



INTRODUCTION

Miarakap began its operations in 2018 as an "Impact Investment Fund".

As defined by the *Global Impact Investor Network* (GIIN), impact investment is an investment "made with the intention of generating a positive return, having a measurable social and environmental impact, while ensuring financial performance".

Miarakap's mission is in line with the following definition : contribute to economic and social development as well as environmental conservation in Madagascar through the promotion, support and financing of ambitious, responsible entrepreneurs with high potential for growth and impact.

Over the past five years, it has become clear to us that our flagship financing tool, capital, enabled entrepreneurs and investors alike to achieve this dual objective of profitability and impact, **but that it was proving insufficient in terms of resources and tools to respond to the social, environmental and climate emergencies that our region is facing.**

We therefore developed *Blended Finance* programs and tools to increase the efficiency and reduce the risk of financing for impact businesses, thereby helping to make them key players in environmental conservation and local development.



Blended Finance helps accelerate nature projects

According to **Convergence**, **Blended Finance** is defined as "*the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging markets, generating positive outcomes for investors and affected communities*".

This approach involves using public and philanthropic funds to modify the risk/return profile of investment projects in order to attract the private sector[1]. Over the past 15 years, the 600 Blended Finance transactions have mobilized an average of USD 10 billion per year, directly mixing public and private sources, which is very little compared to the total volumes of official development assistance (USD 200 billion in 2022) and impact investment (USD 40 billion in 2022).

[1] The Blended finance playbook for nature-based solutions - Earth Security

Extreme poverty is the main cause of environmental degradation

With 83% of the population living in extreme poverty and less than 2% in formal employment, the nibbling of natural ecosystems is often the main means of subsistence for rural and peri-urban populations: charcoal-production, slash and burn agriculture (tavy), brick-burning, over-fishing and the exploitation of endangered natural animal and plant resources are the survival packages of vulnerable local populations, in the absence of economic and social opportunities.

The situation is similar in the Comoros, and in Mozambique where the extreme poverty rates are respectively 43%, and 71%.

[1] The Blended finance playbook for nature-based solutions – Earth Security

Beyond the conservation approach, we need to involve entrepreneurs

Poverty is widely recognized by the conservation community as a key factor in the deterioration of natural capital. Most conservation NGOs in Madagascar and the Comoros take this into consideration and strive to provide income-generating activities for local populations.

However, on their own, NGOs often struggle to establish viable economic enterprises at the appropriate scale, and it is necessary for entrepreneurs to step in and propose viable economic solutions. We believe that businesses focused on environmental impact are a crucial part of the solution. They are often overlooked, yet they have the potential to play a much bigger role in agribusiness, agroforestry, renewable energies, waste management, green fuels, education, ecotourism, health, and so on.



Case of Ando Pépinière, an agroforestry start-up that produces and distributes 200,000 seedlings and seeds per year in the south-east region of Madagascar (Farafangana), a region particularly threatened by deforestation, illegal logging, the expansion of slash-and-burn agriculture (tavy) and the conversion of forests to farmland or pasture, despite the region's environmental and economic potential (several endemic species, a tropical rainforest rich in biodiversity). The company mainly produces ~50% cash crops (cloves and coffee), forest trees (albizzia) and a few tropical fruit trees (lychee).

The company uses no chemical inputs, and in addition to selling seedlings, it also trains buyers and offers technical support.

It supplies development and conservation organizations such as Conservation International (CI), the Adventist Development and Relief Agency (ADRA) and the Fonds d'Intervention pour le Développement (FID).

In 2023, the company achieved a turnover of almost 100,000USD and employs around ten people.

Companies need investment readiness support

Entrepreneur-led projects are never ideal and are rarely ready to be funded, impact ambitions are hardly formalized, monitoring and evaluation tools are not or barely existent... The teams of private enterprises need time to fully grasp these aspects, and also need support during this phase to prepare them for investment-driven scaling - a concept commonly referred to as "*investment readiness*".

These companies need support: to improve their understanding of conservation issues, to forge the right environmental partnerships, to develop and implement sound impact strategies and to access markets. They also need help with communication - to present their models to investors, partners and customers - and also with advocacy, to help create an enabling environment.



