

# ENABLING ACCESS TO FINANCE FOR GREEN ENTREPRENEURS IN SOUTHERN MEDITERRANEAN COUNTRIES

## AVAILABLE OPTIONS AND POTENTIAL INNOVATIONS



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# Executive summary

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The main objective of this document is to provide an overview of the main challenges and opportunities that Green Entrepreneurs are facing to access finance in Southern Mediterranean countries.

Green Entrepreneurship is a business approach that takes into account not just profit, but also social and environmental sustainability. Green Entrepreneurship is also a mean to improve the management of natural resources while ensuring they are used in an efficient and sustainable way.

Therefore, a business established according to principles of efficiency and sustainability becomes an interesting opportunity for the whole ecosystem, spurring imitation and innovation, attracting capital and interest from relevant stakeholders.

An important challenge to understand is the fact that Green Entrepreneurship encompasses many sectors, ranging from agriculture, industry and services. This makes it difficult for a potential financier to pinpoint Green Entrepreneurs and develop a set of criteria to analyse investments or finance that is adapted to the nature of Green Start-ups.

This document deals with this issue taking into account both demand and supply of finance specifically for Green Start-ups in the Southern Mediterranean. The demand side is analysed via the responses to an online questionnaire collected from Green Entrepreneurs in the Mediterranean. From the analysis, it emerged that Green Entrepreneurs, who have recently established companies see access to finance as a major bottleneck that hampers their development.

The supply of finance is analysed through the outcomes of fact-finding missions conducted in Egypt, Jordan, Lebanon, Morocco, Palestine and Tunisia. During such missions, the goal was to interview the main financial operators in the countries and see their interest in financing Green Entrepreneurs. Once more, several gaps in the supply of finance stand out and can be seen as evidence of the misalignment between the needs of Green Entrepreneurs and what the financial system is willing to provide them with.

More specifically, this misalignment of information and expectations between Green Entrepreneurs on the one side and financial providers on the other create gaps that do not allow easy access to finance for Green Start-ups. The main challenge is that financial instruments are generally oriented towards ICT and technology start-ups, traditional SMEs, or much larger projects.

**What is missing is a combination of support at different levels and adapted financial tools that allow Green Start-ups the time and space to develop, test their innovations in the market and develop sustainable business models. In other words, a combination of technical assistance services with “patient capital” and market access.**

The final part of the document pertains to the possible solutions that can address this vulnerability. Several recommendations are outlined for Green Entrepreneurs, in order to better understand financing options and become more attractive for financiers and investors, namely:

- ⌘ Taking advantage of existing training programmes;
- ⌘ Being aware about the various financial products available;
- ⌘ Developing strong business plans.

For financing institutions, below are the main recommendations:

- ⌘ Raising employees' awareness on Green Entrepreneurship;
- ⌘ Making better use of available guarantee schemes;
- ⌘ Launching dedicated Venture Capital funds;
- ⌘ Widening the scope of use of microfinance to include Green Start-ups.

Moreover, a set of recommendations targeting public authorities is presented:

- ⌘ Promoting Green Entrepreneurship via a national policy;
- ⌘ Promoting access to overseas markets for Green Start-ups.



Recommendations for European Institutions and European funding instruments in order to support Green Entrepreneurship:

- ✿ Continuing their support through various programmes (such as SwitchMed);
- ✿ Using the European Fund for Sustainable Development to improve access to finance of Green Start-ups.

The final set of recommendations targets international donors and foundations:

- ✿ Supporting Green Entrepreneurship via impact investing and other innovative initiatives complementary to the traditional ones, in order to synergise and increase their effectiveness.

Among the potential solutions to the funding challenge, we focus on the SwitchersFund - a tool that wants to develop Green Start-ups as pioneers to inspire others. The SwitchersFund has three main goals: proving that finance for Green Start-ups can work; filling the financing and technical assistance gaps; and networking with all the relevant stakeholders in this process.

Initially operating as a grant scheme, it wants to expand towards different financial instruments, plus a technical assistance component and a networking facility, in order to create synergies and exchange information.

The envisioned objective is to create a “win-win-win” situation in which Green Entrepreneurs obtain access to finance, financial providers can safely invest in Green Entrepreneurship, and pressure on natural resources and human capital is kept at a sustainable level, with future generations able to benefit and capable of thriving.

Next to the SwitchersFund, there are also other examples of innovative finance that could be developed in the Mediterranean to improve access to finance for Green Start-ups, such as:

- ✿ The impact investing approach;
- ✿ The network-based approach;
- ✿ The challenge fund approach;
- ✿ The hybrid financial instrument.

# Introduction

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The Mediterranean region is at a crossroads. It faces important challenges such as political instability and economic stagnation that are exacerbated by the effects of climate change, namely water scarcity and environmental degradation. These challenges are interlinked and their most visible effect is the influx of migrants leaving the Mediterranean shores in an uncertain trip towards the European continent.

These regional challenges need to be dealt with collectively to build a future for young people in the Mediterranean that is prosperous, fair and sustainable for all. On the positive side, they are interconnected and addressing one will have positive effects in all others.

The challenges relevant to this document are youth unemployment, the pressure on scarce natural resources and the inefficiency of existing infrastructures, finance mechanisms, public policies and resources for entrepreneurship.

These challenges can also be transformed into opportunities. A young and educated population in the Mediterranean can also be a driver for change. Young Green Entrepreneurs who create new solutions to address environmental challenges can be a source of inspiration for others, an opportunity to create new jobs and markets and a driver for sustainable growth the Mediterranean.

Entrepreneurship developed according to the principles of sustainable consumption and production can help manage better scarce natural resources (water, land, energy, etc.) - ensuring economic growth that is both efficient and sustainable. From this perspective, increasing the numbers of Green Start-ups is an opportunity for the whole society, promoting innovation, inspiring others to follow the same path, and ultimately attracting interest and capital to the economic sectors that improve the environment and the economy as a whole.

Developing an ecosystem where Green Entrepreneurs can flourish will require also creating the infrastructures that can support them. In this report, we explore how this could be done at the regional level, focusing on critical issues such as the role of finance in supporting Green Entrepreneurship in the Mediterranean and the need for specific mechanisms that can help new ideas grow and become successful Green Start-ups.



# 1. The Green Entrepreneurship paradox

Green Entrepreneurs in the Mediterranean are seriously innovating and those innovations are not important just because they are new ideas, processes, products or concepts. They are really important because they all serve to address one or even several important environmental problems at once. They are important because they are ultimately changing for the better Mediterranean societies.

Innovation takes many forms, from cardboard bikes, to fashion created out of waste, to houses made of plastic bottles, to furniture made from palm tree waste, to energy saving fridges, Moroccan quinoa or cactus-based cosmetics<sup>1</sup>.

More important than the innovativeness or the scalability of their ideas is the fact that all of these entrepreneurs are developing a sustainable economy and promoting sustainable lifestyles. Yet, despite their ideas having won awards, their potential growth and the scalability of their projects, they struggle to grow their businesses and finance them.

In this regard, innovation is not reassuring for bankers, who rarely support start-ups. On the other hand, business angels and venture capital investors may not find Green Start-ups - if they are not IT based or innovative - simply attractive and potentially profitable. Other issues await Green Entrepreneurs as well. Legal systems are rarely prepared for innovation. Bureaucratic hurdles are also awaiting those who do not follow the standard path.

In short, Green Entrepreneurs in the Mediterranean need to overcome many obstacles to succeed. Having a good idea and turning it into a business is often only the beginning.

After that, they will need a market and customers to buy their products and services. In addition, often Green Entrepreneurs find their home market very small or not enough developed and have to turn to the international market.

Registering a business is often a challenge, since certain business models may be difficult to explain or it may not be clear under which Ministry they need to register.

Finding finance is another hurdle, how to invest to grow the business, how to finance the first development phase, until the business becomes profitable. Unless there are some relevant personal financial resources, the Bank is the first option but it may be reluctant to finance something new and untested. Investors may be a better option but they are few and are not necessarily looking for Green Entrepreneurs, rather for ICT projects.

For those reasons, many Green Entrepreneurs find it hard to succeed in the Mediterranean, and while they persevere, it is clear that the ecosystem in which they evolve can be greatly improved.

## 1.1. The elephant in the room

The issue of access to finance is a recurrent demand of Green Entrepreneurs in the Mediterranean.

In order to explore this demand in greater depth an online survey was distributed among the “Switchers Community”<sup>2</sup>, which is composed of Green Entrepreneurs from the Mediterranean region. These entrepreneurs find themselves at different stages of development of their enterprises and are active in several key economic sectors including agriculture, industry and services. They are spread throughout eight Mediterranean countries, namely Morocco, Algeria, Tunisia, Egypt, Israel, Palestine, Jordan and Lebanon. They represent therefore a community that is well representative of the reality Green Entrepreneurs face in the region.

Therefore, understanding their financing needs is key in order to develop solutions that can support and accelerate their development.

<sup>1</sup>Inspiring examples of numerous Mediterranean Green Entrepreneurs can be found at [www.theswitchers.eu](http://www.theswitchers.eu)

<sup>2</sup>The Switchers is a community of inspiring Green Entrepreneurs and change makers in the Mediterranean region. Switchers are individuals, enterprises or civil society organizations implementing innovative and ecological solutions that contribute to sustainable and fair consumption and production models. They are active in a variety of fields, such as organic farming, sustainable tourism, renewable energy, or waste management.



## 1.2. Survey results

The survey published via the Switchers web portal in 2017 received 154 responses from Green Entrepreneurs. Such result is not representative from a statistical perspective, but it serves the purpose of highlighting common issues and indicators that will allow us to make proposals to improve access to finance for Green Entrepreneurs in the region.

### Economic importance

Green Entrepreneurs in the Mediterranean region are active in a range of economic sectors, the most important being resource efficiency, renewable energy, sustainable food, sustainable construction and eco-tourism.

Therefore, **Green Entrepreneurs represent an important opportunity to bring sustainable innovations to the heart of the economy. From this perspective, Green Start-ups deserve not only support in the form of public policies but also the right mix of financing mechanisms to realize their potential.**

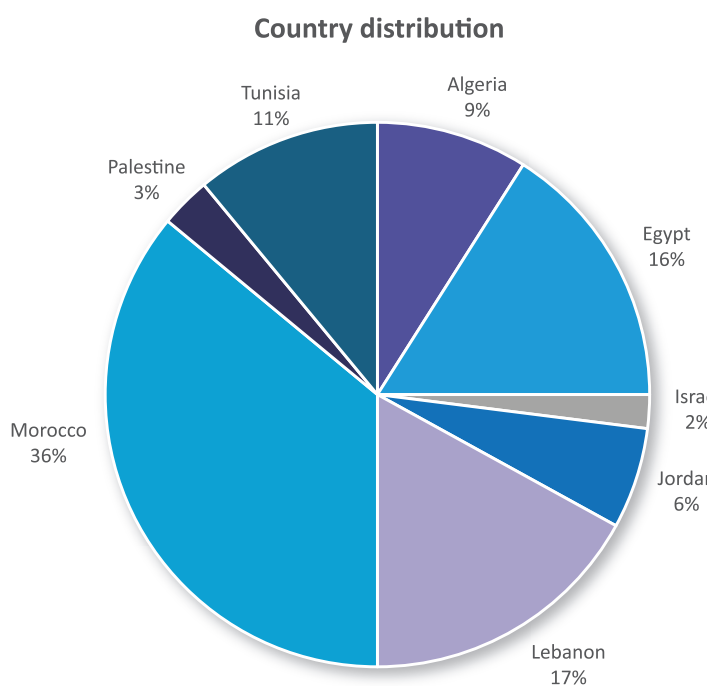


Figure 1: Country distribution. (Total respondents: 154)

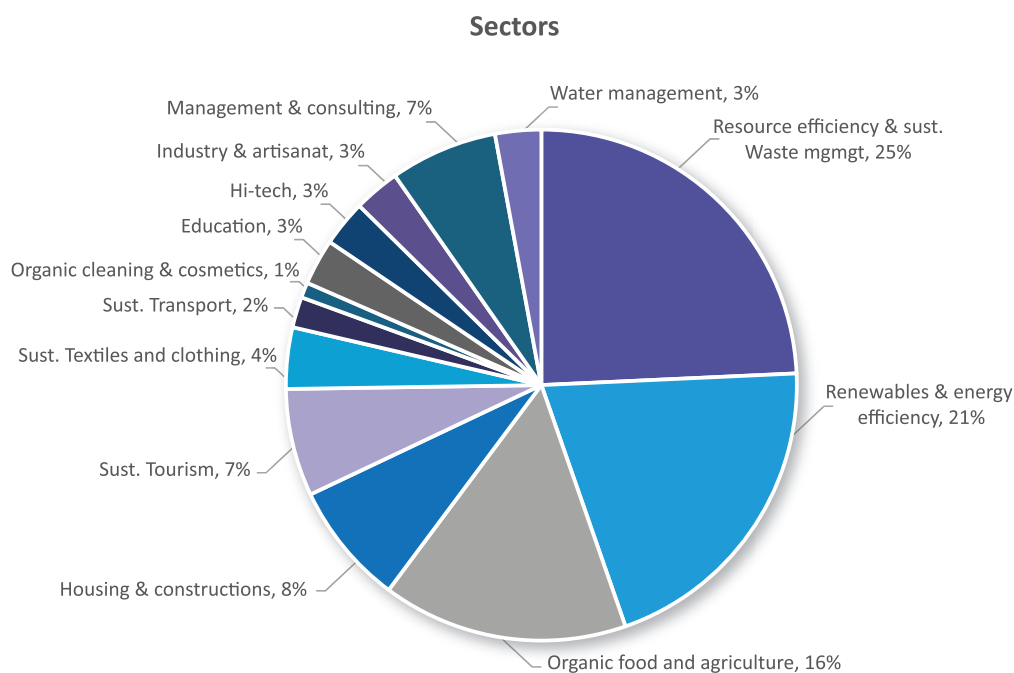


Figure 2: Sectors. (Total respondents: 154)

### Innovation at work

Mediterranean Green Entrepreneurs are innovators who are developing new solutions to environmental problems. Therefore, their entrepreneurial projects are mostly still in the early phases of development, where new ideas are being tested, a first concept is emerging and an initial product is being marketed. They are still fragile enterprises trying to develop new markets for their products. It is critical to support them from early stage to make sure they can develop, fulfil their potential and serve as inspiration to others.

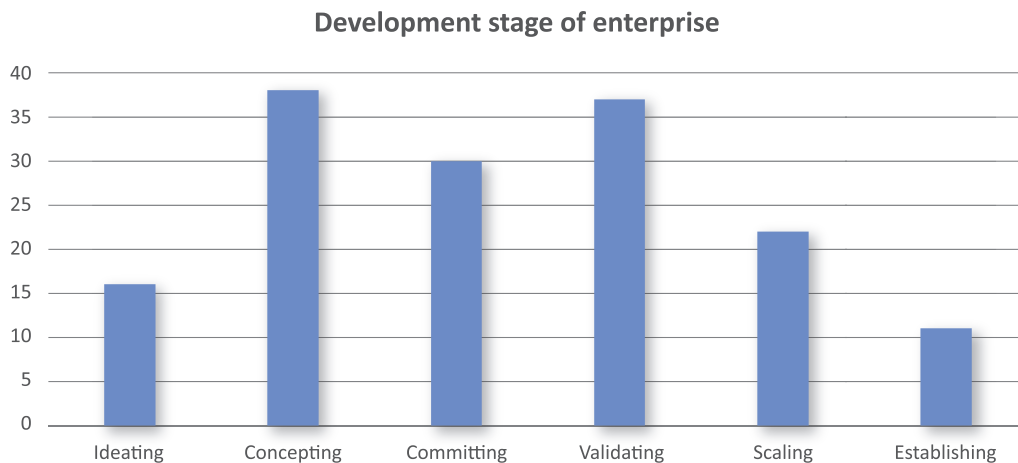


Figure 3: Development stage of the enterprise. (Total respondents: 151)

Figure 3 shows the distribution of the development stage of the respondents' enterprise in ascending order of development. The phases are:

- **Ideating:** Initial idea in place; one person or vague team; no explicit commitment in the team;
- **Concepting:** Vision, mission defined; Strategy drafted; Key milestones defined; Basic team of founders formed;
- **Committing:** Committed, skills-balanced founding team with shared vision and values; Able to develop a Minimum Viable Product (MVP); committed resources to test it;
- **Validating:** Solution tested and validated in the market; Key Performance Indicators (KPIs) identified; Can start attracting external resources;
- **Scaling:** Focused in KPI-based growth; growing market traction and share; Hiring to improve processes;
- **Establishing:** Achieved great growth; Attracts money; Tests international expansion; Founders or investors might exit company.

