science – policy – end-users' interface (Pillar C), demonstration (Pillar D), and international cooperation (Pillar E).

# OUTLOOK OF EXISTING FINANCIAL / DEVELOPMENT PROGRAMMES

## Presentation

The five previous releases of the Outlook of Existing Financial/Development Programmes evaluated the financial challenges faced by the water sector on mobilizing the investments required to reach the policy objectives (**Deliverable D4.1**)<sup>7</sup>, established a map of the financial instruments and opportunities available to support the innovation process from the creation of the idea to the full deployment in the market (**Deliverable D4.2**)<sup>8</sup>, studied the efforts to align investors priorities with those dealing with the sustainable use and protection of water resources through the EU Sustainable Water Financing initiative (**Deliverable D4.3**)<sup>9</sup>, proposed a structure of map of financial instruments based on three dimensions as are the stage of the innovation development process, the thematic of the innovation and the geographic scope of the instrument (**Deliverable D4.8**)<sup>10</sup> and showed the recent European progresses towards the compliance of the goal of the European Union Mission: Restore Our Ocean and Waters (**Deliverable D4.12**)<sup>11</sup>.

This **sixth edition** of the Outlook will build upon the previous contents by illustrating **the criteria related to the successful selection and application of financial instruments**. The fifth release of the Outlook highlighted that one of the primary objectives concerning the fulfilment of the objectives of the European Green Deal and the European Mission Restore our Ocean and Waters is to **mobilise a greater amount of private financial resources**. As the initial release of the Outlook showed (**D4.1**), the water sector faces significant financial requirements that extend beyond the capacity of the public sector to fulfil. **Recent and forthcoming European initiatives seek to transform the way public administrations engage with the water sector** (and other environmental ones), thereby fostering private environmental investment growth.

This European approach has been shown to engender heightened expectations regarding the financing of the water sector. It is hoped that in the future there will be **a greater availability of private financial resources to develop water innovations and sustainable business models**. The objective of this release of the Outlook is to provide innovators with **essential information to facilitate their access to these a priori increasing resources**. The criteria employed by various categories of private investors in their investment decision-making processes, along with pertinent resources for identifying them, will be elucidated. Furthermore, **a number of success factors for raising finance will be delineated**. In addition to these, several success factors for obtaining funding through these channels will be defined.

The deliverable is structured in four sections. The **first one** introduces the financial situation of the water sector and illustrates the need for additional resources in alignment with recent European initiatives. The **second section** outlines the criteria that investors use when making investment decisions, the process of applying for support from investors and provides a list of useful resources for evaluating potential investors. The **third one**, delineates the critical factors that contribute to the successful acquisition of financial resources

<sup>7</sup> [OUTLOOK OF EXISTING FINANCIAL/ DEVELOPMENT PROGRAMMES. Deliverable D4.1 - November 2022](#)

<sup>8</sup> [OUTLOOK OF EXISTING FINANCIAL/ DEVELOPMENT PROGRAMMES. Deliverable D4.2 - May 2023](#)

<sup>9</sup> [OUTLOOK OF EXISTING FINANCIAL/ DEVELOPMENT PROGRAMMES. Deliverable D4.3 - November 2023](#)

<sup>10</sup> [OUTLOOK OF EXISTING FINANCIAL/ DEVELOPMENT PROGRAMMES. Deliverable D4.8 - May 2024](#)

<sup>11</sup> [OUTLOOK OF EXISTING FINANCIAL / DEVELOPMENT PROGRAMMES. Deliverable D4.12 - November 2024](#)

from these instruments and also identifies the fundamental components that innovators must meticulously address when seeking external resources.

Finally, the **fourth section** underscores the significance of this deliverable within the broader context of a series of Outlooks (which are designed to furnish innovators with pertinent information, thereby enhancing their financial performance) and advances the orientation of the upcoming edition of the outlook.

## 1. The need for water investment

In Europe, a **broad array of ambitious environmental targets** (including those pertaining to water) **has been established** with the overarching aim of achieving sustainability<sup>12</sup>. Despite the continuous European initiatives developed in the framework of these objectives (regulation, strategies, action plans, etc.)<sup>13</sup>, the **progress achieved in recent years has been insufficient**. Consequently, there is a necessity for an acceleration of progress. However, one of the **major obstacles** that must be addressed is the scarcity of investment to finance sustainability-oriented projects.

In light of the urgent challenges facing Europe's water sector, recent studies have highlighted a massive and growing funding gap threatening the achievement of the European water objectives by 2030. The increases in expenditure required to meet the water targets are striking (see **Figure 1**): at best, 25%; and at worst 180% (although this is the case for Romania, EU Member State -MS- since 2007, thus with less time than others to adapt to the European targets). The most substantial figure is that pertaining to the **additional funding required to meet the total European environmental targets under the European Green Deal**. The total investment required to achieve European objectives for 2030 is 2,526 billion EUR, with 835 billion EUR earmarked for water objectives<sup>14</sup>. When the water supply and sewerage sector is considered in isolation, the investment required amounts to **255 billion EUR**. This is a substantial figure, representing an increase of between **500 EUR** and **1,000 EUR per person by 2030**. This would be in addition to the current 82 EUR per person per year<sup>15</sup>.

<sup>12</sup> See [3<sup>rd</sup>](#) and [5<sup>th</sup>](#) editions of the Outlook of existing financial and development programmes (D4.3 and D4.12, respectively).

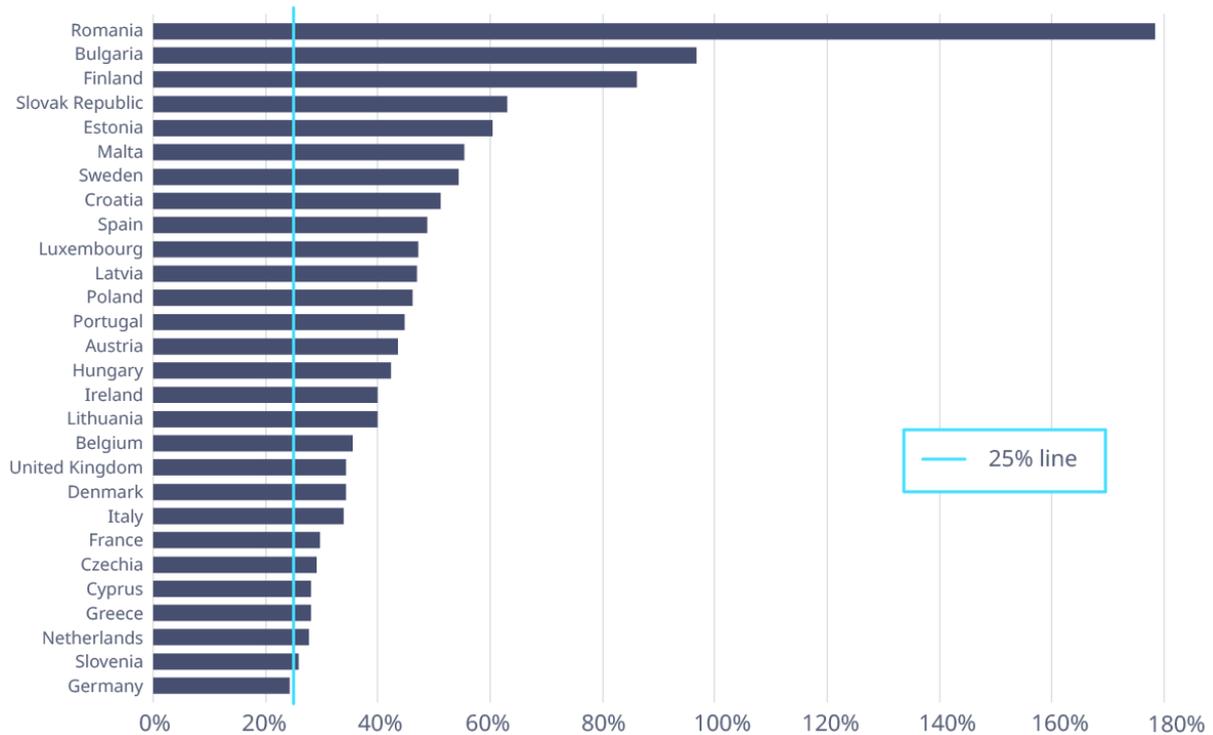
<sup>13</sup> See [5<sup>th</sup>](#) edition of the Outlook (D4.12).

