



COLLABORATIVE
FOR FRONTIER FINANCE



SMALL BUSINESS FINANCE IN AFRICA

STATE OF PLAY REPORT 2025

ISSUE BRIEF NO. 1

INTRODUCTION MARKET OVERVIEW

Earlier this year, ahead of the FfD4 gathering in Seville, the Economist wrote of the widening gap in achieving the UN Sustainable Development Goals first set out at Addis Ababa in 2015. It observed, “...less foreign investment trickles into Sub-Saharan Africa now than when the phrase billions to trillions was coined [at the Addis Ababa FfD meetings in 2015.]”.¹ This “lost” decade has been particularly pronounced in the area of small business finance.

Building on seven years of annual surveys and individual reports, the Collaborative for Frontier Finance (CFF) aims to bring greater transparency and data to the sector by offering a candid look at what’s working, what is not, and provide insights into emerging approaches and potential solutions.

Earlier this year, CFF released preliminary findings from three surveys conducted with 100+ local capital managers, Small Business Growth Funds operating across Africa and MENA.² Given significant developments in the market since the earlier publication, CFF opted to take a deeper look at the current state of play. This new publication builds on the original survey findings and complements them with further firm-level data, inputs gathered through structured interviews with fund managers, and 3rd party reports. These latter additions provide important context and nuance to our data. Further, we have incorporated analytical work by researchers, academics and other organizations that look at factors related to important components within small business finance. We believe this combination allows this report to be one of the most detailed and context-rich assessments of Africa’s small business finance landscape to date.

Together, these insights provide a comprehensive and timely overview of the



supply and demand side considerations facing early-stage capital providers – factors that have bottlenecked the provision of appropriate capital for small and growing businesses (SGBs).

In particular, we explore new pathways for addressing this capital gap, and the role that an emerging asset class of Small Business Growth Funds plays, along with the emerging pathways to unlock capital for small businesses across Africa and MENA. Accompanying this summary report, we provide a more detailed presentation, **“The State of Play of Africa’s Small Business Growth Funds – and Looking Forward”**.

We frame the discussion around what we refer to as the **“Hourglass Dilemma”**. This is the choke point in which institutional and development capital struggle to provide the appropriate capital that fuels the growth of small businesses. To date, systemic barriers and market behaviors have together limited the ability to provide SGBs with financing that meets their business needs, cash flow capacity to repay, and flexibility in terms to meet their business cycles. In order to mobilize capital into Africa’s small enterprises, it is critical that new pathways are tapped – and funded at scale. Central to the discussion on new pathways, we review the emergence of a new asset class of capital managers, Small Business Growth Funds (“Growth Funds”, “GFs”); local nonbank capital vehicles that are purposely financing and investing in Africa’s growth-oriented enterprises.

¹ The Economist, “The Chimera of Private Finance for Development,” May 15, 2025.

² We use the terminology, “Local Capital Managers”, “LCPs” and “Small Business Growth Funds”, “Growth Funds” interchangeably.

This report, the first of a series, provides a broad overview regarding the current state-of-play regarding access to finance for Africa's growth-oriented small businesses.³ In partnership with others, we look to follow up this report with deeper dives into several thematic areas.

We hope these reports help to further illuminate both the opportunities and the challenges in accelerating the pace and scale of capital for Africa's growth-oriented enterprises. We look forward to feedback and to collaborating with organizations equally committed to strengthening the resilience and financial sustainability of local economies.

For more information

Please feel free to reach out to us.

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Thank you to our funders Argidius Foundation, Small Foundation, FCDO, FSD Africa, MacArthur Foundation, and Lemelson Foundation whose support makes this type of systematic data collection and market analysis possible.

We would like to also thank and recognize the market system level work of other networks; We-Fi, 2X Global, Women in Africa Investments and Investisseurs & Partenaires - I&P. We have also benefited from analytic work and reporting by ISF Advisors, International Growth Centre, BII's Development Economics team and John Walugembe in Uganda.

Most of all, thank you to the local Small Business Fund Managers in the CFF Early-Stage Capital Provider Network (ESCP) and LAUNCH Capital Provider Programme. These local fund managers are the vanguard of this asset class; creatively, pragmatically, and persistently building this market for others to follow.



Drew von Glahn

Executive Director

Collaborative for Frontier Finance

Partners



³ We interchange the terminology of ANDE "small and growing businesses", "SGBs"; with "growth-oriented small businesses".

CONTENT OVERVIEW

This report is structured as follows:

- I. Observations

- II. The “Hourglass Dilemma”

- III. Demand-side Realities

- IV. Supply-side Barriers

- V. New Pathways

- VI. Growth Funds

- VII. Going Forward

This report focuses on the State-of-Play related to the role of the emerging asset class of Local Capital Managers play in providing growth capital to Africa’s small and growing businesses. We use the terminology, “local capital managers”, “LCPs” and “small business growth funds”, “Growth Funds” interchangeably in this study.

We hope this report not only informs but also inspires collective action to accelerate capital for Africa’s growth-oriented enterprises. By working together, we can strengthen resilience and build more sustainable local economies.



HEVA Fund



Afrishela and Welo Health



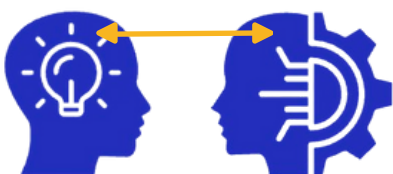
Tshiamo Impact Partners, 2X Global, and ACELI Africa

OBSERVATIONS AND RECOMMENDATIONS



As a summary, we provide several initial **recommendations**. The background, context, and potential of such initiatives are detailed in further in this report.

1. CLOSE THE INFORMATION ASYMMETRY GAP



There continues to be a lack of understanding as to “who are these small, growth-oriented enterprises? And, “what are their financing needs?” This lack of understanding results in a system level challenge as development players and foundations have continued to support initiatives that do not properly align with needs and capacity of SGBs.

RECOMMENDATION

Establish a mechanism and platform to track and share performance and market-level data. This includes:

- 01** Address the knowledge gap through data collection and tracking mechanisms that capture performance longitudinally and across markets, at both the local fund level and the enterprise level.
- 02** Support the development of platforms for peer knowledge sharing, including existing local labs and knowledge convenings, while ensuring integrated learnings across the continent. This should be complemented by a digital platform hosting shared resources, data, case studies, and analytical work.
- 03** Target learning efforts to inform domestic institutional capital as to the opportunities and mechanisms for providing capital to Africa’s SGBs.

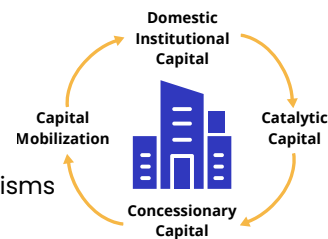
2. MOBILIZE MORE DOMESTIC INSTITUTIONAL CAPITAL INTO SMALL BUSINESS FINANCE

In developed economies, no asset class has achieved scale without tapping into the deep pools of capital held by institutional capital holders. Africa has over \$700bn in pension funds and growing annually.

RECOMMENDATION

Along with the data from Recommendation #1 above to educate on investment opportunities, it is critical to address the operational and risk/return management constraints that confront pension funds and other local institutional capital holders.

- 01** Work with providers of transitional concessionary capital to design de-risking mechanisms that enable pension funds to allocate capital into local Small Business Growth Funds.
- 02** Develop mechanisms to provide liquidity and asset valuation metrics for pension funds to address their regulatory and liability management obligations.



3. BRIDGE THE “VALLEY OF PERSEVERANCE” ON BEHALF OF LOCAL GF MANAGERS

As an emerging asset class, Growth Funds traverse a path from concept stage → to pilot stage → to fund implementation stage → and finally to scale stage and sustainability. While most persevere, too many are materially delayed in reaching scale in a timely manner.

RECOMMENDATION

Catalytic capital is required to address the constraints experienced in the pilot and implementation stages. Resources are required to:

- 01 The market needs world class legal vehicles – scalable across multiple local capital managers, while maintaining the capacity and integrity to meet international investment standards.
- 02 Targeted support for talent retention and team development. Human capital development will improve fund economics as well as build a “Silicon Valley” of talent.
- 03 Allocation of concessionary capital to allow emerging managers to support their initial piloting and implementation phases and finance early warehouse “demonstration” investments



4. INNOVATIONS TO CURRENCY MANAGEMENT FOR SMALL BUSINESS FINANCE



Currency mismatches continue to be a major barrier for small business capital provision across Africa. It is unreasonable to continue to anticipate that growing small business can be achieved by such enterprises directly carrying and managing FX. Further, this requirement by DFIs and international investors directs capital to naturally hedged export-oriented businesses, leaving behind the tremendous investment opportunities for those local enterprises addressing underserved markets for products and services.

