ARIA

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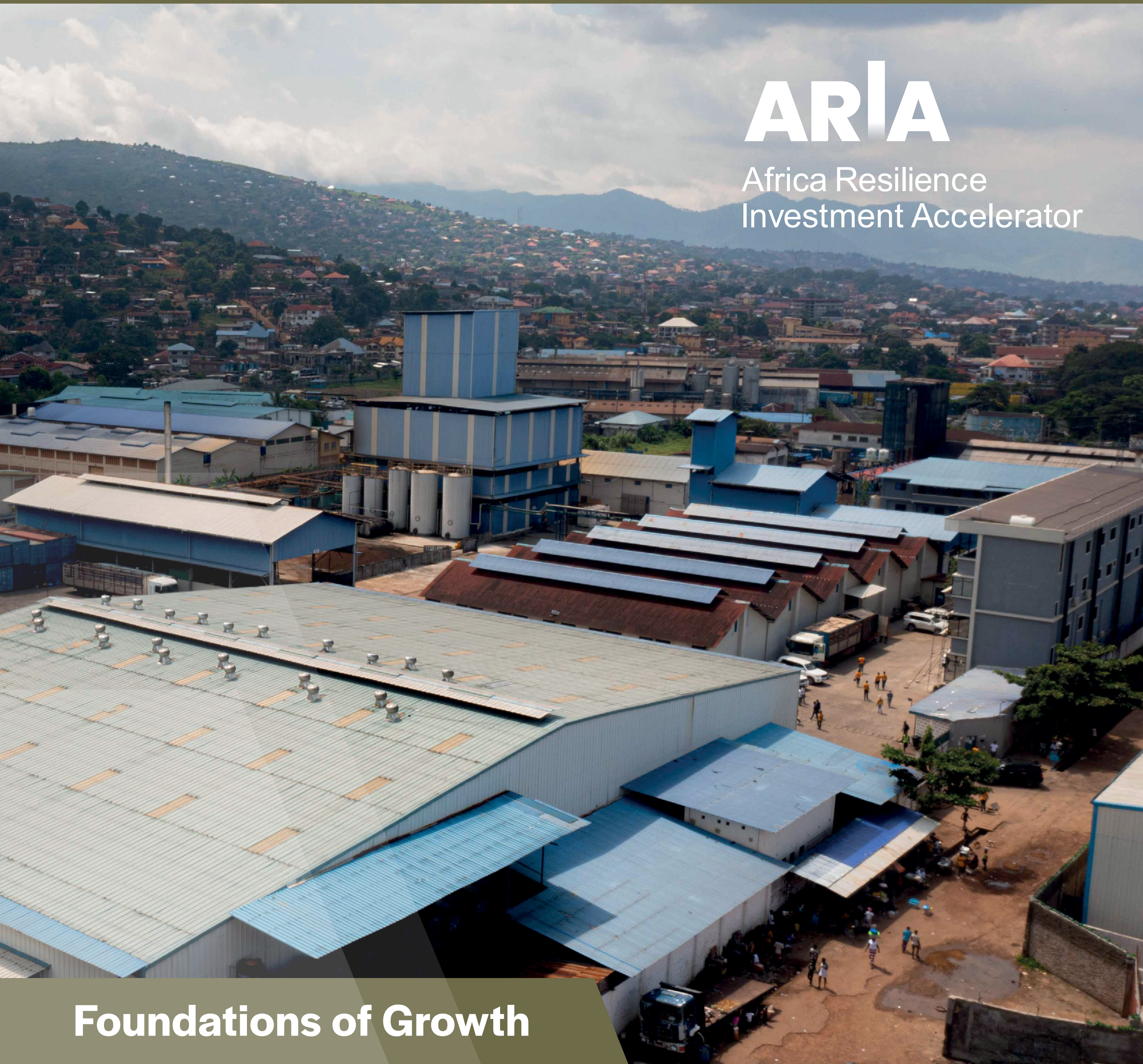

Foundations of Growth

December 2024

Building Bridges: Case studies on successful collaboration between donors and development finance institutions

Gatsby Africa

British International Investment

FMO
Entrepreneurial Development Bank

The Africa Resilience Investment Accelerator (ARIA) was launched in 2021 and aims to help African frontier markets develop into thriving commercial hubs. The five countries where the initiative operates – Benin, the Democratic Republic of Congo, Ethiopia, Liberia and Sierra Leone – have been selected due to their high growth potential. ARIA is led and supported by the UK's development finance institution (DFI), British International Investment (BII), and FMO, the Dutch entrepreneurial development bank.

Foundations of Growth is a series of publications that shares the trends, lessons, challenges, and opportunities of investing in African frontier markets. The series is aimed at helping DFIs, impact investors, and donors develop their strategies for operating in these markets.

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You can find other reports in the series at ariainvests.org.

1. Introduction

Public sector donors that support the private sector and DFIs, which often have donors as shareholders, share goals around supporting positive economic, social, and environmental outcomes in low- and middle-income countries. Achieving meaningful, large-scale impact in each of these areas requires joined-up solutions that leverage the resources and expertise of actors including national governments, the local private sector, donor agencies, and DFIs and other impact investors. The need for coordinated solutions is particularly relevant in frontier markets, which may face challenging policy environments, infrastructure gaps, and limited access to finance.

Donors and DFIs have an opportunity to work more closely together, leveraging each other's strengths to achieve greater development impact. However, collaboration is not yet the norm, with recent research by ARIA finding that 55% of DFI respondents were collaborating with donors only to a limited extent or not at all[1].

The encouraging news is that the drivers of donor–DFI collaboration have become much better understood in recent years. ***Bridging the Gap***, a 2022 study commissioned by BII and Gatsby Africa, and supported by FMO and the Donor Committee for Enterprise Development, was the first attempt to codify the drivers of donor–DFI collaboration[2]. Subsequent work has provided insights on coordination between European donors, development agencies, DFIs, and public development banks[3]; assessed how effectively donor agencies and DFIs collaborate in practice[4]; and the third publication in ARIA's Foundations of Growth series outlined the case for closer donor–DFI collaboration[5].

This study – the fourth in the Foundations of Growth series – adds to the growing body of evidence by presenting 10 case studies of donor-DFI collaboration and identifying key success factors. It aims to showcase the results that can be achieved through collaboration and offers insights to inform current practices for DFIs and donors already collaborating. The report is structured as follows:

- **Section 2** outlines the rationale for donor-DFI collaboration, which is covered in more depth in the third publication in ARIA's Foundations of Growth series.
- **Section 3** provides a framework for collaboration based on findings from *Bridging the Gap.*
- **Section 4** presents an overview of the case studies included in this study.
- **Section 5** highlights findings from the featured cases and offers recommendations for DFI and donor audiences.
- The full case studies are presented in **Annex 1**.

1 ARIA (2024) *Foundations of Growth 3: Building Bridges: The case for DFI and donor collaboration in fostering private sector investment in frontier markets*. BII and FMO: https://www.ariainvests.org/news-insight/foundations-of-growth-3

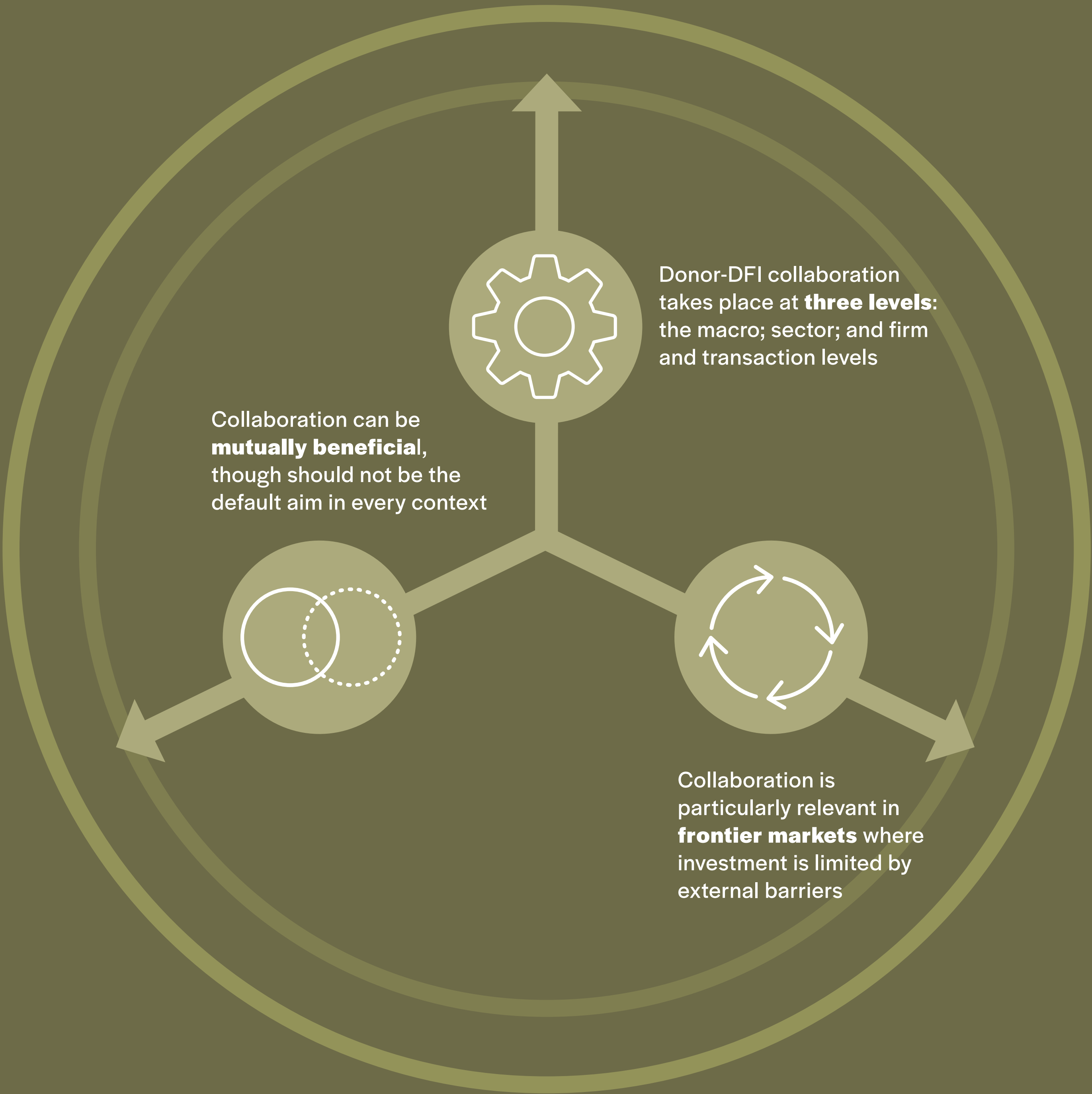
2 BII and Gatsby Africa (2022). *Bridging the gap: Unlocking synergies between private sector development and development finance*. London: British International Investment and Gatsby Africa: https://www.gatsbyafrica.org.uk/insight/bridging-the-gap-unlocking-synergies-between-private-sector-development-and-development-finance/

3 Bilal, S., Karaki, K., Dufief, E., Keijzer, N., Olivié, I., & Santillán O'Shea, M. (2022). *Enhancing coordination between European donors, development agencies and DFIs/PDBs: Insights and recommendations*. European Think Tanks Group (ETTG).

4 Casadevall Bellés, S., Pleeck, S., Calleja, R., & Gavas, M. (2024). *How well do development finance institutions and bilateral agencies cooperate on development?* Center for Global Development.

5 ARIA (2024) *Foundations of Growth 3: Building Bridges: The case for DFI and donor collaboration in fostering private sector investment in frontier markets*. BII and FMO.

2. The rationale for collaboration



At a fundamental level, donor-funded private sector development programmes can strengthen the underlying conditions for markets, firms, and investors, while DFIs and other investors can seed and scale impactful, market-based innovations. Collaboration provides benefits at three levels[6]:

- Collaboration can help to address **macro-level** constraints, like a challenging enabling environment and infrastructure gaps, both physical (e.g. roads) and soft (e.g. education). Donors can leverage political capital and policy expertise to support reforms and improve the provision of public goods, while DFIs can provide insights into key investment barriers.
- At the **sector level**, donors can support the development of value chains and market systems by improving coordination, creating market linkages, and addressing information gaps. These interventions should be alongside targeted enabling environment reforms and infrastructure improvements to overcome barriers to growth and investment. DFIs can provide insights on investment barriers and sector competitiveness and invest in firms with the potential to support sector transformation. By leveraging programme insights, DFIs can better target innovative investments, promote knowledge sharing, and drive catalytic change across sectors. Data collected by donor programmes on sectoral and systemic change can also help DFIs monitor and demonstrate the wider impact of their investments more effectively.
- At the **firm and transaction level**, donors can mitigate investment risks through technical assistance and grants for blended finance, while DFIs develop and manage investments in frontier markets. Donors can also fund investment facilitation activities that prepare local firms for DFI investment and reduce transaction costs.

