



# Filling the Missing Middle Financing Gap

Innovative financing for small and growing biodiversity enterprises in Malawi

Supported by:



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# List of Abbreviations

<b>AAIN</b>	African Agribusiness Incubators' Network
<b>ABS</b>	Access and Benefit Sharing
<b>ADF</b>	African Development Fund
<b>AMSME</b>	Africa Micro Small and Medium Sized Enterprises
<b>AWIEF</b>	Africa Women Innovation & Entrepreneurship Forum
<b>ATI</b>	Agricultural Transformation Initiative
<b>BIO</b>	Belgian Investment Company for Developing countries
<b>BIOFIN</b>	Biodiversity Finance Initiative
<b>CBD</b>	Convention on Biological Diversity
<b>CI</b>	Conservation International
<b>CIO</b>	Climate Investor One
<b>CPIC</b>	Coalition of Private Investment in Conservation
<b>DFIs</b>	Development Finance Institutions
<b>DFID</b>	Department for International Development from the UK
<b>EDF</b>	Export Development Fund
<b>EIB</b>	European Investment Bank
<b>EMF</b>	Environment Management Fund
<b>FAO</b>	Food and Agriculture Organization
<b>FIs</b>	Financial Institutions
<b>FSP</b>	Financial Services Providers
<b>FUM</b>	Farmers Union of Malawi
<b>GCF</b>	Green Climate Fund
<b>GDP</b>	Gross Domestic Product
<b>GEF</b>	Global Environment Facility
<b>GHG</b>	Greenhouse gas emissions
<b>IDA</b>	International Development Association

<b>IFC</b>	International Finance Corporation
<b>IPBES</b>	Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services
<b>IUCN</b>	International Union for Conservation of Nature
<b>JICA</b>	Japanese International Cooperation Agency
<b>MAIIC</b>	Malawi Agricultural and Industrial Investment Corporation
<b>MAMN</b>	Malawi Microfinance Network
<b>MAP</b>	Making Access Possible
<b>MDFs</b>	Multilateral Development Funds
<b>MFI</b>	Micro Finance Institutions
<b>MGDS</b>	Malawi Growth and Development Strategy
<b>MSMEs</b>	Micro, Small- and medium-sized enterprises
<b>MUSCCO</b>	Malawi Union of Savings and Credit Cooperatives
<b>NABWM</b>	National Association of Business Women in Malawi
<b>NASFAM</b>	National Association of Smallholder Farmers of Malawi
<b>NASME</b>	National Association of Small and Medium Enterprises
<b>NBM</b>	National Bank of Malawi
<b>NBSAP</b>	National Biodiversity Strategy and Action Plan
<b>NGOs</b>	Non-Governmental Organizations
<b>PES</b>	Payment for Ecosystem Services
<b>PPSR</b>	Personal Property Security Registry System of Malawi
<b>SACCOs</b>	Savings and Credit Cooperatives
<b>SMEDI</b>	Small and Medium Enterprise Development Institute
<b>TLFF</b>	Tropical Landscape Finance Facility
<b>TVET</b>	Technical, Entrepreneurial and Vocational Education and Training
<b>UNCDF</b>	United Nations Capital Development Fund
<b>UNDP</b>	United Nations Development Programme
<b>USAID</b>	United States Agency for International Development
<b>WWF</b>	World Wide Fund for Nature

# Executive Summary

Malawi's richness in biodiversity and vibrant landscape of micro, small- and medium-sized enterprises (MSMEs) present a significant opportunity for the country to meet its development objectives while reducing its impacts on the country's biodiversity and related impacts and risks. In particular, biodiversity MSMEs – offering products and services for biodiversity protection – are well-positioned to absorb and scale the environmental, social, and economic impacts of global biodiversity finance flows in line with Malawi's biodiversity objectives.

Through the Biodiversity Finance Accelerator (BioFA), biodiversity-positive MSMEs are supported to access finance. At the same time, other ecosystem actors are brought together to co-create innovative financing instruments for these MSMEs, thus furthering biodiversity protection and financing in Malawi.

## What is the Biodiversity Finance Accelerator (BioFA)?

BioFA mobilises biodiversity investments and scales biodiversity-positive entrepreneurship, thus contributing to the sustainable use, conservation, and restoration of ecosystems in Malawi and Zambia. Biodiversity-positive micro, small and medium-sized enterprises (MSMEs) are supported to access finance and invest in growth, while financial institutions and other ecosystem players are trained in conservation finance to co-create innovative financing instruments for biodiversity MSMEs.

## Biodiversity protection in Malawi

Following the international Convention on Biological Diversity (CBD), which was ratified in 1994, and setting goals to preserve biodiversity, Malawi has committed to protecting the biodiversity of the country by ratifying the Convention and enhancing its implementation through the National Biodiversity Strategy and Action Plan II (NBSAP-II). Malawi's biodiversity main threats include: habitat loss and fragmentation from increased deforestation and bushfires, pollution from inorganic fertilisers, poor waste management, overharvesting of fisheries and forests, invasive alien species in water bodies and landscapes (especially harmful in agricultural land), and climate change (floods and droughts). These threats are to be tackled through the NBSAP-II. Several policies and frameworks have resulted from this strategy and the government's general commitment to biodiversity protection. Furthermore, the government is working with BIOFIN (Biodiversity Finance Initiative) to develop biodiversity finance solutions after an assessment phase.

Given both the shortfall in available capital and limited pipelines for bankable projects, solutions are required that engage the public sector and build a role for the private sector while acknowledging the importance of MSMEs for biodiversity protection and of financial institutions and investors in leveraging biodiversity finance flows to achieve impacts at scale.

## Financing biodiversity in Malawi

Private and public sector actors have already progressed in developing policies, frameworks, and financing instruments to protect Malawi's biodiversity. For example, the public sector has developed, among other initiatives:

- Creation of the Environment Management fund, which unfortunately remains undercapitalized
- Partnerships with donors to implement biodiversity projects, such as Royal Norwegian Embassy, the United States Agency for International Development (USAID), the Food and Agriculture Organization (FAO), Irish Aid, and the Japanese International Cooperation Agency (JICA)
- Involvement with development finance institutions and multilateral development funds to promote financial inclusion for MSMEs

The private sector has supported financing for sustainable activities through commercial financial institutions. The private sector has also been financing MSMEs across sectors (typically in agriculture and regardless of biodiversity impacts).

## Leveraging biodiversity finance for biodiversity MSMEs

Despite these milestones in opening up capital for environmentally sustainable and biodiversity endeavours, challenges persist with increasing financial flows to market-driven biodiversity solutions in the private sector. This shortfall in available capital and tailored financial products is especially true for MSMEs, which are the backbone of the Malawian economy and important in ensuring biodiversity protection and providing a livelihood, especially to youth, women, and rural communities, who are vulnerable to shocks in the economy.

Well-designed biodiversity solutions that reduce investors' risks, enhance their expected returns, or bridge existing infrastructure gaps can help to catalyse investments in biodiversity MSMEs and alleviate socio-economic gaps as part of Malawi's biodiversity and sustainable development agendas. Challenges for extending biodiversity finance for MSMEs to grow affect both MSMEs and financiers and funders. Critical factors include risk/return profiles, collateral requirements, the time horizon for capitalisation of biodiversity investments vs. the short-term orientation of financiers, limitations of measuring biodiversity impact and lack of assessment frameworks for these models, and lack of financial literacy by the MSMEs.

Multi-stakeholder collaboration is key to addressing and developing tailored solutions that overcome challenges faced by both (biodiversity) MSMEs and financiers and funders.

## Developing biodiversity finance solutions

Practitioner Labs Biodiversity Finance seek to facilitate a hands-on process that results in targeted biodiversity finance solutions, which finance the growth of MSMEs that are actively delivering biodiversity solutions across their value chains.

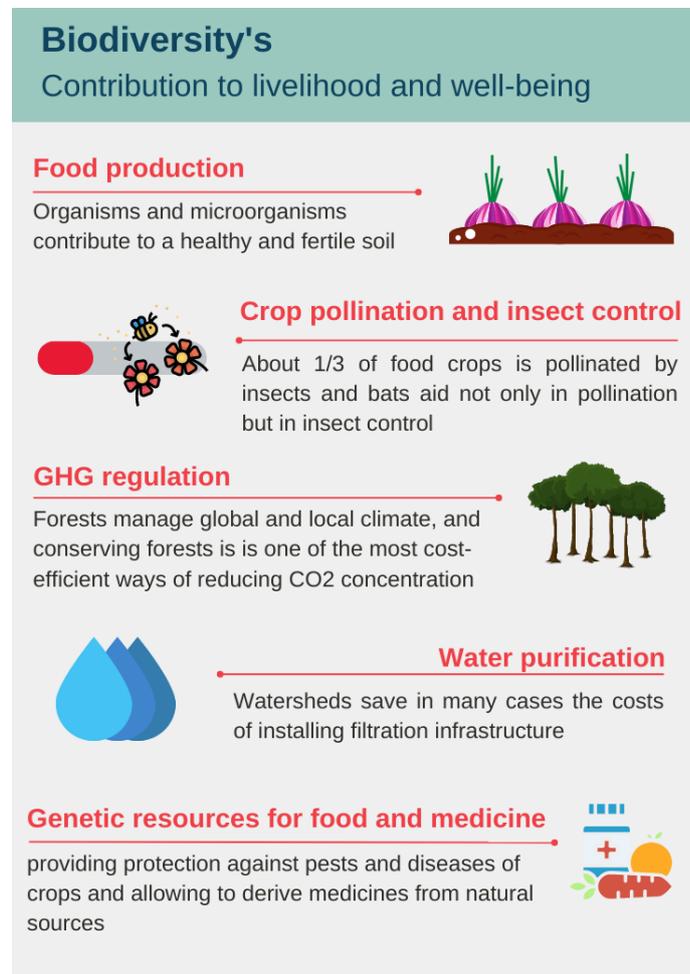
Based on the major biodiversity MSME financing and biodiversity finance challenges in Malawi, key partners engaged during Practitioner Labs aim to co-create and refine tailored financial mechanisms to deliver capital to biodiversity MSMEs.

In identifying opportunities for innovation, this scoping paper will (1) set the scene for biodiversity protection in Malawi; (2) identify the role of biodiversity MSMEs in achieving biodiversity protection objectives as well as outline the major financing challenges hindering these enterprises from achieving impacts at scale; and, (3) review the status of green-biodiversity finance and MSME finance and the role of various private and public sector actors in delivering tailored financial solutions to Malawi's most pressing biodiversity challenges. The scoping paper will close with (4) a brief introduction to action paths to developing biodiversity finance solutions for MSMEs during the Practitioner Labs Biodiversity Finance process in Malawi.

# 1. Biodiversity Challenges

Biodiversity is a key component in making our environment resilient to changes, allowing it to thrive, and providing people, communities, businesses, and the economy with opportunities to be productive and prosper (World Bank Group, 2020). Different economic sectors and industries, such as agriculture, tourism, and construction, are dependent on the services that nature provides (to varying degrees), particularly in developing economies; and contribute to a global value of over half of the world's GDP (World Bank Group, 2020).

Biodiversity's contributions to the livelihood and well-being of people include providing a healthy soil essential for food production (through organisms and microorganisms), crop pollination and insect control, forests to manage global and local climate and regulating greenhouse gas emissions (GHG), watersheds to purify water and genetic resources for food and medicines and pest control, among many others (World Bank Group, 2020) (see Figure 1). And yet, global biodiversity is under threat, and the risk of losing its contribution to well-being is increasing.



## 1.1. Global Biodiversity Challenges

In the face of the risk entailed by losing the world's biodiversity, the international Convention on Biological Diversity (CBD) was adopted in 1992, setting goals to preserve biodiversity. However, biodiversity is still facing multiple threats, mainly from human activities and exacerbated by the climate crisis (BMZ, 2020). The main drivers of biodiversity loss, according to the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), are land use change, overexploitation of natural resources, pollution, climate change, and invasive species (World Bank Group, 2020) (see Figure 2).

Given our dependence on resilient, healthy ecosystems, these changes result in turn in serious consequences for the well-being and prosperity of people and communities, which can be economically evaluated in some cases. A few examples include the use of pesticides, which causes the loss of pollinators that can lead to an annual decrease in agricultural output estimated at USD 217 billion. This would, in turn, mean a massive risk of famine and social unrest (Deutza, et al., 2020). See Figure 2 for more examples.

Figure 1. Contribution of biodiversity

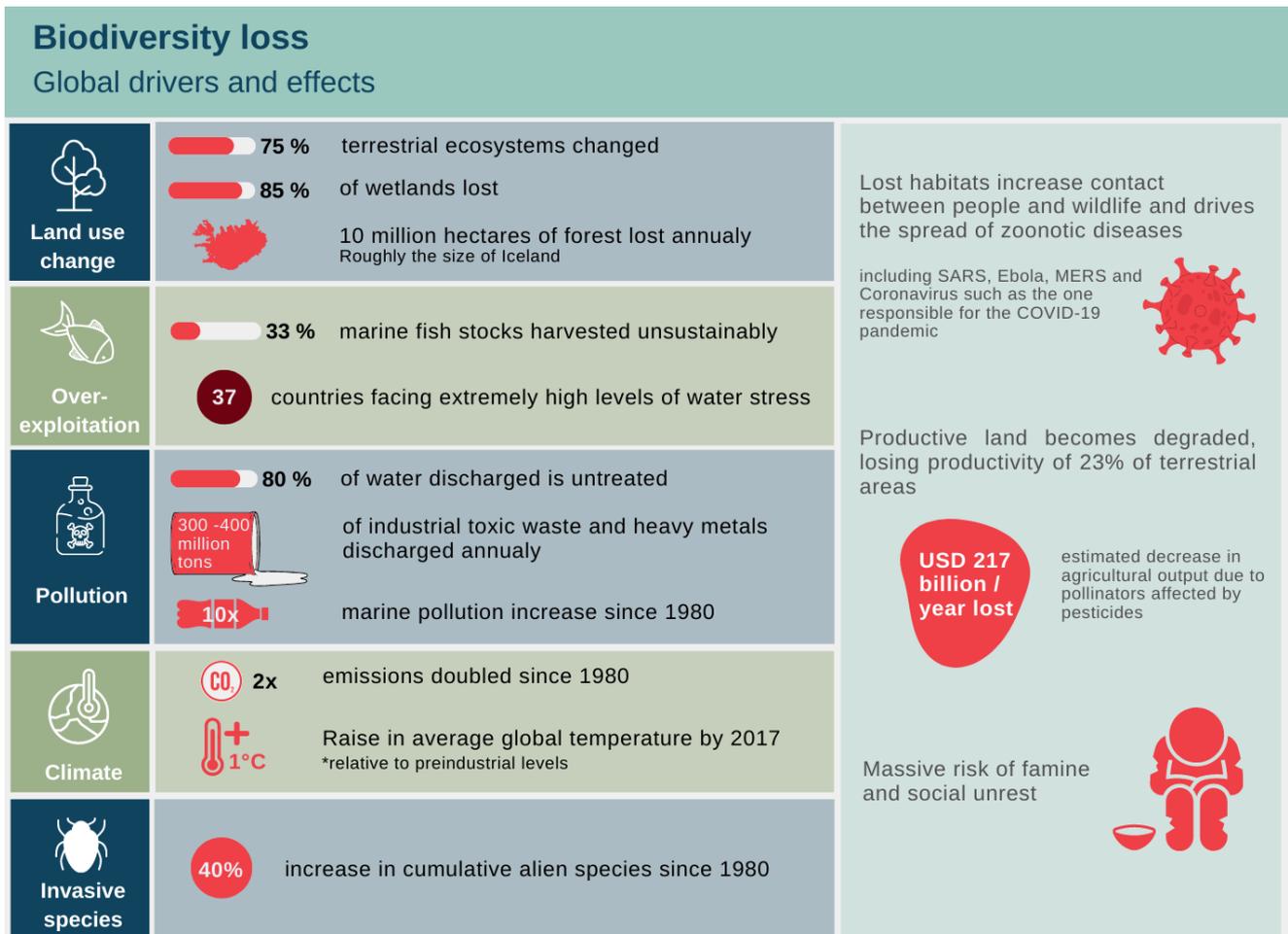


Figure 2. Drivers for biodiversity loss

## 1.2. Biodiversity Challenges in Malawi

Malawi, as the world, also faces many biodiversity threats, mainly due to anthropogenic activities. The country's great diversity is mainly in protected areas, which comprise 87 forest reserves, five national parks, and four wildlife reserves, covering a total of 1.8 million hectares (15% of the total area of the country). Aquatic ecosystems are also highly important, covering 20% of the total land area of Malawi, and in Lake Malawi, the highest diversity can be found with over 1000 fish species (Government of Malawi, 2015).