<sup>14</sup> See the following report for further details: EC (DG ENV), Ricardo and Trinomics (2024). [Study supporting EU green investment needs analysis – Final report. Publications Office of the European Union, 2024.](#)

<sup>15</sup> See the following report: WSP and Water Europe (2024). [Socio-economic study on the value of the EU investing in water.](#) Water Europe.

FIGURE 1. WATER EXPENDITURE INCREASE NEEDED TO ACHIEVE WATER 2030 OBJECTIVES OF INVESTMENT

**Expenditure increase needed by 2030, per annum in %**



Source: OECD, 2020

Source: OECD, 2020<sup>16</sup> cited in OECD<sup>17</sup>

A further indication of the sector's funding limitations is the observation that a **mere 1% of total venture capital investment in climate technology is allocated to water technology**. In 2021, venture capital investment amounted to 430 million EUR, whereas the total climate technology investment stood at approximately 50 billion EUR<sup>18</sup>. However, it should be noted that not all aspects of this phenomenon are negative: indeed, while in 2021 the total investment in water technology by venture capitalists was 135 million EUR, it rose to 275 million EUR the following year.

Despite the prevailing perception that water supply is more of a public good than an investment opportunity, European initiatives, which have recently placed **emphasis on the mobilisation of private capital**<sup>19</sup> and on the relationship of water services to economic activity, argue in favour of greater involvement of private capital. It is estimated that some regions could witness a **decline in growth rates of up to 6 % of GDP by 2050**, a consequence of water-related losses in agriculture, health, income and prosperity<sup>20</sup>.

<sup>16</sup> OECD (2020). *Financing Water Supply, Sanitation and Flood Protection: Challenges in EU Member States and Policy Options*. OECD Studies on Water, OECD Publishing, Paris.

<sup>17</sup> [Finance and investment for water | OECD](#)

<sup>18</sup> [Water tech could be the next gold rush for European VCs](#)

<sup>19</sup> See, the [5th](#) edition of the Outlook.

<sup>20</sup> [Water Overview: Development news, research, data | World Bank](#)

Following a period of considerable growth in private investment in the water sector<sup>21</sup> and in European public initiatives identifying increased capital mobilisation as a key objective, the **potential for private sourcing is anticipated to expand in the future**. In light of this, the current edition of the Outlook of existing financial and development programmes will concentrate on the **criteria applied by private investors**, with the aim of **making these criteria accessible to innovators** and providing them with the necessary information to identify the most suitable and viable financing options.

## 2. Investor criteria and key elements for financing water-related business models

A broad spectrum of investor types, encompassing both public and private entities, in addition to diverse mixed financing formulas, are currently available in the water sector. Each of these investors and financial instruments is characterised by a **distinct set of attributes and criteria**. Consequently, the selection of the most appropriate financing form is significantly influenced by factors such as the stage of the innovation process, the characteristics of the product under development, and the innovator's institutional context. This necessitates a comprehensive evaluation of the particularities of both the innovators and the potential investors.

Consequently, this section is dedicated to the exposition and elucidation of the criteria that diverse types of investors employ in their investment decision-making processes.

### A. Start-up Incubators

The function of **start-up incubators** as financial instruments is distinct from that of conventional investors. While the latter provide funding, the former offer fundamental resources that facilitate the development of nascent companies. Consequently, start-up incubators serve as a mechanism that **enables innovation at a reduced cost when compared with developing the company alone looking only for financial resources**.

Prior to delineating the criteria that are observed by start-up incubators, it is important to take into account that these criteria may not be universally applicable, as there are **nonprofit and corporate incubators**. The criteria exhibited by these entities are subject to variation, contingent on their specific nature. For instance, **private and for-profit incubators** are predominantly driven by the pursuit of profit, whereas public and nonprofit ones are primarily motivated by the **achievement of objectives related to the institution** that established them.

However, it is evident that none of the incubator types wish the failure (**in terms of financial results, prestige or the achievement of non-financial objectives**) of the joining start-ups. For this reason, there are criteria for joining, either based on a participation fee- or on equity terms<sup>22</sup>:

- The possession of a **robust business plan** constitutes a pivotal aspect of involvement in a start-up incubator. Analogous to other financial instruments, the incubator in which one participates will endeavour to cultivate initiatives that will subsequently become **competitive in the market**, either to secure financial benefits or to implement, for instance, environmental solutions. It is crucial that the

<sup>21</sup> See the following report: BlueInvest (2024). [BlueInvest Investor Report 2024 Unlocking the potential of the Blue Economy](#). European Commission.

<sup>22</sup> [The Founder's Guide to Startup Incubators in 2024 | Arc](#)

**innovation** to be developed, the **product** to be marketed upon completion, the **needs** it will satisfy, and its potential **demand** are explicitly delineated. The **soundness of the business** model will allow for-profit incubators to detect potential financial benefit from providing resources to the innovative start-up, while non-profit incubators will focus on the fact that the supported start-up will advance institutional goals in a financially competitive manner.

- It is essential to have a **team that can ensure the development of both innovation and the business model**. The process of developing innovation and a company invariably entails a multitude of **technological and economic risks**. Consequently, it is of paramount relevance to have the **capacity to react and adapt** to the potential materialisation of these hazards, thereby significantly reducing uncertainty for the incubator.
- The existence of **prior funding** is a prerequisite for the utilisation of this particular financial instrument, given the unique nature of the incubator, which typically acquires resources through equity. **This option does not involve the receipt of financial resources**, so the presence of innovators with pre-existing financial resources is a crucial factor in the incubator's decision-making process. Consequently, start-up incubators represent a distinct instrument that must be **utilised in conjunction with others** to ensure the comprehensive fulfilment of the innovation process's multifaceted needs.
- The innovation or business model must be pertinent to the incubator. **Thematic relevance** is a prerequisite for participation in the incubator's programme, as it ensures the optimal use of resources, enhances the likelihood of success for start-ups, and fosters a positive incubation record while maintaining a high level of satisfaction among participating entities.

In addition to the criteria that start-up incubators must adhere to, it is pertinent to consider the **unique aspects of this financing instrument** when selecting an incubator<sup>23</sup>:

- **Initial criteria:**
  - **Thematic alignment:** in order to optimise the employment of the resources available at a start-up incubator – including infrastructure and networking opportunities – it is critical that the theme of the incubator is aligned with the innovation under development. To enhance the precision of this issue, it is crucial to define the **specific type of business that will be established** with the innovative product. Within the domain of innovation in the water sector, significant variations can be observed, necessitating the creation of distinct categories, such as the development of water technology or Nature-Based Solutions (NBS).
  - **Geographical context:** The location of an incubator is of paramount importance, not due to its proximity to the innovator, which can be advantageous, but rather due to the fact that one of the most valuable assets of a start-up incubator is its capacity to facilitate access to investors, customers, and a diverse array of pertinent industry events. Consequently, the optimal location for an incubator is one that ensures **proximity and ease of contact with the various stakeholders** in the sector.
  - **Incubator Directories and Databases:** prior to delving into more precise matters, a comprehensive search in **the relevant databases or directories must be undertaken** (see **Box 1**, for some examples). This preliminary step is crucial for identifying potential start-ups that meet the predetermined criteria, whether they pertain to the aforementioned parameters or the specific services offered by the incubator.
- **Incubator track record.** The experience in supporting start-ups should be explored for an **optimal selection**. A positive indicator in this regard is a confirmed track record of a significant number of companies achieving commercial success after the incubator stage.