Nevertheless, access to funding seems to be the main issue facing Green Entrepreneurs in the Mediterranean, as expressed by two-thirds of respondents to the survey. The vast majority of them is currently seeking an investor. However, finding a suitable (and interested) investor proves to be difficult for a majority of respondents and next to that fulfilling the requirements and providing all the necessary documentation required in order to get access to finance.

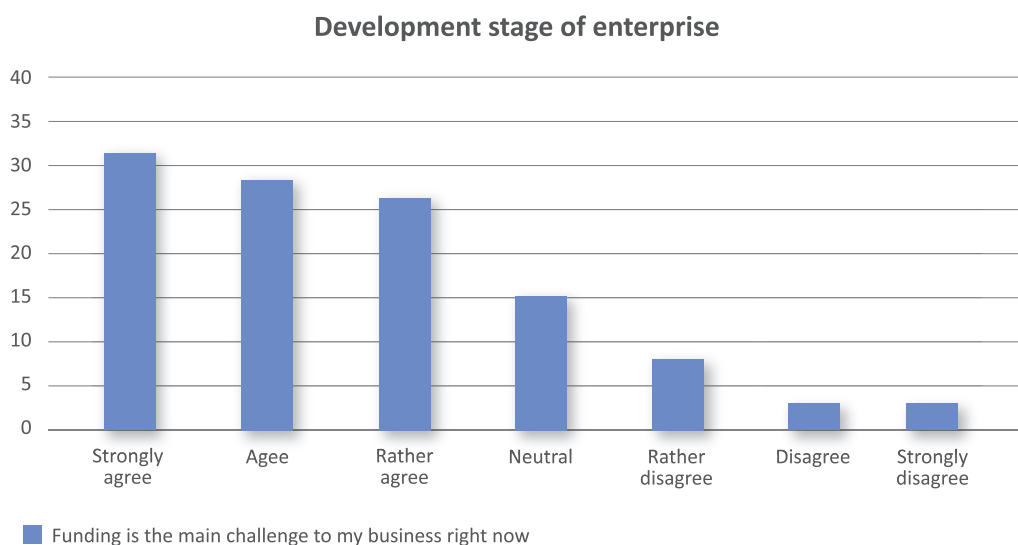
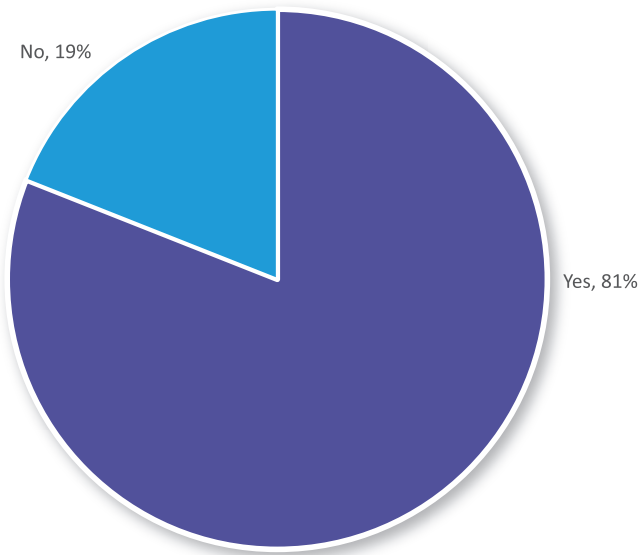


Figure 4: Respondents agreeing with the statement: "Funding is the main challenge to my business right now". (Total respondents: 114)

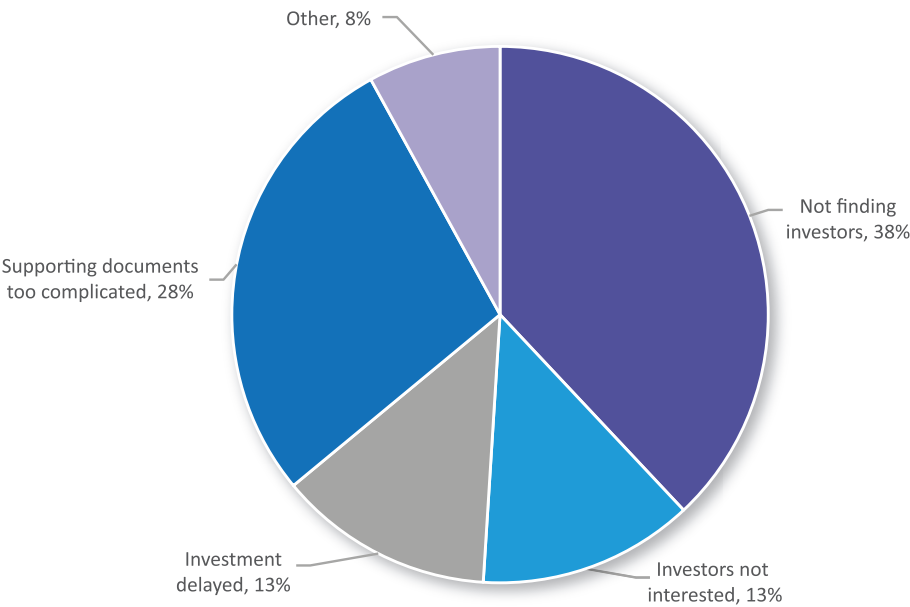
On the one hand, this issue can reflect the bureaucratic hurdles that entrepreneurs face when setting up a business in Mediterranean countries. On the other, this could also be an indicator of the level of financial literacy of Green Entrepreneurs, which can be an important barrier to access financial services; as matter of fact, Green Entrepreneurs who are not familiar or comfortable with financial products, will simply not ask for them.

**Green entrepreneurs seeking an investment**



**Figure 5: Green Entrepreneurs seeking an investment. (Total respondents: 115)**

**Main challenge with funding**

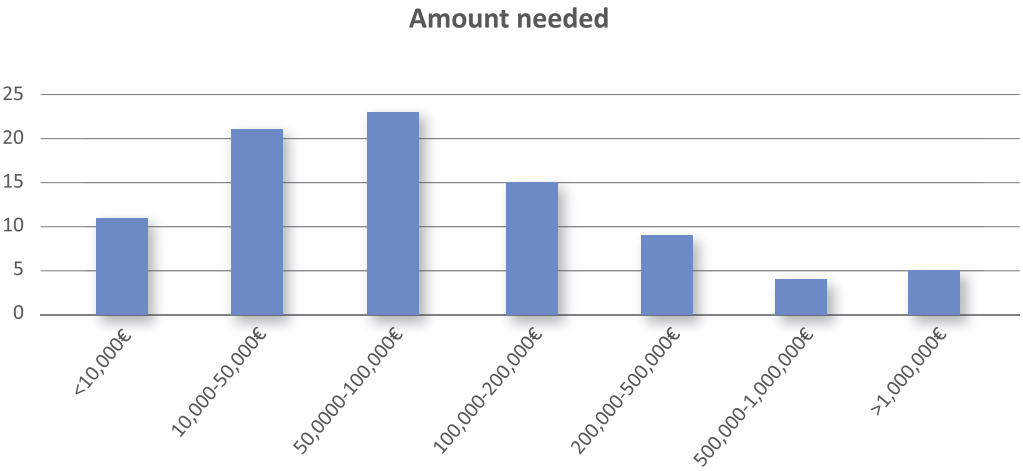


**Figure 6: Main challenge with funding (Total respondents: 142)**

The level of financing that Green Entrepreneurs are looking for varies according to the level of development of their enterprise. Nevertheless, the financing needs for a majority of respondents fall in the categories of what a regular SME would need, which is the range between 10,000-100,000 €.



Nevertheless, the spread of financing needs from under 10,000 € and up to 1 million € or more, shows that what would be needed is a mix of financing tools. Such a mix would include microfinance, crowdfunding and seed venture capital, bank or commercial lending, public investment and social venture capital. Some of these instruments do exist in certain Mediterranean countries but are rarely used to finance Green Start-ups, which remain a novelty in their economies.

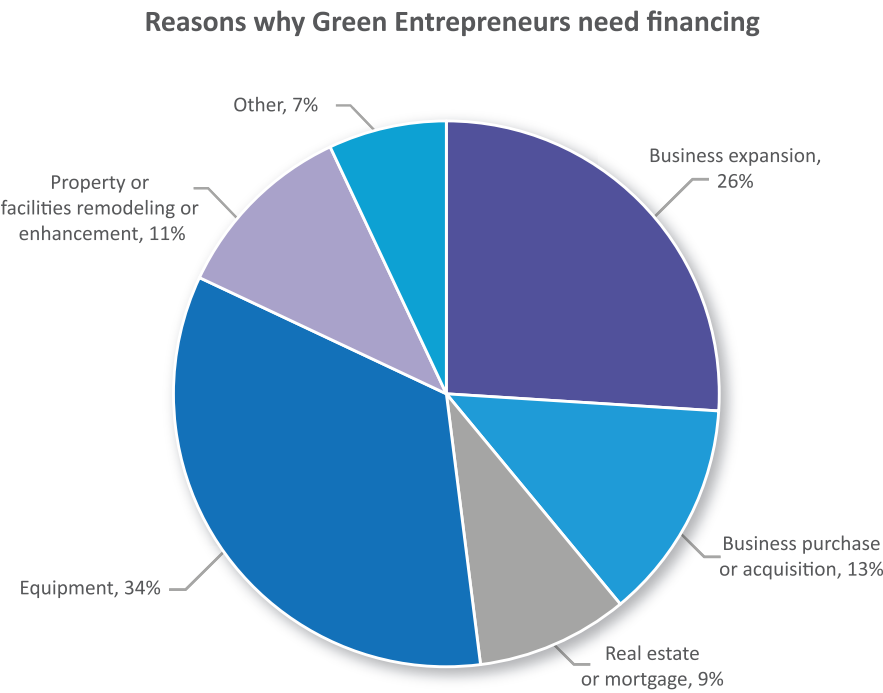


**Figure 7: Amount needed (Total respondents: 88)**

Green Start-ups need financing for different purposes, depending on their field of activity, business model and maturity. Their most common needs relate to financing working capital, purchasing equipment or building capital reserves to finance their growth.

Matching financing needs with the available financing instruments may be a challenge in Mediterranean countries. The risk and return expectations of investors and investees do not often align. Moreover, there is a lack of patient capital or flexible finance that fits the needs of Green Entrepreneurs. In certain cases, Green Entrepreneurs who do find finance, do so under conditions that they cannot easily accept.

The challenges in matching the demand for finance and the instruments available in different countries are discussed in the next chapter.



**Figure 8: Reasons why Green Entrepreneurs need financing. (Total respondents: 149)**

### 1.3. Finding a needle in a haystack

Green Entrepreneurs in the Mediterranean have difficulties in finding finance to make their projects grow. This is what they have stated in different ways in the survey. When we review what would be the potential sources of finance to which they could turn to in their country, this difficulty is a reflection of the reality of the financial system in Mediterranean countries.

Start-ups and new initiatives can apply to awards or join incubation programmes in different forms but in terms of private finance there are few options and for the most part they are not designed to support start-ups with innovative business models.

As a common denominator in a majority of Mediterranean countries we find a finance ecosystem which is composed at the bottom of the pyramid by Microfinance organisations and few early stage venture capital funds, in the middle different forms of public finance together with a developed banking sector, and on the top of the pyramid by investment funds and large venture capital companies.

None of these options per se is adapted or interested in supporting innovative Green Entrepreneurs for different reasons.

- Microfinance organisations: They provide small loans to small scale entrepreneurs who are already active and can show a track record and ability to repay. The level of finance they provide is generally below the needs of Green Entrepreneurs, interest rates are higher than what banks offer and they will not finance start-ups in new sectors, for which they cannot assess the risk of repayment.
- Early stage venture capital funds: They are focused on supporting start-ups mostly in the technology sector and only those with high growth potential. Green Entrepreneurs rarely fall in this category.
- Private banks: They finance SMEs in sectors they understand well and require a track positive track record of the company and sufficient collateral in order to provide loans. Green Entrepreneurs do not yet have sufficient track record, are perceived as risky and cannot often provide all requested documents and collaterals.
- Investment funds and venture capital: They are specialised in investing in large companies that are changing scale in either technology or more traditional sectors. Green Entrepreneurs are generally too small and not interesting in terms of profit making potential.



## 2. Finance for Green Entrepreneurship, what is available

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### 2.1. Lessons from the field

Understanding what is really available in terms of finance for Green Entrepreneurs in the Mediterranean is one of the main objectives of this report. Green Entrepreneurs basic claim is that obtaining finance is very challenging for them. In order to validate this assumption, we have set out to find out for ourselves what are the options available in each country.

Most likely, it is the first time that a comprehensive exercise of mapping the ecosystem of potential financiers in the Mediterranean interested in supporting Green Entrepreneurs, has been attempted.

The analysis of the results of this mapping exercise are presented here. They are based on the findings of the six country reports produced through the joint work of UfM and UN Environment Sustainable Consumption and Production Regional Activity Centre (SCP/RAC) on finance for Sustainable Consumption and Production in Jordan and Palestine, linking to the UfM-labelled MedRESCAP project, and the scoping missions carried out within the EU-funded SwitchMed Programme – [www.switchmed.eu](http://www.switchmed.eu) - in Egypt, Lebanon, Morocco and Tunisia.

The objective of the mapping exercise in each country was to identify potential financing sources for Green Entrepreneurs, establishing which financing institutions could be interested in supporting Green entrepreneurs and through which financial mechanisms. This analysis does not cover the whole financial system, it focuses on those financial institutions that already support start-ups or SMEs and could include Green Entrepreneurs in their scope.

The findings for each country as well as a summarized representation of the supply of finance available for Green Entrepreneurs are presented in this section.



## Egypt overview<sup>3</sup>

According to the experts met in Egypt, Green Entrepreneurship has a great development potential in Egypt, with clear opportunities in specific sectors such as waste management, recycling, energy efficiency, organic agriculture and tourism.

The number of Green Start-ups is relatively small compared to other types of start-ups in the country and the number that receive support is also limited. This means that support is given only to the enterprises with the highest potential, resulting in the fact that the success rate of start-ups is higher than the usual rate of 10%<sup>4</sup>. Another benefit of the small number of start-ups is that they can take advantage of informal sources of funding based on contacts and recommendation.

To concisely illustrate the situation in Egypt, the figure below highlights the main financial products available to Green Entrepreneurs in each phase of the creation of an enterprise (ideation, early and growth stage), with an example of financial institution providing such products.



Figure 9: Green Start-up funding options - Egypt.

The figure presents each development stage of a typical Green Start-up, with the main opportunities mapped during the national mission to fund its development for each step in the country. Each funding option has an example of a potential funder in brackets as a reference.

In the initial phase, the main funding sources for innovative Green Start-ups during ideation stage are through family and friends or foundations and awards. Business angels do exist but are mostly focused on entrepreneurs with high and quick growth potentials, i.e. entrepreneurs in ICT sector, and accessing them relies on having the right connections. Venture capitals consider Green Start-ups in early stage depending on their growth potential and management skills. Beyond that, Bank finance or commercial SME finance is available only for enterprises with a positive track record. This leaves few options to Green Entrepreneurs who are starting their businesses and registering companies.

The financing situation for new entrepreneurs and start-ups, of any kind, in Egypt is somewhat a double-edged sword. On the one hand, Banks are reluctant to finance start-ups, at least during their first two years of existence as they are considered too risky and therefore not an attractive investment; transaction finance through financing companies does exist but is mostly oriented towards existing SMEs who have a track record and guarantees. It compensates partly for the lack of risk appetite of the main Egyptian Banks.

On the other hand, an ecosystem to support and finance Green Start-ups is developing in Egypt. It includes incubators and accelerators (Flat6Labs), Business Angels (Cairo Angels), Crowdfunding (Shekra), Venture Capital Funds (Sawari Ventures) and good old-fashioned intermediation between Egyptian potential investors and new start-ups.

<sup>3</sup>Based on the Egypt mission report.

For more information: [https://www.switchmed.eu/en/documents/impact-investors-1/2015-12-09\\_mission\\_to\\_egypt\\_final-report.pdf](https://www.switchmed.eu/en/documents/impact-investors-1/2015-12-09_mission_to_egypt_final-report.pdf)

<sup>4</sup> <http://fortune.com/2014/09/25/why-startups-fail-according-to-their-founders/>

This ecosystem has the specificity of being purely local: it brings together investors (including the diaspora) with new start-ups. It is oriented mostly towards high potential start-ups that are likely to grow and develop fast in the coming years to produce the expected financial returns for the investors. In this sense, it is a sophisticated system to spot new ideas and new entrepreneurs, provide them with starting capital, nurture them and accompany their growth until they become profitable.