This richness in biodiversity contributes significantly to the economy of the country and the well-being of the people, with the forestry, fisheries, and wildlife sectors contributing a significant share of the GDP (12.8% in 2010); tourism and recreation generated 5.8% of the GDP (in 2007) and agro-biodiversity even more, with an estimated 40% contribution to the GDP (Government of Malawi, 2015). Furthermore, the latter sector is also of significant importance to the livelihood of the people, accounting for more than 90% of employment and merchandise export earnings (in 2010) (Government of Malawi, 2015).

Moreover, aquatic ecosystems provide food for more than 500.000 people who live along the major fishing areas and depend on fish and are of extreme importance for agriculture, livestock grazing, ecotourism, clean water supply and purification, carbon sequestration, and transport (Government of Malawi, 2015). Plant biodiversity is economically important as many plant species provide timber, firewood, construction poles, food (cereals, pulses, and tubers), as well as traditional medicine and cosmetics through its extracts. Beyond these social benefits, Malawi's biodiversity provides ecological services, such as local microclimate control, nutrient recycling, hydrological process regulation, and undesirable organisms and harmful chemicals regulation.

However, despite the importance and awareness of its biodiversity richness, it faces several threats that arise mainly from anthropogenic activity. And even when biodiversity and ecosystem services are not fully valued, it is estimated that Malawi is losing nearly 5% of GDP annually due to the unsustainable use and management of natural resources (Government of Malawi, 2015). The root cause from which most of the threats stem is the fast increase in population. Exponential growth in the population leads to the expansion of agriculture into marginal lands and increased demand for wood and charcoal as fuel both in rural and urban populations (Government of Malawi, 2015). Just one example can be found in the Dzalanyama Forest Reserve, which is the most threatened ecosystem in Malawi due to tobacco curing, brick burning, and firewood and charcoal production (Government of Malawi, 2015). The existing threats to biodiversity in Malawi can be categorised as habitat loss and fragmentation, invasive alien species; overexploitation; pollution; and climate change (Government of Malawi, 2015). You can find a detailed explanation of each in Figure 3.

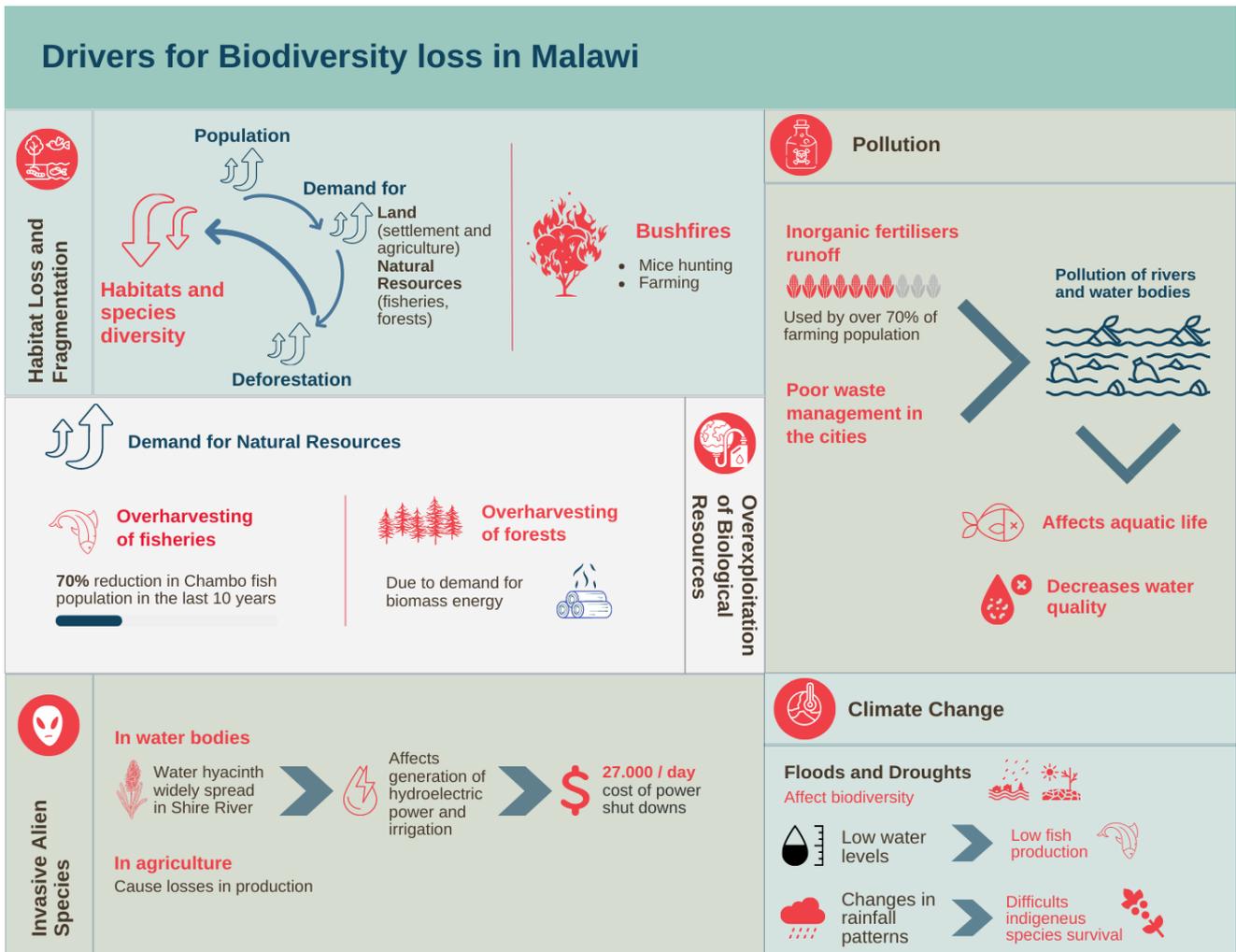


Figure 3. Drivers for biodiversity loss in Malawi

Strategic interventions exist in the country to contain the threats and protect biodiversity, such as the ones outlined in the National Biodiversity Strategy and Action Plan (NBSAP). However, the majority of the committees in charge of biodiversity programmes lack enough funding to implement the programmes. Furthermore, implementation is hindered by the weak enforcement of the regulations, lack of capacity for biodiversity conservation (human and institutional), the inadequate coordination among responsible institutions, lack of public awareness and community participation regarding biodiversity importance and management; and by the fact that for the most part, biodiversity conservation is not mainstreamed and integrated into sectoral plans (Government of Malawi, 2015).

Finally, it is worth mentioning that the private sector and civil society are not yet included in the biodiversity conservation agenda. This mainly occurs because there is no enabling environment for these actors to directly implement the activities for biodiversity conservation. However, as will be seen in the next chapter, the private sector, especially MSMEs, could and are implementing activities that are beneficial in protecting biodiversity.



## 2. The Local Response: Policy landscape and the roles of MSMEs

Under the threat menacing Malawi's rich biodiversity, and understanding its vital importance, the country has displayed an important commitment to protecting biodiversity. Efforts include taking part in international efforts in order to tackle the direct threats and protect the biodiversity of the country, as well as developing local strategies, frameworks, and policies to mobilise the necessary resources to implement biodiversity programmes in the country. Furthermore, exemplary MSMEs are determined to protect the natural resources of their communities through their business models.

### 2.1 Biodiversity policies and strategies in Malawi

In 1994, Malawi ratified the United Nations Convention on Biological Diversity (CBD), whose objectives are the "conservation of biological diversity, the sustainable use of the components of biological diversity, and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources" (Convention on Biological Diversity, 2012). Since then, the country has taken action to enhance the implementation of the Convention, mainly by formulating the National Biodiversity Strategy and Action Plan (NBSAP-1 in 2006 and the revised version NBSAP-2 from 2015) to align the international commitments with the Malawi Growth and Development Strategy II (MGDS), which prioritises biodiversity programmes as well as other social and environmental issues (Government of Malawi, 2015). The NBSAP-2 sets five strategic objectives aligned with protecting biodiversity, including improving the capacity and knowledge around biodiversity, mainstreaming biodiversity into local and sectoral development plans, improving biodiversity and reducing the pressure on it, and improving the benefits from ecosystem services to all people (Government of Malawi, 2015).

Furthermore, to protect biodiversity and fulfil the action plan, Malawi has an extensive area under protection, comprised of forest reserves, national parks, and wildlife reserves, which cover 15% of the total area of the country (Government of Malawi, 2015). Additionally, the country has set many national policies and legislations, national plans and strategies, regional agreements, and protocols that support the implementation of the convention and execution of the NBSAP-II and protect the country's biodiversity.

Among important national policies and legislation there is the Environment Management Act (1996), Forest Act (1997), Fisheries and Conservation Act (1997), Land Policy (2002), the National Environmental Policy (2004), National Parks and Wildlife Act (2004), Water Resources Management Policy (2004) the National Agricultural Policy (2016), the Agrobiodiversity strategy (2015), which highlights how the agriculture sector will conserve biodiversity (Government of Malawi, 2015); and the National Resilience Strategy (2018), which focusses on climate change as droughts affect fish and wildlife linking to biodiversity protection for food security (Lefu, 2022).

Beyond the efforts previously mentioned and more closely related to biodiversity finance, Malawi is currently engaged with BIOFIN (Biodiversity Finance Initiative), which started operating in the country in 2015, with the implementation phase starting in 2018. An assessment phase will be conducted aiming at the posterior development of finance solutions. Some key achievements occurred in 2021 when the Government agreed to and approved the institutionalization of biodiversity expenditure coding in the public accounting system, which will increase the allocation of resources towards biodiversity and resources protection (BIOFIN, n.d.).

Moreover, Malawi has made progress towards (biodiversity) MSME financial inclusion. The country developed its Micro, Small, and Medium Enterprises (MSME) Policy in 2019, the Financial Sector Development Strategy, and the National Financial Inclusion Strategy (2016-2020), which aims at developing and offering targeted finance for MSMEs and farmers (FinMark Trust, 2019). This strategy segments MSMEs into a group of high impact enterprises for growth and employment to focus interventions better. Specifically developed for these is the Making Access Possible (MAP) for MSMEs: Malawi Roadmap 2019, which among other sectors, targets enterprises in the agriculture sector since they have great potential to contribute to tax and employment (FinMark Trust, 2019). Finally, the country elaborated the Microfinance Policy and Action Plan (2022), seeking to promote a sustainable microfinance industry offering services to low-income people, among which some MSMEs may exist (Government of Malawi, 2002).