RECOMMENDATION A two-pronged approach.

- 01 The best hedge is to have institutional capital sourced domestically. This re-enforces the need to accelerate the engagement of local pension funds and domestic institutional capital referenced in Recommendation #2. Development institutions may provide the concessionary funding to “launch” this pathway, providing the risk coverage that is perceived at this time by managers of domestic institutional capital. Further, field building organisations, funders, and donor agencies can provide technical assistance to local capital managers to further address portfolio and risk management requirements at this early stage of the emerging asset class.
- 02 Secondly, for continued access to hard currency capital sources, new approaches to hedging at the intermediary level are required. This requires collective action among multiple stakeholders and funders. The sector would benefit by engaging through such collective efforts as the working group “Unlocking local capital for MSME lending,” set up to pilot to reduce risk pricing due to currency volatility for MSME lending in Africa. This is an initiative that has been supported by MIT Kuo Sharper Center for Prosperity and Entrepreneurship⁴ after convening over 80 entrepreneurs, investors, policymakers, and ecosystem players to explore solutions to Africa’s currency volatility and its impact on SME financing using guarantees, tapping into local capital, and tech-enabled innovation with five selected markets: Kenya, Uganda, Nigeria, Egypt, and Zambia.



⁴ MIT Kuo Sharper Center for Prosperity and Entrepreneurship, *Hedging Currency Risk: From Strategies to Implementation* (Cambridge, MA: MIT Sloan School of Management, 2025), <https://mitsloandigitalibrary.mit.edu/m/782c38bf5a7a9b07/original/MITKSC-Currency-Workshop-2-Report-FINAL.pdf>.

Growth Funds – an emerging pathway to SGB finance

CFF has been tracking the evolution of this emerging asset class. While they share many organizational and operational similarities with other private sector funds, Growth Funds are focused on Africa's underserved growth-oriented small enterprises. They are providing the requisite capital at the early stage as these enterprises begin their growth. Key characteristics of these GFs include:

- **Financing the 'missing middle'**

Write cheques of \$20k to \$1m+, tenors from 30 days to 7-years.

- **Leveraging local business knowledge**

GP teams operating in market include seasoned business executives with extensive understanding of local markets, customer needs, supply chains etc.

- **Innovative approaches**

Cashflow-oriented, with minimal or alternative collateral-based protections.

- **Post-investment value-add**

Investment thesis calls for supporting their portfolios' business and growth requirements.

- **Providing the funding needed by small businesses**

Working capital, as well as the 'soft' and intangible investments required for growth – offering debt, equity and quasi-equity capital

- **Impact-oriented**

Focusing on job creation and the SDGs.



- **SGB-oriented portfolios**

GFs tend to be sector agnostic and target small, growth-oriented enterprises that meet local market needs. While most businesses are tech-enabled, a few fall into the tech sector

- **Balancing fund economics and small business finance**

Emerging evidence suggests sustainability at a smaller size than the traditional \$30m – \$50m.



Growth Funds – in ten key data points

Growth Funds (GFs) are a heterogeneous group of capital managers, operating across geographies and sectors with diverse investment theses, instruments, and financing terms. As an emerging asset class, however, several key data points help frame and better understand their role and performance.

86% of GFs leadership teams have business management experience

4+ yr Avg. tenor provided by Growth Funds (compared to 2.5 yrs average among Africa's commercial banks)

98% of GFs teams are based in their target market

\$20K– \$1MM typical range of financing transaction size of Growth Fund portfolios

68% of GFs offer flexible funding in the form of self-liquidating financing instruments

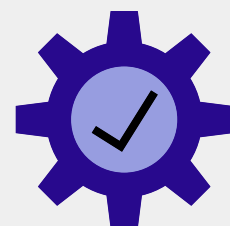
2/3rd of GFs pursue non-collateralized risk mitigation

98% of GFs provide pre- and/or post- investment support, with 84% offering a tailored approach, and 73% of TA is provided through Fund Managers

60% increase in number of GFs with female founders/principals over the prior year

70% of GFs have portfolios that have achieved >10% growth in revenue in the last year

\$2.25BN target AUM of the 100 GFs surveyed in CFF's 2025 State-of-Play report



THE HOURGLASS DILEMMA

of small business finance in emerging markets

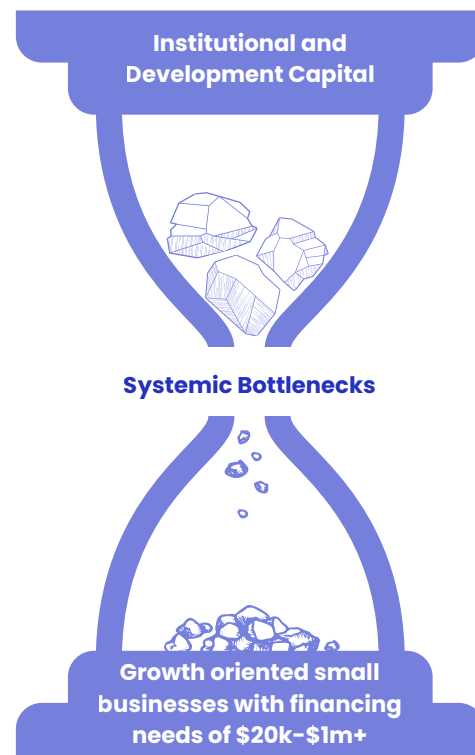
The supply and demand for capital among Africa’s small and growing businesses (SGBs) faces a persistent bottleneck. On the supply side, the funds managed by large capital holders are not easily structured into mechanisms that appropriately meet SGB needs. On the demand side, the market-level requirements of SGB finance remain poorly understood. Together, these factors create an “hourglass dilemma,” in which system-level bottlenecks restrict the flow of capital. As a result, only a fraction of available capital reaches SGBs as they seek resources to grow their enterprises.

Although significant pools of institutional and development capital exist globally, they are not effectively reaching Africa’s SGBs. At the top of the hourglass sit large pools of capital—pension funds, development finance institutions (DFIs), and bilateral agencies—that deploy large tickets of \$30+ million. At the bottom are diverse, distributed SGBs in need of flexible financing, with smaller and more regular ticket sizes of \$20,000–\$1+ million. Between them lies a narrow bottleneck: a lack of appropriate pathways to connect supply with demand.

On the demand side, information asymmetries persist. Small businesses are too often treated as a homogenous group, with limited recognition of their growth trajectories, current stages, progressive capital needs, and repayment or return capacities. Many of these enterprises are increasingly “asset-light” and dynamic, requiring capital solutions that evolve alongside them, unconstrained by traditional collateral requirements. Yet prevailing approaches, often filtered through banks or microfinance institutions, lack the mechanisms, instruments, and terms to meet these needs.

On the supply side, large capital holders are ready to invest but lack intermediary vehicles to do so effectively. Institutional investors require scalable fund structures with diversified portfolios, robust governance, and proven risk management. Unfortunately, some blended-finance solutions have underperformed due to overly complex structures, limited local context, and weak execution. What is needed is not only first-loss capital to de-risk investments but also investment in market capacity and infrastructure, such as human talent, fund administration, and shared platforms, that enables funds to achieve sustainable performance.

To assess these gaps—the systemic factors constraining the flow of capital—the Collaborative for Frontier Finance (CFF) surveys local capital providers. This year, we gathered 104 responses. Using a client-centric financing and investing lens, we examined how their approaches address the demand side, as well as how they access institutional and development capital as sources of funding. Their experiences highlight the challenges on the supply side: where both successes and limitations arise when engaging these critical holders of global and local capital. This continues to echo what *The Economist* observed ten years after the Addis Ababa gathering: a missing link at the very core of the system.