This rationale is particularly relevant in frontier markets, where DFI investment is limited by external barriers such as currency risk, political instability, challenging regulatory environments, and inadequate infrastructure. Internal barriers include limited capacity and resources to invest in pipeline development, misaligned incentives (for example, staff assessments prioritising larger deals), and investment instruments not tailored to the needs of frontier markets[7].

The following examples highlight some of the results of successful donor–DFI collaboration:

- **Invest for Impact Nepal (IIN)** has facilitated $563 million in DFI investments in Nepal's financial sector since 2021, with $195 million directly attributable to the programme's activities. This includes a $100 million investment from the US International Development Finance Corporation (DFC) in Siddhartha Bank, that enabled IIN to support in upgrading the bank's Environmental and Social Management System. The programme has also supported five regulatory changes with a direct impact on the ability to invest in Nepal and on improved business practices across 48 institutions in the financial sector.
- **USAID DRC INVEST** has facilitated $74 million in transactions in the DRC, including $8 million in DFI investments, while supporting 151 firms with investment readiness and business development. A key success was supporting a local off-

6 Adapted from ARIA (2024) *Foundations of Growth 3: Building Bridges: The case for DFI and donor collaboration in fostering private sector investment in frontier markets*. BII and FMO.

7 ARIA (2024) *Foundations of Growth 1: DFI investments in frontier markets: Activities, lessons learned and approaches to fostering investment*. BII and FMO: https://www.ariainvests.org/news-insight/foundations-of-growth-1

grid developer to secure DFI investment, by overcoming regulatory and financing hurdles and developing a detailed tariff structure and alternative financing options. The programme has also supported DFIs to consider high potential transactions with ticket sizes below established investment thresholds. It has done this by helping to develop and implement a strategy around refinancing and risk-sharing mechanisms within the DRC's microfinance sector.

- **The Dutch Fund for Climate and Development (DFCD)** has supported 17 climate adaptation and mitigation initiatives[8], resulting in over €100 million in committed investments and €870 million in private finance mobilised. In one example, the DFCD supported NMB Bank in securing a $10 million loan from FMO by identifying green investment opportunities and addressing environment, social and governance (ESG) standards.

- **Manufacturing Africa** has supported over 170 deals, with 39 reaching financial close and $1.2 billion invested (including an estimated $600 million from DFIs). An example is Norfund's $25 million investment in East African apparel manufacturer Balaji Group, which is expected to create up to 12,000 jobs. Manufacturing Africa supported this investment by validating market potential, testing business plans, and analysing the textile and apparel sector during COVID-19.

8 To the end of 2023

When should donor programmes and DFIs collaborate?

While collaboration can be mutually beneficial under the right conditions, it should not be the default aim in every context. Aligning strategies, building and investing in new capabilities, and making operational models compatible are not always quick, easy, or cheap, particularly if retrofitting existing initiatives or building in-house capabilities from scratch.

Donor programmes looking to provide investment capital directly to local firms should proceed with particular caution, with recent research[9] highlighting challenges such as i) the potential for misaligned incentives (for example, an investment component prioritising capital mobilisation over a programme's core objective of systemic change); ii) challenges allocating adequate resources to investable businesses; iii) overcomplicated investment structures; and iv) difficulties identifying suitable financial service providers.

Despite these caveats, there are many cases with strong prospects for successful donor–DFI collaboration, for example:

- Donor programmes whose objectives focus on facilitating investment or addressing beyond-the-firm barriers to investment
- Donor programmes that support sector transformation in sectors prioritised by DFIs, or programmes active in geographic clusters around DFI-funded projects;
- Donor agencies that aim to establish stronger connections with DFIs to support specific country-level or thematic strategies;
- DFIs and other investors seeking innovative methods to expand their portfolios, engage more effectively with the 'missing middle' and enter new markets;
- DFIs and other impact investors seeking to reduce risks at the sector level and achieve greater impact through aligning with ecosystem improvement work alongside investments;
- DFIs looking to better understand the sector-level impact of their investments.

9 ISF Advisors and Gatsby Africa (Forthcoming). *Research on access to finance components of donor-funded PSD programmes (title to be confirmed).*

3. A framework for collaboration

The *Bridging the Gap (2022)* report introduced a framework that identifies **collaboration 'enablers'**

The 'enablers' span **three categories**: Alignment of strategies and incentives; capacities, awareness, and perceptions; and compatible operational models and tools

Bridging the Gap introduced a conceptual framework that identifies enablers of successful collaboration:

Alignment of strategies and incentives for collaboration

- **Common sectors and opportunities:** Selecting common focal sectors (by chance or design) is a prerequisite for alignment. Alignment is also supported where the DFI objective of 'picking winners' – firms that deliver commercial performance and development impact – aligns with the typical donor objective of 'starting races' that influence sector-wide outcomes.

- **Compatible timelines:** Donor programmes must be sufficiently long-term and flexible to align with DFI strategies and investment lifecycles. There also needs to be sufficient continuity between the end of one programme and the start of the next to align with the real-world needs of DFIs and businesses.

- **Incentives for collaboration:** Donor programme results frameworks need to incentivise collaboration, with care taken not to create perverse incentives to work in ways that may be inappropriate for the context. Equally, DFI incentives at the staff and project could better encourage the selection of perhaps riskier but more 'systemic' investments with greater impact on a sector ecosystem and wider growth.

Capacities, awareness, and perceptions

- **Awareness and perceptions:** Awareness of the 'other side' and sufficiently positive perceptions are prerequisites for collaboration.

- **'Crossover' knowledge:** Donor programmes need sufficient awareness of the investment process to 'prime the pump' for the right opportunities and the knowledge and terminology to communicate a compelling value proposition to DFI counterparts. DFIs need a sufficient understanding of how donor programmes operate to access relevant support.

- **Investment facilitation:** There must be recognition that specialist services are often needed to facilitate investments and play a bridging role.

- **A sufficiently resourced coordination function** must be in place to identify opportunities for collaboration; facilitate interactions; and promote specific markets, programmes, and investment opportunities.

Compatible operational models and tools

- **Rightsized application, monitoring, and reporting requirements:** Collaboration is supported when donor programmes streamline technical assistance and grant application processes and reporting requirements.

- **Compatible ticket sizes:** A clear pathway from donor programme support to DFI investment is needed. This can happen naturally, for example, when a programme supports larger businesses in DFI priority sectors. Where programmes support smaller firms and nascent sectors, DFIs need to adapt investment structures to facilitate investments into early-stage ventures.

- **Flexible intervention 'toolbox':** Flexibility in the types of support offered by donor programmes, particularly the ability to deploy grants and high-quality commercial technical assistance, supports collaboration and helps to target the most critical barriers to investment.

4. Overview of cases

The case studies include four country-specific initiatives covering Sierra Leone, Nepal, DRC, and Haiti and six multi-country facilities. The collaboration models include:

- **Formalised country-level collaboration:** In Sierra Leone, the British High Commission and the Foreign, Commonwealth and Development Office (FCDO) have entered a formal collaboration with ARIA. The partnership is reflected in the activities of two programmes: Invest Salone and Expertise to Support Economic Reform in Sierra Leone (ESERSL).
- **Donor-funded blended finance and technical assistance facilities:** The DFCD and Mobilising Finance for Forests (MFF) are examples of donor-funded facilities implemented by FMO and partner organisations.
- **Programmes jointly funded by DFIs and donor agencies:** IIN is a collaborative investment platform focusing on developing the financial sector in Nepal, co-funded by BII, FMO, and SDC.
- **Donor-funded investment facilitation programmes interacting with DFIs and other investors on a semi-structured basis**, including United States Agency for International Development (USAID) DRC INVEST, Haiti INVEST, Commercial Agriculture for Smallholders and Agribusiness Technical Assistance Facility (CASA TAF), Africa Trade and Investment Activity (ATI), and GET.invest.

Most of the initiatives profiled support the identification of investment opportunities, provide investment readiness support and other forms of pre-investment technical assistance, and facilitate transactions. Alongside deal-specific support, about half of these initiatives also promote reforms to the enabling environment – particularly through targeted changes to investment policies and regulations – and engage in market-building activities, such as developing the capacity of local private sector associations, establishing linkages between ecosystem players, and addressing information gaps.

Initiative	Location	Stakeholders	Overview	Support provided	Lessons and key results
FCDO and ARIA	Sierra Leone	British High Commission, FCDO, ARIA, Invest Salone (implemented by Cadmus Group), ESERSL (implemented by Adam Smith International)	Formal collaboration agreement between ARIA and the British High Commission in Sierra Leone. DFI collaboration with FCDO country mission and via two FCDO-funded programmes, Invest Salone and ESERSL.	• To enhance demand for capital (origination, pre-investment technical assistance, and grants); • To reduce transaction costs (investment facilitation and market information); • To enable environment reform and market building.	• Formal agreement provides a framework for enhanced collaboration. • Invest Salone adapted sector selection to align more closely with DFI priorities. • DFI partners value timely programme input that correctly identifies critical barriers to investment. • ARIA has supported $45 million of investment across two closed transactions • **Invest Salone has helped investors unlock more than £19 million in investment.**
Invest for Impact Nepal (IIN)	Nepal	BII, FMO, and SDC (funders) and Cadmus Group (lead implementer)	Facilitative platform co-funded by BII, FMO and SDC that aims to unlock and accelerate foreign investment in Nepal through investment facilitation, supporting enabling environment reforms, and market building.	• To enhance demand for capital (origination, pre-investment technical assistance, investment readiness and grants); • To expand supply of capital (support to local investment managers); • To support enabling environment reform and market building.	• Donor–DFI co-funding provided the opportunity to align strategies at design stage. • Buy-in from senior embassy and DFI leadership created space for collaboration. • **DFIs have invested $563 million in financial institutions since 2021, with $195 million directly attributed to IIN.**
USAID DRC INVEST	DRC	USAID (funder), Chemonics (lead implementer), CrossBoundary (co-implementer), multiple DFIs	Donor-funded investment facilitation platform aiming to mobilise investment into sustainable agriculture and agriculture-enabling sectors, including energy, financial services, logistic and distribution..	• To enhance demand for capital (origination, pre-investment technical assistance, and grants); • To reduce transaction costs (investment facilitation, deal structuring and market information); • To support enabling environment reform.	• Supports investment in agriculture and agriculture enabling sectors to find common ground between DFI and donor priorities. • Hybrid approach to DFI collaboration – a mix of strategic and opportunistic engagement. • In-country presence has built trust with DFIs • Supported a DFI strategy on risk sharing and refinancing in microfinance • **Facilitated transactions worth $74 million (including $8 million in DFI investment).**

Initiative	Location	Stakeholders	Overview	Support provided	Lessons and key results
Haiti INVEST	Haiti	USAID (funder), DAI (lead implementer), CrossBoundary (co-implementer), multiple DFIs	Donor-funded investment facilitation programme aiming to stimulate private sector investment in Haiti.	• To enhance demand for capital (origination, pre-investment technical assistance, and grants); • To reduce transaction costs (investment facilitation).	• Specialist transaction advisory partner leveraged technical expertise and local relationships to facilitate investment in a challenging context. • **Eight transactions closed into four Haitian small and medium enterprises (SMEs) totalling $7 million.**
Dutch Fund for Climate and Development (DFCD)	Africa, Asia, and Latin America	Netherlands Ministry of Foreign Affairs (funder), FMO (lead implementer), Climate Fund Managers (CFM), SNV, World Wide Fund for Nature (WWF) (co-implementers)	Multi-component climate resilience fund managed by a consortium comprising FMO, CFM, SNV, and WWF. Offers grants, technical assistance, and equity and debt capital.	• To enhance demand for capital (origination, pre-investment technical assistance and grants); • To reduce transaction costs (investment facilitation); • To expand the supply of capital (grants and catalytic capital).	• Tools used to support collaboration include regular two-way feedback and joint voting on grant awards. • NGO partners have recruited commercial expertise. • **DFCD has 'graduated' 17 projects, mobilising €100 million+ in committed investments and €870 million+ in private finance.**
Commercial Agriculture for Smallholders and Agribusiness Technical Assistance Facility (CASA TAF)	Sub-Saharan Africa and South Asia	UK International Development, FCDO (funder), TechnoServe (CASA TAF lead implementer), multiple DFIs	Donor-funded programme that works alongside investors and provides technical assistance to agribusinesses with smallholder farmers. One component of the CASA programme. BII and FMO co-fund CASA Plus (see case study).	• To enhance demand for capital (origination, pre-investment technical assistance); • To enhance performance and impact of existing investments to build case for more investment in sector (post-investment technical assistance); • To build a market.	• DFI relationships built over time, supported by tools like the Inclusive Business Plan. • Critical to have the right commercial and technical expertise in-house. • **Collaboration with 15 investors to date over 40 technical assistance projects, benefitting around 116,000 smallholder farmer households.**
Mobilising Finance for Forests (MFF)	Africa, Asia, and Latin America	UK Government Department for Energy Security and Net Zero (DESNZ) (funder), FMO (Delivery Partner)	Blended finance investment programme that aims to protect and restore tropical forests. Includes technical assistance facility and learning, convening, and influencing platform.	• To enhance demand for capital (origination, pre-investment technical assistance, and grants); • To reduce transaction costs (investment facilitation); • To expand supply of capital (grants and catalytic capital).	• Technical Assistance and Development Contribution facilities fully embedded in the programme and managed in close collaboration with investment teams. • **Collaboration supported by a structured process and complementary 'crossover' knowledge.**

