

Mediterranean Sustainable Finance Observatory

Policy brief

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Executive summary

The objective of this Policy Brief is to make the case for the creation of a **Mediterranean Sustainable Finance Observatory** to support green and sustainable business via a set of recommendations.

The whole Mediterranean is facing systemic risks due to environmental pressures and climate change and the resulting risk of social instability. Coordinated action is needed in order to find lasting solutions and sustainable development is crucial in ensuring a future for the region.

One important tool available to achieve a fair development is access to sustainable finance, deployed in a way that takes into consideration economic, social and environmental sustainability. However, efforts have been limited so far and an approach that promotes cooperation among different actors is required.

To this end, a Mediterranean Sustainable Finance Observatory should be created, with the objective of fostering the exchange of information between countries and promoting a rigorous model that sustainable financial actors can follow. It is important to ensure that the members of the Observatory represent both the North and South of the Mediterranean, as they share the same sea and the same future.

A set of recommendations is presented in the following page in order to achieve this objective. Moreover, the structure and role of the Observatory will be presented, providing an overview of the types of activities and internal organisation that it could feature.



Recommendations for the establishment of a Mediterranean Sustainable Finance Observatory

It is recommended that a **Mediterranean Sustainable Finance Observatory** be established, with the following characteristics:

1. Sustainable finance

Members of the Observatory should provide input and feedback on the creation or strengthening of sustainable financial instruments.

2. Geographical scope

The geographical scope of the Observatory should include both the Northern and Southern Mediterranean, in order to facilitate the exchange of information and best practices.

3. Independence

A permanent headquarter should be established in a Mediterranean country and steps should be taken to ensure its financial sustainability and independence.

4. Networking

The Observatory should liaise with representatives of international organisations and target countries' relevant stakeholders and Ministries (environment, economy...) to provide inputs on policies enabling access to finance to sustainable entrepreneurs.

5. Advocacy

The Observatory should advocate for the adoption of sustainable economic principles in Mediterranean countries.

Background and context

With an estimated population of over 526 million in 2021(1), the Mediterranean is a highly populated and diverse region. Despite the fact that the countries in this region are facing the sea, many are either arid or at risk of desertification. This fact, coupled with the large population, makes the region highly vulnerable to climate change. Moreover, scarce and diminishing natural resources necessary for life — especially water — coupled with a growing overall population, makes the area also at risk of social instability and unrest (2).

Climate change mitigation and adaptation is part of a set of global objectives that should go hand in hand with each other in order to promote sustainable development. Such set is known as the Sustainable Development Goals (3). They present a common framework that is valid for every country and include several factors that are directly linked with climate change, such as SDG 12 - Responsible consumption and production.



(1) <https://worldpopulationreview.com/country-rankings/mediterranean-countries>

(2) <https://harvardnsj.org/2018/05/water-scarcity-the-most-understated-global-security-risk/>

(3) <https://sdgs.un.org/goals>

For the last 10 years, countries in the Mediterranean are joining efforts to shift towards a green economy through the Barcelona Convention and its Protocols, the UfM Ministerial declaration/s on Environment and Climate Change among others (4). A desirable and necessary starting point is to create partnerships and networks that can promote the green transition, coherent with SDG 17 - Partnerships for the goals.

This coordinated action is needed in many contexts and sectors if we want to achieve sustainable development, and one of the most important catalysts to kick start and sustain this process comes from access to finance and sustainable investment. They can provide the means that are required to implement the complex, interconnected and necessary adjustments the Mediterranean badly needs. Capital is required whenever a business needs investment to further expand, or when a startup leaves the family shed and moves to better premises. This is valid for any and all types of businesses, but even more so when an entrepreneur cares not only about the economic sustainability of its creation, but also its social and environmental impact — and the timing is now.

Especially in the Southern Mediterranean, there is a new generation of young people that are innovative and well versed in ICT solutions. They are also more socially and environmentally aware and many are channeling their efforts on how to mitigate issues that affect their communities like recycling needs, solar- powered water pumps and so on.

However, whereas the financial world is well equipped and capable of measuring whether a business can survive in the medium- to long-term, it still lacks the ability to understand the effect that such business will have on the surrounding community and environment. In mainstream economics, the latter factors have been traditionally left outside the evaluation - or, rather, dismissed - as “externalities”. That is, the effects of the activities of an enterprise that are not taken into account as they are considered not relevant to the business plan.