Survey Respondents



SMALL BUSINESS FINANCE: A DEMAND-SIDE REVIEW

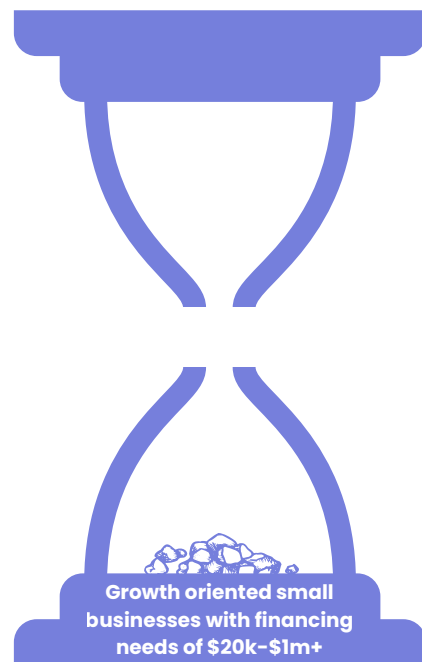
Insights from the 2025 surveys, interviews, and case studies shed light on the demand side of Africa’s small business finance landscape, revealing the financing needs, growth intentions, and constraints faced by small businesses, and how these shape the strategies and instruments of Growth Funds.

The first step was to look at who are these small, growth-oriented enterprises are? Without this fundamental understanding, it is impossible to properly address their needs. These enterprises are often bundled under the “SME” label that IFC and others initially developed several decades back.

This definition has been broadly applied by the global financial players as well as local regulators, central banks and policy officials. This segmentation bundles these enterprises into three buckets; applying traditional “numerical” metrics such as number of employees, revenues and size of financing needs as the defining criteria.

A limitation of this approach is that these parameters vary across sectors, depending on the specific financing need, the business’s position within the value chain, and the entrepreneur’s mindset.

To channel capital more effectively, stakeholders require a more granular and behaviorally informed segmentation. ANDE’s “Small and Growing Business” definition (2010) laid early groundwork for this shift, while CFF’s “Missing Middles” framework (2018) advanced segmentation by considering growth orientation and business model. These introduced critical dimensions such as growth intentionality and innovation capacity, offering a more realistic picture of enterprise capital needs across the business lifecycle.

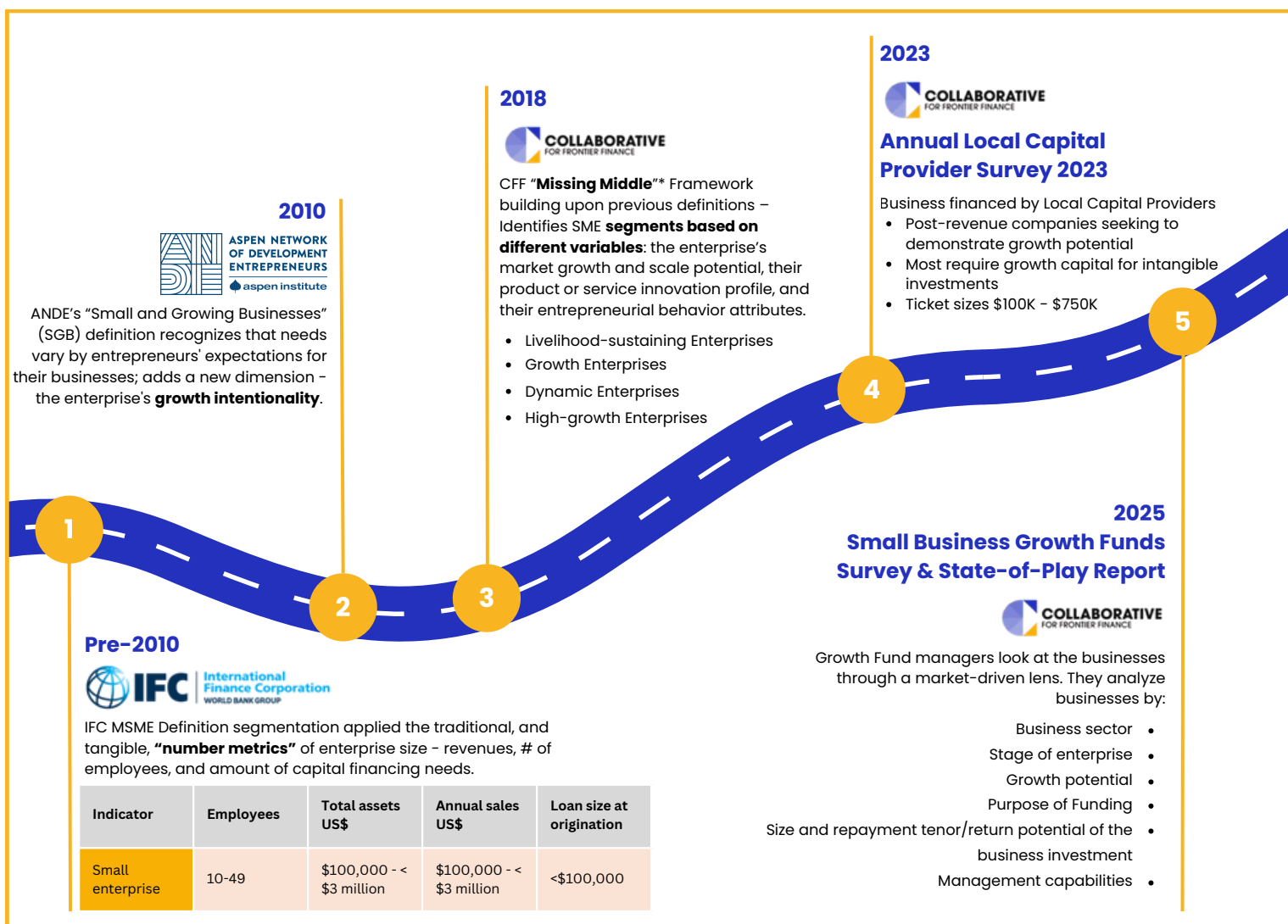


Defining small businesses

This marked the recognition within the development field that growth-oriented small businesses face financing needs distinct from other enterprises.

In this report, we opt for even further refinement, one that incorporates entrepreneurial intent, growth stage, sector, investment needs and payment capacity/timeframe. This lens is based on the data gathered from GF managers, who apply these very criteria in shaping their pipelines, investment instruments, and financing terms.

CFF’s survey data shows that most SGBs fall into the “post-revenue” category and are seeking growth and working capital, alongside fixed asset investment and, increasingly, financing for intangibles such as talent, systems, and marketing. These needs – critical for positioning and sustaining enterprise growth – are rarely met by traditional financial institutions, which continue to prioritize collateral-backed lending.

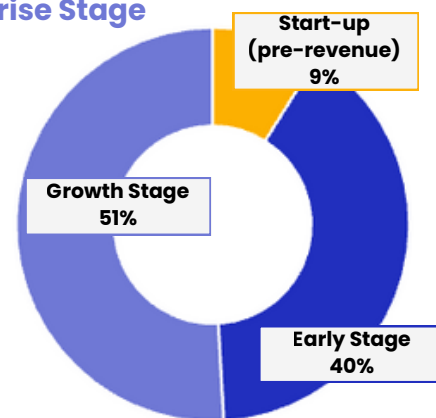


As a result, a persistent financing gap has emerged for firms that are too large for microfinance but too small for private equity, and perceived as too risky, or tangible asset “lite” for commercial banks—a space referred to as the “missing middle.”

90% of Small Business Growth Funds invest in post-revenue companies.

GFs segment their portfolios by enterprise stage, financing needs, ticket size, expected growth rate, sector, and geography. This allows them to align capital more closely with the realities of small and growing businesses. Their primary focus is on revenue-generating enterprises with moderate to high growth potential, where additional capital can accelerate expansion. Rather than using a one-size-fits-all approach, GFs tailor instruments, tenors, and ticket sizes to match enterprise needs—balancing flexibility for businesses with risk management for investors.

Enterprise Stage

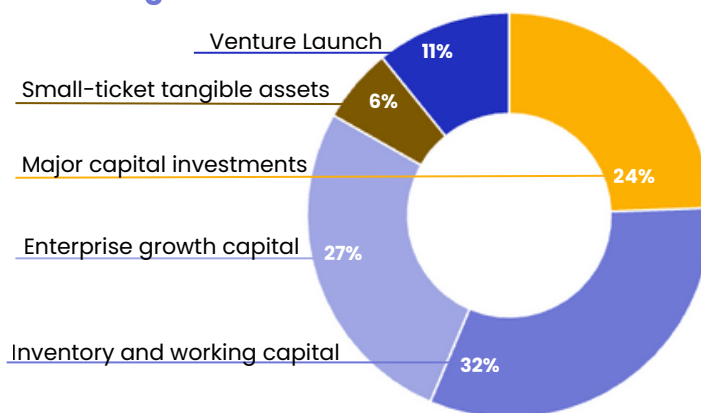


Critical consideration – use of funds and capacity of enterprise.