The figure below summarises the funding opportunities and their availability in the country:

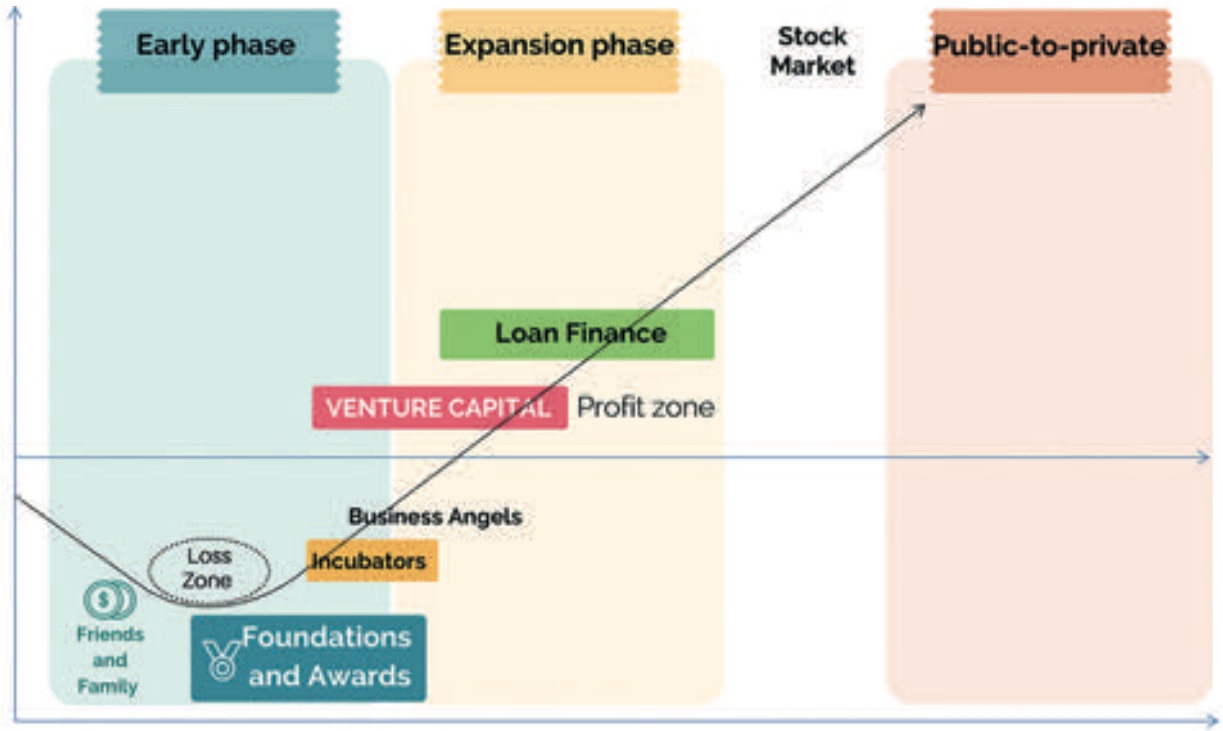


Figure 10: Availability of green financing solutions along the maturity stages of a Green Start-up - Egypt.  
 The curve presents the typical profitability trend of a Green Start-up, with the available funding opportunities alongside it.  
 The different sizes of the squares with the available financial products represent their relative abundance.

## Morocco overview<sup>5</sup>

A significant variety of financial instruments is present in Morocco, especially through microfinance institutions such as INMAA. These instruments can help Green Start-ups in the early stages of development. Yet, mainstream financial operators tend to be not fully aware of the opportunities presented by Green Entrepreneurship.

Green Start-ups in Morocco are currently faced with significant barriers in obtaining funding for their investments and difficulties in the effective development of their business activities that they seem to be unable to rely on any bespoke type of finance. This is mainly due to the fact that banks are risk-averse and tend to invest only in companies with a proven track record.

However, the Moroccan government has taken steps to encourage banks to support small companies and several banks are working on the deployment of a specific financial offer for this segment of the market. Moreover, interest in Green Start-ups is building momentum in Morocco, and the gradual appearance of dedicated lines for Green Finance and increasing interest from investors can already be seen.

When consulting the Green Entrepreneurs trained and supported by the EU funded SwitchMed programme, what arises is that there is no specific financial solution readily available that can respond to their needs today, as they are new start-up companies with varying degrees of growth potential in a myriad of different sectors. They will only be able to access the existing financial offer when they grow.

To concisely illustrate the situation in Morocco, the figure below highlights the main financial products available to Green Entrepreneurs in each phase of the creation of an enterprise (ideation, early and growth stage), with an example of financial institution providing such products.

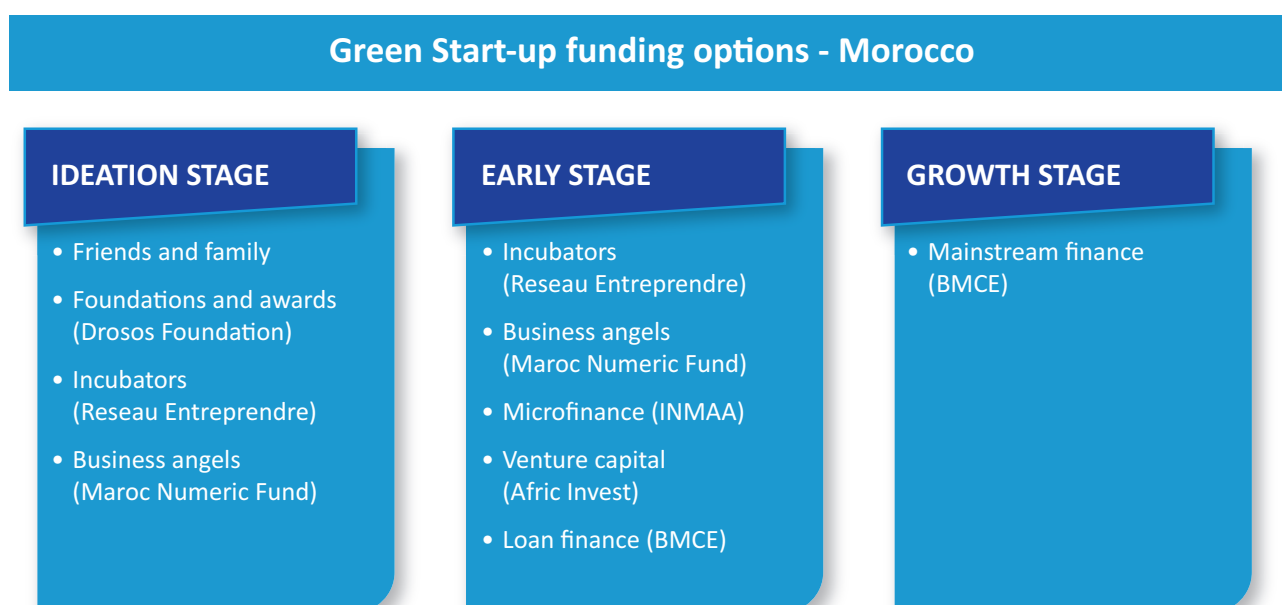


Figure 11: Green Enterprise funding options - Morocco.

The figure presents each development stage of a typical Green Start-up, with the main opportunities mapped during the national mission to fund its development for each step in the country. Each funding option has an example of a potential funder in brackets as a reference.

The main funding sources for innovative Green Entrepreneurs in Morocco (see figure above) are self-financing through family and friends or foundations and awards, which in general provide grants and donations. Business angels do exist, for example MNF Angels is a Business Angels Club that provides advice and helps prepare projects for pitching to business angels who can provide seed funding. However it is dedicated to ICT related start-ups with high growth potential only. There is an early stage venture capital fund, Maroc Numeric Fund, which is also dedicated to ICT-related start-ups.

<sup>5</sup>Based on the Morocco mission report.

For more information: [https://www.switchmed.eu/en/documents/impact-investors-1/2016-11-15\\_mission\\_to\\_morocco\\_final-report.pdf](https://www.switchmed.eu/en/documents/impact-investors-1/2016-11-15_mission_to_morocco_final-report.pdf)



Microfinance, which is well developed in Morocco, could be an opportunity in the future but today it is oriented towards financing MSMEs and the levels of finance provided are low in relation to the needs of innovative start-ups and limited by law. From the interviews with the various organisations during the missions, it emerged that banks are still developing their financial offer towards SMEs, which could also be an opportunity in the future but today they are not equipped to finance start-ups given their reluctance towards risk. In this context, Green Entrepreneurs will only be able to access finance once they are established SMEs with a positive track record.

Considering this, the development of a specific and dedicated financing instrument for Green Entrepreneurs, that makes good use of existing public guarantees, seems the best option in the future to develop Green Entrepreneurship in Morocco. Having access to a flexible financing instrument that is adapted to their needs, will provide Green Entrepreneurs with the space to grow and build the track record that allows them to qualify for regular bank finance.

The figure below summarises the funding opportunities and their availability in the country:

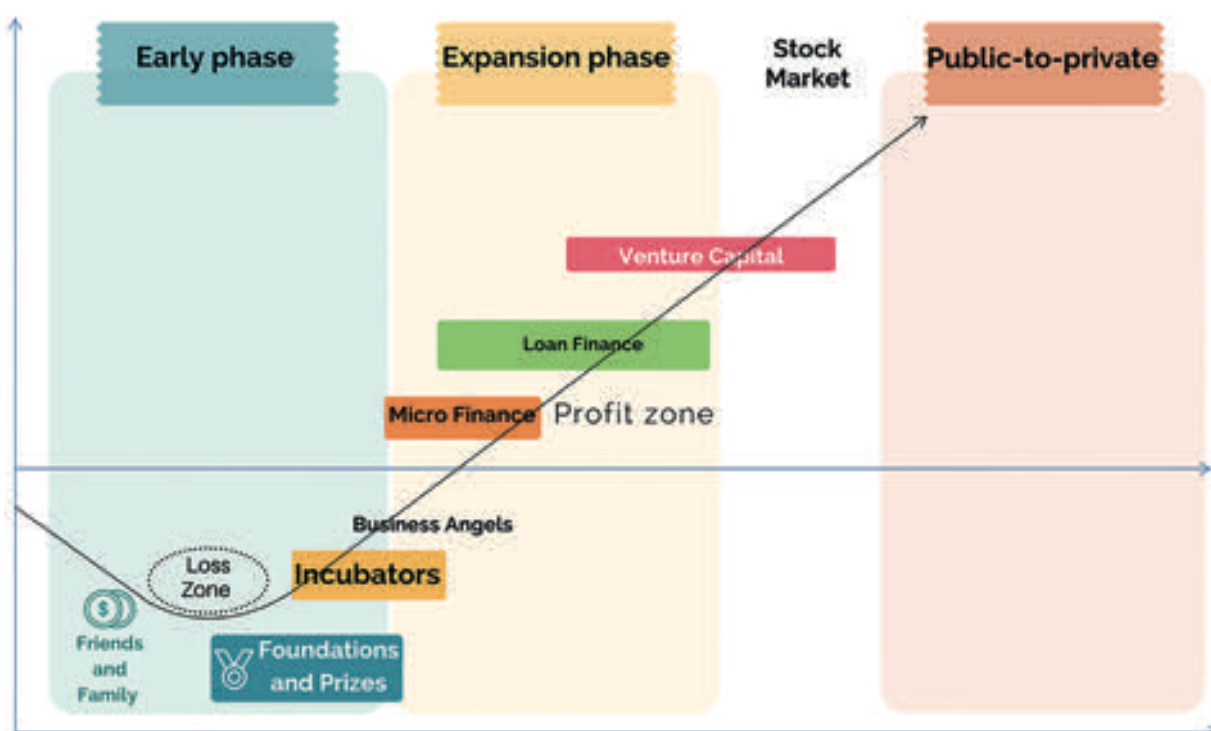


Figure 12: Availability of green financing solutions along the maturity stages of a Green Start-up - Morocco. The curve presents the typical profitability trend of a Green Start-up, with the available funding opportunities alongside it. The different sizes of the squares with the available financial products represent their relative abundance.

## Tunisia overview<sup>6</sup>

Despite the relative abundance of banks in Tunisia, Green Entrepreneurs do not have many options to finance their start-ups today. Nevertheless, in the current process of change in Tunisia, new entrepreneurship programmes, incubators and venture capital funds seem to be developing in the country while international actors are likely to be attracted by the opportunities that Green Entrepreneurship offers in Tunisia.

When consulting Green Entrepreneurs supported by the EU funded SwitchMed programme, they confirmed that there is no specific financial solution readily available in Tunisia, which responds to their needs, as they are new start-up companies with varying degrees of growth potential in a myriad of different sectors. They will need to make good use of the existing financial offer as they grow.

In any case, Tunisian Green Entrepreneurs seemed to lack information on the financial tools available and the differences and advantages of each tool. They showed a general mistrust of Banks for being slow and bureaucratic and little awareness on the role of investors. Plus, a lack of awareness on the fact that Investors and Banks look for different things and represent also different opportunities in terms of growth, ownership, risk and future obligations.

The case of Tunisia is particular, given that there is a public bank - Banque Tunesienne de Solidarité, dedicated in principle to finance SMEs and a specific legal framework that includes fiscal incentives for investment companies that invest in Tunisian SMEs, including notably investment companies (SICAR), mutual funds dedicated to private equity activities (Fonds Commun de Placement à Risque, FCPR), and funds for start-ups (Fonds d'Amorçage)<sup>1</sup>.

Both the public Bank and the investment companies consulted showed an interest in supporting Green Start-ups however, Green Entrepreneurs seemed unaware.

Generally, the transition the country is experiencing opens up new opportunities. In this regard, promoting Green Entrepreneurship, the technologies behind it and the economic opportunities associated with it, will be key to attract financiers to this sector.

To concisely illustrate the situation in Tunisia, the figure below highlights the main financial products available to Green Entrepreneurs in each phase of the creation of an enterprise (ideation, early and growth stage), with an example of financial institution providing such products.

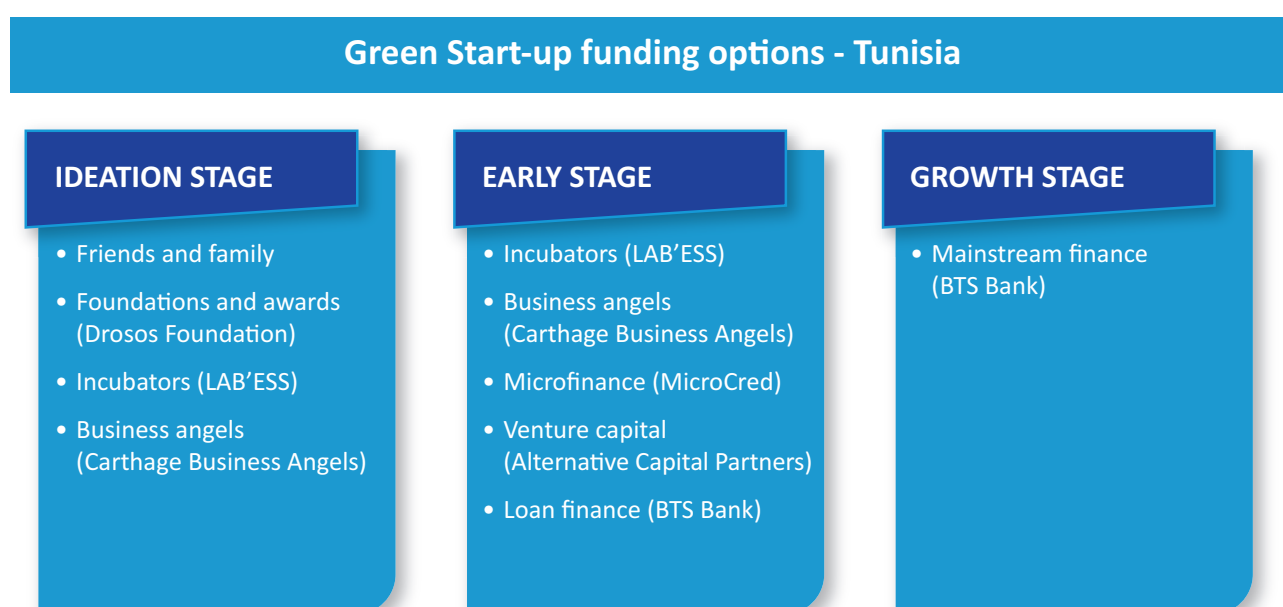


Figure 13: Green Enterprise funding options - Tunisia.

The figure presents each development stage of a typical Green Start-up, with the main opportunities mapped during the national mission to fund its development for each step in the country. Each funding option has an example of a potential funder in brackets as a reference.

<sup>6</sup>Based on the Tunisia mission report.

