



Unlocking Frontier Investment: **The Critical Partnership** **Between Donors and DFIs**

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Mobilising private capital has become central to international development policy as official development assistance declines and the financing required to achieve the Sustainable Development Goals continues to grow. Yet private capital flows into the poorest and most fragile economies remain far below ambition. In frontier markets such as Sierra Leone, financial de-risking alone cannot overcome unpredictable regulation, limited market intelligence, thin pipelines of investment-ready businesses, weak intermediation and fragmented relationships among public and private actors. This paper argues that donor-funded programmes are essential to mobilisation in these markets: they perform the market-building functions needed to turn commercial potential into investable opportunities. Close collaboration with development finance institutions (DFIs) strengthens their ability to mobilise such investments.

The FCDO-funded Invest Salone programme and DFI-funded Africa Resilience Investment Accelerator (ARIA) show how collaboration between donors and DFIs is key to unlocking investment that would otherwise struggle to reach frontier markets. Combining Invest Salone's local knowledge, enterprise support and ecosystem-building with ARIA's investment expertise, the two programmes have identified more than 200 businesses for engagement, facilitated investor linkages and contributed to GBP 63 million of investment in Sierra Leonean enterprises. Invest for Impact Nepal reinforces the lesson: coordinated donor and DFI support can expand pipelines and deliver market-wide policy and regulatory improvements.

Key findings



DFIs are essential but cannot mobilise private capital at scale in isolation.

Co-investment, guarantees, structured finance, concessional capital and blended finance can improve risk-return profiles and reassure investors. DFI technical assistance can also help firms already within an investment pipeline meet institutional requirements. However, DFI operating models, risk limits, transaction costs and minimum investment thresholds constrain their ability to develop markets or reach smaller and less mature firms.



The principal constraint in fragile markets is often the quality of the investment ecosystem rather than the availability of finance.

Investors require predictable regulation, credible information, capable institutions, trusted intermediaries and investment-ready businesses. Where these foundations are weak, concessional finance alone is unlikely to generate sustained investment.



Donor-funded programmes are essential to mobilising investment into frontier markets.

They fund policy reform, market intelligence, business preparation, stronger intermediaries and ecosystem coordination – functions individual investors have little incentive to support. By reducing costs and expanding pipelines, these programmes enable DFI and private capital to reach otherwise underserved markets.



DFI technical assistance and donor-funded enterprise support are complementary.

DFI support is generally transaction-linked and focused on firms already approaching investment or post investment. Donor programmes can intervene earlier and more broadly, developing businesses that have not yet entered a DFI pipeline while strengthening the institutions and market infrastructure from which future investments emerge.



Mobilisation and additionality involve unavoidable trade-offs

Larger volumes are easier to achieve in established markets and familiar sectors, while pioneering investments in fragile states may require more preparation and risk absorption and produce lower mobilisation ratios initially. Performance frameworks should recognise both immediate capital mobilisation and longer-term market development.

Implications for donors and DFIs

Institutionalise collaboration from programme inception.

Donors and DFIs should establish formal mechanisms to align market diagnostics, pipeline development, technical assistance, policy reform, investor engagement and transaction support. Shared objectives and information systems would reduce duplication and enable constraints identified during origination to be addressed systematically.

Treat market development as part of mobilisation. Donor enthusiasm for mobilisation risks undermining the pipeline creation on which it depends.

Success measures should therefore recognise not only capital mobilised, but also stronger institutions, market information, policy reform, intermediation and growth in investable pipelines. Without these elements, investment will not take place.

Use blended finance more strategically and at greater scale.

Donors and DFIs should develop simpler, more standardised and replicable guarantees, funds, securitisations and other risk-sharing instruments. Concessionality should be limited to what is necessary, linked to a clear development rationale and designed around a credible route to commercial sustainability.

Build domestic capital markets alongside international mobilisation.

Support should strengthen regulation, financial infrastructure, corporate governance and local-currency instruments so that domestic pension funds, insurers, banks and other investors can channel more capital into productive long-term investment.

Differentiate mobilisation objectives by market context.

More investable markets can prioritise scalable structures that attract institutional capital. In fragile markets, donors and DFIs should accept lower initial mobilisation where investment can demonstrate viability, build pipelines and establish the conditions for future commercial participation.

The choice is therefore not between supporting DFIs or supporting market development. DFIs provide capital, investment discipline and risk-sharing capacity; donor-funded programmes create the businesses, institutions, information and relationships that make frontier markets investable. Donor programmes should therefore be treated as a core component of mobilisation strategies. In Sierra Leone and comparable markets, sustained donor–DFI collaboration can connect market-building to investable pipelines, reduce structural barriers and enable private capital to enter and scale, supporting long-term economic transformation.



Introduction

The international development finance landscape is undergoing a significant transformation. Declining Official Development Assistance (ODA), growing fiscal pressures among donor governments and the scale of financing required to achieve the Sustainable Development Goals (SDGs) have accelerated efforts to mobilise private capital into developing countries as a central pillar of international development policy. Donors and development finance institutions (DFIs) increasingly view private investment as essential to achieving sustainable economic growth and place private capital mobilisation at the centre of their policies, reflecting a desire to transition from traditional grant-making towards more catalytic investment approaches.

The rationale for greater private sector investment in development is compelling. Private capital far exceeds the scale of available aid resources and offers opportunities for more sustainable, market-based solutions to development challenges. This was first captured at the Addis Ababa Financing for Development Conference in 2015, which launched the “billions to trillions” slogan and marked a major shift in development finance. However, this framing has raised unrealistic expectations that large pools of capital in advanced economies could be readily redirected into developing economies. A decade on, private capital mobilisation has fallen well short of the ambition initially set out, due to many market failures that deter investment, particularly in the poorest and most fragile countries.

