Overview of

# GOOD PRACTICES to Support Sustainable Finance for Green Businesses in the Mediterranean

the Switchers Fund

MedWaves
the UNEP/MAP Regional Activity Centre for SCP

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# Executive summary



## 1. Executive summary

This publication aims to highlight best practices in the financial sector that could be adapted, replicated and promoted through public or private initiatives in the Mediterranean region in order to boost sustainable finance for green entrepreneurs.

We refer to Green or Sustainable Entrepreneurship as a business approach that takes into account not just profit, but also social and environmental sustainability. As SMEs, represent over 90% of businesses across the Mediterranean, these have a crucial role to play in the shift towards a more sustainable and inclusive future.

The document provides an overview of sustainable finance policies and initiatives, eleven at the country level and seven at the regional level. The analysis of these case studies shows that many countries are taking steps towards enabling a sustainable finance ecosystem through public or private initiatives, however, there is a need to balance country-specific solutions with regional coordination.

Finally, the document highlights some key examples of initiatives that are starting to develop at the regional level and show a great potential to foster sustainable finance in the Mediterranean region.

2.

Background and methodology



## 2. Background and methodology

The objective of this document is to provide an overview of policy measures that can provide a boost to sustainable finance initiatives able to support the development of sustainable entrepreneurship in the Mediterranean. This is necessary as there is an urgent need for specific policy measures that take into consideration the social and environmental risks that are threatening the development of the region. Among the most impactful measures that can achieve this goal there is increasing sustainable investments and access to finance.

In many countries in the Mediterranean region, public and private funding is not available in sufficient supply due to a lack of visibility and understanding of sustainable entrepreneurship within the mainstream funding community. This is compounded further by persistent regulatory hurdles and a lack of incentives associated with investing in sustainable businesses.

The study focuses on **sustainable finance** as a tool to support sustainable enterprises. It provides a set of policy measures that should be taken into consideration if the financial sector in the Mediterranean wants to be in tune with the global shift towards social and environmental sustainability and with a reduced risk of social- and green-washing. For sustainable finance we use the definition provided by the EU Commission[1]:

*Sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects. Environmental considerations might include climate change mitigation and adaptation, as well as the environment more broadly, for instance the preservation of biodiversity, pollution prevention and the circular economy. Social considerations could refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues. The governance of public and private institutions – including management structures, employee relations and executive remuneration – plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process.*

For sustainable business we use the definition adopted by the Contracting Parties to the Barcelona Convention at COP22[2]:
*"A sustainable business provides commercial solutions which create ecological value and safeguard the environment (addressing environmental challenges and/or reducing environmental impacts) and are economically viable and socially empowering."*

In order to foster sustainable entrepreneurship, it is important to address what is perhaps the most important factor throughout the life of any enterprise, that is, access to finance. The "blockers" that prevent sustainable enterprises from accessing funding can be categorised according to the needs of sustainable entrepreneurs in terms of capacity building, financing/funding, and infrastructure:

1. Capacity building needs are closely linked to funding, as the sustainable enterprise leadership may not know how to find, attract and communicate with funders, and may lack the skills to run the business in a way that is suitable for specific types of funding, or that allows the sustainable enterprise to become financially self-sustainable.

2. Financing/funding needs relate to how sustainable enterprises at different stages in their evolution require different types of funding, some of which is less easily accessible due to deficiencies in the funding community and a general lack of tailored funding. For example,

[1]. https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_en
[2]. https://switchmed.eu/wp-content/uploads/2022/01/SwitchMed_Set-of-Regional-Measures_SCPRAC.pdf

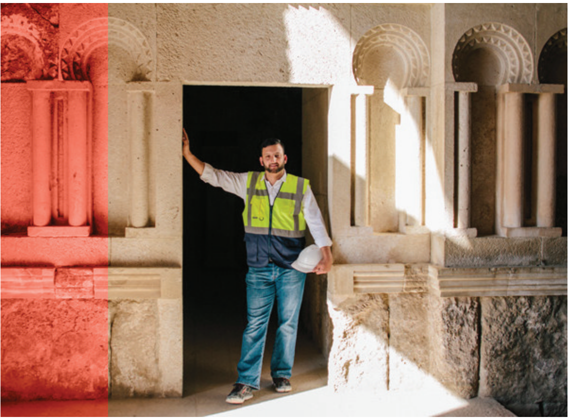
financial guarantees that are related to specific social and environmental objectives of the enterprise.

3. Finally, infrastructure needs pertain to structural issues that currently prevent sustainable enterprises from accessing funding, due to a misalignment between public and private funding priorities, and a lack of appropriate or sufficient mechanisms and structures that encourage more public and private funding of sustainable enterprises. For example, a specific country may lack the Business Support Organisations that should provide representation and backing of the sector vis-à-vis the public (local and national) authorities.

Fostering sustainable finance is an effort that requires a comprehensive set of measures that can support this realignment in a region as diverse and as interconnected as the Mediterranean. It requires a mix of skills and knowledge, innovation, policy and fiscal support, training and capacity building, networking, and so on. This can and should be done at the country level, in order to ensure that the systems closer to the entrepreneur are effective and relevant.