Case of Jiro-Ve, a company specialized in providing solar lighting and clean cooking solutions to low-income populations in remote areas of Madagascar. The company supplies energy to over 16,000 people and has a positive impact on the lives of 80,000 people, 80% of whom are children and women. The greenhouse gas sequestration capacity linked to the energy sector is widely regarded as natural, but measurements, baselines, tools and monitoring and verification systems are not yet fully developed, particularly for small businesses. Blended finance plays an essential role in helping these SMEs to develop tools, assess and quantify their impacts, and monitor their progress.

Blended Finance reduces risk for private investors, attracts more capital for businesses, and sustains the impact of development and conservation players.

The local context, combined with prevailing economic conditions, introduces a series of risk factors that hinder business creation and growth. Companies focused on nature-based solutions often follow a more experimental path, facing higher risks and longer time horizons before achieving financial viability.

These companies and their projects need risk mitigation ("*derisking*"). This calls for the development of a "blended" approach, in which public funding plays a risk-reducing role for the project, and private funding plays a role in maintaining the profitability, sustainability and impact of the approach.



EXAFEED



« Economic contexts and the sometimes uncertain nature of innovative projects can be an obstacle or a hindrance to private investors, which can be fatal to their success. Blended finance goes a long way to solving this problem, allowing you to take risks, but above all to go further, faster. »

- Vincent Lucas (EXAFEED)



Exafeed is an impact and innovation company, producing sustainable alternative proteins through insect farming using organic waste and agricultural by-products, for animal and human consumption. Alongside this main product, the company produces organic fertilizers from frass.

The company's vision is to become a regional leader in innovative and responsible protein production in the Indian Ocean, transforming over 3,000 tons of agricultural by-products per year into insect flour. It has been proven that :

- Insect farming requires less land, less water and energy than any other farming model;
- The valorization of inputs (wastes) reduces GHG emissions linked to their methanization: 1 metric ton of fresh larvae enables to reduce methane emissions of an equivalent to 4.4T of CO₂ (direct and induced emissions). By collecting 20 tons per day, Exafeed would contribute to reducing direct and induced emissions by 88T of CO₂ per day.
- The use of frass enriches the soil thanks to essential nutrients, bacteria and micro-organisms it contains.
- Alternative protein replaces fish protein, thus reducing overfishing: 1 metric ton of insect protein preserves 1 metric ton of fish in the ocean.
- The alternative protein replaces soy protein, helping to reduce deforestation: 1 metric ton of insect protein preserves 1,700 sqm of croplands.
- One formal or informal job is created for every 500 kg of waste collected per day.

Since 2017, this pioneering and innovative company in the production of sustainable alternative proteins, has been supported by the Critical Ecosystem Partnership Fund and USAID in its research and development phase,. This initial financial support has enabled Exafeed to carry out in-depth research on species (crickets through Exafood and then gradually black soldier flies), on the best feeding and breeding conditions, etc. through a pilot farm in Tsimbazaza.

