GSG IMPACT

Centre for Development Finance Studies

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A New Lens on SME Mobilisation: How to Maximise Private Capital Flows to SMEs

A guide for DFIs and practitioners wanting to increase the flow of capital to SMEs

A report by GSG Impact, supported by the CDFS

Resulting from a Working Group co-hosted with BII, Norfund and USDFC

Contents

About GSG Impact

GSG Impact is a global not-for-profit organisation, established under the 2013 UK G8 presidency, with the goal to create the infrastructure and incentives for capital to flow for measurable, positive social and environmental impact.

We do this by creating, accrediting, and supporting national impact institutions - GSG National Partners. Today we are responsible for over 40 National Partners covering two thirds of the global population. Over half of our National Partners are in emerging markets, with many more in development. Collectively GSG Impact and our National Partners work together as the GSG Impact Partnership.

We are a powerful global movement, developing innovative impact investment solutions and driving national and international policy and regulatory change to enable these solutions to be adopted at scale.

Our mission is to build impact economies across the globe, creating the infrastructure and incentives for capital to flow for the SDGs & climate goals. Our collective efforts have raised over US$ 3 billion in capital and launched more than 15 impact investment vehicles.

We are very focused on mobilising capital for impact in emerging markets. Our current vehicles aim to increase capital flows to the SME sector, which is so essential for a thriving economy. Our solutions include mobilising domestic capital - local pools of capital such as domestic pension funds, usually investing in local currency and thereby reducing the foreign exchange issue. Building up the domestic capital supply ecosystem also leads to better long-term system resilience and less reliance on volatile foreign direct investment.

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About CDFS

The Centre for Development Finance Studies (CDFS) is a non-profit organisation dedicated to applied research, field work and advocacy pertaining to development finance.

It shapes and disseminates practical solutions for integrating development finance institutions into global capital markets. It works to shape a future where the development finance system harnesses the reach and scale of the global capital markets to dramatically increase the participation of private capital for the 2030 Agenda.

The project aimed to ensure that DFIs and PDBs have a better understanding of what actions they can take to mobilise additional sources of private capital, especially to benefit SMEs.

About this report

In June 2024, GSG Impact launched a Working Group co-hosted with three Development Finance Institutions (DFIs) British International Investment (BII), Norfund, and the United States International Development Finance Corporation (DFC). The goal of this initiative was to assess DFI success factors to mobilise private capital, for the benefit of small and medium-sized enterprises (SMEs) in emerging markets and developing economies (EMDEs). The project aimed to ensure that DFIs and Public Development Banks (PDBs) have a better understanding of what actions they can take to mobilise additional sources of private capital, especially to benefit SMEs. The initiative was set up to create an evidence-based framework to select and analyse cases of successful capital mobilisation, with demonstrated improvements for SME finance in EMDEs and generate a list of success factors and actionable recommendations that can be implemented by DFIs, PDBs, and other players to increase capital flows to the SMEs in EMDEs.

The project has been carried out by GSG Impact and supported by the Center for Development Finance Studies. An Advisory Group composed of the co-hosting DFIs and selected experts has provided strategic guidance throughout the project.

Support from the three Development Finance Institutions (DFIs) co-hosting this initiative, British International Investment (BII), Norfund, and the United States International Development Finance Corporation (DFC), was invaluable in defining and contextualising DFI approaches to funding SMEs and measuring mobilisation. We are especially grateful to the members of the Advisory Group of this initiative, for their continuous feedback and their review of the report: Elizabeth Boggs-Davidsen (GSG Impact), Paddy Carter (BII), Nicholas Colloff and Harry Devonshire (Argidius Foundation), Drew von Glahn (CFF), Neil Gregory (ODI), Hamdiya Ismaila (Ci-Gaba Ghana and GSG's Ghana National Partner), Signe Kolbye Sorensen (Norfund), Austin Mwape (Absa Bank Zambia and GSG's Zambia National Partner), Urmi Sengupta (MacArthur Foundation), Laurie Spengler (BII and Courageous Capital Advisors), Chris Walker (DFC).

We are also thankful to the funding received from Argidius Foundation, on behalf of the Growth Firms Alliance, FCDO and the Government of Japan, which made this work possible, and to the contributions of the 60 Working Group members (DFIs, PDBs, GSG National Partners and other key stakeholders). More details about the members of the Working Group can be found in Annex page 27 and the methodolgy can be found in Annex page 30.

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Foreign, Commonwealth & Development Office

GROWTH FIRMS ALLIANCE

From the People of Japan

Section 1 ***Executive Summary***

Rethinking SME Mobilisation: Key Findings

The context:

Development Finance Institutions (DFIs) - including bilateral DFIs, multilateral development banks (MDBs), and public development banks (PDBs) - are critical enablers of SME finance in emerging markets and developing economies (EMDEs), channelling capital and capacity through local intermediaries to unlock sustainable economic development.

Seventy-five percent of DFI commitments to SMEs are intermediated through domestic commercial banks and local or regional SME funds. These intermediaries then on-lend, invest, or provide non-financial support to SMEs. However, investments by DFIs can never meet the annual US$ 5 trillion SME funding shortfall on their own, given that their total annual commitments are around US$ 140 billion, and only a fraction of that targets SMEs. This is why the role of DFIs acting as catalysts, mobilising domestic and international private capital, is increasingly seen as a primary objective by the development finance community.

Our Working Group set out to describe how DFIs are mobilising private capital for the benefit of SMEs, through the analysis of data provided by the three DFIs co-hosting the Working Group (BII, Norfund and DFC), alongside 13 case studies based on interviews. The definition of private capital mobilisation is evolving, leading to new interpretations of what it includes and how it is measured. Among the recent advances in methodologies, the MDB Task Force[1] distinguishes between private direct mobilisation and private indirect mobilisation.

While both views have their merits, the latter categorisation goes some of the way to considering mobilisation through a more systemic lens. However, it stops short of considering mobilisation that does not occur at the transaction level. As a result, several development actors are considering the question of mobilisation more holistically. The IFC, for example, is soon to publish findings related to its work on conceptualising Private Capital Enabled (PCE) mobilisation, which is anticipated to consider downstream mobilisation effects occurring beyond the transaction level. Meanwhile, BII has highlighted ten pathways in which DFIs mobilise commercial capital, including at the sub-investee level.

Understanding where indirect private capital mobilisation originates will enable practitioners to better target and measure it. In turn, that will allow for the identification of the success factors underpinning it, thereby creating the conditions to scale up the flow of private investment to SMEs.

75%

of DFI commitments to SMEs are intermediated through domestic commercial banks and local or regional SME funds.

[1] The MDB Taskforce is a group of multilateral development banks (MDBs) and Development Finance Institutions (DFIs), collectively known as the "MDB Task Force on Mobilization". It was formed in 2016 to develop the joint mobilisation methodology, and it maintains responsibility for interpretations of and updates to that methodology, and for producing the 'Mobilization of Private Finance' report annually.

Key findings:

This study reveals that private capital mobilisation for SMEs by DFIs is not happening in the way that it is usually accounted for and measured:

• Low mobilisation levels are reported at the point of investment but substantial private capital is being mobilised downstream, through banks and funds supported by DFIs. The report introduces a new concept: "secondary mobilisation", and offers a practical roadmap by which to recognise, track, and scale this phenomenon.

• "Secondary mobilisation" refers to private capital that is catalysed downstream from DFI investments at the intermediary or end-SME level thanks to DFIs' support, but not directly co-invested alongside the DFI. This additional finance, predominantly domestic and commercial, supports SMEs yet goes largely unmeasured under existing OECD or MDB frameworks. For example:

- A bank receives long-term DFI funding, technical assistance, or guarantees to develop SME lending capabilities, and then deploys its own balance sheet capital (through, for an example, local currency deposits) to scale SME loans which will surpass the amount of the initial DFI investment.

- An SME fund supports its portfolio companies in raising additional local private capital, which is neither counted nor systematically tracked by DFIs.

"Secondary mobilisation" is already happening and replicable. Our analysis of 13 case studies of financial intermediaries in emerging markets shows that when certain success factors align, such as strong management buy-in by the intermediary, targeted technical assistance, and supportive DFI engagement, significant local capital is mobilised. These factors are not new, but what is new is recognising their combined effect in driving downstream mobilisation beyond the initial DFI investment. This "secondary mobilisation" is largely unmeasured, but critical for scaling SME finance.

In this paper, we present a provisional framework for thinking more holistically about capital mobilisation through financial intermediaries DFIs use to reach SMEs. We explore how successful models of secondary mobilisation can be scaled to achieve broader impact.

Figure 1:
Mobilisation through Banks – Success Factors

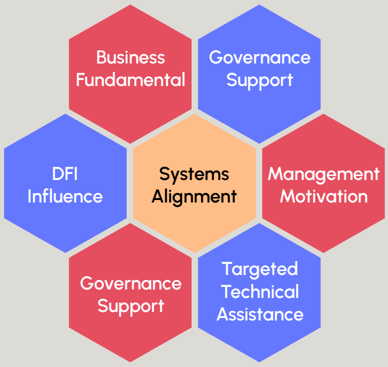
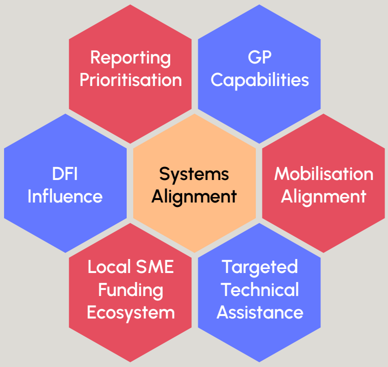


Figure 2:
Mobilisation through Funds – Success Factors



Our Calls To Action:

DFIs, working with the intermediaries they invest in, and in partnership with all ecosystem stakeholders, could drive an increase in the mobilisation of private capital for SMEs by better understanding, tracking, targeting, and intentionally scaling secondary mobilisation.

It starts with recognising that "secondary mobilisation" is a strategy to improve SME finance. While secondary mobilisation is already happening, our goal is to increase its scale and rigour to close the financing gaps.

While "secondary mobilisation" is not a complete solution to filling the SME funding shortfall, this report presents a framework through which to assess the impact of DFI resources for the benefit of small businesses and the communities they support.

Next Steps: The below calls to action are for all stakeholders involved in mobilising SME finance.

"We have looked at private capital mobilisation. We have tried to allocate more capital for SMEs. We haven't optimised for both problems at the same time. Secondary mobilisation is a new concept that we have explored with this Working Group for that purpose."

Working Group Member

1

Understand and track "secondary mobilisation"

· Identify and track examples of where "secondary mobilisation" is happening.

· Extract learnings that will enable the creation of mobilisation strategies at a "secondary" or non-direct level, that could be incorporated into investment decision-making, performance assessments, and TA design.

· Collaborate with selected DFIs, banks, and fund managers to pilot new tracking tools to account for secondary mobilisation in real-time.

2

Develop and incentivise intermediary strategies focused on SME investment via "secondary mobilisation"

· Provide and/or facilitate technical assistance to incentivise and enable sustainable flows of private investment into SMEs:
  · Help banks create sustainable SME lending operations (e.g. by leveraging a bank's balance sheet)
  · Help funds to improve support to portfolio companies in raising capital from private investors.

· Use data to prioritise intermediaries with track records of high mobilisation of capital for SMEs

3

Scale up ecosystem building and market creation

· Embed ecosystem-building support and market creation more systematically—not just technical assistance to a single partner—to address both demand- and supply-side constraints. This includes fostering the creation of domestic funds that unlock domestic institutional capital.

· Engage with policy-makers to align "secondary mobilisation" strategies with policy incentives.

Go to page 22 to read about our recommendations in more detail.

How Secondary Mobilisation Occurs: Three Case Studies that Inspire

Please go to Annex page 45 for the full list of the 13 case studies and their respective page numbers.

KCB Bank, Kenya: Collaboration Generates Mobilisation

Read complete Case Study

- Technical assistance informed and enabled bank investment in internal systems and customer relationship management, tailored product offerings developed, and non-financial business support to SMEs
- Following the TA starting in 2017, KCB's portfolio started growing from US$ 4M and passed US$ 200M (off their own balance sheet) in 2021, at which point IFC, Sanad and Symbiotics provided a US$ 150M syndicated loan to support the acceleration of KCB's SME portfolio growth.

Mobilisation impact

- KCB's SME loan portfolio grew from US$ 4 million to US$ 900 million over six years, largely funded by KCB's own capital, thanks to an initial grant for technical assistance of around US$ 900 thousand by Argidius Foundation.
- SME lending was established as a core and sustainable revenue and profit driver for the bank. This case demonstrates that DFI lending products can help amplify SME lending but the products and services need to be there in the first place (value of TA).

Sahel Capital, Nigeria: Recognising the Value of Mobilisation at the SME Level

Read complete Case Study

- Investor base including Germany's KfW and the African Development Bank
- Supported by the Nigerian sovereign wealth fund and aligned with Nigerian Government policy priorities
- KfW provides technical assistance facility to funds, including FX hedging and risk management support, de-risking Sahel's portfolio
- Sahel actively supports portfolio companies with due diligence and structuring for subsequent capital raising

Mobilisation impact

- All eight companies in first Sahel fund attracted additional financing from private sources, including local banks
- Additionally, the fund manager has undertaken to assess and report on portfolio company fundraising

Fondo de Fondos Mexico: Mobilising Domestic Pensions to Build the Market

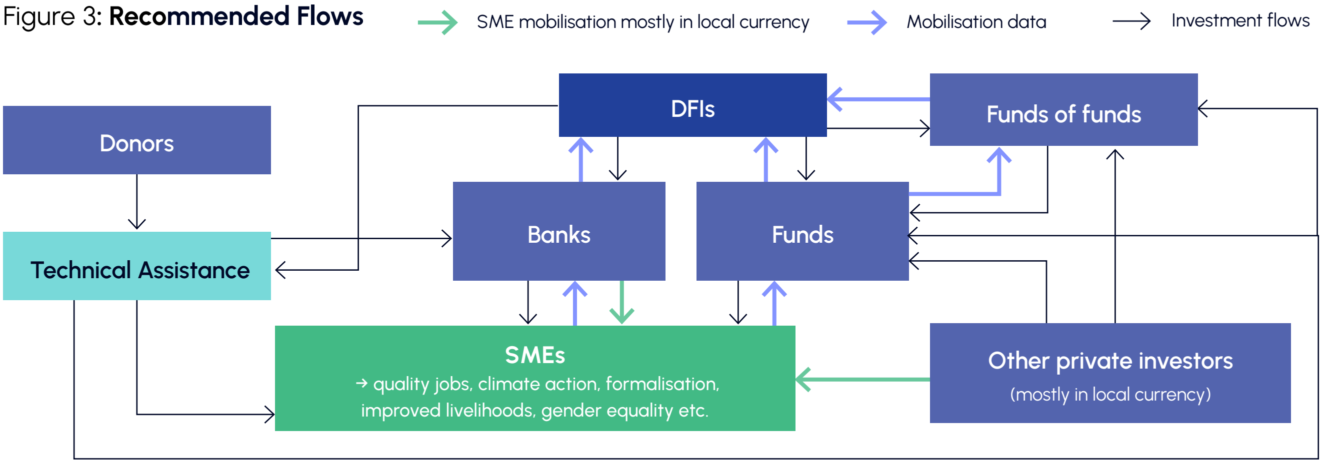
Read complete Case Study

- Designed as a government-backed fund of funds platform, aimed to anchor emerging private equity and venture capital funds, facilitate infrastructure development, and support SME growth.
- Investors include state development institutions, and development finance partners such as the Inter-American Development Bank (IADB), and also domestic institutional capital providers, especially from Mexican pension funds

Mobilisation impact

- In 2008, in Mexico, there were 12 seed and early-stage funds that invested a total of $3.6 million dollars in only 6 companies. To date, FdF has committed over US$ 1.6 billion across 118 private equity, venture capital, infrastructure, and impact funds, which in turn have backed more than 1400 companies and contributed to the creation of approximately 740 000 jobs across Mexico

Figure 3: **Recommended Flows**



Section 2

Towards a holistic view of SME mobilisation

$5 Tr

is the estimated financing gap faced by SMEs

SME Capital Mobilisation: necessary and challenging

Small and Medium Enterprises (SMEs) are recognised globally as key drivers of economic growth, innovation, and poverty alleviation. According to the World Bank (2019), SMEs account for over 50% of global employment and 70% of formal jobs in developing economies. They are catalysts for industrial diversification,entrepreneurship, and innovation, and promote inclusive growth by creating jobs and reducing income inequality, particularly in rural and underserved regions.

Despite their economic importance, SMEs in developing economies face a persistent financing gap. The International Finance Corporation (IFC) estimates this gap at over $5 trillion annually, with sub-Saharan Africa and South Asia being the most affected regions, and approximately 43% of formal SMEs report unmet financing needs (IFC, 2022). This gap is particularly acute for early-stage and growth-oriented SMEs, which often lack the collateral and credit history required by traditional lenders. As a result, these SMEs are often forced to rely on expensive and informal sources of finance or to forgo growth opportunities altogether. In Nigeria for example, over 90% of loans are disbursed by commercial banks but currently, according to a study commissioned by

In Nigeria

+90%

of loans are disbursed by commercial banks but currently, according to a study commissioned by DBN, only half of these banks actively serve SMEs and only 15% of SMEs have borrowed from a financial institution.

Development Bank of Nigeria, only half of these banks actively serve SMEs and only 15% of SMEs have borrowed from a financial institution.

Several barriers impede SME financing. These include high perceived risks due to limited financial track records, informal business practices, and vulnerability to economic shocks. High transaction costs associated with the small loan sizes typically required by SMEs and fragmented funding ecosystems characterised by weak financial infrastructure and low levels of cross-border investment also pose challenges. A lack of understanding of the array of SME types and stages, hampers profiling and pricing of risk, and deters the necessary financial product, process and service development. The persistence of SME financing inefficiencies hinders economic development and reduces living standards.

Relaxing SME lending constraints in South Africa could significantly increase GDP and reduce inequality.

For example, Nanziri & Wamalwa (2021) found that relaxing SME lending constraints in South Africa could significantly increase GDP and reduce inequality.

Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs) play a pivotal role in addressing SME financing barriers. They facilitate SME financing by providing capital, risk-sharing instruments, and capacity-building programmes. DFIs can also play a catalytic role in developing local capital markets and creating an enabling environment for SME investment. While DFIs and MDBs occasionally provide direct loans to SMEs, their primary strategy involves financing intermediaries, such as local banks and funds, for broader and more efficient outreach. Direct SME investment is often resource-intensive and limited in scale.

Financing intermediaries is a scalable approach used by DFIs. This involves channelling funds through local entities like commercial banks, microfinance institutions (MFIs), and private equity or debt funds. DFIs' prevalent use of intermediaries is widely recognised. Local commercial banks are the primary channel in most emerging markets and developing economies (EMDEs), accounting for a significant portion of DFI intermediated investments. DFIs provide lines of credit, partial guarantees, and capacity-building support to encourage banks to lend to SMEs. However, there are debates about the efficiency of DFI capital support for banks, with concerns that DFIs may favour larger, better-performing banks, potentially limiting outreach to SMEs in low-income countries. SMEs, by and large, require funding in their own currency and DFIs' strong preference for providing hard currency financing - which is based on their own funding sources - can also have the inhibiting effect of placing currency exchange risk on the intermediaries that they support.

MFIs are also key partners for DFIs, particularly in less developed countries, promoting financial inclusion by offering services to individuals and micro-enterprises often excluded by traditional banking systems. DFIs also invest in private equity, debt, and venture capital funds targeting SMEs, either directly or by supporting fund of funds managers. These funds allow DFIs to diversify risk and access local expertise, although challenges such as liquidity issues exist.

The concept of private capital mobilisation is evolving, leading to new interpretations of what it includes and how it is measured. Among the recent advances in methodologies, the MDB Task Force distinguishes between private direct mobilisation and private indirect mobilisation.