For more information: [https://www.switchmed.eu/en/documents/impact-investors-1/2016-12-27\\_-mission\\_to\\_tunisia\\_final-report.pdf](https://www.switchmed.eu/en/documents/impact-investors-1/2016-12-27_-mission_to_tunisia_final-report.pdf)

Despite the potential for the development of Green Entrepreneurship in Tunisia, the reality today remains that financing options for Green Entrepreneurs are still limited (see figure above). Green Start-ups rely for the most part on self-financing and securing grants. In regards to private funding such as loans or investment, there are incentives and guarantees for SME finance that could be used to serve Green Start-ups. Microfinance, which is well developed in Tunisia, offers also products that are well-suited for Green Start-ups (for example MicroCred), but the level of financing provided is well below the needs of Green Start-ups. Tunisian financial institutions, such as Enda, provide Green Financing to SMEs but they remain hard to access for Tunisian Green Start-ups without a positive track record or are more tied to improving energy efficiency for already-established firms. In regards to investment, asset managers such as Alternative Capital Partners, who manage investment funds specialized in investing in SMEs, could offer interesting opportunities to Green Start-ups.

The figure below summarises the funding opportunities and their availability in the country:

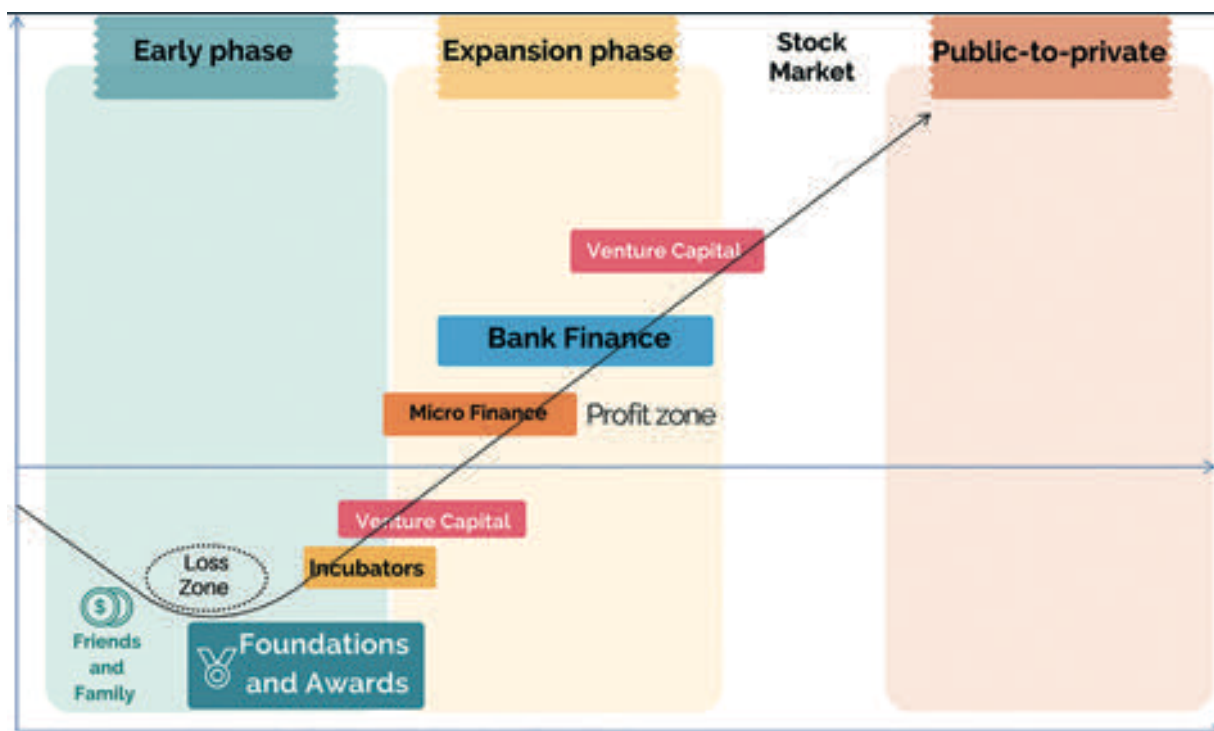


Figure 14: Availability of green financing solutions along the maturity stages of a Green Start-up - Tunisia.  
The curve presents the typical profitability trend of a Green Start-up, with the available funding opportunities alongside it.  
The different sizes of the squares with the available financial products represent their relative abundance.



## Lebanon overview<sup>7</sup>

The financing scene for start-ups and new entrepreneurs in Lebanon is well developed and there are two important ingredients that should be highlighted: Lebanon has no shortage of entrepreneurs and is not likely to change in the future. In addition, high growth potential businesses, particularly technological ones, have a bright future in Lebanon in terms of access and interest from investors.

When it comes to Green Entrepreneurs (or any other sector in the “real economy”), the situation changes somewhat drastically. Most of the infrastructure (incubators, funds, investors) are exclusively dedicated to “Tech” companies, mostly “apps”. Having said that, there are new initiatives emerging: there is the Diane Foundation that recently launched the VIRIDIS Green Fund as well as a Venture Philanthropy organisation called Alfanar that can cater to early to growth stage Green Start-ups’ needs, as Alfanar does not usually support organisations unless they are registered and have operated for at least a year.

In addition, and this may be a specificity of Lebanon, most of the Green Entrepreneurs seem to be focused only on foreign markets, the standard explanation being that the Lebanese market is too small. This ambition can also be seen as a limitation, since it is unlikely to develop any kind of business, ignoring the market next door and focusing on markets of which there is less knowledge, introductions and potentially more barriers.

In any case, provided that a part of the financial ecosystem could be interested in Green Entrepreneurship and generally in supporting also non-tech sectors, and given the basic conditions of abundance of capital and entrepreneurial spirit, there is certainly the possibility to develop a Green Entrepreneurship sector in Lebanon.

Lebanon can offer a varied and sophisticated financial ecosystem. The Lebanese government, via the Kafalat guarantee fund, provides (by the time of the mission December 2017) a 90% guarantee for loans for innovation and 75% guarantee for energy projects. Whereas it is more tilted towards pure technological innovation, it can suit Green Entrepreneurship. The missing ingredient is more awareness on the potential for innovation of Green Start-ups and their societal benefits which need to be taken into consideration alongside financial returns.

To concisely illustrate the situation in Lebanon, the figure below highlights the main financial products available to Green Entrepreneurs in each phase of the creation of an enterprise (ideation, early and growth stage), with an example of financial institution providing such products. It is important to note that some organisations can invest in different steps of enterprise creation - namely, Diane Foundation invests in the ideation and early stages, and Alfanar in the early and growth stages.

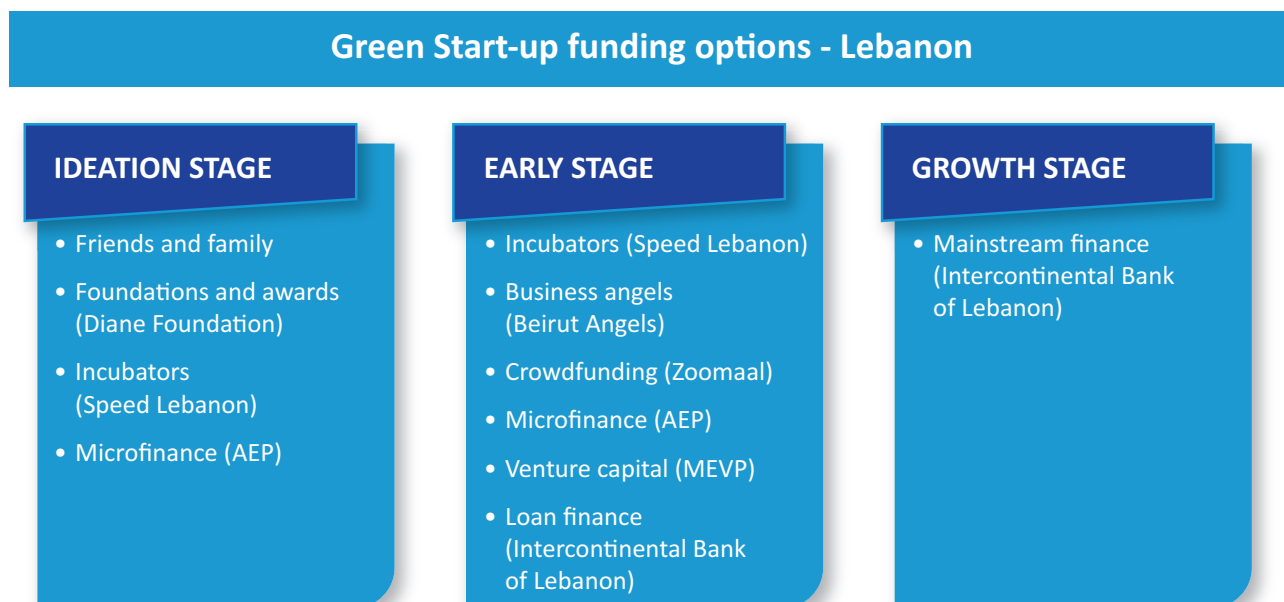


Figure 15: Green Enterprise funding options - Lebanon

The figure presents each development stage of a typical Green Start-up, with the main opportunities mapped during the national mission to fund its development for each step in the country. Each funding option has an example of a potential funder in brackets as a reference.

<sup>7</sup>Based on the Lebanon mission report.

For more information: [https://www.switchmed.eu/en/documents/impact-investors-1/2017.01.31\\_Mission\\_to\\_Lebanon\\_FinalReport.pdf](https://www.switchmed.eu/en/documents/impact-investors-1/2017.01.31_Mission_to_Lebanon_FinalReport.pdf)

Despite the well-developed entrepreneurship ecosystem in Lebanon (see figure above), the emergence of sources of finance for Green Start-ups will depend on whether the current financing ecosystem is willing to broaden its scope. The current focus on ICT companies only, might evolve towards other kinds of innovations from the Green economy. This applies as well to banks that enjoy specific incentives to finance ICT, and could open up towards Green Start-ups if such incentives were broadened.

In the meantime, Green Start-ups in Lebanon are likely to start their activities through self-financing or grants and awards from foundations. Certain start-ups with high potential could interest venture capital funds. While more established initiatives can benefit from well-tested existing programs that provide guarantees to innovative SMEs and start-ups to benefit from bank loans. Certain Banks (for example, the Intercontinental Bank of Lebanon or Banque Libano-Française) offer green loans for environmental projects, mostly around renewable energy, but it seems unlikely that Green Start-ups with no positive track record would qualify for them.

The figure below summarises the funding opportunities and their availability in the country:

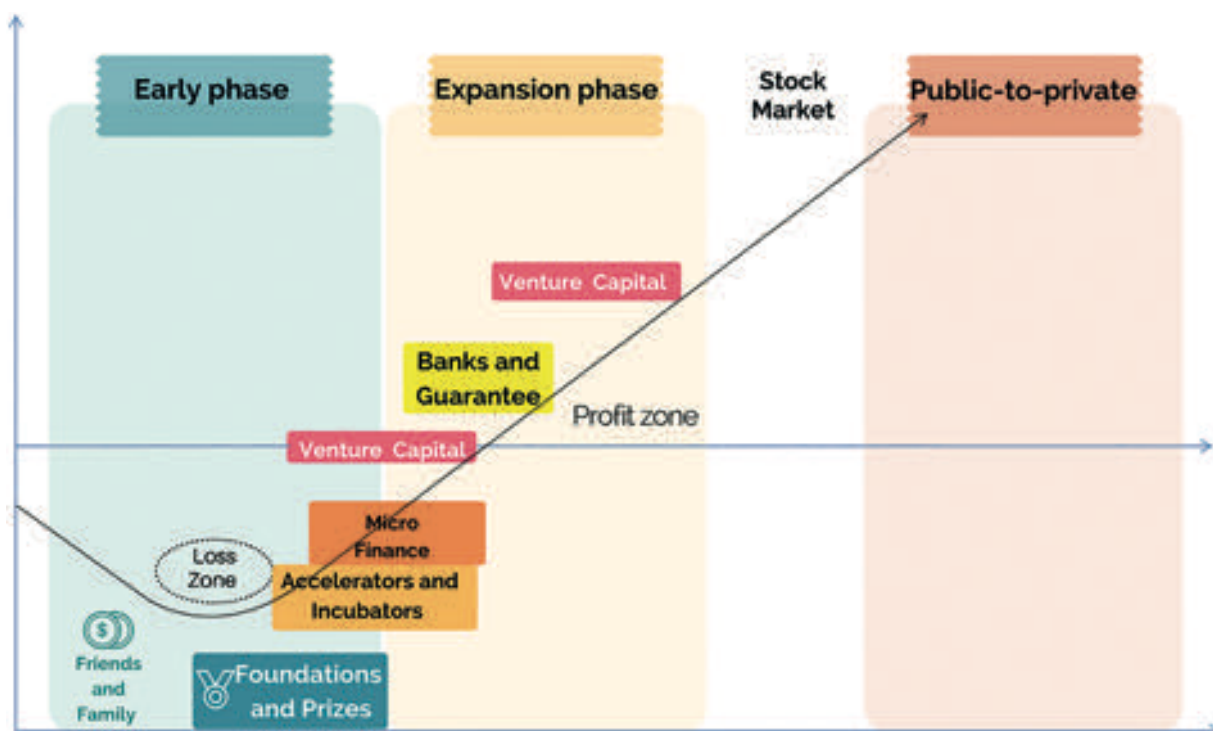


Figure 16: Availability of green financing solutions along the maturity stages of a Green Start-up - Lebanon. The curve presents the typical profitability trend of a Green Start-up, with the available funding opportunities alongside it. The different sizes of the squares with the available financial products represent their relative abundance.

## Jordan overview<sup>8</sup>

Recently, Jordan has witnessed growth in both entrepreneurship and SME markets. This growth was geared by governmental efforts to encourage the development of such businesses. The Governments and financial actors' focus has been on the ICT-related businesses targeting women and youth in most cases. Green Start-ups have received some governmental attention, mainly those in the renewable energy market, however awareness of other Green Entrepreneurship areas is still limited.

Access to finance in Jordan remains a challenge not only for start-ups and entrepreneurs but also for business in general. Referred to as "getting credit" by the World Bank's Doing Business<sup>9</sup> report - Jordan ranked 159 out of 189 countries in 2017 in terms of getting credit.

The Jordanian Government is working on bridging the financing gap for SMEs, pushing through initiatives with banks and multilateral institutions to offer more credit to smaller businesses. *"Jordan's private credit bureau - established by Italy's CRIF and overseen by the Central Bank of Jordan (CBJ) - is expected to ensure better monitoring of borrowers, which should increase the ease of doing business in the country. In addition to calling for improved access to finance for small businesses, the CBJ has made JD1bn [1.2 billion €] available to SME lending programmes"*, according to Ziad Fariz, Governor of the Central Bank.

Another governmental entity, the Jordan Loan Guarantee Corporation, was created to provide export credit and finance guarantees for SMEs. There are two main challenges preventing access to finance for innovative Green Entrepreneurs, which are:

- Limited awareness of green innovation at both community and institutional levels, which is narrowing down financing options for such businesses. Currently in Jordan, renewable energy is the only green economy sector that raises the interest of investors.
- "Green innovation" market value is not yet fully recognized, making it difficult for Green Entrepreneurs to prove access to market when approaching financial actors.

There is no clear financing option in Jordan that is entirely dedicated for Green Start-ups. Other financing options that could serve Green Entrepreneurs are those targeting MSMEs in Jordan.

The amount of financing varies depending on the phase that the entrepreneur/business is in, as illustrated in the diagram below. In Jordan, available financing can get to more than 600,000 € in the case of established companies of over 5 years of profitable performance. Wherein, most available financing options for start-ups and MSMEs range between 200 - 120,000 €, with micro financing institutions offering the smallest amounts (200 - 12,000 €).

The Government of Jordan through the Ministry of Environment (MoEnv) also established the Jordan Environmental Fund that aims to drive technological and process improvements across selected sectors and complement existing environmental expenditure in Jordan. Financial actors are also seeking innovative financial products to increase their market share and number of clients. And most importantly, Jordan's Green Entrepreneur community is also growing.

To concisely illustrate the situation in Jordan, the figure below highlights the main financial products available to Green Entrepreneurs in each phase of the creation of an enterprise (ideation, early and growth stage), with an example of financial institution providing such products.

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<sup>8</sup>Based on the Jordan mission report.