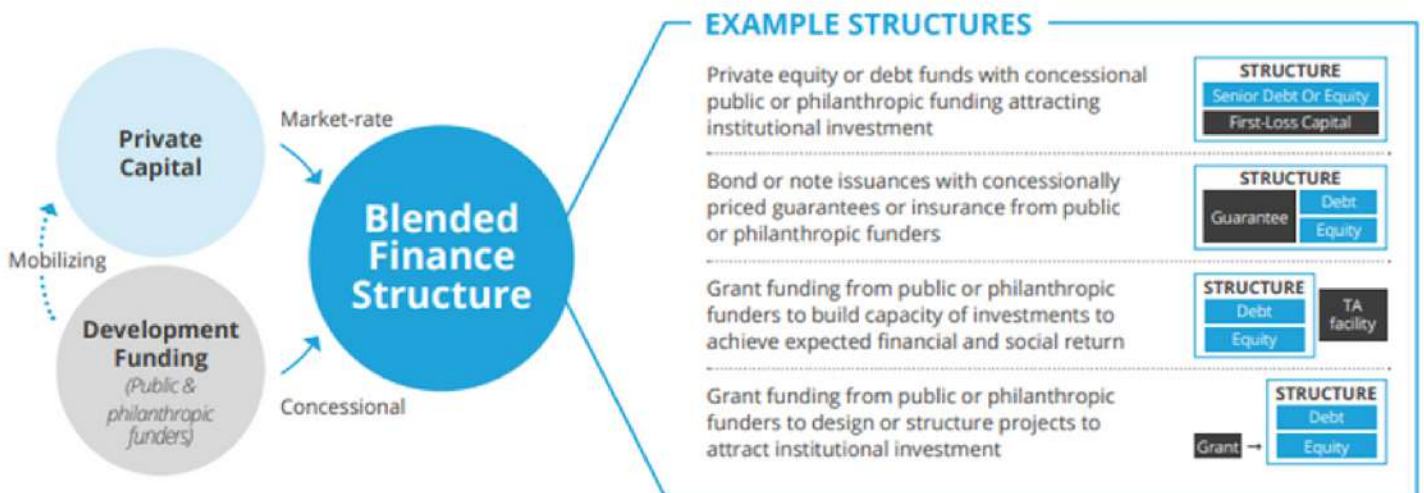
This research works allowed to catalyze funding from private investors, an American philanthropist and Miarakap, enabling the company to consolidate its activities, develop its flagship product and scale up its breeding and production chain.

Today, the company is able to produce a significant quantity, that is several tons of sustainable alternative proteins, has forged strategic partnerships with input suppliers and has extended its activities to other regions of Madagascar.

Thus, for about USD 1 in subsidies, the company will have mobilized more than USD 2 in private funding.

Which Blended Finance tools for which situations?

Preamble : The different mechanisms and structures of Blended Finance



Source : State of Blended Finance, Convergence, 2023

1. Grants or seed loans for design, preparation and creation of an investment vehicle and team training

Financing the creation of an investment fund involves highly standardized stages: market analysis, operational feasibility study, legal design, business plan, definition of the investment and impact thesis, construction of the deal-flow, fund-raising, drafting of procedures, and the launch itself.

These stages are long and costly for fund managers, especially teams launching their first or second fund. The cost is often disproportionately high when it comes to "small" funds (under USD 50 million), which are a priori suited to a local, regional or exploratory impact approach.

It is in this spirit that the Miarakap founding team was able to benefit from a 100,000 euro grant from the Government of Monaco and the Argidius Foundation, between 2016 and 2018, which enabled them to carry out a market and opportunity study for the creation of an investment and support vehicle dedicated to financing impact SMEs in Madagascar. In particular, this study enabled us to estimate the needs and number of SMEs in the target segment, the different sectors likely to be targeted, and to specify the investment and impact thesis of the future fund.

These funds were used to finance the fund's lengthy set-up phase, which involved identifying and analyzing the first investment targets, drafting several structuring documents for the presentation of the fund (such as a commercial teaser and an investment memorandum), building a financial business plan consistent with the investment strategy, identifying and approaching potential investors

for participation in the round-table, conducting a legal feasibility study and drafting the documentation framing the fund's operation and governance. All this enabled to achieve a fund raising of 3 million euros, subscribed by 16 investors, including the Investisseurs & Partenaires Group, the country's leading commercial banks, several major corporate leaders in their sectors, and a number of entrepreneurs and private investors.

In March 2018, 21 months after these grants were awarded, Miarakap Investissement was able to start operations. 5 years later, 15 companies have received equity financing and the fund's capital has been increased to 6.5 million euros, bringing together today 25 investors, and an investment team of 9 talented and committed professionals.

When it comes to environmental finance, the question of financing design and preparation phases is even more vital, as approaches are innovative and riskier, benchmarks are rare and projects must necessarily go through an initial exploratory phase.

Strategic design grants help train fund managers and investment teams in the complex fields of climate and biodiversity. Impact investors like Miarakap, already accustomed to the weight of the "mission" in the investment strategy and the need to define robust theories of change and relevant impact measurement

and support frameworks, are obvious partners for the rise of nature-based solutions financing structures.

However, these managers or future managers, who are often finance and business generalists, need to develop their own skills in environmental issues. They can do this through partnerships with environmental actors, specific training courses, participation in conferences and seminars, travels to carry out international benchmarks or build partnerships, subscription to paid publications, etc.