- **Direct mobilisation occurs when public entities explicitly facilitate private sector participation in development projects through financial instruments or co-financing arrangements.**
- **Indirect mobilisation, on the other hand, can be broadly defined as when private entities provide financing for an activity that an MDB or DFI is also financing, but without the development investor being directly involved in securing their participation.**

While both views have their merits, the latter categorisation goes some of the way to considering mobilisation through a more systemic lens. **However, it stops short of considering mobilisation that does not occur at the transaction level.** As a result, several development actors are considering the question of mobilisation more holistically. The IFC is soon to publish findings related to its work on conceptualising Private Capital Enabled (PCE) mobilisation, which is anticipated to consider downstream mobilisation effects occurring beyond the transaction level. Meanwhile, BII has highlighted ten pathways in which DFIs mobilise commercial capital, including at the sub-investee level.

Understanding where private capital mobilisation is occurring will enable practitioners to better define and measure it. In turn, that will allow for the identification of the success factors underpinning it, thereby creating the conditions to scale up the flow of private investment into SMEs.

Extracting "What Works" based on Case Studies

The below sections of the study set out to describe how and where mobilisation is occurring through banks and funds, and to propose which are the key ingredients for success, through the analysis of 13 case studies, collected through interviews.

As discussed, current approaches to measuring private capital mobilisation centre on the point of initial investment. While this method makes mobilisation easier to count, as co-investors and their allocations are typically known to DFIs in a given transaction, it does not adequately capture broader catalysation effects.

Too often the mobilisation conversation centres around attribution and how much each DFI can claim to have mobilised. Less often are attempts made to holistically comprehend the full mobilisation effects of a DFI investment and the systemic catalysation of private capital that may be occurring beyond the gaze of development professionals.

Notwithstanding a nascent movement to think more broadly around mobilisation – here we would for example include the previously referenced suggestion by BII of mobilisation 'pathways' and the World Bank's articulation of direct, indirect and catalytic private capital mobilisation (World Bank, 2024) and its forthcoming work on the 'enablement' of private capital – the situation remains that current mobilisation measurement methodologies suggest fleetingly little evidence of private capital mobilisation taking place when DFIs provide investment support to banks intended to target SMEs.

The case is made below that significant mobilisation is occurring but that it is largely happening in ways that are not measured or actively facilitated by DFIs. This potentially has far-reaching implications for how private capital mobilisation is conceptualised, not only as it pertains to SMEs but also more broadly across the development finance landscape.

This mobilisation we term as **"secondary mobilisation"**. The manner in which it occurs through banks and funds, and the practical learnings that can be applied by all stakeholders are the subject of the remainder of this chapter.

While the subject of this study is SMEs, "secondary mobilisation" could conceptually be applied to all sectors of development finance activity, and the following working definition is put forward.

"The real value of an accurate, multi-dimensional, independently verified measurement system lies not in the painting of a perfect picture, but in the learnings that can be transcribed into tangible actions accelerating our common journey towards sustainable development."

Centre for Development Finance Studies
(2023)

Secondary mobilisation is the private capital deployed to development finance objectives as a consequence of behavioural changes, business model evolution, or capacity building at the intermediary or end-SME level, further to DFI support, and where such deployment results from commercial viability established and/or enhanced through the initial support of DFIs and aligned development stakeholders.

As a brief disclaimer, we recognise that while this study introduces "secondary mobilisation" as a concept relating to SME mobilisation we do not pretend to know how best it might be incorporated into existing mobilisation measurement approaches, or indeed what a satisfactorily comprehensive definition might be. It is our hope that further research and collaboration will answer these questions more fully.

A Snapshot of Private Capital Mobilisation in EMDEs for SMEs

Three major DFIs – British International Invest (BII), Norway's Norfund, and the US International Development Finance Corporation (DFC) – partnered with GSG Impact in providing insights on their publicly available data alongside contextual inputs to the study (including a wider Working Group of experts providing insights and feedback). At the core of this report, we analysed commitments to SMEs by each of the three DFIs between 2021 and 2023. The data provides a detailed picture of how much capital was allocated and where it flowed. A breakdown of that data is available on page 35.

The data review highlighted two key observations:

- **75% of DFI commitments to SMEs are intermediated through domestic commercial banks and local or regional SME funds.**
- **But through both channels there is very little evidence of private capital mobilisation occurring at the point of DFI investment.**

These findings encouraged us to dig deeper to understand where SME mobilisation might be occurring through intermediation channels. We find – and highlight through a series of case studies – that under the right circumstances, and with the influence of their DFI backers and aligned stakeholders, domestic banks and funds are mobilising private capital to provide significant financial support to SMEs. This mobilisation is occurring after the point of DFI support and is and is predicated on the degree of motivation of the intermediaries.

More specifically, it happens through two main routes:

- **Following DFI investment and support, banks are using their own mainly deposit-funded balance sheets to lend to SMEs.**
- **SME fund portfolio companies are attracting additional local financing to fund their growth.**
- **In each instance, it is private, commercial and market-appropriate capital, mainly from domestic sources in local currency, that is being mobilised for SMEs. SME fund portfolio companies are attracting additional local financing to fund their growth.**

List of case studies

Go to the relevant pages (see below) to find more case studies about DFIs mobilising private capital through banking institutions and SME-focused investment funds.

SME Mobilisation through Banks

At 57% of intermediated DFI commitments, domestic commercial banks stand out as the single most important intermediation channel for DFIs seeking to reach SMEs.

DFIs use banks for a variety of reasons and deploy capital through the use of several different instruments as shown in the below breakdown extracted from our DFI commitments data. Loans account for the vast majority of bank commitments at 80.9%, followed by guarantees at 18.8% and equity investments at 0.3%, accounted for by a single investment in the sample.

This split of instrument types is broadly aligned with the limited available information on the subject.

For example, in its 2023 working paper assessing whether DFIs allocate according to their mandates, the AfDB states that DFI support for banks comes in the form of equity, guarantees, and debt in the form of corporate loans and lines of credit (World Bank, 2023). And in another report in 2023, the DFI Working Group on Blended Concessional Finance for Private Sector Projects found that debt was the most common concessional instrument committed by DFIs followed by guarantees and equity.

A thorough examination of the sample DFI commitments data revealed that **of the 90 commitments made to banks only one clear example of a commercial private co-investment could be found; a US$ 20 M contribution on the part of Citi on the part of Citi who arranged a US$ 400M syndicated loan to Access Bank Nigeria led by the DFC.**

This apparent state of affairs begs an obvious set of questions:
Are domestic banks that receive DFI funding simply passing it through to SME customers? If there is overall growth in bank lending to SME customers, who is funding it?

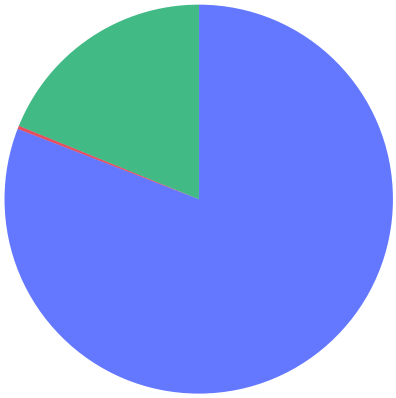
The case studies point to specific instances where answers to these questions can be found. In each instance, DFI and wider development support has resulted in banks successfully mobilising significant internal resources to increase lending volumes to SMEs. While the MDB approach does go some of the way to counting a bank's own commitments to SMEs as 'private indirect mobilisation', where a contractual requirement for the use of funds exists, broader, self-motivated and sustainable allocations of bank capital to SMEs is not counted by DFIs, and we argue that the extent to which bank capital is applied to SME lending in excess of the DFI funding received for this purpose is a crucial indicator of mobilisation success.

Data on non-performing loan (NPL) rates for bank financed SMEs is not readily available in most emerging and frontier markets and where it exists it reasonably supports the perception these are risky assets. For example, an EIB study of African banks finds that one third hold a "significant share of non-performing [SME] loans" in their portfolios (EIB, 2023). Work done by the IFC on understanding the performance of women-owned SMEs across its financial institution investees reveals average NPL rates of 3.7% for 2023, a figure that has steadily decreased post COVID (IFC, 2023).

In any event, our case studies highlight examples of banks using their own resources to lend to SMEs. Perhaps more than aggregate data is able to do, this points to the possibilities for commercially motivated SME lending activity.

This dynamic is described in more detail through the case studies and the key ingredients, or success factors, involved in realising such "secondary mobilisation" effects are discussed thereafter.

Figure 3: **Breakdown by Instrument – Bank**



Debt	**80.9%**
Equity	**0.3%**
Guarantee	**18.85**

Case Study Examples

The study tells the story of **Equity Bank** in Kenya and its journey to becoming a leader in SME financing.

Read complete Case Study

KCB Kenya and the significant recent growth in its SME lending book is profiled.

Read complete Case Study

Examples of banks mobilising internal resources to reach SMEs are presented in the stories of **Absa Zambia** and **Banco BDI** in the Dominican Republic.

Read complete Case Studies

The **Development Bank of Nigeria** and **Türkiye's Kalkınma Bankası** are profiled as examples of PDBs that work closely with domestic commercial banks to mobilise and scale up SME lending volumes.

Read complete Case Studies

Guarantees: a popular instrument for capital mobilisation in local currency

One key driver of the SME financing gap is information asymmetry. Credit guarantee schemes, based on their capacity to cover a portion of possible losses, are important public policy instruments for alleviating credit constraints.

Notable differences emerge in how the three development finance institutions (DFIs) examined have adopted and utilised guarantees as instruments for driving development. Each institution occupies a distinct position along a continuum based on its use of guarantees. DFC stands out, with guarantees constituting approximately 20% of its total commitment volume, the highest among the three. In contrast, BII has a lower engagement level, with guarantees accounting for around 11% of its commitments. Norfund, on the other hand, did not make any guarantee commitments.

The use of guarantees to close the SME financing gap in developing countries has often been driven by governments. A compelling example is the Zambian Credit Guarantee Scheme (ZCGS), established in 2017 and wholly owned by the Zambian government through its Ministry of Finance and National Planning. This scheme collaborates with commercial banks to reduce risks associated with SME lending. By guaranteeing 50% of the loan value, ZCGS encourages banks to offer loans at subsidised rates, thus integrating SMEs into the financial system and improving their access to capital. Additionally, ZCGS explicitly targets underserved groups - including women, youths, and rural communities - and complements financial support with business coaching to strengthen SMEs' managerial capabilities.

Another example is the Development Bank of Nigeria (DBN). DBN addresses SME financing needs through diverse lending products, including loans, guarantees, and technical capacity-building initiatives. Through its wholly-owned subsidiary, IMPACT Credit Guarantee Limited, DBN specifically offers partial credit guarantees to SMEs, thus further enhancing their access to necessary capital.

Guarantees are also being used in fragile and conflict states. For example, both the EIB and EBRD have established guarantee schemes to support SMEs in Ukraine. Through the European Investment Fund (EIF), the EIB has dedicated EUR 40 M in guarantees, to be deployed through local financial intermediaries. Similarly the EBRD has implemented risk- sharing facilities with Ukrainian banks to bolster SME lending, including for example an unfunded portfolio risk-sharing facility to ProCredit Bank Ukraine, covering up to 50% of the credit risk on newly issued sub-loans totalling EUR 70 M.

Guarantees are instrumental in unlocking lending to high risk sectors such as SMEs in underserved markets. They can significantly ease demands for collateral from SMEs and enhance the returns financial institutions are able to generate from their SME lending businesses, which in turn can assist in the commercial justifications for banks to invest in growing their SME lending operations. Moreover, they are effective enablers of the local currency lending that is essential to meeting the requirements of SMEs.

To maximise the value and effectiveness of guarantee instruments, it is crucial for providers and intermediaries to ensure SMEs' awareness and uptake of available financing options. Additionally, financial regulations governing guarantees should remain streamlined and accessible, avoiding excessive complexity that might discourage participation by financial institutions.

SME Mobilisation through Funds

While banks are established as the largest recipient of DFI support intended for SMEs, this capital is intermediated to provide loans to SMEs with credit, collateral and cash flow profiles that meet commercial banking requirements. There are other cohorts of SMEs that may for example require strategic equity investments to step up their growth prospects or help connect them to new markets. There are others that are not yet sufficiently cash flow generative or undercapitalised. Such SMEs are unlikely to find willing funding partners in the form of domestic commercial banks and it is to meet these, and other, needs that an SME investment fund ecosystem exists in Africa and other ODA geographies.

Looking deeper at the sample DFI commitments data we see SME funds accounting for 18% of intermediated commitments by volume. Of this amount the majority (34.4%) was allocated to funds with Africa mandates, followed by worldwide mandates (comprising more than one region) at 22.6% and South Asia at 21.6%.

Addressing the investment strategies of SME funds, Investisseurs & Partenaires (I&P) and the Argidius Foundation (2025) describe **the crucial role that debt funds in particular play in providing SMEs with working capital and medium-term debt, which is otherwise inaccessible through local banking sectors. These funds are often the first providers of such capital support to their portfolio companies.**

Looking at our sample data there is a mix of equity and debt funds, with the former accounting for 33% of commitments by volume and 70% by number of commitments, and the latter 63% by volume and 26% by number.

The search for private commercial DFI co-investors in private equity and debt funds is not a new one. It has been covered extensively in the literature, including by Eighteen East (2021) in relation to the exit-mobilisation opportunity and by PWYF (2024) which points to the incidence of DFIs making up the majority of LP capital in fund managers' second, third or fourth funds, when they should have achieved track records that allow them to build majority commercial private capital shareholdings.

This aligns with the findings of the study. A thorough analysis of sample DFI commitment data yielded a handful of publicly disclosed private co-investments. These include the following:

Intergra Partners 2	French alternative asset manager Tikehau Capital invested alongside the DFC, Norfund and DEG.
Horizon Capital	Several DFIs participated alongside private investors Blue Earth Capital and abrdn private equity.
KV Asia Fund 2	Danish pension fund Industriens Pensionsforsikring invested alongside Norfund, the IFC and the Asian Development Bank
Phatisa Food Fund 2	Several DFIs including BII, Norfund, FinDev Canada and BIO are reported to have accounted for just half of capital raised. Unidentified private investors are understood to account for the remainder.
BUILD Fund	Blended SME fund with a mix of public funders, including the DFC, and US venture capital fund Deep Fork Capital..

Figure 4: **Breakdown by Region – Funds**

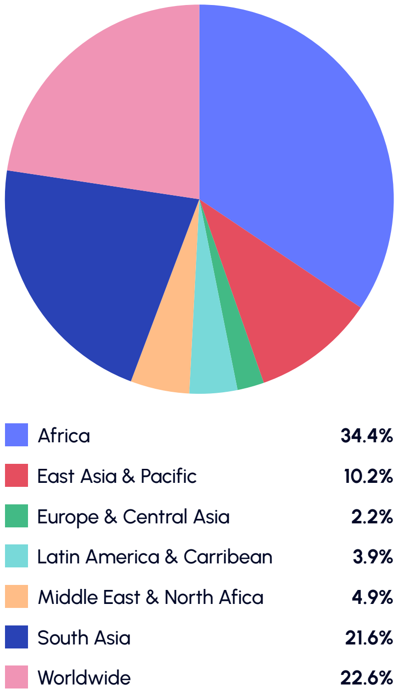
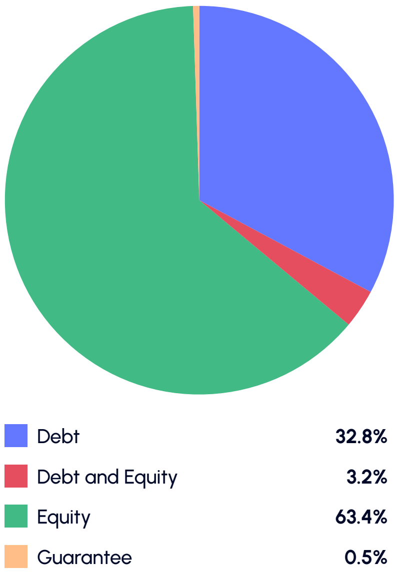


Figure 5: **Breakdown by strategies – Funds**



From these results it is apparent that the mobilisation of private capital is more likely to occur when DFIs support certain categories of SMEs. **In particular, commitments to venture and technology funds emerged from our sample data as the most likely categories of SMEs to benefit from private capital support at the DFI co-investment level.**

Whilst these categories constitute important sub-sectors of the SME landscape, and while they contain businesses that through innovation and disruption doubtlessly have the potential to improve access to and the affordability of key goods and services and by extension to drive economic growth, at this stage they account for a relatively small proportion of development investment. Moreover, they require a very specific type of capital support that, at least in the instance of venture investing, is more welcoming of risk environments and where private investors – for example specialist venture capital funds – sit at the margins of the global capital allocation industry.

For these reasons the study does not endeavour to more deeply analyse the mobilisation dynamics related to venture and technology investments.

It is the nature of the investment behaviour that determines whether capital qualifies as being 'private'.

Judging by this bar, we see examples in the sample data of investments that, although made by private institutions, have evidently been done for reasons other than commercial gain, or where no reasonable expectation of a commercial return was evident. The Lundin Foundation is for example an investor in XSML's Africa Rivers funds, and although private, it is not considered a commercial actor. Equally, BNP Paribas made a commitment to I&P's IPDEV 2 fund, as did family office Ceniarth. An appraisal of the fund's mandate would confirm that these investments were not commercially motivated.

Having established a dearth of private capital mobilisation within the DFI SME fund space, the study attempts to throw the net wider to trace where in the system mobilisation might be occurring, and what could be done to enhance it.

To undertake this assignment the following hypothesis was postulated:

DFI-supported SME funds are predominantly denominated in hard currency, but where the underlying investments are in equity, they are directly exposed to currency risk. Private co-investment is not occurring meaningfully at the fund formation level due to the fact that SME fund performance is poor. However, SME funding ecosystems do exist in developing countries and it is plausible that businesses supported by SME funds access finance from private – most likely domestic – sources. It is therefore at least plausible that while SME fund USD performance is insufficient to systemically attract global commercial investors, once adverse currency performance and fund level fees are stripped out the underlying businesses are in fact capable of attracting local private capital. The delineation of the two levels of performance - fund level and investee level -is important to design adequate strategies to attract international and domestic investors.

The following assumptions in this hypothesis were tested:

Are SME funds denominated in hard currency and is the performance insufficient to attract private capital?

Of the sample data analysed 76 of 86 commitments to SME funds were denominated in USD or another hard currency. Whilst it is acknowledged that equity investments carry direct exposure to local currency, it must be noted that global investors will require a hard currency return. In addition, emerging markets private equity fund managers have long sought to assuage investor fears of currency risk by stating that they evaluated investment opportunities on a 'dollar in, dollar out' basis. Their expectations of currency movements are therefore a key factor in investment

Of the sample data analysed

76 of **86**

commitments to SME funds were denominated in USD or another hard currency.

selection. Given the SMEs in which they invest mostly require local currency financing there is a baked-in currency mismatch that impacts on fund level USD returns.

Fund performance information is notoriously difficult to find. As was mentioned earlier in this chapter the various fund contracting documents, including complex side letter agreements where individual investors are able to negotiate specific terms, continue to enable an environment of low transparency as far as fund returns data is concerned. What evidence exists points to fund returns in the low to mid single digits.

For example, of the study's partner DFI's, Norfund publishes aggregate fund performance data. In its 2023 annual report it discloses the performance of its 'scalable enterprises' funds portfolio as 0.3% IRR since inception and -0.6% IRR for 2023 (Norfund, 2024).

In 2019, the Omidyar Network and the Shell Foundation analysed the fund investments of five DFIs, covering some 365 funds with vintages up to 2015. The results for SME funds showed gross and net IRRs of 4.2% and -6.69% respectively, demonstrating both low fund level performance and the cost spread created by fees and forex issues (Shell Foundation & Omidyar Network, 2019).

In their report on Exit-Mobilisation, Eighteen East (2021) presented fully realised, or near to realised, performance data for three SME funds in Africa. Net IRRs of 5.5%, 4% and
-3.5% respectively are consistent with those in the Shell and Omidyar report.