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<sup>23</sup> See the [Horizon Labs webpage](#), the [spectup webpage](#), [The Ultimate Guide to Startup Incubators: How They Can Propel Your Business Forward - EasyVC](#) and the [Forbes webpage](#) for more information on this topic

- Make **contact with start-ups** that have been through the incubator: consulting other innovators who have participated in the incubation programme would provide **valuable insights** into the functionality of the programme and its alignment with the requirements for sustaining the development of the innovation.
- **Assess needs.** It is incumbent upon the innovator to engage in introspection and pose the following key questions: what are the **challenges** faced, and what **kind of support** is required? This approach, when combined with an analysis of potentially eligible incubators, will inform the optimal selection.
- **Understand Investment and Equity Structures.** Despite the existence of incubators that can be accessed through payments rather than the relinquishment of part ownership of the company, the financial capabilities of a start-up are frequently constrained. Consequently, it is imperative to **comprehend the financial mechanisms employed by incubators.**
- **Visit the incubator.** The final stage of the process would entail a visit to the incubator, with the objective of getting **familiar with the working environment and the team.** This would be undertaken to ascertain whether it is commensurate with the characteristics and needs of the innovator.

#### BOX 1. START-UPS INCUBATORS/ACCELERATORS EXAMPLES

A considerable number of start-up incubators can be found across Europe. However, only a limited number of these focus on innovation and the development of innovative companies in the water sector. These incubators can be found in lists such as the [Incubator List](#) or the [Financial Times](#). The following are merely a few examples of incubators or accelerators with a presence in Europe:

- **EIC Soft-landing Programme**<sup>24</sup>: since 2024, this programme is an exclusive business acceleration service that provides customised guidance and the adequate tools for EIC (European Innovation Council) awardees who have launched and gained traction abroad and want to expand to a new market without keeping their attention away from their main operations at home.
- **Imagine H2O Accelerator**<sup>25</sup> equips early-stage water startups with the resources they need to develop their solutions, commercialize their technologies, and enter new markets.
- **Cajamar Innova**<sup>26</sup> is an incubator for high-tech water start-ups located in Spain, but with international projection. The aim of the programme is to provide entrepreneurs with ways to transform their ideas on the use and management of water into competitive services and products that favour the generation of value and employment and sustainable territorial development. It is specialised on circular economy of water, digitalisation and management and governance.
- The **European Water Tech Accelerator**<sup>27, 28</sup>, set up in 2020, aims to support and scale innovative European water technologies and entrepreneurs to accelerate solutions to water challenges through innovation. It works closely with start-ups to shape their team, make their technology and business strategy ready for unprecedented access to European market and funding and for scale-up.

## B. Business Angels

Business investors represent a prominent category of stakeholders in the nascent stages of a start-up's innovation or development process. **Their contributions extend beyond mere financial investment**, encompassing the provision of their expertise and insights derived from their domain of specialisation. These investors possess a pre-existing connection to the innovation or enterprise in question, providing capital and

<sup>24</sup> [EIC Soft-landing Programme - European Commission](#)

<sup>25</sup> [Imagine H2O Accelerator - Imagine H2O](#)

<sup>26</sup> [Cajamar Innova – Incubadora y Aceleradora de Empresas de Alta Tecnología del Agua](#)

<sup>27</sup> [The European Water-Tech Accelerator](#)

<sup>28</sup> [3 Minutes with Gaëtane Suzenet, EU Water Tech Accelerator - World Water Tech Innovation Summit](#)

intangible assets in exchange for a share of ownership or a proprietary interest (see **Box 2** for some examples on resources in this regard).

This particular investor has a propensity to engage in the early stages of the development process of an innovation or start-up. Consequently, the total risk associated with their activity is elevated, due to the existence of numerous technical and market risks that necessitate meticulous decision-making. The criteria that business angels employ when determining investment decisions in small companies can be categorised as follows<sup>29, 30, 31, 32, 33</sup>:

- The **business plan** is of fundamental importance to any type of investor, as all of them seek a certain guarantee that the company in which they are investing has a realistic one and the potential to generate profits. This is a very relevant criterion in the initial decision-making process of business angels, as they are more likely to reject models with little apparent innovation than those with the potential to compete in the market and break the rules of the game. Potential investors will carefully analyse the business plan and the market in which it would compete, with a view to identifying and assessing all potential risks. They will then determine the significance of these risks to the activity to be developed and evaluate the clarity with which the entrepreneur perceives the business model and the ability to guide it towards success. The extent to which the plan offers growth expectations will be a key factor in determining whether the business angel remains interested.
- **Investor fit:** in this context, the characteristics of the investor assume paramount weight, as they impart their expertise to the company in which they invest. Consequently, a salient criterion for the investor is the existence of an affinity between themselves and the innovation or activity in which they intend to get involved. A paucity of interest in the proposed activity or a suboptimal match with the investor's characteristics constitutes a pivotal factor in the acquisition of financing through such means. Business angels also provide intangible resources that are linked to the sector. Investors who show interest in the subject matter of the innovation or business model should therefore be specifically sought out, in the same way as start-up incubators.
- **Financial factors:** Given the elevated risk associated with these investments, business angels meticulously evaluate the prospective value of the company or innovation in which they intend to invest. This evaluation forms the foundation for determining the amount to invest and the proportion of the company to acquire. An inflated valuation by the entity seeking funding or an absence of willingness to negotiate both this valuation and the other financial components of the transaction are factors that engenders rejection by the investors. Conversely, a comprehensive financial planning that incorporates the entrepreneur's contribution and demonstrates long-term benefits for the innovator instils confidence in the investor, who will undertake a thorough evaluation in consultation with third parties to select the most advantageous investment alternative.
- In the context of innovation and business model development, the **product to be offered to the market** occupies a central role. Prior to the search for investors, it is crucial to evaluate the product's attractiveness and its capacity to satisfy a specific need. Factors such as the product's differentiation from existing products, its quality, the scalability of the technology and the confidence in it, what need

<sup>29</sup> Mason, C., Botelho, T., & Zygmunt, J. (2016). [Why business angels reject investment opportunities: Is it personal?](#) *International Small Business Journal*, 35(5), 519-534.

<sup>30</sup> Callu, F., & Saurwein, A. (2024). [Business Angels' Investment Decisions: Exploring Entrepreneur's Competencies as Criteria.](#) Lund University. Lund University Publications Student Papers.

<sup>31</sup> Argerich, J. (2014). [Screening Criteria for Business Angels Investments.](#) Universitat de Barcelona.

<sup>32</sup> Croce, A., Tenca, F., & Ughetto, E. (2016). [How business angel groups work: Rejection criteria in investment evaluation.](#) *International Small Business Journal*, 35(4), 405-426.

<sup>33</sup> Skalicka, M., Zinecker, M., Balcerzak, A. P., & Pietrzak, M. B. (2023). [Business angels and early stage decision making criteria: Empirical evidence from an emerging market.](#) *Economic research-Ekonomska istraživanja*, 36(1), 25-50.

it satisfies, what the potential market is, how the product could be adapted to a constantly evolving market or how the product fits in with regulations, are central in the decision-making process of a business angel, who looks for arguments that justify that the innovator has a realistic and ambitious vision and the capacity to adapt to the problems that arise.

- The final criterion that the **management team** must satisfy is to demonstrate the characteristics of the **individuals responsible for the company** in which they are considering investing. These features include being open, honest, trustworthy, committed, flexible, realistic, willing to make efforts, and knowledgeable and skilled. Conversely, arrogant, aggressive (e.g. defensive responses), excessively direct, nervous, inflexible, and controlling attitudes are usually avoided by investors. They look for evidence of the ability to achieve results with scarce resources, the capacity to learn from one's own mistakes and from the feedback provided by others, the faculty to take other people's side and understand their situation and point of view, and the ability to enjoy collaborative work. The aptitude to respond correctly and confidently to questions on all aspects of the development of an innovation or business model (e.g. issues about technology, business development or potential customers, among other things) or possession of leadership and mentoring skills are also key factors in the obtaining of funding. Following a business-oriented project assessment, the confidence generated by the management team is essential to the securing of funding.