From the start of our activities, in 2018, the Critical Ecosystem Partnership Fund (CEPF) supported us in our approach to formalize our environmental impact thesis, through a funding of USD 120,000, used to define an environmental impact strategy, train the investment team in environmental issues, build a pipeline of companies (through field trips and benchmarks, etc.) with a business model closely linked to environmental conservation topics.

These actions have enabled us to strategically design a program to finance and support businesses in environmental conservation, at scale: in March 2022, the Mitsiry program was launched. This is a Blended Finance program financed up to USD 5 million by USAID, for which we have catalyzed USD 7.5 million in private-sector financing.

This Blended Finance program, the first of its kind in Madagascar, will finance and support some 30 businesses with a positive impact on biodiversity conservation and local communities in the agriculture, ecotourism, environmental education, agroforestry, energy, aquaculture, waste management and green fuels sectors.

2. Technical assistance funds to build the capacity of investment targets and their stakeholders, in order to make them eligible for larger-scale financing - *Investment readiness*

The implementation of most company projects requires the active participation of a number of local stakeholders, such as local organizations, local communities and company employees. Often, these stakeholders require training in technical, commercial or financial fields to become fully operational.

Building the capacity of these various stakeholders through technical assistance prior to the investment, can play a decisive role in the success of the project.

As part of the Mitsiry program, we support beneficiaries in this investment readiness process by strengthening their strategic, organizational, financial and impact capacities in 4 systematic areas: (1) standard governance: monthly steering committees and regular reporting, enabling detailed and regular technical and budgetary monitoring of the various projects, (2) a monitoring and evaluation system that meets international standards, (3) administrative and financial support, and (4) customized support in formalizing impact strategy and the theory of change.



Senteurs et Saveurs du Monde

Senteurs et Saveurs du Monde (SSM), a company specialized in the collection, production and processing of honey and other bee products, providing livelihoods for over 750 beekeepers, was among the beneficiaries of our technical assistance. Through field missions and the use of our networks, we supported the company in formalizing and strengthening its impact thesis and theory of change, as well as in building partnerships with other stakeholders (CSOs, NGOs, associations) around their intervention areas. This technical assistance enables to upgrade the company's management and monitoring tools and to formalize its theory of change, making it eligible for more substantial investments.



« We are delighted with INDRI's technical assistance: their expertise and practical approach have given us a clearer perspective on how to further develop our environmental reach around beekeeping, particularly through the development of partnerships with committed actors, and also on how to coordinate the initiatives of local actors in the field. »

- Laura Razanajatovo (SSM)



We also developed a start-up accelerator with a positive impact on environmental conservation, to prepare them for this investment readiness.

Since 2022, this accelerator detects, finances and supports emerging champion start-ups on business and impact on environmental conservation and local community adaptation. With 20 start-ups benefiting from our support today, in the sectors of green fuels, chocolate production, cassava flour, edible insect-based protein flour, dried fruit, organic pesticides, beekeeping, essential oils, clay bricks, plastic waste recycling, etc., we have established a set of five support pillars, each designed to offer comprehensive and targeted support:

- **Technical assistance:** By organizing monthly steering committees in collaboration with technical experts and our experienced investment managers. This step ensures that start-ups are well guided in their growth trajectory through workshops on specific topics,
- **Mentoring:** Our mentoring program assigns each entrepreneur a dedicated mentor from our ecosystem of entrepreneurs and experts, offering personal guidance and expert advice on how to solve the challenges they face. The mentor is an experienced entrepreneur who has gone through the stages that our mentored entrepreneurs will necessarily go through: designing and improving high value-added products or services, building their team, structuring their company, managing growth, financing and problems,
- **The community:** Our global network, bringing together the national and international ecosystem, is at the service of our start-ups. This community offers opportunities for networking, sharing ideas and collaborating, sharing business or work opportunities, benchmarking, potential customers, creating an environment conducive to growth for start-ups,
- **Capacity building:** Through monthly Masterclasses and workshops on topics such as human resources, the use of digital tools, administrative and financial management, entrepreneurial mindset, branding, theory of change, etc., we aim to strengthen the skills of entrepreneurs and their teams in business management subjects (taught by the Miarakap team) or technical subjects (on which we call in external experts),
- **Finding additional financing:** In addition to providing start-ups with interest-free, unsecured repayable advances ranging between \$5,000 and \$45,000, we help them to raise additional external funding to further support their growth and expansion.