Only 24% of financing needs align with the traditional approach of local bank lending.

GFs align themselves around an investment thesis as to the segment of small enterprises they are seeking to finance. Hence, enterprise stage, use of funds and capacity are critical determinants of pipeline – and in turn inform on the investment terms and instruments applied. A critical evolution in the small business sector is the need for financing for intangible assets that drive growth – like data systems, talented hires, sales and marketing.

Financing Needs



Dynamic, knowledge-based enterprises

One of the most important distinctions highlighted in the report is the shift toward “intangible capital.” Africa’s emerging business landscape is increasingly defined by tech-enabled, asset-light enterprises that derive value from data, talent, business processes, marketing strategies and other business innovations rather than machinery or real estate. These businesses, while often more scalable and productive, are underserved by capital markets that struggle to quantify and collateralize intangible assets. Academic and sectoral studies, including those by Haskel and Westlake⁵, underscore this growing disconnect between capital supply and the real needs of tech-enabled, innovation-driven businesses.

Growth Funds have responded to this market-level reality by deploying more adaptable, cash flow-aligned instruments like shared revenue agreements, convertible notes, and preferred equity. These tools are particularly effective for early- to mid-stage enterprises that may not yet have physical assets but demonstrate strong business fundamentals and market potential. More than 75% of financing needs cover less traditional, easily collateralized growth needs such as staff and business expansion, intellectual property, and growth working capital. Africa’s banks, which lend based on a percentage of fixed collateral coverage, are typically not suited to these growth needs, leaving a persistent gap in available capital.⁶

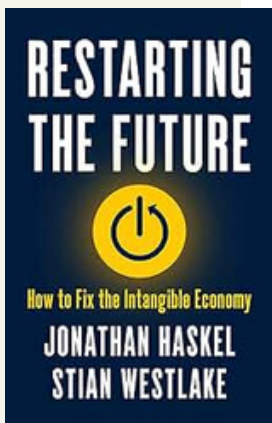
⁵ See “Capital Without Capital,” Jonathan Haskel and Stian Westlake, 2017 and “Restarting the Future,” Jonathan Haskel and Stian Westlake, 2022.

⁶ Most markets in Africa provide for legal frameworks for chattel mortgages on movable assets such as inventory and receivables.

Changing Landscape of Enterprises

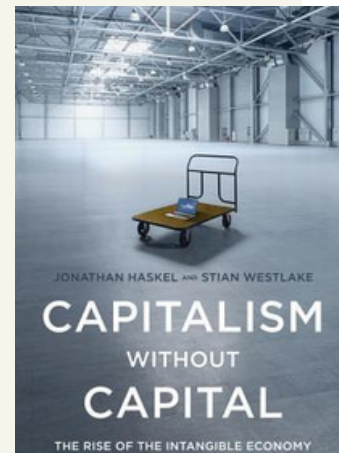
Knowledge-driven businesses vs. Brick and Mortar

“... Tellingly...business lending fell the most in areas where intangible assets have grown,” and “the privilege of borrowing against cash flow rather than collateral tends to be available [solely] to larger, more established firms”



SOURCE: *Capital Without Capital*. (Haskel and Westlake. 2017). *Restarting the Future*. (Haskel and Westlake, 2022).

“...data supports...that there is a growing gap between financial demand of intangible-intensive firms and the ability of capital markets and financial institutions to meet these demands..” The authors note, “even traditional manufacturing firms in OECD countries are investing in R&D, production design, staff productivity training and other “intangible” investments.”

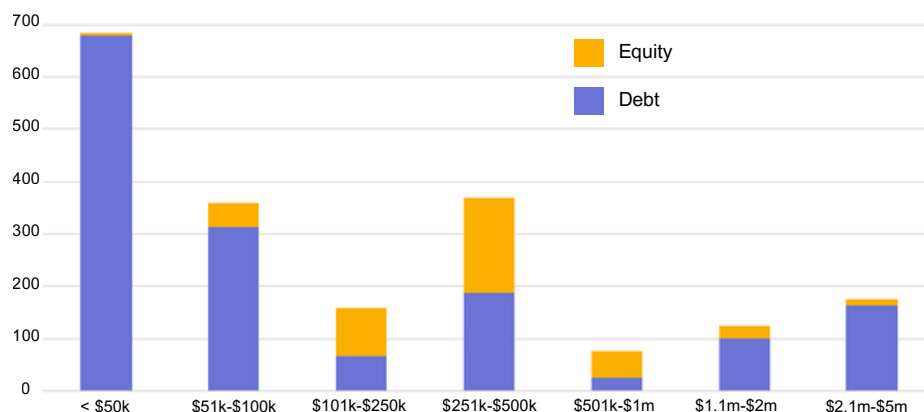


SOURCE: *Capital Without Capital*. (Haskel and Westlake. 2017). *Restarting the Future*. (Haskel and Westlake, 2022).

Aligning loan sizes and tenors

In looking at the demand side of the access-to-finance dilemma, the State of Play report underscores that understanding SGBs requires more than simply recognizing their need for capital. It is about aligning financing terms and tools with their current stage and capacity, while also anticipating future needs and growth pathways. This forward-looking approach highlights that effective financing must evolve alongside enterprises, adapting as they scale and face new challenges.

Equity and debt investments per avg. ticket size



“Capital plus” – the need for technical capacity support

As early-stage growth enterprises, capacity building is critical. Not only to strengthen the enterprise’s capacity to compete and sustain itself, but also as a form of capital de-risking. As businesses evolve, their financial and technical support needs shift – and it is critical that technical support is integrated with the financing. 89% of GFs provide either pre- or post- financing technical support.

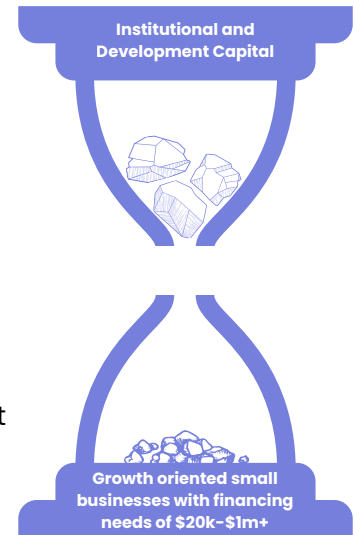
Summary: Demand-Side

The small enterprise financing sector suffers from a significant perception gap. This information asymmetry is the first critical bottleneck preventing alignment of the substantial local and global private and development capital that remains on the sidelines. With their proximity to markets and deep understanding of business financing and capacity needs, Growth Funds have played a catalytic role in designing investments that respond to these realities – addressing demand while unlocking the productivity and innovation potential of Africa’s small business sector. For institutional and development capital players, increased transparency and data-driven segmentation is therefore a prerequisite.

SUPPLY-SIDE BARRIERS

Where is the Institutional and Development capital?

The supply side of capital for small business finance has to date not been tapped to efficiently align with the needs of the SGBs. In Africa, IFC reports a \$330billion gap in finance for SMEs. Across emerging markets, the estimated shortfall in small business finance has grown by 30%.^{7,8} Meanwhile, GIIN reports that there is \$1.5trillion in impact investments across the globe.⁹ Africa’s pension funds hold over \$700billion in managed assets.¹⁰ DFIs manage over \$84billion in assets. So, it is not a question that this gap is the result of lack of available institutional and development sector level capital.