Initiative	Location	Stakeholders	Overview	Support provided	Lessons and key results
	Ethiopia, Kenya, Nigeria, Rwanda, Senegal, and Tanzania	FCDO (funder), McKinsey & Company (lead implementer), BDO, Steward Redqueen, Reformatics, TechnoServe (co-implementers), multiple DFIs	Donor-funded programme that aims to increase foreign investment into manufacturing in Africa through transaction facilitation, investment climate reform, market building, and policy support.	• To enhance demand for capital (origination, pre-investment technical assistance, and grants); • To reduce transaction costs (investment facilitation and market information).	• Shift in strategy from multinational corporation investment to DFIs and private capital based on commercial realities in the sector and development impact priorities. • **Over 170 deals supported, 39 reaching financial close, resulting in $1.2 billion invested (around half from DFIs).**
USAID Africa Trade and Investment Activity (ATI)	Sub-Saharan Africa	USAID (funder), DAI (lead implementer), McKinsey & Company, CrossBoundary, Ndarama Works (co-implementers), multiple DFIs	Donor-funded programme with strategic and opportunity-based collaboration with DFIs and other investors. Designed to expand and accelerate two-way trade and investment between African nations and the United States. Part of the Prosper Africa initiative.	• To companies seeking capital by leveraging US Government tools and services to facilitate private sector trade and investment into qualifying opportunities; • To reduce transaction costs (investment facilitation).	• Cross-agency approach aligns incentives from the top down by coordinating initiatives from USAID and other US Government agencies. • **Over $130 million mobilised from 12 transaction closes across 61 supported transactions, with further closes expected from ongoing support.**
GET.invest	Sub-Saharan Africa, Pacific, Caribbean	European Union, Germany, Norway, the Netherlands, Sweden, and Austria (co-funders), GIZ (implementer)	Donor-funded investment facilitation and market-building platform that aims to mobilise investment in the renewable energy sector.	• To enhance demand for capital (origination, pre-investment technical assistance and grants); • To reduce transaction costs (investment facilitation and market information); • Market building.	• Enhanced collaboration efficiency, for example, launching a facility for light-touch legal advice, project document support and financial modelling for less complex projects. • Focus on developing local advisory services markets. • Collaborates with a sister programme to engage in enabling environment reforms. • **91 projects reaching financial close with investments totalling €458 million.**

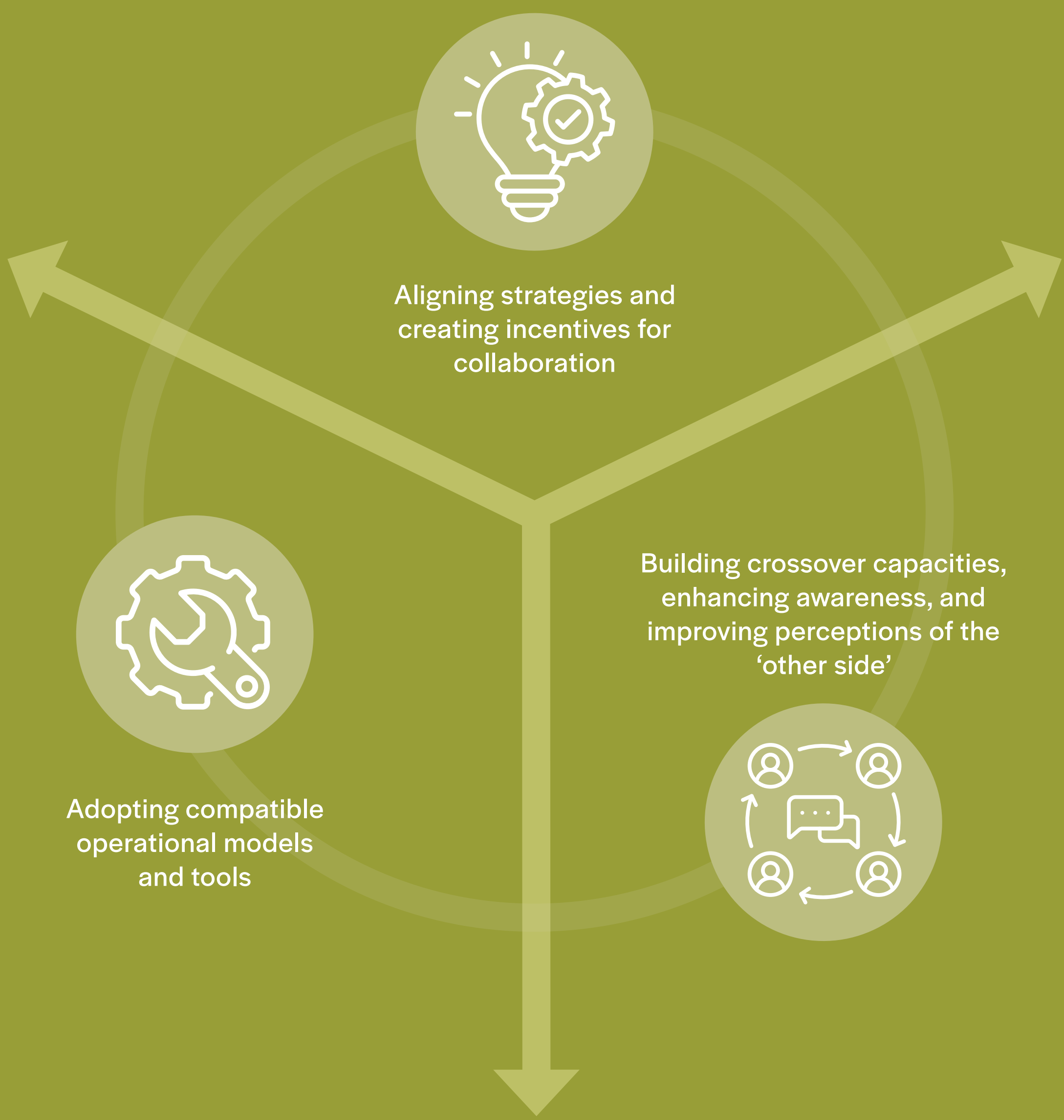
How were the case studies selected?

The case studies were chosen from a pool of 40 examples, identified through consultations with over 50 stakeholders from DFIs, donor agencies, programme implementers, and consultancies. The selection criteria were:

- **Successful collaboration:** This was primarily defined by the mobilisation of DFI investment, either as a direct result of or supported by a donor initiative.
- **Relevance to frontier markets:** Cases were chosen that are active in ARIA markets (for example, Sierra Leone and DRC) and have contexts with similar characteristics or relevant findings.
- **Measurable outcomes:** Preference was given to cases with quantifiable results, including early-stage outcomes. Results presented in the case studies are self-reported.

5. Findings and recommendations

The factors influencing the success of donor-DFI collaboration span three categories:



This section presents an analysis of success factors and lessons learned from the case studies. It is organised according to the conceptual framework from Bridging the Gap introduced in Section 3.

Factors that influence the success of donor–DFI collaboration

Collaboration is supported when donors and DFIs:

1. Align strategies and create incentives for collaboration

- Align on strategic priorities – for example, focal sectors and opportunities within those sectors – at the design stage (preferred) or adapt sector selection later.
- Ensure donor country strategies are broadly compatible with relevant DFI investment strategies.
- Secure buy-in and support for collaboration from a senior donor, embassy, or DFI leadership.
- Adopt an issue-based approach to beyond-the-firm constraints, such as jointly addressing key investment-critical regulations.

2. Build crossover capacities, enhance awareness, and improve perceptions of the 'other side'

- Establish trust through repeated interaction and demonstration of mutual value over time, often supported by a formal collaboration framework.
- Allocate specific budgets and institutional backing for collaboration, including recognising and supporting individual collaboration 'champions'.
- Engage senior DFI and donor staff in country visits in markets underserved by DFIs to build awareness and local relationships.
- Measure and disseminate the impact of donor–DFI collaboration on DFI investments, local firms and sector-level change.
- Engage high-quality investment and commercial expertise within donor programmes.

3. Adopt compatible operational models and tools

- Donor programmes:
  - Provide investment-grade advisory services.
  - Identify and address critical barriers to investment.
  - Provide rapid, flexible support to meet investment timelines.

Align strategies and create incentives for collaboration

5.1 Successful collaboration requires alignment in strategic priorities

The case studies highlight the importance of aligning on strategic priorities – for example, focal sectors and opportunities within those sectors – with the potential to meet commercial requirements and support development impact.

In some cases, alignment was considered at the design stage. IIN focused on the financial services sector in Nepal and used an 18-month pilot phase to align DFI and donor priorities and build a mutual understanding of each partner's capabilities. MFF was designed as an integrated facility delivered by FMO and funded by the UK Department for Energy Security and Net Zero (DESNZ). The cases show that, while every collaboration underwent a process of adjustment, considering and testing strategic alignment at the design stage offers benefits in terms of more effective planning, more efficient use of resources, and a more coherent approach to stakeholder engagement.

Not all collaborations were designed with full alignment in priorities. Several programmes adapted sectoral and geographic focus to align more closely with DFI priorities. USAID DRC INVEST moved from an initial focus on agriculture to include agriculture-enabling services such as finance and logistics, and expanded from a provincial to a national scale, to increase the pool of investable opportunities. Invest Salone added financial services as a priority sector for the same reason. Manufacturing Africa had been designed with sectoral alignment in mind but shifted strategic focus from supporting multinational corporation (MNC) investments to focusing on DFIs and impact investors.

Where programmes had been retrofitted to align more closely with DFI priorities, two enabling conditions were necessary:

- First, the donor's country strategy needed to be broadly compatible with DFI priorities, with one donor representative highlighting that a strategic shift at the country level towards trade and investment had facilitated alignment with DFI priorities more effectively than a previous focus on rural livelihoods. Donors may also be willing to adjust priorities based on demonstrated results. For example, USAID DRC INVEST built credibility by facilitating smaller transactions in line with the donor's original focus on SME finance, which created the space to move to larger opportunities more suitable for DFI investment.

- Second, understanding and endorsement of DFI investment from senior leadership at embassies or donors helped create the space for closer alignment.

Challenges and trade-offs

Programme teams need to balance alignment with DFI priorities with achieving core development impact goals, such as creating good jobs. Moving into more commercially attractive sectors can support development impact, but the impact logic and evidence should be carefully considered. This is particularly relevant in frontier markets, where a smaller pool of readily investable projects might reduce options, resulting in trade-offs between a) more investable but less impactful projects and b) more impactful projects requiring intensive investment readiness support. Entering new sectors to align with DFI priorities can also divert attention from sector transformation goals, shifting a programme towards general investment facilitation instead of tackling long-term, sector-specific barriers to growth. Finally, managing the diverse priorities of multiple DFIs is complex when engaging on a bilateral basis, with initiatives like ARIA and IIN helping to coordinate DFI messaging.

Thinking long term

There is an opportunity for both transaction-focused programmes and those with a broader remit to consider not only immediate investment opportunities but also to work in ways that consider the future state of the market over a 10+ year horizon.

The extent to which the featured cases are working towards transformational change appears to be mixed. Several programmes focus on transaction support, with success measured based on investment mobilised. Proponents argue that this provides a defined and measurable mandate, delivers direct and tangible value to investors, and potentially leads to more investment over the short term. Other programmes incorporate market building or enabling environment reforms alongside transaction support, noting the potential for broader development impact and long-term benefits for DFIs and other investors.

On a related point, the level of engagement with host country governments and local private sector bodies (excluding prospective investees) varied within the sample. Limited engagement represents a missed opportunity to enhance awareness of DFI investments. At worst, it risks marginalising stakeholders with a key role in shaping the enabling environment and supporting sector transformation.

Recommendations:

For donors:

- Build relationships by engaging DFI personnel with the relevant sectoral and geographical mandate – rather than viewing DFIs as uniform entities – and engage in collaborations with a clear purpose and mutual benefit.

- Consult with DFIs bilaterally and collectively when updating country strategies and designing relevant new programmes. This could include document reviews, design workshops, joint planning sessions, advisory panels, or peer-to-peer mentoring from a DFI counterpart. During these consultations, balance aligning with DFI priorities – for example, by building a commercial focus into sector selection – and achieving core development priorities.