Sierra Leone provides an example of this challenge. The country possesses considerable opportunities across agribusiness, fisheries, renewable energy,

tourism, light manufacturing and financial services, yet investment continues to be constrained by structural market failures that increase transaction costs and reduce investor confidence. While DFIs and impact investors have recently demonstrated increasing interest in Sierra Leone, their effectiveness depends on the existence of a robust pipeline of investable businesses. Such a pipeline does not emerge organically. It requires sustained donor investment in micro, small and medium enterprises (MSMEs), entrepreneurship support, business development services, market systems development, regulatory reform, and broader ecosystem strengthening. Without these foundational investments, the supply of viable investment opportunities for DFIs and private investors will remain constrained.

Learning from the FCDO-funded Invest Salone programme in Sierra Leone has shown that collaboration with the DFI-funded Africa Resilience Investment Accelerator (ARIA) has been critical to catalysing investment into Sierra Leone. Through investment-readiness support, ecosystem-building activities and country visits for investors, Invest Salone and ARIA have together facilitated substantial investment in the country. Similarly, learning from the DFI- and donor-funded Invest for Impact Nepal (IIN) has shown that strengthening the enabling environment combined with direct transaction support has led to successful mobilisation into Nepal. Against this backdrop, this paper argues that donor and DFI collaboration is essential for private capital mobilisation and that donor-funded programmes have a key role to play in addressing the systemic constraints that prevent frontier markets from functioning efficiently and thereby enabling DFIs, impact investors and commercial investors to deploy capital more effectively.

The case for private capital mobilisation

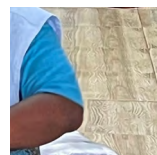
The business case for mobilising private capital into emerging and frontier markets rests on both the scale of unmet demand and the commercial opportunities created by long-term structural change. Climate and sustainability transitions require levels of investment that public finance cannot provide alone, while falling technology costs and growing demand for energy, infrastructure and services are expanding the range of potentially viable investments. The opportunity is particularly pronounced in Africa, which holds around 60% of the world's strongest solar resources but has attracted less than 2% of global clean energy investment [OECD, 2025a]. For investors, these markets offer exposure to long-term growth and diversification; for developing countries, they offer a route to finance productive investment.

The wider economic case is equally compelling. Accelerated investment in climate- and development-enhancing activities could support global GDP growth of 60% by 2040 relative to 2022, with the largest gains accruing to developing countries as new productive opportunities emerge and climate-related losses are reduced [OECD/ UNDP, 2025]. By 2050, global GDP could be 3% higher than under current policies, rising to as much as 13% by 2100 [OECD, 2025a]. Aligning such investment with national development priorities could also improve energy access, food security and public health, strengthen outcomes in low-human-development countries and lift an estimated 175 million people out of poverty. Private capital mobilisation is therefore not simply a means of filling a financing gap; it can support a broader process of economic transformation in frontier markets.

There is also a strong portfolio-allocation case. Institutional investors, including pension funds and insurers, held more than USD 100 trillion in assets at the end of 2019, yet only a small share was directed towards sustainable activities in developing countries. Redirecting even a modest proportion

could materially narrow the SDG financing gap: approximately 3.9% of the 2019 asset base would have been sufficient to close the estimated annual gap in 2021 [OECD, 2025a]. However, the limited flow of capital into frontier markets such as Sierra Leone shows that the existence of capital and demand is not sufficient. The central challenge is to convert commercial potential into investable opportunities with the scale, information and risk-return profiles that investors require. This is where collaboration between donors and DFIs becomes critical: DFIs can deploy and mobilise capital, while donor programmes help create the businesses, institutions and investment ecosystems that make deployment possible.

In Sierra Leone, the collaboration between FCDO-funded Invest Salone and ARIA, funded by BII, FMO and Proparco, has proven fruitful for mobilisation purposes. Invest Salone works to increase private investment in Sierra Leone's non-extractive sectors and operates through strengthening enterprise competitiveness and investment readiness, facilitating investment and exports, and supporting investment climate reform. Rather than acting as a traditional business support programme, Invest Salone works across the investment ecosystem, connecting Sierra Leonean businesses with domestic and international investors, supporting policy dialogue, providing technical assistance, strengthening market systems and reducing the cost and risk of doing business. ARIA works with DFIs and local businesses to help mobilise capital to frontier markets in Africa. Through their partnership, Invest Salone and ARIA have helped identify more than 200 potential businesses for engagement in Sierra Leone, hosted two country visits involving 18 DFIs and impact investors, and facilitated meetings with over 25 firms and financial institutions.



How DFIs can support private capital mobilisation

DFIs can mobilise private capital by using their own finance, expertise and institutional standing to make investments in developing economies more accessible and attractive to commercial investors. Their role is especially important in frontier markets such as Sierra Leone, where high transaction costs, limited information and weak investment ecosystems can prevent commercially promising opportunities from reaching investors. The following subsections examine the principal mechanisms through which DFIs can help overcome these constraints and crowd in additional capital.

“ DFIs can help private investors enter markets and transactions they might otherwise avoid.

Reassure investors through co-investment

Co-investment is one of the most direct ways in which DFIs can reassure private investors considering unfamiliar or higher-risk markets. By committing their own capital alongside commercial partners, DFIs share the consequences of investment decisions and provide a credible signal that an opportunity has been subjected to rigorous appraisal. Their participation may also offer an additional layer of protection where their relationships with governments, institutional standing or creditor treatment reduce the likelihood of adverse treatment. This matters particularly in frontier markets, where limited information, regulatory uncertainty and a lack of transaction precedents can cause perceived risk to exceed the underlying commercial risk.