Along with the information asymmetry referenced above, we have lacked the mechanisms and pathways that have the flexibility and strategic alignment required. For small business finance to achieve scale, the sector needs to attract LP funding from institutional capital holders – domestic and international – and DFIs. When allocating their capital, these stakeholders balance several criteria:

- Scale of market opportunity
- Impact
- Acceptable risk management
- Financial returns that align with perceived risk

Influencing their decisions are such considerations as:

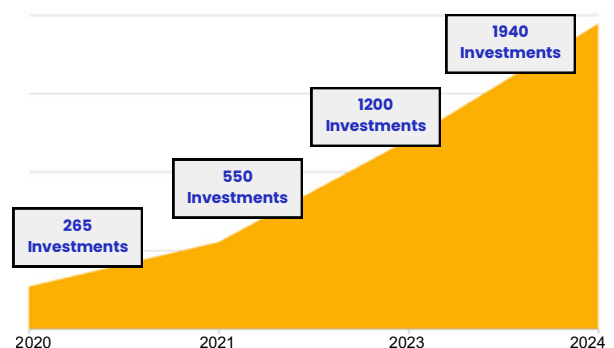
- Regulatory environment
- Vehicle structure, governance and legal construct
- Team capabilities and experience
- Portfolio allocation, risk and diversification

The data paints a clear picture: the challenge is not about whether capital exists, but how it is designed and deployed, and whether it’s truly aligned with the realities of the businesses it’s meant to serve. While billions in capital sit available globally and across Africa, the real constraint lies not in volume but in structure, suitability, and delivery – and as an emerging asset class, Growth Funds need to address these requirements in order to bridge the Hourglass dilemma.

Seeking portfolio scale across the fragmented small business finance sector

A critical requirement for institutional investors is putting their capital to work at scale, while balancing portfolio and risk diversification. This is difficult to achieve via direct investments into SGBs. Intermediary vehicles such as Growth Funds (GFs), offer a pathway to bridge this gap.

of Investments by Survey Year



With approximately 2,000 investments in small and growing businesses across Africa, GFs are designed to channel large-scale capital into small-ticket deals. GFs build portfolios across diverse sectors and enterprise types, aligning with institutional diversification goals. At full capitalization of \$2.25 billion AUM, they could serve 10,000–15,000 enterprises in the next 3–5 years Africa’s small enterprises reflect the core of the local economies,

⁷ MSME Finance Gap, International Finance Corporation, March 2024.

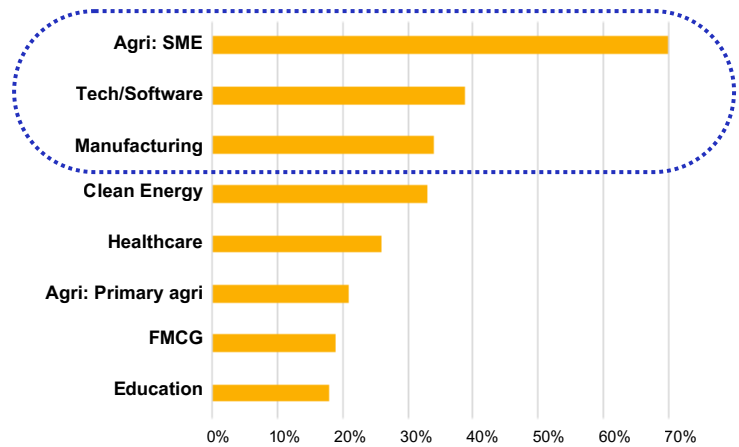
⁸ IFC’s report is based on data and trends from 2015–2019. It does not capture the effects of COVID-19 or more recent market barriers, which may have widened the financing gaps even further.

⁹ Sizing the Impact Investing Market 2024, October 23, 2024, Global Impact Investing Network, Dean Hand, Maddie Ulanow, Hongyu Pan, Kelly Xiao.

¹⁰ NSSF Uganda, August 2025.

with the agriculture value chain representing the largest percentage. Therefore, it is critical that the small business finance sector look to manage financing and investments across the broader economy. Notably, around 70% of small business funds prioritize the agriculture and food value chain, with a combined allocation of \$664 million – reflecting the sector’s regional importance, as agriculture employs over half of Africa’s population. Beyond agriculture, three other priority sectors for these funds are: (i) technology-related enterprises, (ii) manufacturing, and (iii) the green economy, including clean energy, renewables, and e-mobility.

Economic Sectors

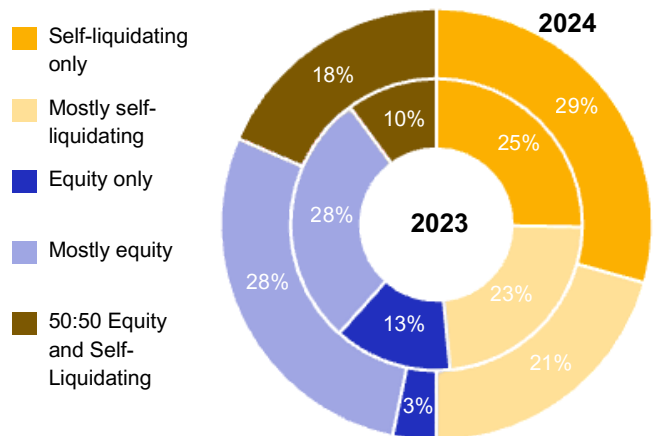


Align investment thesis with portfolio construction

As growth-oriented enterprises, financing solutions need to be flexible to meet their capital needs and capacity as their businesses expand. Growth Funds have noted this requirement, with 2/3rd provide self-liquidating instruments for their portfolio enterprises.

Meanwhile, institutional investors seek investment opportunities – debt, equity and quasi-equity – to meet their own investment thesis and return expectations. Therefore, LPs seek capital managers that can provide the types of financing required by growth-oriented enterprises, while allowing for manageable constructs in which they can invest.

Flexible Investment Approaches



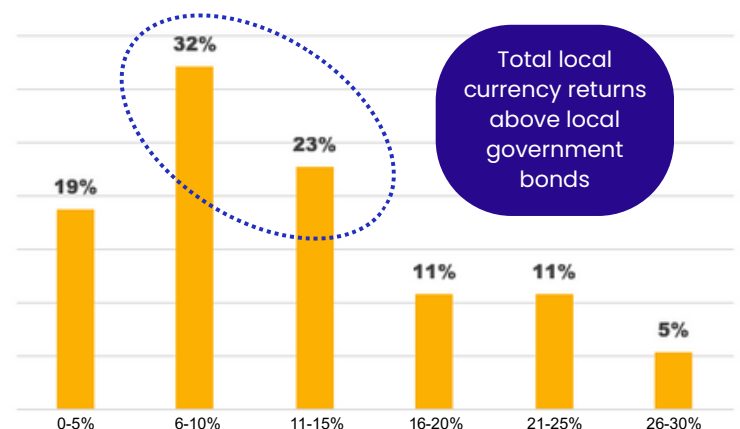
Financial and impact return requirements

Development institutions require credible pathways to achieve both impact and returns. Domestic capital holders, such as pension funds, also value social and economic impact, but must prioritize financial returns to fulfill their obligations to pensioners. DFIs have emphasized the same dual mandate.

Domestic institutional capital holders require returns from small business finance that exceed the risk/return rates available from local government bond issuances. Increasingly, pension funds are recognizing the mutual benefits of supporting job-creating small enterprises – not only delivering financial returns for liability management, but also expanding the employment base and, in turn, their pool of future contributors.

Growth Funds (GFs) are well positioned to meet these needs. They target returns above local indices, while also delivering social impact by driving job creation and advancing a range of SDGs.

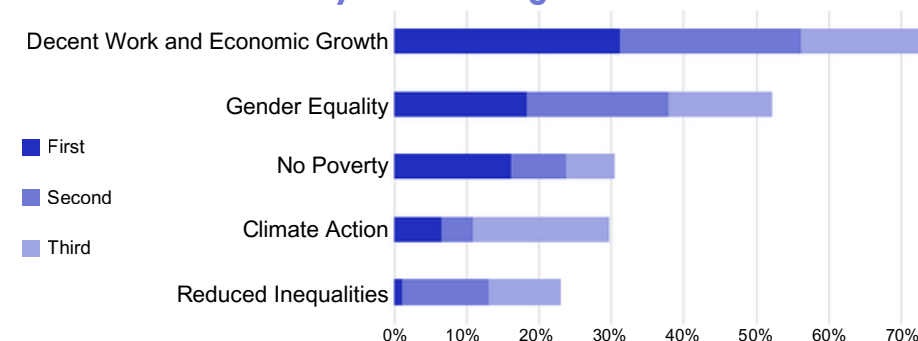
Target Returns



Job creation opportunity with GFs. Over the past 12 months have achieved:

- 47% of funds report **>20% growth** in indirect employment.
- 37% of funds report **>20% growth** in direct employment.
- Net declines in employment were very limited (**0–4% of respondents**).