For donor programmes:

- Engage with DFIs to align programme strategies with investment strategies, using platforms like ARIA to engage with multiple DFIs collectively.

- Recognise that demonstrating the development impact of closer alignment rests primarily with the programme and adapt monitoring and evaluation accordingly.

For DFIs:

- Engage in donor programme design to leverage resources that enable investments in frontier markets. This can be done most efficiently through initiatives such as ARIA and IIN which serve as a conduit between DFIs and donors.

All:

- Define the role of national governments and other local stakeholders in relation to the programme. Strengthen DFI, donor, and programme collaboration with government and private sector counterparts.

5.2 Collaboration provides an opportunity to address beyond-the-firm constraints to investment

There are examples of DFIs and donors collaborating to address beyond-the-firm constraints through policy reforms and market-building initiatives that focus on critical investment barriers. There is an opportunity to build the evidence base on the longer-term outcomes of this work.

Bridging the Gap revealed a perception among some DFI respondents that beyond-the-firm activities, such as market building and enabling environment reform, fell outside of a DFI's remit and had limited tangible impact on the ability to invest. Interviews conducted in the course of the current study have demonstrated progress in this area over the past three years, with several case studies providing examples of DFIs and donors collaborating to address beyond-the-firm constraints.

In one example, IIN has worked with local private sector associations and the Government of Nepal to prioritise and reform regulations on foreign investment, resulting in the government establishing a DFI Desk at the Ministry of Finance and supporting five regulatory changes (for example, by reducing the lock-in period for DFIs). USAID DRC INVEST is supporting the Ministry of Finance and Central Bank in developing a roadmap of reforms to establish a legal and regulatory framework to foster investment activities and attract investment vehicles and asset managers to the DRC. GET.invest supports market building through industry training and building the capacity of private sector associations and, through its sister programme, GET.transform, engages in renewable energy policy reform. In these examples, partners have leveraged complementary expertise, with DFIs identifying and advising on investment-critical regulations and donors leveraging policy reform experience and established relationships with government and industry decision-makers.

This issue-driven model provides DFIs with a clear line of sight to an improved enabling environment for future investments, creating an incentive for DFI involvement. Respondents also noted that focusing on a small number of investment-critical issues had offered an action-oriented basis for collaboration. This model can help to demonstrate the added value of DFI investment to less familiar government and private sector partners in frontier markets.

Challenges and trade-offs

Despite recent progress, donor–DFI collaboration on beyond-the-firm activities is still relatively nascent, even within the case study sample. While the cases profile some early successes, working beyond the firm may not be within the scope of every collaboration. In addition, more evidence is needed on the short- and long-term effects of beyond-the-firm activities on DFI investments and development impact.

Recommendations:

For donors:

- Leverage policy reform experience, knowledge of the local politics and political economy, and relationships with public and private sector decision-makers to support relevant beyond-the-firm activities.

For donor programmes:

- Engage with DFI partners to identify and prioritise investment-critical issues.
- Build the evidence base on enabling environment and market-building outcomes, including monitoring of live initiatives and ex-post evaluations on the impacts of policy change.
- Communicate the evidence and benefits of beyond-the-firm activities to DFI partners.

For DFIs:

- Recognise the benefits of supporting beyond-the-firm activities, both short-term (building stakeholder relationships, demonstrating DFI value-add, strengthening contextual knowledge) and longer-term (improving the operating environment and developing more dynamic sectors for future investments).
- Use ARIA and other platforms to coordinate market building and enabling environment inputs.

Build crossover capacities, enhance awareness, and improve perceptions of the 'other side'

5.3 Resource collaboration and recognise the role of collaboration champions

Successful donor–DFI collaboration is often personality-driven and relies on repeated interaction and demonstration of mutual value over time. There is scope to improve resourcing and recognition of efforts to strengthen collaboration.

Formal structures and agreements provide a framework for collaboration. Building relationships and establishing trust within these frameworks is a function of time, repeated interaction, and demonstrating value to the 'other side'. Various tactics are in use to support this process, for example, regular check-in meetings, clear role definitions, and assigning senior staff and technical experts to support the collaboration (see Section 5.5 below). The DFCD uses a voting system between consortium partners to determine which grant opportunities are funded; this has built awareness of each side's priorities. Respondents also noted the value of in-person interaction in building trust. Collaborating on live issues – for example, the pilot phase of a joint programme or a regulatory reform initiative – was also highlighted as useful for building familiarity and trust.

Several DFI respondents highlighted the personality-driven nature of dealmaking, with one interviewee noting that:

"There can be a perception that investors make perfectly rational decisions, but in reality, it can be more personal than that. People need to advocate for an opportunity in front of an Investment Committee, and often the willingness to do that comes down to your personal belief in the market or firm."

Building personal belief in a context or opportunity often requires first-hand experience and developing trust and rapport with local stakeholders. DFI country visits – for example, those to Nepal and Sierra Leone – were cited by several respondents as particularly impactful in this regard. Donor–DFI collaboration played an important role in these visits, relying on political and operational support from the donor mission and programmes, as well as DFI staff with knowledge of these contexts promoting the visits among DFI colleagues.

Across the cases, there was evidence of the need to allocate attention and resources to donor–DFI collaboration. In Sierra Leone, for example, the memorandum of understanding between ARIA and the British High Commission led to Invest Salone adding a specific budget line for collaboration. This has supported information exchange, joint technical assistance projects, and DFI country visits.

Challenges and trade-offs

The cases highlight the role of individuals across donor missions, programmes and DFIs in driving collaboration. The work of these collaboration 'champions' is often self-motivated, informal, and reliant on personal networks and political capital. There is scope to recognise, support, scale up, and potentially formalise these roles, shifting more responsibility for donor–DFI collaboration from the individual to the institution.

Recommendations:

For donors:

- Allocate budget and increase institutional support for the collaboration function at the mission and programme level, for example:
    - Allocate budget lines to programmes for activities supported by collaboration, such as technical assistance to prospective investees, or facilitate DFI input on regulatory engagement.
    - Motivate and support in-country DFI missions in frontier markets underserved by DFIs.
    - Recognise and invest in collaboration champions at headquarters and within donor missions.

For donor programmes:

- Pool resources with other programmes to engage with DFIs around country visits in frontier markets that are underserved by DFIs. In these cases, either focus on the funding government's DFI, or engage a group of DFIs through a platform such as ARIA.
- Offer donor and DFI collaboration champions a first-hand view of programme activities to build an understanding of local business challenges and opportunities.

For DFIs:

- Recognise and support the work of collaboration champions.
- Identify opportunities to engage senior staff in-country visits and joint donor–DFI activities to build an understanding of frontier markets and the value of collaboration in these contexts.

5.4 Demonstrate and communicate the value of collaboration

DFI and donor personnel with first-hand experience had positive perceptions of collaboration. There is an opportunity to leverage the experiences of these 'early adopters' to increase awareness of the benefits within DFIs and donor agencies.

Demonstrating and communicating the benefits of collaboration achieves two objectives. It raises awareness of existing donor–DFI collaborations, which can increase internal and external recognition and potentially leverage additional resources from new and existing partners. It also helps to initiate new collaborations.

The cases indicate that donor audiences involved in private sector development programmes are reasonably aware of the case for collaboration. And while awareness of collaboration within DFIs is increasing – particularly among personnel with first-hand experience of successful donor partnerships – it may not yet be standard practice across these institutions. For DFI personnel already collaborating with donors, benefits were seen to include:

- **Operational support:** This function is particularly important in frontier markets, where fewer DFIs have an on-ground presence and operating risks (real and perceived) tend to be higher. As one DFI representative pointed out:

  "We don't have the resources to set up a physical office in every market we consider investing in. Being able to pool [programme] resources for shared use by different DFIs is very helpful."

- **Market insights:** Haiti INVEST provided DFIs with access to market insights that would be disproportionately costly and time-consuming to develop independently. The programme supported eight transactions with Haitian SMEs, totalling $7 million. Over $80 million was in potential transactions evaluated for international investors, including DFIs.

- **Increased bandwidth for pipeline development:** Engaging with relevant donor programmes can increase bandwidth for pipeline building and project development. This was demonstrated by the volume of deals sourced and supported by Manufacturing Africa in Ethiopia, Kenya, Nigeria, Rwanda, Senegal, and Tanzania. Manufacturing Africa contributed to $1.2 billion in investment, including an estimated $600 million from DFIs.

Approaches to informing and influencing DFIs and other audiences varied across the sample. Most initiatives operated a website and developed knowledge products. There were also examples of more active approaches at an individual level – such as running internal and external workshops and engaging in peer-to-peer influencing. In some cases, programmes established dedicated learning and influencing components. For example, there is a Learning, Convening, and Influencing Platform (LCIP) within MFF that disseminates successful investment models and aims to influence investors via the publication of knowledge products. In other cases, activities to inform and influence were less strategic or structured.

Challenges and trade-offs

There were relatively few examples identified of DFI and donor personnel strategically communicating the benefits of donor–DFI collaboration to senior decision-makers within and outside their institutions. In addition, while most initiatives track investment mobilised, efforts to gather evidence on the wider effects of collaboration are less mature (see box).

Respondents also noted that a lack of coordination between donor initiatives operating in the same market can add unwelcome complexity for potential DFI partners, compromising the value proposition for closer donor engagement.

Are donor–DFI collaborations measuring what matters?

Investment mobilised was a headline result across most of the initiatives profiled in the case studies. There is an opportunity to take a more holistic view of 'success', focusing on the potential of collaboration to support long-term transformation in frontier markets. As one respondent noted:

"Although I understand that we're currently very much focused on pipeline building for DFIs ... I think looking beyond the mobilisation indicator may be helpful. Ultimately our work focuses on trying to change systems, which implies changing system participants' behaviour."

A more holistic approach to defining long-term success might consider both the quality of collaboration and the potential for collaboration to support long-term transformation. One example is assessing the quality of investment mobilised, for example, whether new investments contribute to improved skills, new technologies, higher productivity, reaching new markets, or job creation and higher salaries. A more accurate and holistic picture of firm- and market-level impact would help direct attention towards the most impactful investment opportunities and influence how donors and DFIs work together. Indicators might include:

Quality of donor–DFI collaboration	Potential to support long-term transformation
Strategic alignment	Quality of investment mobilised
Perceptions of mutual benefit	Alignment with national economic transformation objectives
Resource use efficiency	Changes in local perceptions of investment
Development of crossover knowledge	Changes in local private sector and government capacity and ownership
Quality of communication	Quality of dialogue and coordination

Recommendations:

For donor programmes:

- Measure the quality of donor–DFI collaboration and the impact on investees and investors, as well as wider contributions to long-term sector transformation.
- Move beyond one-way dissemination – such as factsheets and blog posts – and engage interactively with DFI decision-makers to increase the relevance and visibility of the findings. Tailor messaging for strategic audiences (those with interest and influence) and use various methods to reinforce messaging over time. Leverage platforms such as ARIA to target relevant DFI personnel.

For DFIs:

- Encourage staff who have successfully collaborated with donors to share their experiences within their DFI and with partner DFIs.

For donors:

- Improve in-country coordination among relevant donor missions and programmes working in relevant sectors or those actively targeting DFIs. Aim to present a united voice and joined-up offer to prospective DFI partners, reducing the complexity of bilateral engagement and making collaboration more attractive.

5.5 Investment expertise at the programme level is a prerequisite for effective collaboration

There was general agreement between DFI and programme respondents that investment and commercial expertise at the programme level – both in the core team and among third-party advisers – supported effective collaboration. Accommodating the costs of this expertise within donor thresholds remains challenging.

In most of the cases, there was general investment and commercial expertise within the core programme teams, often alongside technical (sectoral) experience, programme management and results measurement. The required expertise was already available within implementing consortia within several programme teams (including Haiti INVEST, Manufacturing Africa and ATI). In other examples, partners with less institutional experience in investment recruited full-time personnel with this expertise. In the case of the DFCD, recruiting these skills was a requirement for the NGOs participating in the programme tender. This subsequently helped demonstrate value to DFI counterparts during programme delivery.

Outsourcing specialist advisory services to third-party providers was common across the case studies. Most providers were international organisations or advisory firms based in regional hubs like Johannesburg, Nairobi or Lagos. The market for these services appears to be relatively concentrated, with a small number of players accounting for a significant portion of advisory work across the case study sample. Advisory capacity in frontier markets tended to be more limited (see box). Perceptions were mixed around the potential for crowding out local service providers by relying on international or regional advisers. GET.invest is one example of a programme that has attempted to develop regional service markets by appointing eight Africa-based advisers to support locally owned businesses trying to raise funds for the first time.

Investment expertise among donor counterparts was also reported to support collaboration. In one example, a DFI respondent noted that the donor counterpart's investment background had enabled more effective communication, clearer strategic alignment, and more efficient delivery based on shared terminology and understanding of DFI investment criteria. In two other cases, the programmes' donor counterparts did not bring extensive first-hand investment expertise but had sufficient working knowledge to guide strategy, understand key concepts and terms, and identify potential risks.

