

OVERVIEW

THE SWITCHERS FUND: IMPACT CHALLENGE FUND FOR GREEN START-UPS IN THE MEDITERRANEAN

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Over 500 green start-ups waiting to scale up in the Mediterranean

Launching a green business in the Mediterranean region is no easy feat. It means a new way of doing business putting the environment first providing exciting employment opportunities for young people and an inspiring example for others to follow. The combination of existing environmental challenges in the Mediterranean, high youth unemployment figures and migratory pressures make investing in green start-ups a logical step to tackle all these challenges at once.

In the last two years, the UN Environment Regional Activity Centre for Sustainable Consumption and Production (SCP/RAC) and the European Federation of Ethical and Alternative Banks (FEBA) have been working to improve access to finance for green entrepreneurs in the Mediterranean¹. They have organized seminars with green entrepreneurs, interviewed dozens of investors, discussed with bankers and microfinance organizations, understood the role of incubators and entrepreneurship support programmes, engaged with private foundations and listened to governments.

All of these stakeholders are dealing with the issue of entrepreneurship in their own way, mostly by tackling only a part of the problem. But they all agree that a comprehensive approach is needed to take a young entrepreneur from the idea stage to being ready for private investment. This is a long and perilous voyage that many do not even get to start or one that they abandon halfway.

One of the main issues identified in this process has been that green entrepreneurship has little visibility and many financiers do not quite understand it, which makes them hesitant to support it. Furthermore, micro-financing instruments often fall short of responding to entrepreneurs' needs – early-stage businesses do not yet have a track record to present, for example. Another key issue is that when there are funds and mechanisms to support start-ups they are generally focused on high-tech companies with high risk and high financial return potential. In contrast,

investors perceive green start-ups as risky and insufficiently profitable. Indeed, these findings were confirmed by the mapping of financial instruments done in six MENA countries, concluding that there is a financing gap and difficulty of accessing to finance ranging from EUR 15,000 till EUR 150,000 depending on the country and the project.

Yet, circular economy, green energy production and water efficiency systems, short agricultural circuits, ecotourism and other social innovations have great potential for development in many Mediterranean countries. They can contribute to generating economic growth, create job opportunities and a better environment for everyone. For example, according to the Better Business Better MENA report published by the Business and Sustainable Development Commission, companies pursuing eco-innovative strategies might create USD 637 billion of economic value by 2030².

For this reason, the SCP/RAC and FEBA have established "The Switchers Fund" as a tool to provide and facilitate direct finance and business support services to existing and future green entrepreneurs, and to mobilize local investors and enterprise support programmes as well as European resources.

Investment strategy: Impact first for investors, patient capital for green entrepreneurs

The Switchers Fund relies on the network of "Switchers" supported by SCP/RAC³, allowing the fund to have a continuous flow of projects. The Switchers are 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, green tourism, renewable energy, or waste management.

The Switchers Support Programme is coordinated by the SCP/RAC, whose mission is to promote production and consumption of more sustainable products and services in the Mediterranean Region. Its mandate is aligned with the UN Environment Mediterranean Action Plan.

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Results of the Surveys Done Among Switchers in 2017

According to the survey conducted with 540 green entrepreneurs, about 80 percent required support for accessing to finance. A majority of 73 percent of the Switchers consider access to finance the top challenge, and 56 percent declare that they have challenges in accessing finance. More than 80 percent are currently seeking investments, mainly for business expansion (46 percent) and working capital (55 percent). Among them, 70 percent are asking for grants, 61 percent for equity, and 37 percent for loans.

On the one hand, the Switchers Fund wants to bring seed finance through a mix of grants, loans and equity participations, as a way of strengthening start-up projects and creating a stepping-stone towards raising additional funds in their countries. The Switchers Fund officially launched its activities in 2017 with a first call for grants where six green entrepreneurs received EUR 15,000 each to implement their green businesses.

In March 2017, Yara Yassin of Up-fuse, a brand that promotes an eco-conscious lifestyle by designing and producing upcycled bags from discarded plastic waste in Egypt, became one of the first grantees of the Switchers Fund and received EUR 15,000 to internationalize her green and social business.

The business support services of the Switchers Fund also provide technical assistance to green businesses to further develop their products. Engagement with partners (policy-makers, business intermediaries, and financing institutions) that are working to create enabling

ecosystem for those businesses is also facilitated. The technical assistance includes access to finance services such as “Green Start-ups Meet Investors”, crowdfunding campaign support and the access to a financial self-help toolkit.

Following a vote by the jury and the audience during the Green Start-ups Meet Investors event in Lebanon, Cubex was announced as the winner of the pitch and was offered a USD 2,500 grant to kick-start its green business. The start-up offers a home scale wastewater and solid waste treatment system that allows households to process all of their organic waste on site effortlessly. Marc Aoun, Cubex’s business developer, said then that he believes that if you have the right idea, many people will want to invest in you. He added that young people should develop their own green business ideas and make them feasible through financing models and incubation programmes.

NOTES

1. For more information please visit this link: <http://www.switchmed.eu/en/corners/impact-investors>
2. <http://www.eg.undp.org/content/egypt/en/home/presscenter/pressreleases/2017/12/04/shift-toward-sustainable-business-models-in-middle-east-north-africa-could-unlock-more-than-us-600-billion-by-2030-.html>
3. Almost 4,000 green entrepreneurs from eight Mediterranean countries have submitted an application to receive support and more than 1,600 have been selected and received intensive training. Twenty-five of them have been awarded with an incubation service. The number will reach 40 at the end of 2018.

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