In countries like Sierra Leone, the reassurance extends beyond the initial commitment of capital. As evidenced by ARIA, private co-investors can rely on a DFI's country knowledge, due diligence, transaction structuring and continuing supervision of financial, environmental, social and development performance. A DFI can also act as a lead investor during negotiations and coordinate responses if performance deteriorates or an exit must be managed. These benefits depend on the institution retaining meaningful exposure throughout the investment: sufficient “skin in the game” aligns incentives and gives private partners confidence that the DFI will remain actively engaged. Co-investment can therefore help private investors enter markets and transactions they might otherwise avoid.

Deploy mobilisation instruments

DFIs can also use capital mobilisation instruments to reshape the allocation of risk between public and private investors. Structured finance allows a DFI to take a junior or first-loss position, protecting commercial participants from an agreed share of losses and improving the senior tranche's risk-return profile. Guarantees and insurance can instead transfer defined exposures, such as borrower default, political interference or currency volatility, to a DFI or specialist provider. These instruments are particularly important in frontier markets, where one material risk can make an otherwise viable transaction unacceptable to a private investor.

Where commercial DFI finance alone cannot always produce an investable proposition, concessional resources can be blended into the structure to absorb additional risk, reduce financing costs or improve expected returns. Blended finance instruments should not remove all risk or permanently subsidise an investment, but they can help address market failures preventing capital from flowing. Any concession should therefore be limited to what is necessary and designed around a credible route to commercial sustainability. Used in this way, mobilisation instruments can crowd private capital into transactions that would otherwise remain unfunded.

Provide technical assistance to potential investees

DFIs are increasingly deploying technical assistance to expand the pool of viable investment opportunities in frontier economies. As ARIA has shown through its technical assistance facility in Africa, the most catalytic support is provided before or alongside an investment and is linked directly to the requirements of prospective investors. It can strengthen governance and management systems, improve financial reporting and modelling, establish environmental and social management systems, prepare investment documentation, and help businesses navigate due diligence and transaction negotiations. By closing these capability and information gaps, technical assistance can reduce origination costs and execution risk for investors while enabling promising firms to meet institutional investment standards. It is therefore an important pipeline-building instrument and a central component of the mobilisation agenda.

Similarly, experience from Invest for Impact Nepal (funded by a combination of DFIs including BII and FMO, and a donor, the Swiss Development Cooperation) illustrates how this can work in practice. Its technical assistance facility supports banks and funds in Nepal to strengthen environmental and social systems, governance, management information, financial resilience and investor propositions. This investment-readiness support has helped expand the number of DFI-ready financial institutions from two to six and is part of wider programme efforts that have crowded in new investors, contributing to USD 201 million in disbursements to eight financial institutions. This example shows that technical assistance is most effective when it is demand-led and connected to identifiable investment opportunities.

Collaborate with others

Collaboration is essential because no single DFI is likely to possess the origination reach, risk capacity, market knowledge and volume of suitable assets required to mobilise private capital at scale. DFIs tend to collaborate with one another, private asset managers and local financial institutions to expand origination and create investment products that private investors can access. They co-finance transactions, invest through local banks and funds, and pool assets into larger, diversified

portfolios that better match institutional investors' preferred scale and risk profile. These partnerships combine DFI capital and market knowledge with the distribution and in-country reach of other institutions, increasing the number of viable transactions and creating opportunities for co-investment and follow-on finance.

Crucially, in a few instances DFIs are also working with donors, governments and regulators to tackle constraints that cannot be resolved through individual investments. In Sierra Leone, collaboration between the DFI funders of ARIA and FCDO, which funds Invest Salone, has proven essential for strengthening the investment ecosystem, helping create the conditions for investment. Similarly in Nepal, DFI- and donor-funded Invest for Impact Nepal has brought DFIs, development partners, investors and regulators together through policy dialogue, investor missions, technical studies and coordinated engagement. This collaboration has supported six policy and regulatory reforms, including recognition of DFIs as a distinct investor category, changes to foreign investment and lending rules, and reduced withholding tax on foreign loans. By coordinating investor feedback and translating it into evidence-based reforms, Invest for Impact Nepal has improved the investment framework and helped increase DFI participation and capital mobilisation. These examples show how collaboration enables DFIs to expand pipelines, reduce transaction barriers and mobilise investment beyond the reach of any single institution.

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Limits to DFIs' capacity to mobilise private capital

Despite their catalytic mandate, DFIs have mobilised private capital at a scale well below global development needs. This reflects the difficulty of reconciling development objectives, financial sustainability and operational constraints in frontier markets, such as Sierra Leone, where investable opportunities are limited and risks are high. The following subsections examine the main challenges affecting mobilisation for DFIs.

Limited scale of mobilisation

Many DFI operating models are primarily designed to originate, finance and manage investments on their own balance sheets – their core function being to deploy capital. Revenue structures, staff targets and portfolio systems therefore tend to favour holding assets rather than distributing risk to other investors. Mobilising at greater scale would require DFIs to originate more assets than they retain and transfer exposure through syndications, funds, securitisations or other mechanisms, which would be a significant change in institutional capacity and business model.

DFI investments are often tailored to the specific projects and markets they support. While this flexibility is important, it also means that each institution may use its own documentation, due diligence processes and reporting requirements. As a result, transactions can be more complex and costly, and it becomes harder to combine investments into the large, standardised portfolios that pension funds, insurers and other institutional investors typically prefer. Smaller DFIs face additional challenges, as they may not have enough investment volume to build specialised teams or create sufficiently diversified portfolios. These factors limit the supply of DFI investment products with the scale and consistency needed to attract private capital.