However, the scale of the social and environmental challenges is such that no single country can solve them by itself. Whereas the need for sustainable entrepreneurship is clear, due to overexploitation of natural resources, desertification and overall human population growth, concerted efforts are few and far between. In this document, we first outline a few fundamental assumptions that guide our analysis.

The first assumption refers to the **sectoral focus** of this document. As previously mentioned, fostering sustainable entrepreneurship requires a systemic approach, taking into consideration many factors and value chains. Given the very large scope, we focus our analysis on the **financial sector**. This allows a more in-depth immersion into a sector that is extremely huge, encompassing public and private institutions, and various legal forms.

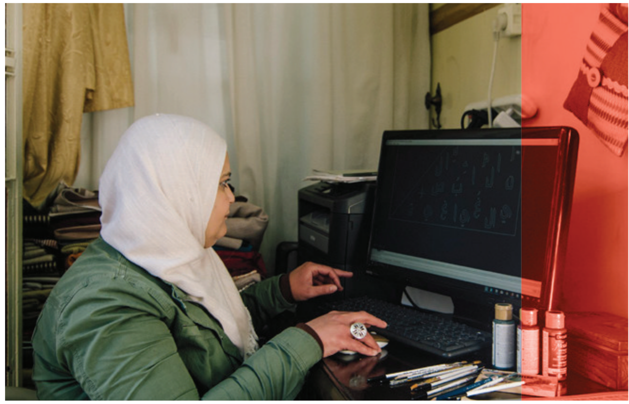


Moreover, the financial sector is key for a sustainable future given its power to influence and expand the sectors it finances. Funding needs relate to how sustainable enterprises, at different stages in their evolution, require different types of funding, some of which is less easily accessible due to deficiencies in the funding community and a general lack of availability of appropriate funding.

There is still only a small subset of the funding community – the so-called "impact community" (venture philanthropy organisations, social impact investment funds, social enterprise incubators, ethical, mutual and cooperative and savings banks, etc.) – that understands and actively finances sustainable enterprises.

Venture philanthropy and impact investing [3] is a high-engagement and long-term approach whereby an investor for impact supports a social purpose organisation to help it maximise its social impact. Ethical Finance organisations [4] have the objective of achieving a positive impact on the collection and use of money. They invest in activities such as organic farming, renewable energies, the Third sector (or non-profit sector), Fair Trade. They respond more and more to the needs of those who are excluded from the banking system, and to the needs of savers and investors who are increasingly interested in the way they use their savings.





The broader funding community – private (mainstream banks, foundations, high net worth individuals, business angel networks, etc.) and public (international organisations, state funding and guarantees, development banks, etc.) – lack awareness and understanding of the opportunities and risks of financing sustainable entrepreneurship, and retail investors are often not even provided with the option of investing in sustainable enterprises by advisors and fund managers. Furthermore, unnecessary regulatory hurdles exist that decrease potential levels of private funding of sustainable enterprise, and tax incentives for sustainable enterprise funding are scarce and fragmented across the region.

The second assumption is the **geographical focus** of the analysis. As mentioned before, the Mediterranean is an interconnected region, therefore we consider both the northern and southern banks - and the countries therein - in the scope of analysis. For millennia the region has been interconnected via economic, cultural and human interactions.

Not only that, but the fact that the countries facing the Mediterranean are sharing its waters has also an impact on its pollution and other negative externalities that need to be assessed and "internalised" if we want to fully analyse the impact of human activities. Taking into consideration the whole region allows us to take advantage of the range of measures that can be implemented.

The third assumption refers to the type of entrepreneurship that we want to foster. We call them **sustainable entrepreneurs** (and sustainable entrepreneurship) and it refers to those economic activities that, alongside a financial return and sustainability, also consider their effects over the social fabric of the communities around them, as well as the environmental impact said activities are causing. The coexistence of those three factors is fundamental if we want to foster sustainable development.

Financial return is necessary if the business is to keep operating in the long term, expand and mature. Social sustainability is important to ensure that the community where the business operates is resilient and thriving, thus creating a positive feedback loop, especially in case of vulnerable people. Environmental sustainability is key to helping better manage scarce natural resources such as water, land and energy, thus ensuring the long term survival of the business itself, as well as the community.

The **methodology** used to carry out the task is desk research, where a wide range of policies and measures adopted by private and public organisations operating in the financial sector were analysed. Local Impact Investing Task Forces discussions in the following countries: Morocco,

[3]. https://evpa.eu.com/about-us/what-is-venture-philanthropy
[4]. https://febea.org/ethical-finance/

Tunisia, Lebanon, Italy, Jordan and Palestine, as well as a Regional Survey and a Policy Paper for a Sustainable Finance Observatory [5] are part of the background research. Additionally, MedWaves (SCP/RAC) carried out a survey in November 2021 targeting investors in the Middle East and North Africa (MENA) region, where local investors provided some indications on the challenges ahead.