MALAKASS

Based on the observation that cassava is an abundant but poorly-valued commodity in the southern region of Madagascar, Malakass transforms cassava into high-quality, naturally gluten-free flour. The company obtains its daily supplies from dozens of farmers grouped into cooperatives within a 100km range of the town of Tuléar.

Today, this region is severely affected by the effects of climate change, deforestation, loss of biodiversity, drought, loss of farmland and yields. In 17 years, the Atsimo Andrefana region has lost almost 60% of its dense forests (i.e. around 10% of the region's surface area) and 66% of its degraded forests. The region is mainly threatened by the proliferation of charcoal kilns, illegal logging to fuel them, and shifting slash-and-burn agriculture.

Cassava flour production in this region plays an essential role in preserving the environment while improving the living conditions of local farmers:

- Through a production system that puts more value on cassava in comparison past practices: traditionally, to make a living from this low-value product, one had to produce large quantities;
- Since cassava can be grown on marginal lands or on the same plot of land for several years without the need to clear new areas, this diverts local communities' attention from the forest;
- Cassava is a climate-resilient crop, capable of withstanding extreme weather conditions, particularly drought, thanks to its ability to grow in nutrient-poor soils. This is an important factor in this region, where rainfall is relatively low and, above all, unpredictable. Growing cassava enables farmers to maintain stable harvests and incomes, despite climate hazards. Yield losses are lower than for maize or rice when faced with the same climate hazards.

Finally, the company's meticulously selected suppliers do not use any synthetic fertilizers or pesticides, and therefore do not contribute to soil degradation, water pollution or loss of biodiversity.



3. Concessional financing or matching grants, which make it possible to mobilize private capital while reducing the cost to beneficiaries and maximizing the project's impact.

In emerging countries, one of the main obstacles to private sector development lies in the shortcomings of the public sector (infrastructure, security, education and training, legal framework, macroeconomic and political instability, etc.). By financing the local private sector, development institutions can mitigate part of these obstacles.

Projects with a positive environmental impact generally have high risk profiles, distant

profitability horizons and moderate profitability levels, either because they require major investments with very long payback periods (solar energy, ecotourism...), or because they impose constraints on themselves that they cannot fully pass on in their sales prices (sustainable agricultural or livestock production sectors...). or because they are subject exogenous risks that are out of their control, linked precisely to nature (meteorological or health events...).

The matching grant is Mitsiry's main financing tool. This is a mechanism for co-financing projects with a social and environmental impact, supported and co-financed by private companies. Through this scheme, companies are used as partners in the implementation of local projects, the economic development of local communities and the conservation of biodiversity, with projects of public utility such as free vocational training for students from disadvantaged backgrounds provided by Vatel (a higher education establishment specializing in hotel and ecotourism training), the training and awareness-raising of beekeepers by SSM, and access to basic services such as energy by Jiro-Ve.



ANKA

ANKA is a pioneer and expert in the development, design, installation and operation of solar mini-grids. The company's mission is to provide access to reliable, secure, affordable and sustainable energy to populations not connected to the State's main grid. It accomplishes this through 3 complementary activities: engineering and construction of solar mini-grids, decentralized renewable energy projects, and consulting.

Today, ANKA has :

- 17 solar networks
- 3 regions : Vakinakaratra, DIANA, Atsimo Andrefana
- 30 villages served
- 15,000 beneficiaries (and 50,000 target beneficiaries)
- 100 employees



«Energy is part of the public utility, which cannot be profitable without the contribution of public funding. There is a need for several derisking mechanisms to guarantee both the impact and profitability of projects, namely grants to leverage private investment and ultimately lead to lower tariffs for the final beneficiaries, who are the local communities ».