As several cases highlight, investment expertise isn't the only requirement for successful collaboration. Programmes such as CASA TAF and MFF demonstrate the mix of expertise required alongside investment expertise, for example, technical and commercial knowledge of focal sectors, results measurement, and project management. Several respondents also noted that having personnel with experience in both donor programmes and DFIs played a significant role in supporting collaboration. This was due to their ability to understand priorities, 'speak the language' of both sides and find common ground.

Challenges and trade-offs

A challenge raised in several cases was reconciling the need for investment expertise with donor budget thresholds. Perspectives were generally split along donor–DFI lines. Some DFI respondents argued that specialist, commercial-grade expertise was often essential for companies in frontier markets to meet DFI requirements. A second issue raised was that procurement uncertainties could disrupt DFI deal timelines – for example, where particular expertise was needed at short notice to address a specific barrier to DFI investment. On the donor side, some respondents questioned whether programmes were considering less costly alternatives – for example, by hiring outside established talent pools, drawing on less senior experts for certain functions (with senior backstopping where needed), or drawing on advisers based locally or regionally.

Several respondents on both sides were concerned that the presence of DFIs and investment-focused donor programmes was distorting local fee rates for staff and advisers. This may inflate salary expectations and consulting fees beyond a range that local businesses can typically afford when looking to access advisory services directly.

Building local advisory capacity in frontier markets

DFI demand for rapid, relevant, and high-quality inputs to support investments in frontier markets usually results in advisory work being awarded to providers based in regional hubs or internationally. Some respondents argue that the high bar set by DFI investment criteria and the pressure to close deals requires international-level expertise which is usually unavailable in frontier markets (and may not be a realistic ambition or necessary to develop). Concerns were also raised about the risk of sidelining high-potential local providers and potentially limiting the development of service markets over the longer term. Key considerations include evaluating whether developing local service markets is a realistic and necessary goal, understanding the practicalities of developing these markets, and defining the role of donors and DFIs in this process. Supporting local service market development may require substantial assistance, as relying solely on a demonstration effect is insufficient in scenarios where:

- Success isn't visible to providers in the local market,
- Local providers lack the capacity, incentives, and resources to copy innovations, or
- Local providers cannot access the know-how to replicate the innovation[10].

Recommendations:

For donors:

- Update international and local fee benchmarking, setting rate boundaries that mitigate against the risk of distorting the local market and accommodating the procurement of specialist skills where required.
- Explore alternative remuneration models – for example, using results-based payments for specialist advisers or requiring support recipients to contribute to advisory costs.
- Expand service provider databases in collaboration with DFI partners, using ARIA and other platforms to pool knowledge.
- Provide opportunities for mission staff to build investment knowledge through formal training, peer-to-peer learning within the organisation and with DFIs, and participation in country missions with DFIs.

For DFIs:

- Collaborate with donors and programmes to support benchmarking, share consultant databases, and establish feasible cost-sharing arrangements.
- Challenge biases relating to procurement by identifying and trialling advisory services outside of typical channels and personal networks.

10 Davies, G. (2016) Getting to scale: Lessons in reaching scale in private sector development programmes. Adam Smith International.

Adopt compatible operational models and tools

5.6 Collaboration is supported when donors and DFIs overcome mismatches in ticket size

Collaboration is supported when DFIs adapt minimum ticket size requirements, and donors prepare businesses for DFI-scale investment and build the range of earlier-stage financing options in frontier markets.

Donor respondents noted that typical minimum direct DFI ticket sizes ($5-15 million) were sometimes too large for the SMEs often supported by private sector development programmes. This issue was seen as particularly challenging in frontier markets, where there were perceived to be fewer investable firms and less developed investment ecosystems with limited financing options. Collaboration was enhanced where donors and DFIs bridged the ticket size challenge, for example, by:

- **'Graduating' pioneer firms:** Donor support is used to help pioneer firms – companies with the ability to catalyse transformational, sector-wide change – to reach the point of DFI investment. Examples include the DFCD Origination Facility and MFF, which provide catalytic capital, grants, and technical assistance to develop and 'graduate' high-potential projects with the potential to absorb DFI-scale investments in future. In these cases, the programme teams consult regularly with (or are embedded within) DFI investment teams to understand investment criteria. Grant awards are assessed partly based on their contribution to making projects bankable over the next two to four years.
- **Engaging earlier-stage investors:** The DFCD is increasing engagement with intermediary investors like Triodos Bank, Invest International, Oikocredit, AgriFI, and Acumen Fund to increase the range of financing options available to investees. IIN engaged impact investors, including MicroVest, responsAbility and Symbiotics on a recent investor country visit to raise awareness of the range of investment opportunities in the country.
- **Adapting DFI investment toolkits:** One example of an adapted investment toolkit includes DFC's Portfolio for Impact and Innovation (Pi2), which has ticket sizes of up to $10 million. BII is increasingly using concessionary and catalytic capital, for example, through its Kinetic and Catalyst portfolios.
- **Diversifying the investment ecosystem:** Examples include IIN, which is working to address regulatory barriers to investment, and USAID DRC INVEST, which is helping to establish a legal and regulatory framework for asset managers and impact funds in the DRC.

In addition to these approaches, one DFI respondent offered an alternative view, noting that there may be more investable opportunities in frontier markets than some DFI deal teams realise, and that the key factors holding back investment are gaps in market knowledge, search costs and risk perceptions (see Section 5.4).

Challenges and trade-offs

The ecosystem of intermediary investors (such as fund managers) is still nascent in many frontier markets, limiting opportunities for smaller-ticket, early-stage financing and constraining the pipeline of future DFI-investable opportunities. In these markets, the transaction costs of smaller deals may also be disproportionate to the potential returns. One knock-on effect is that potential pioneer firms cannot access DFI investment and other sources of growth capital.

In addition, anecdotal evidence suggests that many donor programmes working with the private sector (excluding those featured in the case studies) are not yet aligned with investor priorities and may lack a detailed understanding of what makes an opportunity investable. As a result, some private sector development programming may not be effectively 'priming the pump' for future DFI investment. Related to this, awareness of the full range of DFI investment products, particularly smaller-ticket, catalytic investments, appears to be limited among non-investor audiences.

Recommendations:

For donors and DFIs:

- Support intermediary investors in frontier markets, both directly (for example, by providing concessionary capital to funds with investment processes and fee structures that reflect the realities of operating in frontier markets) and indirectly (by strengthening the enabling environment and investment ecosystem to enable a wider group of investors to operate).

For DFIs:

- Proactively communicate the full range of investment products (particularly catalytic finance) to donor counterparts.

For donor programmes:

- Align grant support and technical assistance towards the needs of both early- and later-stage investors. Consider the commercial potential of new projects (including pathways to later-stage investment) and liaise with DFIs to build awareness of investor requirements.

5.7 Collaboration is strengthened where donor programme support is flexible, of high quality, and relevant to DFI needs

The quality, relevance, and flexibility of the support provided by programmes – particularly the ability to deploy resources quickly – had a positive impact on DFI perceptions and helped to mobilise investment.

General DFI perceptions were positive regarding the investment readiness support offered by the featured programmes. Examples provided include due diligence, feasibility studies, financial modelling, the preparation of investor documentation, and compliance with environmental and social standards. The cases suggest that some service providers in this part of the market have developed a mature and well-tested offer. Cross-cutting factors that increased the value-add of this support were noted as follows:

- **Quality:** Respondents from DFIs and programmes stressed the importance of providing investment-grade investment readiness support (see Manufacturing Africa, USAID DRC INVEST and GET.invest). The risks associated with not maintaining quality standards in advisory services were seen to include the potential for deals to be delayed or even collapse, as well as negative impacts on personal reputations and stakeholder relationships.
- **Relevance:** Evidence from the cases suggests that collaboration is enhanced where programmes have the ability to identify and address critical barriers to investment. As a DFI representative noted:

  "When focusing on investment, sometimes only one or two key areas might need attention. The remaining problems can often be addressed using capital from the investment. Donor programmes don't always realise this."

  In another example, a donor programme prioritised the development of a business plan. However, the priorities for the DFI at that stage of the process were environmental and social assessments and building a financial model, as the business model was already well understood by investors.
- **Flexibility:** DFI respondents were broadly in favour of programmes with a broad intervention 'toolbox'. However, there was also a perception that programmes sometimes struggled to respond to requests for immediate support, which could interfere with investment timelines. An example might be adjusting or upgrading a financial model in time for an investment committee meeting.

GET.invest programme aims to fine-tune the relevance of its service offer and increase efficiencies. To this end, it is a) setting up a facility to provide streamlined legal support and project document development for less complex projects and b) mapping business models in the renewable energy sector, including critical barriers to bankability, enabling more efficient screening of new applications.

Challenges and trade-offs

A wide range of pre-investment support is required to meet DFI requirements, from simple to complex. Costs range from tens of thousands of dollars for a straightforward feasibility study to upwards of $500,000 for some infrastructure projects. Key challenges for programmes were determining which activities to prioritise and which providers to use for specific activities. Speed of deployment is influenced by at least three factors: a) procurement rules, which are determined by donor policy and implementation contracts; b) the efficiency of procurement operations at the programme level; and c) the quality and efficiency of communication between the programme, the recipient company, and prospective investors.

Recommendations:

For donors and donor programmes:

- Explore opportunities to shorten procurement timelines to meet short-term investment demands while maintaining procurement standards. For example, build rapid response facilities into programme designs, or establish a framework agreement with pre-qualified providers for commonly used services such as financial modelling and ESG advisory.
- Review procurement operations at the programme level and identify opportunities to improve efficiency. For example, engage with multiple DFI counterparts in parallel (perhaps through an online workshop) to agree on the scope of a project rather than seeking sequential approval for a written project plan.
- Ensure a clear understanding of DFI investment timelines at the point of engagement, particularly time-sensitive milestones.
- Engage directly with investors to ensure that resources are targeted towards critical tasks.
- In partnership with DFIs and other donors, benchmark pre-investment costs across sectors, business models, and investors.

For DFIs:

- Clearly communicate the investment process at the outset of a joint activity, noting key decision points and time-sensitive milestones.
- Provide input on technical assistance project scoping and design to help direct pre-investment support towards investment-critical constraints.
- Recognise the constraints of public procurement, limiting last-minute requests for support unless unavoidable.

6. Conclusions

Key takeaways

Recommendations for enhancing donor–DFI collaboration are grouped under three themes

1. Strategic alignment and incentivising collaboration: Donors and DFIs should engage more closely in strategy and programme design, and leverage both sides' expertise to address beyond-the-firm constraints.

2. Building capacity and awareness: Donors and DFIs should allocate budget and increase institutional support for collaboration, and include investment expertise at the programme level.

3. Adopting compatible operational models and tools: DFIs should communicate to donors the full range of products (especially catalytic capital), and donors should shorten procurement timelines where possible.

The case studies highlight encouraging progress in donor–DFI collaboration in the three years since the research for Bridging the Gap took place, with a range of collaboration models now in play and early movers on both sides increasingly recognising the value of closer engagement.

The cases demonstrate that donors and DFIs can find common ground between respective priorities. Common success factors include the need to resource collaboration adequately, the value of senior sponsorship and the role of collaboration champions, and the value of flexible, relevant and high-quality programme support.

There are shared challenges, too. Collaborations have sometimes depended too heavily on individual efforts rather than broad institutional support. Mismatches in ticket size have sometimes frustrated opportunities for collaboration in frontier markets. And, while recognition of the value of collaboration is increasing, it is not yet standard practice across DFIs and donor programmes. It is also important to remember that the fundamental reason to improve collaboration is to enhance positive economic, social, and environmental impact over the long term. Mobilising investment is a means to achieve these outcomes, rather than an end in itself.

There is a significant cause for optimism. The drivers and challenges of collaboration are increasingly well understood, with the cases presented in this report providing details on how successful collaboration happens in practice. Looking ahead, there is an opportunity to deepen existing partnerships and initiate new ones, grow the evidence base, and continue working together towards a long-term vision of transformational change in frontier markets.

Annex 1: Case studies

Foreign, Commonwealth & Development Office

ARIA Africa Resilience Investment Accelerator

Case study 1

FCDO and ARIA in Sierra Leone

Takeaways

1. Collaboration has been supported by a memorandum of understanding signed between the British High Commission and ARIA.
2. Invest Salone has adapted sector selection – for example, by adding financial services – to align more closely with DFI interests.
3. DFI partners value flexible donor programme input that accurately identifies critical barriers to investment and delivers rapid support.

Selected results

- ARIA has supported $45 million of investment across two closed transactions - BII's $25 million risk sharing facility with Ecobank Sierra Leone and Proparco's $20 million in agribusiness, Jolaks
- Invest Salone has impacted investors to unlock £19 million and helped 45 businesses become more productive and competitive.
- DFIs have joined forces to minimise investment risks, such as a $50 million investment in grid-connected solar panels co-financed by BII and Proparco, as well as a commercial investor in Frontier Energy.