For instance, the main barriers to investments in sustainable finance that were identified were the lack of proven business models (91%), unsupportive policy and/or regulation/data (88%), lack of scalable projects (74%) and lack of market awareness and sustainable development concept promotion (70%). On the other hand, according to investors, the main enabling factors that should be put in place to green investment in the Mediterranean are: effective supporting policies (33%), followed by clear investments criteria and proven business models (26%), and an adapted framework and incentives for green and circular economy and de-risking of investments (16%).

Finally, the respondents identified the following measures that governments, investment banks, and multilateral organisations should implement to accelerate this necessary re-orientation and make the most of the new opportunities on offer:

- Enhance awareness and define long term goals;
- Launch Pilot Projects for SDGs close to industrial hubs. Assess, review and scale up;
- Review the governance model of investment, economic development, green economy and digital ecosystem to undertake reforms and boost sustainable development of key sectors;
- Change priorities from extreme performance of their balance sheet to social responsibility towards their communities, the environment and the people in need;
- Collaborate to implement policies to boost private investments (foreign investment repatriation, fiscal incentives, clear procedures when investing) and improve the management of public finance;
- Support SMEs in shifting towards sustainable investment;
- Launch new investment platforms that would be managed by the private sector;
- Make more social enterprises investment-ready so that the MENA region can attract more impact investors.

[5]. https://ufmsecretariat.org/wp-content/uploads/2022/03/Policy-Paper-Sustainable-Finance-Observatory.pdf

# 3.

# Overview of case studies on sustainable finance initiatives

# 3. Overview of case studies on sustainable finance initiatives

## 3.1 Sustainable finance policies and initiatives at **country level**

### 1- Creation of a Sustainable Finance Center - Financial Regulatory Authority (Egypt) [6]

Within the Financial Regulatory Authority of Egypt, a new department dedicated to sustainable development was created, the Sustainable Finance Department. In a groundbreaking regulation, they officially made compliance to ESG standards mandatory to all companies listed on the Egyptian Stock Exchange and all non-banking financial institutions with a minimum net equity of EGP 100 million, including Venture Capital, Private Equity, FinLeasing, etc.

Furthermore, in March 2021, they established the Regional Center for Sustainable Finance, in partnership with the London Institute for Banking and Finance. Its mission is to accelerate the transition to the green economy by assisting stakeholders in making more informed decisions on issues related to sustainability. The center offers formal accredited training to sustainable finance officers and management executives from Egypt and other countries on topics such as ESG standards, green finance and climate risks.

### 2- Private funds investing in the sustainable economy - 90-10 Fonds (France) [7]

Savings scheme in France run by private companies for their employees where they can save part of their salary into a fund and the asset managers have to dedicate 10% of available funds to investments in the social and sustainable economy. Good example of mobilising private capital launched by the state.

Since their creation in France in February 2001, solidarity funds, commonly called “90-10 funds”, have very quickly established themselves as the main tool for collecting solidarity savings. As innovative products, their development has been regularly encouraged by the public authorities, in particular thanks to the Law on the Modernization of the Economy (LME) of August 4, 2008, which extends to Company Savings Plans (PEE) the obligation to present at least a solidarity fund for employees, beneficiaries of employee savings schemes.

This method of managing solidarity assets has made it possible in particular to:

- diversify the financing of companies and associations with strong social and/or environmental utility on very varied themes and therefore, for savers, to contribute simultaneously to the support of several causes;
- spread the risk between the various issuers, the risk of default no longer resting on a single body. In addition, the diversification obligation is also linked to the management constraints of undertakings for collective investment (UCIs) (dispersion ratio);
- better manage the liquidity of solidarity-based, unlisted securities, since in addition to solidarity-based investments, the funds include monetary assets;
- develop expertise in solidarity finance within management companies.

[6]. https://www.greenfinanceplatform.org/policies-and-regulations/regional-center-sustainable-finance
[7]. https://www.finance-fair.org/_dwl/synthese-etude%20fonds-90-10-finansol.pdf



### 3- Measuring the physical and transitional risks of the banking and insurance sectors - Main results of the climate pilot exercise for 2020 (France) [8]

In May 2020, the French Prudential Supervision and Resolution Authority (ACPR) launched the climate pilot exercise which intends to measure the physical and transitional risks to which the French banking and insurance establishments are exposed by 2050.

In July 2020, the ACPR published a report which presents the scenarios and the main assumptions used for the climate pilot exercise. It takes into account in particular: the macroeconomic projections of the Eurosystem which provide a first measure of the impact of the health crisis and which affect the start of the pilot exercise; the transition scenarios published on June 24, 2020, by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and responses to the public consultation.

The main objectives of the pilot exercise are:

- Raising financial institutions’ awareness on the climate change risk
- An assessment of both the vulnerabilities of institutions and the costs induced by non-compliance with the Paris Agreement
- To develop and improve the institutions’ capacity to integrate the climate risk in their financial risks’ measurement, assessment and day-to-day management

### 4- Social impact finance association - FAIR-Finansol (France) [9]

An NGO, FAIR unifies different stakeholders of social impact finance in France and is the French centre of expertise in this field at an international level. Indeed, the association brings together more than 110 social enterprises, banks, management companies, NGOs, universities and committed individuals. FAIR also manages a label, the Finansol label, which distinguishes social savings products from other savings products for the general public. So far, almost 170 saving products have been given the Finansol label.