– Camille André-Bataille (ANKA)



Matching grants to offset major project-related investment needs - which companies cannot absorb on their own: Anka uses Blended Finance on every new power plant construction project, with a mix of grants, equity and debt. The company can then implement the project and finance the plant operation itself, with a viable business model.

4. Guarantees aimed at reducing the risk for private investors within investment vehicles or on a project-by-project basis

In general, this type of guarantee enables both to attract more capital and to reduce return requirements. Risk guarantees protect investors against loss, as part of an equity structure. The guarantor agrees to cover the loss (total or partial) of a third-party financing transaction in the event of non-repayment or loss of value. Guarantees enable transactions to attract capital at more favorable rates with reduced return requirements.

CONCLUSION

In Madagascar and other countries in the region, where the link between **extreme poverty** and **adaptation to climate change** and **nature conservation** is obvious, any adaptation and conservation plan must be based on improving the economic and social conditions and opportunities of vulnerable populations. This inevitably involves leveraging large-scale entrepreneurship in numbers and ambition, through large-scale projects.

In a context characterized by extreme uncertainty, inadequate infrastructure, and a lack of skills and financial resources to foster business development, Blended finance is emerging as the ideal tool. It converges and leverages public and private capital to support high-impact environmental and social initiatives. It also introduces the necessary collaboration between development, conservation and economic stakeholders.

Despite its obvious advantages, Blended finance faces major challenges, including challenges in the communication and coordination between public and private stakeholders, the complexity of reaching entrepreneurs on the ground in a targeted and granular way, and the scale required to demonstrate the relevance of large-scale projects.

In the face of these obstacles and the inherent complexity of the model, the development of intermediary structures specialized in the creation, management and allocation of Blended Finance funds, and capable of articulating the various elements involved, is proving crucial to the progress of these initiatives. This is where Miarakap comes in, as a central player promoting synergy between the various stakeholders involved.

Today, with Miarakap, we are at the heart of a Blended Finance fund-raising initiative focused on climate and biodiversity in Madagascar and the region. With a USD 30 million capital and 10 million from institutional programs, this fund will finance entrepreneur champions in four cross-cutting themes:

1. Responsible use of natural resources
2. Nature-based solutions
3. Mitigating the effects of climate change
4. Improving local communities' living standards

Notes :

This article was co-edited by :



Emmanuel Cotsoyannis, Miarakap General Manager

French-Malagasy entrepreneur, passionate about the key role played by entrepreneurs in creating value, innovating, strengthening social ties and, increasingly, responding to environmental challenges. A graduate from SciencesPo. Paris (Master's degree in Development Economics) and EDHEC (Master's degree in Finance), he created, managed and sold several companies in the restaurant, hotel and events sectors in France and Madagascar over a period of ten years. He was a founding member of 1% for the Planet France, and in this

capacity financed the first biodiversity census expeditions in Madagascar's Makay region. In 2018, he returned to Madagascar to found Miarakap, the first impact investment fund dedicated to financing, supporting and promoting entrepreneurs in Madagascar.



Koloina Ramaromandray, Miarakap Program Director

With a Master's degree in Finance from INSCAE, she joined Miarakap in 2018, initially in the Investment team, before setting up the Acceleration division in 2021. Convinced of the need to develop innovative financing tools that synergize private and public financing to have a real impact at scale, Koloina now manages Blended Finance programs on behalf of institutional and development organizations with the aim of financing and supporting companies with high environmental and social impacts. Today, Koloina manages a team of

around ten people, with a flagship program, Mitsiry, in partnership with the United States Agency for International Development (USAID). Some fifteen companies working to preserve biodiversity and support the economic development of local communities have already been financed and supported under Mitsiry, and the aim is to support around forty companies by 2027.

With the contribution of :

- Camille André-Bataille, Founder and CEO of **ANKA**
- Laura Razanajatovo, CEO of **Senteurs et Saveurs du Monde**
- Roger Fenohery Andriamifidy, Founder and CEO of **Ando Pépinière**
- Rik Stamhuis, Founder and CEO of **Jiro-Ve**
- Vincent Lucas, Founder and CEO of **Exafeed**
- Houssen Mebobaly, Founder and CEO of **Malakass**
- The **Miarakap** team
- The **Kinomé** team