More recently, Investisseurs & Partenaires and the Argidius Foundation (2025) published aggregate performance information on a sample of 22 Africa SME funds with an average age of 7.5 years. Their findings of net returns (measured as Total Value toPaid-In) at 1.15x is broadly in line with the perception of sub-commercial returns at the fund level.

To what extent do local SME funding ecosystems exist in developing countries?

SMEs in developing countries face a persistent lack of funding. According to the IFC (2024) formal SMEs have an unmet financing need totalling approximately US$ 5 trillion. SMEs tend to rely on internal resources or friends and family due to perceptions of overly onerous or expensive formal funding sources such as banks.

However, as the bank case studies demonstrate, formal funding channels have tremendous ability to scale their SME funding activities when the correct set of circumstances – or 'success factors' – are in place, and increasingly the banking sector is gearing itself to do so more effectively.

In this regard the evidence is at least tentatively supportive of the hypothesis, which poses several further questions related to SME mobilisation, namely:

- **Where and how DFIs interact with and influence local SME funding ecosystems?**
- **To the extent that mobilisation is occurring at a company rather than intermediary level, to what extent is this being captured?**
- **How might DFIs more effectively support company-level mobilisation?**

As with the section on banks, the study takes a case study approach to addressing these questions. Our findings indicate that while the practice is not necessarily widespread, there are DFI-supported SME funds that systemically monitor their portfolio companies' fundraising activities and, in some instances, take steps to assist them.

When an SME fund portfolio company, further to receiving intermediated DFI capital, secures a bank loan or attracts a local equity investor for example, we would argue that this is an important "secondary mobilisation" activity that is currently not being measured or counted, and therefore incentivised.

The case study examples of this report offer insight into examples of DFI-supported SME funds that to varying degrees monitor and encourage portfolio companies seeking to raise further capital.

Case Study Examples

Investisseurs & Partenaires (I&P), provides a shining example of how an SME fund manager can think and act systemically to facilitate private capital mobilisation through the value chain of its activities.

Read complete Case Study

We look more closely at the approach of **Business Partners International Africa (BPI Africa)** to structuring a solution to provide SME loans in sub-Saharan Africa.

Read complete Case Study

Sahel Capital offers insights into the motivations of and potential benefits to fund managers seeking to support portfolio company mobilisation.

Read complete Case Study

The **eXtra, Small, Medium, Large (XSML)** and **Lok Capital** case studies reinforce findings around the availability of "secondary mobilisation" information.

Read complete Case Studies

We profile a DFI and PDB created and supported fund of funds manager in Mexico, **Fondo do Fondos**, which has been pivotal in stimulating the growth of the Mexican private equity and venture capital industry.

Read complete Case Study

We showcase **3 vehicles in development by GSG Impact National Partners in Ghana, Zambia and Nigeria**, all of which are being designed to mobilise domestic private capital for SMEs.

Read complete Case Studies

Section 3

Recommendations & The Way Forward

SME Mobilisation Realities

The DFI commitments data reconfirmed two widely accepted elements relating to development finance support for SMEs. Firstly, that DFIs make extensive use of local intermediaries and secondly that there is at best marginal evidence of private commercial capital being mobilised at the point of DFI commitment where SME financing is concerned.

Recognising BII's introduction of the concept of mobilisation at the sub-investee level, introduced in its 2023 discussion paper (BII, 2023), this study, for the first time, presents a provisional framework for thinking holistically about SME mobilisation. Through the process of seeking to understand the potential private capital touchpoints in the various DFI intermediary SME financing value chains we describe how banks and funds support the mobilisation of private capital for SMEs, but not in ways that are conventionally recognised.

These mobilisation effects we call "secondary mobilisation", and examples of the ways in which it is being generated through DFIs' utilisation of banks and funds as SME intermediaries have been detailed in the case studies.

While we would put forward that it is novel and useful to, in the first instance, recognise such "secondary mobilisation" effects, it is important that we move from recognition to action. In this regard, the sections below highlight respectively the 'success factors' that are observed to be present for "secondary mobilisation" to occur and provide a set of recommendations for how different stakeholder groups might think about facilitating them.

Success Factors

These are the 'success factors' that the study sought from the outset, and they are described in figure **6 & 7 below.**

Figure 6:
Mobilisation through Banks – Success Factors

Figure 7:
Mobilisation through Funds – Success Factors

Table 1: **Success factors for SME private capital mobilisation**

Success Factor	Description
BANKS	
Management motivation	· Sound business fundamentals is an important ingredient in part because it is the main driver of management buy-in. · The self-motivation of bank management to drive SME lending growth is the key to ensuring that it is done so in an integrated and sustainable manner.
Business fundamentals	· If banks are to invest the resources and opportunity costs necessary to pursue SME lending there must be a clear understanding of a segmented customer base and a clear business case for doing so. · In the case studies we see this to be the case in each instance, in particular the imperative to diversify revenue by tapping new markets is prevalent.
Governance support	· Each bank case study followed the same logical order whereby management, having recognised the opportunity, sought and obtained the support of their boards. · Effectively creating a fully resourced SME business inside a bank is not an isolated project and requires a considerable investment in integration with existing processes. This cannot be undertaken without the support of governance apparatuses.
DFI influence	· DFIs are systemically important to banks in Africa and many other EMDEs. In many instances they collectively provide close to 100% of banks' borrowings and in others they are significant owners of share capital. · This gives them a degree of influence that, when used in conjunction with linked factors such as technical assistance, is a strong catalyst and predicator for SME lending success.
Systems alignment	· IT systems, product development, relationship management and branch configurations are some of the essential internal processes that banks must align if SME customer offerings are to be attractive, and therefore successful. · The design and provision of various non-financial business support services are also important to bringing SMEs, in many instances for the first time, into formal banking relationships.
Targeted technical assistance	· In each case study the deliberate deployment of technical assistance can be observed as being crucial to success. · Externally provided soft funding of this nature reduces in particular the upfront costs to the bank – thereby supporting strategic intent and facilitating governance buy-in – and improves SME lending outcomes.
Government or policy alignment	· Banks are systemically important actors and responsive to policy makers and regulators on a range of issues. When state representatives offer suggestions, it is in the banks' interest to try and take them up. · Direct interactions with banks indicated that governments typically understand the potential economic development benefits of improved SME funding availability and view banks' diversification into this area favourably.

Success Factor	Description
FUNDS	
GP capabilities	· For funds to be effective vehicles of support for their portfolio companies to raise additional private capital they must first be effective in identifying and supporting high quality SMEs. The same is true of fund of funds managers selecting SME funds to support. · In both contexts GP capabilities in building and harnessing local markets are crucial to effectively supporting their funds and portfolio companies post investment.
DFI influence	· In each of our case studies DFIs constituted the lion's share of investor capital. The SME fund industry in Africa and other underserved regions would not exist without DFIs, giving them significant influence. · Given that "secondary mobilisation" is not categorised as private capital mobilisation, we do not observe DFIs requesting such information from GPs. Whilst in some instances GPs aremeasuring it notwithstanding, we conclude that for it to be fully integrated DFI, influence will be a necessary factor.
Reporting prioritisation	· SME fund managers are in the most part relatively small organisations that are made to comply with extensive DFI disclosure requirements relating to financial indicators but also those relating impact, climate, gender, ESG and indeed fund level private capital mobilisation. · One the one hand that such extensive reporting is now the standard is testament to the influence that DFIs do have. On the other, in the context of overburdened resources, the prioritisation of "secondary mobilisation" reporting will be necessary if managers are going to do so effectively.
Systems alignment	· The case studies reveal that in many instances GPs are in fact contractually entitled to and at some level already collecting further fundraising information from their portfolio companies. · The deliberate capture, assessment and reporting of this information is a clear success factor facilitating further "secondary mobilisation".
Mobilisation alignment	· Reporting is important but it is the generation of private capital mobilisation at the SME level that matters and mechanisms to incentivise GPs to prioritise this are key factors. For example, fund managers have extensive fundraising experience and deep local market connections that help SMEs raise capital. · In many instances there already exists an alignment of fund manager incentives as the more effective they are in supporting the growth of portfolio companies through the provision of capital and capacity building support, the better their investment outcomes are likely to be, and the more likely their investees are to attract alternative sources of (private) capital.
Targeted technical assistance	· In light of limited fund manager capacity to focus on additional non-core processes the provision of technical assistance is a key ingredient to create the space for such workstreams. · Case studies show how fund managers utilise technical assistance to improve key fundraising elements of their portfolio companies, such as financial reporting and marketing, leading to improved further fundraising outcomes.
Local SME funding ecosystem	· Many of the factors listed above are within the control of DFI and GP stakeholders. The extent to which a local capital market exists to fund the further growth of SME fund portfolio companies is, within reason, not. · Accordingly, the sources of local funding should be considered as a prerequisite success factor when "secondary mobilisation" strategies are designed for SME fund managers.

Recommendations

A. Understand and track "secondary mobilisation"

RECOMMENDATION

1 **Recognise and measure "secondary mobilisation" which is already happening thanks to DFI activity.**

All key stakeholders are invited to increase their own understanding of the technical specificities relating to private capital mobilisation, in particular, the ways in which "secondary mobilisation" can be systemically facilitated. More deeply understanding the modes of mobilisation in the SME sector is crucial for DFIs and other stakeholders. Mobilisation measurement methodologies could be broadened beyond those constituting the OECD's and MDB Taskforce's approaches if the full extent of private capital participation in DFI investment value chains is to be understood and optimised.a few. To the extent that such efforts increase access to local private capital for SMEs, mechanisms by which they can be implemented and paid for can be found.

RECOMMENDATION

2 **Extract learnings that will enable the creation of mobilisation strategies at a "secondary" or non-direct level, and incorporate them into DFI investment decision-making, performance assessments, and TA design.**

Case Study 1 - Case Study 4

The prevalent use of intermediaries to reach SMEs creates complexities in both understanding "secondary mobilisation" effects and in implementing internal processes through which they might be accentuated and measured. Without clear direction from DFI shareholders a significant change in how SME mobilisation is currently enacted is unlikely to happen.

RECOMMENDATION

3 **Encourage select DFIs and banks or fund managers to pilot new tracking tools in real-time.**

Case Study 9

As systemically significant funders of SME intermediaries, DFIs are uniquely positioned to foster greater visibility into private capital flows by encouraging the generation and use of "secondary mobilisation" data. A pragmatic step forward could involve a cohort of DFIs, banks, and fund managers piloting approaches to both establish efficient processes and to demonstrate how actionable insights can inform investment practices across the ecosystem.

B. Develop and incentivise intermediary strategies focused on SME investment

RECOMMENDATION

4 **Support banks in creating and enacting strategic plans for reaching more SMEs. Provide technical assistance designed to share knowledge and experiences from peers, and to reduce SME product & services development costs.**

Case Study 2 - Case Study 5 - Case Study 6

Many banks in Africa and elsewhere rely on DFIs for the majority of their long-term debt funding. Others have significant DFI shareholdings or utilise DFI guarantees. Each of these forms of support creates an avenue for influence on the part of the DFI to encourage banks to focus on important activities, such as SME funding.

A distinction that is crucial to the contemplation of "secondary mobilisation" through banks relates to the complementary inputs provided by DFI funders and recipient banks. DFIs can for instance strive to encourage bank management teams and boards to commit to investing in SME lending capacity, especially when they sit on their boards. The context-specific work required to draw up action plans, create tailored SME product offerings and integrate SME lending more effectively in bank systems and processes can only be carried out by the banks themselves.

The suggested approach recognises that management teams within DFI-funded banks are best positioned to understand the needs of their customers. It also recognises that for systemically scaled-up SME funding to happen, it must first be recognised by banks as a market opportunity worth dedicating resources to. Here, as we have seen in the case studies, additional capacity building and cost-sharing support on the part of DFIs and aligned development entities can play an essential and catalytic role in facilitating significant mobilisation of banks' own capital for SME lending.

RECOMMENDATION

5 **Support SME fund managers to build functionality to support their portfolio companies in their efforts to raise further capital. Incentivise fund managers to report on the "secondary mobilisation" activities of their portfolio SMEs.**

Case Study 11

SME fund managers have been encouraged to leverage the 'halo effect' of DFI commitments to attract private LPs. However, data shows very low success rates, with private investors often being family offices or philanthropy-backed funds rather than commercial entities. This reflects the widely held view that DFI fund returns are commercially unattractive.

In this context, we put forward that it is at the SME level that mobilisation should be tracked and enhanced. While SME performance data is scarce, emerging domestic financing ecosystems driven by banks, microfinance institutions and high net-worth individuals offer the best opportunity for private capital mobilisation.

Private equity and debt investment documentation typically captures portfolio company fundraising activity and the systematic tracking and reporting of SME fundraising to DFIs would greatly increase mobilisation information and allow for peer analysis and the better selection of high-mobilisation funds. DFIs regularly require ESG and impact disclosures and could extend this to portfolio company mobilisation. Technical assistance could be provided to fund managers when necessary to alleviate costs, for instance one off costs for the establishment of data collection and analysis tools.

There are alignments of interest at play as fund managers benefit when SMEs attract additional funding, as debt is more likely repaid and equity stakes increase in value. Knowing that mobilisation efficacy is a determinant of DFI investment decision making, it will further encourage them to more actively support portfolio company fundraising activities. These would include efforts to improve financial management and accounting practices, the restructuring of governance arrangements, investor readiness training, and the leading of fundraising rounds.

RECOMMENDATION

6 **Use data to prioritise intermediaries with track records of high mobilisation of capital for SMEs.**

We acknowledge that mobilisation competes with many other ancillary functions within a DFI's remit. However better understanding "secondary mobilisation" will enable DFIs to focus their resources on those intermediaries that drive greater mobilisation of private capital for SMEs.

The redoubling of DFI efforts in this regard is likely only to occur with strong donor direction and support. Donor countries play a key role as shareholders to bilateral and multilateral DFIs. Their roles in the governance of such institutions provides them with the ability to contribute to and set strategic direction regarding mobilisation practices.

Organising bodies such as the OECD Development Assistance Committee (DAC) and the Donor Committee for Enterprise Development (DCED) for example have cultivated engaged forums for the dissemination of knowledge and deliberations around joint action. These venues continue to explore mobilisation topics and are logical venues for collaboration relating to SME mobilisation.

C. Scale up ecosystem building and market creation

RECOMMENDATION

7 **Grow the knowledge base around "secondary mobilisation". Update and create metrics through the extension of current measurement and learning workstreams.**

A few of the required elements; common definitions will need to be agreed and adopted, standardised metrics for the capturing and comparing "secondary mobilisation" must be created, and the ways in which the SME-focussed, intermediary facilitated "secondary mobilisation" concept put forward by this study has application to other sectors will need to be tested.

Civil society in the form of impact and development associations, research and academic institutes, think tanks, professional bodies and philanthropic foundations, is already attuned to the challenge of designing measurement and learning solutions in the impact and development space. In recent years significant progress has been made on the topics of ESG and impact measurement, and indeed private capital mobilisation.

RECOMMENDATION

8 **Foster an enabling policy environment by further work with central banks and governments, including to create incentives for their DFIs, PDBs and other financial intermediaries to lend to SMEs.**

Case Study 3

DFIs and the intermediaries they support do not operate in a vacuum and, while the full extent to which domestic and global regulatory frameworks and policy imperatives are beyond the scope of this study, it is important to recognise the role that prevailing policy environments play in guiding the flow of capital. Moreover, it will be crucial to identify the opportunities inherent in aligning "secondary mobilisation" plans and activities with policy makers.

RECOMMENDATION

9 **Embed more systematically ecosystem-building support and general market creation, not just technical assistance to a single partner, to address constraints on the demand and supply sides, including supporting the creation of domestic funds that crowd in domestic institutional capital.**

Case Study 13 - Case Study 14 - Case Study 15

Unlocking scaled private capital flows to SMEs requires going beyond technical assistance to individual actors. Ecosystem building support, such as strengthening local accelerators, improving data infrastructure, or developing co-investment platforms, can create the enabling environment in which SME finance thrives. In parallel, market-creating interventions like supporting the structuring of domestic impact funds, backing first time fund managers, or pioneering anchor investments, can catalyse new investment opportunities and capital flows, particularly from local institutional investors. Both dimensions are essential to address systemic demand and supply-side constraints.

Conclusion:
Greater private capital mobilisation for EMDE SMEs is within grasp

The central role of SMEs in innovation, employment and economic growth in EMDEs is well understood. The funding shortfall for such businesses is well documented. And the need for investment structures for institutional private capital mobilisation at scale is well researched and debated.

Less well addressed, however, is how private capital is actually mobilised into SMEs in EMDEs, particularly as those economies grow, their financial markets strengthen, and their financial institutions mature. Via analysis of DFI data and investment case studies, this paper demonstrates how capital from DFIs is currently being leveraged and augmented by banks and investment funds. It is leading to the creation of bank balance sheet capacity that is many multiples of the initial equity or debt capital invested by DFIs. And it is fuelling the development of private capital funds that invest in SMEs and create the conditions for those businesses to attract further private investment, providing them additional resources to grow. This **"secondary mobilisation" does not occur alongside the DFI investment, but nonetheless could not happen without it.**

Many of the measures for capturing mobilisation via intermediaries already exist. And the success factors for channelling capital into SMEs are also in plain view – when practitioners are looking in the right places. **Understanding "secondary mobilisation" will enable better focus on the intermediaries that drive greater mobilisation of private capital for SMEs. It is a tool to scale what works.**

The next steps for participants within the SME funding universe are achievable and within reach.

- DFIs can track private capital mobilisation downstream from their initial investments, make "secondary mobilisation" an intentional focus when selecting who to support, and encourage banks and funds to leverage private capital for the benefit of SMEs.
- Intermediaries can actively look for ways to increase the flow of private capital into SMEs. Banks can adopt proven SME lending strategies and actively deploy balance sheet capital far beyond DFI fundingreceived, while funds can support their portfolio companies to raise third-party investment from private investors and drive efficiencies through tracking their progress.
- Measurement organisations and civil society bodies can lead on the development of measurement processes for market participants, and can increase education and understanding around the topic of "secondary mobilisation".

We must also be clear. SME-focussed "secondary mobilisation" is not the overarching solution to the challenge of securing a just transition or achieving the UN SDGs. We are not yet discussing how to unlock more international institutional capital for investment into EMDEs broadly, or which vehicles are best for mobilising private capital at scale alongside public DFI investment. We are also not recommending which types of investments (e.g. direct lending, risk sharing facilities or regulatory capital) are best suited to drive private capital to SMEs. These are essential and ongoing debates that will shape the future of developing economies, and ones that all market participants must continue to work urgently to address.

Rather than illuminate the whole scene, this research shines a focused spotlight on how capital from private, commercial and market-appropriate sources is actually flowing into SMEs in EMDEs, and what could be doneto scale it up. "Secondary mobilisation" is already happening in practice, and the results for the small businesses that are the recipients of it can be even more meaningful if it is amplified.

Our call is to shift from <u>transactional</u> mobilisation to a more <u>systemic</u> approach, one that develops the capacity and incentives of local financial actors (banks, funds and others) to invest into SMEs. Our call is for "secondary mobilisation" to become <u>proactive and intentional</u>, thereby increasing the flow of private capital into SMEs, strengthening the economic backbone of EMDEs, and propelling developing markets towards a fairer and brighter economic future.

Section 4

Annexes

1. About the DFI co-hosted Working Group

In June 2024, GSG Impact launched a Working Group co-hosted with 3 DFIs: DFC, BII and Norfund, supported by FCDO and the Argidius Foundation. The goal of this initiative was to assess DFI success factors to mobilise private capital, for the benefit of small and medium-sized enterprises (SMEs) in emerging markets and developing economies (EMDEs). The project aimed to ensure that DFIs and PDBs have a better understanding of what actions they can take to mobilise additional sources of private capital, especially to benefit SMEs. The initiative was set up to create an evidence-based framework to select and analyse cases of successful capital mobilisation, with demonstrated improvements for SME finance in EMDEs and generate a list of success factors and actionable recommendations that can be implemented by DFIs, PDBs, and other players to increase capital flows to the SMEs in EMDEs.

The project has been carried out by GSG Impact and supported by the Center for Development Finance Studies. An Advisory Group composed of the co-hosting DFIs and selected experts has provided strategic guidance throughout the project.