FAIR supports the social entrepreneurship in several ways:

- The Finansol label. Introduced in 1997, the label certifies the social dimension of a financial product. It is mainly based on solidarity and transparency criterions. Investors therefore have an official certification that their money is really going towards activities that generate social and/or environmental benefits. This label is assigned and controlled annually by a committee of independent experts.
- French Social Finance Barometer. Published every year since 2003 in collaboration with La Croix, the French Social Finance Barometer puts forward the key figures of social finance in France. It gives an overview of the various social initiatives, yearly statistics, fiscal benefits, plus a detailed list of the various solidarity-based finance vehicles.
- Social Finance Week. Since 2008, the ‘Semaine de la finance solidaire’ has taken place each year, in early November. It gives the members of FAIR the opportunity to organise events all over France, such as presentations, seminars, road shows, street marketing, film projections, etc. aimed at showing the general public the way to social finance.
- Grands Prix de la finance solidaire. Sponsored by the daily newspaper Le Monde as well as by FAIR since 2009, these awards are granted to various social businesses that have been supported by social finance. The prizes are awarded during the social finance week (Semaine de la finance solidaire).

[8]. https://acpr.banque-france.fr/sites/default/files/medias/documents/20210602_as_exercice_pilote_english.pdf
[9]. https://www.finance-fair.org/en

- Observatory on social impact finance (Observatoire de la finance à impact social). Its purpose is to collect all the available statistics in the field of social finance. The observatory is therefore in constant contact with the members of FAIR. The observatory releases annual figures on the evolution of social savings and social financing on a year-end to year-end basis, as well as on the performances of social investment products.

### 5- Legal requirements for sustainable banking - Law on ethical banking (Italy) [10]

In the budget law approved on 7 December 2016, an article was envisaged that amended the Consolidated Banking Act (TUB) by introducing the definition of the requirements that a bank must have to be defined as "ethical" and establishing some tax incentives for this type of banks. A measure passed by a very large majority, which in itself is significant.

According to the rule (included in the budget law, Article 1 paragraph 51, as an amendment to Article 111 of the TUB), ethical and sustainable finance banking operators are the banks that conform their activities to the following principles:

- evaluate the loans granted to legal persons according to internationally recognized ethical rating standards, with particular attention to the social and environmental impact;
- give public evidence, at least annually, also via the web, of the loans disbursed , taking into account the regulations in force to protect the confidentiality of personal data;
- dedicate at least 20% of their loan portfolio to non-profit organisations or social enterprises with legal personality, as defined by current legislation;
- they do not distribute profits and reinvest them in their business;
- they adopt a governance system and an organisational model with a strong democratic and participatory orientation, characterised by a widespread shareholder base;
- adopt remuneration policies aimed at limiting as much as possible the difference between the higher and the average remuneration of the bank, the ratio of which in any case cannot exceed the value of 5.

### 6- Sovereign green bonds - BTP Green (Italy) [11]

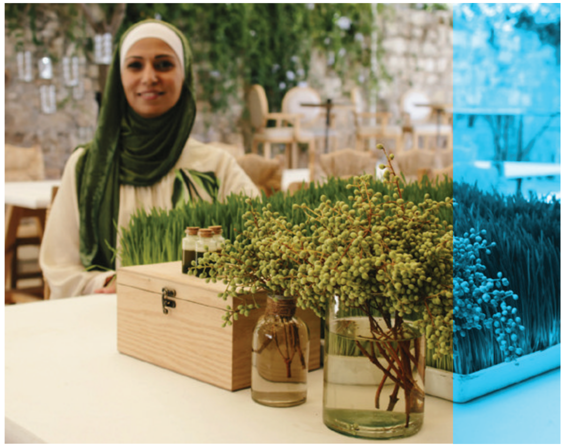
In March 2021, the Republic of Italy issued an inaugural €8.5bn 24-year green Buoni del Tesoro Poliennali. The sovereign bond follows the "Framework for the Issuance of Sovereign Green Bonds" issued by the Ministero dell'Economia e delle Finanze in February 2021 that targets six core areas:

- Renewable electricity and heat
- Energy efficiency
- Transport
- Pollution prevention and control as well as the circular economy
- Protection of the environment and biological diversity
- Research

[10]. https://www.brocardi.it/testo-unico-bancario/titolo-v/art111bis.html
[11]. https://www.dt.mef.gov.it/it/debito_pubblico/titoli_di_stato/quali_sono_titoli/btp_green/



### 7- Sustainability reporting on stocks - Amman Stock Exchange Guidance on Sustainability Reporting (Jordan) [12]



In 2018, Amman Stock Exchange issued guiding steps for the listed public shareholding companies on sustainability reporting and reporting frameworks. The sustainability report helps to determine the degree of including the ESG principles in the company strategy, the management structure and increased knowledge about company performance and its achievements at all levels (Economic, Social, and Environmental) as well as knowing the methods and actions undertaken by companies to enhance sustainability.