Most Prioritized SDG by Fund Managers



Vehicle and financing pathways to reach SGBs

Intentionality and recognition of the importance of SGB finance is well-established. However, despite widespread recognition among DFIs of the importance of closing the SME financing gap, the core challenge is not merely the volume of capital available, but the suitability of that capital.

“From a development perspective, the greatest impact comes from ensuring that firms with opportunities to grow have the financing they need to exploit those opportunities.”¹¹

(British International Investment, 2024)

SMEs need financing for investments that are not easily collateralized. In addition, as growing enterprises they require flexible repayment terms and capacity support. These needs and terms are rarely met by traditional financial institutions and therefore SMEs are compelled to accept financing with unsuitable structures and terms. Although much of the funding from development agencies that is earmarked for SMEs are deployed through regulated FIs, the banks collateral requirements, lack of alternative credit assessment capabilities, and rigid lending practices ultimately exclude a significant share of growth-oriented entrepreneurs.



Building upon this, in their 2024 report the International Growth Center (IGC) recognized that “...SMEs significantly contribute to job creation, with younger and smaller firms providing the largest share of job creation.”

Yet as IGC’s report states “...effectiveness of strategies aimed at improving capital accessibility for SMEs varies significantly [and] this variance underscores the need for development practitioners and funders alike to evaluate their own efficacy [using data]...”¹²

For institutional capital holders and DFIs to provide capital at scale and systemically unlock capital for Africa’s small businesses, both the form and function of capital must evolve. Supply-side stakeholders must recognize that bridging the gap requires not just good intentions, but smarter design, deeper local engagement, and a willingness to back emerging models that don’t fit traditional molds yet are built for the future of African enterprise.

¹¹ “How and Why We Finance SMEs,” British International Investment (BII), 2024.

¹² “Why Do SMEs Matter?,” International Growth Centre (IGC), January 2024.

Structured finance and weaving catalytic capital

Building upon the discussion of appropriate financing constructs for a sector such as small business finance requires the provision of field building investments. This is the role that catalytic, concessionary capital holders offer. As Conor Brosnan, CEO of Small Foundation, at the C3 gathering in 2024 appropriately defined *“...catalytic capital is those monies that drive system change.”* This includes multi-lateral, bilateral and domestic development agencies, philanthropy and the social/economic impact dedicated pools at DFIs and domestic institutional capital holders.

DFIs and development agencies have been keen to support digital credit tools and applications by fintechs, MFIs and FIs. However, as BII notes, such tools *“...typically serves the smaller end of the SME spectrum”*. These tools are more often targeted to livelihood type enterprises that do not drive job creation as do growth oriented small businesses. And it is with this insight that BII noted *“Approaches to SME financing must respond to the needs of SMEs. The financing gap is not just a lack of supply, but the lack of suitable supply”*.¹³

Earlier this year, in its insightful report *“Concessional Capital for Agri-SME funds”*, ISF Advisors reviewed ten cases in which concessionary capital was used to support fund vehicles that provide small business finance. They noted that the concessionary capital was principally provided to address the perceived risk associated with these small business fund vehicles. The concessionary capital providers applied 1st loss capital, guarantees and grants to encourage commercial capital to flow. Several observations as to the effectiveness of such efforts speak to the concerns raised by BII and IGC. These include:

- **Drive towards commercial scale**

While intended to drive commercial capital into these vehicles, interestingly, the report revealed that DFIs themselves are the largest beneficiaries of concessional capital. Concessional capital could be far more catalytic if directed toward incentivizing local pension funds and domestic institutional investors to enter SGB finance.

- **Leverage**

ISF analysis uncovered that the concessionary fund structures were providing a 14:1 leverage target, even though fund managers reported that a more realistic and appropriate ratio would be closer to 5:1.

- **Additionality**

Often the concessionary capital was applied to lower-risk funds chasing high leverage risk coverage ratios rather than supporting investments from new institutional capital investors – where its additionality and impact would be greatest.



As noted in their report, BII recognizes the need to extend beyond banks, and are increasingly working with *“...specialist lenders that are dedicated to overcoming the challenges inherent in SME finance”*.¹⁴

In summary, while the development agencies recognize the critical role of concessionary capital, its application has also often not achieved the desired “de-bottlenecking” of institutional capital.

¹³ *“How and Why We Finance SMEs,” British International Investment (BII), 2024.*

¹⁴ *“Concessional Capital for Agri-SME Funds: Donor & Investor Guidance,” ISF Advisors, 2025.*

Even well-intended efforts trip up on governance and vehicle constructs

Building on the recognition of concessionary capital’s potential to address ecosystem-level constraints, another layer must be considered: its application through blended finance. Such approaches often face recurring dilemmas in both design and implementation.

In 2024, EU reviewed 16 vehicles established in Uganda that they had developed.¹⁵ Key observations regarding the effectiveness include:

- Uptake was limited due to structural constraints in the financing vehicles and design features that overlooked enterprise-level capacity and operational challenges. One key barrier was the requirement for land titles as collateral.
- Balancing the need to design a vehicle that meets development agencies’ governance requirements while also providing the flexibility required to finance dynamic, real-world business situations.
- Prioritization of governance resulted in lack of inclusiveness of the target investees/beneficiaries in the design phase.

They recommended greater transparency at both the design and implementation stages of fund vehicles aimed at attracting private sector co-investment.



High-Net-Worth Individuals (HNWI) – key catalysts for this asset class

Survey data shows that about 30% of Growth Funds have raised capital from High Net-Worth Individuals and Family Offices, both domestic and international. This group represents the second-largest investor segment, reflecting their flexibility and willingness to be early backers of this emerging asset class.

By contrast, DFIs remain far below Growth Funds’ target as a source of capital. Moreover, their commitments are concentrated in only a handful of funds, leaving most of the market underserved.

Summarizing the supply side equation

The Hourglass dilemma of moving large scale capital to small enterprise is indeed a perplexing situation that has not been appropriately addressed by the development sector. Even when good intentions are applied, linking and reaching the financing needs of growing businesses remains with material gaps – and as noted by the researchers and development practitioners in our cited sources, it is time that new pathways be explored and supported.



¹⁵ "Sustainable Business for Uganda (SB4U) Platform – Final Report," EU Delegation to Uganda and Private Sector Foundation Uganda (PSFU), 2025.

INTERMEDIATING THE **HOURLASS** DILEMMA

The Role and Opportunity of Growth Funds

Value Proposition and Opportunities – Addressing the Hourglass Dilemma

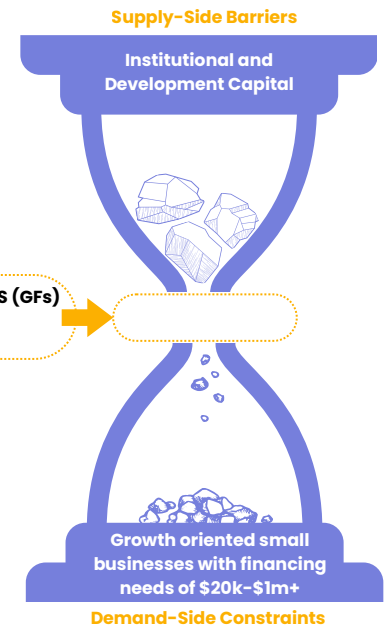
The Collaborative for Frontier Finance was established in 2017 to undertake an “action-oriented” approach for the delivery of “appropriate” financing for growth-oriented enterprises in emerging markets. Over years of engaging with the ‘Hourglass Dilemma’ over these past years, CFF has recognized that traditional small business finance approaches are failing to deliver the scale, speed, and relevance needed by Africa’s small and growing businesses (SGBs).

Meanwhile, over the past decade, we have observed the emergence of a new asset class focused on providing the capital that SGBs need on a sustainable basis. We refer to these local intermediaries as Small Business Growth Funds (GFs), which are demonstrating how to bridge the gap by delivering the right type of capital to growth-stage enterprises.

In this section we look at the key characteristics, value proposition and opportunity that such capital managers offer in intermediating the bottleneck of the hourglass dilemma.

The “Hourglass Dilemma”
Large pools of institutional capital struggle to meet the small, diverse financing needs of Africa’s early-stage growth enterprises.