## BOX 2. BUSINESS ANGELS RESOURCES

Business angels represent a prevalent form of investor in contemporary innovation and business model financing. There are specific associations and databases dedicated to these investors, including the following:

- The **European Business Angels Network (EBAN)**<sup>34</sup> is the pan-European representative for the early-stage investor community. It currently has over 100 member organisations in more than 50 countries. The network represents a sector that is estimated to invest 11.4 billion EUR a year, playing a role in Europe's funding of SMEs. EBAN is instrumental in fuelling Europe's growth through the creation of wealth and jobs. It is the organiser of the [European Angel Investment Summit](#), an event that brings together angel investors, start-ups and industry experts for a dynamic programme of workshops, keynote sessions and networking opportunities.
- **Business Angels Europe (BAE)**<sup>35</sup> is the European Confederation of Angel Investing, representing the European Business Angels' Federations and Trade associations in Europe. BAE brings together the most active and developed countries operating in the angel market in Europe.
- The **Roundtable Investors Database**<sup>36</sup> is an initiative by Roundtable, a company aiming at facilitating the matchmaking between investors and investment seekers. A key component of Roundtable is the creation of an investors database, which serves as a comprehensive repository of information pertaining to business angels. This database encompasses critical details regarding the geographical and industry-specific focus of these investors, thereby offering valuable insights into potential investment opportunities.

## C. Crowdfunding

Crowdfunding can be defined as a financial instrument that also exhibits very particular characteristics and a number of criteria for effective crowdfunding can be explored. Before delving into detail about crowdfunding, it is important to note that it is a mechanism designed to facilitate contact between those seeking financial resources and investors. Therefore, in addition to the characteristics of crowdfunding itself and as developed

<sup>34</sup> [home - EBAN](#)

<sup>35</sup> [HOME | BusinessAngelsEurope](#)

<sup>36</sup> [Investor Database](#)

below, the criteria of the various types of investors who could contribute to the project's financing must be considered, such as business angels, venture capitalists and growth capitalists<sup>37</sup>.

As stated in the [2nd edition of the Outlook](#)<sup>38</sup>, the following types of crowdfunding can be identified, which justify the potential of this instrument at different stages of the innovation process<sup>39</sup>:

- **Equity crowdfunding** is a method of financing a company in which various types of investors, such as business angels or venture capitalists, participate. This form of crowdfunding can be utilised throughout the innovation process, with its advantages and disadvantages depending on the stage of development of the innovative product<sup>40</sup>. It is important to note that crowdfunding is not an investor itself, but rather a financing technique. Consequently, the criteria applied by investors will depend on the specific type of investor<sup>41</sup>.
- **Reward-based crowdfunding** is a method of obtaining funding through the subsequent provision of a reward, which is not of a financial nature. This is because if it were, we would be talking about equity or debt crowdfunding. This type of crowdfunding can be used mainly when a prototype of the innovation or product to be commercialised has already been designed and there is relatively little time left before it reaches the market (several months or one or two years). The underlying logic of this approach is to supply customers with a product at a price lower than its eventual market value, often accompanied by an additional incentive that enhances the product's appeal and is not subsequently offered on the market or at a higher price. By expediting the receipt of revenue from potential customers, innovators can circumvent other forms of financing that necessitate the transfer of partial ownership of the company or the repayment of capital with interest. Consequently, the approach to crowdfunding is oriented towards potential customers rather than investors. It is imperative to elucidate the needs that are addressed and the value of these needs, as determined by a thorough market analysis.
- In the context of **debt crowdfunding**, the process of acquiring financial resources entails the mobilisation of debt financing. The timing of the innovation process (when it is close to going to market) and the criteria for obtaining financing are contingent on the specific type of investor, rather than on the crowdfunding itself.
- **Donation-based** crowdfunding represents a distinct paradigm within the broader spectrum of crowdfunding methodologies. This particular model involves the utilisation of online platforms to solicit financial contributions from individuals in support of causes aligned with the philanthropic inclinations of the donor. The nature of the investment is such that it is not returned to the donor; rather, it is earmarked for execution of an action that is deemed to be socially, environmentally or humanitarian in nature, and which is in alignment with the donor's objectives and priorities. The receipt of financial resources through this modality entails a commitment to undertake tangible actions that contribute to the fulfilment of the donor's objectives. Consequently, the utilisation of these funds is earmarked for the phase in which the innovation is deemed ready for implementation, with the recipient of the funding not expected to generate financial profit.

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<sup>37</sup> Only investors and financing instruments that can directly raise financial resources can participate in project financing through crowdfunding, excluding those that do not provide direct financing, such as start-up incubators and strategic partnerships.

<sup>38</sup> [OUTLOOK OF EXISTING FINANCIAL/ DEVELOPMENT PROGRAMMES. Deliverable D4.2 - May 2023](#)

<sup>39</sup> See also: [How crowdfunding actually works in 2024, and whether you should use it to raise money | TechCrunch](#)

<sup>40</sup> See the [4th](#) edition of the Outlook.

<sup>41</sup> See business angels above and venture capitalists below.

In order to **obtain funding effectively through crowdfunding platforms, a series of steps**<sup>42</sup> must be followed for ensuring the proper development of the campaign and presentation of the project (this is necessary to convince potential investors of the virtues of the innovation under development):

1. It is crucial that **thorough research** is conducted to ensure success. This research must include an analysis of the market in which competition will be faced, the regulations that will affect innovation, and all financial, material, and human resources necessary. Additionally, it is essential to determine the necessary steps to prepare a crowdfunding campaign.
2. The selection of an appropriate crowdfunding platform is contingent upon the **identification of the most suitable option**, which is determined by the nature of the crowdfunding and its thematic orientation. This selection should be made in accordance with the characteristics and requirements of the innovation to be developed.
3. It is relevant to **offer more than a mere concept in a crowdfunding campaign**; the idea should be accompanied by initiatives that have been implemented with the objective of achieving the project. This will provide a greater guarantee of the project's success.
4. It is vital to **be aware of the target audience** for the campaign. This involves ascertaining the specific demographic or professional niche to which the campaign is directed, such as potential customers or investors. The subsequent adaptation of campaign materials to align with the distinct characteristics and needs of these individuals is paramount.
5. The creation of **marketing materials** is of great importance for achieving the successful promotion of the proposal. The quality and clarity of these materials must be of the highest standard if the appeal of the proposal is to be maximised.
6. The **setting up of objectives**: Crowdfunding campaigns are characterised by the establishment of financial targets, both total and progress-based, such that upon the attainment of specific amounts, minor incentives are rendered accessible in conjunction with the primary project.
7. In order to ensure the efficacy of the reward system, it is vital that the **rewards offered are commensurate** with the type of crowdfunding employed. This may take the form of the transfer of part ownership of the company, interest payments, or the offering of the final product at attractive prices.
8. It is crucial for the **campaign** to demonstrate that the innovator possesses a personal connection to the proposed project, as this validates a sense of dedication and commitment that will instil investor confidence.
9. Once initiated, the **campaign must be disseminated extensively** through social media, blogs and a variety of specialised events to maximise its reach.
10. During the course of the process, **communication with prospective clients or investors** is key in facilitating informed decision-making. It is critical to adopt a policy of utmost openness and transparency with regard to the nature of the project.
11. The act of **accepting feedback** is an integral component in the pursuit and attainment of funding, much like with other forms of financial support. The purpose of receiving and considering feedback is to enhance the quality of the project under development and to foster a collaborative environment.
12. It is critical to **adhere to the commitments made during the crowdfunding campaign**, as this is a pivotal moment that can influence future outcomes.