When the company adopts the sustainable risk management approach it will provide the management an extra opportunity to enhance its competitive advantage compared to its competitors and establish its good reputation toward all relevant parties in which it will serve the strategic goals. The company's good performance regarding sustainability refers to the possibility of achieving the long-term future revenues as well as exposing to fewer risks in comparison with competitors, which means an increase in the company's customer loyalty and their confidence, hence, giving them a competitive advantage compared with others.

### 8- Green Bonds on the stock exchange - Malta Stock Exchange Green Market (Malta) [13]

In February 2021, the Malta Stock Exchange (MSE) introduced the Green Market, which will serve for the listing of Green Bonds on the local capital markets. Issuers seeking to raise finance for green projects must meet the MSE's Green List criteria (based on the International Capital Markets Association's Green Bond Principles).

Issuers meeting these requirements will qualify for discounted listing fees. Qualifying issuers would need to invest in projects that contribute towards one of the environmental objectives: Climate Change Mitigation, Climate Change Adaptation, Pollution Prevention, Sustainable Use of Water and Marine Resources.

### 9- Central Bank Directive - Bank Al-Maghrib (BAM) "Directive relative au dispositif de gestion des risques financiers liés au changement climatique et à l'environnement" (Morocco) [14]

In March 2021, the BAM published a directive for credit institutions to improve their management of climate-related and environmental risks. Under the Directive n°5/W/2021, a framework has been put in place to enable credit institutions to identify the potential sources

[12]. https://www.exchange.jo/sites/default/files/2018-11/Sustainability%202_1.pdf
[13]. https://www2.deloitte.com/mt/en/pages/financial-services/articles/alerts/2021/mt-fsi-alert-21-01-malta-stock-exchange-introduces-the-green-market.html
[14]. https://manager.e-questionnaire.com/accounts/3040/file/Directive%20n%C2%B0%205W21%20Risques%20financiers%20li%C3%A9s%20%C3%A0%20 l'environnement.pdf

of climate-related and environmental risks and ensure their measurement, management, monitoring, and control.

**10- Technical assistance on sustainability and innovation - Tatwir programme (Morocco) [15]**

The National Agency for the Promotion of SMEs (Morocco PME) was created in the light of Law 53-00 to support entrepreneurship and business competitiveness and launched the Tatwir programme in 2021.

The programme is a tailor-made integrated offer including investment support, innovation support and advice & technical assistance. It targets industrial MSMEs investing in promising sectors, in particular green growth, industrial innovation and industry 4.0. This programme also supports the pre-incubation and incubation of start-up project leaders, the acceleration of MSMEs with high growth potential, as well as investment projects relating to the industrial integration of promising sectors.

**11- Sovereign green bond - Green bond (Spain) [16]**

The Spanish Treasury has expressed their commitment to launch a sovereign green bond programme. The outbreak of the pandemic and the lack of a budget that reflected the current government's commitment to the ecological transition led the Treasury to move the launch of the inaugural green bond to 2021. The issuance of this type of instrument will contribute to financing the transition towards decarbonisation of the Spanish economy.

The Treasury will follow the best market practices in the design of the Green Bond Framework, supported by the experience of other sovereign issuers and the harmonisation work at the European level, and will acquire strong commitments to transparency when reporting on the notional allocation of the funds and on the impact of the investments. At the same time, they will be long-term bonds, perfectly comparable to the Treasury reference curve, with sufficient volume to provide them with the maximum guarantees of liquidity, and which will be reopened through auctions.

**12- Social Business Law - Loi n° 2020-30 du 30 juin 2020, relative à l'économie sociale et solidaire (Tunisia) [17]**

This law gives the definition of the Social and Solidarity Economy (SSE) and its scope, and describes the organisations that make it up as well as the conditions to be fulfilled in order to obtain the SSE label. In terms of governance and development of the sector, two structures have been created: the Higher Council for the Social and Solidarity Economy and the Tunisian Authority for the Social and Solidarity Economy.

The law has granted privileges to companies in the solidarity and social economy:

- Creation of financing mechanisms specific to SSE companies based on 3 axes: establishment and development of specific platforms for this purpose; allocation of preferential lines of financing with financial institutions and creation of cooperative banks.
- Reservation of a percentage of public orders for the benefit of companies in the social and solidarity economy
- SSE companies benefit from tax and financial advantages depending on the category of the company and the nature of its activity without restriction linked to the region of establishment: these financial advantages will be defined by a governmental decree.
- Creation of a guarantee mechanism called "guarantee line for financing granted for the benefit of social and solidarity economy enterprises" aimed at guaranteeing social and solidarity economy enterprises credits and all categories of financing: banking system, microfinance institutions and holdings of investment companies…

Another specific point which is the limited lucrativeness in accordance with certain rules, for example the allocation of a maximum of 5% of the surplus to social, cultural and environmental activities.