Introduction

Since the mid-2010s, FCDO Sierra Leone has collaborated with DFIs, including BII, on a semi-structured basis. The collaboration took place at the mission level and through programmes like Invest Salone, a £27 million initiative launched in 2018 to boost investment and support economic growth. In 2023, a memorandum of understanding was signed between the British High Commission and ARIA to formalise collaboration. This occurred alongside the launching of ESERSL, a £4.5 million programme to foster infrastructure investment.

A structured collaboration that aims to leverage each side's strengths

Partners have noted that formalising the collaboration has clarified respective roles and capabilities and improved how resources, relationships, and networks are leveraged. It has also raised awareness and accountability around DFI collaboration within the FCDO mission and led to the creation of a budget line for Invest Salone to collaborate with ARIA. Three conditions provided the foundations: existing familiarity between FCDO, Invest Salone, and BII; a core group of collaboration 'champions' promoting collaboration across institutions; and aligned priorities and mandates between the FCDO and DFI partners.

An example of the collaboration in practice includes three visits to Sierra Leone by DFI representatives, co-hosted by Invest Salone and ARIA. These visits were supported by the High Commission and FCDO through event hosting, meeting facilitation with Sierra Leonean government officials, and political briefings. Invest Salone arranged meetings between DFIs and local businesses, preparing owners for the interactions. DFI personnel familiar with Sierra Leone built interest in local opportunities, leveraging personal relationships to influence colleagues. As one DFI respondent observed:

"The trips have been a game-changer in terms of opening people's eyes to the investment opportunities in Sierra Leone. The two deals approved so far – a $20 million debt deal and a $25 million guarantee facility that could unlock up to $42 million for Sierra Leonean businesses – can both be traced back to these visits."

Alignment between donor and DFI mandates

Over the past decade, the FCDO's approach to creating jobs and increasing incomes in Sierra Leone has become increasingly aligned with DFI investment priorities. This was reflected in the launch of Invest Salone, which focuses on attracting and facilitating DFI and other investments. It was also reflected in the subsequent launches of ARIA, which aims to broaden access to DFIs and ESERSL, which aims to increase investment into government-supported infrastructure projects.

At the programme level, some adjustment was required to enhance alignment. For example, Invest Salone expanded from sectors such as tourism and agribusiness to include financial services, to align more closely with DFI interests. An FCDO representative notes that this shift is expected to improve the lending capacity of local banks and establish relationships between these institutions and DFIs, offering solutions that can benefit local businesses over the long term.

One challenge has been real and perceived mismatches in financial scale, where typical DFI ticket sizes can exceed local business capabilities. To address this, and help develop a long-term pipeline for DFIs, Invest Salone collaborates with locally based funds and other impact investors capable of making smaller ticket investments. Offering an alternative view, one DFI respondent notes that despite perceptions, there are opportunities for larger ticket investments in Sierra Leone and the priority should be to identify, develop, and promote these opportunities.

Building a flexible and relevant offer

Access to DFIs through ARIA has provided a 'sounding board' for Invest Salone to understand DFI requirements, and the programme's on-ground presence has enhanced understanding of the challenges faced by local businesses. For example, it has been difficult for local businesses to self-fund due diligence assessments to the standard required by DFIs. In response, Invest Salone has subsidised assessments to facilitate transactions and demonstrate the value of these exercises to the local market. An example was technical due diligence for Easy Solar's commercial and industrial revenue stream, which was required for Triodos to make a €2 million investment in the firm.

Both Invest Salone and ESERSL have in-house investment expertise to set programme strategies and engage with DFIs, businesses, and relevant government stakeholders. Specialised services – for example, Invest Salone's investment readiness support to local businesses – are usually contracted out to specialist providers. A DFI respondent emphasised the importance of being able to deploy specialist expertise – even if daily rates are above average for the development sector – citing an example of an adviser with commercial banking experience who successfully advised financial institutions in Sierra Leone on expanding their lending.

Mismatched timelines between donors and DFIs have sometimes created challenges. For example, DFI deal timelines can be longer and less predictable than local businesses expect. At the same time, DFIs note that deal timelines sometimes require immediate technical assistance – for example, updating a financial model in time for an investment committee meeting – which isn't always compatible with programme procurement timelines.

Case study 2

Invest for Impact Nepal (IIN)

Takeaways

1. Co-funding a new programme provided the opportunity for DFIs and development partners to align strategies at design stage.

2. Buy-in from senior embassy and DFI leadership created the space to pilot the new initiative.

3. IIN has collaborated with stakeholders including the Government of Nepal and private sector apex bodies to support targeted reforms to investment-critical regulations.

Selected results

- $563 million DFI investments in financial institutions since 2021 (accounting for up to 50% of Nepal's total foreign direct investment inflow, according to programme team estimates) with direct attribution of $195 million to IIN's activities.

- 48 institutions reporting improved business practices.

- Five regulatory changes supported.

- IIN has collaborated with four private equity and venture capital funds on investment readiness support, with the aim of raising up to $150 million from DFIs, impact investors and local stakeholders, targeting first closure by the end of 2024.

DFC investment in Siddhartha Bank

DFC has approved $100 million to Siddhartha Bank to increase the Bank's capacity to on-lend to micro, small, and medium enterprises (MSMEs) in Nepal. IIN provided the bank with market intelligence and technical assistance to upgrade its environmental and social management system (ESMS), which was key in DFC's investment decision.

Introduction

Established in 2021 by BII, FMO, and SDC, IIN aims to crowd in foreign investment and enhance the investment environment in Nepal. IIN supports collaboration among DFIs, impact investors, and local investment stakeholders, including the Nepal government and private sector apex bodies. The purpose is to enhance investor and investee readiness, streamline investment regulations, and provide market intelligence to highlight investment opportunities in Nepal.

Testing a new model for collaboration

IIN was launched as an 18-month pilot project in 2021. SDC's involvement came about through senior embassy interest in closer DFI engagement, a shift in country strategy towards trade and investment, and programme experience that showed the importance of access to finance for businesses of all sizes in Nepal. BII and FMO coverage teams were aware of the market opportunity in Nepal. However, they also recognised the challenges. These included investors' perception of a complex and conservative regulatory landscape, limited awareness of the potential benefits of investment from DFIs and other investors, and the lack of credible market intelligence on sectors, investees and the wider investment landscape.

The pilot phase demonstrated the value of combining the investment expertise of DFI partners with development partners' knowledge of the context, stakeholder relationships, and an understanding of the regulatory environment. It also provided the opportunity to align a strategy for IIN with the potential to create value for DFIs and impact investors, while supporting development partners' impact objectives. By 2022, there was enough evidence to move into a demonstration phase aimed at supporting $155 million in additional DFI and impact investor investment and an improved enabling environment.

Supporting targeted regulatory reforms

IIN has taken a targeted approach to supporting improvements in the enabling environment for investment in Nepal. From an initial longlist of 40 regulatory issues that were potentially holding back investment, IIN partners identified a smaller subset of investment-critical regulations. The collaborative efforts led to a memorandum of understanding between the Government of Nepal and an initial group of six DFIs, clarifying the role of DFIs and the benefits of DFI investment. IIN's collaboration with regulators and ecosystem stakeholders has resulted in the government establishing a DFI Desk at the Ministry of Finance, reducing the lock-in period for DFIs, creating a more level playing field, and streamlining regulations for foreign investment in the financial services industry.

Encouraging DFI-development partner collaboration and information exchange

IIN has shown potential as a conduit for DFI and donor engagement in Nepal. The platform has helped to reconcile different priorities within and between these groups, enabling more efficient collaboration. One respondent noted that:

"In the past, there was a tendency for DFIs to crowd around a small number of investment opportunities. IIN has helped to coordinate DFI voices and allows investors to take a more strategic view of the market".

Practical measures to encourage collaboration and information exchange between DFIs and development partners include a DFI-development partner Working Group that has grown from six initial members to 50 today, including 20 DFIs, impact investors and development partners. In addition to the coordination function, members report that the Working Group has helped build familiarity and trust and has raised awareness of respective experience and expertise.

IIN also arranged two DFI and impact investor missions to Nepal. The latter mission, held in April 2024, included 14 DFIs and impact investors (the Asian Development Bank, BII, BIO, DAI Capital, DFC, Finnfund, FMO, IFC, JICA, KfW, MicroVest, responsAbility, SIFEM and Symbiotics). It focused on opportunities beyond commercial banks, including development banks, microfinance institutions, and digital financial services. The mission featured engagement between delegates and representatives from the Ministry of Finance and Nepal Rastra Bank to discuss regulatory issues influencing investment. The group also engaged with development partners active in the country to help align on activities.

Both the Working Group and country missions highlight the importance of allocating resources for coordination – including champions to drive day-to-day interactions – and the value of in-person, on-ground interaction.

Case study 3

USAID DRC INVEST

Takeaways

1. USAID DRC INVEST supports DFI investment in sustainable agriculture and 'agriculture enabling sectors' like energy and logistics to create bankable opportunities that benefit small-scale producers.
2. USAID DRC INVEST takes a hybrid approach to DFI collaboration, working both strategically and opportunistically to develop investment opportunities that align with investor needs.
3. The programme works on selected enabling environment issues, drawing on the experiences of firms and investors to identify real-world constraints to investment in the country.

Selected results

- $74 million in transactions facilitated (including $8 million in DFI investment)
- 151 firms provided business development and investment readiness support
- 16 financial institutions introduced to the DRC

Facilitating DFI investment in a local off-grid developer

USAID DRC INVEST helped to unlock conditions holding back DFI investment in an off-grid developer. The challenge was that the DFI required a detailed tariff structure for different customer segments (retail, SMEs) across three sites, requiring specific data on what each segment paid per kilowatt-hour. This data was essential for presenting to regulators and securing tariff approval, and thus fundamental to the DFI's ability to invest. With negotiations stalled for several months, USAID DRC INVEST supported the development of the enhanced tariff structure and worked on a contingency plan by introducing commercial banks as alternative financing options. With the tariff structure in place and approved, the DFI could proceed with the investment.

Introduction

USAID's Investment Facilitation Activity in the Democratic Republic of Congo (known as USAID DRC Invest) runs from 2021 to 2027. It aims to enable private sector investment in DRC by building a pipeline of investable opportunities, providing investment readiness and transaction advisory support, and addressing priority constraints in the enabling environment.

Aligning donor, DFI, and government priorities in sector selection

USAID DRC INVEST aims to mobilise finance for agriculture by aligning the developmental goals of USAID and the DRC Government with the financial interests of DFIs and other investors. To do this, the programme works at the nexus of sustainable agriculture and 'agriculture enabling sectors', including energy, finance, packaging, logistics, and distribution. These enabling sectors often present more bankable opportunities for investors than might be available in primary agriculture while offering the potential to impact small-scale producers.

Reaching alignment between these different priorities took time and negotiation. USAID DRC INVEST was initially focused on North and South Kivu, two of the poorest provinces in DRC and the previous location of relevant USAID agricultural projects. Recognising that a subnational focus would not allow for a viable investment pipeline across various agriculture-enabling services, USAID agreed to expand the scope to the national level. As a new type of initiative for USAID in the context, USAID DRC INVEST also had to demonstrate the positive impact that investment facilitation could have on populations involved in primary agriculture. It achieved this by initially supporting smaller deals and demonstrating the benefits for firms, investors, and smallholder farmers. This approach built trust in the programme, enabling a progression to larger deals over time.

A hybrid approach to DFI collaboration

USAID DRC INVEST aims to be both strategic and opportunistic in its approach to collaborating with DFIs and other investors. DFI relationships are either already established – for example, through team members' existing networks, or the networks of consortium partners – or are built on the ground over time. The programme also aims to tailor its approach to DFI collaboration, depending on each institution's priority sectors and investment strategy.

Two additional points stand out. First, when a DFI originates a deal, it retains exclusive rights and receives support from USAID DRC INVEST for a designated period. If the deal fails or extends beyond this period, USAID DRC INVEST will distribute information and materials to other investors. This approach balances the programme's public good aspect with the need for origination incentives and confidentiality. Second, the programme experimented with an advisory board that included DFI representation, but it was discontinued due to challenges in managing board expectations regarding control of programme strategy and access to transaction data.

Targeting priority legal and regulatory reforms to build the investment ecosystem

The programme's approach is to identify the 'frontline' enabling environment challenges faced by businesses and investors in the DRC. It then channels these issues to government policymakers, USAID and other donors, and NGOs and donor-funded initiatives with a relevant remit, such as the Tony Blair Institute for Global Change (TBI).