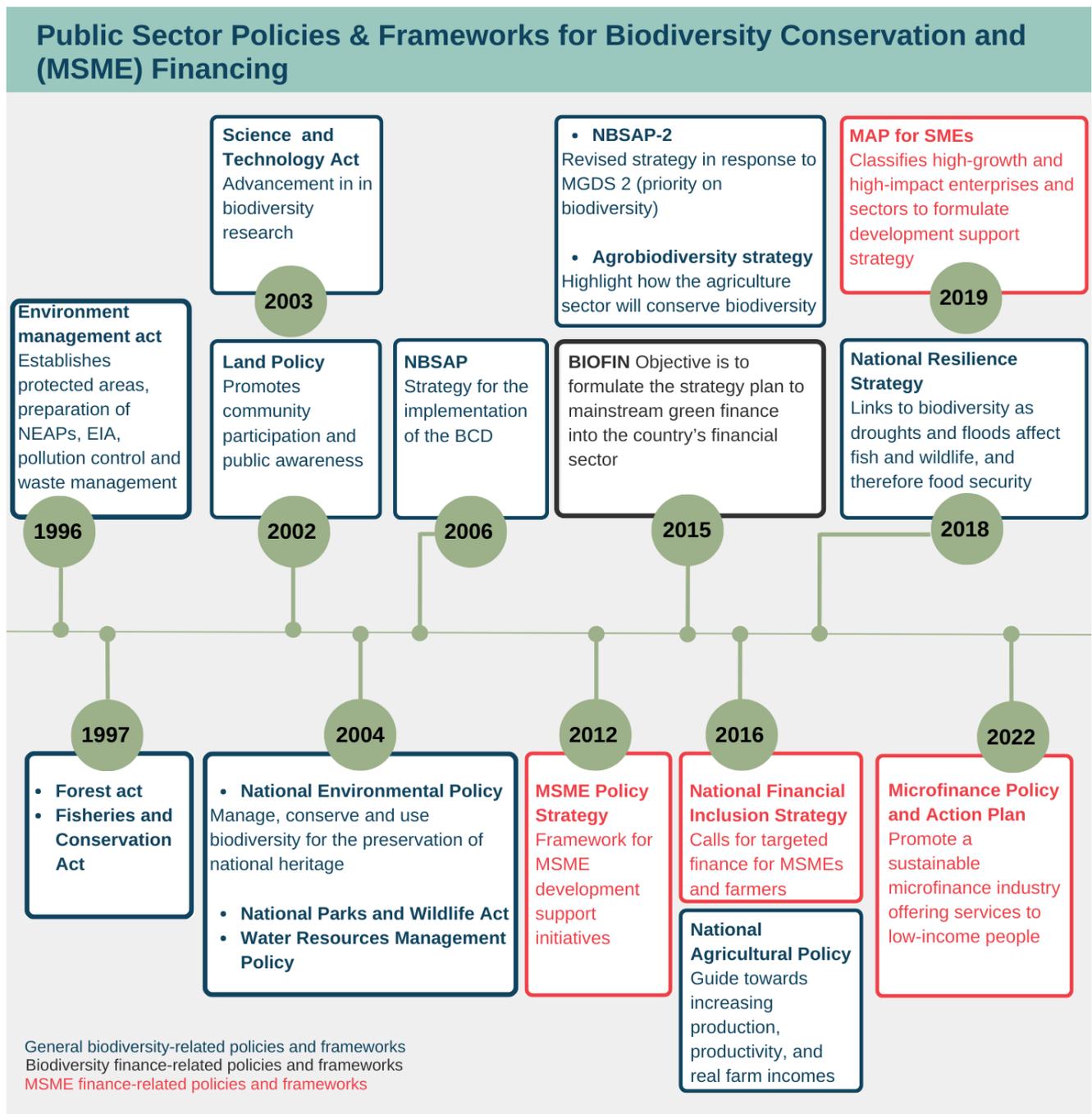


Figure 4. Biodiversity policies and frameworks

## 2.2. Roles of MSMEs in protecting biodiversity

### 2.2.1 Impact potential of bankable biodiversity conservation business models in Malawi

Small enterprises not only are the backbone of economies worldwide, but they also can conserve and restore biodiversity while generating a return on investments. In Malawi, there are around 1,6 million MSMEs (in 2019), who contribute to 24% of the total employment in the country -which translates to 1.825.219 people employed- and provide a livelihood to around 21% of the adult population (FinMark Trust, 2019). Furthermore, only 11% of MSMEs are formally registered, so even though they are not properly accounted for, the potential of the informal MSMEs is about 40% of the current GDP output (FinMark Trust, 2019).

MSMEs in Malawi are defined based on capital investment, annual turnover, and the number of employees, as indicated in the following table.

**Table 1. MSME classification**

Enterprise Size	Capital Investment – excluding land and building for manufacturing enterprises (in Malawian Kwacha - MWK)	Annual Turnover (in MWK)	# of Employees
<b>Micro</b>	Up to 1 million	Up to 5 million	1-4
<b>Small</b>	From 1 million to 20 million	From 5 million to 50 million	5-20
<b>Medium</b>	From 20 million to 250million	From 50 million to 500 million	21-100

Source: FinMark Trust (2019)

Taking into consideration the major biodiversity challenges across Malawi, contextually relevant solutions are required. Biodiversity small- and medium-enterprises (MSMEs) offer bottom-up biodiversity and green solutions with their innovative business models. While momentum is building by MSMEs across Malawi to offer solutions for the protection of biodiversity, the full potential of these enterprises is yet to be fully realised.

Globally, business models that offer products or services that directly benefit biodiversity and natural resources are mainly in the sectors of tourism, wild products, agroforestry commodities, and sustainable agriculture and livestock. For example, green infrastructure such as green roofs and rain gardens can generate a return on investment in three ways: (i) avoided costs; (ii) generation of an additional cash flow for the entity; and (iii) economic growth for the area benefiting from the green infrastructure (World Bank Group, 2020).

Thus, biodiversity enterprises can be defined in this context as those MSMEs that “generate profits via activities which conserve biodiversity, use biological resources sustainably, and share the benefits arising from this use equitably” (Bishop, Kapila, Hicks, Mitchell, & Vorhies, 2008). Biodiversity enterprises can be categorised into two categories given their impact generation and their business model: Biodiversity-friendly enterprises and biodiversity-based enterprises (also known as nature-based) (see Figure 5). Biodiversity or nature-based refers to actions to protect, sustainably manage and restore natural and modified ecosystems in ways that address societal challenges effectively and adaptively to provide both human well-being and biodiversity benefits.

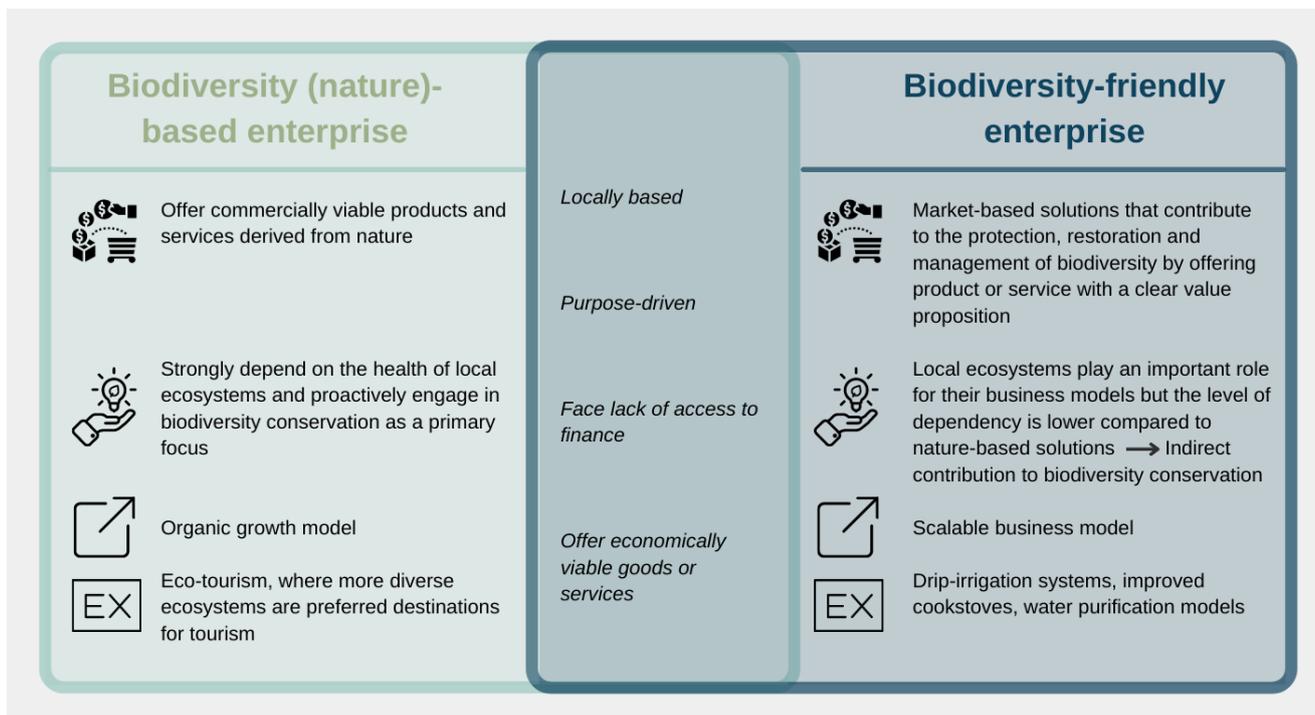


Figure 5. Biodiversity MSMEs types

Furthermore, in developing and emerging economies in particular, MSMEs are major contributors to poverty reduction and social cohesion, engage the base of the pyramid in their delivery of products and services, and support the integration of marginalised or socially disadvantaged groups, including women and youth, in economic activities (Bishop, Kapila, Hicks, Mitchell, & Vorhies, 2008). Evidence also points to the role of MSMEs in achieving Sustainable Development Goals (SDGs) for socially inclusive and environmentally responsible development (ITC, 2019).

Understanding how biodiversity enterprises can contribute to biodiversity and considering their differences in business models and scalability is of extreme importance in addressing the financing gap.

Particularly in Malawi, the agriculture sector is of high importance since most MSMEs are somehow involved or linked to it. Agriculture is the backbone of the country's economy and accounts for 64% of employment, 30% of the GDP, and 80% of foreign exchange income (FinMark Trust, 2019). However, this sector lacks diversification – the main crops are maize and tobacco – which translates into a big potential for biodiversity MSMEs to transform it into a sustainable and resilient sector.

MSMEs are embedded in their communities and in important biodiversity areas, and having innovative business models can contribute to achieving the targets of the NBSAP-II. Through their community embeddedness, (biodiversity) MSMEs can work towards the first strategic objective by harnessing traditional knowledge, innovations, and practices of local communities, and by raising awareness in the general community of the value of biodiversity. Through their innovative business models, MSMEs can directly contribute toward strategic objective three of the NBSAP by reducing the direct pressures on biodiversity through the restoration and protection of terrestrial and aquatic ecosystems. And they can also contribute further to strategic objective five by enhancing the participation of vulnerable groups, youth, and women in biodiversity management (Government of Malawi, 2015). However, the potential role of MSMEs is not contemplated in the strategy as an effective channel for achieving the objectives.

Despite a lack of comprehensive data on the market share and activities of specifically biodiversity MSMEs in Malawi, there are numerous examples of MSMEs offering biodiversity-friendly solutions through their business models in Malawi and across Africa. This is evidenced through the work of adelphi's hosted SEED. SEED has worked for nearly two decades in promoting entrepreneurship for

sustainable development globally. Enterprises that have been part of SEED, such as EcoGen, Tac Maz Investments, and Womenergy 265, exemplify biodiversity MSMEs that are responding to the biodiversity needs of their value chains in Malawi. Their enterprise journey is outlined in the enterprise spotlight overview on the following pages.



EcoGen Limited



Tac-Maz Sustainable Ventures



Womenergy 265

# EcoGen Limited

## Impact in Biodiversity & Society

EcoGen contributes to preserve forests by providing renewable cooking gas made from organic waste to rural customers that rely on wood fuel. Furthermore, EcoGen manufactures organic fertiliser that reduces soil pollution and degradation from inorganic fertilisers while increasing yields and income of smallholder farmers.



### Waste and pollution reduction

From agriculture waste that does not go to landfills and replaces inorganic fertilisers, which pollute the soil and water

### Deforestation reduced

By providing renewable cooking gas and replacing wood fuel



### Tackling climate change

Reduced GHG emissions from waste and inorganic fertilisers



### Job creation



through permanent jobs that increase alternative income for dairy farmers

### Improving health conditions



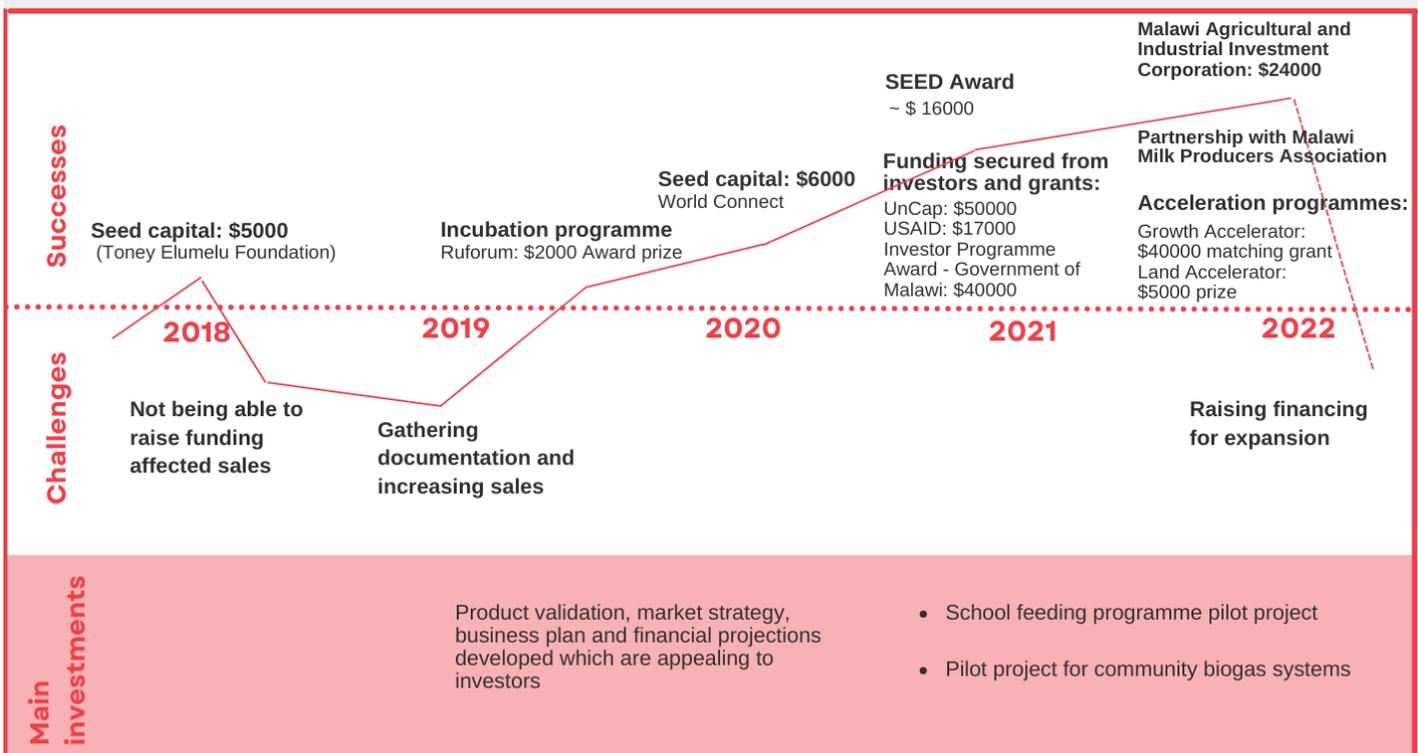
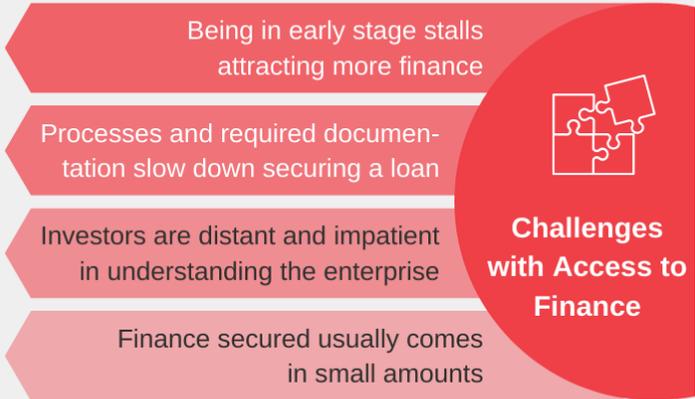
by providing clean energy

### Economic empowerment

households save on average USD 450 per year on energy costs



Facing challenges to raise funding from financial institutions, EcoGen has mainly raised capital to finance their activities through own capital, sales, small grants, and more recently from an award received. The enterprise started in 2018, but challenges raising capital have hindered EcoGen from achieving its sales targets, although they have received support from different ecosystem actors. Recent investments in the enterprise have allowed the company to reach new markets and partnered with Malawi Milk Producers Association, as well as develop pilot projects for community biogas systems.