Constraints on risk-taking

DFIs must balance their catalytic role with requirements to preserve capital, maintain credit quality and manage portfolio concentration. These obligations, together with incentives to deploy capital efficiently, can favour larger, comparatively secure transactions, and more established markets. Yet these are often the areas in which commercial investors are already most able to participate, reducing the additional private finance that DFI involvement can mobilise.

Mobilisation in more difficult markets often requires DFIs to absorb risks that commercial investors cannot initially bear through first-loss positions, guarantees or local-currency finance. Pioneering transactions may also be needed to establish performance records and demonstrate the viability of unfamiliar markets or business models. Such investments entail potential losses and may produce modest mobilisation ratios initially, creating a difficult trade-off between near-term financial and mobilisation performance and longer-term market development.

Difficulty reaching the poorest countries

Mobilisation is particularly challenging in the poorest and most fragile countries such as Sierra Leone, where transaction sizes are smaller, pipelines thinner, market infrastructure weaker and origination and supervision costs higher. Commercial mandates and mobilisation targets can consequently favour countries with stronger institutions, larger firms and more readily investable projects. This creates an inherent tension between maximising immediate mobilisation and directing capital towards markets with the greatest development needs and least access to commercial finance.



Blended finance remains difficult to scale

Blended finance has enabled investments that might not otherwise have proceeded, but it has not yet reached the scale initially anticipated. Transactions remain largely customised, making them costly and slow to structure and difficult to reproduce across markets. Fragmented instruments, documentation and reporting, limited performance data and small ticket sizes can deter institutional investors, particularly in fragile and low-income countries. Modest concessional allocations and uneven coordination among donors and DFIs further constrain the development of larger portfolios.

Consequently, blended structures have mobilised relatively limited volumes of commercial finance and remain concentrated in sectors and countries where opportunities are easier to develop. One-off transaction support and the limited use of standardised platforms and pooled assets make successful approaches difficult to replicate at scale, particularly in local-currency investments and the poorest or most fragile markets.

Limited scope for market-building support

DFIs are increasingly providing valuable technical assistance to investee companies, such as through the technical assistance facilities under ARIA in Africa or Invest for Impact Nepal. However, for many DFIs, support is usually transaction-linked and targeted at firms already within an investment pipeline or post-investment. Although it can strengthen an individual investment and increase its development impact, it tends to reach firms that have already crossed the investment threshold rather than the larger group of promising enterprises that remain outside DFI pipelines.

Broader market-building interventions can reduce information gaps and origination costs, strengthen investment ecosystems and generate pipelines for repeated transactions. However, their benefits are diffuse, emerge over longer periods and cannot readily be attributed to a single investment or captured through immediate financial returns. These characteristics make such activity difficult to accommodate within transaction-focused DFI mandates and funding models.

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Market failures in frontier economies

A common assumption underpinning much of the current literature is that investment is primarily constrained by excessive risk. Consequently, donor and DFI interventions have increasingly focused on financial instruments designed to reduce investment risk through guarantees, concessional finance and first-loss capital. While these mechanisms remain important, they address only one dimension of a much broader set of market failures.

In reality, investment decisions are often shaped by the overall quality of the investment ecosystem. Investors assess the wider institutional environment within which those businesses operate as well as the commercial viability of individual businesses. Predictable regulation, reliable market information, capable financial institutions, trusted intermediaries, experienced management teams and investment-ready enterprises all influence whether capital can be deployed efficiently. Where these foundations are weak, the availability of concessional finance alone is rarely sufficient to generate sustained levels of investment. And whilst the benefits of addressing these weaknesses are spread across the wider market, no single actor has a strong incentive to do so. As a result, these constraints often persist despite being critical to private capital mobilisation.

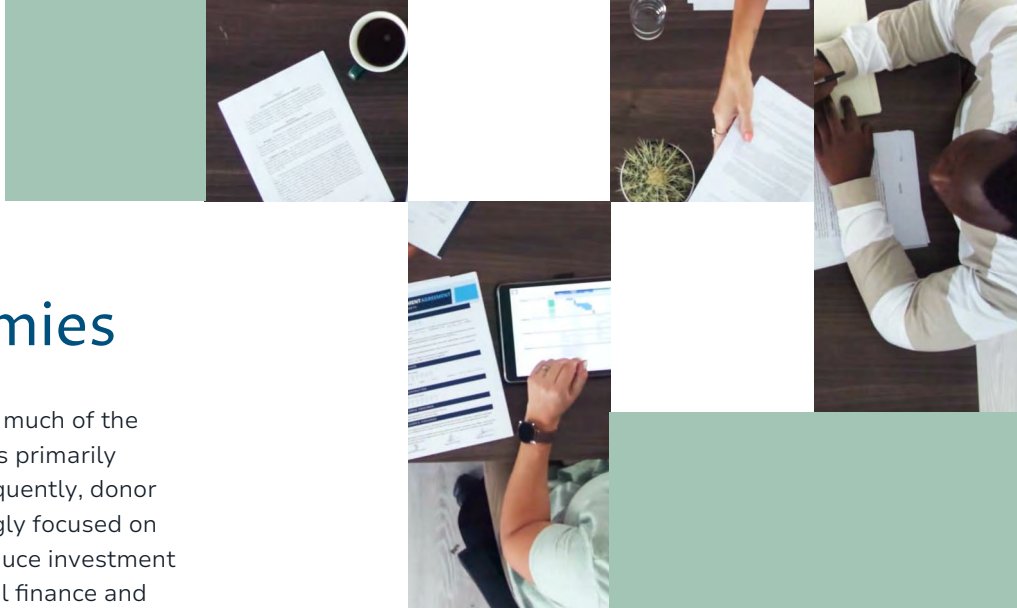
This challenge is particularly important in fragile states such as Sierra Leone. Although the country offers significant opportunities, investors continue to face structural constraints that increase transaction costs, reduce confidence and limit the pipeline of investable opportunities. Experience from Invest Salone demonstrates that these challenges are rarely confined to individual firms but instead reflect weaknesses across the wider investment ecosystem that require coordinated market-building interventions rather than isolated financial solutions. The sections below describe the main constraints in frontier markets.