The programme also directly champions selected enabling environment issues. In one example, USAID DRC INVEST supports the Ministry of Finance and Central Bank in developing a roadmap of reforms to establish a legal and regulatory framework that will foster investment activities and attract investment vehicles and asset managers to the DRC. The lack of such a framework currently limits the diversity of financial products available in the country, particularly early-stage equity investment, which affects small and growing agricultural businesses. By enabling access to early-stage equity, the initiative aims to support growth and assist business owners in acquiring assets that can be used as collateral for future loans.

USAID INVEST

Case study 4
Haiti INVEST

Takeaways

1. A specialist transaction advisory partner leveraged investment expertise and established relationships to offer technical support to prospective investees and manage relationships during the investment process.

2. Grounding PSD work within a commercial investment chain, particularly through collaborations with DFIs, can mitigate capital seekers' reluctance towards donor-funded initiatives.

3. Success should be judged from a long-term perspective, with one key indicator being the reduction in investees' reliance on grant-funded investment facilitation.

Selected results

- Eight transactions closed into four Haitian SMEs totalling $7 million.
- $80 million+ potential transactions sourced and evaluated for potential international investors including DFIs.
- One SME client has advanced to another round of DFI investment and has grown enough to self-fund this round of investment advisers.

Transaction support for renewable energy

Together with local private banks, the World Bank and Proparco made a $4.5 million debt investment in Solengy, a commercial solar developer in Haiti. Solengy addresses an unstable electrical grid in Haiti by developing customised solar systems for residential, commercial, and industrial clients and offering them via a more affordable lease-to-own model. The transaction supports more than 400 jobs – more than half of which are held by women. It also increases electricity access across the island in a country where only half the population has access[11].

11 https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=HT-1W-ZJ&view=chart

Introduction

Through its USAID INVEST programme, USAID seeks to mobilise private sector capital to drive inclusive growth in high-impact sectors in the countries where it works. From 2017 to 2024, USAID INVEST has mobilised nearly $1.5 billion and supported more than 150 transactions with activities in 86 countries. Under Haiti INVEST, USAID INVEST's operations in the country focus on a pay-for-performance model to help bridge the gap between SMEs and capital supply.

The value of a specialised partner in a challenging market

By partnering with an established investment facilitation partner, Haiti INVEST was able to leverage expertise and existing relationships to provide value-adding services to capital seekers. In practice, the programme's support included both the technical services required to prepare a business for DFI investment, and 'softer' support around business mentoring, relationship management, and managing expectations on the DFI investment process and timeline. The team notes that this 'wraparound' support helped close transactions including Paon Bleu, a fintech platform, and Acceso Haiti, which connects local farmers with large buyers.

Specialised experience also enabled a more efficient investment process. First, the programme showed investors that businesses were operational and profitable, despite challenging security conditions. Second, an established donor-implementer relationship provided flexibility around implementing the programme. And, third, the transaction advisory partner's prior knowledge of the DFI investment process allowed the team to pitch multiple investment teams within the same institution.

The importance of rooting PSD work in a commercial investment chain

Working with DFIs may combat potential capital-seeker aversion to donor support, with one respondent noting, "Some of the better companies are sceptical about donor-funded work". Donor funding may come with strings attached and may have a less commercial mindset, while companies know that donor funding is not commercially sustainable over the long term. However, development finance can be a stepping stone to long-term viability and connecting it with donor-funded programming can provide credibility to potential investees. One firm in Haiti went on to raise $4.5 million over the course of the project, after conversations with the investment facilitators convinced the firm of the collaborative model.

Judging success with a longer-term perspective

The Haiti INVEST experience suggests an additional indicator of success: the number of companies achieving independence from the investment advisory process. After having received an initial round of funding from a DFI, one of the more successful investees from the programme has retained its own investment advisers for a second round of DFI and private investment. While the firm still requires assistance, it now has its own experience of the DFI process and no longer needs donor-funded investment facilitation to move forward.

Case study 5

Dutch Fund for Climate and Development (DFCD)

Takeaways

1. This structured, long-term collaboration has helped to bridge the gap between early-stage grants and subsequent investments to support scale-up.

2. Understanding the priorities and language of the 'other side' is supported through regular feedback from investment teams and collaborative decision-making on grant awards.

3. Involvement in the DFCD has required NGO partners to recruit commercial and investment expertise, which has had positive knock-on effects including securing new investment-related projects.

Selected results

- To date, the DFCD has 'graduated'[12] 17 projects, resulting in €100 million+ in committed investments and €870 million+ in private finance mobilised.

Transaction support to renewable energy

NMB, one of Nepal's leading commercial banks, received a $10 million loan from FMO to support the growth of NMB's MSMEs and green portfolio. Working through the DFCD, SNV played a key role in identifying a pipeline of green opportunities (with particular focus on climate-resilient agriculture projects, as well as sustainable forestry and renewable energy), improving the bankability of selected companies, and de-risking investments by addressing ESG and gender equality and social inclusion (GESI) standards.

12 A project from the Origination Facility can graduate to the DFCD internal investment facilities (WF, LUF) or to external investors. For graduation, the Investment Committee (IC of DFCD) requires the project to demonstrate climate and development relevance, impact potential, and bankability.

Introduction

Established in 2019, the DFCD invests in early-stage climate adaptation and mitigation projects, helping them scale to benefit vulnerable communities and landscapes. With a global scope, it prioritises frontier markets in Latin America, Asia, and Africa, reserving at least 25% of its budget for the least developed countries and another 25% for the Netherlands' priority development and trade partners.

A long-term structured collaboration

The DFCD consists of three connected but separately managed facilities operating under a shared strategy. The Origination Facility, led by SNV and WWF, provides grants and technical assistance to develop a pipeline of investable projects. Successful projects can then receive debt or equity funding and further support from either the Water Facility (managed by CFM) or the Land Use Facility (managed by FMO). This structure tackles two key challenges:

1. Bridging the gap between grants and DFI investment: Donor-funded climate adaptation and mitigation programmes often provide grants without planning for future scaling through investment. The DFCD addresses this by assessing a project's future suitability for investment, including its potential to attract DFI investment, before awarding grants. Support focuses on strengthening business fundamentals, such as securing off-takers, improving margins, validating scalability, and achieving positive cash flow.

2. Accommodating varied investment demands: The DFCD's facility structure broadens the range of instruments on offer – for example, equity investments and reimbursable grants – while the Origination Facility develops projects with the potential to absorb DFI-scale investments in future. DFCD is also increasing engagement with third-party investors such as Triodos Bank, Invest International, Oikocredit, AgriFI and Acumen Fund.

Learning to speak the language of the 'other side'

Collaboration between consortium members was initially challenging in DFCD due to mismatches in terminology, such as differing interpretations of 'start-ups' or 'early-stage development' and varying priorities. These issues have been addressed through measures that include biweekly check-in calls between NGO partners and FMO investment officers to assess opportunities before engaging with the investment committee. Additionally, a voting system among consortium partners helps decide which grant opportunities are funded. The formalised consortium structure has established a framework for demonstrating mutual value.

Building investment expertise in the NGO partners, with positive knock-on effects

Involvement in the DFCD was a step change for some NGO partners, as it meant transitioning from traditional development projects to a focus on investment. This shift was initiated during the competitive tendering process for facility management roles, prompting NGO partners to recruit for the necessary investment expertise. This expertise helped build credibility with FMO and other investors and had knock-on effects beyond the DFCD. For example, WWF is now involved with four additional funds.

Case study 6

Commercial Agriculture for Smallholders and Agribusiness Technical Assistance Facility (CASA TAF)

Takeaways

1. CASA TAF has built relationships with DFI partners over time, supported by tools like the Inclusive Business Plan that enable the co-creation of technical assistance projects.

2. Having technical (sectoral) and commercial expertise in-house has helped to demonstrate the value of the programme's offer to DFIs.

3. DFIs are contributing to CASA TAF's expansion through CASA Plus – a technical assistance and market-building platform that intends to unlock more investment in inclusive agribusinesses.

Selected results

- CASA TAF has collaborated with 15 investors, including BII, FMO, and Norfund, providing 40 agribusinesses with technical assistance that has improved the incomes and resilience of around 116,000 smallholder farmer households to date.

Strengthening the commercial and impact case for follow-on investment

DeHaat, an Indian agri-tech company serving around 1.8 million smallholder farmers, offers input sales, advisory services, and output purchasing. CASA TAF partnered with DeHaat in 2020 when it secured $4.9 million pre-Series A funding from Omnivore, backed by BII and FMO. Subsequent funding rounds included Sequoia Capital, Prosus Ventures, and Temasek, with the company recently closing a $60 million Series E round and reaching a valuation of over $700 million. CASA TAF-supported projects include an input finance scheme to reduce farmer costs and increase yields and optimised extension services to boost farmer sales. These initiatives have reached around 79,000 farmers, with a subset of participants in the input finance pilot increasing their net incomes by $494, on average.

Introduction

CASA is a UK International Development-funded programme launched in 2019. This case study focuses on CASA TAF – one of three programme components – managed by TechnoServe and focused on working alongside impact investors to identify businesses in their portfolios that can benefit from tailored support to strengthen and/or make their business models more inclusive and climate-resilient.

Demonstrating value to DFI partners

The team notes that developing relationships with DFIs and investors is a gradual process, supported by demonstrating an understanding of portfolio companies, commercial priorities, and specific investor needs.

One tool used to support collaboration is the Inclusive Business Plan, co-created with the portfolio company. The plan details the commercial and impact potential of inclusive growth initiatives and a roadmap for delivery. Developed over three to four months, with input from FCDO and investors, it aligns incentives (with shared value creation at the core of its approach) and clarifies the right level of risk-sharing support and responsibilities. As a member of the programme team notes:

"Investors and businesses sometimes struggle to understand the value of the Inclusive Business Plan at the outset, but as they get deeper into the process and see the clarity it brings on commercial opportunities and risks, and the momentum it builds towards growth, they buy into the approach".

CASA TAF also adds value by helping DFIs avoid adverse outcomes, advising against projects with weak viability. DFI counterparts have noted the value of honest feedback, even for mature projects, as seen in cases where the Inclusive Business Plan led to decisions not to invest in commercially weak opportunities.

Building a team with the right mix of expertise

CASA TAF has built a lean core team with expertise in the private sector, impact investing, project management, and agriculture sector, to support investor collaboration. Team members need to be adaptable and effective communicators with diverse stakeholders, including company management, DFIs, investors, and farmers. Finding candidates with this skill mix is challenging, especially given donor and organisational compensation limits.

The core team is responsible for diagnostics, project design, oversight, and investor relations, while engaging specialist third-party providers for on-ground delivery. Close management of third-party advisers ensures alignment with programme goals, quality assurance, and adaptive management. Performance-based contracts, weekly meetings, and proactive structuring of deliverables help maintain consistent quality, supporting credibility and trust with agribusinesses and investors.

Building the commercial knowledge of FCDO country offices and launching CASA Plus

In addition to the 'core' offer of post-investment technical assistance, CASA TAF has worked to build commercial and investment knowledge across 15 FCDO missions in Africa and Asia. Objectives have included aligning FCDO strategies with investor priorities, strengthening local private-sector collaboration, and boosting investment in green and inclusive agriculture. Example activities include identifying opportunities in Kenya's organic fertiliser sector and unlocking carbon finance for agri-SMEs in Ghana and Mozambique. Building on progress and insights, CASA TAF is also supporting FCDO to design new blended finance solutions for underserved traditional agri-SMEs.

Recognising the persistent agri-SME finance gap and the need for more pre-investment support, BII and FMO are co-funding the expansion of CASA TAF through the development of CASA Plus. CASA Plus offers a mix of pre-deal, post-deal, and market-building support to enhance investment performance, support new investment, and improve collaboration among investors, donors, and governments. DFIs (starting with BII and FMO) are co-funding CASA Plus with FCDO between 2024 and 2026, aiming for a long-term, shared, investor-led platform in target countries.

Case study 7

Mobilising Finance for Forests (MFF)

Takeaways

1. MFF works to mobilise larger-scale investment in forestry, sustainable land use, and other nature-based solutions. The programme helps close the gap between early-stage grant funding and commercial investments.

2. MFF's Technical Assistance and Development Contribution facilities are embedded in the programme. This helps to prioritise and develop projects with the potential to attract more senior funding.

3. Collaboration between the UK Government (MFF's donor) and FMO (MFF's delivery partner) is supported by a structured process and complementary 'crossover' knowledge on both sides.

Selected results

- MFF invested $2.5 million in Treevive to establish its Forest Carbon Development Platform.

- In 2024, Triodos' Regenerative Money Centre invested an additional $2.5 million in Treevive.

Investing in a new carbon development platform

MFF invested $2.5 million in Treevive to establish a Forest Carbon Development Platform that supports and accelerates carbon projects in the Natural Climate Solutions (NCS) sector. The investment aims to attract further funding for NCS projects, expanding the pool of investment-ready businesses for DFIs and commercial investors. In 2024, Triodos Regenerative Money Centre invested an additional $2.5 million in Treevive.