# Tac - Maz Sustainable Ventures



**Impact in Biodiversity & Society**

Tac-Maz contributes to preserve soils, reduce pollution and mitigate GHG emissions through organically growing vegetables and fruit. The enterprise also provides organic fertiliser and solar energy solutions as well as technical support to farmer cooperatives, mainly women cooperatives, to recover poorly managed land. With organic farming, Tac-Maz further contributes to reduce food insecurity

<p><b>Pollution reduced</b> Through sustainable farming methods, including the use of organic fertilisers and solar energy</p> <p><b>Land and soils restored and protected</b> Through capacity building of farmer cooperatives for sustainable farming</p> <p><b>Tackling climate change</b> Reduced GHG emissions from organic farming and from planting and growing Moringa trees</p>	+	<p><b>Job creation</b> by employing full-time and part-time workers, mainly youth</p> <p><b>Women empowerment</b> by generating 30% profit from farming proceeds that increases income of women farmers</p> <p><b>Capacity building and livelihoods</b> by supporting women farmers to form cooperatives and offering technical assistance for organic farming</p>
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Tac-Maz started out in 2016 and developed their business from an idea with their own resources. The enterprise has faced continuous challenges in raising finance: at the beginning from their lack of financial capacities and most recently from not being able to comply with lending requirements. Despite challenges, Tac-Maz has been able to raise some finance since 2018, when the enterprise participated in the SEED Starter programme, which sparked improvement in the enterprise which allowed access to further finance. With the financing raised, Tac-Maz has been able to acquire tree seedlings to maintain and grow their operations, as well as supported schools through donations.

Lack of financial management skills

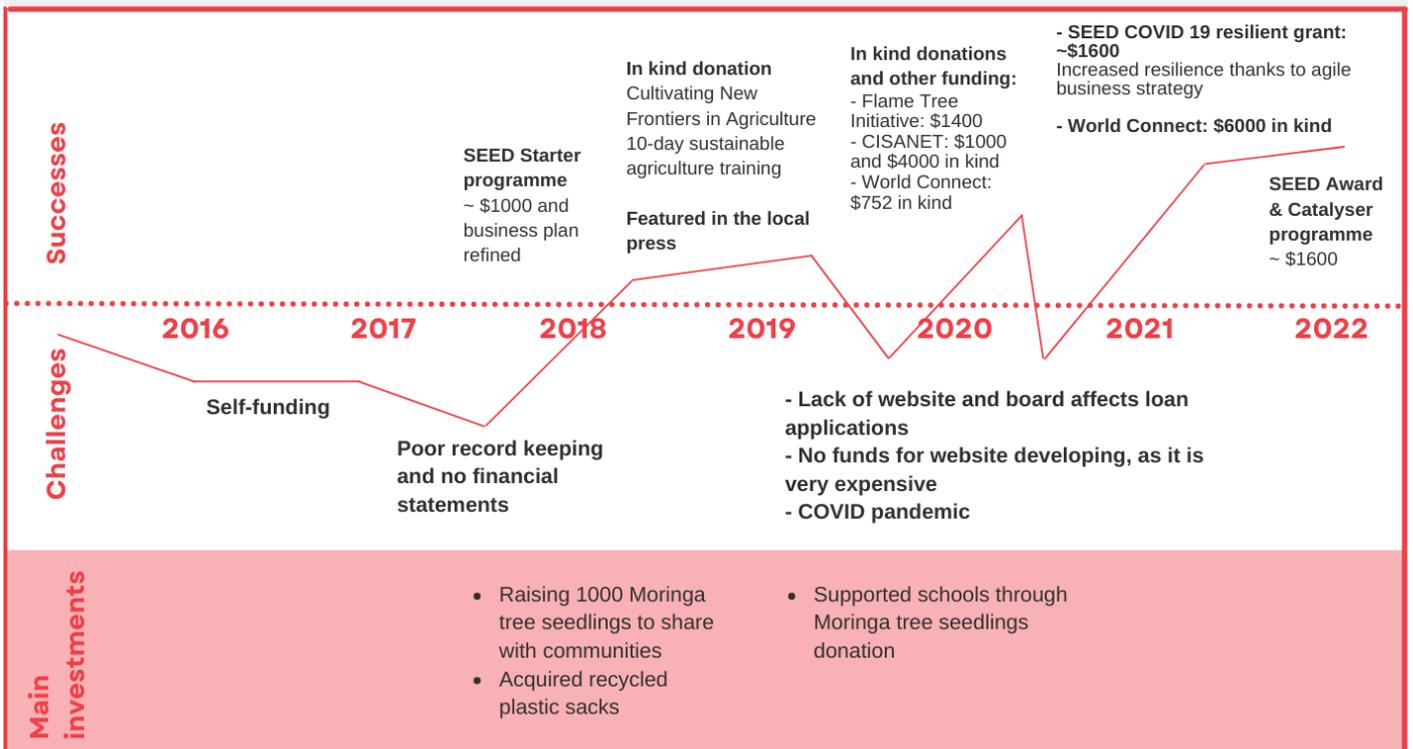
Difficulties in complying with bank requirements (website, board, etc.)

Heightened challenges due to the COVID pandemic

Finance secured usually comes in small amounts



**Challenges with Access to Finance**



# Womenergy 265



## Impact in Biodiversity & Society

Womenergy 265 designs, produces and distributes improved cookstoves as well as ovens made from recycled car wheel rims, drums and scrap materials. They also produce and biogas, LPG, briquettes, organic fertilizer and livestock feed. The improved cookstoves help save time and fuel, reducing air pollution, waste, deforestation and improving the overall health of beneficiaries who would otherwise rely on harmful fuels.



### Pollution reduced

by recycling waste, producing organic fertiliser and cleaner fuels which emit 43% less carbon monoxide and reduces emissions from other pollutants

### Deforestation reduced

By reducing the need for charcoal



### Tackling climate change

By providing clean fuels which reduce GHG emissions and preserving forests as carbon sinks

### Job creation

by employing full-time and part-time workers, mainly youth



### Women empowerment

by generating 30% profit from farming proceeds that increases income of women farmers

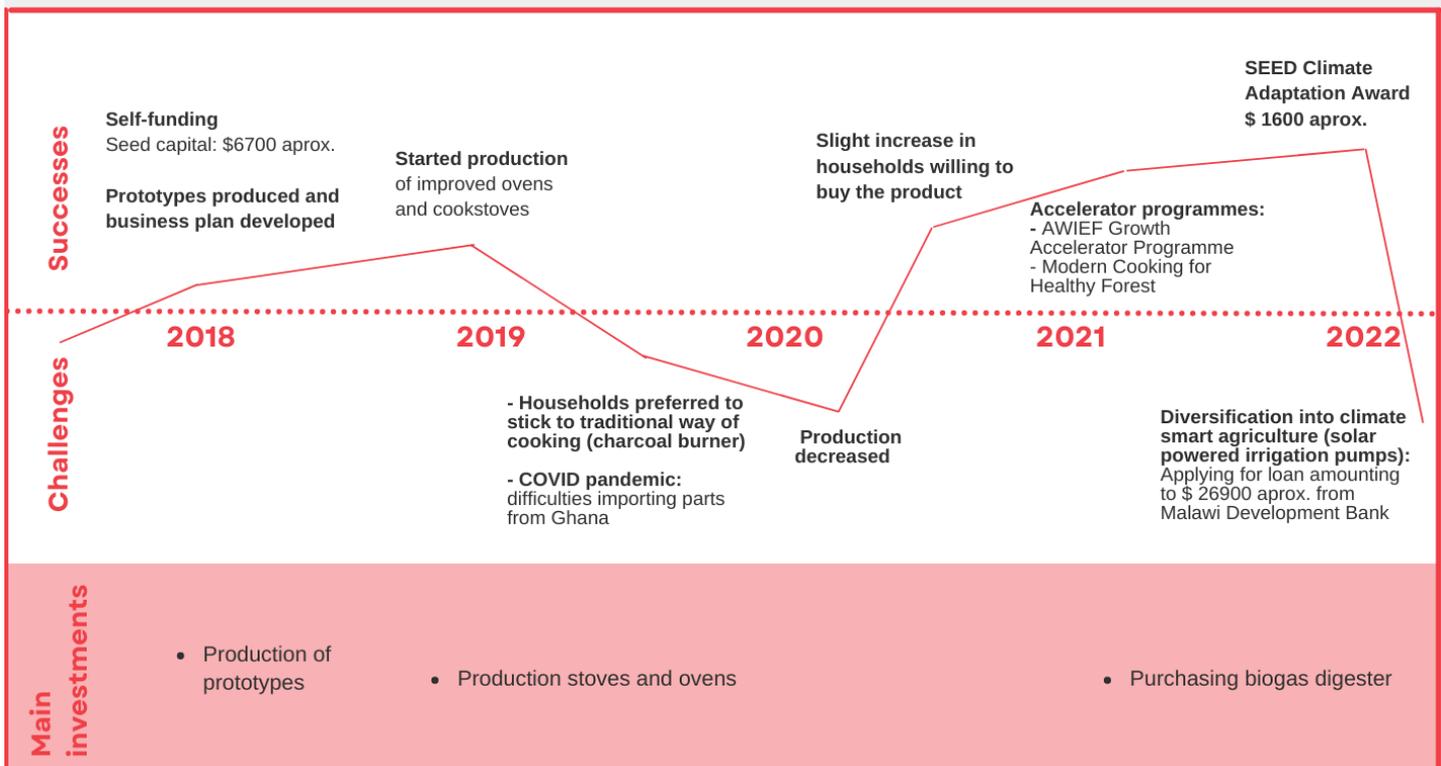
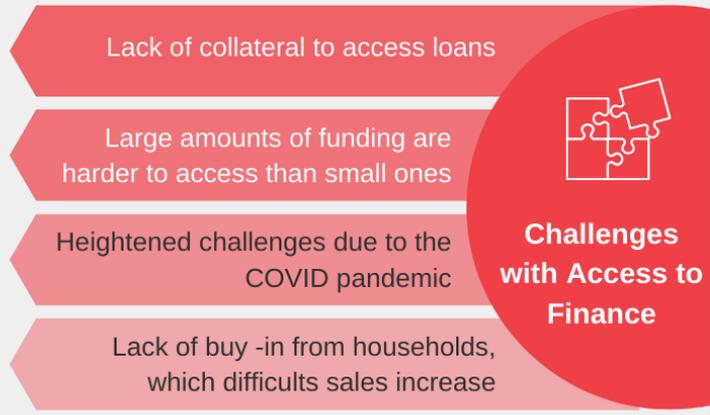


### Capacity building and livelihoods

by supporting women farmers to form cooperatives and offering technical assistance for organic farming

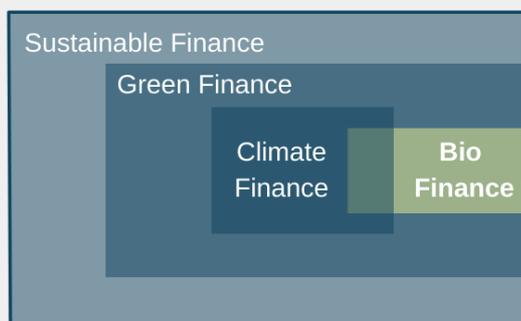


Womenergy 265 started operations in 2018 when a few prototypes were developed out of the passion of the founder to address energy challenges. The enterprise has faced challenges in raising finance and seed capital came for the most part from personal funds. Although being able to develop and maintain their operations, the major financing challenge arises when securing enough funding to grow the business and diversify operations to include solar powered irrigation pumps. In the face of challenges, Womenergy 265 has received support mainly through grants and acceleration programmes, and has planned to invest the latest funding in purchasing a biogas digester.



# 3. Biodiversity Finance

Despite the threats and damages caused to biodiversity globally and the positive effect that MSMEs can have on its conservation and protection, the world is facing a gap between the required finance to direct actions that protect biodiversity and the available finance destined for it. And following this, MSMEs also face financing challenges and unavailability of funds that do not allow them to grow and expand the positive impacts that they create not only in society and the economy in general but also in protecting biodiversity.



## Biodiversity Finance

It is contained in the green finance category and sometimes overlaps with Climate Finance. It refers to the management of capital, raising and provision, to avoid negative impacts on biodiversity and to conserve, restore, and use it sustainably. It seeks to support / finance businesses and projects that have a positive impact on biodiversity, or reduce a negative one to sustain the ecosystem services.

The global **biodiversity finance available is estimated between 14% and 35% of the finance needed** for conservation of biodiversity. This translates to between US \$52 and \$143 billion out of the US \$150 billion to \$967 billion needed per year.



### "Perverse economic incentives" spending

is five to six times more than biodiversity spending. It favours economic activities that are harmful for the environment and the sustainable use of resources

### Scarcity of data, measurement, and standards

Unlike climate change and climate finance there is no clear goal like the 1.5°C temperature increase ceiling, and data of baselines to measure impact unavailable

### Small scale and localised nature of biodiversity projects

Involve no cashflow or have returns below the market. Ecosystem services true value is not reflected in economic transactions

**Challenges for scaling up biodiversity finance**

Figure 6. Biodiversity Finance

Biodiversity finance is “the raising, provision, or management of capital to conserve, restore, sustainably use, or avoid a negative footprint on biodiversity and ecosystem services. Such financing aims to support businesses and projects that have a positive impact or reduce a negative impact on biodiversity and ecosystem services, and sustain the services these systems provide” (World Bank Group, 2020). This is a relatively new concept, and it is still in the early stages of development. Yet,

financial instruments and approaches already exist, and they have the potential for scaling up (World Bank Group, 2020). Biodiversity finance is part of the larger concept of green finance and sustainable finance, and it overlaps with climate finance. There are two dimensions to it: financing green and greening finance (World Bank Group, 2020). “Financing green is increasing financial flows to projects that contribute—or intend to contribute—to the conservation, sustainable use, and restoration of biodiversity and ecosystems and their services to people. And greening finance is directing financial flows away from projects with negative impacts on biodiversity and ecosystems to projects that mitigate negative impact and/or pursue positive environmental impacts as a co-benefit” (World Bank Group, 2020).

Regardless of its potential, biodiversity finance still faces many challenges for scaling up: the existence of ‘perverse economic incentives’ which tend to favour economic activities that are harmful to the environment and the sustainable use of resources; the scarcity of data, measurement, and standards, and the small scale and localized nature of biodiversity projects (World Bank Group, 2020).