Institutional and regulatory constraints

One of the most significant barriers concerns the quality and predictability of institutions. Fragile economies such as Sierra Leone often experience frequent policy changes, inconsistent regulatory enforcement – particularly by central banks and ministries of finance – overlapping institutional mandates and limited administrative capacity. These conditions increase uncertainty, lengthen transaction timelines and raise the costs of investment appraisal and due diligence.

For DFIs and impact investors, whose investments often involve long-term commitments (typically in frontier markets this may be five years or more), regulatory predictability is often as important as commercial performance. Even well-performing businesses become difficult to finance where licensing procedures remain unclear, investment policies change unpredictably or contractual enforcement is uncertain.

Many of these constraints are not solely the result of limited capacity or weak institutions. They also reflect underlying political economy dynamics, including competing interests, weak state-business relationships and incentives that can delay or undermine reform. In fragile economies, investors often face uncertainty not only because rules are unclear, but because of the way those rules are interpreted and enforced and how they may change over time.



Information asymmetries and market intelligence

Investment decisions depend heavily upon reliable information. Yet many fragile economies suffer from significant information asymmetries. In particular, investors frequently lack credible sector data, investment pipeline information, comparable financial performance benchmarks, ESG performance information, and transaction precedents. These information gaps increase deal search and administration costs and contribute to investor perceptions that viable opportunities are scarce or difficult to identify.

Limited investment-ready pipelines

A central constraint in fragile economies such as Sierra Leone is the limited pipeline of commercially promising businesses that are sufficiently mature to attract institutional investment. Many enterprises occupy the “missing middle”: they have progressed beyond the start-up phase and can generate significant development impact, particularly in sectors such as agriculture, renewable energy, healthcare, financial inclusion and climate adaptation, but remain too small, early-stage or institutionally underdeveloped to meet the requirements of DFIs and impact investors.

Most DFIs typically have minimum investment thresholds of around USD 3–5 million per transaction, due to the high fixed costs associated with originating, structuring, conducting due diligence and monitoring investments. Consequently, many otherwise viable enterprises remain below the investment horizon of DFIs, despite demonstrating strong commercial potential and alignment with development objectives.

These firms often also lack the financial reporting, governance, environmental and social systems, management information and investor documentation required to access long-term debt or equity. This reflects wider weaknesses in business support ecosystems, including limited access to specialist advisers, experienced mentors and corporate finance expertise able to help businesses make the transition from entrepreneurial enterprise to investable company.

Weak investment intermediation

An equally important but often overlooked constraint is the absence of effective investment intermediation – the organisations and services that connect entrepreneurs with appropriate sources of finance. In more mature financial markets, this intermediary function is performed by a diverse ecosystem of organisations, including investment promotion agencies, private equity and venture capital associations, corporate finance advisers, transaction advisers, business accelerators, and business membership organisations. Collectively, these organisations reduce information asymmetries, improve the quality of investment opportunities and facilitate the matchmaking function between businesses and investors.

However, in Sierra Leone as in many fragile economies, businesses frequently lack access to trusted advisers capable of helping them understand investor expectations, improve governance, prepare investment documentation or navigate complex due diligence processes. At the same time, DFIs and impact investors often struggle to identify credible investment opportunities, relying instead on limited local networks or undertaking resource-intensive deal origination activities. This significantly increases transaction costs, lengthens investment timelines and contributes to the perception that fragile markets lack investable opportunities.

Fragmented investment ecosystem

Finally, the investment ecosystem in markets such as Sierra Leone often remains fragmented, even where some of its constituent elements are in place. Governments, donors, DFIs, commercial investors, financial institutions and private sector organisations often pursue complementary objectives but operate through separate programmes, reporting systems and engagement mechanisms.

This fragmentation increases duplication, weakens coordination and learning opportunities, and ultimately reduces the number of investment opportunities that can progress from enterprise support to institutional finance.

How donors can support private capital mobilisation

Taken together, these systemic constraints suggest that limited investment in fragile economies such as Sierra Leone is not a failure of finance. Instead, it reflects weaknesses across the broader investment ecosystem, which constrain the ability of DFIs and other investors to deploy capital effectively. In such a situation, the rationale for donor programme intervention lies less in subsidising individual transactions and more in strengthening the institutions, market infrastructure and relationships that enable markets to function effectively. These are interventions that individual investors, even those with strong development mandates, are generally unable or unwilling to finance because their benefits extend well beyond any single transaction.

Importantly, donor-funded programmes increasingly perform functions that neither governments nor DFIs are well positioned to undertake independently. These programmes identify and develop investable businesses, broker relationships between firms and investors, co-fund investor missions, provide bespoke technical assistance to improve investment readiness and facilitate engagement between government, financial institutions and the private sector. More specifically, in the case of Invest Salone, the programme has played a direct role in expanding and qualifying Sierra Leone's investment pipeline by providing on-the-ground market intelligence, identifying investment opportunities, supporting DFI due diligence, developing investment-readiness toolkits for financial institutions and convening dialogue between DFIs, development partners and Sierra Leonean stakeholders. Thus, Invest Salone increasingly functions as an "investment ecosystem builder", creating the market infrastructure, trusted relationships and institutional capability that enable DFIs and commercial investors to operate more effectively in fragile economies.