Introduction

Established in 2021, MFF is a UK government-funded blended finance programme delivered by FMO to support forest protection and restoration investments in tropical regions of Africa, Asia, and Latin America. Through a £152 million commitment, MFF provides financing for up to 15 years through selected investments in funds (70–80% of the budget) and direct investments (20–30%). MFF also includes a Technical Assistance Facility offering pre- and post-investment support and operates a Learning, Convening, and Influencing Platform (LCIP) to disseminate successful investment models.

Closing the gap between grants and larger-scale investment

MFF aims to attract investment in forestry, sustainable land use, and nature-based solutions, which often struggle to secure follow-on investment. MFF addresses this by providing $0.5–3 million in development contributions to early-stage projects to achieve bankability within two to four years and offers up to $200,000 in pre-investment technical assistance.

Finding common ground between expectations, priorities, and terminology is also important. For instance, prospective investees sometimes focus on impact rather than commercial viability when pitching to investors. MFF facilitates better alignment through regular engagement with investees, technical assistance providers, and FMO teams.

While MFF focuses on transaction-level support, it also engages the market through the LCIP. In addition, in 2022, MFF provided a repayable development contribution to Treevive, which supports sustainable forest carbon projects. Some of these projects have the potential to become investable for FMO and other DFIs, with two cases currently under assessment by FMO for direct investment. The broader impact of these market-building initiatives is being assessed.

Regular structured interaction led by teams with crossover knowledge

Collaboration between FMO and the UK DESNZ (MFF's funding agency) is maintained through weekly check-ins, biannual strategy meetings, and annual performance reviews. These allow alignment on priorities, market insights, and early challenge identification. Both sides have assigned experienced staff to manage the partnership. The UK team contributes technical, programme management, and monitoring expertise, with the Senior Responsible Owner bringing an investment background.

Aligning the UK government's support for the sector

The UK Government-funded Partnerships for Forests (P4F) was an eight-year initiative to attract investment in tropical forests through partnerships, grants, and technical assistance, alongside MFF. While P4F aimed to mobilise investment, many supported businesses were too small or risky for DFI investment. This led the UK Government to create programmes like MFF, which uses blended finance to de-risk high-impact projects, bridging the gap between grants and larger-scale funding. MFF and P4F regularly shared insights and collaborated, including hosting a joint investor forum in 2023. Though not formally linked, the UK Government's involvement and Palladium's roles in both initiatives have fostered continuity and networking opportunities.

Case study 8

Manufacturing Africa

Takeaways

1. The programme's mandate has evolved to align the commercial realities of investing in the manufacturing sector with development impact priorities.

2. DFI collaboration is semi-structured, with a core group of strategic partnerships alongside opportunistic engagement.

3. There is an opportunity to increase investment in underserved segments – for example, working capital for fast-growing manufacturing SMEs – by enabling more action-oriented donor-DFI collaboration.

Selected results

- 170+ deals supported, with DFIs and DFI-backed fund managers reviewing approximately 80%+ of these opportunities.

- 39 deals have reached financial close, resulting in $1.2 billion invested. The programme team estimates that at least $600 million of this total was in the form of direct and indirect DFI investment.

Supporting Norfund to invest in East African apparel manufacturing

Norfund and Ethos Mezzanine Partners invested $25 million in Balaji Group, boosting production and energy efficiency, with the potential to create 12,000 jobs. Norfund also committed $14 million to Hela Apparel Holdings PLC to enhance productivity and strengthen supply chains in East Africa. Manufacturing Africa supported these investments by validating market potential, testing business plans, and analysing the textile and apparel sector during COVID-19. This included assessing job creation impacts and integrating sustainability into business models, providing data that informed the investment decisions.

Introduction

Launched in 2018, Manufacturing Africa is a seven-year, £70 million FCDO-funded initiative aiming to create 90,000 jobs by driving investments in manufacturing in Ethiopia, Kenya, Nigeria, Rwanda, Senegal, and Tanzania. The programme targets manufacturing as a labour-intensive, underinvested sector that can boost economic transformation through higher-productivity jobs. It serves as a market signaller by providing deal support (for example, investment readiness and transaction facilitation) and sector support (including technical assistance to investment promotion agencies).

An evolving offer that aims to align commercial realities with development impact priorities

Manufacturing Africa's mandate evolved to reflect the commercial realities of the sector, shifting from an initial focus on attracting MNC investment to a broader remit that includes DFI investment and private capital.

The programme's approach to policy reform has also become more targeted over time – partly due to FCDO budget cuts. It now focuses on fewer priority investment barriers rather than broad-based technical assistance to relevant government bodies. The programme team notes that this shift has supported the programme's core objective of creating impact through foreign direct investment transactions.

Collaboration within and outside the programme context

The programme engages strategically with a core group of DFIs, focusing on a two-way exchange of information, for example, by sharing insights on target firms and markets and adapting strategies accordingly. The programme interacts with other DFIs more opportunistically, sharing relevant opportunities where they meet investment criteria. In addition to collaboration within the programme context, there is a second layer of engagement between DFIs and consortium members, such as BDO and McKinsey & Company, which have pre-existing relationships with DFI personnel.

Within this framework, the programme allows for new investment opportunities to be brought to DFIs and supports companies referred by DFIs to become investment ready. The programme also intervenes where a company may have passed a DFI's screening process, but investment is held up by a market-based barrier – for example, data on sectoral growth potential or a market validation requirement.

Broadening the pool of investable opportunities and supporting action-oriented collaboration

The programme team noted that DFIs often target the same deals, typically larger investments in established sub-sectors and less risky markets, leaving other segments underserved. This highlights an opportunity for donor–DFI collaboration to address market failures by leveraging complementary skills. For example, there is significant demand for working capital, particularly among fast-growing SMEs and emerging sectors like green manufacturing, but DFIs often overlook these opportunities due to smaller deal sizes and high transaction costs. Donor intervention, such as subsidising due diligence, could help make these smaller investments viable.

USAID INVEST

Case study 9

USAID Africa Trade and Investment Activity (ATI)

Takeaways

1. The programme, featuring a broad, cross-agency approach, aligns incentives from the top down by coordinating initiatives from USAID and other US Government agencies with DFIs.

2. The case provides an example of DFIs acting as market enablers, providing institutional knowledge of the local economy and practical resources such as due diligence materials that are beneficial to commercial investors.

Selected results

- Over $130 million in investment has been mobilised across 12 transaction closes and 61 supported transactions.

Deploying a holistic suite of services to catalyse financial and developmental impact

Kentegra, a Kenyan biocide manufacturer, sought Prosper Africa's help to secure a strategic investor with capital and sector expertise. Prosper Africa supported Kentegra in obtaining a feasibility study funded by the United States Trade and Development Agency (USTDA). This led to transaction advisory support for a DFC loan of more than $10 million, enabling further commercial investment from a private sector partner. These coordinated services leveraged Prosper Africa's interagency connections to position Kentegra for strategic growth.

Introduction

USAID ATI is an implementation activity of Prosper Africa, a US Government initiative to strengthen economic ties between the US and African countries. Prosper Africa coordinates across 17 federal agencies to boost trade and investment. While agencies like USAID and USTDA provide grants and technical assistance, DFC is the only agency that makes direct commercial investments.

Providing holistic support and aligning incentives from the top down

ATI provides coordination services across agencies, ranging from accepting and making interagency referrals to transaction support, market research, and studies. In turn, complementary services – from different agencies but with a single, overarching mission – offer a suite of support to SME clients, larger businesses, and investor partners. ATI's varied service levels enable implementers to support a broader range of potential investees. Through ATI, USAID provides advisory support at different intensities, from refining financial models to end-to-end transaction advisory, and enhances business support through interagency referrals and convening services, expanding access to resources and expertise.

Supporting the role of DFIs as market enablers

DFIs can offer institutional knowledge of emerging and frontier markets and practical resources that are useful to commercial investors. As one programme respondent noted, "Almost everything has been diligenced by DFIs, and they are often willing to share those materials". The programme team notes that commercial investors new to a market often welcome the opportunity to engage with DFIs and can benefit from their expertise.

Convening opportunities occur across the continent and in other Africa-focused investment locations, like London. One example is the USAID-funded Asset Owners Forum of South Africa (AOFSA), which unites South African pension funds investing in African infrastructure and has committed over $130 million. DFIs, including BII, offered support, such as assisting with due diligence and sharing resources, to help institutional investors better understand and gain confidence in market opportunities.

Case study 10

GET.invest

Takeaways

1. The programme aims to balance the delivery of high-quality advisory services with developing local service markets.

2. GET.invest has enhanced its service by creating a facility that offers light-touch legal advice and project document development to resolve key bottlenecks and attract investors.

3. The programme addresses policy issues through its sister programme, GET.transform, which advises on investment-critical regulatory barriers.

Selected results

- GET.invest has supported 469 projects and companies, with 193 opportunities accepted by investors and 91 reaching financial close with investments totalling €458 million.

Supporting Burundi's first non-diesel independent power producer

Gigawatt Global launched Burundi's first utility-scale solar project, a 7.5 MW plant in Mubuga village, providing clean power to 87,000 people. Facing regulatory and financing hurdles, the project received support from the GET.invest Finance Catalyst for financial structuring and auditing. This bolstered investor confidence, securing a €12.7 million investment backed by DFC, REPP, Inspired Evolution, and ATI. Completed in April 2021 during the Covid-19 pandemic, the project set a precedent for renewable energy investments in Burundi.

Introduction

Established in 2016, GET.invest is a European programme that mobilises investment in renewable energy in developing countries, mainly in sub-Saharan Africa, with projects also in the Caribbean and Pacific. Acting as an 'honest broker,' it provides investment readiness support, connects bankable projects with investors, and offers market information, matchmaking events, training, and support for renewable energy associations. Since 2022, GET.invest has powered the Team Europe One Stop Shop for Green Energy Investments, an access point for information about European support and financing instruments for clean energy projects and companies in Africa. The programme is co-funded by a consortium of European donors (European Union, Germany, Norway, Netherlands, Sweden and Austria), is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and is part of the Global Energy Transformation Programme (GET.pro).

Building local and regional service markets

GET.invest faced a common challenge when delivering investment readiness support: delivering high-quality advisory services while developing – rather than displacing – local service markets and meeting the requirements of public donor funding. Alongside gaps in local capacity in frontier markets, additional challenges included a disconnect between local and international investment readiness support providers (leaving no way to 'pass the baton' after an initial phase of support), as well as a lack of a universal standard for investment readiness, with different interpretations among investors.

To address this challenge, GET.invest offers two services:

1. **Finance Catalyst:** This service leverages over 30 experts experienced in complex transactions to support scale-stage and larger projects, often involving international developers and companies.

2. **Finance Readiness Support:** This service is delivered by eight local service providers and is aimed at locally owned companies in sub-Saharan Africa, often undertaking their first fundraising attempt.

Finance Readiness Support increases the programme's bandwidth to support smaller, earlier-stage companies. Through this channel,

GET.invest works closely with service providers and companies to assess bankability, manage timelines, and build capacity on both sides of the market. Once projects are bankable, GET.invest provides investor insights and introductions and manages interactions with financiers until financial close.

Improving the relevance and efficiency of the service offered over time

The cost and complexity of pre-investment support in renewable energy projects vary significantly, prompting the programme to develop a range of offerings to help enhance efficiency and support a broader spectrum of opportunities, for example:

- **Financial modelling service:** Bridges the information gap between developers and financiers by translating project aspirations into financial terms and impacts.
- **Light-touch legal support:** Provides legal advice and document development for projects with less complex barriers to investment.
- **Project evaluation:** Reviewed over 1,600 applications, working with more than 450 companies to assess viable business models. This helps to eliminate less viable projects early in the process, such as utility-scale generation projects lacking a signed Power Purchase Agreement (PPA) or national green hydrogen projects without an identified off-taker.
- **Mapping financing instruments:** Addresses information gaps by identifying and validating over 260 funding sources for clean energy projects.

If a promising proposal falls outside the programme's scope, GET.invest refers it to an established network of alternative pre-investment support providers.

Engaging on policy issues through a sister programme

The programme team notes increasing awareness of beyond-the-firm barriers to investment among DFIs and other investors, particularly the importance of a stable and supportive regulatory environment. GET.invest engages on policy-level issues through a sister programme, GET.transform, a technical assistance initiative that aims to support long-term energy planning, on- and off-grid regulation and market development, and renewable energy grid integration. GET.invest supports GET.transform by highlighting investment-critical regulatory barriers and drafting or reviewing policy interventions from an investor's perspective.

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Foundations of Growth

Building Bridges: Case studies on successful collaboration between donors and development finance institutions

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About ARIA

ARIA exists to unlock investment in frontier markets in Africa. It was launched in 2021 at the G7 summit. It is sponsored by the UK's DFI, British International Investment, and the Netherlands' DFI, FMO (the Dutch entrepreneurial development bank).