15. https://marocpme.gov.ma/programme-tatwir-croissance-verte/
16. https://www.tesoro.es/sites/default/files/estrategia/Estrategia_ES.pdf
17. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/legaldocument/wcms_750308.pdf



## 3.2 Sustainable finance policies and initiatives at the regional level

**1- Investment and financial services company - AfricInvest [18]**

AfricInvest was founded in the early 1990s, as an investment and financial services company. Uniquely positioned as one of the most experienced private equity investors on the continent, AfricInvest has dedicated investment teams focused on Africa, and employs more than 90 professionals in eleven offices.

AfricInvest raised USD 1.9 bn across 21 funds and benefits from strong, long-term support from both local and international investors, including leading development finance institutions in the United States and Europe. Since the beginning, AfricInvest has invested in more than 170 companies across 25 African countries in a variety of high growth sectors and maintains a broad network of high quality executives across Africa, offering extensive expertise in key growth industries, including financial services, agribusiness, consumer/retail, education and healthcare.

Having co-founded the African Venture Capital Association (AVCA) as well as the Middle East North Africa Private Equity Association (MENAPEA) and the Euromed Capital Forum, the firm is an active promoter of the private equity industry in the region.

18. https://www.africinvest.com/index.php

### 2- Green recovery from pandemic roadmap - EIB Climate Bank Roadmap 2021-2025 [19]

The European Investment Bank (EIB) created a roadmap for its five-year plan to ensure that all its investments support the European Green Deal and help make Europe carbon-neutral by 2050. The roadmap outlines how the EIB Group can support a green recovery from the COVID-19 crisis and help countries around the world meet the United Nations' Sustainable Development Goals. It sought input from non-governmental organisations, research institutes, universities, think tanks and other members of the public and private sectors while drafting the roadmap. The roadmap has the following objectives:

- A new Adaptation Plan to help public and private sectors inside Europe and beyond prepare for climate change. The EIB will increase adaptation support to 15% of its annual financing for climate action by 2025, an almost threefold rise.
- A new Paris Alignment for Counterparties framework highlights how the EIB is the first multilateral bank to ensure that clients' wider activities are sustainable. The Bank will verify that projects are aligned with the Paris Agreement and that clients are cutting emissions while making their work resilient to climate change.
- A new plan to support the EU Just Transition Mechanism to create a green future for everyone.
- A new Environmental and Social Sustainability Framework explains how the Bank works hard to anticipate and react to environmental and social concerns related to the EIB's finance projects. This includes the loans it makes as well as loans approved by other banks it supports.

### 3- EU Parliament resolution - European Central Bank's Corporate Sector Purchase Programme (CSPP) toward green assets [20]

In February 2020, Members of the European Parliament passed a resolution asking the European Central Bank to step up its green credentials. The Parliament calls on the ECB to better integrate environmental, social and governance (ESG) principles into its policies and redesign its corporate sector purchase programme (CSPP) to better support environmentally sustainable initiatives.

In July 2020, Christine Lagarde, president of the European Central Bank, announced that they will begin to use the bank's asset purchase scheme to pursue green objectives. Sustainability-linked bonds were recently announced to be eligible as collateral and for ECB's asset purchase programmes from 2021.

### 4- Sustainable investment in EU Neighbourhood - EU External Investment Plan [21]

In the European Consensus on Development, the EU and its Member States committed to take action to boost investment. A key channel for such actions is the External Investment Plan (EIP). The EIP is an EU initiative launched in 2017. Through its 3 pillars approach, the EIP is designed to support investments into Africa and countries near the EU ('EU Neighbourhood'), by using public money to attract private investment, to foster sustainable and inclusive economic and social development, also with the aim of addressing specific socioeconomic root causes of migration, with a particular focus on job creation. It is a key tool for supporting EU partner countries in their efforts to meet the 17 SDGs.

[19]. https://www.eib.org/attachments/publications/climate_action_and_enviromental_sustainability_overview_2022_en.pdf
[20]. https://www.greenfinanceplatform.org/policies-and-regulations/european-central-bank%E2%80%99s-corporate-sector-purchase-programme-cspp-moves
[21]. https://ec.europa.eu/eu-external-investment-plan/home_en



In the Neighbourhood region, the EU's efforts to improve the business environment in partner countries have been largely led by strong policy dialogue at different levels, further supported by financial cooperation modalities and international donor coordination mechanisms. Reforms of the investment climate are also promoted by enhancing the dialogue in the framework of budget support operations, but also providing technical assistance (also in the form of investment climate assessments) and capacity development, by means of traditional specific bilateral, regional projects, and using instruments building on EU Member States' expertise such as Twinning and TAIEX.

### 5- Regional definition of sustainability - EU taxonomy for sustainable finance [22]

In order to meet the EU's climate and energy targets for 2030 and reach the objectives of the European green deal, it is vital that we direct investments towards sustainable projects and activities. To achieve this, a common language and a clear definition of what is 'sustainable' is needed. This is why the action plan on financing sustainable growth called for the creation of a common classification system for sustainable economic activities.

