



## 15<sup>th</sup> FEMIP Conference

### **Innovation, entrepreneurship and jobs: financing pioneering investments in the Mediterranean region**

On Monday, 26 October, some 170 people from across the EU and the Southern neighbourhood participated in the 15<sup>th</sup> FEMIP Conference. Meeting at the headquarters of the European Investment Bank (EIB) in Luxembourg, they discussed issues surrounding '**Innovation, entrepreneurship and jobs: financing pioneering investments in the Mediterranean region**'. The event was organised by the EIB in collaboration with the Secretariat of the Union for the Mediterranean (UfM) and the Luxembourgish Presidency of the EU. It took place back-to-back with the UfM Senior Officials' Meeting the following day.

During opening addresses, high-level representatives of the three partners highlighted the significant contribution made by SMEs to the Mediterranean region's economies. **SMEs account for some 25% of GDP in the region and up to 80% of the region's jobs**. The role of the EIB in providing finance and other support to such businesses was therefore welcomed, as a central component of policy to develop the private sector. This support is complemented by the UfM's own extensive work programme, with particular consideration given to activities under the Med4Jobs project. Overall, speakers drew attention to the breadth of areas covered under the label 'innovation' – including not only high-tech but also diverse other activities offering new ways of meeting market needs.

Speakers in the four panels included **entrepreneurs, bankers, investors, and representatives of international institutions**. The panellists were complemented by strong participation from the audience through question and answer sessions during each of the panels, which covered the topics of:

- **Lending for the private sector** – financing throughout the business lifecycle
- **Venture capital and private equity** – growth capital for innovative businesses
- **Pioneering instruments** – stimulating investment in new market segments
- **Scalability and replicability** – seeking solutions and lessons to learn

From the discussions, **four fundamental themes** emerged:

#### **1. Education and skills development**

The **ecosystem for entrepreneurship as a basis for high-growth businesses is not widely developed** in the Mediterranean partner countries. **Capacity building activities** are therefore needed in order to raise awareness and to help develop the entrepreneurial culture. One current entrepreneur explained that, although potential entrepreneurs have many ideas, they require support to structure these into viable business proposals. Financiers, incubators, science parks etc. can all act in this respect. More broadly, a need was expressed for **better alignment between education programmes and the private sector**, to ensure both that graduates have the technological capabilities required of a modern labour force, and also that academic research be more directly applicable to business needs.

Participants highlighted that the **development of the private equity market** in the region over the past 10-15 years – in which the EIB has played an important role – has been instrumental in building awareness about entrepreneurship. However, more time and further commitments are needed for sustained changes in attitudes. On a smaller scale, the case of the UfM-labelled project with Réseau Entreprendre, a civil society organisation providing **entrepreneur-entrepreneur mentoring, integrated with EIB financing** via credit lines to local banks, was welcomed as a model, which could be extended to other countries.

## 2. Targeted regulatory reforms

During discussions of regulation, it was noted that reform did not necessarily mean restricting oversight. The regulation of the banking sector in Egypt, for instance, was recognised as having protected the country from the most severe effects of the international financial crisis. However, more scope was identified, particularly in terms of **tax and investment codes**: although entrepreneurs are able to navigate the complexities of these systems, the effort required to do so represents an inefficiency in the ecosystem. Participants also sought further efforts to boost **financial inclusion**. In this respect, the example of the EIB's work, also benefitting from activities under the UfM label, to provide support for central banks to boost mobile payments in the region was welcomed.

Another key topic was the need to **facilitate cross-regional operations**. For example, regulation in some jurisdictions currently prevents the creation of funds which operate across countries. This reduces the potential both for synergies from managing larger funds and for diversification of risks, an important consideration for investors in the challenging Southern neighbourhood context. Foreign exchange controls, which were felt to limit business opportunities, were also mentioned, and international financial institutions (IFIs) were called upon to extend their own local currency financing offers. In addition, participants agreed that efforts to reduce barriers to international business should be accompanied by programmes to raise awareness among entrepreneurs of the opportunities presented.

## 3. Sustainable value-chain financing

It was widely recognised that access to finance is a necessary but not sufficient condition to drive entrepreneurship in the Mediterranean region. More specifically, there was consensus that financing for entrepreneurs should be targeted carefully in order for it to have a sustainable impact. Notably, rather than risking distortions via grants for new entrepreneurs, finance should be **provided on market terms**. This would mean that early-stage business accelerators should function along the same principles as later stage venture capital providers, with the same rigour of investment decisions.

Participants particularly noted the relative absence of commercial investors providing equity to innovative startups in the so-called "Valley of Death" stage – towards the end of the product development and launch phase, but before full profitability is reached – during which investment is critical to enable business growth. By maximising their support for these earliest and riskiest stages of the entrepreneurial value chain, IFIs could contribute significantly to the emergence of an efficient entrepreneurial infrastructure. However, operations in these segments tend to be small, risky and time-consuming, which discourages IFI participation. A joint initiative among IFIs to pool resources, blending equity and grants to provide ecosystem builders with both financing and capacity building, was mentioned as one possible solution to this situation.

For international financiers, there was a further call to ensure that synergies are developed among projects. This should not necessarily mean seeking standardisation, but rather that a **strategic and coordinated approach** should be adopted. One way of achieving this is to develop holistic programmes with full-sector coverage, such as the EIB's support for agri-business value-chains which is already being implemented under the EU's DCFTA facility in the Eastern neighbourhood.

## 4. Political context

Participants expressed an understanding that long-term success in building an entrepreneurial environment in the Southern neighbourhood is **dependent on achieving political stability in the region**. Although IFIs are not the primary actors in this domain, their role was clearly acknowledged. In the immediate context of instability, for example, the political risk coverage offered by the EIB under the EU's External Lending Mandate was recognised as encouraging investments which could help boost long-term development prospects. Simultaneously, by ensuring that their financing reaches the broadest possible range of beneficiaries, the EIB and the EU could support the emergence of more diverse entrepreneurial classes in the partner countries. In this respect, a specific call was made to increase efforts to empower women.

During a concluding discussion between the Luxembourgish Foreign Minister and the EIB President, it was noted that a **holistic view to development** will be the key to ensuring that the Sustainable Development Goals reach their intended impact. This implies combining public interventions with private actions. One entrepreneur described a business model which provides education materials to personal digital devices, thereby making it possible to reach a broader audience at a lower cost than traditional classroom-based learning. In a region where the geopolitical context is placing extreme burdens on public services, such innovations will continue to be fundamental for stability and growth.