As with other financial instruments, crowdfunding platforms exhibit specific characteristics, including the type of crowdfunding indicated above and the **thematic focus of the platforms**. While some platforms may be general, others are dedicated to specific sectors such as renewable energies or agriculture. Therefore, it is

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<sup>42</sup> See: [How To Write A Crowdfunding Campaign That Gets Funded | Social For Action](#)

advisable to identify a platform that is aligned with the objectives of the project to finance and develop. To facilitate the identification of a suitable platform, it is recommended to utilise the resources available at [The Crowd Data Center](#), which encompasses databases and reports, or [Crowdinform](#), which provides fundamental information on various platforms. Alternatively, [EUROCROWD](#), an independent network organisation dedicated to supporting and promoting crowdfunding as a viable alternative funding mechanism for small and medium-sized enterprises and innovative projects, is a valuable resource.

## D. Venture Capital

In circumstances where the risk associated with an innovative process or the establishment of a start-up is deemed to be high, financial institutions often demonstrate reluctance to invest, and conventional resources such as debt capital are rendered unviable. It is within this context, in the nascent stages of the process characterised by elevated uncertainty, that instruments such as those delineated above and venture capital assume significant prominence (see **Box 3** for some useful resources on venture capital). These instruments involve the approach of investors willing to assume risk in exchange for the potential for high future returns. It is noteworthy that these criteria bear certain similarities to those of business angels, with both groups focusing on similar concepts<sup>43, 44, 45, 46, 47, 48</sup>:

- The initial focus of venture capitalists is on the individual or team that will lead the innovative company; therefore, a strong **management team** and leadership are essential. In order to be considered a suitable investment, a team must demonstrate qualities such as trustworthiness, honesty, realism, ambition, cohesion, engagement and passion. It is preferred to invest in groups of two or three people and with experience in large companies or in the sector, rather than in a non-experienced individual innovator. Investors commonly seek external references on the innovative team to ensure that it meets the desired characteristics, and they also consult experts to provide their opinion on the technical aspects of the innovation. In contrast to business angels, these investors are less integrated and possess less technical knowledge of the sectors in which they invest, so they seek a wider variety of external opinions.
- The concept of an innovative product entails the anticipation of high returns on investment by the investor, contingent upon the success of the project and the assumption of greater risk. Consequently, the investor seeks out **innovative products** that possess the potential to generate such returns. The provision of accurate information regarding the proposed product's capacity to contribute significantly to the market's value is paramount. This capacity to generate added value is inextricably linked not only to the company's ability to enter the market, but also to its capacity to consolidate itself in the market and produce long-term results. The primary criteria to be considered in the investment decision-making process are product innovation and the management team. Subsequent steps in the process include the assessment of the business plan, the market, and the risks.
- In order to satisfy the requirements of potential investors, it is necessary to demonstrate not only the **concept's viability**, but also to provide a **comprehensive array of information** regarding the business plan and expectations of the innovator. Information regarding the market and industry, including

<sup>43</sup> Gompers, P. A., Gornall, W., Kaplan, S. N., & Strebulaev, I. A. (2020). [How do venture capitalists make decisions?](#). *Journal of Financial Economics*, 135(1), 169-190.

<sup>44</sup> [The 7 Secret Evaluation Criteria Venture Capitalists Use To Make Investment Decisions](#)

<sup>45</sup> [General Venture Capital Investment Criteria. Does My Business Fit the Bill? - CFO Hub](#)

<sup>46</sup> Bouzahir, B. (2018). [Venture Capitalists' Investment Decision Criteria for New Ventures: An Exploratory Study in Morocco. Is Ahlakı Dergisi](#), 11(2), 151-163.

<sup>47</sup> [What Venture Capitalists Look For When Investing In A Startup | Entrepreneur](#)

<sup>48</sup> [What Venture Capitalists Look For in an Investment Opportunity](#)

competitors, existing or anticipated regulatory frameworks, financial matters of product development and market entry and consolidation, and projected sales and revenues, must be accurately assessed and provided. This information is crucial for investors to comprehend the innovator's long-term objectives, particularly in instances where revenue generation has not yet commenced or is experiencing losses. The capacity to demonstrate a favourable relationship between risk and return is paramount.

- The **market** in which one will compete is a key indicator of the **revenue-generating potential** of an innovation. It is crucial to know the market situation in order to correctly estimate which portion of the consumers in the market will be accessed, so to have guidance on demand and potential revenues.
- Despite the less pronounced connection to the innovation theme when compared with alternative investor categories, venture capitalists also operate with a particular **emphasis on markets, industries or product types in which they already possess expertise**. Consequently, while there is a greater degree of flexibility than with most types of investors, this correlation remains extant and is pertinent to the identification of the most suitable investor.
- In the context of high-risk investment, it is crucial for investors to undertake a **thorough evaluation of the potential risks**, both technical and market-related, associated with the business venture. This assessment is not merely a matter of identifying risks; it is also crucial to devise a series of contingency plans in anticipation of their occurrence. Such measures will serve to enhance the resilience of the proposed business plan. The capacity to formulate strategies that demonstrate resilience and competitive capability in the most intricate scenarios is indicative of the calibre of both the innovative product and the management team.

### BOX 3. VENTURE CAPITAL RESOURCES

There are a number of databases that may be of interest to innovators, including [Water Venture Center](#) and [PREQIN Venture Capital Database](#). These provide access to information on investors and other relevant data on the sector. [InvestEurope](#), the world's largest association of private capital providers, representing Europe's private equity, venture capital and infrastructure investment firms, as well as their investors, is also available for consultation. The following Venture Capital funds are active in the water sector:

- **XPV Water Partners**<sup>49</sup>: they collaborate with, make investments in, and provide assistance to entrepreneurial entities with a view to facilitating their growth and the creation of value for all stakeholders.
- **Pureterra Ventures**<sup>50</sup>: a global investor that specialises in the field of venture capital, with a particular focus on disruptive water start-ups.
- **Burnt Island Ventures**<sup>51</sup>: Burnt Island Ventures is a global investor that provides financial support to the most accomplished entrepreneurs in the field of water-related enterprises.
- **PORTUGAL BLUE**<sup>52</sup>: the first blue economy focused private equity fund in Southern Europe.
- **Circularity Capital**<sup>53</sup>: a specialist investor in businesses enabling the circular economy.
- **Earth Capital**<sup>54</sup>: a specialist corporate advisor, working with innovative, SDG-driven businesses.
- **Emerald Technology Venture**<sup>55</sup>: investors in sustainable industrial innovation to identify the best solutions for global challenges.
- **GoHub Ventures**<sup>56</sup>: investors in technology with the power to drive a disruptive change in the world.

<sup>49</sup> [XPV Water Partners: A Water Investment Fund Making a Difference](#)

<sup>50</sup> [PureTerra Ventures](#)

<sup>51</sup> [Burnt Island Ventures](#)

<sup>52</sup> [PORTUGAL BLUE launch Growth Blue I, the first blue economy focused private equity fund in Southern Europe](#)

<sup>53</sup> [Circularity Capital | Supporting Business Growth & Innovation](#)

<sup>54</sup> [Earth Capital](#)

<sup>55</sup> [Emerald Technology Venture | Pioneering Sustainable Innovation](#)

<sup>56</sup> [Investing in Visionary B2B SaaS Founders - GoHub Ventures](#)

**BOX 3. VENTURE CAPITAL RESOURCES**

- **SKion Water**<sup>57</sup>: solution provider and investor in water technology.
- **Xylem**<sup>58</sup>: water solution provider with a venture capital investments budget targeting water scarcity, quality and decarbonization<sup>59</sup>.
- In the [BlueInvest Investor Report 2024](#) there is a non-exhaustive list of Blue Economy funds.