THE SECTIONS BELOW OUTLINE SOME OF THE AREAS OF INTERVENTION WHERE DONOR PROGRAMMES CAN ADD SIGNIFICANT VALUE AND HELP CREATE THE CONDITIONS FOR SCALING MOBILISATION OF PRIVATE INVESTMENT INTO FRONTIER MARKETS.

Create an enabling environment for investment

Private investment depends on an enabling environment characterised by clear and consistent policies, predictable regulation and public institutions capable of implementing and enforcing rules transparently. Weak or frequently changing investment, tax, trade, land and sector regulations increase uncertainty, delay transactions and raise compliance costs, even where commercial opportunities are strong. Donor programmes can help governments address these constraints through evidence-based policy advice, regulatory reform, institutional strengthening and structured public-private dialogue, creating more durable conditions for investment than support to individual transactions alone.

Invest Salone specifically addresses this through its Investment Climate Reform pillar, which convenes government, private sector organisations and civil society to address constraints affecting investment across priority sectors. Alongside policy dialogue, the programme has produced an extensive portfolio of research and market intelligence that informs investment policy and private sector decision-making. By 2025, Invest Salone had published more than 60 research and policy products supporting evidence-based reform while facilitating dialogue around investment constraints in sectors including agriculture, tourism and access to land.

The value of these interventions lies not only in the individual policy changes supported, but also in their cumulative effect in reducing market uncertainty and lowering the costs of future investment. Examples include Invest Salone's support to constructive dialogue around the Land Bill, which helped address concerns around agricultural FDI; public-private dialogue on import duties and port clearance, which contributed to reducing compliance burdens for SMEs; and support to Sierra Leone's sustainable finance agenda through a roadmap, voluntary sustainable finance principles and practical guidance for finance institutions.



Tackle information asymmetries

Information asymmetries are a barrier to investment, as investors who lack reliable market data may overestimate risk or avoid otherwise viable opportunities altogether. Donor-funded programmes have an increasingly important role to play in addressing information asymmetries by acting as trusted sources of market intelligence. Invest Salone has, through its collaboration with ARIA, acted as a focal point for DFIs and commercial investors seeking credible market intelligence, pipeline information and introductions to investable firms in Sierra Leone. These functions help to reduce information asymmetries while improving investor confidence and lowering market entry costs. They also illustrate that reliable information should itself be regarded as essential market infrastructure.

Build a pipeline of investment-ready businesses

Enterprises in the “missing middle” often fall between early-stage support and institutional investment: they are too mature for the former, but too small, risky or institutionally underdeveloped to meet DFI and commercial investor requirements. This represents a market failure because private investors have limited incentives to fund the enterprise acceleration needed to move these businesses towards investment readiness, even though stronger firms can demonstrate market viability, improve value-chain performance and build wider investor confidence. Donor-funded programmes can address this gap by identifying promising businesses and supporting their progression towards investment.

Invest Salone illustrates this role through its Market Development pillar, which combines technical assistance, grant funding and tailored advisory support to strengthen governance, financial management, environmental and social systems, management capability, impact measurement and investment strategy. The programme has supported firms including So Pure, Easy Solar, GLS, Vista Bank and Jolaks through legal and technical due diligence, financial modelling, feasibility

work, investment documentation and investor engagement. Subsequent investments included USD 250,000 in working capital for So Pure from Zvilo Capital, a USD 2 million SAFE note for Easy Solar from Triodos, and USD 20 million for Jolaks from Proparco. Since its inception, Invest Salone has helped 247 businesses improve their productivity and competitiveness while contributing to GBP 63 million of investment in Sierra Leonean enterprises.

These figures may understate the programme’s wider contribution. Not all supported businesses secure finance immediately, but many become better positioned to attract DFI or commercial investment over time. The impact of this support is therefore cumulative: it expands the future pipeline of investable businesses as well as facilitating immediate transactions.

Strengthen investment ecosystems

Building durable investment ecosystems is important because private capital depends not only on viable firms, but also on capable local institutions, trusted intermediaries and sustained relationships that can identify opportunities, support businesses, advocate for reform and coordinate market actors. Investment is more resilient when these functions remain in place after external funding ends, rather than disappearing after closure of a support programme.

Donors can build these ecosystems by acting as catalytic market developers and strengthening promising local organisations rather than substituting for them. Support can target business and private equity associations, accelerators, transaction advisers, universities, innovation hubs and relevant public agencies, helping them improve their services, build links with investors, regulators and enterprises, and perform market-wide functions that individual transactions will not finance. Stronger intermediaries can reduce investors’ search, origination and due diligence costs, improve the quality of investment opportunities and sustain business support and policy engagement over time.

Invest for Impact Nepal illustrates this approach. Rather than operating solely as a technical assistance facility, the programme has strengthened organisations across Nepal’s financial ecosystem, including banking associations, private

equity organisations, government agencies and universities, while deliberately building relationships among them. It has identified organisations with the potential to become lasting ecosystem actors and worked incrementally to strengthen their capability, enabling them to continue shaping market development after programme support ended. Invest for Impact Nepal also plans for sustainability by encouraging partners to generate revenue through membership services, training, investment advisory services and research products. This has helped create stronger, better-connected institutions that could become permanent components of the investment ecosystem rather than temporary delivery mechanisms.

Coordinate investment ecosystems

The investment ecosystem comprises governments, DFIs, commercial investors, funds, banks, business associations, development partners and advisory organisations, each pursuing complementary objectives but operating under different mandates and incentives. Without effective coordination, fragmented interventions increase transaction costs, duplicate effort and weaken market signals.