### **3.1. The ‘missing middle’ (biodiversity) MSME financing gap**

As mentioned before, there is an existing gap between the existing biodiversity finance and the finance needed to effectively conserve the world’s biodiversity. The conservation needs entail terrestrial and marine protected areas, sustainably managing productive landscapes and seascapes (fisheries, croplands, rangelands, forests, critical coastal ecosystems, managing invasive species and biodiversity conservation in peri-urban areas, and reducing water pollution (Deutza, et al., 2020). To address these needs, a financing amount that ranges from USD 150 billion to 967 billion per year is needed (depending on the source of the estimation); and only an amount estimated at USD 52 billion to 143 billion per year is already being destined to these biodiversity conservation efforts (Deutza, et al., 2020).

From the total existing biodiversity finance, it is estimated that private sector finance accounts for just 14% of global conservation investments (Baralon, et al., 2021). This means that investments in conservation are largely funded by public and philanthropic funds, and for the most part, biodiversity financing is directed towards conservation or large-scale projects, but not towards biodiversity MSMEs or businesses. And despite the good efforts of directing finance toward biodiversity, there are still many funds that are directed towards activities that may have negative impacts on biodiversity (known as brown finance) (World Bank Group, 2020). Furthermore, ecosystem services often have no “price” attached to them, which hinders the revenue creation of such projects, failing to attract private finance which seeks a return on the investment (World Bank Group, 2020). And public finance, which accounts for over 50% of the total biodiversity finance, and which comes mainly from the domestic budget and tax policy, faces the challenge of being outshined by harmful subsidies (Deutza, et al., 2020).

On the bright side, there is a global programme dedicated to closing the gap: BIOFIN, the Biodiversity Finance Initiative, initiated in 2012 at the CBD COP 11 by UNDP and the European Commission and who is working in Malawi since 2015 (BIOFIN, n.d.). The programme works with governments and the private sector by helping them to create tailored finance solutions that “not only protect nature but also create jobs, reduce pandemics, and combat climate change” (BIOFIN, n.d.). Malawi recently committed to the implementation phase; after an assessment phase, the development and implementation of finance solutions will be carried on forward (BIOFIN, n.d.).

In Malawi, the Government lacks the financial resources to finance all the biodiversity programmes that arise from the NBSAP-2, and thus it is expecting that the implementation of all derived programmes will be supported by development partners, civil society, NGOs, and the private sector (Government of Malawi, 2015). There is an Environment Management Fund, but it is underfunded to support biodiversity programmes, so the implementation has mostly been funded by donors, including the Royal Norwegian Embassy, the United States Agency for International Development (USAID), the Food and Agriculture Organization (FAO), Irish Aid, and the Japanese International Cooperation Agency (JICA) (Government of Malawi, 2015).

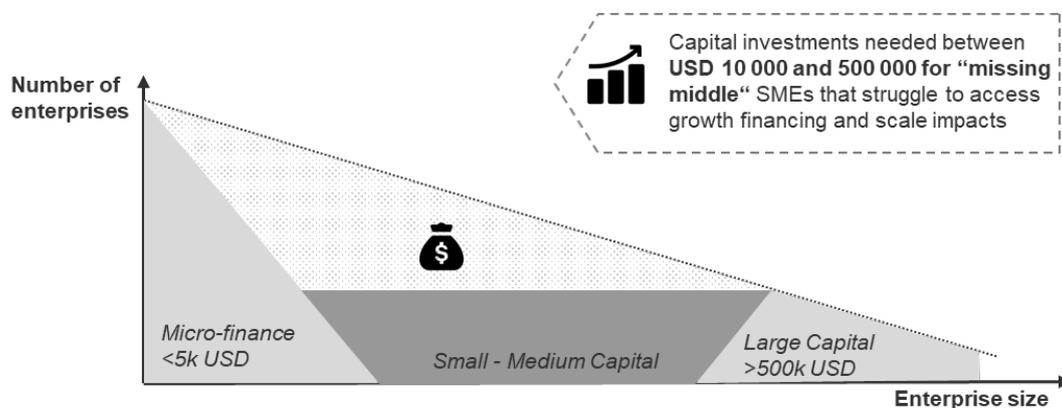
## 3.2. (Biodiversity) MSME financing challenges in Malawi

When zooming in on the specific finance gap affecting MSMEs in the country, we see that despite their importance for socio-economic development, they often face shortages in available capital and financial capacity building after the initial growth stage. Furthermore, challenges are not only faced by MSMEs but also by financiers and funders, who often perceive the MSME sector as riskier in general.

### 3.2.1 Challenges for MSMEs

MSMEs are largely underserved by financial institutions, instead relying heavily on private funds or grants/donations and struggling to access the scale of funding they require to sustain and expand their activities. This contributes to a 'missing middle' of established and growing MSMEs that are well-positioned to make significant contributions to development (UNCTAD, 2001; Kauffmann, 2004/2005; Shankar, 2016; Collaborative for Frontier Finance; Miriam Bruhn, 2017). This financing gap is estimated to affect between 50-70% of formal MSMEs in emerging economies (Alibhai, Bell, & Conner, 2017). Other estimates indicate that less than 1% of finance from global asset managers is currently being invested in MSMEs in developing countries (ITC, 2019). Around USD 1 trillion, widening to USD 2.6 trillion if informal MSMEs are considered, is required to meet this gap (Alibhai, Bell, & Conner, 2017).

Figure 7 illustrates this 'missing middle' MSME financing gap where available MSME financing tends to be dominated by smaller ticket sizes, shorter repayment periods, and a lack of diversity of financing models. Furthermore, larger-scale capital tends to be reserved for a small subset of high growth potential 'unicorn' MSMEs. This hinders the capacity of MSMEs to realise their contributions to economies and achieve impact at scale. Despite varying definitions, the capital typically needed to address this 'missing middle' financing gap is for investments of between USD 10,000 – 500,000.



**Figure 7. Missing middle financing gap for MSMEs**

Source: SEED 2020 adapted from Ashoka Changemakers

In general, MSMEs in Malawi struggle to access finance from Financial Service Providers (FSP), where 59% are excluded from the formal financial sector, and 26% do not have access to either formal or informal finance (African Guarantee Fund, n.d.). This challenge is closely related to the fact that the majority of MSMEs in the country are informal, which hinders their access to formal finance (Chimbali, 2020). When unpacking financial inclusion, it is particularly difficult to access finance in the initial phase of the business, with only 10% of MSMEs being able to access finance to start their business (FinMark Trust, 2019). Even though inclusion remains low among MSMEs, it has actually increased mainly due to mobile money, SACCOs (Savings and Credit Cooperatives), and Microfinance Institutions (MFIs) (FinMark Trust, 2019)

The main barriers to financial inclusion entail a non-conducive environment due to high interest rates

(African Guarantee Fund, n.d.), high transaction costs (high banking and mobile money costs), cost of travel to financial service providers, lack of ID, financial products which are inappropriate to the needs of MSMEs (FinMark Trust, 2019) and lack of collateral or security as well as lack of audited financial statements of the businesses (Ndala, 2019; FinMark Trust, 2019), which may result from the low financial literacy and business and management skills in general, which affects their operations and ability to access finance (FinMark Trust, 2019). Furthermore, many MSMEs are uninsurable, or the insurance is too expensive, increasing their risk profile for financial institutions and further hindering their opportunities to access formal finance (FinMark Trust, 2019). The risks that businesses face include theft of business stock, rain damage and fire, and flood or natural disaster; and since most of them are informal businesses, the risk is transferred to the household, resulting in very expensive insurance or not being able to be insured (FinMark Trust, 2019).

The challenges around access to finance are well perceived by the MSMEs themselves and are reflected in the fact that 13% of MSMEs do not believe in borrowing money, 11% are afraid because the business is going slow, another 11% are simply scared, and 9% know already that they do not qualify for a loan (FinMark Trust, 2019). These are as well corroborated by Finscope's study with 48 enterprises, where only 23% were able to access finance from banks, and the reasons for not being able to access finance were high interest rates for 57%, the inability to meet the criteria to be approved, argued by 50% of enterprises; lack of collateral or security for 38%, and lack of financial information for 6% (FinMark Trust, 2019).

Financial inclusion for MSMEs has worsened in recent years since finance access challenges have been heightened by the COVID-19 pandemic (Chimbali, 2020). MSMEs have struggled through the pandemic, and their financial statements have worsened, resulting in fewer opportunities to access the finance they need, not only to grow but to recover from the pandemic itself. The difficulties in accessing formal finance result in MSMEs seeking other sources of funding, with the most common sources being selling assets and resorting to their own savings and/or family or friends (FinMark Trust, 2019).

Furthermore, specifically for biodiversity enterprises, accessing finance, even grants, is diffculted by the fact that, in many cases, enterprises are not aware of the opportunities available (call of proposals for funding) and the fact that proper impact assessment design and planning is very poor, limiting the visibility of the positive impacts that biodiversity enterprises create (Lefu, 2022).

Many of the challenges here cited have been identified as well by SEED-supported enterprises in the country as they look for financing sources in order to scale their activities. They perceive that early stage enterprises do not have the development needed to attract finance, nor the necessary documents required (financial statements, etc.) or other requisites. Furthermore, the collateral required by financial institutions limits the ability of MSMEs to access loans, as they do not possess what is required. The financing journeys of EcoGen, Tac Maz, and Womenenergy 265 exemplify these struggles and the high dependence on grants and personal funding.

### 3.2.2 Challenges for financing institutions

As MSMEs face financing challenges, so do financing institutions themselves. Financial Institutions (FIs) may refrain from lending to MSMEs due to the higher transaction costs: FIs perceive that small businesses require much more advisory support, and since loans are often smaller, there is a higher processing cost, which hinders the financial institution's revenue (FinMark Trust, 2019). This is further worsened by the lack of competition in the banking market, which leads to the tendency of banks to rely more on well-established medium and large enterprises (FinMark Trust, 2019).

The higher risk perception is another important reason why FIs refrain from lending to MSMEs. The information asymmetry between FSPs (lenders) and MSMEs (borrowers) drives perceptions of high

risk in lending to MSMEs (FinMark Trust, 2019). FSPs face difficulties in obtaining the necessary information to accurately assess the risk of these MSMEs and new ventures. Furthermore, there is a lack of innovative credit assessment methods, which results in a limited ability of FSPs to apply risk-based lending and pricing (FinMark Trust, 2019). Thus, the MSME sector is perceived as not commercially viable because of the high risk it would bring to the institution's portfolio (FinMark Trust, 2019)

For microfinance institutions, significant challenges are the high costs of accessing capital and the lack of capacities they face to provide micro insurance, underwrite portfolios, and manage price and production risks for agricultural markets (ILO, 2016; Making Finance Work for Africa, 2019). Furthermore, many MFIs are located in rural areas, which results in higher operating costs due to poor infrastructure: power outages, poor communication and networks, and poor roads. These challenges result in MFIs focusing more on lending to civil servants, through payroll-based lending, than on lending to entrepreneurs, where they face more challenges for loan collection (ILO, 2016).

Moreover, the lack of alternative sources of funding from traditional banking, such as venture capital and private equity, asset financing, weather index insurance products, and other financial products that offer pay-as-you-go solutions has hindered the financial inclusion of MSMEs and their growth in the country (FinMark Trust, 2019).

Figure 8 summarises the main financing challenges facing both MSMEs and biodiversity MSMEs; and financiers and funders. The challenges that are particularly pronounced for biodiversity / green business models – in comparison with MSMEs more generally – are indicated in Figure 8 with a leaf.

 <b>Challenges for (Biodiversity) MSME Financing</b>		
	For (Biodiversity) MSMEs	For Financiers and Funders
 <b>Ticket Size</b>	Limited missing middle-scale investments or products available	Lack of tailored financial products to meet investment needs of (biodiversity) enterprises
 <b>Risk/ Return Profiles</b>	Early-stage enterprises bear higher risks with lower returns, translating to high interest rates	Risk aversion with high return expectations for MSMEs
 <b>Collateral</b>	Lack of collateral, sufficient track record or credit history with stricter borrowing requirements	Perception by banks as risky credit with difficult credit assessment & appraisal
 <b>Time Horizon</b>	Longer time horizon for green-biodiversity investments to capitalise	Short-term orientation of lending & investment cycles hinders investment in growth
 <b>Biodiversity models</b>	Lack of monetary indicators for returns on biodiversity business models	Lack of assessment frameworks for green-biodiversity business models
 <b>Impact at Scale</b>	Internal & market barriers to measuring and scaling impacts	Low levels of biodiversity enterprises with convincing growth trajectory
 <b>Human Capital &amp; Skills</b>	Poor financial literacy & awareness of (biodiversity) finance opportunities	Limited resources to tailor technical assistance & financial products
 <b>Conducive Ecosystem</b>	Limited skills or expertise with accounting, budgeting and planning capacity	Shallow pipeline for biodiversity enterprises, especially in remote areas

 Particularly relevant to biodiversity / green enterprises

**Figure 8. Biodiversity MSME financing challenges**

## Role of women and women-led biodiversity MSMEs in biodiversity finance

As challenging as it is for (biodiversity) MSMEs to access finance, it is even more challenging for women in general and women leading (biodiversity) MSMEs. Beyond the heightened challenges they face, they are also more vulnerable to the negative impacts that biodiversity loss brings upon livelihoods. It is, therefore, vital to integrate gender aspects in planning, budgeting, implementing, monitoring and evaluation of biodiversity conservation programmes and the execution of innovative financing solutions (BIOFIN, 2017).

In general, women, especially those from rural communities, are the most vulnerable to the effects of climate change and biodiversity loss, with women having to travel long distances and spend more time collecting water, wood for fuel, and animals and plants for food and medicine (UNFCCC, 2021). Furthermore, empirical evidence indicates that women have limited rights, access, benefits, and control over resources. Even though women generally own the land in Malawi due to matrilineal property rights, they are, for the most part, still excluded from decision making in agriculture (Gama & Kalemba, 2020). Considering that women constitute half of the world's population, it becomes evident that their equal participation as key stakeholders and beneficiaries is fundamental to ensuring sustainable development, poverty reduction, and biodiversity conservation (BIOFIN, 2017). This is particularly important as women are primary caregivers, land managers, and resource users. Women's role in natural resources conservation and management is also vital as they are bearers of traditional conservation knowledge, seed selection, and plant processing experts to community leaders and market negotiators (BIOFIN, 2017).