Advisory Group members: Elizabeth Boggs-Davidsen (GSG Impact), Paddy Carter (BII), Nicholas Colloff and Harry Devonshire (Argidius Foundation), Drew von Glahn (CFF), Neil Gregory (ODI), Hamdiya Ismaila (Ci-Gaba Ghana and GSG's Ghana National Partner), Signe Kolbye Sorensen (Norfund), Austin Mwape (Absa Bank Zambia and GSG's Zambia National Partner), Urmi Sengupta (MacArthur Foundation), Laurie Spengler (BII and Courageous Capital Advisors), Chris Walker (DFC).

GSG Impact has convened 60 people from key organisations to join this Working Group to act as a sounding board, provide insights, feedback and connections to relevant stakeholders for case studies. See below the list of organisations in the Working Group.

The project aimed to ensure that DFIs and PDBs have a better understanding of what actions they can take to mobilise additional sources of private capital, especially to benefit SMEs.

List of organisations in the Working Group

ADB- Asian Development Bank	COFIDES (Spain)
AfDB- African Development Bank	Collaborative for Frontier Finance (CFF)
Africa Investor	Colombia National Partner
Argidius Foundation	Convergence
BII- British International Investment	Courageous Capital Advisors
Brazil National Partner	DFC- Development Finance Corporation
Canada National Partner	Donor Committee on Entreprise Development (DCED)
COFIDE-Compañia de Financiación del Desarrollo (Peru)	Dutch Good Growth Fund

EDFI- European Development Finance Institutions	Norfund
EU Commission INTPA	Nyala Fund
FCDO- Foreign, Common Wealth and Development Office	Octobre
Finance in Common	ODI
FMO- FMO: Dutch Entrepreneurial Development Bank	OECD- Organisation for Economic Co-Operation and Development
FSD Africa	Proparco
GAWA Capital	Publish What You Fund
Ghana National Partner	Shell Foundation
IDB- Inter American Development Bank	Skoll Foundation
IFC- International Financial Corporation	South Africa National Partner
Investisseurs & Partenaires	Spain National Partner
Japan National Partner	Turkiye National Partner
JICA- Japan International Cooperation Agency	UK National Partner
MacArthur Foundation	WEF Humanitarian Resilience Initiative
McGill University	Zambia National Partner
Nigeria National Partner	

List of interviewees

Organisation	Interviewee
Absa Zambia	Bruce Jaani
Argidius	Harry Devonshire
Arise Investment	Gerrit Muller
Banco BDI	Juan Carlos Rodriguez Gonzalez
Banco BDI	Francisco Alvarez
BII	Paddy Carter
BII	Steven Ayres
Business Partners	Matthew Cumming
DBN	Theresa Lawal
DBN	Jeremiah Dan-Okayi

Organisation	Interviewee
DFC	Christopher Walker
DFC	Jesse Corradi
DFC	Grace Hoerner
EBRD	Alexander Pavlov
EBRD	Anna Wilson
I&P	Sebastien Boye
IDC (South Africa)	Stuart Bartlett
IFC	Michael Kurdyla
Lok Fund	Anmol Saxena
Lok Fund	Chhavi Uboweja
Kalkınma Bankası	Seçil Yıldız
Norfund	Signe Kolbye Sørensen
Norfund	Karl Petter Høyning
Norfund	Federico Fernandez
Sahel Capital	Mezuo Nwuneli
XSML	Barthout van Slingelandt
XSML	Maaike Veen

2. Methodology

Overall Approach

This study aimed to identify the 'success factors' that lead to the effective mobilisation of private capital for investment in Small and Medium Enterprises (SMEs) in Official Development Assistance (ODA) countries. Understanding such success factors can lead to better allocation of scarce public and philanthropic sources from development investors such as development finance institutions (DFIs), multilateral development banks (MDBs), public development banks (PDBs) and charitable foundations. Or at least to capital allocation approaches that increase the probability of private capital mobilisation occurring.

For the purposes of this study DFIs, MDBs and PDBs are collectively referred to as 'DFIs'.

A short literature review was conducted that locates the study within the wider bodies of knowledge relating to both SME investment in developing economies and private capital mobilisation in development finance. The review was conducted principally to understand the differing approaches taken by development investors to the challenge of measuring and reporting mobilisation information. It further attempted to uncover the extent to which there exists knowledge on the topic of mobilisation specific to SMEs. Literature on the broader topic of SME investment and the role played by development finance actors was also drawn upon to contextualise the significance of the study's objectives.

Data Collection

In order to identify mobilisation success factors, it is critical to establish a representative set of SME investment data that can in the first instance point to where and how (a) SME investment is actually occurring and (b) in which instances is private capital being mobilised in the process. This was made possible through the participation of the study's three partner DFIs; British International Invest (BII), the Norwegian DFI Norfund and the United States International Development Finance Corporation (DFC).

Once this was established, we were able to directly engage with critical conduits for investment and mobilisation such as local banks and funds through a series of semi-structured interviews through which success factors emerged and the broader findings of the study were informed.

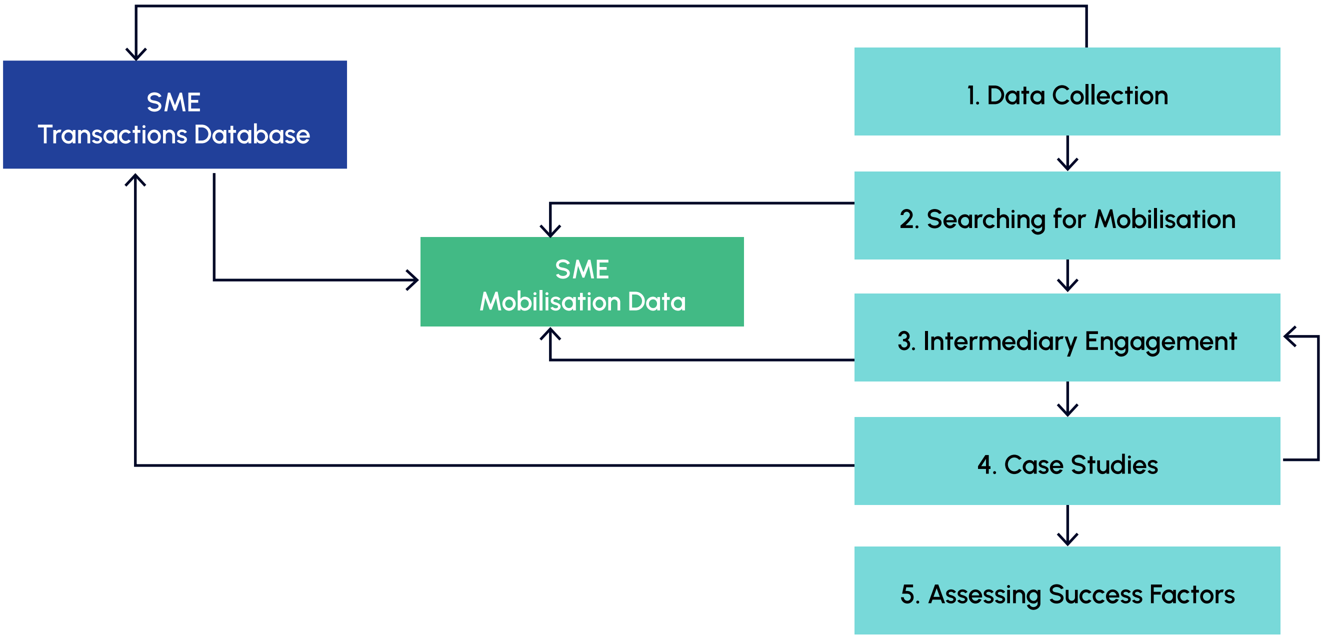
Seeking Mobilisation

It is widely known that granular data on the performance, tenor and risk characteristics of DFI investments, including those relating to mobilisation, are not typically available in the public domain. This extends to mobilisation information and limits the extent to which external actors can help ensure they are in fact optimising development results, including through the mobilisation of private capital. Organisations such as Publish What You Fund (PWYF) through their work on creating an index for DFI transparency are tracking transparency performance, but more is to be done to improve the availability of information in the sector.

Where data does exist at an aggregated level it is largely described by limited evidence of DFIs in crowding in private capital, including and in particular as this relates to SME investment. Observing such a context the reader might be forgiven for assuming that performance of SMEs in ODA geographies is simply not sufficient to present a risk return profile that is acceptable to private commercial investors, who for example are only occasional investors in Africa banks and funds. This may be broadly true, at least insofar as it relates to global institutional investors. The working assumption adopted however by the authors of the study was that this is unlikely to be systematically true for local private investors, or indeed specialist global investors, and that mobilisation is therefore occurring but in ways that are either not being funded by development investors or not being effectively measured.

For this purpose, it was determined that a representative sample of DFI commitments to SME investments made in the years 2021, 2022 and 2023 would provide the study with a suitably robust and representative sample of investment and mobilisation activity upon which analysis could occur.

Figure 8: **Study methodology**



To test such an assumption, it was first important to better understand the universe of SME investments in ODA countries. For this purpose, it was determined that a representative sample of DFI commitments to SME investments made in the years 2021, 2022 and 2023 would provide the study with a suitably robust and representative sample of investment and mobilisation activity upon which analysis could occur. To this end two of the three partner DFIs; BII and Norfund provided datasets. DFC has a publicly available dataset on its investments that the study's authors utilized, and DFC helped clarify which of these investments could be considered as SME investments. For BII, who did not have SME data cuts available, the dataset used is largely an interpretation of publicly available information. All DFIs provided qualitative guidance that allowed us to observe and subsequently interrogate key trends and outliers. The study neither seeks nor pretends to establish statistical significance but holds up that given the observed proclivity for multiple DFIs to participate in transactions the samples obtained are a sufficient basis on which to extrapolate sectoral investment trends. The section below breaks down and illustrates through graphical representation the SME investment activities of these DFIs.

None of the partner DFIs maintain mobilisation datasets relating to specific commitments but by identifying and researching each commitment made during the period it was our intention to locate examples of direct mobilisation. This second step was achieved through a combination of desktop research of public and proprietary information and through direct interactions with the DFIs. It was through this analysis that we were able to observe the prevalence of, and focus on, the intermediation of DFI SME capital through local intermediary channels such as domestic banks and SME funds. This finding enabled the study to focus and to attempt to extract richer information through direct engagement with DFI intermediaries.

Intermediary Engagement, Case Studies and Success Factors

Having identified the predominant intermediary channels through which DFIs reach SMEs the fourth step in the methodology was to establish a strong narrative basis for its findings through the articulation of case studies of successful instances of DFI private capital mobilisation.

While focussing on the observed major intermediation channels, case study selection criteria included geographical distribution, scale and, in the case of banks, the nature of support provided by DFI investors. In addition to success factors, the case studies were also designed to capture challenging experiences, allowing for a comprehensive understanding of the various factors that contribute to the effectiveness of DFI interventions relating to mobilisation in the SME sector.

Each case study was compiled through a combination of document reviews, such as publicly available reports and financial information, and direct consultations with intermediary representatives. The consultations were conducted predominantly via video call over the period of October 2024 to March 2025. They were structured to gain insights into the operational, regulatory, and market-related factors influencing SME financing, the extent to which DFI support was additive and the sources of direct and indirect private capital mobilisation.

These case studies focus largely on the bank and fund intermediary channels and cover a sample of such institutions across major ODA recipient countries. Providing further context, case studies highlighting one PDB and three GSG Impact National Partners have also been included.

Broadly, the study's multi-disciplinary methodological approach enabled us to identify and challenge aspects of conventional thinking around mobilisation in the development finance sector. In doing so they provide the basis for the study's recommendations for how DFIs and other potentially catalytic development investors can think about more effectively facilitating the mobilisation of private capital for SME investments.

Limitations of the Study

The topic of private capital mobilisation is not widely studied and where quantitative information exists it is typically inconsistent and unreliable. Moreover, it is still an evolving field of study with multiple definitions in use – for example those outlined by the Organisation for Economic Co-operation and Development (OECD) and the Multilateral Development Banks Taskforce on Mobilisation –across the development finance and impact investing world. While the study's methodology was conceived of with these limitations in mind it is still subject to several limitations:

- DFIs espouse restrictions on disclosing project-specific details, which limits the availability of disaggregated data on performance and mobilisation outcomes. This lack of transparency poses challenges for comprehensive analysis, particularly when evaluating the specific impacts of DFI financing on SME growth and development.
- Mobilisation metrics, particularly in relation to private sector co-investments, are inconsistently measured and reported, reducing the granularity and comparability of findings across institutions and regions.
- While DFIs represent a critical segment of SME financing in ODA countries, the datasets utilised may not fully reflect private sector-led initiatives or informal financing channels. As such, the study's conclusions should be interpreted within the context of DFI involvement, recognising that a more comprehensive picture of SME financing could be drawn by incorporating a broader set of financing actors.
- Case study selection was influenced by data availability and access to key stakeholders, potentially skewing results toward higher-performing or better-documented interventions. The study's intention to identify success factors mitigates such bias to a significant degree.

Despite these challenges, the methodology provides a robust framework for evaluating SME private capital mobilisation and delivers actionable insights for DFIs and other development investors seeking to enhance their mobilisation effects.

Broadly, the study's multi-disciplinary methodological approach enabled us to identify and challenge aspects of conventional thinking around mobilisation in the development finance sector.

3. Key concepts

Small and Medium Enterprises

For the purposes of this report, the definition of small and medium enterprises (SMEs) is that of the International Finance Corporation (IFC), the private sector arm of the World Bank Group (WBG). The IFC definition is most commonly used in development finance circles and is reflective of the collaborating DFIs' own practices. Both Norfund and the DFC employ the IFC definition, although the former relies to a significant extent on its investees to determine the SME categorisation according to local and regional classification requirements, and while BII was at the time of writing operationalising its internal SME measurement processes, it is the view of the authors that the IFC's definition presents the best approximation of practice across the development finance sector more broadly.

The IFC describes SMEs in the following manner:
An enterprise qualifies as a micro, small or medium enterprise if it meets two out of three criteria of the IFC MSME Definition (employees, assets and sales), OR if the loan to it falls within the relevant MSME loan size proxy.

Table 2: **IFC SME definition**

Indicator	Employees	Total Assets US$	Annual Sales US$
Micro enterprise	< 10	< $100 000	< $100 000
Small enterprise	10-49	$100 000 - < $3 million	$100 000 - < $3 million
Medium enterprise	50-300	$3 million - $15 million	$3 million - $15 million

The IFC definition is inherently broad, capturing enterprises of a wide variety of sizes. Given that the purpose of this study was to draw broad learnings relating to mobilisation activities across the development finance landscape this was deemed an appropriate method. That absolute enterprise size is a blunt measure where different local economic and cultural dynamics are observed is however also recognised, and where possible the study attempts to take into account what types of businesses local intermediaries such as banks and funds consider to be SMEs for the purposes of their own business operations.

We recognise the importance of more accurate and context specific SME segmentation to analyses of the sector, for example those put forward by the Collaborative for Frontier Finance (CFF) in its 'Missing Middles' report (CFF, 2020). Such contextualisation will be essential to furthering the findings are recommendations of this study.

It is also important to note that GSG Impact focuses on improving SME finance insofar as this contributes to progress on the SDGs. The primary purpose is therefore to ensure that within the broad spectrum of SMEs, the ones that contribute to the achievement of the SDGs should be targeted in priority.

Private Capital Mobilisation

Private capital mobilisation refers to efforts by public entities (broadly, DFIs) to attract private sector investments into development-focussed businesses and projects. Central to this study, the concept is critical in addressing financing gaps in emerging and developing economies, particularly for achieving the Sustainable Development Goals (SDGs). According to the United Nations Conference on Trade and Development (UNCTAD), approximately US$ 5 trillion annually is needed to meet SDG financing requirements in low-and middle-income countries. This funding gap has been revised up from the previous estimate of US$ 2.5 trillion (UNCTAD, 2023).

Despite the importance of crowding private finance into development investments, systemic barriers such as underdeveloped financial markets, perceived and real high investment risks, and lack of standardized measurement approaches hinder overall effectiveness. This review briefly examines foundational concepts of private capital mobilisation, including measurement, direct and indirect mobilisation, concessionality, and attribution. It points out that while prevailing OECD and MDB Taskforce measurement approaches predominantly account for mobilisation at the point of investment there is, at least when DFIs use intermediaries to reach SMEs, extensive evidence of private capital being mobilised in ways that are not currently captured. The study also highlights the challenges faced by DFIs in operationalising mobilisation within their investment processes and contextualises the observed lack of co-investment mobilisation in the SME sector identified in this study.

According to the UNCTAD

US$ 5 trillion

annually is needed to meet SDG financing requirements in low-and middle-income countries.

4. Suggestions for Further Research

This study identifies and defines for the first time a form of private capital mobilisation that occurs beyond the point of DFI investment and that is predicated on the establishment of commercial viability. While the scope of the work required us to focus on SMEs and the DFI investments into banks and funds that are designed to reach the SMEs, there is much more to be done to both increase the depth of our analysis and expand it to other important development sectors and modalities.

To this end, the following areas for further research are suggested by the authors:

- Deeper follow-on analysis of SME mobilisation pathways through, for example equity vs debt funds, fund of funds, national vs regional banks, NBFI's, venture funds and tech enabled platforms.
- Deeper research into the "secondary mobilisation" outcomes derived from the differing forms of investment provided by DFIs to domestic commercial banks.
- Wider identification of "secondary mobilisation" examples in other development finance sectors and intermediary value chains, to test whether the findings of this study hold and what other incentives structures exist.
- Analysis of the extent to which existing measurement frameworks and the information they generate is incorporated into DFI investment decisions.
- Investigations into the specific and contrasting decision making and incentive structures relating to mobilisation inside DFIs and PDBs, including the identification and detailing of the roles played by governance bodies and shareholders.
- Further analysis of the extent to which EMDE bank policy and regulation can be supportive of greater SME lending volumes, and how DFI and PDB support can be additive.
- Research into the role of business environment reform and wider enabling environment initiatives can play in the facilitation of systemic flows of domestic private capital after the point of DFI investment.

By presenting a graphical breakdown of these commitments, the aim is to establish a foundational understanding of the data that underpins this project.

5. Mapping DFI SME commitments

This section presents a summary of the mapping of the commitments to SMEs made by the study's three partner DFIs – Norfund, BII and DFC. Commitments to SMEs made over a three-year period (from 2021 to 2023) were captured and assessed. By considering different dimensions such as geography, size, sector, currency, and investment type, the mapping exercise offers insights into how the DFIs allocate resources to SMEs. For the purposes of this study these insights are assumed to be broadly representative of DFI SME allocations.

The strong representation of banks and funds as key intermediaries underscores their pivotal role in the SME financing ecosystem and explains the study's focussed analysis of these channels.