Invest Salone has, together with ARIA, increasingly adopted a convening role that brings together investors, government and development partners around common investment priorities. Recent initiatives include joint investment missions, structured DFI working groups, investment summits and collaborative development of investment pipelines. The 2024 Sierra Leone Investment Summit, jointly organised by Invest Salone, ARIA and other partners, showcased fifteen investment opportunities spanning agriculture, manufacturing, financial services, logistics and renewable energy, with investment requirements ranging from USD 0.5 million to USD 25 million. The summit demonstrated that investment promotion is most effective when pipeline development, ecosystem coordination and investor engagement are integrated rather than delivered through separate initiatives. Donors have a key role to play in increasing that integration by playing a coordinating role across investment ecosystem actors.

Similarly, Invest for Impact Nepal demonstrates the value of ecosystem coordination. The programme has created a structured platform through which DFIs, development partners, investors and regulators can identify shared constraints and pursue solutions collectively. Joint policy dialogue, investor missions, technical studies and coordinated engagement with key government stakeholders have supported six policy and regulatory reforms. These include changes to foreign investment and foreign loan rules, formal recognition of DFIs as a distinct investor category, a reduction in withholding tax on foreign lending, revised conditions affecting microfinance investment and the adoption of swap bylaws. By giving investors a collective voice and providing regulators with coordinated, evidence-based proposals, Invest for Impact Nepal has made the investment framework easier to navigate and contributed to increased DFI participation and capital mobilisation. The lesson is that collaboration is not an ancillary activity: it is a mobilisation mechanism that can expand origination, improve investability and remove market-wide barriers that no institution could address alone.

Build social capital and trust

An additional comparative advantage of donor-funded programmes is their ability to build trust between actors that rarely collaborate effectively in contexts such as Sierra Leone. Investment decisions also depend upon relationships, credibility and shared understanding between governments, investors, regulators and businesses. These forms of social capital are often overlooked within development finance despite their importance. Investors consistently identify trusted local relationships as one of the most valuable sources of market intelligence, particularly where formal information remains limited.

The Invest for Impact Nepal programme highlights relationship-building as one of the initiative's greatest achievements. Through regular stakeholder engagement, policy dialogue and investment forums, Invest for Impact Nepal developed trusted relationships across government, DFIs, financial institutions and the private sector. These relationships subsequently enabled coordinated responses to emerging policy issues and improved the quality of investment dialogue throughout the financial ecosystem.

How donors and DFIs can unlock private investment

Experience from Sierra Leone through Invest Salone and ARIA, alongside Invest for Impact Nepal, shows that mobilising private capital in frontier markets requires donors and DFIs to combine their distinct capabilities more systematically. DFIs bring capital, investment expertise and risk-sharing instruments, while donor programmes can build pipelines, strengthen institutions, improve market information and address constraints across the wider investment ecosystem.

Scaling mobilisation therefore requires more than support to individual firms and transactions. This section focuses on how donors and DFIs can combine their complementary roles to address the market-wide constraints that limit private investment in frontier economies. It considers the forms of collaboration and aligned support needed to connect market development with capital deployment, strengthen investment ecosystems and enable mobilisation at greater scale.

Institutionalise donor-DFI collaboration

In most fragile economies, collaboration between donor programmes and DFIs is largely ad hoc and remains highly dependent upon personal relationships and individual initiatives. One of the most interesting lessons emerging from Invest Salone's collaboration with ARIA in Sierra Leone is that the coordination between the two led to successful market-building activities that resulted in investment that may not otherwise have happened. Their partnership combined ARIA's DFI relationships with Invest Salone's local knowledge and investment-readiness support. For Jolaks Manufacturing Company, ARIA facilitated engagement with DFIs and helped the company navigate the investment process, while Invest Salone provided legal, financial and transaction support. This contributed to a USD 20 million investment by Proparco.

At the same time, the collaboration between the two programmes has also highlighted continuing challenges around information sharing, pipeline tracking and coordination between donor and DFI investment teams, where collaboration had not yet been fully institutionalised. A key lesson is that future programmes should establish formal collaboration mechanisms between donors and DFIs from inception. Structured cooperation can align market diagnostics, pipeline development, technical assistance, policy reform and investor engagement, reducing duplication and enabling problems identified during origination to be addressed systematically. This is particularly important in frontier markets, where the investment ecosystem is often too thin for individual institutions to operate efficiently and mobilisation depends on coordinated action before, during and after a transaction.

From transaction support to market development

Historically, many donor-funded private sector development programmes have measured success through the number of businesses supported, grants awarded or investments facilitated. Similarly, DFI programmes have tended to define success by the number and volume of transactions achieved. While these outputs remain important, they provide only a partial measure of whether interventions are creating the wider market conditions needed to mobilise private capital at scale. A narrow focus on individual firms and transactions can produce valuable results without addressing the systemic constraints that continue to limit pipelines and deter investors.

DFIs are increasingly recognising the importance of market-building activities alongside technical assistance to potential investees. For instance, BII is expanding its market-building initiatives through its technical assistance facilities, including ARIA, which has undertaken market diagnostics and other studies in its African target countries. These efforts could be strengthened through closer collaboration with donor programmes, which tend to operate larger budgets over a longer period of time, and a deliberate shift from supporting isolated transactions towards addressing the market-wide constraints that prevent mobilisation from scaling.

Improve the use of blended finance instruments

One key tool to advance the private capital mobilisation objective is blended finance. Blended finance models, such as guarantees, insurance and structured funds, have demonstrated effectiveness but remain underutilised and have so far not been able to help mobilise investment at the scale needed. In 2023, official development finance interventions mobilised only USD 70 billion of private finance – and less than one-fifth of development finance providers' portfolio had private finance mobilisation as a core objective [OECD, 2025b].