**E. Public investment**

A plethora of funding sources originating from the public sector are at the disposal of beneficiaries. Public instruments, such as grants or European Structural Funds (SF), as well as their national, regional or local equivalents, are commonly used. Each of the investment programmes has well-defined objectives to which the proposals made must contribute<sup>60</sup>. However, these are not the only instruments available. Beyond the aforementioned resources, the public sector possesses the capacity to utilise diverse alternative mechanisms, as Public Procurement (See **Box 4**)<sup>61</sup>, but also the [European Investment Bank \(EIB\)](#) loans, equity investments, guarantees, and advisory services:

- **Loans**<sup>62</sup>: the EIB provides financial assistance to both public and private sectors. The Bank offers loans to small companies through local banks and lends money to innovative start-ups. Furthermore, mid-cap companies can receive direct support for research and development investments.
- **Equity investment**<sup>63</sup>: the EIB supplies equity financing with a focus on infrastructure, environmental issues, and enterprises and mid-size corporations of a medium size.
- **Guarantees**<sup>64</sup>: the EIB provides a range of guarantees instruments that facilitate the mobilisation of additional financing for small- and medium-sized enterprises or mid-caps. These means cover a proportion of potential losses arising from a portfolio of loans.
- **Advisory services**<sup>65</sup>: the EIB delivers a comprehensive suite of advisory services, encompassing all phases of the project lifecycle and extending beyond this, with the objective of facilitating the financing of projects.

For obtaining public funding or support in this way, there are criteria similar to those of other instruments, because the EIB is not a financial instrument but a public institution that applies financial tools to achieve its objectives as a public body. Thus, issues such as a trustworthy management team or the presentation of a business model with the capacity to compete in the market are fundamental elements to obtain this support. However, the pursuit of such funding is subject to additional criteria, namely the necessity for the proposed initiative to contribute to the **objectives of the institution in question**. In the case of the EIB, these conditions are delineated in the **'European Investment Bank Climate Action and Environmental Sustainability: List of**

<sup>57</sup> [Home - SKion Water](#)

<sup>58</sup> [Xylem at a Glance | Xylem UK](#)

<sup>59</sup> [Xylem expands corporate venture capital investments to \\$50m, targeting water scarcity, quality, and decarbonization | Water Technology](#)

<sup>60</sup> A list of Research and Development (R&D) investment programmes and European structural funds with applications in the water sector can be found in the [fourth edition of the Outlook](#).

<sup>61</sup> See the EU Webinar GPP Helpdesk Webinar ['Preserving water through public procurement'](#).

<sup>62</sup> More info: [Loans](#)

<sup>63</sup> Further details: [Equity](#)

<sup>64</sup> More details: [Guarantees](#)

<sup>65</sup> Additional info: [Advisory services](#)

**eligible sectors and eligibility criteria**<sup>66</sup> and fulfilling the **‘Common principles for climate mitigation finance tracking**<sup>67</sup> and the **‘EU taxonomy for sustainable activities**<sup>68</sup>.

The Common principles for climate mitigation finance tracking are recognised as a primary reference in the context of EIB investment decision-making, encompassing three distinct categories of activities:

- The EIB has a policy of financing only those activities which have **negative or near-zero relative greenhouse gas (GHG) emissions**, and which are fully consistent with the long-term temperature goal of the Paris Agreement.
- Transitional activities: activities that are still part of the GHG emissions system but are important for **advancing the transition to a climate-neutral economy** are eligible for funding.
- Enabling activities: activities that are **instrumental in enabling others** with a substantial contribution to climate change mitigation (thus demonstrating a significant and indirect effect) may be financeable by the bank.

The referred document also provides a comprehensive overview of the specific criteria applied to each sector<sup>69</sup>.

For its part, the EU taxonomy for sustainable activities, as stated in the [3rd edition of the Outlook](#), relies on four main principles:

- Substantial **contribution** to at least one of the **six environmental objectives** according to the criteria defined in articles 10 to 15 of the Regulation (EU) 2020/852<sup>70</sup>.
- **Do no significant harm** to any of the **six environmental objectives**, according to the type of damages of article 17 15 of the Regulation (EU) 2020/852.
- Meet the **“minimum safeguards”**, guaranteeing the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.
- Comply with the **technical screening criteria** developed by the EU Technical Expert Group. The Article 19 of the EU Taxonomy Regulation establishes the fundamental principles that define the screening criteria. However, to provide a more comprehensive overview of these and to enhance their accessibility, the sector-specific screening criteria came into effect in 2023<sup>71</sup>.

#### BOX 4. PRE-COMMERCIAL PROCUREMENT AND PUBLIC PROCUREMENT OF INNOVATIVE SOLUTIONS

The public sector employs a variety of strategies to facilitate the effective implementation of solutions that are expected to have a positive effect on society in the long term, whether economic, social, or environmental. The European Commission, through the Directorate-General for Research and Innovation (DG RTD), employs two forms of intervention that can be used in a complementary manner.

- **Pre-Commercial Procurement:** This demand estimate serves as an incentive and a challenge for innovators, who possess information regarding the potential public demand for an innovation characterised by the attributes defined by the public sector. Consequently, this action provides a motivation for private innovators to align their activities with the needs of the public sector.

<sup>66</sup> EIB (2024). [European Investment Bank Climate Action and Environmental Sustainability - List of eligible sectors and eligibility criteria \(v.2.1\)](#). EIB.

<sup>67</sup> MDB, IDFC (2023). [Common Principles for Climate Mitigation Finance Tracking. Revision version dated 5 December 2023](#).

<sup>68</sup> [EU taxonomy for sustainable activities - European Commission](#).

<sup>69</sup> Table 1 is a summary of eligibility principles and Tables 5 and 6 contain the criteria of Agriculture, forestry, land use and fisheries and Water supply and wastewater, respectively.

<sup>70</sup> [Regulation \(EU\) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation \(EU\) 2019/2088](#).

<sup>71</sup> This sector-specific criteria can be consulted [here](#).

**BOX 4. PRE-COMMERCIAL PROCUREMENT AND PUBLIC PROCUREMENT OF INNOVATIVE SOLUTIONS**

- **Public Procurement of Innovative Solutions:** the public sector uses its considerable purchasing power to adopt innovative solutions that are not yet available on a large commercial scale. This approach generates and publicises demand, thereby enabling industry to invest in the future mass market deployment of these solutions. In addition, it has been demonstrated to facilitate the modernisation of public services.

## F. Strategic Partnerships

A strategic partnership can be defined as a financing instrument that addresses specific needs of a company or an innovation process through collaboration with other entities, as opposed to the traditional approach of a company relying on the financial resources achieved to fund activities. This alternative perspective involves identifying a partner with **complementary resources and capabilities**, thereby sharing the responsibility for finding funding and managing diverse activities. The creation of a strategic partnership is predicated on the identification of a partner with whom there are mutual interests and objectives, and with complementary resources and skills. The purpose of this collaboration is to facilitate the maximisation of market reach, innovation development, and profits. The success of a strategic partnership is contingent on a structured process and a set of **factors**<sup>72</sup>:

1. In order to establish a productive partnership, it is first necessary to **define the objectives of the company in relation to the innovation or business model that is being developed**, as well as the strategic partnership itself. There are several potential objectives, including cost reduction or the identification of knowledge that can facilitate innovation. It is essential to be clear about these objectives and to ensure that they are compatible with the situation of the potential partners.
2. It is crucial to **identify a partner that is similar to the company itself**. Finding one with whom there can be a mutual contribution that facilitate the attainment of the objectives of both entities and stands is a key success factor. Potential partners must be accurately assessed for ensuring that there is cultural affinity between companies and complementarity of resources, capabilities and objectives.
3. For a fruitful alliance to be formed, a **strong value proposition in which the benefits of the collaboration are clearly highlighted** has to be offered. These could be cost reductions, for example in terms of need for financing or specialising in specific activities, increased market reach or risk decrease, among others. It should be highlighted how the strategic partnership will improve the performance of both entities.
4. The development of a **Partnership Agreement** is of paramount importance in creating a formal framework for it, delineating its objectives, scope, shared resources, risk management strategies, communication protocols, and the process for concluding the partnership. This document must meticulously represent both entities, encompassing all formal issues of the relationship.
5. It is imperative that **goals and expectations are aligned**. In order to facilitate progress towards the fulfilment of objectives and expectations, strategies must be developed, including metrics for the evaluation of results.
6. The establishment of a **strategic partnership** is predicated on the building of **trust** and the implementation of **open communication**. This step must be accompanied by a communication and transparency plan based on honesty with purpose of keep both entities informed of the progress of the strategy. Furthermore, such a plan must also include a mechanism for feedback and conflict resolution protocols. It is vital that partners are open to maintaining a fluid dialogue with their counterpart so that