Figure 9: **Breakdown by Instrument**

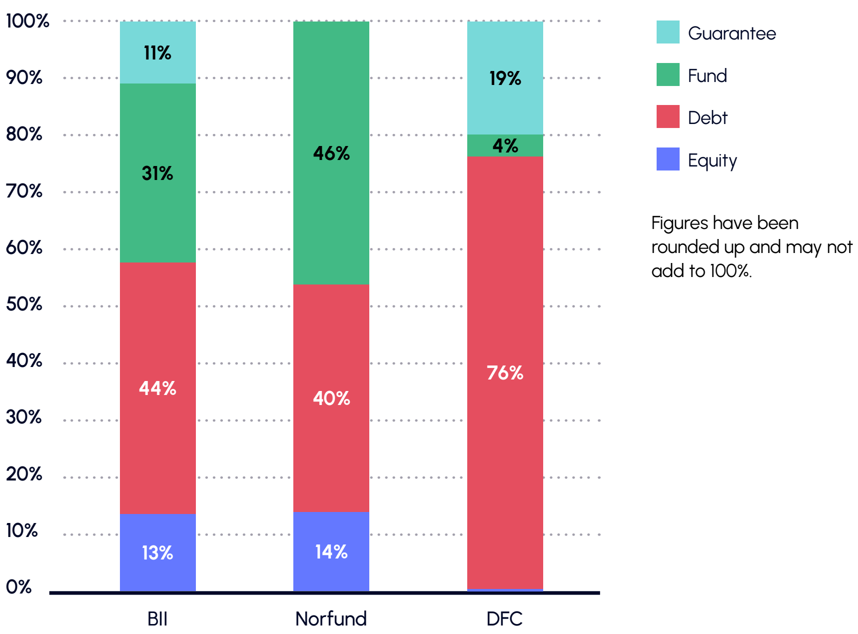
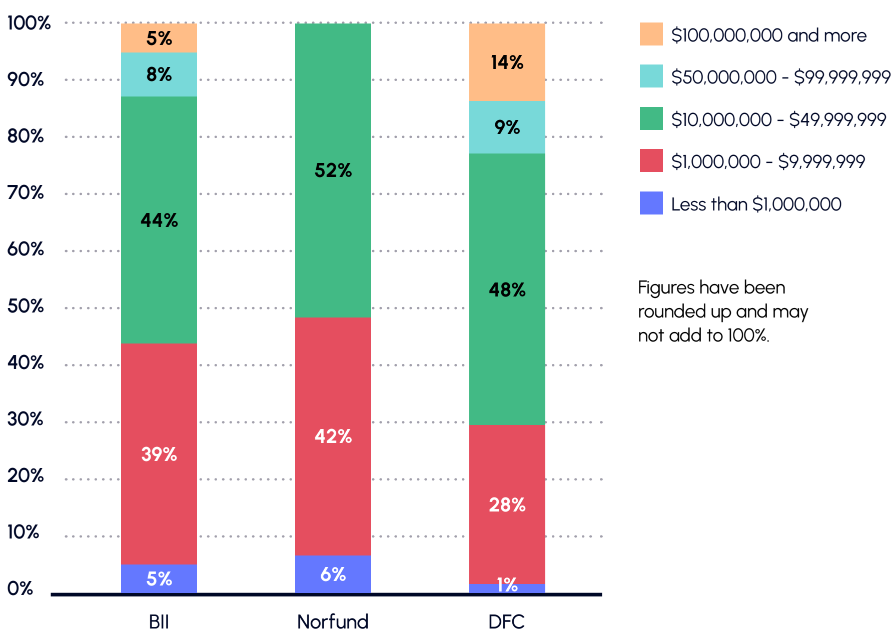


Figure 10: **Breakdown by Ticket Size**



DFC (total US$40 billion)

US$ 6.2 billion

committed to 154 SME & SME-focused investments from 2021 to 2023.

BII (total US$ 9.5 billion)

US$ 2.0 billion

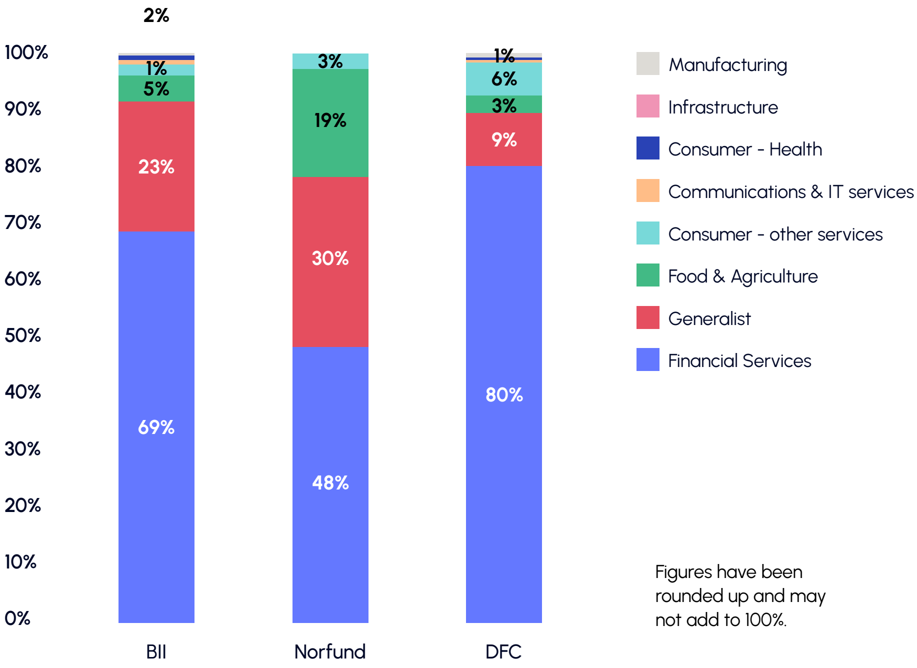
committed to 103 SME, SME-focused investments from 2021 to 2023.

Norfund (total US$ 3.9 billion)

US$ 328 million

committed across 31 SME, SME-focused investments from 2021 to 2023.

Figure 11: **Breakdown by Sector**



The chapter begins with an overview of the SME commitments across the partner DFIs. Next, it compares the commitments of these DFIs across different dimensions. In keeping with the methodology, this chapter will present the foundational quantitative data on which the study and its findings are constructed.

A. United States International Development Finance Corporation (DFC)

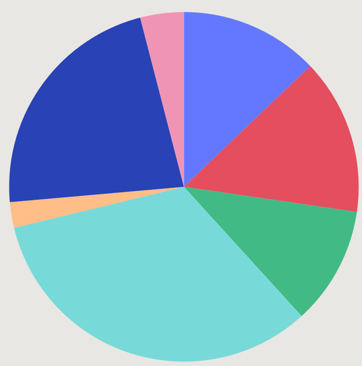
DFC, with a global portfolio in excess of US$ 40 billion, serves as the United States government's DFI and succeeds the Overseas Private Investment Corporation (OPIC). Established through the passage of the Better Utilization of Investment Leading to Development (BUILD) Act on October 5, 2018, DFC was designed to enhance private sector-led development, including SMEs in emerging markets.

Over the period covered by this analysis, DFC committed approximately **US$ 6.2 billion in capital towards 154 SME investments**. A regional analysis of these investment flows indicates that the largest share – around one-third – was directed towards Latin America and the Caribbean (LAC), while the Middle East and North Africa (MENA) region received the least SME-targeted financing.

DFC's capital allocation to LAC reflects both economic and strategic imperatives. As the geographically closest emerging market region to the U.S., investments in LAC have the potential to bolster economic stability, enhance employment generation, and mitigate irregular migration and illicit cross-border activities linked to trade and travel. Strengthening economic resilience in the region also aligns with U.S. foreign policy and national security objectives.

Among the three primary mobilisation instruments, debt financing emerged as the predominant tool utilised by DFC in SMEs, accounting for approximately 76% of total commitments. This trend aligns with historical precedent, as DFC's predecessor, OPIC, lacked the statutory mandate to engage in direct or indirect equity

Figure 12:
Breakdown by Region - DFC



Africa	12.86%
East Asia & Pacific	14.44%
Europe & Central Asia	10.95%
Latin America & Carribean	32.98%
Middle East & North Afica	2.38%
South Asia	22.37%
Worldwide	4.03%

Figure 13:
Breakdown by Instruments - DFC

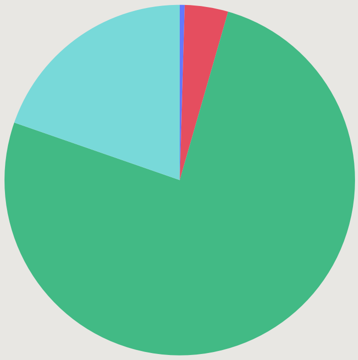


Figure 14:
Breakdown by Sector - DFC

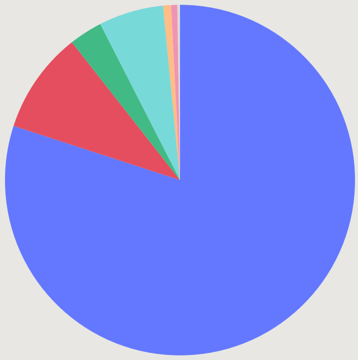
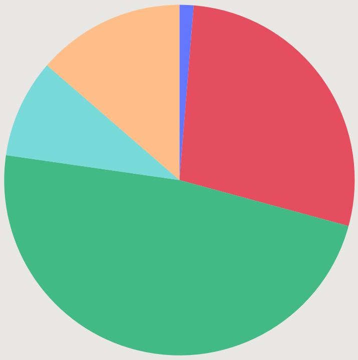


Figure 15:
Breakdown by Ticket Size - DFC



investments in developing markets. Guarantees constitute 20% of DFC's SME portfolio. Fund investments account for 4%, and equity investments account for 0.45%. Although not captured in this data set, political risk insurance (PRI) is another instrument employed by DFIs to reduce risk and facilitate private capital mobilisation. DFC in particular has an extensive PRI portfolio focussed largely on Africa and LAC.

A sectoral analysis of DFC's commitments highlights the financial services sector as the dominant channel through which SMEs are reached. It accounted for 80% of total commitment volume and 63% of total commitments (97 out of 154).
The financial services sector includes various financial intermediaries, such as commercial banks, non-bank financial institutions (NBFIs), insurance companies, fintech firms, microfinance institutions, mortgage providers, and private equity funds. While these commitments have been categorised as targeting SMEs, the data does not however tell us what proportion of these committed amounts actually reach SMEs.

Nonetheless, given the mismatch between the size of the capital needed by SMEs and the typical investment sizes preferred by DFIs, the prominence of the financial services sector is unsurprising. The remaining 20% of SME commitments were allocated across other key sectors, including consumer services, manufacturing, food and agriculture, and IT services.

An analysis of DFC's SME commitments by ticket size highlights the institution's inclination toward mid-sized financing structures. Figure 15 below shows the number of transactions for different ticket sizes. 48% of the transactions during the period fell within the $ 10 million to $ 50 million range. At the lower end of the spectrum, deals below $ 1 million were the least common, representing only 1.3% of SME transaction count. Commitments exceeding $ 100 million represented approximately 14% of SME investment count but make up nearly 42% of the total SME investment volume. GW1 Management Company S.à.r.l. received the largest single ticket of US$ 467.5 million, while Banco BTG Pactual S.A. and Vietnam Prosperity Joint Stock Commercial Bank each received US$ 300 million. Together, these three transactions represent 17% of DFC's total SME portfolio in the period under review.

DFC is almost exclusively a US dollar investor and for this reason no currency breakdown is shown.

B. Norfund

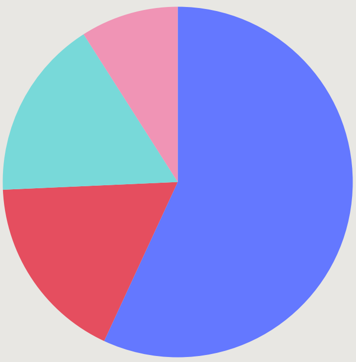
Norfund is Norway's DFI, and central to Norfund's strategy is the need to bridge the financial gap that hampers the growth of small businesses. Its current investment portfolio totals NOK 40 billion (US$ 3.9 billion). Like other DFIs, its investment strategy strongly promotes private sector development, particularly in regions with limited access to long-term capital.

Over the period under review, Norfund committed approximately **US$ 328 million across 31 SME-focussed investments**. A regional breakdown of the SME commitments shows that Africa received the largest share (56.91%), reflecting a consistent strategic focus. This aligns with Norfund's broader portfolio trends – at the start of 2024, 62% of Norfund's total portfolio was allocated to Africa, and in 2023, 51% of its total investments were directed toward the region (Africa Global Funds, 2024). The East Asia and Pacific (EAP) and LAC regions each accounted for approximately 17% of SME-focussed commitments during the period, while the remaining allocations were spread across multiple geographies.

Norfund primarily deployed three key financial instruments in its SME financing strategy: debt, equity, and fund investments. Fund investments were the most frequently utilised, representing approximately 45% of total commitments. Debt instruments accounted for 40% of total commitments, while direct equity allocations comprised 14% of Norfund's SME-focussed commitments, reflecting the institution's risk appetite and strategic capital allocation preferences. The direct equity investments were extended to four companies operating in Africa. Of these, AgDevCo Limited, a UK government–founded agricultural investment firm that also received equity backing from BII, secured the largest ticket at approximately US$ 20 million.

Compared to other DFIs, Norfund's sectoral exposure was relatively less diversified, with a concentrated focus on financial services. The financial services sector accounted for 48% of all SME commitments, while the food and agriculture sector received approximately 19%. This concentration is unsurprising, given Norfund's comparatively smaller portfolio size relative to larger DFIs and its strategic focus on building deep expertise in targeted sectors, especially agriculture. Investments that cut across different sectors accounted for approximately 19% of total commitments.

Figure 16: **Breakdown by Region - Norfund**

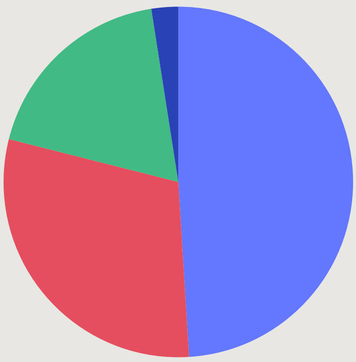


Africa	56.91%
East Asia & Pacific	17.39%
Latin America & Carribean	16.66%
Worldwide	9.04%

Figure 17: **Breakdown by Instruments - Norfund**

Equity	14.01%
Debt	40.02%
Fund	45.97%

Figure 18: **Breakdown by Sector - Norfund**

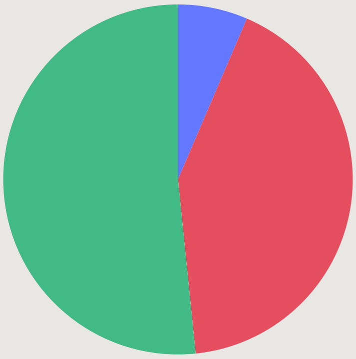


Financial Services	48.37%
Generalist	29.89%
Food & Agriculture	19.24%
Consumer - other services	2.51%

Norfund's investment ticket sizes further highlight its relative size. Similar to DFC, most commitments fell within the US$ 10 million to US$ 50 million range. However, unlike DFC, where this range represents a mid-tier investment size, the commitments constitute the upper limit for Norfund. At the smaller end of the spectrum, commitments below US$ 1 million accounted for 6.45%, making them the least common investment category. The remaining transactions lie in the US$ 1 million – US$ 10 million range.

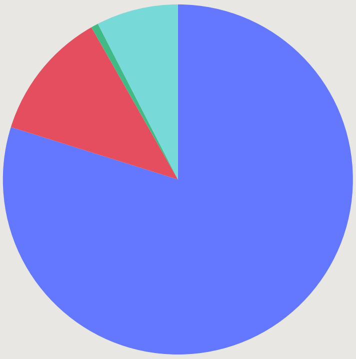
During the review period, approximately three–quarters of Norfund's SME commitments were denominated in US dollars, with the remainder split among Euros, Norwegian krone, and local currencies such as the Colombian peso (COP) and the Honduran lempira (HNL). Bina Artha received the NOK investment, while Finsocial secured a COP–denominated loan worth around US$ 10 million, and Banco Atlantida S.A. obtained an HNL–denominated loan equivalent to roughly US$ 14 million.

Figure 19: **Breakdown by Ticket Size – Norfund**



Less than $1,000,000	**6.45%**
$1,000,000 - $10,000,000	**41.94%**
$10,000,000 - $50,000,000	**51.61%**

Figure 20: **Breakdown by Currency - Norfund**



USD	**79.84%**
EUR	**11.93%**
NOK	**0.67%**
Local Currency	**7.56%**

C. British International Investment

As the United Kingdom's DFI, BII plays a key role in mobilising private capital for sustainable economic growth in emerging markets. Established in 1948 as the Colonial Development Corporation, it was later rebranded as the Commonwealth Development Corporation (CDC) before adopting its current name, BII, in 2022. Throughout its evolution, BII has remained committed to its founding mandate to "do good without losing money." Current portfolio assets total some GBP 7.3 billion (US$ 9.5 billion).

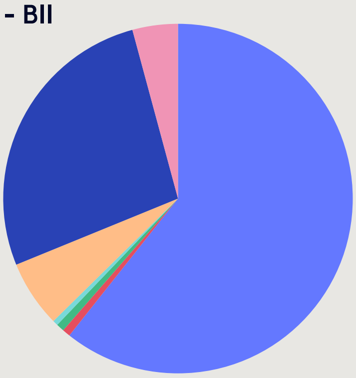
During the period until review, BII committed nearly **US$ 2.0 billion to 103 SME-focused investments**. A regional analysis of BII's SME commitments reveals that Africa received the largest share, accounting for nearly 61% of total investments through 41 transactions.

BII deployed a mix of financial instruments in its SME financing strategy, with debt instruments representing the largest share (44.35%) of total commitments. This is a notable departure for an organisation that historically did not invest debt and highlights a strong acceleration in the use of this instrument in recent years. Fund commitments followed at 31.31%, highlighting BII's emphasis on leveraging pooled capital structures to enhance investment reach. Direct equity investments accounted for 13.46%, reflecting BII's measured approach to direct ownership stakes in high-growth enterprises. Meanwhile, guarantees made up approximately 11% of the portfolio, serving as an important risk-mitigation tool to crowd in private sector capital.

The sectoral distribution of BII's SME investments closely mirrors trends observed in other DFIs, particularly DFC. The financial services sector attracted the largest share of commitments (68.93%), reinforcing the sector's critical role in SME financing ecosystems. Again, we must recognise data limitations which do not allow for an analysis of the proportion of financial services commitments that ultimately reach SMEs. Generalist (comprising more than one sector) accounted for 22.75%, and food and agriculture followed closely at 5.03%.
A breakdown of BII's commitments by ticket size reveals a strong preference for investments within the US$ 10 million and US$ 50 million range, which accounts for most commitments. This is similar to the pattern observed with DFC and Norfund. Commitments with ticket sizes between US$ 1 million and US$ 10 million accounted for approximately 39% of the investments and the least common commitments were those below US$ 1 million and those above US$ 100 million.

BII primarily invests in US dollars, with approximately 84% of its SME commitments during the review period denominated in USD. The remaining portion comprises local currency transactions, including the Indian Rupee (INR) - which made up 11.33% of the total volume and the South African Rand (ZAR). BII concluded 29 deals in INR, the largest being a fund investment in Aavishkaar India Fund VI, a venture capital fund managed by Aavishkaar Venture Management Services Private Limited. There was only one commitment in ZAR, and it went to Vantage Mezzanine IV Southern African Sub–Fund, which also secured backing from DFIs like the Swiss Investment Fund for Emerging Markets (SIFEM) and the European Investment Bank (EIB).

Figure 21: **Breakdown by Region - BII**

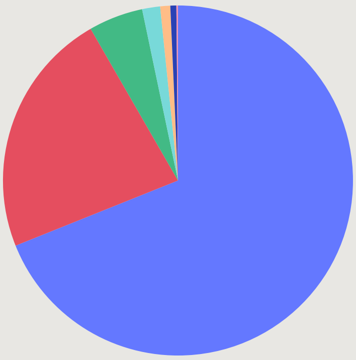


Africa	60.68%
East Asia & Pacific	0.73%
Europe & Central Asia	0.73%
Latin America & Carribean	0.49%
Middle East & North Afica	6.19%
South Asia	26.97%
Worldwide	4.21%

Figure 22: **Breakdown by Instruments - BII**

Equity	13.46%
Debt	44.35%
Guarantee	10.88%
Fund	31.31%

Figure 23: **Breakdown by Sector - BII**



Financial Services	68.93%
Generalist	22.75%
Food & Agriculture	5.03%
Consumer - other services	1.66%
Communications & IT services	0.93%
Consumer - Health	0.55%
Infrastructure	0.15%

Figure 24: **Breakdown by Ticket Size – BII**

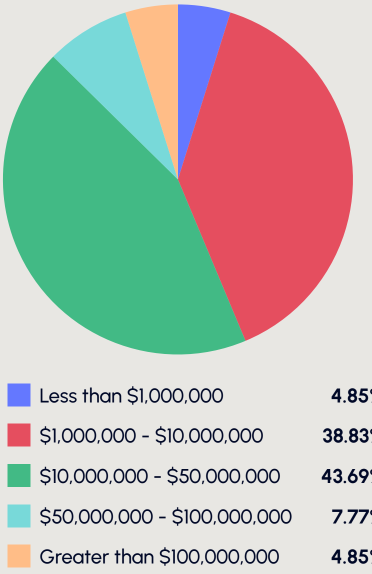
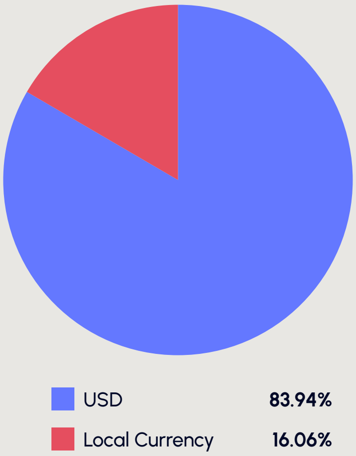


Figure 25: **Breakdown by Currency - BII**



Comparison across the DFIs

This section compares how BII, Norfund, and DFC deploy capital to SMEs in emerging markets. Figure 26 and 27 shows that BII leads in both the share of total investment count and total commitment volume dedicated to SMEs, with 43% of its transactions and 37% of its total commitments assessed as being SME–focussed. By contrast, DFC allocates 26% of its commitment volume to SMEs, a figure equating to approximately 34% of its total transactions. Norfund shows the lowest percentage of SME–focused volume (17%), though SME deals account for 33% of its total investment count, indicating a generally smaller ticket size for its SME investments.