The key role of women in biodiversity conservation has been acknowledged and promoted by several global strategies, conventions, and programmes. For instance, the UNCBD and the UNDP have developed the Gender Plan of Action 2015-2020 and the Gender Equality Strategy 2014-2017 to enhance data collection and knowledge sharing on gender and biodiversity (UNDP, 2016). Malawi has taken part in mainstreaming gender as well and has developed a gender-specific target to address biodiversity and gender considerations; it has assigned gender focal points to relevant line-ministries, local government, and committees, including the National Biodiversity Steering Committee, to ensure that a gender perspective is considered in the decision-making processes, and has included gender issues in environmental impact assessment guidelines. Furthermore, the government established a social and gender enhancement fund to address the issue that women are not involved in decision-making processes in natural resources management (Gama & Kalemba, 2020).

Despite the efforts mentioned in the previous sections regarding biodiversity policies and regulations and financial inclusion of (biodiversity) MSMEs, it is still the case that women led and owned green MSMEs are not deliberately targeted, even when women owned 84% of the micro enterprises (Finmark Trust, 2020). Added to the challenges in accessing finance, women and women-led biodiversity MSMEs are disadvantaged, and their potential role in biodiversity conservation is not fully exploited. Even though the total financial inclusion rate in Malawi is 45%, that of women is only 36%. Women might not wish to engage with formal FSPs, and rather they tend to participate in informal financing (Finmark Trust, 2020). The main reasons why women are less likely to engage in formal financing include the fact that they do not consider themselves likely to qualify for loans, lack of tailored credit products/services, and the tenure insecurity faced due to gender-biased inheritance systems. These reasons further add to other barriers faced by women in business: difficulties include gaining access to markets, control over labour, social constraints over travelling, and the difficulties of enforcing repayment when selling on credit (Finmark Trust, 2020).

To further biodiversity conservation and enhance the role of women and women-led biodiversity MSMEs, it is therefore critical to increase the access of women to finance and to develop and implement policies and regulations and financial inclusion programmes that include a gender perspective and acknowledge both the differentiated challenges women face and the key roles and contributions women bring to biodiversity conservation.

### 3.3. International good and best practices of biodiversity finance instruments

In order to overcome the existing biodiversity financing challenges, there have already been efforts taken globally towards mobilizing the needed finance, resulting in the growth of the biodiversity conservation finance market. There are now many more biodiversity professionals with relevant skills in both the conservation and finance sectors (Baralon, et al., 2021). However, instruments and revenue sources are not yet diverse enough to achieve the objectives (Baralon, et al., 2021); the most used instruments still remain private debt and equity and real assets, while few actors use publicly traded instruments.

Some promising financial products exist as green debt products (green bonds, green loans, sustainability-linked loans, where interest rates decrease based on sustainability targets achieved, and credit facilities), green equity products (private and public equity funds), and other financial products (environmental impact bonds). However, these products mainly focus on large scale projects rather than on impactful biodiversity MSMEs. Some examples include the blue bonds in Seychelles, where the government can deduct a part of their external debt if they invest in biodiversity projects; the Tropical Landscape Finance Facility (TLFF) in Indonesia, a lending and grant fund platform that provides funding to sustainable agriculture and renewable energy, as well as technical assistance (Deutza, et al., 2020); and initiatives such as Pay for Performance—Conservation Bonds, which allow private investors to get a return based on the success of the project (World Bank Group, 2020).

Although still very small, there are some first steps taken toward biodiversity MSME financing, focusing on enterprises with market-based business models that create positive impacts on biodiversity. Biodiversity enterprise-focused funds like CI Ventures, WWF Impact Ventures, and Nature+ Accelerator Fund are working towards investing in biodiversity MSMEs to fill the gap. CI Ventures offers loans to MSMEs who benefit the ecosystems and well-being of communities and who operate in places where Conservation International works. The fund focuses mainly on MSMEs in sustainable agriculture, sustainable forestry, eco-tourism, or fisheries, emphasizing those with higher impact, which is monitored and evaluated through the lifecycle of the investment. So far, they have supported 14 enterprises with a total investment of USD 20.3 million (25% by CI and 75% from additional co-financing partners) (Conservation International, 2022).

WWF Impact Ventures seeks as well to provide access to finance and expertise to conservation/biodiversity businesses. They link impact investors who are interested in these types of businesses with investment opportunities. Furthermore, WWF Impact Ventures provides expertise in impact measurement, best management practices, and technical assistance to further biodiversity enterprises to become attractive investment opportunities. So far, they have supported 40 small businesses and helped to raise more than USD 5 million in investment (WWF, 2022).

Other approaches are blended finance accelerators, like the Nature+ Accelerator Fund, which can help to stimulate the creation of investable conservation projects. And technical assistance can be integrated into blended finance schemes to improve the risk/return profile of investments and thereby crowd in private capital to finance sustainable development (Deutza, et al., 2020) through its partners IUCN, Mirova, GEF (Global Environment Facility), and CPIC (Coalition for Private Investment in Conservation). Moreover, practices that are currently not mainstream but could yield a positive impact are investment risk management mechanisms, particularly positive screening, which focuses on selecting investments based on their positive performance in biodiversity conservation. In this way, funding can be directed to enterprises that are contributing toward biodiversity conservation (Deutza, et al., 2020).

While commitments to and the development of financial sector infrastructure to absorb and disburse available biodiversity- finance are growing, the potential of MSMEs to deliver significant returns on investment – from an economic, social, and environmental sustainability perspective – remains largely untapped.



## Biodiversity Finance Globally

Promising Financing



Products focus on enterprises with market-based business models who create positive impacts in biodiversity: Biodiversity enterprise-focused funds



### CI Ventures

Offers loans to SMEs who impact ecosystems and well-being of communities

**14** Enterprises supported

**US\$ 20.3M** Total investment  
25% from CI - 75% from co-financing partners

### WWF Impact Ventures

- Provide access to finance and expertise to conservation/biodiversity businesses
- Provides expertise in impact measurement, best management practices, and technical assistance



**40** Enterprises supported

**US\$ 5M** Investment raised



### Nature+ Accelerator Fund

- Anchored in IUCN, Mirova Natural Capital, and partners within CPIC. The portfolio anchored by GEF
- Stimulates the creation of investable conservation projects and attracts private finance to conservation
- Integrates technical assistance into blended finance schemes, to improve the risk/return profile of investments
- Initial US\$ 8M risk-tolerant concessional finance will be leveraged from GEF. Then it will develop a US\$ 200M viable project portfolio

By 2030

**70** Successful investment deals in portfolio

**US\$ 160M** Co-investment attracted beyond the Nature+ Accelerator funding

Figure 9. Promising biodiversity finance examples globally

### 3.4. Ecosystem of Biodiversity Finance for MSMEs in Malawi

In light of the need for multi-stakeholder solution development, this section focuses on the major achievements of ecosystem players in delivering biodiversity finance and MSME finance to biodiversity enterprises, zooming in on examples of public sector and private sector mechanisms and initiatives across Malawi. The purpose is to assess to what extent (if any) key ecosystem players are acknowledging the role of MSMEs in biodiversity protection (and broader sustainability endeavours) and developing tailored financing solutions to meet the needs of these enterprises. Below, you can find the overview of financial instruments available in the country (Figure 10).

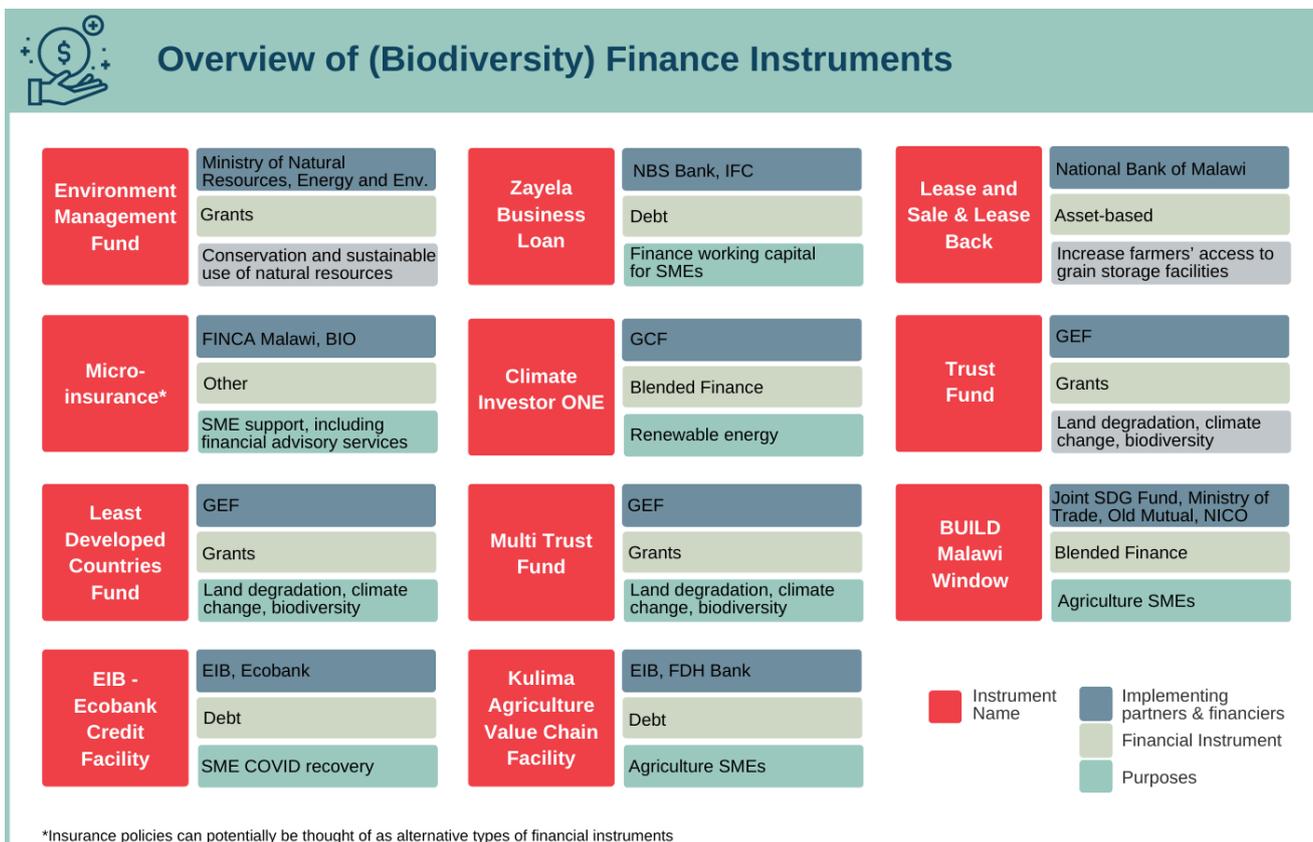


Figure 10. Overview of biodiversity finance instruments

## Public Sector

As mentioned in the sections before, building on the commitments by the government and public sector, there have been major steps towards market transformation through various policies and frameworks. Derived from these commitments, some biodiversity or green funds have been created, and several other financial instruments have been planned. However, government-led or funded finance schemes often tend to focus on financing large-scale projects, and the funding available is not enough to sustain the biodiversity programmes.

### Government ministries and agencies

The national government uses different mechanisms to finance the biodiversity plan, mainly one environmental fund and funding from several donors, which are insufficient to fund all the activities and programmes for biodiversity protection. The capitalization of the Environment Management Fund (EMF) is often too small to support the significant implementation of the activities that support biodiversity protection (Government of Malawi, 2015). This means that the implementation has mostly relied on donors, which include the Royal Norwegian Embassy, the United States Agency for International Development (USAID), the Food and Agriculture Organization (FAO), Irish Aid, and the Japanese International Cooperation Agency (JICA) (Government of Malawi, 2015). The Government expects that the implementation of programmes, both financial and technical, will be supported by development partners, civil society, NGOs, and the private sector (Government of Malawi, 2015).

As part of the plan developed in the NBSAP for the financing of biodiversity programmes, there is the design and development of sustainable financing mechanisms that include Access and Benefit Sharing (ABS) and market-based approaches such as the Payment for Ecosystem Services (PES) (Government of Malawi, 2015)

Indirect biodiversity finance also occurs through expenditure allocated to environmental purposes in general and climate change management, which accounts for less than 1% of the total Public Expenditure. Other than that, as mentioned before, the government relies heavily on international financing, with climate change related projects with indirect biodiversity protection impacts, supported by the Green Climate Fund (GCF), the Adaptation Fund, and the Global Environmental Facility (GEF) (Ministry Of Natural Resources, Energy, and Mining. Environmental Affairs Department).

## Private Sector

The banking sector is generally sound, and it is overseen and regulated by the Reserve Bank of Malawi (Privacy Shield Framework, n.d.). There are currently nine commercial banks registered in the Bankers Association of Malawi (Bankers Association of Malawi, n.d.), with the two largest banks – the National Bank of Malawi and the Standard Bank - holding 51% of all banking deposits (Privacy Shield Framework, n.d.). Considering the whole financial system in the country, the banking system dominates, accounting for 92% of total credit and holding 89% of total deposits (Onelie Nkuna, 2018). In 2017, the total assets of the commercial banks were MWK 1.572 Trillion (USD 2.15 billion) (Privacy Shield Framework, n.d.), representing about 61% of the total financial sector assets (Making Finance Work for Africa, 2019).

Beyond commercial banks, the financial sector in Malawi includes two discount houses, one leasing company, 13 insurance companies, four development finance institutions (DFIs), several pension funds, a stock exchange, and a growing-microfinance industry with currently 9 MFIs, 13 financial cooperatives (SACCO) (Making Finance Work for Africa, 2019; World Bank, 2008). And although there are some actors focusing on MSMEs and other marginalised sectors, little evidence was found of services being provided for biodiversity or green enterprises, particularly MSMEs.

## Commercial Banks

Of the nine banks present in Malawi, 5 have local capital, and 5 have foreign capital (Making Finance Work for Africa, 2019). And even though the Government and the central bank have begun initiatives to improve financial inclusion in the country and the total sector's assets have increased, credit by commercial banks is still mostly provided to large-scale businesses rather than small enterprises or households (Onelie Nkuna, 2018). Banks loans are concentrated mainly in the government (23% of the loans) and large companies (Making Finance Work for Africa, 2019), hindering financial inclusion in the country.