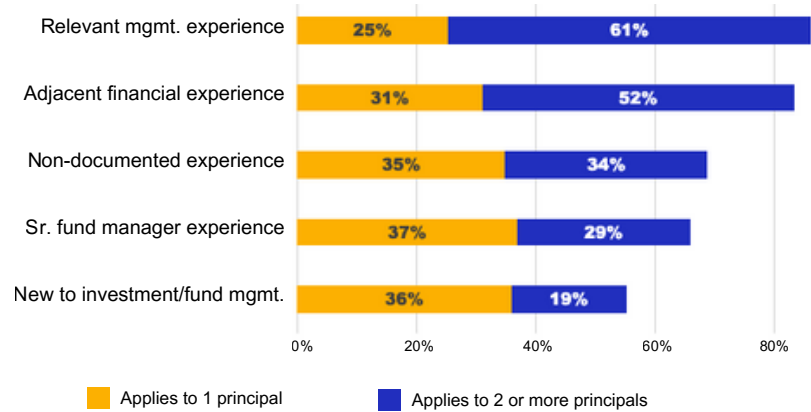
SMALL BUSINESS GROWTH FUNDS (GFs)
provide a vital pathway to channel capital to early-stage enterprises.



GFs are Distinguished by Proximity and Deep Understanding of Local Markets

86% of GFs have a principal partner with significant local market business experience. Another common characteristic is that 98% of the GF have their teams and decision making based in the markets that finance. With their proximity and knowledge of the local markets, GFs are able to develop client centric solutions. Instead of focusing primarily on collateral and fixed asset valuations, they draw on their deep understanding of the business environment to assess a company’s strategy, operations, team, performance, and market potential – insights that directly inform deal structuring and terms.

Business & Financial Experience



GFs Rely on their Local Networks for Pipeline Sourcing

They create a “homegrown” approach pipeline for financing opportunities, principally relying upon referral-based networks and their own accelerators/business development support (BDS) programs. It is a strategic advantage that fund managers have existing familiarity with the business model, team, and an enterprise’s evolution to date, streamlining portfolio selection while increasing the potential for a successful investment. This compares to local commercial banks who materially rely upon “walk-in” clients, lacking familiarity with the entrepreneur or their business.

GFs Operate Lean Fund Vehicle Models

With teams rooted in the markets where they invest and drawing on direct business management experience, Growth Funds (GFs) are able to make informed decisions without the multiple layers of risk processes typical of Tier 1–3 banks. This enables them to allocate staff capacity not only to risk underwriting, but also to assessing and providing technical support to their portfolio companies. The combination of streamlined decision-making and hands-on engagement accelerates operational and financial performance, while simultaneously improving the overall risk profile.

Given the growth trend in their portfolio and AUM, the GFs are anticipating increase in staffing over the coming year, including senior level carried interest principals. As part of their governance and risk processes, over 4 out of 5 GFs tap external credit/investment committees – bringing additional capital management and underwriting expertise. This allows for a lower operating cost basis, as well as offers the value of independent “third eye” to the investment process and post-investment portfolio performance tracking.

81% of funds leverage the expertise of external IC members. External Investment Committees bring complimentary skills and expertise, while adding confidence for LPs regarding capabilities of first-time fund managers.

60% of respondents have teams of 5 or less individuals.

To date, with limited budgets, GFs have materially relied upon founding principals and external IC members to assess investments. While beneficial in terms of quality of deal making, this constrains a funds’ ability to scale. 2024 saw a growth in principals with carried interest – illustrating team desire to increase-in-house skills and retain talent.

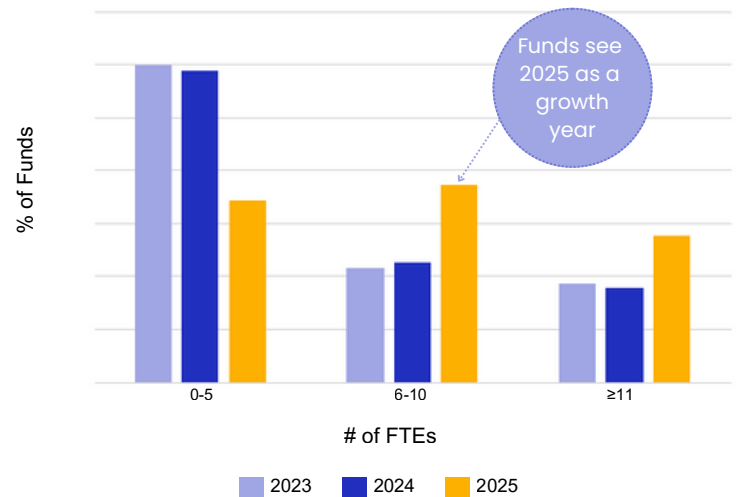
- Among respondents with equity models, most forecast ~2 investments per FTE. This aligns with PE models.
- Among respondents with self-liquidating investment models, a majority forecast ~4 investments per FTE, on average. This reflects higher operational requirement of debt-oriented funds.

While average team sizes have been stable year-on-year, managers anticipate growth in team size in 2025.

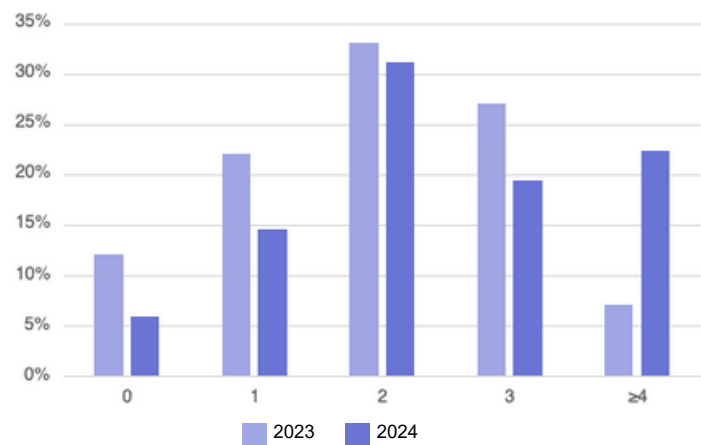
GFs tracking material growth in women-lead fund managers and team

Gender intentionality is happening across GF management teams and their operations, suggesting a paradigm shift from SDG voluntary compliance to embedded organizational culture.

Historical, Current, & Expected FTEs



Carried Interest Principals per Fund

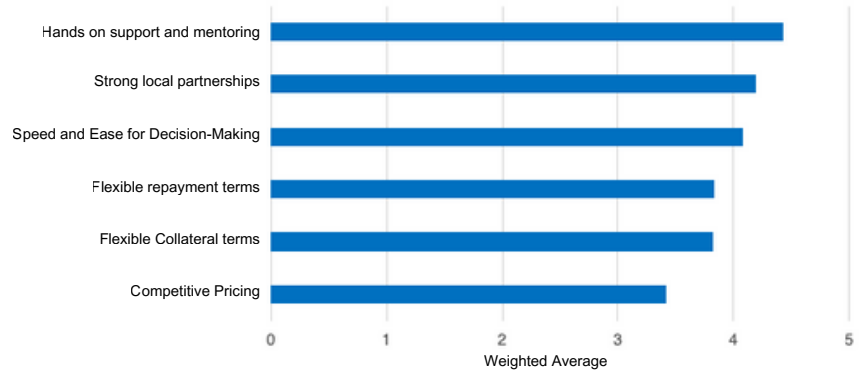


Nearly 70% of GFs launched in 2024 have >50% female representation on boards or investment committees, well above the average across funds established in previous years, according to CFF survey data.¹⁶ Women-led funds is also up by 20% in comparison to prior years. These trends suggest that newer funds are moving beyond box-ticking, integrating gender equity and inclusion into their structures, operations, and strategies.

Success of Portfolio is in their DNA

Rather than focusing solely on transactions, GFs work closely with entrepreneurs to strengthen both the business and the people behind it. They assess human capital, business models, operations, and long-term strategy, identifying gaps in capacity or structure and supporting entrepreneurs to address them. This hands-on engagement helps unlock the levers that can propel small enterprises to the next stage of growth.