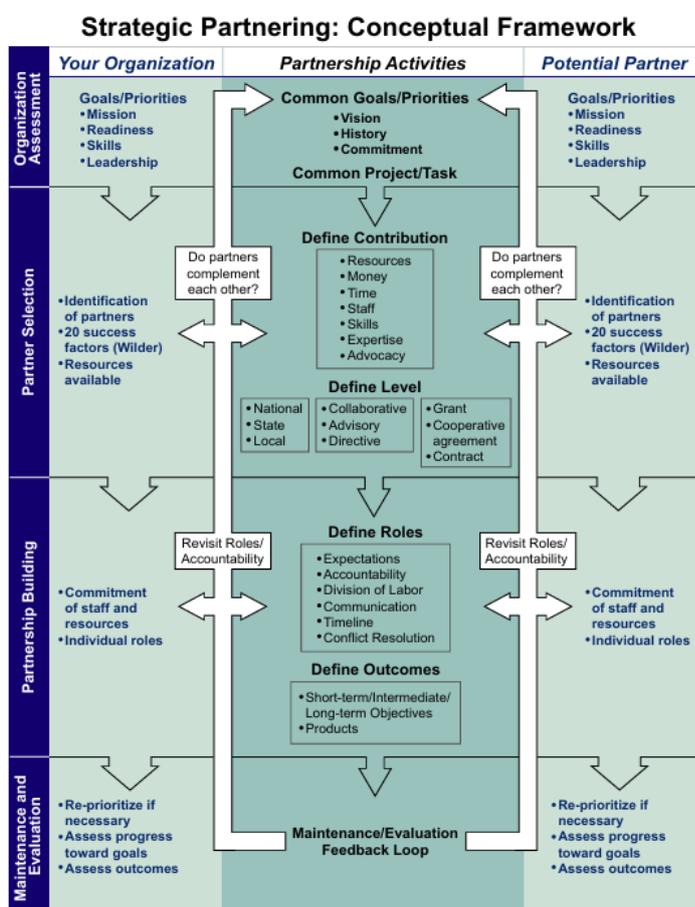
<sup>72</sup> For more information see: [Strategic Partnerships Made Simple: A Step-by-Step Guide to Developing Successful Business Relationships](#) and [Council Post: Six Elements Of A Successful Strategic Partnership](#)

both entities can share problems, challenges, opportunities, etc., thus moving forward in a cooperative manner and setting up bond beyond the business.

7. The success of a strategic partnership is contingent upon the **effective management of resources and operations**. The introduction of **guidelines for the coordination of efforts** between the two entities is fundamental to ensure long-term progress, as well as for the regular evaluation of these efforts and their outcomes.
8. The strategic partnership undergoes an evolution over time, in a manner consistent with its partners. Consequently, the **monitoring and evaluation of performance outcomes** are necessary for the partnership to flourish under optimal conditions. The question of whether the relationship is meeting the objectives and expectations of both entities is dependent on the metrics defined for the evaluation of results and the operational guidelines defined. It is also determined by how the partnership should be acted upon to maximise the benefits obtained.
9. The long-term accomplishment and adaptability of a strategic partnership is also based on its flexibility and on its capacity to respond to changes in the market and to other challenges and opportunities. This can be achieved through a continuous process of innovation. The arrangement of a sustainable long-term strategy, a roadmap and the celebration of milestones will serve to strengthen the partnership bond.

The visual representation of these issues is explained in **Figure 2**, which illustrates the individual contributions of each partnership entity and their collective contribution to the common elements that define the partnership.

FIGURE 2. STRATEGIC PARTNERING: CONCEPTUAL FRAMEWORK



Source: [CDC Strategic Partnering Conceptual Framework](#).

In light of the aforementioned steps and criteria, it is evident that a multitude of factors can contribute to the success or failure of a partnership, thereby shaping the experience of the involved entities (see **Figure 3**). While the achievement of this objective is pivotal to the flourishing of the alliance, it can be viewed as either a positive experience, characterised by affinity and complementary objectives, or a negative one, marked by the presence of significantly divergent objectives and the focus of each entity on imposing their own agenda. Another salient matter pertains to the governance and communication model. The existence of such a model is a definitive positive factor, engendering a positive experience that facilitates the acquisition of knowledge when its absence results in the alliance's dissolution.

**FIGURE 3. STRATEGIC PARTNERSHIPS EXPERIENCES**

	Negative Experience	Positive Experience
Reasons for success	<ul style="list-style-type: none"> <li>• Win-win for both sides</li> <li>• Alignment of relevant stakeholders</li> <li>• Clarity of objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Win-win for both sides</li> <li>• Alignment of relevant stakeholders</li> <li>• Value match</li> <li>• Complementary skill sets on both sides</li> <li>• Clear communications</li> </ul>
Reasons for failure	<ul style="list-style-type: none"> <li>• Competing agendas</li> <li>• Value mismatch</li> <li>• Objectives not aligned</li> <li>• Lack of governance</li> <li>• Misalignment of stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Competing agendas</li> <li>• Value mismatch</li> <li>• Objectives not aligned</li> <li>• Lack of communication</li> <li>• Lack of trust between companies</li> <li>• Win-lose situation</li> </ul>

Source: Henderson *et al.* (2014)<sup>73</sup>

Strategic partnerships are a complex instrument, with many factors that can lead to problems or even failure of the collaboration, as demonstrated in **Box 5**. It is recommended that these questions be given due consideration prior to the formalisation of any agreement, as this will facilitate the establishment of a partnership that is conducive to the members' well-being.

**BOX 5. STRATEGIC PARTNERSHIPS: KEY QUESTIONS**

There are a number of questions to ask when considering pursuing a strategic partnership opportunity to avoid make efforts in an alliance that will likely fail:

- Does the opportunity fit the vision of the organization?
- Does the relationship support your core business strategy?
- Would you gain new intellectual property and strengthen your product’s value proposition?
- Would you gain new market insight, or would it allow you to cost-effectively gain access to new market segments?
- Would you be able to create and deliver new experiences to your customers?
- Would you be able to increase your revenue growth or decrease your operating costs?
- What competitive advantage could you gain in competing with your key competitors? How would your competitors react to your partnership?
- Can you evaluate a return on investment before you invest in this strategic partnership? Can you quantify the benefits?

<sup>73</sup> Henderson J.E., Dhanaraj, C., Avagyan K., and Michelle Perrinjaquet, M. (2014). *Strategic Partnerships*. IMD 36.

**BOX 5. STRATEGIC PARTNERSHIPS: KEY QUESTIONS**

- Is your CEO, board or senior leadership team passionate and supportive of this potential business partnership?
- Is the partnership operation easily executable?
- Do the cultures of both organizations fit?

Source: [Forbes](#)

## G. Growth and Debt Capital

Growth capital is the last of the major private equity instruments that can be used to finance innovative companies. This kind of investor focus on the growth of the companies in which they involve, so their use is mainly oriented on the final stages of the innovation process and, above all, on implementation. It is a tool that can be very useful in the company's transition to market entry, adaptation and consolidation. When a business enters the market with its innovative product, there are problems such as asymmetric information or lack of adaptation to market conditions. The first is due to the fact that the technology has not yet proven its performance in real-life context, so there is a risk for the potential entrant associated with the introduction of the product. The second is because companies do not enter the market with the ideal size of unit and need investment and time to adapt their activities (production, distribution, etc.) to the market situation. It is at this point that growth capital can be used to finance this adaptation. Growth capital can be raised either in the form of equity, like so many other instruments, or in the form of debt, and since its profit objectives are like those of business angels or business capitalists, its criteria will also be similar but focused on a different part of a company's life, innovation or business model.