(4) www.unep.org/unepmap/events/meeting/COP22-Barcelona-Convention-Mediterranean;
https://ufmsecretariat.org/wp-content/uploads/2021/10/UfM-ministerial-declaration-ENV-CA_final-1.pdf

That is exactly what sustainable finance does. When deciding whether an entrepreneur is worthy of receiving funding, a typical sustainable financial provider takes into consideration what is called the “triple bottom line” (5): financial, social and environmental sustainability. This helps to better assess the performance of an enterprise in the longer term.

So far, while this approach has existed for a few decades, it has been performed by a thin sliver of the financial sector. Needless to say, the financial world is a wide spectrum, and there are certain sections that have been measuring (at least partly) the non-financial impact for longer. To give an example, microfinance has always taken into consideration mostly the social effect of a business on society. This approach has recently been enhanced by a greater awareness of the environmental crisis and by the advances in science that now allow evaluators to access more trusted data also on climate change, demographics and so on.

In the last decade, there has been a slow shift also in mainstream finance towards a more holistic approach, for example in terms of Corporate Social Responsibility (CSR). While this is encouraging, the vast majority of capitals are invested in “business-as-usual” and the shift is advancing very slowly.

(5) <https://online.hbs.edu/blog/post/what-is-the-triple-bottom-line>



More recently, in November 2021 COP26 conference took place, and once again one of the most important issues was green/climate finance, in particular, how to finance the green transition, in order to avoid a climate catastrophe that would imperil humanity's very existence. As it was noted, hundreds of billions are needed in the next decades to close the funding gap and avoid the worst of climate change, especially in developing countries.

This paradigm shift is welcome, but can also become a way for traditional finance to continue with the “business-as-usual” practices, just trying to present themselves as sustainable. This is a risk that can be detrimental for innovative and sustainable entrepreneurs giving much more consideration to the triple bottom line approach, and requires a trustworthy system that can reliably monitor such challenges and raise awareness to all the stakeholders involved.

With the right funding, it could be possible to achieve economies of scale and foster small industries capable of sustainably producing goods both for the domestic and international markets. If done at the regional scale, this in turn would be the start of a positive feedback loop for not only the survival, but also the prosperity of the Mediterranean.

The Mediterranean Sustainable Finance Observatory is an answer to the current situation, characterised by tentative, disjointed and slow efforts that are not matching the size of the demand.

The logic behind the Observatory is to foster a network approach. Such approach recognises that single entities (even those as large and complex as states) are not enough to solve these challenges, and sees cooperation with other stakeholders as a win-win solution. Indeed, by pulling together experts with different knowledge, origin and background, solutions that go beyond what would be achievable otherwise can be devised.

Furthermore, positioning at the forefront in the Mediterranean is advantageous for early adopters, who are poised to benefit the most in all aspects of the triple bottom line. Concerning the financial side, the sustainable finance sector is showing huge growth and poised to speed up as more and more capitals are diverted in the sector. International organisations and financial institutions are focusing more and more their attention towards the “funding gap” that is necessary to avoid a scenario where human life may not be possible in large swathes of the planet, and a mix of public and private funds are needed to achieve that goal.



Main roles of the Mediterranean Sustainable Finance Observatory

Advisory

The Observatory should provide feedback and expert opinions on topics related to sustainable finance, making sure that the messages are delivered to the relevant stakeholders. Moreover, it should be proactive in providing guidance on the creation of innovative financial instruments that follow the principles of sustainable finance.

Coordination

Given its nature of a network, the Observatory should take advantage of the diversity of its members and foster collaboration among the organisations that are represented to add value. Furthermore, it should coordinate with other relevant networks and stakeholders in campaigning for the promotion of sustainable finance and investment.

Monitoring

The Observatory should monitor the national and regional policies related to sustainable finance and always be up-to-date. It should also monitor new and existing financial instruments that cater to sustainable development. Additionally, it should also track and assess whether certain policies or financial instruments are having the intended effect in terms of the triple bottom line approach. In case critical issues are discovered, the Observatory should provide recommendations, detailing weaknesses and suggesting potential improvements.