Figure 26: **SME Investments as a Proportion of All Investments** (By Value)

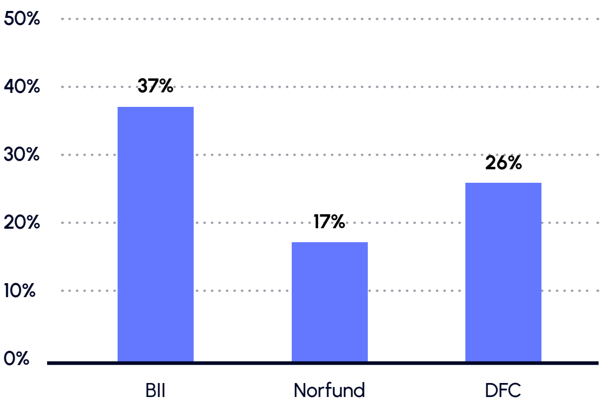
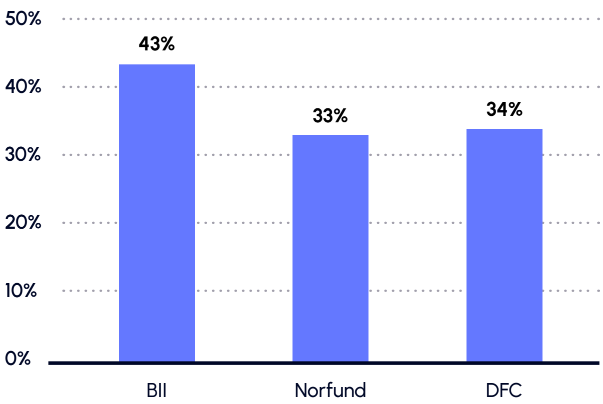


Figure 27: **SME Investments as a Proportion of All Investments** (By Number)



A regional analysis of SME commitments in Figure 28 reveals that BII and Norfund focussed heavily on Africa, while DFC committed mainly to other regions. In the period under review, BII dedicated 61% and Norfund 57% of their commitments to Africa, whereas DFC's allocation to the continent stood at a relatively modest 13%. By contrast, Latin America & the Caribbean (LAC) is DFC's biggest recipient at 33%, reflecting the United States' strategic and national security priorities. Norfund, meanwhile, concentrates primarily on three regions – Africa, East Asia & Pacific, and LAC – demonstrating its relatively narrower scope.

BII and DFC allocate similar shares to South Asia at 27% and 22%, respectively, while Norfund has no commitments there. "Worldwide" investments, which span multiple regions, account for around 9% of Norfund's portfolios, and around 4% each of BII and DFC's.

Figure 28: **Breakdown by Region across DFIs**

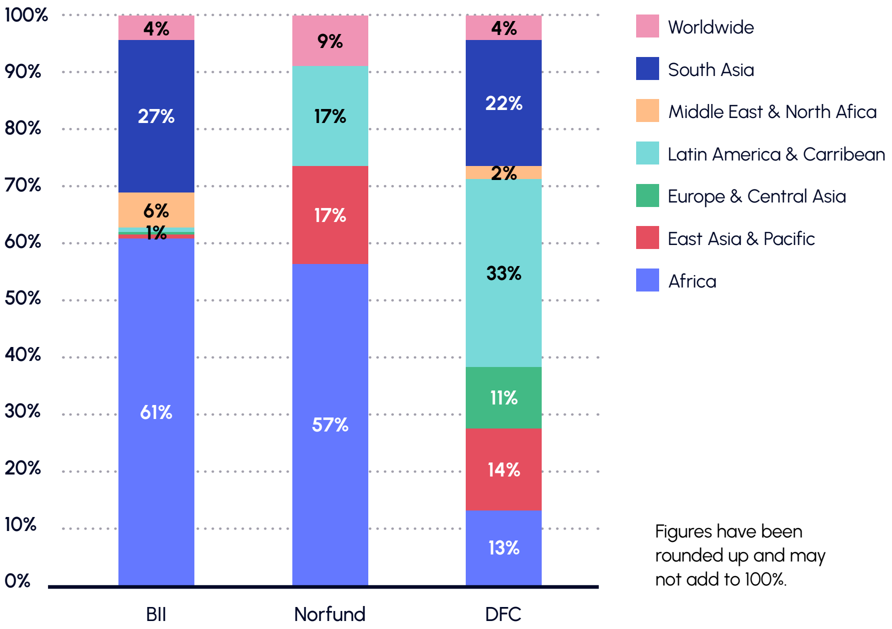
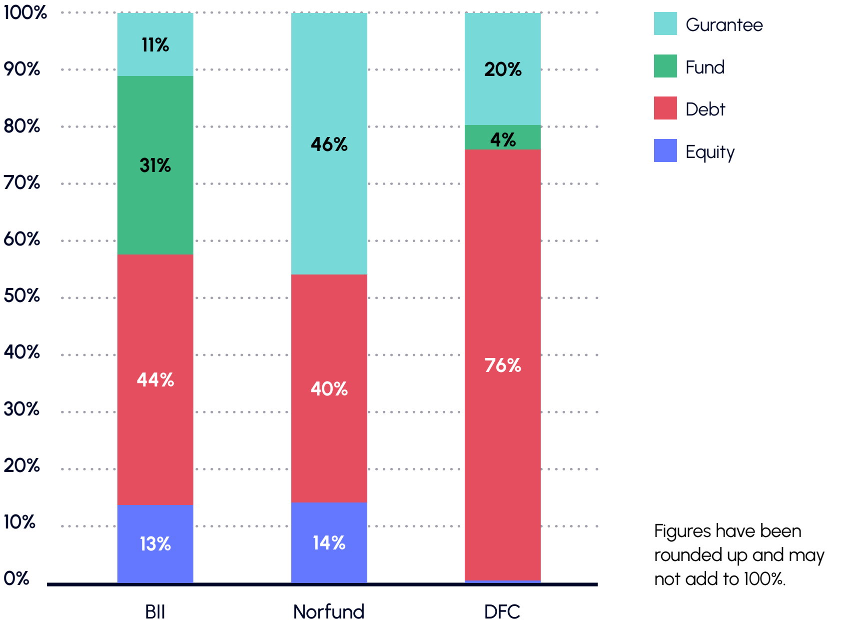


Figure 29 illustrates how each DFI's SME investments reflect its broader portfolio strategy, shaped by institutional mandates, risk tolerance, and historical practice. The instruments employed – debt, direct equity, guarantees, and funds – vary among the three DFIs. DFC's portfolio, for instance, is dominated by loans, which account for more than three-quarters of its total SME commitments. As discussed, OPIC's legacy portfolio still informs that of the DFC today. Equally, accounting for 20% of commitments by volume, DFC's relatively strong focus on the use of guarantees has been – at least until recently – facilitated to a significant extent through close collaboration with USAID's in-country teams and their relationships with local banks.

BII, meanwhile, has moved away from its historical focus on equity across its portfolio toward a more balanced instrument mix under its new mandate. This appears to reflect in its SME commitments. Loans now make up about 44% of BII's SME portfolio, funds around a third, and guarantees roughly 11%. As a result, direct equity accounts for only 13.46% of its overall SME commitments. Norfund, for its part, primarily relies on loans (40%) and funds (46%) to reach SMEs, with direct equity at around 14%.

Figure 29: **Breakdown by Instruments across DFIs**



DFIs generally favour larger ticket sizes for their investments, as illustrated in Figure 30. Across the three DFIs, the US$ 10 million to US$ 50 million range dominates their SME commitments - 44% for BII, 52% for Norfund, and 48% for DFC. While these sizable investments can be justified by relatively high transaction costs in emerging markets (BII, 2022), they do not align well with the needs of SMEs and SME funds managers in developing countries. As a result, DFIs often work through financial intermediaries that can absorb larger investments and are equipped to provide smaller, more tailored finance to bridge this gap.

The second most commonly deployed ticket size among the DFIs is between US$ 1 million and US$ 10 million. This accounts for 39%, 42% and 28% of BII, Norfund and DFC's commitments, respectively. Both BII and DFC commit funds up to and above US$ 100 million, whereas Norfund's maximum ticket size for SME investments is capped at US$ 50 million. At the lower end, ticket sizes under US$ 1 million remain the least favoured across all three institutions. This limited exposure to smaller-ticket investments aligns with the broader trend among DFIs, where economies of scale and administrative efficiency often drive capital allocation toward larger projects.

Figure 30: **Breakdown by Ticket Size across DFIs**

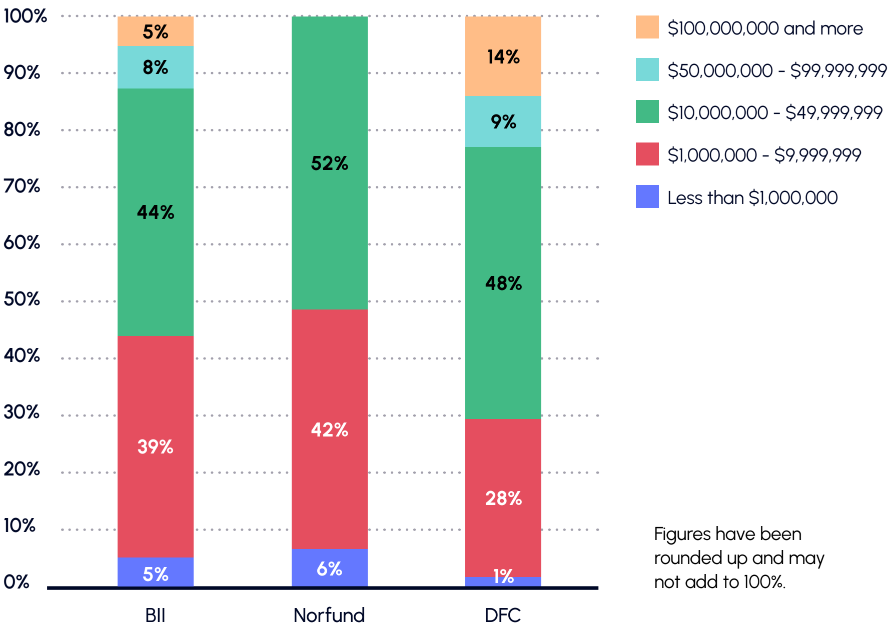
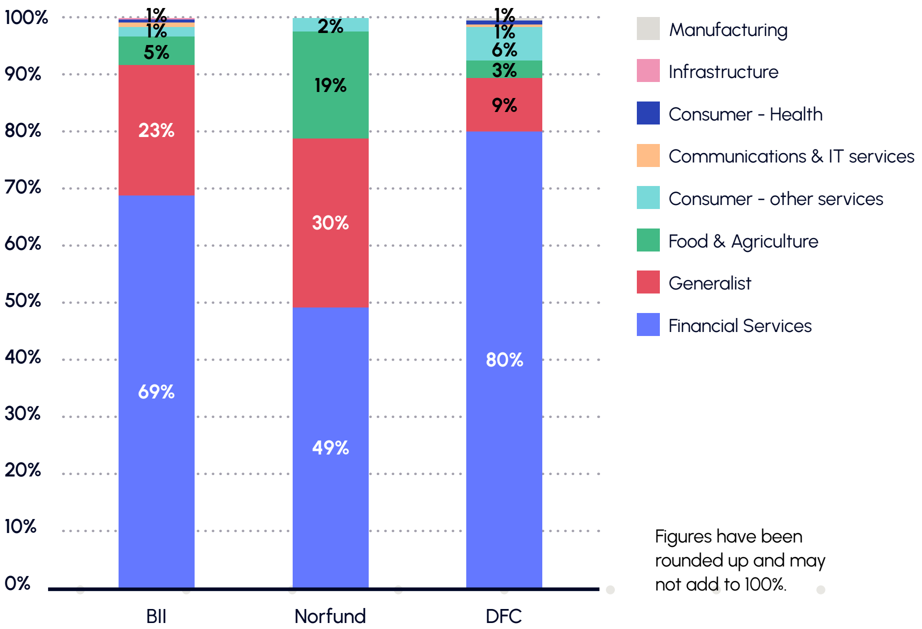


Figure 31 presents the distribution of SME commitments across different sectors by the DFIs. Financial services dominate the portfolios of all three institutions, with DFC committing the largest share at 80%, followed by BII at 69% and Norfund at 48%. By channelling funds through banks and other financial intermediaries, DFIs can effectively expand their reach to small businesses across multiple sectors, leveraging on-the-ground expertise. Although these intermediaries sometimes risk diverting resources to less developmental purposes, DFIs often adopt targeted funding mechanisms that safeguard their development objectives. Empirical evidence also emphasises the importance of the financial sector, indicating that broader financial development fosters more equitable economic growth – even in middle income countries (Chakraboty et al, 2022, and Fafchamps & Schündeln, 2013).

Allocations to the "generalist" sector rank second for all three DFIs – 9% at DFC, 30% at Norfund, and 23% at BII – and typically encompass cross-sector investments. Beyond financial services and generalist exposures, Norfund devotes 19% of its SME commitments to food & agriculture while BII allocates 5% to food & agriculture.

Figure 31: **Breakdown by Sector across DFIs**



Figures have been rounded up and may not add to 100%.

6. List of case studies

Go to the relevant pages (see below) to find more case studies about DFIs mobilising private capital through banking institutions and SME-focused investment funds.

CASE STUDY 1

Equity Bank: an SME mobilisation pathbreaker

DFIs: Debt & equity → Equity Bank → SME loans US$ 1.5 bn

Equity Bank Kenya is one of the largest and most influential financial institutions in East Africa. The bank initially focused on providing mortgage financing to low-income earners but over the years it transformed into a fully-fledged commercial bank, gaining a significant share of the Kenyan banking market by shifting its focus to providing financial services to the unbanked populations – including SMEs.

Today the bank is part of Equity Group Holdings Plc, which operates subsidiaries across six countries in East and Central Africa, including Kenya, Uganda, Tanzania, Rwanda, South Sudan, and the Democratic Republic of Congo (DRC). The bank has consistently ranked among the top financial institutions in Kenya in terms of assets, deposits, and profitability. **As of 2024, Equity Group's total assets were valued at over KSh1.8 trillion (approximately US$ 14 billion)**.

Equity Bank's growth and expansion have been supported by diverse sources of funding, including customer deposits, capital markets, development finance institutions, and strategic partnerships. Most relevantly the bank has attracted equity and debt investments from multiple DFIs. **According to its 2023 annual report (Equity Bank, 2024) fully 100% of its long-term debt is held by DFI including the IFC, KfW, DEG, BII, FMO, Proparco, and the EIB. The picture is similar when observing Equity Banks shareholders. With a 12.7% ownership stake the largest single shareholder is Arise B.V., an investment company dedicated to taking minority positions in African financial institutions that is owned by Norfund, FMO, Rabobank and NorFinance. The IFC is also a shareholder in Equity Bank**.

Without wanting to misattribute responsibility for Equity Bank's success it is reasonable to conclude that the capital and other support provided to the bank has been instrumental in its expansion. Specifically, the story of how it succeeded in scaling its SME business highlights several mobilisation success factors relating to corporate leadership and DFI influence.

Equity Bank was declared technically insolvent by the Central Bank of Kenya in 1993. At that time a business plan was put forward that focussed on servicing underbanked communities in Kenya that led to a significant increase in deposits from new customers. This was the catalyst for a turnaround of the bank's fortunes, a process helped by the arrival of the IFC and the EIB as active shareholders with board positions. This was a significant vote of confidence in Equity Bank's new approach and presaged a period of strong growth leading to the end of the millennium.

Having realised in the early 2000s that their existing micro enterprise customers' financing and business support needs had outgrown the bank's lending capacity and product selection, Equity Bank's management set about investing in the development of tailored SME products, upskilling of relationship staff and improving internal processes and technological integration. These crucial foundational operational actions were both supported by DFIs as shareholders and other development actors such as the UNDP through its 'Microstart' programme, which provided grant funding to support a new IT system.

Today, Equity Bank is perhaps Africa's most lauded SME lending success story and the results of the journey speak for themselves. Recovering from insolvency in the mid-1990s, in part through a strategic decision to grow its SME lending operations, **Equity Bank's continuing investments have resulted in the bank's SME loan book totalling some KSh200 billion (or US$ 1.5 billion) by 2024, a significantly larger number than the DFI capital provided to the bank**. Moreover, this number includes only what Equity Bank describes as MSMEs and does not account for customers in its larger 'corporates and large enterprises' sector, many of which might otherwise be categorised as SMEs per the IFC definition.

Whatever the precise number happens to be, it is undeniable that the growth of Equity Bank's SME lending was significantly facilitated by DFIs and development actors. It offers up a clear example of the scale at which bank-led "secondary mobilisation" can occur when the right mix of success factors are observed.

CASE STUDY 2

KCB Bank: how collaboration generates mobilisation

DFI loans US$265M + foundation grant US$900K → KCB → SME loans US$ 2bn (in 2027)

In 2008, the KCB Group was established with KCB Kenya as its flagship subsidiary. KCB Group has operations in seven countries, including Kenya, Uganda, Tanzania, Rwanda, Burundi, South Sudan, and the Democratic Republic of Congo (DRC), and has expanded over the years through acquisition, including of National Bank of Kenya in 2019.

Today it serves millions of customers through its extensive network of branches and agents, and through its digital banking platform. **At a group level the current total assets stand at approximately KSh2 trillion (or US$ 15.4 billion) and its loan book at around KSh1 trillion (or US$ 7.7 billion)**. KCB Bank Kenya accounts for approximately 70% of the group's total assets and loan portfolio respectively.

KCB Group has a primary listing on the Nairobi Securities Exchange and is cross-listed on the Dar-es-Salaam Stock Exchange, Uganda Securities Exchange, and Rwanda Stock Exchange. **Over the years the Kenyan government has sold down its stake in KCB Group to its current ownership level of approximately 20%, thereby facilitating a diverse ownership base of nearly 200 000 shareholders. The bulk of the group's share capital is held by local institutional and individual investors, with international investors accounting for approximately 10%**.

Long term borrowings by the bank are, similarly to peer institutions, largely provided by DFIs. Although largely funded by customer deposits KCB's balance sheet is supported by approximately KSh 58 billion (or US$ 445 billion) of borrowings which are largely accounted for by facilities provided by the IFC, the EIB and the AfDB. The provision of such facilities is often tied explicitly to developmental ambitions, including the servicing of SMEs or the financing of green assets. **Such lending can, as is profiled below, have a significant catalytic effect in assisting the bank to focus these business lines and the resultant generation of "secondary mobilisation" effects**.