The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities. It could play an important role helping the EU scale up sustainable investment and implement the European green deal. The EU taxonomy would provide companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In this way, it should create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed.

### 6- Mediterranean network - Regional Sustainable Finance Observatory [23]

Created in the context of the SwitchersFund initiative, which provides and facilitates direct funding and business support services to existing and future green, circular and social entrepreneurs in the Mediterranean region, the Regional Sustainable Finance Observatory (the Observatory) has the objective of providing knowledge and opportunities to strengthen the capacity of financial institutions to invest in sustainable business models from the region. The Observatory contributes to the removal of existing market barriers that might hinder the gradual integration of sustainable finance practices, instruments, and management models. It will also promote sustainable finance literacy in different countries in the Mediterranean.

The Observatory includes representatives of all the countries facing the Mediterranean, in order to foster the exchange of information and best practices among the various contexts. Its main mission is to provide inputs on policies enabling access to finance to sustainable development by liaising with representatives of international organisations and target countries' relevant stakeholders and Ministries (environment, economy, etc.).

[22]. https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en
[23]. https://www.theswitchersfund.eu/en/finance-observatory/

**7- Mediterranean green and social fund – The SwitchersFund [24]**

The SwitchersFund is an initiative that stems from the acknowledgement that there is an urgent need to switch from a "business as usual" world into one where the principles of social and environmental sustainability are upheld and respected.

The SwitchersFund aims to make the switch to a green, circular and social economy in the Mediterranean region a reality. To this end, we support eco and social innovators through a blend of private and public money, technical assistance and grants.

The SwitchersFund mobilises local investors and enterprise support programmes as well as European resources to strengthen Mediterranean start-up projects and raise additional funds. The SwitchersFund serves as a meeting place for private funders including foundations, private donors and impact investors that can use it as a way to identify interesting projects in the Mediterranean that can be funded directly. Additionally, it can serve as a means to pool different financial resources into a structured process that brings entrepreneurs from the ideation phase towards sustainability.

Currently in its development stage, it has been piloted via several initiatives and prizes, such as the OSCE GEMS Award, where the SwitchersFund partnered with the OSCE (the Organisation for Security and Cooperation in Europe) in order to promote Green and Social Entrepreneurship in the Mediterranean as a tool for contributing to stability and peace in the region. This collaboration has allowed the launch of the OSCE GEMS Awards, thanks to an endowment by the Italian Ministry of Foreign Affairs and International Cooperation. The OSCE GEMS Award provided a 15,000€ grant to the best six business ideas submitted by young Green Entrepreneurs from six countries of the Mediterranean (Algeria, Egypt, Israel, Jordan, Morocco and Tunisia), taking into account their social and environmental impact.

[24]. https://www.theswitchersfund.eu/en/

# 4. Conclusion

# 4. Conclusion: Key measures for supporting sustainable entrepreneurship in the Mediterranean

As discussed in the introduction, the switch towards sustainable development is a priority for a region as vulnerable to climate change as the Mediterranean. Supporting access to finance for green entrepreneurs is a key pathway to accelerating this transition. SMEs, which represent over 90% of businesses across the Mediterranean, have a crucial role to play in the shift towards a more sustainable and inclusive future.

As the best practices analysed in this document show, many countries are taking steps in the right direction. The challenge is to create the foundations for the whole system to thrive, and for that it is important to ensure that the approach is regional, with a focus on the Middle East and North Africa but without forgetting the links with Europe and the surrounding regions.

Among the different case studies reviewed, below we have selected three measures that have a considerable potential to foster the development of a robust and thriving sustainable finance sector across the Mediterranean region, while being relatively easy and quick to implement given that they are ongoing initiatives with a growing institutional support. They work on several levels. The first is a tool that can prove that the provision of financial support to sustainable entrepreneurs can work (the SwitchersFund), the second is more related to policy and advocacy (the Observatory), the last focuses on representation of the sustainable finance sector (the regional network).

### 4.1 The SwitchersFund

One of the main challenges in providing support to sustainable entrepreneurs is access to finance. Whereas there are several opportunities available to entrepreneurs in the Mediterranean, the approach focusing on social and environmental sustainability alongside financial return is still not well understood. This creates a disconnect between supply and demand for finance that leaves sustainable entrepreneurs in a difficult position vis-à-vis their mainstream counterparts.

Additionally, another challenge sustainable entrepreneurs face is related to the type of financial support that is available to them. As mentioned before, mainstream finance is an option but is not optimal, and what is largely available to them is grants. While this can provide a lifeline that need not be repaid, the amounts are low and do not provide sufficient funds for structural expansion or investment. Moreover, continuous access to grants only tends to foster an attitude of dependency that stems the progression towards a professional organisation. Not only that, but sustainable entrepreneurs may not be ready when going one step beyond and asking for loans or investments. The documentation and certifications needed to get funding is much more thorough, and proving the ability to successfully manage an organisation is a necessary step.