Although there are not many financing instruments specific for biodiversity offered by commercial banks, some banks have started offering less traditional products for MSMEs in general and have started focusing on key sectors of the country, such as the agriculture sector. Several banks, which include FDH Bank Malawi, NBS Banks, Ecobank, and the National Bank of Malawi, have partnered with other development and financial institutions to provide solutions specific for MSMEs, and the agricultural sector, targeting smallholder farmers and women and young entrepreneurs. FDH Bank Malawi is the first financial institution to have partnered with the African Development Fund (ADF) with the aim of focusing on the agricultural sector to increase financing for MSMEs in agribusiness while also increasing attention to women and young entrepreneurs (African Guarantee Fund, n.d.). NBS Bank is working with IFC in the IFC's Africa Micro Small and Medium Sized Enterprises (AMSME) Program, and in the last two years, the bank has successfully lent to more than 500 smaller clients (IFC, n.d.) through the new facility called Zayela Business Loan. This is a scheme to finance the working capital and investment requirements of MSMEs at a lower interest rate (Makossah, 2021). Ecobank has partnered with the European Investment Bank "to improve access to long-term finance in the agriculture value chain in Malawi with a €25 million credit line for smallholder farms and agricultural cooperatives" (European Investment Bank, 2021), partnering with farmer organisations and associations such as the National Association of Smallholder Farmers of Malawi (NASFAM), Farmers Union of Malawi (FUM), National Association of Business Women in Malawi (NABWM) and NASME (National Association of Small and Medium Enterprises), and has started focusing on biodiversity finance from this year (Kagalu, 2022). And the final example is the National Bank of Malawi, which offers special services for

MSMEs, such as leases and sale & leaseback (National Bank of Malawi, 2021), and also partnered in 2019 with the European Investment Bank (EIB) to increase smallholder farmers' access to quality grain storage facilities (European Investment Bank, 2019).

## Micro Finance Institutions (MFI)

Malawi's microfinance services providers consist of NGOs, financial cooperatives (SACCOs), and other lending companies (International Labour Organization, 2016). The microfinance sector comprises (in 2018) 40 microcredit agencies, one MFI accepting deposits, eight MFIs not accepting deposits, and 37 approved SACCOs, out of which 6 are community SACCOs (Making Finance Work for Africa, 2019). Total assets of MFIs and microcredit agencies were MWK 38.1 billion (USD 51.8 million) in 2018 (Making Finance Work for Africa, 2019), and the total loan portfolio represented about 50% of the total assets (in 2013), out of which 4,7% were non-performing loans (International Labour Organization, 2016). For SACCOs, the total assets were MWK 19.1 billion (USD 29.6 million) in 2018, out of which 68% represented the loan portfolio and advances, with 5.6% being non-performing loans. In 2018, the MFIs accepting deposits served 39412 clients, MFIs not accepting deposits served 359166 clients, and SACCOs served 123553 clients (Making Finance Work for Africa, 2019), with loans ranging from MK 300000 to 500000 (Banda, 2022).

The largest MFIs present in the country are Opportunity International Malawi, FINCA Malawi, Malawi Rural Development Fund, and Microloan Foundation. Other important MFIs include FINCA Malawi, National Economic Empowerment Fund (NEEF), and Fincoop, which is a "member owned, democratically controlled financial cooperative serving micro, small and medium entrepreneurs, farmers and salaried employees" (Mayuni, 2022).

MFIs are usually members of the Malawi Microfinance Network (MAMN). This organisation strives to ensure good governance and serves as a resource centre not only for the MFIs but also for other stakeholders; furthermore, the network provides capacity building, advocacy and lobbying, and resource mobilisation (Malawi Microfinance Network, 2022). And regarding SACCOs, the umbrella organisation is MUSCCO (Malawi Union of Savings and Credit Cooperatives), established in 1980 by the Catholic Church. The objective of MUSCCO is to provide savings and credit services to its members and to audit the SACCOs on behalf of the government's Cooperative Department (MFTransparency, 2011). MUSCCO issues loans to its members without going further into detail about the use of these loans (Banda, 2022). The institution is planning to develop models around solar distribution in the future, a Green Energy Product, and has received training from GIY on how to develop green products (Banda, 2022).

Even if MFIs tend to offer more products for MSMEs -and especially smallholder farmers- than commercial banks, MSME loans are still a small share of the total loan portfolio. MFIs usually focus on individuals, as mentioned, farmers and are involved in other social causes, such as addressing HIV/AIDS issues (MFTransparency, 2011). The products provided tend to be, for the most part, loans and savings services, although some MFIs, such as FINCA Malawi, also offer microinsurance and financial advisory services (Mayuni, 2022). In 2020 FINCA Malawi received an investment of \$1,5 million from BIO (Belgian Investment Company for Developing countries) mainly to support MSMEs (BIO, 2020).

Regardless of the importance of MFIs to inclusive finance, the products and services offered by MFIs tend to miss the 'missing middle' financing gap as ticket sizes remain small and are not well suited to growth finance for MSMEs. And even when MFIs offer inclusive finance solutions to various marginalised groups and MSMEs, little evidence was found in Malawi of a role for MFIs in financing, specifically "biodiversity" (or even green) business.

## Fintech companies

Considering the financial inclusion landscape and strategy in the country, fintech companies present a huge opportunity to achieve financial inclusion targets, also for MSME and agriculture financial

inclusion. Within the financial inclusion strategy, regulatory frameworks have been set in place for the national switch towards digital finance. The use of digital financial services has increased in the country, reaching a volume of digital finance transactions of MWK 772.7 million by the end of 2021 (Malakata, 2022). Though the volume of transactions and users have increased, traditional banks remain the largest actors in digital finance. As part of the national switch, a few mobile network operators have been included to be integrated, one of which is Zain Telecommunications, which partnered with the National Bank of Malawi (NBM) and NBS Bank in rolling out ZAP, a mobile commerce service (MFTransparency, 2011).

As part of another project focused on the integration of a Microfinance Transmission Processing Hub (MFI-TPH) into the national switch, 16 MFIs and SACCOs were selected for the implementation of the project, out of which 5 already became operational in June 2018 (Making Finance Work for Africa, 2019). And more recently, in 2022, the government received a grant of \$14.2 million from the African Development Fund to drive financial digitalisation as part of the digitalisation, financial inclusion, and competitiveness project. The project aligns with the National Strategy for Financial Inclusion, offering small businesses access to finance opportunities as well as access to new markets (Fintech Global, 2022).

Even though still very nascent, fintech solutions in the country are promising as they remove some of the barriers faced by MSMEs and smallholder farmers to access finance. Ecobank is currently promoting the development of fintech solutions through Fintech challenges, the most recent one launched in 2021 with several African and global partners, including ACCION, Catalyst Fund, Nedbank VC, and Cellulant (The Maravi Post, 2021).

### **MSME intermediaries (incubators, accelerators, networks)**

Though not direct sources of MSME financing, often MSME intermediaries such as incubators, accelerators, and networks play a key role in building the financial capacities and investment readiness of (biodiversity) MSMEs. There are around 15 active business incubators in Malawi, which work directly with enterprises across sectors and with diverse impact objectives. The main incubators are Blantyre E hub /Dzuka Africa, Mhub, Synergy, Mzuzu E hub, Synergy, Polytechnic Business Incubation Hub (PBIC), SMEDI (Small and Medium Enterprise Development Institute), SEED Malawi Hub/UMODZI Consulting, MUST and LUANAR Agribiz Hub. Some relatively recent incubators are Ntha Foundation, Thanthwe Incubation and Acceleration Centre, NxtGen Lab, Innovation Lab by UNICEF, and Flame Tree Initiative's, which works with institutions of higher learning.

Moreover, there exist MSME support programmes and TVET institutions (Technical, Entrepreneurial and Vocational Education and Training) that offer business support services. The Small and Medium Enterprise Development Institute (SMEDI) resulted from the efforts of the government toward the financial inclusion of MSMEs, and it seeks to provide business development support services which include business training, linkages to markets and financial institutions, and business advisory services (FinMark Trust, 2019). TVET institutions exist under the TEVET Authority, which works with the public and private sectors to "regulate, promote and facilitate programs in business start-up skills but also improve performance in various sectors" (Mayuni, 2022).

There are few intermediaries, such as Technoserve, who engage BDS providers to develop the capacity of biodiversity enterprises. They offer matching grants, capacity building to ensure the implementation of the enterprises' projects, and create linkages between enterprises and financial institutions (Lefu, 2022).

The government started developing a strategy for Innovation and Incubation in the country in 2021 in order to ensure that start-up businesses that tackle unemployment can survive. The Ministry of Youth and Sports is currently working with the African Agribusiness Incubators' Network (AAIN) to provide training to 8 business incubators as well as to the government. The incubators participating are Lilongwe University of Agriculture and Natural Resources (Luanar), Malawi University of Science

and Technology (MUST), Malawi Polytechnic, Mzuzu University (Mzuni), Mhub, SOS Villages, Tanthwe Farm, and Dapp Mikolongwe (Malawi News Agency, 2021). Other relevant incubators in the country are Innovation Hub, a partnership between UNICEF Malawi and the University of Malawi/Polytechnic, InCUBE8, and BeeBiz (Madola, 2019).

In general, incubators (and accelerators as well as other support programmes) seek to tackle or contribute to the problem of unemployment, particularly youth unemployment, by ensuring the survival of start-ups and businesses. However, little evidence was found as to incubators being active in offering services specifically tailored to biodiversity MSMEs in the country, except for a few initiatives.

## Development finance institutions and multilateral development funds

There are several development finance institutions (DFIs) and multilateral development funds (MDFs) that provide funding for environmental purposes and MSMEs support. Several are focused on the agriculture sector and the integration and support of smallholder farmers, while others focus on MSMEs in general. Additionally, the GCF and GEF are also present in the country through several projects. GCF implements 3 projects with total financing of US\$ 35.3 million; one of the projects, Climate Investor One (CIO), is a blended finance facility for renewable energy projects (GCF, n.d.). GEF, on the other hand, has provided more than US\$ 90 million in funding through the GEF Trust Fund, Least Developed Countries Fund, and Multi Trust Fund for land degradation, climate change, and biodiversity projects (GEF, 2022).

The institutions focused on agriculture include the United Nations Joint SDG Fund, the European Investment Bank (EIB) in partnership with Ecobank, the National Bank of Malawi, and FDH Bank (through the Kulima Agriculture Value Chain Facility, which is part of a broader European Commission programme); and the Malawi Agriculture and Industrial Investment Corporation (MAIIC), launched by the Government in 2019 as a development bank (FinMark Trust, 2019), who offers different lines of credit, loans, leases, guarantees, debt and mezzanine debt, and equity and quasi-equity services for MSMEs and agriculture enterprises (MAIIC, 2020). Furthermore, there is also the Export Development Fund (EDF), launched by the Government to promote export-oriented businesses; the Agricultural Transformation Initiative (ATI), funded by the Foundation for a Smoke-Free World; and the Fines by the Reserve Bank of Malawi (Central Bank of Malawi).

The BUILD Malawi Window, from UNCDF's Joint SDG Fund, supports local development through a specialized structured blended finance vehicle for agribusiness that aims to support 50 enterprises by mobilising US \$35 million in partnership with Bamboo Capital Partners (UNCDF, n.d.). It seeks to integrate 75000 small-scale producers as investees in the supply chains and provide technical assistance (Pemba, 2021). EIB supports MSMEs in the agricultural sector through a 25 million EUR credit line while also providing technical assistance for local intermediaries in partnership with Ecobank (European Investment Bank, 2021); and supports the development of agricultural storage capacity through a 30 million EUR facility in partnership with the National Bank of Malawi (in 2016) and developed jointly with USAID and ACE (European Investment Bank, 2019). EIB also partnered in 2019 with FDH Bank to promote sustainable agriculture through the Kulima programme with a 7 million EUR lending programme. The Kulima Agriculture Value Chain Facility seeks to increase investment by agricultural enterprises and to make available funding in the local currency to mitigate foreign exchange risks (European Investment Bank, 2019).

Furthermore, there are several other institutions focused on the development of MSMEs in general, such as the African Guarantee Fund, The Department for International Development (DFID) from the UK, the International Finance Corporation (IFC), and the World Bank's International Development Association (IDA). The African Guarantee Fund signed a guarantee agreement with the FDH Bank Malawi in the first months of 2022 for US \$3 million to facilitate financing and promotion, as well as growth and development of MSMEs, with a special focus on women entrepreneurs, agri-businesses, and the youth (African Guarantee Fund, n.d.; African Guarantee Fund, 2022). UK's DFID has implemented several projects in the country that target MSME development, such as the Malawi Innovation Challenge Fund and the Malawi Oilseeds Sector Transformation Programme (FinMark Trust, 2019). IFC has invested

US\$ 3 million in a programme with the NBS Bank - Africa AMSME Program – which provides investment and advisory services to MSMEs by creating a small business loan portfolio (IFC, n.d.). Lastly, in the face of the COVID pandemic, the World Bank’s IDA made available US\$ 86 million through a project which offers credit lines and training for MSMEs, particularly youth and women-owned businesses (Chimbali, 2020).

In general, little evidence was found regarding specific biodiversity financing for MSMEs. Despite the commitments toward the environment and biodiversity that are supported by DFIs, the majority of activities do not directly support MSMEs. Although there are a few projects by development institutions targeted at smallholders, and despite the fact that some banks also target the agriculture sector, not many other actors are targeting MSMEs. Biodiversity financing is still very new in Malawi and is mainly donor-driven. Furthermore, the usual financial instruments available for biodiversity MSMEs tend to target biodiversity-friendly rather than biodiversity-based MSMEs (Figure 11).