For more information: <https://www.switchmed.eu/en/documents/jordan-national-report-2018.pdf>

<sup>9</sup><http://www.doingbusiness.org/>

## Green Start-up funding options - Jordan

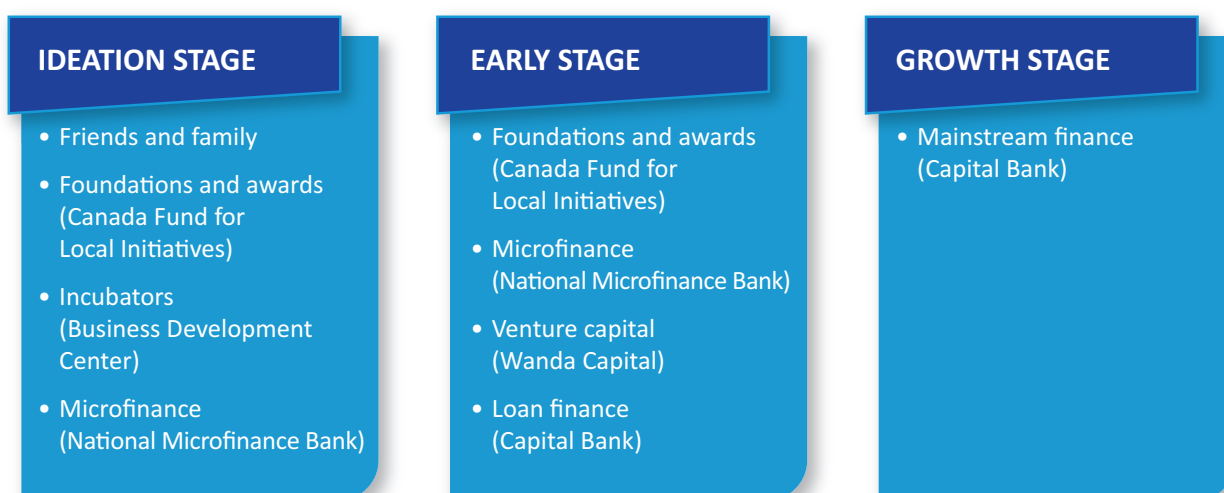


Figure 17: Green Enterprise funding options - Jordan.

The figure presents each development stage of a typical Green Start-up, with the main opportunities mapped during the national mission to fund its development for each step in the country. Each funding option has an example of a potential funder in brackets as a reference.

Concerning the financing options (see figure above), Jordanian Green Start-ups are most likely to start their activities through self-financing or by applying for existing grant programmes (USAID BEST & LENS, Canada Fund for Local Initiatives by Canadian Embassy, and Direct Aid Program by Australian Embassy). Green Start-ups can also obtain additional finance by working with existing incubators. With regard to loan finance, the micro-finance sector (for example National Microfinance Bank) is well developed in Jordan and could also be a source of finance for smaller initiatives, even if the level of financing provided is limited. Beyond that, Green Start-ups can try to access bank loans for MSMEs, but they will need to show a positive track record to qualify for them and provide sufficient collaterals.

The figure below summarises the funding opportunities and their availability in the country:

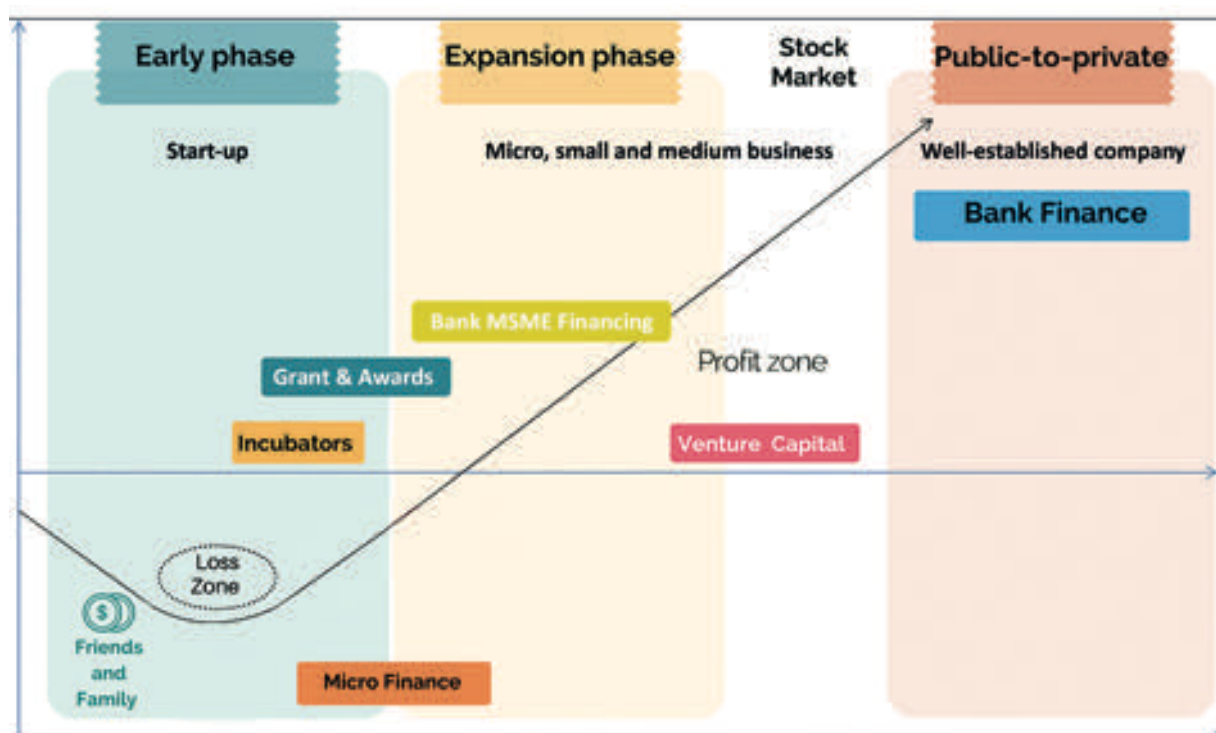


Figure 18: Availability of green financing solutions along the maturity stages of a Green Start-up - Jordan.

The curve presents the typical profitability trend of a Green Start-up, with the available funding opportunities alongside it. The different sizes of the squares with the available financial products represent their relative abundance.



## Palestine overview<sup>10</sup>

The concept of Green Entrepreneurship is still new in Palestine. The idea that starting an innovative business can be a way to address environmental issues is only beginning to spread among young Palestinians.

Palestine has a wide spread financing system that includes a strong banking system as well as a strong and well-structured Microfinance system. Within the Palestinian banking system, there is only one programme dedicated to financing Green Entrepreneurs, with a portfolio of 4.4 million €. This shows that the level of financing available for this segment is clearly insufficient.

Most bankers interviewed during the mission were open to the idea of having a special programme for Green Entrepreneurs, but they lacked knowledge in this field; hence it is important to offer them training on environmental issues in order to encourage them afterwards to offer green loans.

There is a general lack of awareness and knowledge on the concept of Green Entrepreneurship in Palestine as expressed by the Green Entrepreneurs themselves, by employees in financial institutions, by the private sector and the government. In this sense, a wide spread campaign is needed in Palestine at all levels, including a public campaign to raise awareness and show the impact of Green Entrepreneurship on both the economy and society.

To concisely illustrate the situation in Palestine, the figure below highlights the main financial products available to Green Entrepreneurs in each phase of the creation of an enterprise (ideation, early and growth stage), with an example of financial institution providing such products.

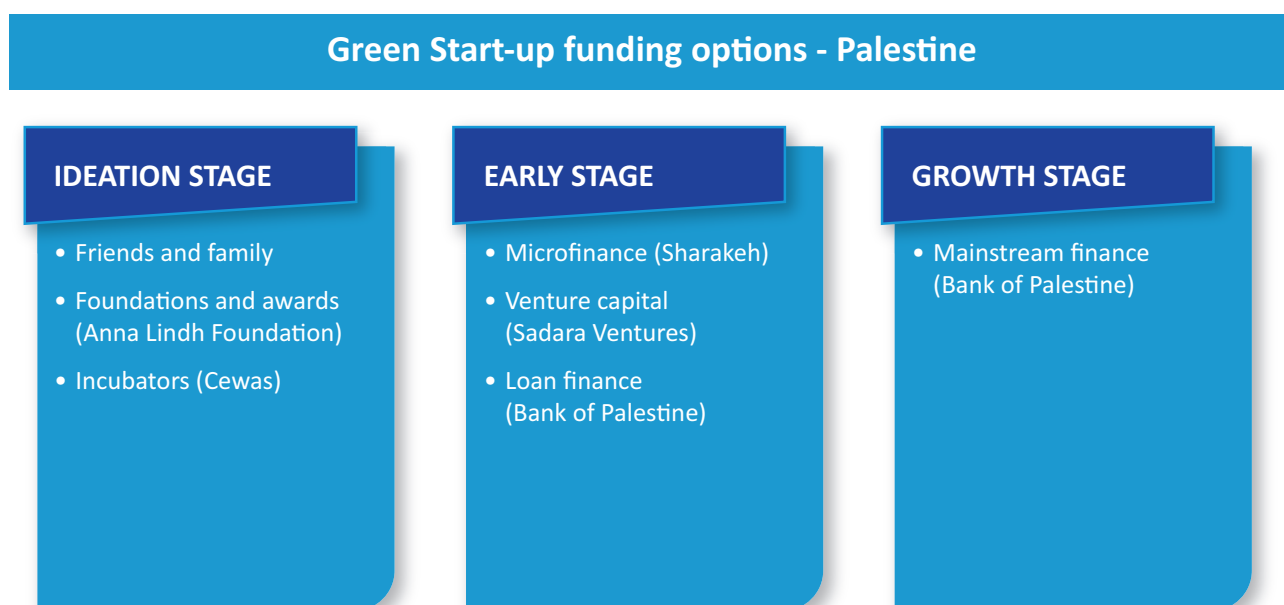


Figure 19: Green Enterprise funding options - Palestine.

The figure presents each development stage of a typical Green Start-up, with the main opportunities mapped during the national mission to fund its development for each step in the country. Each funding option has an example of a potential funder in brackets as a reference.

Furthermore, there is a lack of incentives in all different areas, from government to banks. Palestine has an investment incentive programme, and a dedicated administration to implement it. The investment incentive programme needs to be broadened to include incentives for Green Entrepreneurship and projects with high environmental value.

Green Start-ups in Palestine are likely to start their activities through self-financing or by applying to grants. Early stage investment is not really an option for them since incubators, accelerators and investment funds are focused on ICT-related projects only.

With regard to lending, Green Start-ups will be treated by banks as any other loan applicant, when they try to access finance and will need to show a positive track record and sufficient collaterals. Green Entrepreneurs who are active in agriculture will find even more difficulties in accessing finance, since all financial institutions are hesitant to provide loans to this sector.

Given the context, Green Entrepreneurship is facing some challenges. However, they can be overcome by a mix of awareness raising among financial organisations and policymakers, which can in turn make the conditions more favourable to Green Start-ups.

<sup>10</sup>Based on the Palestine mission report.

For more information: <https://www.switchmed.eu/en/documents/palestine-national-report-2018.pdf>

The figure below summarises the funding opportunities and their availability in the country:

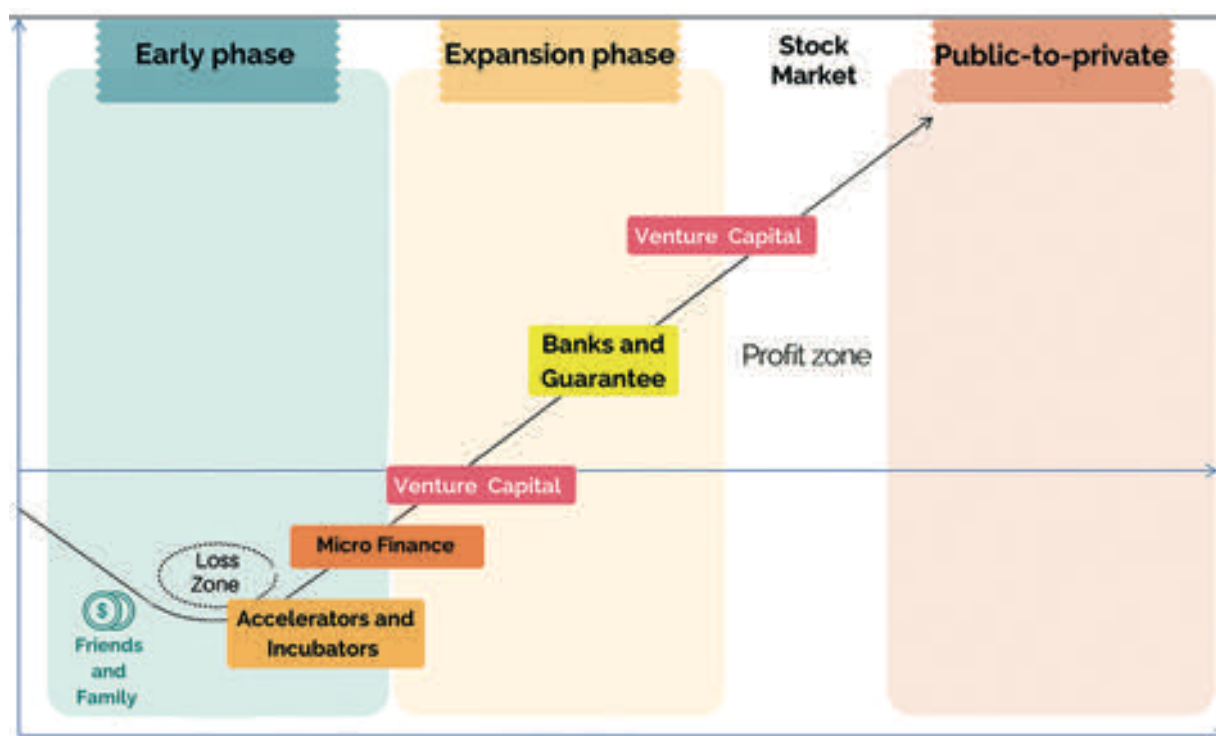


Figure 20: Availability of green financing solutions along the maturity stages of a Green Start-up - Palestine. The curve presents the typical profitability trend of a Green Start-up, with the available funding opportunities alongside it. The different sizes of the squares with the available financial products represent their relative abundance.

## When Investors meet Switchers: Making Green Start-ups investors-ready overview

In order to face the challenge of improving access to finance for Green Entrepreneurs, the EU-funded SwitchMed programme has focused on creating opportunities for Green Entrepreneurs to show the potential of their business ideas and attract the interest of investors.

This process included firstly reviewing their business model and financial plan from an investors point of view and secondly, improving the communication skills of Green Entrepreneurs in order to be able to address investors in their language and get their attention. Finally, it is aimed at creating opportunities for Green Entrepreneurs to present their projects to a pool of potential investors. These investors had signalled their interest in Green Start-ups and received in advance specific information on the entrepreneurs' finance needs, as well as technical details, in order to evaluate the viability of the proposed green business ideas.

As stated by Claudia Pani, SwitchMed Project manager, "such events are very important for the Green Entrepreneurs as they will allow them to show not only their projects but also to draw the attention of the correct investors and eventually to have the opportunity to kickstart the financing process".

By September 2018, nine national "Green Start-ups meet investors" events have been organised gathering Green entrepreneurs and financial actors together. At these events each Green Entrepreneur presented its green business idea through an "elevator pitch" to a select group of investors.

The outcome of this pilot initiative has been very successful, not only in regards to the interest raised among Green Entrepreneurs but also considering the number of investors participating and the amounts of finance raised and the potential additional investments generated. This proves that there is potential to mobilize private investment for Green Start-ups in Mediterranean countries, and that the issue of access to finance can be addressed by creating the right conditions for supply and demand to meet.

### Green Start-ups meet investors - Outcomes

Applications received	Green Entrepreneurs coached	Women Green Entrepreneurs pitches	Investors involved	# of Pitches	Investment raised	Additional potential investment
245	89	36%	86	68	1.44 M €	2.1 M €

## 2.2. Regional conclusion

The situation of Green Entrepreneurs in the Mediterranean with regard to access to finance shows clear similarities in the countries examined.

Green Entrepreneurs develop their business ideas using the existing ecosystem of mentoring programmes, foundations and incubators which is generally well developed in countries such as Lebanon, Morocco and Egypt.

As expressed by some of the actors, specialized mentoring is key for Green Entrepreneurs to develop their ideas into business concepts.

*"Mentoring is what entrepreneurs need and what really makes a difference."* (Michelle Mouracade, Alfanar Foundation, Lebanon).

*"Entrepreneurs find the most value in mentoring through peer entrepreneurs. You need to create a 'safe space' to make it work."* (Mohamed Rahmy, Endeavor Egypt, Egypt).

At this stage, Green Entrepreneurs rely on self-financing mostly from family and friends, and can present their business ideas to the various awards existing on the region and foundations that support innovative ideas such as Sawiris, Drosos or Fondation OCP.

In all countries, there is a dedicated ecosystem of incubators and accelerators focused on supporting start-ups, which is well developed in Lebanon, Morocco, Egypt, Jordan and Palestine, and is still developing in Tunisia. Unfortunately, in almost all cases, these actors are focused on ICT related start-ups and a lack of a specific circular economy and sustainable consumption and production approach is evident. The challenge for Green Entrepreneurs is to access such programmes and build gradually their entrepreneurial capacities, jumping from a business support organisation to another without following a coherent path.

*"Start-ups in the early stage need to participate in multiple accelerator programs to get more and more funding and build capacities. [...] SwitchMed's role can be to connect incubated GEs to accelerator programmes."* (Michelle Mouracade, Lebanon, Alfanar Foundation).