The Kenyan economic environment is, like many of its peer developing countries in Africa and further afield, defined by stubbornly high interest rates and a limited number of bankable private sector businesses and projects. This has created relatively high levels of concentration on the part of institutional allocators. On the equity front to small handfuls of large liquid stocks and on the debt front to government bonds and corporate debt. In addition to creating concentration risks for investors, such a dynamic is not conducive to broad-based economic growth and with the support and encouragement of the Kenyan government, **KCB recognised the importance of diversifying its loan book. In particular, a strategy to target its underserved women-led SME customer base was adopted in 2016 which has significant positive effects on the bank's ability to serve all SME customers**.

Allied to government encouragement, another key success factor was buy-in from KCB's senior management who identified SMEs and women entrepreneurs as key opportunities, as a result of a project with a nonprofit called Women's World Banking (WWB). They approached WWB, which had been conducting a study of the Kenyan market. KCB subsequently secured technical assistance from WWB with the support of the Argidius Foundation (who provided a grant of around $US 900 thousand for this work), and conducted a 3-year project in which they collaborated with other technical partners, including ConsumerCentriX which sought to optimise KCB's business model to more effectively reach SMEs.

The findings of this work convinced the bank to
(a) better understand the SME market
(b) integrate SME's more effectively into a relationship management model
(c) create more aligned product offerings
(d) tailor non-financial business support to SMEs.

Subsequently, in 2020 KCB successfully procured a 10-year loan from the IFC to support its capital position and facilitate increased lending to climate finance and SMEs, and in 2021 a consortium led by the IFC and including the SANAD Fund for MSMEs, BIO and Symbiotics provided a US$ 150 million loan to help the bank increase lending for climate-friendly projects and to smaller businesses, especially those owned by women. More recently, in 2024 the EIB and KCB announced EUR 230 million (US$ 250 million) funding predominantly for SMEs in which the bank will match the EIB's EUR 115 (US$ 125 million) million credit line. The Gates Foundation will provide technical assistance to further address and improve hurdles to deployment.

The results of these efforts speak for themselves. According to the Argidius Foundation, **in 2017 KCB's SME loan portfolio was approximately US$ 4 million. By 2023 it had grown to US$ 900 million and is forecasted to exceed US US$2 billion by 2027. This represents an enormous increase in capital availability to SME customers in Kenya. It also provides an instructive example of the power of DFI "secondary mobilisation" for SMEs through banks. The targeted long-term lending by the IFC and EIB, in concert with the various internal and external capacity building and technical assistance initiatives, has resulted in the provision of KCB's own capital far in excess of that provided by DFI lenders**. This new SME capital may not be provided by third parties alongside the DFI's own and it may not comply with OECD and MDB taskforce measures of mobilisation, but it is undeniably both private in nature and facilitated at least in part by DFIs and development actors.

Finally, it is important to affirm that KCB is not simply passing through DFI capital to the SME opportunity. The numbers make it clear, as for example does its commitment to matching the EIB's most recent credit line. KCB is investing its own capital in SMEs because it is self-motivated. Management recognises the clear growth and diversification advantages of this strategy. Simply put: it is good business.

CASE STUDY 3

Absa Bank, Zambia: catalysing SME mobilisation with DFC, USAID and the Zambia Credit Guarantee Scheme

DFI investment & partial credit guarantee + USAID TA + Zambia Credit Guarantee → Absa Bank Zambia → SME loans increased by 136% from 2022 to 2023

Absa Bank Zambia Plc, part of Absa Group Limited, is one of the country's oldest banks. As of 2020, the bank ranked first in loans, second in assets, and fourth in deposits, supported by a network of 37 branches and agencies, 101 Automated Teller Machines (ATMs), 2 241 Point of Sale (POS) machines, and 144 451 mobile and internet banking facilities. **At the end of 2023, the bank had assets totalling some K 31.4 billion (US$ 1.1 billion).**

In partnership with the Bank of Zambia, Absa Bank Zambia supports national financial inclusion and gender mainstreaming initiatives, notably through bespoke products like Business Internet Banking and tailored lending solutions for SMEs. The bank's commitment to SMEs was recognised in 2023, when it won several awards from the Global Banking & Finance Review, including Best Corporate Bank, Best Agribusiness Bank, and Best SME Bank Zambia.

One of Absa Bank Zambia's pillars is empowering women and youth entrepreneurs. The bank facilitates this through its Women in Business Proposition, themed "Unleash." **Over 300 women have participated in mentorship programs designed for women-led SMEs, and this initiative has positively impacted more than 3000 enterprises. In 2023, the bank's lending to the SME sector increased by 136% compared to the previous year, underscoring its commitment to affordable finance**.

The bank invests in digital channels, improving efficiency and enhancing customer experiences. Its Absa Innovation Hubs in the cities of Solwezi and Livingstone provide incubation and acceleration programs, innovation masterclasses, and digital market linkages, particularly benefiting women-and youth-led enterprises. Through these efforts, Absa Bank Zambia aims to be at the forefront of driving financial inclusion and fostering sustainable community development.

About 15 years ago, Absa Bank Zambia Plc began to extend credit to SMEs but paused these efforts due to high default and impairment rates. In 2022, renewed governmental emphasis on SME development created impetus for the bank to re-enter this segment, aligning with its broader financial inclusion mandate.

Despite SMEs being central to Absa's inclusive finance agenda, structural challenges - such as limited collateral, inadequate documentation, and misconceptions about bank lending - heighten credit risk. DFIs help mitigate these challenges. **DFC provided medium and long term funding and partial credit guarantees, focusing on agribusiness, manufacturing, and clean energy. Simultaneously, USAID has delivered technical assistance through its Enterprise Development and Growth Enhanced (EDGE) programme, helping SMEs in its pipeline enhance their connectivity, business acumen and financial readiness through training and mentorship**.

To complement this support, Absa Bank Zambia developed a digital tool that captures and organises financial data, strengthening loan applications. This was augmented by the refitting of its branch networks and training of dedicated relationship managers, all of which is helping the bank to generate results in its SME lending operations.

Backed by USAID's EDGE pipeline of approximately 500 SMEs and DFC's risk-sharing mechanism, Absa has disbursed approximately US$ 2 million to around 10 SMEs to date, with minimal defaults reported. In addition, the government-backed Zambia Credit Guarantee Scheme provides shorter-term, sector-agnostic guarantees to Absa Bank Zambia, thereby expanding options for SME financing.

It should be noted that while guarantees are at least anecdotally recognised to be important enablers of bank lending to SMEs – an assertion that is supported by the literature review – Absa Zambia is the only of the study's case studies to explicitly highlight the role of this instrument.

CASE STUDY 4

Banco BDI: how Norfund supported it to mobilise for SMEs

Norfund equity → Banco BDI → 25% increase of SME loans in 3 years

Founded in 1974 in the Dominican Republic, Banco BDI began life as a development-oriented financial institution focussed on agri-business and the industrial sector. Much of its funding came from the World Bank and the Inter-American Development Bank. By the early 2000s the bank had expanded its business and obtained regulatory authorisation to provide commercial and retail banking services.

Today, with total assets of RD$ 30 billion (US$ 490 million) the bank has transformed its customer offer to focus on efficiency and customer relations. Banco BDI is not encumbered by the challenges of prioritising scale and cost reduction and intentionally positions itself as providing an enhanced and personal customer experience. It is achieving this in significant part due to a digitisation strategy through which the bank is better able to provide a wider range of products to all customer types.

As Banco BDI sought to diversify its product offering there was a realisation on the part of management that the SME sector in the Dominican Republic was insufficiently catered to, and that **in the context of a new law allowing for the use of 'movable collateral' such as boats and aircraft on the part of SMEs it was strategically opportune to orientate the bank's offering for effectively to SME customers**.

In 2022, further to extensive engagement on the bank's plans to digitise and focus on SMEs, Norfund acquired a 20% shareholding in Banco BDI and took up a seat on the board of directors. According to senior bank employees this commitment was an essential ingredient to help persuade the board to invest in these strategies.

With governance-level buy in obtained, bank management has been able to invest significantly in digital infrastructure, create a wider array of products, reformat its branch network to better serve SME customers (branches are now called 'business centres' that cater to retail and SME customers) and as a consequence **achieve significant growth of around 25% in its SME loan portfolio over the past three years**.

Again, we see an example of a development sector facilitated SME "secondary mobilisation" occurring through a bank intermediary that recognised the business case behind the SME sector and is putting its own (private) capital to work in addressing it.

CASE STUDY 5

Development Bank of Nigeria: equipping banks in Nigeria to lend to SMEs

Government + DFI equity & loans → DBN → partial credit guarantee attracting 1,85 X of private capital & US$ 650 million in SME loans

Founded by the Federal Government of Nigeria and commencing operations in 2017, **the Development Bank of Nigeria (DBN) is a Public Development Bank (PDB) with assets of NGN 690 billion (US$ 430 million) that was set up with the explicit purpose of supporting on-lending by domestic financial institutions in Nigeria to SMEs**. Initial equity capital came from the Federal Government of Nigeria through the Ministry of Finance Incorporated (MOFI), the Nigeria Sovereign Investment Authority (NSIA), the African Development Bank (AfDB), and the European Investment Bank (EIB). Beyond this, DBN's funding is predominantly in the form of long-term borrowings provided by DFIs including the World Bank, Agence Française de Développement (AFD), KfW and the AfDB. In addition, the DBN did for the first time in 2023 successfully issue a bond into the Nigerian market. The issuance was oversubscribed, raising NGN 23 billion (US$ 15 million) against an initial target of NGN 20 billion (US$ 13 million). This transaction marked the first tranche in a planned multi-series programme.

As a PDB, and in contrast to the commercial bank case studies above, the DBN does not directly lend to SMEs. It was nonetheless considered important for the purposes of the study to profile the work of the DBN as it exemplifies the extent to which PDB's with deep understanding of local markets have developed strategies that enable them, through their support for domestic commercial banks, to reach SMEs in ways that are catalytic and systemic.

As with peer markets there is a mismatch in Nigeria between supply and demand for SME finance. **Over 90% of loans are disbursed by commercial banks but currently, according to a study commissioned by DBN, only half of these banks actively serve SMEs and only 15% of SMEs have borrowed from a financial institution**. This includes microfinance institutions, merchant banks and fintechs.

Operating in this paradigm, the DBN states its objectives as follows:
To alleviate financing constraints faced by the Micro, Small and Medium Enterprises (MSMEs) and small Corporates in Nigeria through the provision of financing and partial credit guarantees to eligible financial intermediaries on a market-conforming and fully financially sustainable basis.

In conversation with DBN representatives these objectives were further distilled into a clear ambition to catalyse systemic financing of SMEs within the banking sector by providing targeted capital and technical support to domestic financial institutions.

Between 2017 and 2024 the DBN disbursed, via intermediaries, NGN 1 trillion (US$ 650 million) in loans to approximately 710 000 SMEs in Nigeria, of which a significant proportion were women and youth-owned businesses. In addition, over NGN 160 billion (US$ 105 million) in partial credit guarantees have been committed, catalysing over NGN 300 billion (US$ 195 million) in private sector funding. These are impressive results which speak to DBN's understanding of local context and its ability to work with local financial institutions to stimulate and facilitate systemic increases in SME lending.

DBN describes how SMEs in Nigeria do not have funding options and although they are a riskier proposition than for example corporate loans, there are commensurably higher margins to be made in lending to them. With this knowledge and by assessing the landscape of commercial banks in Nigeria DBN has been able to provide tailored support to each institution with the intention of stimulating deposit-funded SME lending operation. **Broadly, larger**

In Nigeria

+90%

of loans are disbursed by commercial banks but currently, according to a study commissioned by DBN, only half of these banks actively serve SMEs and only 15% of SMEs have borrowed from a financial institution.

banks receive derisking support in the form of guarantees tied to SME and thematic lending requirements while smaller banks receive tier 2 capital that frees up lending capacity to reach SMEs. Critically, technical assistance and capacity building support, including through a partnership with the Frankfurt School of Finance and Management, is deployed in each intervention to help banks with the knowledge and setup costs necessary to build SME lending capacity.

We would suggest that this success, founded on local knowledge and aided by the ability to provide local currency funding, makes DBN an excellent example of how PDBs and by extension DFIs can engage commercial banks with the deliberate intention of unlocking systemic capital flows to SMEs.

CASE STUDY 6

The Development Bank of Türkiye: a holistic ecosystem builder

The Development Bank of Türkiye, also known as Türkiye Kalkınma Bankası (TKYB), is predominantly owned (over 99%) and managed by the Turkish Ministry of Finance. The bank functions as both a development bank and, more recently, as an investment bank, and its mission is to support Türkiye's economic development and sustainable growth. At the end of 2023 it had total assets of TRY 153 billion (US$ 4 billion).

The bank's operations are primarily funded through debt financing sourced from various DFIs, including the World Bank, KfW, Japan Bank for International Cooperation (JBIC), the Islamic Development Bank (IsDB), OPEC Fund for International Development (OFID), and Islamic Trade Finance Corporation (ITFC). These institutions offer low-cost, long-term funding. Such funding often includes specific conditions, such as supporting the growth of SMEs. In addition, the Turkish Ministry of Finance bolsters the Bank's financial position through government guarantees, subordinated debt, and regular capital injections.

TKYB directly serves approximately 350 financial intermediaries such as local commercial banks. It provides a variety of products to these institutions, including thematic credit lines to SMEs in priority sectors such as renewable energy, manufacturing, and women-owned businesses. It also offers technical assistance and capacity building support to improve the financial literacy, environmental compliance, and managerial capacity of SMEs and intermediary banks. Finally, it does on occasion participate in guarantee and risk sharing schemes.

As a PDB that seeks to take a strategic role in Türkiye's investment ecosystem, TKYB pursues a strategy designed to provide financial intermediaries with the mix of support necessary to effectively and profitably reach SMEs. The integration of investment banking capacity is a notable attempt to be holistic in deepening capital markets activity and improving the overall environment for the mobilisation of private capital for SMEs.

CASE STUDY 7

Investisseurs & Partenaires (I&P): the system builder

DFI investments + donor TA ➔ I&P ➔ private capital mobilisation by IPEDEV2 of more than 6X

I&P was founded in 2002 with the broad ambition to support economic development in sub-Saharan Africa through the provision of venture capital designed to foster entrepreneurship and stimulate growth. The funding landscape for SMEs at the time was in its nascency and while I&P had envisaged an approach that would utilise and enhance regional fund managers – something that the company would later achieve – at the time this was not feasible and direct support to SMEs was provided.

In part, the creation of IPDEV, I&P's first impact fund-of-funds strategy, was a response to the disinclination of DFIs to finance SMEs and the initial capital raised was mostly from mission-driven private investors. As the IPDEV model demonstrated success, DFI interest in the approach increased. In 2006 Proparco and the European Investment Bank (EIB) each committed EUR 3 million (US$ 3.4 million), helping to grow the capital stock.

Recognising the need and opportunity to realise the initial vision for I&P as an investor in local SME funds, the company launched IPDEV 2 securing a wider mix of DFI and private investors including Proparco, the African Development Bank, the West African Development Bank (WADB), Ceniarth, BNP Paribas, the Small Foundation and the Soros Economic Development Fund. **IPDEV 2 raised EUR 21 million (US$ 24 million) between 2015 and 2018 into a permanent capital vehicle which has to date supported 7 national funds (in Mali, Niger, Burkina, Ivory Coast, Senegal, Uganda and Madagascar) which in turn have backed over 50 SMEs with a mix of equity products. IPDEV's support typically constitutes the first institutional investment received by these SMEs, typically in the form of ticket sizes below EUR 500 000**.

IPDEV2 completed I&P's financing ecosystem when it launched two other funds that would make direct equity investments in larger SMEs than those funded through IPDEV. Structured as private equity vehicles and called I&P Afrique Entrepreneurs (IPAE 1 and IPAE 2), these funds again crowded in an array of private and development investors.

A model suited to its environment

A brief history of I&P thus established, there are certain aspects that stand out with regards to private capital mobilisation. Firstly, it is interesting to note that I&P has had success in bringing in private local investors at the fund level. **For example, across the 7 funds supported by IPDEV 2 over 70 domestic investors have been mobilised generating a ratio of 3.7:1 on IPDEV 2's capital. Further to receiving investment, underlying SMEs also were able to mobilise local private capital, leading to a final leverage ratio on IPDEV 2 capital of 6.3:1**. This points to the attractiveness of SMEs to local private investors when structured appropriately.

It is also important to observe the resilience of the IPDEV model and the role that both structuring and development support has played. **Electing to create a permanent capital vehicle with robust governance has ensured that IPDEV's mission to support the underserved categories of SMEs has been protected over the long term and enabled it to consistently channel capital through smaller funds. While structurally protected, this market building approach would not be sustainable without grant support from the likes of the Argidius Foundation, USAID and the AFD to assist fund managers with a variety of capacity building tools and to help to finance the protracted process of fund development**.

Finally, I&P tracks capital mobilisation into its investments at a portfolio company level – either through its IPDEV fund investments or directly through its IPAE private equity funds. Through direct interactions with I&P leadership we were able to learn that in many instances portfolio company SMEs successfully raise further capital from a range of local sources of finance, including banks, MFIs, and specialist local investors. I&P directly encourages (through capacity building assistance) and facilitates (by leading funding rounds) these capital raises and tracks its success through the measurement of what it describes as 'leverage effects'.

Described above is private capital mobilisation at the SME level. If it can occur in the context of small SMEs in some of the more fragile ODA states (I&P has a non-exclusive focus on the West Africa region) it is likely occurring across the entire development SME landscape. What remains is to better understand where and how it is happening and what more can be done to facilitate it.

Recognising that this mobilisation activity is not typically captured or otherwise focussed on by the development finance community, the I&P case highlights several important success factors leading to its achievement.

CASE STUDY 8

Business Partners International Africa: SME lender and mobiliser

DFI investments → BPI Africa → loans to 300 SMEs since inception → new or refinanced loans to SMEs by domestic banks

Born out of a public / private joint venture in South Africa, Business Partners Limited is a private institutional provider of loans to SMEs. **Since inception the company has approved approximately 74 000 loans to a value of around R24 billion (US$ 1.3 billion)**.

As early as 2004 Business Partners Limited took the decision to extend its offer beyond the borders of South Africa and structured several country and region specific funds, which in 2016 were consolidated into BPI Africa and structured as a permanent capital vehicle based in Mauritius with subsidiary operating entities in Kenya, Rwanda, Uganda, Malawi and Namibia.

BPI Africa received funding of US$ 35 million from a cohort of development investors including the IFC, FMO, Norfund, SIFEM, DOEN Participaties and MEDA. Each of these is a shareholder in the Mauritius corporate structure alongside Business Partners Limited and has representation on BPI Africa's board of directors. The decisions to structure BPI Africa as a company and not as a fund and to install robust independent governance is designed to ensure that long term mission-alignment is maintained.

BPI Africa, like Business Partners Limited, provides loans to SMEs that otherwise are not large or sophisticated enough to source finance in their local markets. Loan sizes are approximately to a maximum of US$ 500 000 and typically much smaller, and approximately 300 SMEs have been supported since inception.

In addition to its financial products BPI Africa has built grant making and technical assistance support into its offer and has provided some 500 such interventions since inception. The firm's technical assistance support includes for example the improvement of financial management and reporting systems and the obtention of business certifications and is designed to help SMEs achieve sustainable growth. BPI Africa reports a correlation between the provision of this support and the performance of its loan.

According to BPI Africa, a positive externality potentially stemming from the provision of institutional capital coupled with targeted technical assistance is the enhanced ability of their underlying SMEs to raise further funding to support their growth. This is a dynamic on which they are currently gathering further data.

Mobilisation generation

While management recognises the systemic importance of the role BPI Africa plays in facilitating the growth of its borrower SMEs, it has to this point not systematically tracked or facilitated further fundraising on their behalf. Interestingly, however, certain of their DFI funders require reporting on the growth of their underlying SMEs and in response to this BPI Africa has built in a requirement that, in addition to information on revenue, taxation and employment growth, borrowers must also report on new loans. While reporting from SMEs in this regard is not always timely or complete, this requirement has created a process by which at least some SME-level mobilisation information is being captured.