The main criteria used by growth capital investors are<sup>74</sup>:

- **Growth profile:** the main focus is on the company's growth expectations, which depend on the stage of the company. Enterprises in the pre-profit phase would require annual growth of at least 30%. If the company is already profitable but has good development potential, the required annual growth is more than 20%. If the business is already established, the minimum expected growth starts at 10%. This type of capitalists do not invest in companies that need the investment to stay in business, but in those that want the funds to scale up their business, increase their market reach and consequently their profits (see **Box 6** for further details).
- **Business model:** the business model must be proven and have a customer base. Growth capitalists invest in companies that are already profitable or close to it, so it is not an instrument that comes with an idea, but with tangible results. Based on these, the investor expects to see a well-defined strategy for how the company and its business model will develop in the short, medium and long term. The investor wants to understand how the capital contribution will enable the business model to be expanded and the company's performance to be improved (e.g. by developing innovative products, entering new markets or stepping up marketing campaigns).
- **Residual value:** it is possible for the business to fail, so the investor wants to know what it would be worth in that situation and how much capital will be recovered. Residual value is a key element in assessing the risks associated with the business and the investment.

<sup>74</sup> See [Growth Capital for SMEs and Scale-ups – The Ultimate Guide](#), [Growth Equity 101: What It Is, Criteria For Growth Equity Investments, Plus How These Investors Add Value - Confluence.VC](#) and [Growth Equity Primer | Fund Investment Strategy](#)

- **Transparent company information:** transparent information is not only necessary for proper investor decision-making, which requires accurate analysis, but is also a sign that a business has a mature management team.
- **Straightforward governance and clean corporate structure:** the governance structure of the company must be compatible with flexible decision-making throughout its life. Many difficulties may arise during this period, so clear and flexible governance is needed to enable quick, easy and effective decision-making. The company's commitment to environmental and social objectives should also be reflected in the governance structure.

#### BOX 6. GROWTH CAPITAL INVESTMENT CRITERIA

There are a number of specific criteria that growth capitalists use to assess a company's growth potential and the strength of its business model over the long term:

- Significant customer traction and/or revenue.
- Strong growth in revenue (e.g. at least 10%, but usually 30% or higher, depending on the development stage of the company).
- Offer technology-enables services or products.
- Established business model (e.g. paying customers with path to sustainable long-term margins).
- Positive (or nearly positive) profitability; typically, no further fundraisings are planned until after IPO (Initial Public Offering) or exit.
- Deal involves the purchase of a non-controlling, minority ownership stake (less than 50%).
- Proceeds from investment are typically used to accelerate growth (or provide secondary liquidity to shareholders).
- Do not typically involve high loads of debt.
- Growth (instead of debt) is primary driver of deal returns.

Source: [growthequityinterviewguide.com](https://www.growthequityinterviewguide.com)

**Box 7** contains some key resources on growth capital funds that can be consulted to facilitate access to this type of investor.

#### BOX 7. GROWTH CAPITAL RESOURCES

There are a wide range of growth capital funds that an innovator can apply to. A brief list of investors can be found in the [BlueInvest Investor Report 2024](#) and there are also other resources for finding investors. These comprises [PitchBook](#), which has a lot of information on various types of investors, and [Dealroom](#), which has a database to find the right venture or growth capital investor. Some notable Growth Capital funds include:

- [Suma Capital](#): investment through different types of instruments and focused on sustainable investment and projects.
- [Runway Growth Capital](#): a fund that uses debt as a way of investment and supports the entrepreneur through access to tis network, industry knowledge, or business experience.
- [OSA Growth Capital](#): investment focused on solving the most pressing issues of our time, such as those of the water and energy sectors.
- [QCP](#): provision of a flexible and project-tailored investment.
- [Avalon Growth Capital](#): investors aiming at empowering innovation with strategic capital and precision execution to deliver sustainable growth.
- [Haniel Growth Capital](#): a fund investing in early-stage planet-focused growing companies.
- [Growth Capital](#): a financial intermediary that brings together and supports visionary entrepreneurs and investors.

### 3. Success factors to obtain financing

The success criteria for raising finance vary considerably between different types of investors or financial instruments, as they are tailored to the way in which each contributes to the development of a business. However, a number of key questions can be identified as being necessary to use any of the instruments for which the criteria for raising finance have been presented in this edition of the outlook:

- The **identification and quantification of financial and other resource needs**: regardless of the instrument to be used for raising finance, the initial step is to conduct a thorough analysis of the resources necessary to develop the innovation and the business model. The selection of the most suitable investor is contingent upon the type of resource required, be it financial, physical or intangible. The identification and quantification of all resources required throughout the innovation and development process of a company serves as the foundation for an effective search for funding.
- Design a **sustainable business model** with clearly delineated objectives and contributions for all stakeholders: an innovative business model with the capacity to grow and generate profits is a key priority for potential investors, as it serves as a guarantee that their contributions will yield positive outcomes. The business model should be founded on both internal and market information, with objectives or milestones that are clear, ambitious, and realistic. The value offered to other stakeholders and to society as a whole must be emphasised. This encompasses not only financial expectations but also the contribution to broader public interest objectives. In many cases, these non-financial objectives, including environmental ones, are essential, as many investors, both public and private, are only willing to finance projects and companies that are socially and environmentally sustainable.
- **Choose the right partner**: the 4<sup>th</sup> edition of the outlook delineated three key criteria for the classification of investors: the innovation thematic, the stage of the innovation process at which they can be utilised, and the geographical context. These three elements vary according to the type of investor and should be adapted to the innovator's situation. For instance, in the water sector, there are technology-focused investors that may not be interested in nature-based solutions, which consequently disqualifies them as potential options. Investors' actions are concentrated at disparate stages of the innovation process, thus necessitating the identification of investors according to the business model development plan. Furthermore, investors should be sought in the innovator's area of interest, as they can provide specific experiences and contacts with relevant stakeholders of the market.
- Have a **trustworthy management team**: all types of investors rapidly reject attitudes that are arrogant, egotistical or uncommunicative. In order to be considered for financing, it is therefore vital that the innovator is trustworthy, open-minded and committed to the project or business. The innovator is not expected to acquiesce to all demands but to demonstrate a willingness to engage in the collaborative development of the project, with a focus on the benefits to be derived for all parties, including society as a whole. The demonstration of openness and a high level of commitment to the project serves to engender trust by mitigating the perceived risk to the investor that the innovator will disregard or neglect the perspectives or counsel of the investor or external parties.
- Develop a **long-term strategy** that addresses business growth and risk management: investors typically anticipate that the company in which they invest will incur short-term losses, as this is an inherent aspect of their activity. They make high-risk investments with the expectation of achieving long-term returns that will offset the risks assumed. In all cases, the innovator is expected to propose more than just the development of an innovation. A long-term strategy and an assessment of how

the business model will perform over the life of the company are needed for any investor or potential partner. Firstly, the focus is on identifying products that disrupt the market and demonstrate significant profit potential, in addition to business models that effectively address long-term needs. Secondly, given the high-risk nature of such investments, a comprehensive risk analysis is vital. This evaluation should encompass various internal, market, and institutional risks, assessing their likelihood of occurrence and potential impact on the business model. It is also crucial to consider the company's response to these threats, should they materialise. The objective is to instil confidence through a meticulous examination of the business model and the innovation that underpins it, ensuring that its role in the market is clearly defined and its capacity to adapt to potential changes is understood.

## 4. Final Remarks and the Way Ahead

The current edition of the outlook has focused on the criteria used by different types of investors in their investment decisions and the success factors for appropriate funding for each of these investors. This is of particular importance to innovators, who, armed with the information available in the six outlooks published to date, have access to a comprehensive range of information: financial instruments available, the investment priorities of the public sector, the winning factors for funding through private instruments, and the alignment of each instrument with the resource needs throughout the innovation process.

The outlook, therefore, contributes to the long-term goal of this series of outputs, which is to provide water innovators with information and resources that enable them to understand how financial issues in the water sector work, thus facilitating the raising of finance by innovators without a background in business, economics or finance. It is anticipated that future editions of the Outlook will continue this goal of providing innovators with a comprehensive overview of water finance.



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