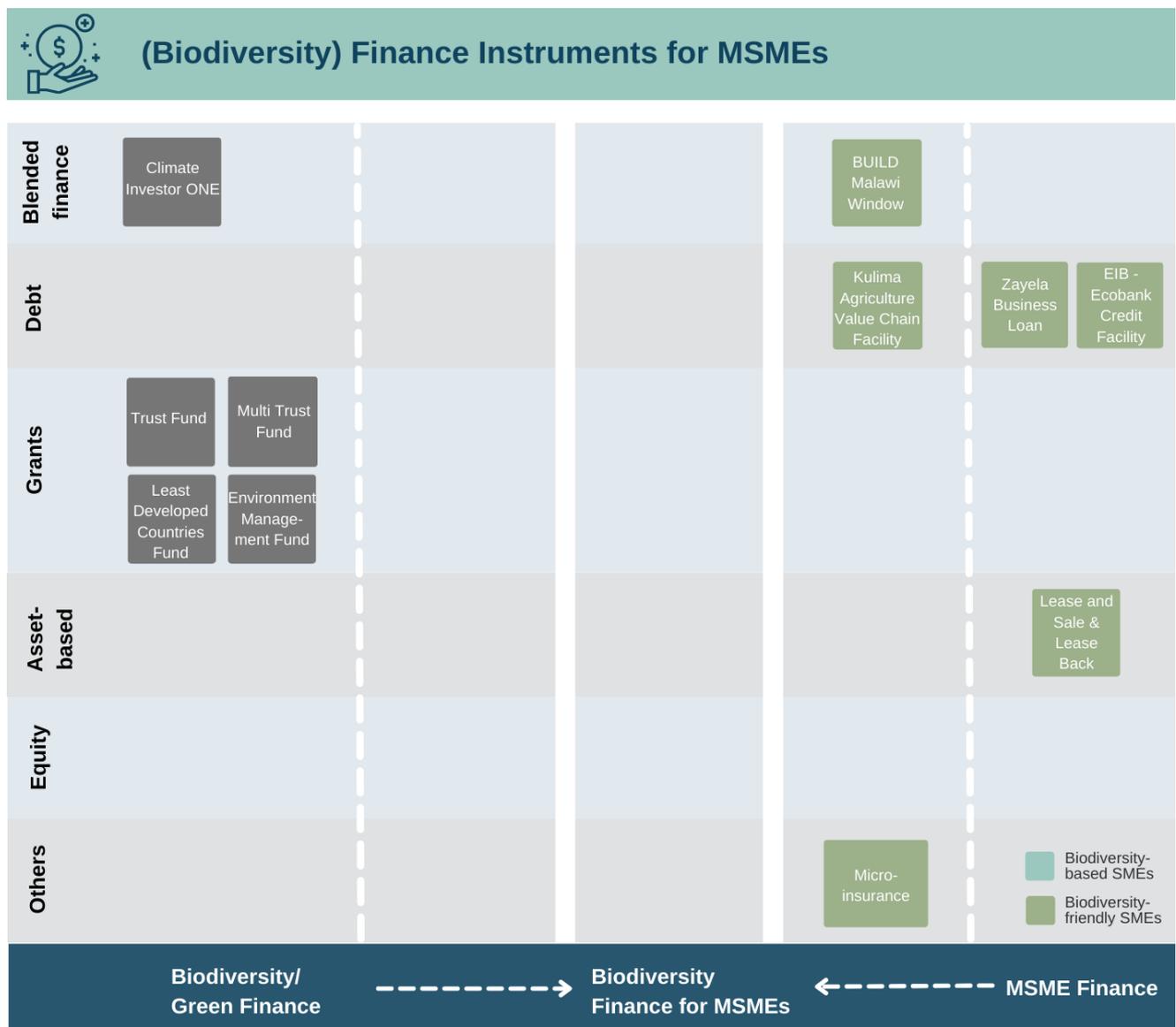


Figure 11. Finance instruments for biodiversity MSMEs

# 4. Roadmap and Recommendations

## 4.1. Findings and Action Areas

Global commitments toward biodiversity have resulted in significant progress on biodiversity financing, but still, a long road remains ahead. Every stakeholder plays an important role in achieving biodiversity conservation.

Specifically, for Malawi, there are several recommendations that have stemmed from several studies and analyses, which focus more on MSMEs' financial inclusion rather than biodiversity financing. In general, it is important that the government enforces the Credit Reference Bureau Act 2010 since this would help FIs identify valuable MSMEs to lend to (Ndala, 2019). It should as well consider tax incentives to banks who lend to MSMEs (Ndala, 2019) to overcome the most important barriers, which is the high interest rates. It is also important that the Personal Property Security Registry System of Malawi (PPSR) is strengthened since it would de-risk lending, as well as offering partial credit guarantee schemes, and promote credit information sharing (FinMark Trust, 2019).

Particularly for financial service providers, the development of innovative credit products tailored to the needs and nature of small businesses, setting up a dedicated department for MSME financing and collaborating with other FSPs is central to improving MSME financing, and covering small businesses' needs (FinMark Trust, 2019). This includes partnerships with SACCOs and farmer groups that would extend credit opportunities (FinMark Trust, 2019). As generally agreed upon, banks ought to soften the over reliance on collateral rather than on business cash flows (Ndala, 2019). The development of alternative financial products – for example, those that offer off-grid, pay-as-you-go solar solutions - is crucial to improve MSME funding, particularly for agro-processors who face electricity constraints (FinMark Trust, 2019).

Some alternative finance instruments that could work in the country include credit guarantee schemes, which have been successfully implemented in ASEAN countries including Singapore, Malaysia, Philippines, and Thailand; capital market financing, which could provide a solution to long term financing, but which, unfortunately, face many challenges to implement regarding legal, regulatory and transactional requirements; and MSME equity investment schemes (Zidana, 2016). For the latter, a successful example was implemented in Nigeria, where commercial banks set aside 10% of their profits after tax, which is pooled by the Central Bank to be invested in MSMEs as loans, equity, or a combination. However, the most important drawback to implementing these schemes is that most MSMEs do not know how to engage and manage investors and lack knowledge of business valuation.

Although some solutions are available for MSMEs in general, more are required that improve the inclusion of MSMEs in formal financial systems and deliver tailored capacity building and financing to missing middle (biodiversity) MSMEs. In Malawi particularly, financial institutions are not well aware of biodiversity business models and how could they could be assessed. By gaining practical knowledge of (biodiversity) MSMEs' business models and their risks, financial institutions may be able to correctly price their risk premium and improve the interest rates offered. Experts and FSP agree that there is a lack of support in general in the ecosystem to develop and create demand for green products and a lack of information/data/criteria required to better assess expected returns for investments in green/biodiversity focused MSMEs (Banda, 2022; Kagalu, 2022; Lefu, 2022).

Furthermore, particularly for biodiversity MSMEs, other financial solutions such as matching grants should be encouraged, which must go hand in hand with the development of sound biodiversity projects with a robust impact and needs assessment (Lefu, 2022).

This all points out the fact that tailored financing and capacity building solutions that involve the active role of financial institutions and investors are required to extend capital to biodiversity MSMEs in order to fully realise the contributions of these businesses to socially inclusive biodiversity conservation at scale. Challenges with commercial lending and financial risk aversion translate into a lack of tailored financial products and capacity building support to scale the contributions of biodiversity MSMEs to inclusive, green economic growth. Through the Practitioner Labs Biodiversity Finance, ecosystem actors engage in a collaborative process to co-create innovative green/biodiversity finance mechanisms for MSMEs offering products and services for biodiversity conservation.

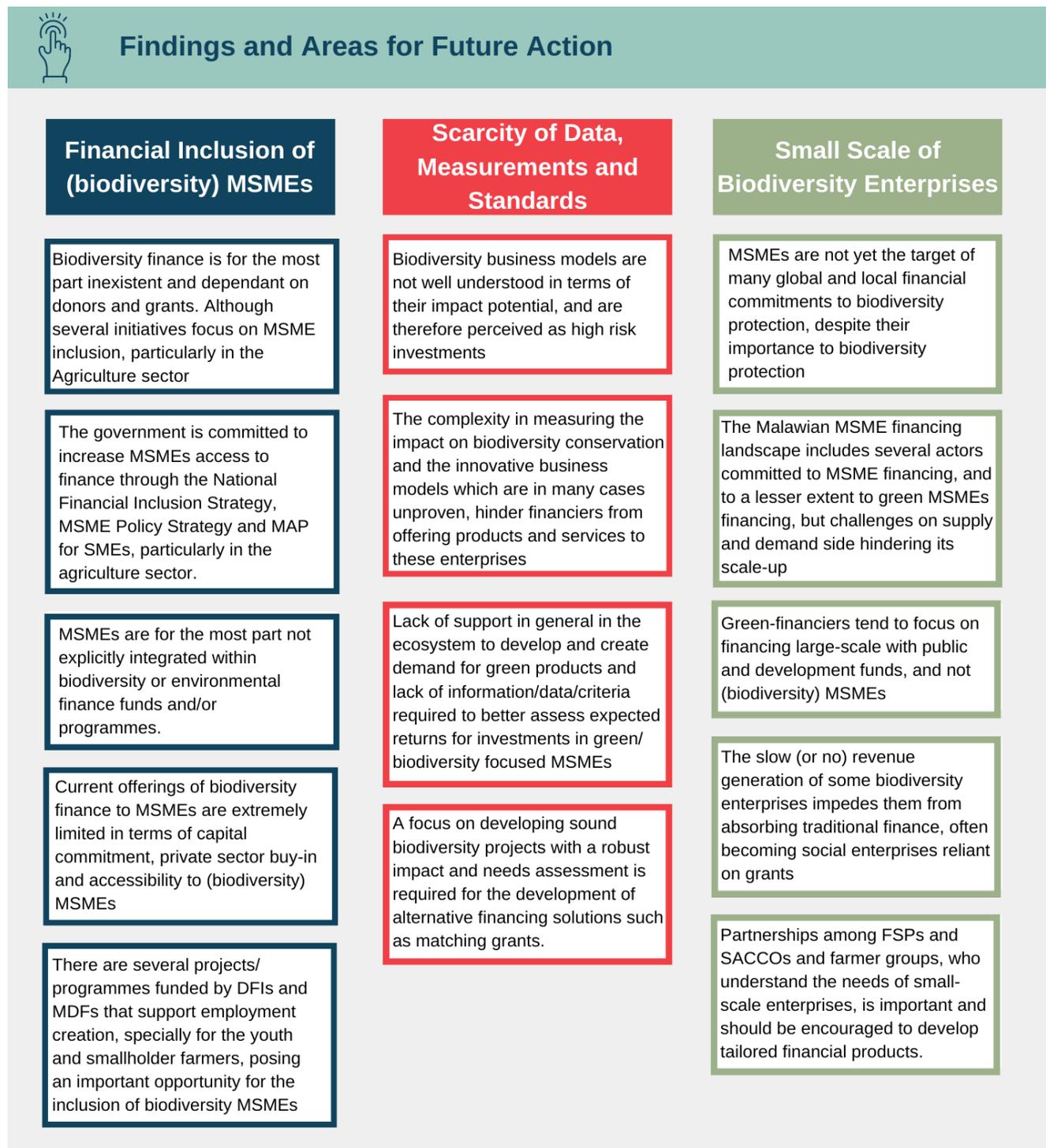


Figure 12. MSME biodiversity finance findings: areas for further action

The existing biodiversity finance trends in Malawi allow us to identify 3 areas for further action in the country that builds from the global challenges to scaling up biodiversity finance. These include the financial inclusion of MSMEs in general; the small scale of biodiversity enterprises; and scarcity of data, measurement, and standards, which are summarized in Figure 12. Building on these findings and areas for further action, the Practitioner Labs Biodiversity Finance are the way forward, where ecosystem actors engage in a collaborative process to co-create innovative green/biodiversity finance mechanisms for MSMEs offering products and services for biodiversity conservation.

## 4.2. Biodiversity Finance Trainings and Practitioners Labs

The Practitioner Labs Biodiversity Finance engage financial institutions, funders, intermediaries, and other micro, small- and medium-sized enterprise (MSME) ecosystem stakeholders over a highly collaborative, multi-step process outlined in Figure 13. Since 2018, the labs (focused on climate and green finance) have been successfully implemented by adelphi's hosted SEED in Indonesia, India, Thailand, Uganda, South Africa, and Ghana. During the labs, practitioners pool resources and expertise to co-create innovative green/biodiversity finance mechanisms that finance the growth of biodiversity SMEs offering products and services for biodiversity conservation. The labs aim to facilitate multi-stakeholder responses to locally-relevant biodiversity and MSME financing challenges while building the institutional capacities of financial institutions and investors to leverage global biodiversity finance flows and realise the contributions of SMEs to biodiversity conservation at scale.

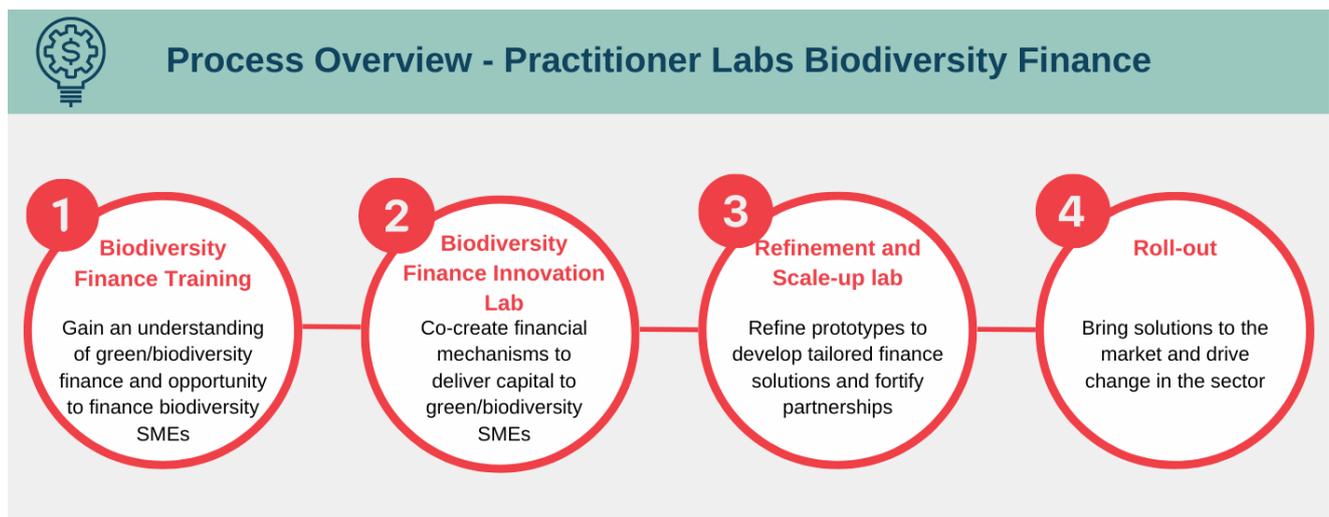


Figure 13. Practitioner Labs Biodiversity Finance Process

Practitioners co-create tailored solutions for financing biodiversity SMEs that combine: (1) financial instrument or mechanism (debt, equity, blended/hybrid or grants/donations); (2) features such as capacity building, technology access, credit assessment, and more; and (3) an ecosystem of partners for knowledge sharing, implementation and financing that leverage their institutional capacities and expertise to meet the financing demands of (biodiversity) SMEs.

Over the course of the Practitioner Labs Biodiversity Finance, key ecosystem actors will offer their knowledge of the major challenges and barriers to biodiversity enterprise development, MSME financing, and the expansion of biodiversity finance to SMEs. As such, they will tackle some of the major challenges identified in this paper. In the track of financial inclusion, SMEs and financial institutions, and financiers will get a chance to establish relationships in the hope of increasing the understanding of biodiversity business models. As part of the finance training, the importance of biodiversity MSMEs, in general, will also be highlighted along with the global examples of existing biodiversity finance which can be used to build upon new innovative financing instruments relevant to the context of the country.

On the other hand, enterprises will also become aware of other financial instruments that are currently not very accessible and also gain an understanding of biodiversity finance.

The Practitioner Labs also constitute an opportunity to shift the focus of financiers and other stakeholders towards biodiversity SMEs and their impact potential, shining light on the local and global trend of how the small-scale of biodiversity enterprises constitute a major challenge for accessing finance. Overall, the trends and findings from the current status of biodiversity finance will be addressed and used to co-create tailored financial solutions for biodiversity SMEs tackling the challenges mentioned in this document.



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