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Regional Training and Study Visit Access to Sustainable Finance

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Access to Sustainable Finance: The Elephant in the Room



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

AVAILABLE OPTIONS AND
POTENTIAL INNOVATIONS



- The role of Sustainable Finance in catalysing Green Transition in the Mediterranean
- A recurrent demand of Green Entrepreneurs
- A wide range of financial needs do not require a blanket approach
- Needs-based financial instruments require an holistic approach



Bridging global funding gap



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- Global and regional funding gap towards SDGs and 1.5-degree objectives.
- Scale of investments required needs a paradigm shift.
- Developing a pipeline of sustainable business models is a key driver to leverage private investments.
- Regional opportunities, following policy priorities of the Green Deal (external dimension) and its resulting funding mechanisms:
 - The EU New Med Agenda, the EIP for the Southern Neighbourhood and the EFSD+
 - The Global Gateway
 - The Jobs&Trade Regional Initiatives (TEI)



Regional Landscape: The current situation



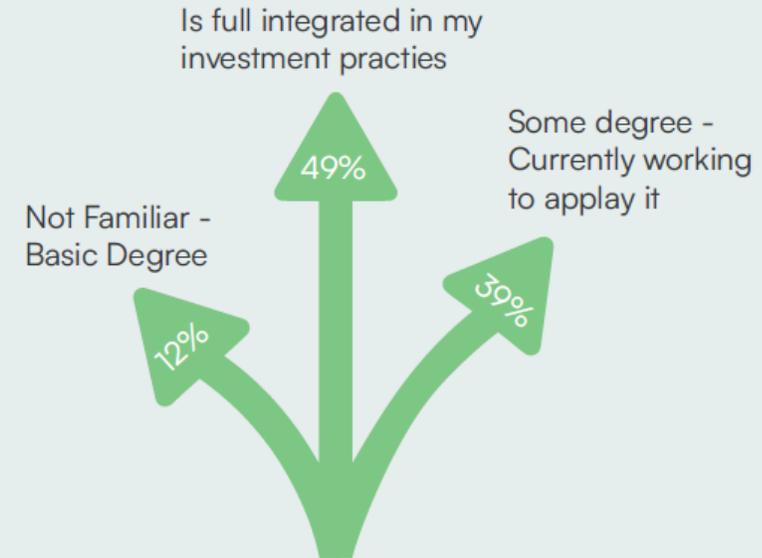
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THE ADOPTION OF SUSTAINABLE FINANCE CRITERIA IN THE INVESTMENT DECISION MAKING.

To what extent is the concept of Sustainable Finance considered in your investment decision making?

One of the aspects we wanted to better understand was how extent, the concept of Sustainable Finance was both recognised and adopted as an investment practice among investors in the Region.

Data show that between those who declare that the Sustainable Finance² concept is fully integrated in their investment decision-making (49%) and those who do not know or do not apply these criteria in their decision-making (51%), there is a sort of univocal division (yes-no) in this sense.



MedWaves, 2022



Regional Landscape: The current situation



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Most important aspects in the investment decision making process

Asset allocation is the most important investment decision because it determines the risk-return characteristics of the portfolio. So, when it comes to the main aspects taken into account to make this decision is not with surprise that we discover that the Financial Return occupy the first place in this process. What is, on the other hand relevant, is the fact that Tech Innovation is something that has to be embedded in the portfolio as well as social and environmental impacts.

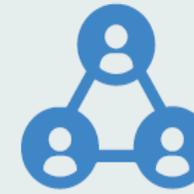
However, despite the fact that, naturally, to the investors the most important and first aspect to be considered while the investment process, is the Finance Return, on the other side this data provide inputs on the matching between investors and impact driven investees.