The SwitchersFund aims at responding to these challenges in a way that is both impactful and tailored to the target group. With a vision of providing a set of financial tools that go from grants to borrowing and investment, it can provide support throughout several key development phases of the enterprise. This is done in a way that is aware of the specificities and features of the target group, is more tailored to it and takes into consideration the social and environmental impacts of the entrepreneurs in a systematic way. That is, using the impacts as a necessary tool to evaluate the credit-worthiness of the entrepreneurs rather than a potential hindrance in maximising profit.

The fact that there is a progression in the financial support also has a positive impact in terms of preparing sustainable entrepreneurs to what to expect when getting access to finance from mainstream providers. The entrepreneurs (depending on their needs) can start from grants - a form of support that they are by and large familiar with - and better understand the types of requirements they'll be asked when dealing with banks and other financiers.

Another area where the SwitchersFund can be a key tool to support sustainable entrepreneurship is the provision of both financial and non-financial support. As mentioned above, one challenge for sustainable entrepreneurs that are used to getting financial support mainly via grants is that they are not prepared in dealing with banks and other financial institutions. The SwitchersFund would provide an answer to this by providing technical assistance such as Green Business Model and Plan development, mentoring and technical expertise, and Green start-ups meet investors events.

### 4.2 Regional Sustainable Finance Observatory

The Observatory is a tool that would provide support to sustainable entrepreneurs in a more indirect, but important way. One of the main challenges of access to finance for this type of enterprises is the lack of awareness of the importance of social and environmental impact in economic activities. A change of mentality needs to take hold if social stability and climate change are accounted for in the financial world at all levels. It is important to mention that this change of mentality has started, but at a slow pace that does not keep up with the changes in the ecosystem, especially in the southern Mediterranean - nor is it immune to risks, as we will outline below.

What is needed is a body that can pioneer and promote this paradigm shift and encourage the mainstream financial world to adapt to the situation and adopt measures that, in the long term, will benefit themselves and their clients. What is important in the context of the Observatory is the fact that it is composed of professionals from the financial sector alongside representatives from other key sectors, such as government and environmental experts. This has the positive impact of having a systemic overview of the challenges at hand and being able to provide answers and indications that are realistic.

One of the underrated positive impacts of the Observatory is its monitoring of current and future practices of the financial world in terms of sustainable financing. While more and more focus is put on that, there is also the tendency of certain mainstream financial actors of labelling themselves as "green" without actually changing practices - the practice called "greenwashing". This is also true for the social sector, with business as usual repackaged as socially responsible - "socialwashing". The Observatory could become some sort of guarantor of certain financial products as sustainable, which could work well to promote more trust among financial organisations and clients, transparency in terms of practices and the destination of funds, and overall better awareness about sustainable entrepreneurship throughout the Mediterranean.

The impact on innovation in the sector is another area where the Observatory can have a positive effect. First of all, in the transfer of knowledge between different areas of the Mediterranean, fostering cross-pollination and exchanging best practices. On the one hand, this would allow horizontal innovation, that is, sharing innovations that are successful in a specific area and providing an avenue for other professionals and policymakers to learn about it and assessing their implementation in different contexts. On the other hand, the Observatory could become a laboratory of financial innovation, where new tools are discussed and developed and then shared among the sector, taking advantage of the awareness of the challenges and opportunities of the region, as well as the tools available.

Furthermore, the Observatory has a role that goes beyond pure financial instruments and tools. It also provides policy recommendations on the subject, discussing the future of sustainable finance policy, including policy approaches to ensure that the financial sector channels investment into sustainable enterprises.

### 4.3 Regional network of investors in the social and sustainable economy.

As the social and sustainable economy sector is still in its development phase in the Middle East and North Africa, it is important to promote an approach that fosters collaboration among practitioners in different countries, thus promoting the exchange of experiences and the growth of the sector. Therefore, the creation of a network association that gathers organisations that provide financial support at the regional level should be sought.

Such a network organisation should set itself the task of developing sustainable finance in the MENA. It could do so by supporting the exchange of information and experiences and cooperation between national networks and sustainable finance practitioners in the region and beyond. Moreover, it could represent its members at the relevant national institutions and the financial and political organisations and, as well as concretely support the efforts of its members, including in the creation of financial instruments that are necessary to accomplish their goals.

This network organisation, alongside the other measures outlined above, could be instrumental in creating and developing a fully functional sustainable economy ecosystem in the MENA. In order to achieve this objective, it should create a set of criteria that financial organisations need to abide by in order to become members of the network. This would make sure that the social- and green-



washing risk is minimised and the network (and its members) can avoid that reputational risk, which would jeopardise the future of the sector.

In the future, the support of the network could create the conditions for the development of innovative financial instruments that are tailored to the challenges and opportunities of the local context. It is envisioned that the regional network could spur the creation of national networks that can be more focused, as well as the creation and reinforcement of links between the regional network and similar organisations in other parts of the world.

Overview of

# GOOD PRACTICES to Support Sustainable Finance for Green Businesses in the Mediterranean

the Switchers Fund

MedWaves
the UNEP/MAP Regional Activity Centre for SCP