Access to such programmes as well as generally accessing finance can be definitely improved by increasing the visibility of Green Entrepreneurs and by raising their profile at all levels. In this regard, the role of the EU-funded SwitchMed programme is critical, as expressed by a local mentor:

*"The network of SwitchMed has been decisive for the positioning of the entrepreneur and his company in the ecosystem."* (Wallid Kallel, local mentor, Tunisia).

At regional level, the difficulty in accessing finance begins really for Green Entrepreneurs that have already launched their business. Early stage Green Entrepreneurs find it most difficult to attract business angels, work with investors or access loans from banks.

This is due to several reasons, the first being the concept of a Green Start-up is still new in most countries. This means that business angels and investors, still need understand what is the growth potential of a Green Start-up and the type of risks involved. This is also the experience of Diane Foundation in Lebanon:

*"We have good investors on board, but they will only listen, not invest."* (Tracy El Achkar, Diane Fondation, Lebanon).

In addition, the financing instruments available at this early stage in most countries are simply not designed to serve Green Entrepreneurs. In turn, Green Start-ups require more patient capital that is ready to invest in low-tech equipment, may need a longer period of time to develop and cannot deliver exponential returns on investment.

On the other hand, Green Entrepreneurs offer much more than just financial returns, since they are tackling environmental and social problems. The kind of "patient" funder is today still hard to find in the Mediterranean, nevertheless this may be slowly changing and there are examples such Cleantech Arabia or Shekra in Egypt that prove that it is possible to connect young Green Entrepreneurs with successful experienced entrepreneurs that are willing to invest in them on a one-to-one basis. And the launch of the Viridis Investment Fund in Lebanon, specifically dedicated to Green Start-ups and SMEs, shows that the investment landscape is evolving. This is also the experience of Endeavour in Egypt.

*"You don't need to re-invent the wheel. If you know there is an angel network, incubators and accelerators or a pool of investors - connect the entrepreneurs!"* (Mohamed Rahmy, Endeavor Egypt).

Green Entrepreneurs that intend to access loans from Microfinance Institutions or Banks face a different set of challenges.

Microfinance is well developed across the region, particularly in Morocco, Tunisia, Palestine and Jordan, and has proven to be a powerful tool to support micro-enterprises. Nevertheless, microfinance loans are not adapted today to support Green Start-ups, as the financing provided falls short of the need of Green Start-ups (generally under 5,000 €), the type of finance is short-term (1-2 years) and lending is based on the repayment capacity of the business venture, which in most cases is still uncertain. Despite the interest of Microfinance Institutions such as INMAA in Morocco or ENDA in Tunisia, generally Green Start-ups cannot turn to them for finance.

In regards to Bank finance, the situation is rather similar in all countries. Banks are conservative in their approach to SMEs and generally risk averse with respect to start-ups of any kind. This means that even if green loans exist in a number of countries such as Jordan or Lebanon, they are directed at either renewable energy projects or energy efficiency improvements by consumers.

Nevertheless, there are important efforts by the Jordanian or Moroccan government to improve access to finance to SMEs, and this could also help Green Start-ups. The issue is that Banks perceive Green Start-ups as risky and, similarly to investors, are not aware of what is a Green Entrepreneur. In this regard, improving existing public SME guarantee mechanisms, available in all countries, to include Green Start-ups can greatly help increasing their access to Bank finance. De-risking lending to Green Start-ups is key to change the attitude of Banks.

Furthermore, the efforts to raise the profile of Green Entrepreneurs among Banks as well as investors will also help improve the perception of Banks towards Green Start-ups; improving this perception will help banks consider lending to Green Start-ups.

Finally, even if the situation of access to finance for Green Start-ups remains difficult in all countries, raising the profile of Green Entrepreneurship, creating opportunities for networking among Green Entrepreneurs and investors, improving the ecosystem to support Green Start-ups, can help improve the overall situation regarding access to finance.

At this stage, the main goal is to get the first investors for Green Start-ups, the first loans from Banks, the first dedicated venture capital funds created. Once the first generation of Green Start-ups starts to be financed, it will open the way for next ones to follow.

## 2.3. Mind the gap

What emerges from the mission reports is the fact that, if we look at existing instruments potentially available to Green Entrepreneurs in the six countries examined, there is a clear mismatch between the needs of Green Start-ups and the financial sources available.

This does not mean that Green Entrepreneurs should not approach the existing financial providers that prove useful in different development stages of a business. In this regard, Green Entrepreneurs need to be aware of what is available in their country. Inversely there is a clear need to raise the profile of Green Entrepreneurs among financial providers who often ignore the specificities of Green Start-ups and their development potential.

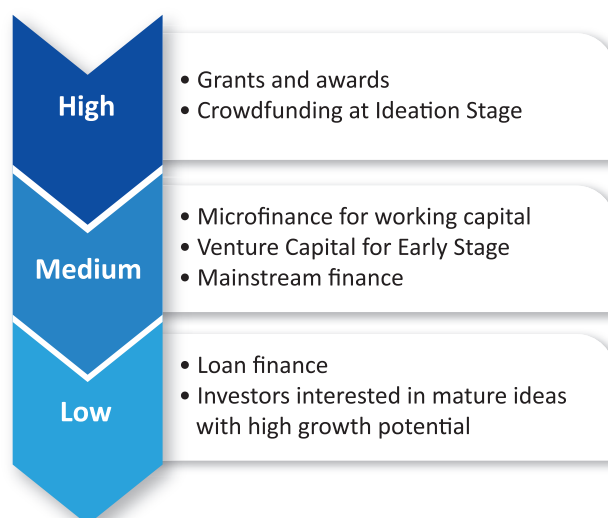
The challenge that remains is that financial instruments are generally oriented towards traditional SMEs in the case of small scale finance, ICT and technology start-ups in the case of early stage venture capital, and towards much bigger projects altogether, such as large-scale renewable energy in the case of banking and investment funds.

In the meantime, there are 6 million micro, small and medium-sized enterprises (MSMEs) in southern Mediterranean countries, which form the backbone of the local economy. They represent a vast and underused potential for economic growth and job creation due to lack of access to finance under realistic conditions. Access to finance is clearly a limitation, considering for example that financing committed by local banks to SMEs represents no more than 5% of total lending in Egypt, 6% in Palestine, 10% in Jordan, 15% in Tunisia, 16% in Lebanon and 24% in Morocco<sup>2</sup>.

Another important constraint for SME expansion in Mediterranean countries is that while the financial and banking sectors in the region are relatively large, credit is mostly channelled to governments and a limited number of large firms, leaving the bulk of enterprises with little or no access to finance.

The reasons for such exclusion differ from one country to another but are mainly a combination of deficiencies in the financial infrastructure (lack of credit information bureaus and collateral registries), the regulatory framework, absence of regulations on delivery channels to reach out to underserved SMEs, or insufficient financial literacy and institutional lack of know-how. As a consequence, financial institutions have little confidence in evaluating the creditworthiness of SMEs, which reduces their willingness to lend. They rely on collateral (almost exclusively real estate) at unduly high levels, which excludes many potential borrowers.

The figure on the right summarises the degree (high, medium, low) of availability of financial products to Green Entrepreneurs in the MENA.



**Figure 21: Availability level of financing instruments for Green start-ups.**  
This figure represents the main financial products in the MENA, along with their level of availability and compatibility for Green Entrepreneurs (high, medium and low).



## A sledgehammer to crack a nut

In the coming years, the European Union External Investment Plan<sup>3</sup> (EIP) is likely to have a significant impact in the financing landscape of Mediterranean countries. Launched in 2016, the EIP is an ambitious plan to encourage investment in partner countries of the EU in Africa and the Mediterranean region and to contribute to achieve the UN Sustainable Development Goals.

Part of the EIP is the new European Fund for Sustainable Development (EFSD), which will dedicate European funds with the objective of mobilizing additional financing, in particular from the private sector, as the EFSD guarantee will reduce the risk for private investment and absorb potential losses incurred by financiers and investors. The European Commission estimates that the EU contribution to the EFSD of 4.1 billion € will generate additional public and private investment approximately 44 billion €<sup>4</sup>.

The EIP is an important opportunity for Mediterranean countries, since it has the potential to mobilize important financial resources for sustainable energy, MSMEs, sustainable agriculture and sustainable development in general, making it easier for Green Entrepreneurs to access finance.

Nevertheless, given the large amounts involved and the fact that funds will be channelled through Development Finance Institutions and existing public or private Banks in Mediterranean countries, the destination of such funds will most likely not be early stage start-ups with new business models but rather large investments projects and investments in infrastructure.

Having said that, the EFSD remains an important opportunity for Green Entrepreneurs in the Mediterranean. In the future it could include Green Start-ups in its efforts to create jobs, promote entrepreneurship and promote green and inclusive growth.

## 2.4. Examples of Innovative Financing Tools for Green Entrepreneurs

Green Start-ups in the Southern Mediterranean countries include a wide spectrum of initiatives in terms of legal form, activity sector, development stage, and so on. What they all have in common is their social and environmental approach, with the objective of generating a positive impact with their products and services.

This diversity is not reflected in the funding ecosystem in which they evolve. This section highlights a number of inspiring examples of innovative financing tools that could be used as inspiration to improve the funding ecosystem for Green Start-ups in the Mediterranean.

### The impact investing approach

Green Entrepreneurship is a business approach that takes into account not just profit, but also social and environmental sustainability. From this perspective “Impact investing” would be the financial approach that fits best the nature of Green Start-ups in the Mediterranean.

The Global Impact Investing Network (GIIN) defines Impact Investing as “investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return” (GIIN 2017). The European Venture Philanthropy Association (EVPA<sup>11</sup>) describes this investment approach as “a high-engagement and long-term approach to generating societal impact through three core practices:

- Tailored financing: Using a range of financing mechanisms (including debt, equity hybrid financing) tailored to the needs of the organisation supported.
- Organisational Support: Added-value support services that [impact investors] offer to investees [...] to strengthen their organisational resilience and financial sustainability by developing skills or improving structures and processes.
- Impact measurement and management: Measuring impact and managing the process of creating social impact in order to maximise and optimise it” (EVPA 2017<sup>5</sup>).

Impact investing which growing rapidly worldwide, is still not very developed in the Mediterranean region. Green Start-ups in the Mediterranean could benefit greatly if instead of banks or venture capital funds they could obtain finance from impact investors (including debt, equity and hybrid financing) which would be adapted to their purpose and development needs.

<sup>11</sup>EVPA - European Venture Philanthropy Association - [www.evpa.eu.com](http://www.evpa.eu.com)

## The example of Investisseurs & Partenaires (I&P)<sup>12</sup>

I&P is an impact investing group fully dedicated to Sub-Saharan Africa. I&P gathers three impact funds representing 75 million € and has supported more than 60 small and medium enterprises, located in 15 African countries. I&P gathers different impact funds to support the growth of its partner companies, covering financing needs ranging from 30,000 to 1.5 million €. I&P's investment in a business is threefold:

- Financing: through an equity investment as minority shareholder (or through participative loans)
- Strategic and Managerial Mentoring. Before the investment: thorough analysis of the company and the strategy to be implemented. During the investment period: active involvement in helping the implementation of this strategy and putting in place management tools developed in partnership with the entrepreneur.
- Technical Assistance: Capacity building and training in a variety of fields based on the investee business specific needs: management information system, industrial/technological, sales/marketing, organization/HR, training/governance, etc.

One of I&P's primary focus area, the development of small and medium-sized enterprises (SMEs) is key to dealing with the risks involved in African growth. African SMEs already play a major role in the economic landscape, and are involved in all sectors of the rural and urban economies. They also offer a guide to the growth conditions that will be dynamic, sustainable and fairly distributed. Secondly, generating good quality employment is a core objective for I&P, in line with the decent work agenda promoted by the International Labour Organization. Moreover, it has become a priority for the African continent to develop climate change mitigation strategies and to ensure a sustainable management of the natural resources. I&P is committed to fight against corruption, a major issue in our countries of intervention. As the African continent is undergoing profound changes, it is of prior importance for I&P to promote the reality of African entrepreneurship and raise awareness about the role of impact investors in supporting SMEs.

## The network-based approach

Green Entrepreneurship in the Mediterranean region is composed today of a relatively low number of Green Start-ups working in different sectors and spread over a number of countries. This low concentration makes it difficult for Green Start-ups to gain the attention of financiers and inversely financiers do not see sufficient opportunities to dedicate their efforts to such companies.

This could be partly addressed by developing network-based financial instruments. The reasoning behind this approach is that, by gathering in a network a wide array finance of partners from different countries. This approach could offset some of the difficulties of operating in different contexts and also facilitate fundraising activities and visibility. The strength of a partnership instrument lays in its capacity to attract and gather different investors and, possibly, different instruments, to blend into a unique instrument.

Furthermore, if the financial tool is aimed at multiple countries, the legal requirements can be an important constraint that need an in-depth analysis. Some countries may only allow non-profits or for-profit entities operating solely on the profit motive. In such a scenario, dual-purpose entities that may give up financial returns for social impact are not allowed.

Creating networks of like-minded investors in the Mediterranean, can be a first step for financing innovative Green Start-ups in different countries and raise gradually the interest of local investors. It can also serve as a means for a several investors to share risks by co-finance a single project and also for local investors to access projects in other countries or sectors they might not be able to reach on their own.

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<sup>12</sup><http://www.ietsp.com/en>

## The example of Cairo Angels<sup>13</sup>

Cairo Angels is made up of around 50 members, almost all Egyptian, of whom 20% are women, and more than half are founders of highly recognised brands. Its network deliberately does not include companies, institutions or funds, as it is the intention that angels invest their personal money and leverage their experience and network to benefit the business.

Since its inception in early 2012, Cairo Angels has invested almost 2 Million USD in 19 start-ups with binding offers being made almost on a quarterly basis. Although most of its investments to date have been in the tech space, Cairo Angels aims to invest across all sectors with a particular appetite for export oriented products and services. Cairo Angels are especially interested in businesses from the agricultural, logistics and energy sectors, and hope to see more women entrepreneurs applying. Cairo Angels is open to regional start-ups applying for funding as well. It is as comfortable leading as being co-investors, but it never takes majority stakes. Cairo Angels funds and welcomes the opportunity to work with dynamic and astute entrepreneurs and especially ones who are open to taking advice. Cairo Angels convenes once a quarter to review 4 to 5 business pitches and meetings are open to members only. Afterwards interested angels are invited to engage directly with founders to carry out due diligence, negotiate investment terms and finalise legal documents. A substantial time commitment is made by investors to close a round of funding.

Angels invest their personal money, in return for an equity stake in the business. Often a handful of angels will cooperate on a deal to share experience and due diligence workload. Cairo Angels deals stems from a variety of sources. Egypt's incubators, accelerators and universities perform an invaluable function in terms of hosting business plan competitions and preparing aspiring entrepreneurs for the realities of running a business.

## The challenge fund approach

A challenge fund is a funding instrument that subsidises projects where there is an expectation of commercial viability accompanied by measurable social and/or environmental outcomes. Challenge funds can mitigate market risks, while spurring innovation to fight poverty and environmental degradation. The new financial instrument could also adapt its operations in this way, by focussing on projects that specifically target one "challenge" that, if overcome, can spur innovation and improve the social/environmental conditions thanks to private sector entities in a country.

The functioning of a challenge fund is divided into several steps. After a call for proposals (or financing windows) is opened, candidates submit a (project) concept note, which is reviewed by the funding instrument's manager to check against the eligibility criteria.

Afterwards, shortlisted concept notes are then transferred to an independent investment panel composed of professionals from the business and banking sectors. The panel decides the number of proposals that will graduate to the second phase, which is the submission of a detailed business plan.

The funding instrument's manager undertakes due diligence (e.g. site visits) for the investment panel that will later sit to select the best plans based on a set of criteria (e.g. commercial viability, potential for replication, benefits for the poor, management of environmental impacts, financial leverage, degree of innovation, etc.). Induction workshops can be organized to facilitate the submission process and clarify selection criteria and templates.

Successful firms will then enter a contractual agreement with the funding instrument that details responsibilities and performance indicators. The disbursement of funds depends on the achievement of agreed milestones and is described in the contract.

Challenge funds can influence the behaviour of the private sector through systemic innovations and imitation/demonstration effects, and innovation is increasingly seen as a way to solve today's social and environmental challenges. They can also offer greater assurance of performance and the identification of cost-effective solutions, due to their competitive and open selection process.

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<sup>13</sup><http://www.cairoangels.com/>

However, a relevant downside can be that innovative projects might be chosen over less ground-breaking projects with greater potential impact. Moreover, narrow targeting, both geographical and thematic, can reduce the number of potential bidders, needing an outreach and marketing strategy to offset this risk. Finally, the duration of a challenge fund is usually limited and determined by the number of calls on it that were planned and the duration of the projects financed.