BPI Africa management have not yet implemented systems to more rigorously obtain and analyse SME fundraising information, nor have they been pressed to do so by their DFI funders. Management is however able to confirm that the majority of new loans raised by SMEs – or indeed of BPI Africa loans refinanced as borrowers grow and mature – are provided by domestic commercial banks.

These findings add further weight to the case for development investors to both continue to target and support their investments in SME-focussed banks while simultaneously supporting and incentivising SME fund managers to track and facilitate the further fundraising activities of their borrowers and portfolio companies.

CASE STUDY 9

Sahel Capital: tailoring support to investees

DFI investments & TA → Sahel Capital → all companies in first Sahel fund attracted additional private capital

Sahel Capital is a private investment firm established in 2014 that specialises in Sub-Saharan Africa's food and agriculture sector. Operating out of offices in Lagos, Nigeria, Abidjan, Ivory Coast and Nairobi, Kenya, the firm invests across the entire agriculture value chain - including crops, livestock, integrated processing, branded packaged foods, and other services.

Since its inception, Sahel Capital has raised over US$ 100 million, launched two separate funds and committed capital to 15 portfolio companies. In 2017, it launched the Fund for Agricultural Finance in Nigeria (FAFIN), an equity vehicle with ticket sizes ranging from US$ 600 000 to US$ 8 million. FAFIN's successor equity fund, currently in fundraising, extends the geographic reach to West Africa and features a first-loss tranche provided by two investor groups. In 2023, Sahel Capital launched the Social Enterprise Fund for Agriculture in Africa (SEFAA), a private credit strategy that offers trade finance, working capital loans, long-term CAPEX financing, and quasi-equity solutions. Ticket sizes for SEFAA generally range from US$ 300 000 to US$ 2.4 million, with an average of approximately US$ 1 million. SEFAA currently operates in 13 countries across sub-Saharan Africa. **Together, FAFIN and SEFAA have concluded around 30 debt and equity transactions, with a growing focus on debt over the past two years**.

Beyond providing capital, Sahel Capital delivers process and operational improvements to help portfolio companies scale and ultimately surpass the investment firm's direct support. To date, three exits from equity investments from FAFIN have been recorded, all reverting ownership to the respective founders. In addition, there have been six full repayments of loans from within the SEFAA portfolio. Future exit considerations include local high-net-worth individuals and institutional investors. Whilst Sahel Capital's portfolio companies meet the IFC definition of SMEs, in the context of West Africa certain of those in which Sahel is an equity investor may be considered larger than typical SMEs.

Sahel Capital's vehicles are domiciled in Luxembourg and Mauritius, and the firm is in the process of establishing a Nigeria-domiciled fund. Its present investor base is predominantly DFIs such as KfW and African Development Bank (AfDB), complemented by sovereign funding from Nigeria—including an anchor commitment into FAFIN by the Nigerian Government through the Federal Ministry of Agriculture and the NSIA.

Local Nigerian pension fund operators are the target of current fundraising efforts, and the target is about US$ 30 million. Sahel Capital is developing a new fund structure that recognises Nigerian pensions' desire for yielding infrastructure-focussed products and aligns with their domestic domiciliation and local currency requirements.

KfW: Catalysts for SME mobilisation

Sahel Capital has a technical assistance facility provided by KfW, which derisks its portfolio. The facility includes FX hedging for recipients of debt investments and support to strengthen risk management practices, often by embedding high-calibre talent, for recipients of equity investments. Some examples of the use of the facility include Complete Farmer, which received support to deploy a bespoke Enterprise Resource Planning (ERP) system that enhances the efficient management of more than 5,300 smallholder farmers. Sourcing and Produce (S&P) also benefited from training 10 of its employees via the technical assistance facility.

Management observes that the capital structure of portfolio companies tends to evolve over time. This could be due to additional bank loans or minority equity investments from local private investors. **In its first fund, all eight investee companies attracted additional financing from other sources, including local banks**. In one case, a restructuring process in a portfolio company resulted in converting bank debt to equity, which was transferred to a third party.

Supporting this "secondary mobilisation", Sahel Capital also helps investees prepare for equity raises by supporting due diligence and structuring. These capital expansions frequently involve private sources, particularly local banks for Naira-denominated loans, while private funds (sometimes DFI-backed) also participate. Throughout, Sahel Capital emphasises ensuring that each portfolio company secures the most appropriate form of capital to foster sustained growth.

Further to direct dialogue relating to this study, Sahel Capital's management undertook to report on its portfolio company fundraising, highlighting how these mobilisation strategies continue to unlock new funding and drive SME development. This new information will be shared in its 2024 Impact Report.

CASE STUDY 10

XSML: towards tracking "secondary mobilisation"?

DFI investments & TA → XSML → loans & TA to SMEs → examples of companies raising further capital

Founded in 2008 with an initial focus on the Democratic Republic of the Congo (DRC) and the Central African Republic (CAR) and since having expanded to cover Uganda, Angola, Zambia and Kenya, eXtra, Small, Medium, Large (XSML) provides equity, debt and mezzanine financing instruments to SMEs seeking US$ 300 000 to US$ 10 million.

XSML's first fund, the Central Africa SME Fund (CASF), was focussed explicitly on the DRC and CAR and had the IFC's SME Ventures programme as a cornerstone investor. SME Ventures supports fund managers in fragile and conflict-affected states. FMO and the Lundin Foundation also invested in CASF. Subsequently the African Rivers Fund (ARF) series was launched which expanded the firm's geographic footprint and Africa-based staff complement. Most recently, ARF IV achieved its first close in March 2024 having thus far raised just shy of US$ 120 million from a cohort of DFIs including BII, Norfund, FMO, the IFC, Swedfund and SIFEM, with Bio and Proparco joining in late 2024 and early 2025 respectively.

XSML's investors are predominantly DFIs and outside of relatively small contributions of philanthropic and impact investor capital, its funds have not mobilised significant amounts of private capital.

Debt is the instrument most commonly used by XSML as it negates the exit challenges so prevalent in the markets in which it operates. In offering tenors of 5-7 years XSML is filling a gap that risk-averse banks, with a preference for shorter maturities, typically do not service. Equity stakes of 10% to 25% are in certain instances also taken.

To date XSML has conducted over 160 technical assistance projects across its portfolios. This support covers ESG, financial, ISO certification and pre-investment functions and is designed to improve company performance and compliance. Naturally aligned to this outcome is an enhancement of SMEs' readiness to raise further capital.

XSML sees its offering as being complementary to domestic banks which are largely not attuned to assessing SME risk and to offering tailored products to them. Those banks that have not invested in understanding and servicing SME customers tend to prefer to focus on larger businesses or to those that can provide adequate collateral. When they do lend to SMEs, their collateral requirements are onerous, and tenors are short. This dynamic creates space for private credit specialists like XSML and it also means that they have an important role in the financing continuum to originate and scale smaller businesses so that they can tap into established local sources of private capital.

"Secondary mobilisation" is not a concept that XSML has actively considered before, and the tracking of further fundraising by their portfolio companies is not something that is among the very many financial, impact and ESG metrics that their DFI LPs require them to track. Anecdotally the GPs could describe several examples of portfolio companies that attracted private capital as they grew. This is sometimes through XSML's sale of equity or when additional debt is raised, including from local banks.

While this "secondary mobilisation" information is readily available – not least because transaction documentation requires for it to be disclosed – it is not systematically tracked or assessed by XSML. Should DFIs request its disclosure, and assuming that allowances can be made for the additional administrative effort, it is reasonable to envisage XSML incorporating it into their reporting processes.

CASE STUDY 11

Lok Capital: supporting SMEs to exit

DFI investors ➔ Lok Capital ➔ 83% of profitable exists ➔ private investors attracted in 3rd and 4th funds

Lok Capital, an Indian-focused investment firm established in 2004, focuses on achieving both financial gains and societal impact. Its first fund raised US$ 22 million from multiple limited partners including BII, FMO and the IFC, to invest in financial inclusion. **Over the past two decades, the firm has raised four funds totalling around US$ 347 million in commitments and expanded its mandate to invest in SMEs in the education, agriculture, health, climate, and sustainability sectors. The firm has also attracted a broader base of limited partners over time, including DFIs and several private commercial investors**.

Lok Capital's strategy centres on investing in SMEs with fast-growing, high-impact and tech-enabled business models. The firm typically deploys growth equity capital in Series A to C stages. Its ticket sizes range from US$ 3 million to US$ 18 million, and financial services firms usually receive larger allocations. As an investor, the firm takes an active stance in its portfolio companies. It engages in fieldwork to understand the operating environment and ensure it provides tailored support. It often leads or co-leads early institutional funding rounds and continues to support portfolio companies through subsequent raises and even to Initial Public Offering (IPO).

It is important to note that Lok Capital does not always classify its portfolio companies as SMEs, even if they comply with the IFC definition. This is due to an interesting dynamic in India whereby businesses must apply to the state to register as SMEs. Many choose not to, due to the administrative costs involved and therefore cannot technically be referred to as SMEs in India.

In contrast to other funds profiled in the study, many of which operate in smaller, less developed markets, Lok Capital has demonstrated success in attracting commercially motivated limited partners into its later funds.

Investors in Lok Capital's third and fourth funds include private capital providers - Sonanz Management and Blue Earth Capital, respectively. The firm's ability to attract private capital is mainly hinged on its track record of providing returns to investors. 83% of exits have yielded profits. Building on this track record, Lok Capital is preparing to launch its fifth fund and anticipates a balanced mix of DFI commitments (around 60%) and private capital (40%). This blend reflects growing interest in particular from European commercial limited partners such as insurance companies, foundations, and banks.

Catalyst for SME Mobilisation

An essential ingredient in Lok Capital's success is its dual focus on delivering both financial returns and societal impact, which in addition to positioning it to attract a wide spectrum of investors with different priorities, has also embedded a high degree of investee support in its operations. This is evidenced by the firm's hands-on engagement strategy, which emphasises long-term, relational involvement over purely transaction-driven interactions. Through regular field visits and stakeholder consultations, Lok Capital gains deep operational insights, enabling it to create targeted value-creation strategies while effectively managing risks.

This approach is essential as the firm is typically the first, or one of the first, institutional investors in its portfolio companies. Lok Capital recognises the importance of actively supporting its investees to professionalise their operations and reporting, optimise their capital structure and raise additional funding from different investor groups, including commercial capital allocators. Operating in India, a relatively larger and more mature capital market, this approach has demonstrated considerable success with over 30 exits having been achieved including several through IPOs onto domestic exchanges.

In common with the BPI and XSML case studies, Lok Capital is contractually provided with further capital raising data from its portfolio companies, which it reports in aggregate on a quarterly basis to its LPs. Again, this "secondary mobilisation" information is available and could, for example at the request of DFI LPs, be assessed and tracked more rigorously.

CASE STUDY 12

Fondo de Fondos: successfully mobilising domestic pension funds

Government and DFI investments → Fondo de Fondos → Grew the market from 12 funds and US$ 3.6 million dollars in 2008 to more than 118 funds and US$ 1.6 billion today

Fondo de Fondos (FdF) was established in 2006 with the strategic objective of developing Mexico's private capital market and mobilising investment into underserved sectors of the economy. Designed as a government-backed fund of funds platform, FdF aimed to anchor emerging private equity and venture capital funds, facilitate infrastructure development, and support SME growth. At its inception, local capital markets were underdeveloped, and institutional investors showed limited interest in alternative assets. FdF sought to change this dynamic by de-risking early investments and demonstrating the viability of private capital in the Mexican context.

In its initial phase, FdF raised capital from state development institutions, most notably Nacional Financiera (NAFIN), and development finance partners such as the Inter-American Development Bank (IADB). Over time, as the platform proved effective, it attracted both international and domestic private capital. **Back in 2008, there were 12 seed and early-stage funds that invested a total of US$ 3.6 million dollars in only 6 companies. To date, FdF has committed over US$ 1.6 billion across 118 private equity, venture capital, infrastructure, and impact funds, which in turn have backed more than 1 400 companies and contributed to the creation of approximately 740 000 jobs across Mexico**.

A cornerstone of FdF's model has been the use of Development Capital Certificates (CKDs) to channel domestic institutional capital, especially from Mexican pension funds (Afores), into long-term investment vehicles. For instance, in 2015 FdF launched a CKD that raised MXN 3.3 billion (US$ 219 million), followed by a second CKD in 2018 targeting MXN 4 billion (US$ 200 million) for infrastructure and renewable energy. These innovative structures comply with pension funds' requirements and enable their participation. In 2016 Afores contributed approximately 15–16% of the capital in FdF-backed funds.

Fondo de Fondos has emerged as a key enabler of private capital mobilisation in Mexico. It has catalysed the development of the domestic venture capital market — which exceeded US$ 1.7 billion in annual investment volume across 236 deals in 2022 — and helped establish a generation of first-time fund managers. FdF's capital has often served as a first institutional commitment, improving the credibility of fund managers and enabling them to raise additional capital from both local and foreign sources.

With a locally anchored, adaptive model, FdF offers a compelling case study in how fund of funds platforms can support ecosystem development, crowd in private capital for SMEs, and drive inclusive economic growth.

GSG Impact – National Partner Investment Vehicles

GSG Impact has been supporting the structuring and launch of three impact investment vehicles being developed by our National Partners in Ghana, Nigeria and Zambia that will unlock $1 billion in local institutional capital.

The vehicles each focus on mobilising domestic capital - local pools of capital such as domestic pension funds, usually investing in local currency and thereby reducing the foreign exchange issue. Building up the domestic capital supply ecosystem also leads to better long-term system resilience and less reliance on volatile foreign direct investment.

While the structure, sector focus, financial instruments and sources of capital for these vehicles vary, they follow the principle of our ecosystem building approach. In these cases by providing capital at a wholesale level through a fund of funds structure, i.e. allocating capital through established, or by supporting the establishment of, domestic impact investment funds and intermediary companies. This model is proven to have the greatest multiplier effect in terms of attracting additional capital and creating a series of self-sustaining impact investment organisations. We focus on capital flows to SMEs where the impact potential is high, and access to finance is most challenging.

CASE STUDY 13

Ci-Gaba Fund of Funds, Ghana

Impact Investing Ghana (IIGh) (GSG Impact's National Partner in Ghana) identified domestic pensions as a promising capital source for impact investing in Ghana. With the pension industry poised for exponential growth—currently valued at US$ 5 billion, nearly matching the SME financing gap of US$ 5.8 billion—there's a pressing need for a vehicle that appeals to pensions, unlocking this substantial capital.

Approximately 92% of West African businesses are MSMEs, employing 80% of the workforce and contributing 70% of the region's GDP. However, MSMEs need investment amounts ranging from US$ 50,000 to US$ 2m, which are currently unmet by the investment landscape.

As a result, IIGh supported the operational setup of the Ci-Gaba Fund of Funds, an innovative finance vehicle intended **to mobilise US$ 75 million focused on investing in SMEs, of which 70% will be capitalised with commercial capital**, and 30% from catalytic capital (first close expected mid-2025). It aims specifically to mobilise local private capital, especially pension funds to support some 10 to 15 West African venture funds that would in turn target 200 high-growth, high-impact SMEs in the subregion.

Ci-Gaba includes a mechanism to de-risk investments through the provision of a catalytic capital layer to attract local institutional investors to participate in the vehicle. This catalytic capital, in the form of concessionary junior lending or equity at the Ci Gaba level, could be sourced from development institutions, international foundations or philanthropists. Ci-Gaba will have a Technical Assistance facility (up to 10% of the value of the fund) to support fund managers and portfolio companies, and to enable further ecosystem building.

In summary, Ci Gaba is enabling:

- Institutional investors such as local pension funds to make local currency investments into local VC Funds.
- De-risking to attract local institutional investors such as pensions to make alternative asset investments into productive sectors of the economy through its 30% layer of catalytic capital.
- Emerging and experienced PE/VC fund managers to raise local funding and attract international investors in local VC funds.
- The provision of patient and smaller ticket size investment capital needed into SMEs

CASE STUDY 14

Zambia Small Business Growth Initiative (SBGI)

Zambia is facing critical gaps in its SME financing ecosystem, grappling with challenges such as SME informality, information asymmetry, stringent collateral requirements, and high interest rates.

In 2020, the Bank of Zambia (BOZ) introduced the Targeted Medium-Term Refinancing Facility (TMTRF), a US$ 590 million fund (scalable to US$ 1.7 billion), providing credit lines to financial service providers (FSPs) to support businesses and households affected by COVID-19. While the TMTRF succeeded in addressing financial stability concerns related to the pandemic, it did not significantly influence FSPs' long-term lending behaviour towards MSMEs. This has resulted in an estimated US$ 3.6 billion shortfall in financing for Zambia SMEs. Those that are successful in securing loans through formal lending pathways borrow at 22%-30% interest rates, and collateral requirements preclude many from accessing a loan.

To address the financing and affordability challenges, the National Advisory Board for Impact Investing (NABII) Zambia (GSG Impact's National Partner in Zambia) is developing the Small Business Growth Initiative (SBGI) which aims to enhance access to affordable finance for Micro, Small, and Medium Enterprises (MSMEs) by providing capital relief and loss protection through a Bank of Zambia (BOZ) guarantee mechanism. **Capitalised with an estimated ZMW 5 billion (~US$ 175 million) from the Bank of Zambia, the initiative will be set up to attract additional third party capital over time and provide affordable financing to Zambian MSMEs through a variety of financial intermediaries (FIs) and non-bank FIs**, such as leasing and factoring companies. The SBGI is expected to be operational in 2025.

The SBGI will deploy capital through two key components:

- Debt Sleeve: provides affordable finance for growth businesses by offering capital relief and loss protection through a Bank of Zambia guarantee on qualifying loan portfolios (QLPs) of participating financial intermediaries (PFIs), ensuring macroeconomic impact, sustainability, security, and scale.
- Fund of Funds Alternative Capital Sleeve: an innovative addition to the debt sleeve, designed to channel long-term capital to small businesses, strengthening their growth and sustainability.

The success of the SBGI facility hinges on improved and sustained lending approaches that are dependent upon data related to the composition, profile, business performance and loan performance of the entrepreneurs financed via the SBGI. Through the SBGI, data will be compiled, designed, built (and re-integrated) and tracked at the PFI institutional level and learnings will be further aggregated at the Apex Manager level.

The vehicle, currently in development, will provide better access to affordable finance for MSMEs through capital relief and loss protection via the provision of a guarantee against qualifying loan portfolios of eligible MSME transactions by the Bank of Zambia to participating financial intermediaries.

This is a locally led and domestically capitalised facility. This can be used as a success case of how other Central Banks and government agencies can work, through policymaking, vehicle design, and the provision of capital to bring stakeholders together and address gaps in the market. Additionally, it provides a future pipeline for pension funds creating an established pathway to encourage increased engagement from pension funds.

CASE STUDY 15

Nigeria Wholesale Impact Fund (WIIF)

Nigeria faces significant social and economic challenges, including high population growth, dilapidated infrastructure, worsening economic prospects, and low productivity, leading to rising unemployment and social tensions. Social enterprises offer a promising solution to these issues but struggle to access the necessary financing and scale their operations.

The Nigeria NP is establishing **the Wholesale Impact Investment Fund (WIIF)**, which is a $ 1 billion impact wholesaler fund benefitting local SMEs and fund managers.

WIIF aims to finance social enterprises and micro, small, and medium-scale enterprises across Nigeria.

90% of the total funding will likely be in local currency. The fund will be supported by guarantees from international and local agencies and ministries, with the support of the Federal Government of Nigeria. The fund will likely require c 20-30% of its capital commitments to be supported by the guarantees.

The fund manager, Kuramo Capital Management, has been selected and is advancing the fund.

Financing is envisioned to support productivity and economic growth through impact investing, including but not limited to upscaling renewable energy capacities, utilisation of natural resources for import substitution and enhanced foreign exchange earnings, building a circular economy, improving the bioeconomy, as well as, strengthening preparedness and responsiveness to disaster management across the geo-political regions. Furthermore, the government hopes to target the needs outlined in the country's National Poverty Reduction and Growth Strategy for 2021-2025.

Section 5

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