Blended finance should be placed at the core of both donor and DFI programming and be used to more effectively mobilise finance into frontier markets. Reflecting the OECD Development Assistance Committee Blended Finance Principles,

programming should anchor blended finance to a development rationale and be designed explicitly to unlock mobilisation of commercial finance. Donors and DFIs should then collaborate to make greater use of blended finance to overcome investment barriers and demonstrate the investability of frontier-market assets. They should develop simpler, standardised and scalable instruments, such as guarantees, securitisations, structured funds and bonds, that meet investor needs. Greater transparency on the performance and risks of blended products is also essential, as perceived risk of these often exceeds actual risk. Scaling these products will also require appropriate regulatory treatment so that institutional investors can hold them without disproportionate capital charges or other constraints that make otherwise viable investments unattractive.

“ Market building, not just deal making, is essential to unlock long-term private investment.

Build local capital markets

Efforts to mobilise private finance into frontier markets have focused largely on institutional investors from advanced economies, with limited results. Greater attention is therefore turning to domestic capital: private assets under management across frontier markets are estimated at USD 17 trillion and could reach USD 45 trillion by 2040, while African capital pools total about USD 4 trillion [Attridge & Svenstrup, 2026]. The challenge is not the availability of finance, but the ability of domestic financial systems to channel it into productive, long-term investment.

Shallow capital markets, weak regulation and limited infrastructure constrain this intermediation. Pension funds and insurers often concentrate holdings in government securities, while few firms have the governance, scale or capability to issue marketable instruments. Businesses therefore remain reliant on bank lending and foreign-currency finance, increasing exchange-rate and debt-servicing risks. Weak liquidity and a narrow investor base further limit investment in domestic securities.

Donors and DFIs should therefore make stronger local capital markets a priority within mobilisation strategies. Support should strengthen regulation, financial infrastructure, corporate governance and local-currency instruments. Deeper markets can reduce currency mismatches, improve liquidity and pricing, broaden the pipeline of investable assets and reduce reliance on external foreign-currency borrowing, supporting more resilient growth and attracting both domestic and international investors.

Balance trade-offs between mobilisation and additionality

Donors and DFIs need to manage an inherent trade-off between mobilising larger volumes of private capital versus directing finance towards the most difficult countries and sectors. Transactions in established markets with stronger pipelines and more familiar risks are generally better placed to attract commercial co-investment. By contrast, investments in fragile states, early-stage businesses or untested models may deliver greater additionality but require more preparation and support, and may mobilise less private capital in the short term.

Rather than applying a single mobilisation target across all activities, donors and DFIs should distinguish between interventions designed primarily to maximise capital mobilisation and those intended to pioneer investment where markets are least developed. This requires differentiated objectives, instruments and measures of success. In more investable markets, they can prioritise scalable structures that crowd in institutional capital; in more challenging contexts, they should accept lower initial mobilisation where their finance can demonstrate viability, build pipelines and create the conditions for future private investment.

Climate investment offers an important opportunity to advance both objectives. Large pipelines in renewable energy, energy efficiency, resilient infrastructure and climate adaptation can attract investors seeking climate-aligned assets. Donors and DFIs should use these opportunities to mobilise capital at scale while deliberately extending support to less mature markets and higher-risk climate investments through concessional finance, guarantees and market-building. A balanced portfolio approach can therefore combine high-mobilisation climate transactions with more catalytic investments that expand access to finance in the places where it is most constrained.



Conclusion

The mobilisation of private capital has become both an economic necessity and a strategic imperative if countries such as Sierra Leone are going to deliver a more inclusive pattern of economic growth. Faced with constrained ODA budgets and growing financing needs, DFIs, impact investors and commercial capital will play an increasingly important role in financing economic development. However, as this paper has argued, mobilising private capital requires a much more active role by donor projects than simply financial de-risking.

Evidence from Sierra Leone, supported by lessons from Invest Salone and ARIA, and from Nepal, through Invest for Impact Nepal, demonstrates that successful investment depends upon the strength of the wider investment ecosystem. Markets require capable institutions, trusted intermediaries, investment-ready businesses, effective policy frameworks and coordinated public and private actors before capital can be deployed at scale. These are public goods that few DFIs or commercial investors are typically mandated to create, but which donor-funded programmes are uniquely positioned to develop.

The experience of Sierra Leone shows this evolution in practice. Programmes such as Invest Salone have moved beyond traditional enterprise support to strengthen investment ecosystems, improve investment readiness, develop longer-term pipelines of investable firms, facilitate policy reform, and broker relationships between investors and businesses. In doing so, they demonstrate that donor programmes create value by improving the way investment-related markets function.

This has several implications for future donor programming. Rather than viewing market creation as a set of foundational activities prior to investment, this paper argues that it is a core component of private capital mobilisation strategies. Investments in institutions, ecosystem organisations, market intelligence, enterprise support and investment intermediation should be considered complementary to DFI investment and funded alongside DFI interventions if investment outcomes and ambitions are to be achieved. This requires structured collaboration between donors and DFIs from the outset, so that market diagnostics, pipeline development, technical assistance, policy reform and investment instruments are aligned around shared mobilisation objectives. Together, they create a continuous pipeline of investable opportunities while reducing the structural constraints that limit private investment in fragile economies such as Sierra Leone.

Ultimately, the choice is not between supporting DFIs or supporting market development; successful investment mobilisation depends on both. DFIs provide the capital required to scale businesses and help demonstrate their commercial viability and social impact, while donor-funded programmes build the markets that make those investments possible. Neither can achieve mobilisation objectives at scale in isolation: sustained cooperation is needed to connect market-building support to investable pipelines, match appropriate finance to emerging opportunities and address barriers that arise across the investment process. For Sierra Leone and other frontier markets, maintaining this balance will be critical to creating more resilient investment ecosystems and mobilising greater volumes of private capital that can support deeper economic transformation.

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