Challenge Funds have developed successfully in Sub-Saharan Africa, where initiated by donors they have managed to attract significant private investment<sup>7</sup>. This is an important avenue to explore in the Mediterranean where no such initiatives exist today and could successfully combine donor funding from development agencies with private investment that could boost the development of Green Start-ups.

## The example of Innovation Against Poverty<sup>14</sup>

Innovations Against Poverty (IAP) was launched in 2011. The programme, which took its inspiration from the Base of the Pyramid concept, functions as a risk-sharing mechanism for business ventures (commercial companies or market-oriented organizations) which have a strong potential to reduce poverty, and which operates in developing countries.

There are two application processes, one for small grants up to 20,000 € and one for large grants 20,000 - 200,000 €. Grants are awarded to the best business plans that meet the criteria of the program. IAP also contains a third element, allowing for guarantees in line with Sida's (Swedish International Development Cooperation Agency) guarantee programme. The IAP is managed for Sida by a consortia led by Price Waterhouse, who won the management contract through an international bidding process. Since the launching, two rounds of competitions have been concluded. IAP has an initial funding of 5 million € for 2011-13. IAP has so far not been subject to any independent review. IAP funded 35 companies its first 18 months of operations.

IAP provides a mix of advisory and funding to selected innovative Inclusive Business cases as a result of competitive open calls. The support provided by IAP consists of:

- Financial support: IAP will provide non-reimbursable funding ranging from 50,000 € up to 200,000 € not exceeding a maximum of 49% of the total required investment to implement the innovative Inclusive Business idea.
- Advisory support: The advisory support offered by IAP will be provided through trainings and coaching, covering areas such as Inclusive Business development and innovation, to enhance and efficiently achieve the targets of each Inclusive Business initiative. In addition, IAP will select and train a number of local consultants that will be available to support the businesses on a fee for services basis.

## The hybrid financial instrument

Hybrid capital (such as recoverable grants, revenue share agreements, honour loans and convertible bonds) contains elements of grants, equity and debt capital. The grant character can be explained through the fact that there are no interest costs and, in certain pre-agreed scenarios, the financing instrument is converted into a grant.

In order to address the demand for finance of Green Entrepreneurship, it is recommended to explore the possibility to create a financing mechanism that provides different hybrid (and/or traditional) financial products according to the development stage and needs of the enterprise itself. This could start from a refundable grant to get the project going and then transform into equity or quasi-equity when the enterprise is more mature, while technical assistance is provided throughout the cycle.

This approach would have two major benefits. On the one side, the provision of technical assistance would enhance the success of the project throughout its lifetime (or until it gets access to traditional finance) and the entrepreneur would have a continuous and reliable supply of finance and advice. This in turn would make it more attractive for traditional finance, which could enter earlier to provide additional financial support.

The downside of this is the fact that an approach structured this way would require patient capital. Moreover, the margins for profit would be quite small, given the costs linked to technical assistance (which could be covered via additional funding from dedicated donor programmes).

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<sup>14</sup><https://iba.ventures/iap/>



## The example of the CEE Fund Support Programme<sup>15</sup>

Through this programme, launched in 2016, EVPA facilitates the development of pilot VP/SI funds in the Central and Eastern European region, mobilising individual and institutional investors to co-invest in the process of development of the funds and in the actual fund vehicles created at the country level.

All funds aim at providing early stage investment (50,000 - 250,000 €), the “missing middle” gap in the funding landscape. Hence, the CEE Fund Support Programme is fitting in the market needs as well as provide an attracting opportunity for local investors to experience venture philanthropy and impact investing in practice, so that they can continue with their engagement in building new funds and similar initiatives.

To encourage the local players to engage, there is the opportunity to access a matching fund (currently 1 million €) that is offered on a 3:1 matching basis (i.e. local organizations raise 750,000 €, the investor offers 250,000 €).

## 2.5. Building a funding ecosystem for Green Entrepreneurs

There is no shortage of capital in Mediterranean countries or a diversity of financing tools in absolute terms. However, access to finance remains the main barrier for the survival and development of Green Start-ups.

What is missing is a combination of support at different levels and adapted finance tools that allow Green Start-ups the time and space to develop, test their innovations in the market and develop sustainable business models. A combination of business development services with patient capital and market access.

In this regard, initiatives such as the SwitchersFund represent an important innovation in this direction, which can help develop the formula to successfully improve access to finance for Mediterranean Green Start-ups in a sustainable way. In other words, a comprehensive approach to support, finance and accompany Green Start-ups until they are able to succeed in the market.

Nevertheless, there are other interesting approaches that can help design financing mechanisms that support innovation and are better adapted at financing the development of Green Start-ups in the Mediterranean.

The next section explores the SwitchersFund as a dedicated approach as well as other innovative tools that can serve as inspiration to improve the funding ecosystem for Green Entrepreneurs in the Mediterranean.

### The SwitchersFund

The SwitchersFund<sup>16</sup> 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. While this is valid anywhere in the world, such need is even more pressing in the Mediterranean region, which has seen recent political instability and is facing a looming crisis on access to basic resources, particularly water.

The SwitchersFund cannot address such crises on its own. However, what it can do is support directly projects with a high social and environmental impact, to make them economically sustainable and prove that financing Mediterranean Green Start-ups not only makes sense, but can be a financially viable activity. The role of the SwitchersFund is to lead by the example and attract other financial actors to do the same - it is a financial catalyst. A first step in the direction of improving access to finance for Green Start-ups designed to be copied by others.

The main goal of the SwitchersFund is demonstrating Green Start-ups have a future in the Mediterranean. To do so, the SwitchersFund intends to support innovative projects and transform them gradually into sustainable Green Start-ups. The SwitchersFund in its current form is a grant-making entity that intends to develop new financial products as the demand grows.

The philosophy of the SwitchersFund is to build partnerships with like-minded public and private organisations (public investors, multilateral organizations, development finance institutions, NGOs, foundations and private institutional investors), in order to increase access to finance for innovative Green Start-ups in the Mediterranean.

<sup>15</sup><https://evpa.eu.com/central-eastern-europe-cee/cee-fund-support-programme>

<sup>16</sup>[www.theswitchersfund.eu](http://www.theswitchersfund.eu)

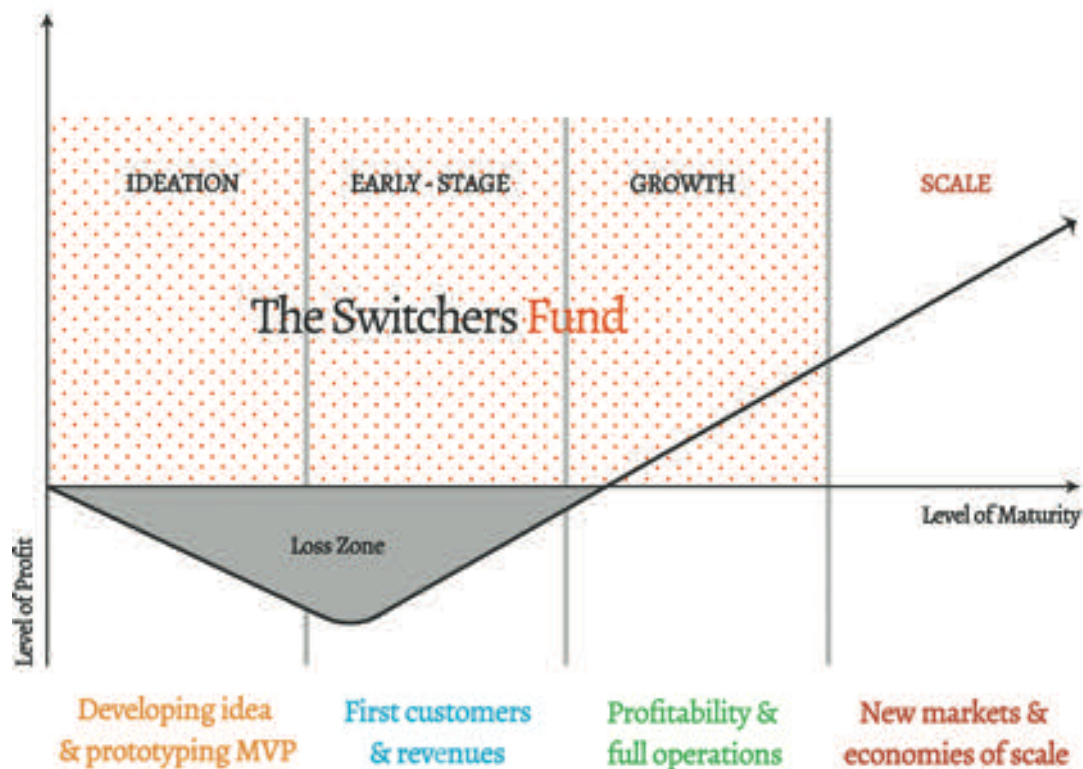


Figure 22: The development stages of a Green Start-up and the stages in which the SwitchersFund intervenes.  
Source: [www.theswitchersfund.org](http://www.theswitchersfund.org)

## The first Grant Scheme

The SwitchersFund Grant Scheme represents the first step in the process of increasing access to finance for innovative green businesses in the Mediterranean. The Award serves as a means to attract Green Start-ups, identify the demand for finance and the level of development of projects. The application process is designed to evaluate Green Start-ups in regards to:

- the level of innovation
- the environmental impact
- the social impact
- the scalability of the project
- the sustainability of the business model

In 2017, the SwitchersFund Grant Scheme<sup>17</sup> was launched with the support of the OSCE as the “OSCE GEMs” (Green Entrepreneurs in the Mediterranean) Award. The SwitchersFund received 240 applications from Green Start-ups in six Mediterranean countries and provided six grants of 15,000 € to the best project in each country. A new edition of the Award is foreseen in the last quarter of 2018.

## The path towards financial sustainability

Beyond this first Grant Scheme, the SwitchersFund intends to develop other financial instruments such as recoverable grants, honour loans and ultimately minority equity participations.

The basic idea is that Green Start-ups can progressively graduate from one instrument to the next until they become investment ready. For example, a Green Start-up could receive a grant through the award, then apply for a recoverable grant that would be repaid only if the Start-up can afford it, then obtain an “honour loan” without collateral and once the loan is reimbursed obtain an equity participation.

This process intends to facilitate the development of Green Start-ups, and allow them to survive “the valley of death” or the funding gap that exists between the development of an idea and the commercialization of a new product. Green Entrepreneurs like any innovators need to transform their ideas into products and find the markets for them. If left on their own and considering the difficulties in accessing finance in this early stage, their companies are simply likely to go bankrupt before realizing their potential.

<sup>17</sup>[www.theswitchersfund.eu/en/the-award/](http://www.theswitchersfund.eu/en/the-award/)

By moving gradually from grants to concessional finance and ultimate investment, Green Start-ups will get acquainted with different financial tools and at the end of the process, become ready to obtain private funding from a bank, having a track record, or from an investor, having successfully developed its business model.

## Networking for Green Finance

The SwitchersFund has the ambition of becoming a network where European Investors and local financiers can work together. Local financiers can provide extremely valuable feedback on the market and business model of Green Entrepreneurs and potentially additional funding as well.

An inspiring example for this is Réseau Entreprendre in France, which provides innovative entrepreneurs with individual coaching by experienced entrepreneurs, networking opportunities through the contacts of these entrepreneurs and financing through “loans of honour” provided without collateral and used to unlock additional bank funding. This approach developed in France has been successfully extended to Morocco and Tunisia.

The SwitchersFund can also serve as a meeting place for private funders (such as foundations, private donors, impact investors, and so on) that can use it as a way to identify interesting projects in the Mediterranean that they can fund directly. Alternatively, it can serve as a means to pool different financial resources in to a structured process that brings Green Entrepreneurs from the Start-ups phase towards sustainability.

The goal of the SwitchersFund is not to become a financial institution, but to act as a catalyser that ultimately serves to attract private investment towards Green Start-ups.

## More than money

Besides providing funding, the SwitchersFund provides technical assistance to its beneficiaries in synergy with the Switcher Support Programme. These mostly include business development services (Green Business Model and Plan Development, Mentoring and Technical Expertise).

Technical assistance is a key tool for fund managers and investors in emerging countries. In such markets, entrepreneurs and the businesses that they manage - no matter their size, maturity and sector - are constrained by deficits in business training and operational expertise. Such gaps often translate into missed opportunities and can prevent businesses from getting vital access to finance. Moreover, technical assistance can improve critical business functions such as governance and financial planning, thereby creating the preconditions for attracting new funding from a wider range of providers<sup>8</sup>.

Beyond this, technical assistance mitigates financial risk and increases the probability for successful investments for both Green Start-ups and investors. Indeed, the use of a tried-and-tested technical assistance facility can be a comparative advantage of the SwitchersFund in order to distinguish itself and gather more funding from investors and donors. Ultimately, the right technical assistance can dramatically increase the success rate of the funded projects, thereby creating a virtuous circle that, in the long term, can ensure the sustainability of the financial instruments.

In order to succeed, the SwitchersFund will depend on attracting a pipeline of Green Start-ups with sound projects that ensure the sustainability of the endeavour and securing the commitment of potential funders and donors. Donors will need to be aware of the fact that the SwitchersFund is conceived as a financial instrument designed to create socio-environmental impact (impact-first) and therefore profits will be secondary to achieving that goal.

Finally, the SwitchersFund will need to capitalise on the network built by the Switchers Support Programme<sup>18</sup>, in order to be able to operate in several countries and make good use of the market knowledge of local experts and partners.

Firstly, it will be necessary in order to have knowledge “on the ground”, i.e. the economic and business environment, as the SwitchersFund will not be located in every country but, given its regional scope, will be managed from Europe.

In addition, the SwitchersFund will need to develop collaborations with local funders, to maximize funding opportunities for Green Start-ups, in the later stages of growth, where the SwitchersFund will not be able to operate. Indeed, its role will be that of a guarantor used to catalyse other funding opportunities.

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<sup>18</sup><https://www.switchmed.eu/en/corners/start-up>



## 3. Recommendations

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Increasing access to finance for Green Start-ups is key to develop the next generation of Green Entrepreneurs in the Mediterranean. This means removing the obstacles that prevent Green Entrepreneurs from accessing existing sources of finance such as banking or venture capital and creating better suited financing tools for them along the way. To achieve this, the development of innovative financial instruments in the Mediterranean will be critical.

Innovative and dedicated financial instruments, can concentrate resources on emerging Green Entrepreneurs, help increase their capitalization at an early stage, reduce risks for Banks to finance them and render them more visible and attractive for impact investors and venture capital funds.

### 3.1. Recommendations for Green Entrepreneurs

#### Findings

Green Entrepreneurs trying to finance their start-ups face several challenges. The first challenge is having a clear understanding on which financing options are available, what the specificities of each of them are and which ones are more suitable. The second is preparing business plans and documentation of the quality required by investors and financiers. The third is developing diversified fundraising strategies that take into account all financing possibilities.

#### Recommendations

Green Entrepreneurs need to make the most of existing training and mentoring programmes as well as incubators and accelerators. Such programmes can help them identify all the financing sources available in their environment, establish fundraising plans, facilitate contact with financiers and multiply opportunities to present their start-ups to investors.

Green Entrepreneurs need to focus their efforts on developing strong business plans. Besides being attracted by the green idea or reassured by the entrepreneurs themselves any investor or financier expects to be presented with a detailed business plan that explains how the Green Start-up intends to develop in the future. Without such quality business plan neither banks nor investors will support a Green Start-up.

Fundraising strategies from Green Entrepreneurs need to include all possible financing options. Next to banks or venture capital funds, a diversified fundraising strategy must include as well grants and awards, crowdfunding campaigns, factoring and financing from existing support programmes. Ideally, finance for Green Start-ups should come from a combination of different sources.

### 3.2. Recommendations for Financing Institutions

#### Findings

There is no shortage of finance in Mediterranean countries. The financial sector is well developed and includes a continuum of actors that could in principle provide finance to Green Entrepreneurs, such as Investment Funds, public and private Banks, Venture Capital Funds, and Microfinance Institutions.

Nevertheless, Green Start-ups find it very difficult to access the finance they need to develop. Banks generally do not often understand the value proposition of Green Start-ups and perceive them as risky. Investors and Venture Capitalists perceive Green Start-ups as not profitable enough. Microfinance Institutions are generally not used to deal with Start-ups, do not know how to offset the risks and are generally limited by law in the amounts of finance they can provide.

#### Recommendations

Mediterranean Banks who are willing to finance sustainable and green initiatives, can do so by providing loans to Green Start-ups. In order to do so, they need to build the capacity of their employees, so that they can better understand green technologies and business models.

Mediterranean Banks can make better use of existing credit guarantee mechanisms, to reduce the risk of financing Green Start-ups and also access funding, guarantees and technical assistance from initiatives such as the European Fund for Sustainable Development in order to de-risk the financing of Green Start-ups and propose innovative loan products to Green Start-ups.