Beyond access to finance

While its core activities should be focused on sustainable finance, the Observatory should go beyond access to finance. It should be engaged and aware of the overall sustainability aspects when it comes to green businesses. Indeed (as described below), membership of the Observatory should be diverse, going beyond the financial world. This would provide better services for the financial world, as well as society and the environment.

Communication

Taking advantage of the fact that its members are diverse in terms of geographical and skills scope, the Observatory should be proactive, communicating initiatives & innovations in the field of sustainable finance. Given its region-wide potential audience, it should promote cross-pollination of ideas, promoting best practices and sharing insights on useful methodologies.

Networking

Given its nature, the Observatory should promote activities that regularly put into contact its members, both among themselves and with external stakeholders. It should also promote internal ad hoc sub-groups working on specific issues that will report to the whole organisation.

Research

Through its activities, the Observatory should analyse what is present on the ground and try to spot gaps in financing the sustainable development. At the same time, it should suggest ways to fill those gaps and share them with policymakers and sustainable financial institutions, potentially also offering its services by providing external support.

Technical assistance

The Observatory should provide technical assistance to interested stakeholders (policymakers, financiers, entrepreneurs). It could provide guidance on how to better take into account the impact of certain policies on society, ensure that a financial instrument is used as intended and its objectives are met, or provide guidance on implementing technologies that improve the environmental sustainability of an enterprise.



Main features of the Mediterranean Sustainable Finance Observatory

Geographical composition

Members of the Observatory should be composed of at least one member per country, in order to ensure representation of all the Mediterranean countries.

Background of members

Members of the Observatory should be composed of a variety of backgrounds.

Suitable profiles would come from the sustainable finance sector, international organisations operating in the Mediterranean (e.g. UN, UfM), business organisations and central banks (e.g. EIF, EIB, EBRD). Moreover, given the complexity and variety of challenges when dealing with sustainable development, profiles that are not necessarily related to finance should be involved. For example, experts on climate, engineering, biologists, impact managers and social scientists would be useful additions.

Management

At the initial stages, it is recommended to keep the management structure relatively simple, adapting it as the Observatory develops and further solidifies. Consequently, the management of the organisation should be composed of a Secretary, elected by all members of the Observatory on a 2-year basis with a simple majority. The Secretary would be in charge of implementing the strategy of the organisation, representing the Observatory externally and overseeing the Backoffice. The body that supervises the Secretary is the Steering Committee (see below).

Governing bodies

The Steering Committee should be the body in charge of overseeing that the Observatory is managed efficiently and in line with the objectives of the organisation, similarly to a Board of Directors. Elected every 4 years by all the members, it should devise the strategy and collect the feedback from all sides of the organisation. The Steering Committee should be composed of between 5 and 10 members, ensuring that it fairly represents the geography and variety of skills in the Observatory. The Steering Committee should gather every quarter, with the presence of the Secretary expected. The full Observatory membership should also meet regularly in order to ensure that the organisation is operating in line with its objectives, as well as to exchange on the topics the Observatory deals with.

Operational bodies

Given the variety and complexity of the Mediterranean, as well as the multi-faceted challenges the Observatory deals with, ad hoc Working Groups should be created with subsets of members, upon request of at least 10% of the full membership or by the Steering Committee. Whereas Working Groups do not have a managerial role, they would be dealing with specific topics, such as policy monitoring and advocacy, impact management, climate adaptation, financial instruments design and monitoring. They should work throughout the year in coordination with the Secretary and devise opinions and documents detailing their work and conclusions. Working Groups could be permanent or temporary, depending on the needs and the topic.

Back office

In order for the Secretary to implement the strategy of the Observatory, a Secretariat should be created, tasked with the daily management of the organisation. Activities that should be part of its activities should be: administrative management, communication and dissemination of information from the Observatory and the various bodies, organisation of events and publications, network management. Under the input of the Secretary and the Steering Committee, the Secretariat would be in charge of compiling a yearly publication containing the main outputs of the Observatory and its bodies, in order to clearly provide all the information to the external audience. Publications on single topics could also be prepared as needed.

External stakeholders involvement

If deemed appropriate and useful, external observers could be invited to participate on meetings and events, as well as to be part of Working Groups where additional expertise is required. Additionally, external stakeholders can become new members of the Observatory, proposed by the Secretary with the approval of the Steering Committee.

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