18%
Tech
Innovation



21%
Environmental
Impact



29%
Social
Impact



32%
Financial
Return



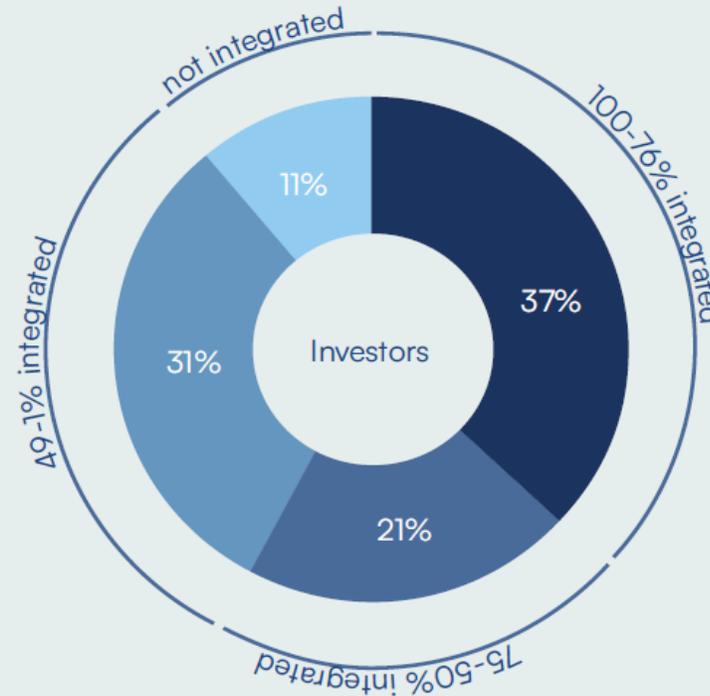
Regional Landscape: The current situation



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Adoption of ESG criteria in the investors' portfolios

What investors are telling us is that the Environmental, Social and Corporate Governance (ESG³) criteria are fairly well integrated in their portfolio.



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Regional Landscape: What investors say?



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However, the investments are still inadequate in part due to the supply side barriers urging for enablers such as public expenditures, policy reforms, changes in taxation and regulation and supporting private initiatives.

We asked to the respondents to identify and prioritize the main barriers to invest in green finance:

91%

the first biggest challenge is represented by a lack of proven business models;

88%

the second challenge is defined as unsupportive policy and/or regulation/data;

74%

the third limitation is the one represented by a lack of scalable projects;

70%

the final obstacle is the lack of market awareness.

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Identifying the “blockers” to A2F



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- Three main blockers preventing Green Entrepreneurs access to finance in the MENA region:
 - Capacity building for entrepreneurs, networking
 - Matching the financial instrument with the the right type of organisation and development stage
 - Lack of appropriate infrastructure, tailored funding & policies



Capacity building for entrepreneurs



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



Matching the right financial instrument



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- Financing needs relate to how sustainable enterprises at **different stages** in their evolution require **different** types of **funding**, some of which is less easily accessible due to deficiencies in the funding community and a general lack of tailored funding.
- For example, financial guarantees that are related to specific social and environmental objectives of the enterprise.



Infrastructure & policies



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



Examples of tools & policies



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- Three examples of tools and policies that can tackle the “blockers” in the MENA region:
 - a. Regional Sustainable Finance Observatory
 - b. EU taxonomy for sustainable finance
 - c. EU External Investment Plan





- The Regional Sustainable Finance Observatory (the Observatory) has the objective of providing knowledge and opportunities to strengthen the capacity of financial institutions to invest in sustainable business models from the Region.
- The Observatory contributes to the removal of existing market barriers that might hinder the gradual integration of sustainable finance practices, instruments, and management models.
- It will also promote sustainable finance literacy in different countries in the Mediterranean.



EU taxonomy for sustainable finance



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



EU External Investment Plan



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- In the Neighbourhood region, the EU's efforts to improve the business environment in partner countries have been largely led by strong policy dialogue at different levels, further supported by financial cooperation modalities and international donor coordination mechanisms.
- Reforms of the investment climate are also promoted by enhancing the dialogue in the framework of budget support operations, but also providing technical assistance (also in the form of investment climate assessments) and capacity development, by means of traditional specific bilateral, regional projects, and using instruments building on EU Member States' expertise such as Twinning and TAIEX.
- It is a key tool for supporting EU partner countries in their efforts to meet the 17 SDGs.



Sustainable finance - what is it?



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



Social finance actors



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



TheSwitchersFund



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- Broad partnership and coalition of impact-driven organizations
- Impact investing and venture philanthropy as key drivers
- Quasi-equity models and revenue partnership models
- Tackling several business development stages, blending instruments





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Thank you for your attention!



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- Click to edit Master text styles
 - Second level
 - ✓ Third level
 - Fourth level
 - Fifth level