For their part, Venture Capitalists in Mediterranean countries can launch innovative green Venture Capital funds specifically targeting Green Start-ups. In such dedicated funds, profit expectations and investment amounts could be adjusted to a more patient capital approach that allows Green Start-ups to develop their potential. In addition, selection and evaluation criteria could include sustainable impact indicators, next to financial ones, reflecting the nature of Green Start-ups.



In addition, Mediterranean Venture Capitalists could use funding and technical assistance from initiatives such as the European Fund for Sustainable Development in order to design and launch innovative green Venture Capital funds.

Microfinance Institutions in Mediterranean countries, if allowed, could upscale the scope of their product offering to include Green Start-ups and build the capacity of their employees to better understand their value proposition. Mediterranean Microfinance Institutions can also use existing credit guarantee programmes to de-risk the financing of Green Start-ups and could apply for funding, guarantees and technical assistance from the European Fund for Sustainable Development to develop new loan products targeting Green Start-ups.

### 3.3. Recommendations for Public Authorities

#### Findings

Green start-ups in Mediterranean countries are still a relatively new phenomenon. Their difficulties to access finance are linked to the lack of knowledge by financiers on what they actually are and the inability to evaluate their business development potential.

#### Recommendations

Public authorities in Mediterranean countries can contribute to strengthen the development of Green Start-ups by developing policies that proactively promote entrepreneurship and Green Entrepreneurship in particular.

A national policy that actively promotes Green Entrepreneurship can contribute to raise awareness on the opportunities and benefits of tackling environmental challenges through entrepreneurial approaches. Raising such awareness on Green Entrepreneurship, particularly among financiers, will improve access to finance for Green Start-ups.

Policies that support the access to new markets for Green Start-ups, in particular international markets, by promoting partnerships and matchmaking with international partners will increase the development potential of Green Start-ups and subsequently their ability to access finance.

### 3.4. Recommendations for the European Institutions

#### Findings

The European Institutions are actively supporting the emergence of Green Entrepreneurs in the Mediterranean, notably through the SwitchMed programme. The support to Green Entrepreneurs provided by SwitchMed includes a comprehensive set of initiatives, such as a training and mentoring programme specifically designed for Green Entrepreneurs, a unique community of existing Green Entrepreneurs from the region - The Switchers, support in access to markets and partnerships and a range of visibility tools and events for Green Entrepreneurs.

The work of SwitchMed in improving access to finance for Green start-ups is also outstanding and includes the mapping of existing financial instruments in Europe and Mediterranean countries, the organisation of coaching sessions in access to finance for Green Start-ups in partner countries, the organisation of "Green Start-ups Meet Investors" events in each partner country, the publication of country-specific access to finance guides for Green Start-ups.

#### Recommendations

The European Institutions can continue to support Green Start-ups in the Mediterranean by shifting the current focus on promoting the emergence of new Green Entrepreneurs. While this remains an important policy outcome, it could be improved by focusing on the growth and survival of Green Start-ups.

In practice, this means increasing support in the area of improving access to finance for Green Start-ups. Supporting pilots, experimentation and innovation in the area of financing of Green Start-ups and tailoring enterprise support and technical assistance towards increasing the number of successful Green Start-ups over time.

### 3.5. Recommendations for the European Funding Instruments

#### Findings

The European funding instruments such as the European External Investment Plan, can contribute to improve access to finance for Mediterranean Green Start-ups by ensuring that the financial resources mobilised by the European Fund for Sustainable Development (EFSD) also target Mediterranean Green Entrepreneurs. The first wave of EFSD supported programmes target sustainable investments, such as green energy, green buildings and green urban infrastructure.

## Recommendations

Funding Instruments such as EFSD can broaden their scope of sustainable investments to include Mediterranean Green Start-ups as well as SMEs and make sure they are targeted by the following wave of EFSD supported finance programmes.

EFSD can help improve access to finance for Green Start-ups in the Mediterranean by funding guarantee programmes that help de-risk the financing of Green Start-ups. This will facilitate access for Green Start-ups to both Bank and microfinance lending.

EFSD can help improve access to finance for Green Start-ups in the Mediterranean by initiating new investment funds that invest in the equity of Green Start-ups and do so as “patient investors” that are willing to afford Green Start-ups the time to grow.

In addition, EFSD can broaden the number of potential investment tools by supporting innovative venture capital funds that use specific green evaluation criteria in their choice of projects.

Finally, EFSD technical assistance funds can be used to support the cost of adjusting the due diligence process to the specificities of Green start-ups.

## 3.6. Recommendations for International Donors and Foundations

### Findings

The financing options for Mediterranean Green Start-ups are limited, if we consider standard banking or microfinance products. Green Start-ups are not typical companies and are perceived as too risky to lend to them. Inversely, for Venture Capital funds Green Start-ups do not pose a risk problem but instead are perceived as not worth the investment, since they are unlikely to produce the expected returns.

There is a clear need for innovative financing approaches that can manage the risks and at the same time value the environmental and social impact of Green Start-ups as much as their return potential.

The SwitchersFund is the first innovative financing tool in the region that gradually facilitates access to finance for Green Start-ups while managing the risks and does not require immediate financial results. It does this by combining grants, loans and equity over time, accompanying Green Start-ups along the financing path until they can access finance on their own and are ready to take in external investors and/or apply for banking loans.

Nevertheless, innovative financing approaches are still small and limited in scope. They need to grow in order to cover the financing needs of a majority of Mediterranean Green Start-ups.

### Recommendations

International donors and foundations have a key role to play in improving access to finance for Green Start-ups in the Mediterranean.

First, International donors and foundations can promote impact investing and venture philanthropy approaches in the Mediterranean. Such financing approaches are virtually inexistent in the Mediterranean region and could have a great impact in improving access to finance for Green and Social Start-ups.

Second, International donors and foundations can devote resources to support the emergence of innovative financing tools such as equity crowdfunding platforms, impact investor networks, patient investment funds and hybrid mechanisms that combine grants, equity and soft forms of lending.

Third, International donors and foundations could multiply their impact by crowdsourcing a limited number of innovative financing tools with regional approaches, and with potential to grow and fill the financing void that Green Start-ups face in the Mediterranean.

What is needed is the combination of: the promotion of innovative finance approaches, investment in innovative financing tools and crowdsourcing innovative financing tools that can expand their coverage and grow in size. This can have a dramatic impact in improving access to finance and ensure the development of the next generation of Green Start-ups in the Mediterranean.



## 4. Conclusion

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What this report demonstrates is the presence of a unique opportunity in the Mediterranean region, which could not come at a better time in terms of awareness and urgency. We are witnessing the spread of a form of Green Entrepreneurship among young people, which is addressing the socio-environmental challenges facing Mediterranean countries.

However, this phenomenon, which is in its infancy, is composed of hundreds of isolated initiatives. Thus, it needs all the support available in order to flourish and provide its benefits to the largest possible number of people.

Despite its limitations, the demand analysis clearly shows the need to improve access to finance for the Green Entrepreneurs. Funding is actually available in Mediterranean countries; however, it is very hard to access for Green Entrepreneurs. This is partly due to a lack of understanding on what a Green Entrepreneur is (as it may refer to a business in agriculture, industry or services). But also due to the difficulty in understanding the value proposition of a project that not only aims at profit, but also at addressing social and environmental challenges.

In order to support the emergence of large numbers of Green Entrepreneurship in the Mediterranean, one of the key factors is to ensure the success of the first generation of Green Entrepreneurs. This first generation will serve as role models proving that Green Entrepreneurship is both feasible as a business practice and it has a positive impact on society and the environment.

Afterwards, the active promotion of these role models will encourage and inspire a new generation of young people. This new generation of Green Entrepreneurs will be able to capitalize on the experience of the pioneers and will have it easier to succeed in a more conducive ecosystem, this will lead to growing the numbers of Green Entrepreneurs in the Mediterranean. Larger numbers will lead to more visibility for Green Entrepreneurship and its potential.

The final step will be to make sure that this market segment is adequately visible to the financial actors in Europe and the Mediterranean that are receptive to this opportunity. At this level, increased networking among financiers and the right financial incentives will be key to increase access to finance for Green Entrepreneurs.

This strategy has already begun to be implemented, by the Switchers Support Programme through the promotion of role models via platforms such as #TheSwitchers and the provision of technical assistance, networking and visibility to Green Entrepreneurs.

With regard to finance, the SwitchersFund is a pilot initiative wants to demonstrate that there is a demand for finance across the Mediterranean from Green Enterprises and that Green Start-ups can be successfully funded using adapted financial tools. What the SwitchersFund proposes is an innovative way to develop access to finance for Green Entrepreneurs throughout the Mediterranean region. In addition, it strives to combine financial support with a set of technical assistance services in the future, to ensure the survival of the first generation of Green Start-ups.

Finally, this approach is an opportunity for financiers, development financing institutions, banks, incubators, foundations and public authorities to work together on the development of Green Entrepreneurship in the Mediterranean. Making sure the next generation will be a reality soon.

# Glossary

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Below we provide definitions for a set of terms and concepts that are used throughout the study.

- **Bank guarantee** is a form of guarantee from a lending institution ensuring the liabilities of a debtor will be met. In other words, if the debtor fails to settle a debt, the bank covers it. A bank guarantee enables the customer, or debtor, to acquire goods, buy equipment or draw down loans, and thereby expand business activity. It is a long-term instrument, which entails no dilution of ownership for the Green Entrepreneur, who shares the risk with the financial institution (via the payment of an interest) and grants a high flexibility in the use of capital (Varga, Heyday 2016<sup>9</sup>).
- **Collateral** refers to any type of asset that a borrower is willing to offer a lender in order to lower the risk and secure access to a financial product (such as debt). If the borrower fails to pay back the lender, the latter will automatically seize the asset to offset any financial loss.
- **Convertible bond** is a type of debt that can be converted into a predetermined amount of the underlying company's equity at certain times during the bond's life, usually at the discretion of the bondholder. Convertible bonds are a flexible financing option for companies and are particularly useful for companies with high risk/reward profiles.
- **Debt** is the most common type of investment. An investor lends money to a social enterprise either for a specific purpose or for general funding needs. The enterprise then repays the loan over an agreed upon period, sometimes on an interest-free basis, other times at a pre-agreed rate of interest. The interest charged varies in relation to the securitisation and repayment priority of the loan. Debt capital is suitable for long-term, low-risk investments or project financing that promise stable and predictable cash flows over the next years. The stable and predictable cash flows are necessary as the debt capital providers receive an annual interest payment. Debt capital is provided on a temporary basis and requires repayment after a few years. This financial product also does not entail any dilution of ownership for the Green Entrepreneur and it is possible to use the funds with a high degree of flexibility. In case of default, the financial provider may be granted far-reaching rights in order to retrieve the funding provided, according to the conditions set in the contract (Varga, Heyday 2016).
- **Equity** is the financial product whereby the investor receives a stake in the enterprise, most commonly in the form of shares, in consideration for his or her funding. Equity investing is regarded generally as a long-term investment. Equity capital is the financing instrument with the highest risk for the investor. The investor gives the enterprise a certain sum in exchange for a share of the company.
- **Grants** are a funding option in the form of a cash/goods allocation that does not establish rights to repayments or any other financial returns. It is a traditional form of financing in the social sector that is provided by foundations or individuals and continue to be an important funding source.
- **Green Entrepreneur** is an entrepreneur that develops a business solution to environmental challenges that is economically viable and socially empowering. **Green Entrepreneurship** integrates environmental, economic and social axes in a company's core business. **Green Start-ups** not only create economic value, through the creation of sustainable businesses and employment, but also ecological value addressing environmental challenges, and social value addressing social needs. Environmental challenges are turned into business opportunities through eco-innovation and eco-design, providing innovative solutions to the way goods and services are produced and consumed and contributing to the greening of the economy.
- **Green loan** refers to financing schemes (mainly debt) used by private individuals or enterprises to implement energy efficiency measures, products and services. Examples are the installation of solar panels on the rooftop of a firm for renewable energy generation, or better insulation of an apartment.
- **Honour loan** is a financial "boost" to the project leaders who do not possess sufficient personal financial means to fund the creation (or recovery) of their business. Getting an honour loan has two possible effects: leverage to obtain additional bank financing; a credibility effect of the project through careful case preparation and presentation before a professional jury. One important aspect of the honour loan is that it is awarded to the person (the creator or buyer) and not the company created (in this case it would be a repayable advance). The interest rate of the unsecured loan is generally 0. This is a loan to the person without collateral or personal guarantee (that is why it is called "honour").
- **Key performance indicators (KPI)** are a set of quantifiable measures that a company uses to gauge its performance over time. These metrics are used to determine a company's progress in achieving its strategic and operational goals, and also to compare a company's finances and performance against other businesses within its industry<sup>19</sup>.
- **MENA** (Middle East and North Africa) is a term that denotes a geographical area roughly comprising the countries between Morocco and Iran. For the purposes of this study, the target countries are aligned with the ones selected for the SwitchMed programme are Algeria, Israel, Palestine, Jordan, Egypt, Morocco, Tunisia, and Lebanon.

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<sup>19</sup><https://www.investopedia.com/terms/k/kpi.asp>



- **Microfinance**, also called **microcredit**, is a type of banking service that is provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services. While institutions participating in the area of microfinance most often provide lending (microloans can range from as small as 100 € to as large as 25,000 €), many banks offer additional services, such as checking and savings accounts, and micro-insurance products; and some even provide financial and business education. Ultimately, the goal of microfinance is to give impoverished people an opportunity to become self-sufficient<sup>20</sup>.
- **Minimum viable product (MVP)** is a development technique in which a new product or website is developed with sufficient features to satisfy early adopters. The final, complete set of features is only designed and developed after considering feedback from the product's initial users<sup>21</sup>.
- **Quasi-equity** investments are usually high-risk loans, whose repayment depends on the financial success of the company. The lender must use projected cash flow statistics of the company they are investing in, and they base the structure of the quasi-equity investment upon what the future cash flow stream is going to be. Quasi-equity financing is used when debt financing and share capital are not possible options of financing. Quasi-equity is dissimilar to a loan in the sense that quasi-equity financing is dependent upon how the company performs in the years to come. This instrument bridges the gap between debt and equity/grant through some form of revenue participation and can therefore offer an appropriate balance of risk and return.
- **Recoverable grant** is a loan that must be paid back only if the project reaches certain milestones previously defined between the donor and the recipient. If the milestones are not reached, the recoverable grant is converted into a grant. This mechanism can be used if success of the project enables the social enterprise to repay the loan to the social investor.
- **Revenue share agreements** are financing instruments with which the investor finances a project and receives a share of future revenues. This risk-sharing model can be used for the repayment of the financing and gives the social enterprise financial flexibility. An example of this can be found in most Arab countries through Islamic finance (Musharakah).
- **Small and medium-sized enterprises (SMEs)** are non-subsidiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most 10, or in some cases 5, workers<sup>22</sup>. With the addition of micro enterprises, there is the expression of Micro, small and medium-sized enterprises (MSMEs).
- **Sustainable Consumption and Production (SCP)** is about promoting energy efficiency, sustainable infrastructure and providing access to basic services, green and decent jobs and a better quality of life for all. It involves different stakeholders, including business, consumers, policy makers, researchers, scientists, retailers, media, and development cooperation agencies, among others. It also requires a systemic approach and cooperation among actors operating in the supply chain, from producer to final consumer. It involves engaging consumers through awareness raising and education on sustainable consumption and lifestyles, providing consumers with adequate information through standards and labels and engaging in sustainable public procurement, among others.
- **SwitchMed** is an initiative that supports and connects stakeholders to scale up eco and social innovations in the Mediterranean<sup>23</sup>.
- **Switchers** are individuals, enterprises or civil society organizations implementing innovative ecologic and social solutions that contribute to a switch to sustainable and fair consumption and production. They are active in a variety of fields, including organic farming, sustainable tourism, waste management, organic textile, recycling of electronic waste, sustainable building organic cosmetics production and so on. They a specific subgroup of Green Entrepreneurs under the SwitchMed programme<sup>24</sup>.
- **Technical assistance (TA)** consists of nonfinancial assistance and business support services provided by local or international specialists. It can take the form of sharing information and expertise, instruction, skills training, transmission of working knowledge, and consulting services and may also involve the transfer of technical data.
- The **Sustainable Development Goals (SDG)** are a UN Initiative, which comprises of 17 goals, in turn divided into a total of 169 targets. The objective is to achieve them by 2030. The 17 goals are: no poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; and partnerships for the goals<sup>25</sup>.

<sup>20</sup><https://www.investopedia.com/terms/m/microfinance.asp>

<sup>21</sup><https://www.techopedia.com/definition/27809/minimum-viable-product-mvp>

<sup>22</sup><https://stats.oecd.org/glossary/detail.asp?ID=3123>

<sup>23</sup><https://www.switchmed.eu/en>

<sup>24</sup><https://www.theswitchers.eu/en/>

<sup>25</sup><https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

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