Portfolio-level Value Proposition of GF teams

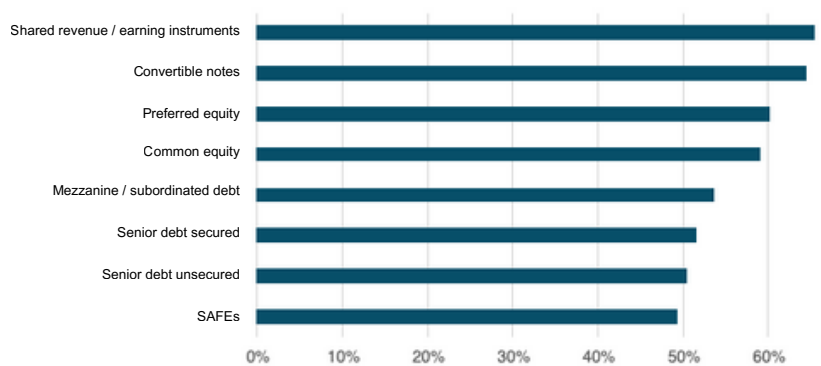


In addition, GFs bring their own networks and understanding of local value chains to guide and mentor their portfolio enterprises. As noted in the above graphic, these “soft skills” and relationships represent the greatest value they bring to their portfolio enterprises. However, it should not be under appreciated that speed of decision making and flexible terms build strong and transparent working relationships among the GPs and their investees/borrowers. Lastly, GFs do not see themselves as gaining market share by underpricing their capital.

Flexible Approach to Capital Provision

Growth-oriented enterprises are highly diverse. They span geographies, industries, business models, and they are at different stages of organizational growth and capacity. As a result, their financing needs vary widely, requiring a mix of terms, structures, and instruments. The same is true for Growth Funds (GFs): as an emerging asset class, they bring heterogeneous investment theses and financing approaches designed to match this diversity. As illustrated in the graphic, GFs apply a mix of instruments to meet the capital needs and capacity of their portfolio. This demand-driven approach ensures that financing structures and terms are aligned with enterprise growth trajectories.

Flexible Financing Constructs



2/3rd Provide Self-Liquidating Instruments, including innovative approaches such as shared revenue models and patient funding structures like mezzanine and convertible instruments. For many GF managers, these tools enable stronger performance tracking, mitigate concerns around traditional equity “exits,” and offer returns that appropriately match the underlying risk.

¹⁶ CFF analysis based on previous Annual Survey data.

Case Studies

Two Growth Funds, WIC Capital and HEVA Fund illustrate alternative approaches to financing their target markets. HEVA is a leading player in the creative industries, while WIC Capital was established to invest in women-led enterprises in West Africa. Their investment theses and models demonstrate how flexible financing constructs, such as tying repayments to IP revenues or revenue-based financing constructs can support new classes of entrepreneurs previously excluded from mainstream finance.



WIC Capital

Investing in the next generation of women-led enterprises

The first investment fund that exclusively targets women-led businesses in Senegal and Côte d'Ivoire. WIC invests in businesses across a range of sectors, including production, services, and knowledge-based industries, where the key value lies in the entrepreneur's vision, market potential, and business fundamentals. Providing equity and quasi equity, the focus is not on collateral but on sound models and gender-lens alignment.

WIC Capital leverages the capabilities and resources of its affiliates, the Women's Investment Club and WIC Académie. Through these, WIC Capital offers coaching, mentorship, training, and access to partnerships. WIC Académie provides tailored support to portfolio companies to address the gaps identified pre-and post- investment.

By providing tailored TA to women-led businesses, WIC reduces the inherent early-stage risk associated with growth-oriented enterprises.

100%
investees benefited from technical assistance

€5m
Invested from Fund I in 10 women led-businesses



Heva Fund

Leading companies in the creative industries to new levels

East Africa's leading investment vehicle in the creative sectors. Investments in film, television, music, fashion, new tech & gaming, design & crafts, theatre, literature, natural remedies and wellness sectors. HEVA has pioneered innovative financial models tailored to the sector's unique needs.

HEVA enables asset-light businesses to access capital otherwise unavailable through conventional means. HEVA structures investments around intellectual property (IP) rather than traditional collateral – and where available, linking repayments to IP revenue streams (e.g., copyrights, royalties).

HEVA offers equity and debt-based instruments along with technical assistance. Support services include: international exchanges, special skills-training workshops, access to markets, master classes, one-on-one consultations, group learning sessions, and networking.

By utilizing flexible capital, in-house expertise, and leveraging a global network of sector-based relationships, HEVA is able to drive value creation with its portfolio companies.

\$20m
in committed capital since 2013 in 100 enterprises

70%
of investment portfolio comprises women-owned, youth owned businesses

Meanwhile, Shona Capital and Atree Capital take different approaches. Shona combines alternative risk metrics and technology to finance and support their portfolio. With this approach, 85% of portfolio companies are financed without requiring collateral. In the case of Atree, the fund leverages the GP’s extensive experience to make equity investments, combining capital with market knowledge and mentorship to strengthen the operational and financial capacity of its portfolio companies.



Shona Capital

Non-collateral-based lending and tech-delivered capacity support

Shona Capital focuses on dynamic, growth-orientated, ‘Mainstreet’ businesses in agri-value chain and healthcare. Portfolio consists of proven business models that look to grow at 20% pa through incremental innovation.

Shona applies an alternative risk assessment based on deep business analysis, with entrepreneur character a critical consideration. Alongside its financing, Shona provides business support services in which portfolio companies are able to access a marketplace experts.

Management support includes; sales, accounting, tax, regulatory compliance. Using a tech-based delivery mechanism, Shona is able to track the entire process and outcomes. This combination of alternative risk assessment and an integrated delivery of business support services allows Shona to provide financings without collateral as the key lending criteria.

\$5k–\$100k Range of loan sizes provided

85% of portfolio do not provide collateral

1.5x Average revenue growth for portfolio in first 12 months post capital provision



Atree Capital

Leveraging team’s cumulative experience and infusing business support

A pan-African investment firm, Atree Capital capitalizes on large and statistically significant levels of information asymmetry evident across the African markets. Its value proposition lies in deep, long-standing local relationships, which enhance due diligence and strengthen value creation across their portfolio.

On-the-ground presence allows Atree to gain an information edge through fundamental, bottom-up analysis and due diligence. Post investment, Atree leverages its in-house expertise to embed performance tracking across investment portfolio, monitoring business growth, job creation, and gender outcomes. This enables the team to provide tailored post investment BDS, addressing the needs of the company. This includes agile governance support, embedding Entrepreneur Operating Systems (ESO) for strategic planning and business development and leveraging new IT platforms.

67% average revenue outperformance among the top four portfolio companies, which consistently meet or exceed their projections

32% run rate on debt transactions to date

Technical Support is Often Embedded in GF Investment Model

In its 2024 survey of 140 banks across Africa, the EIB found that the top three constraints to SME lending are collateral, credit history, and “low asset quality” (essentially weak or insufficient collateral).¹⁷ These reflect banks’ reliance on collateral as the primary risk metric, but also highlight a broader perception: small businesses are seen as a riskier class of borrowers and investees.

94% of GFs offer post-investment technical support

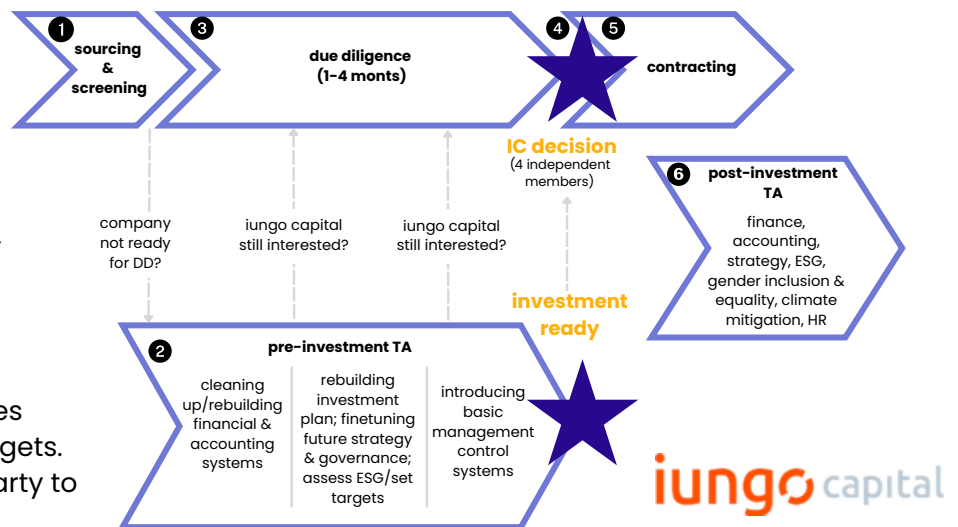
for their portfolio (another 6% offer just pre-investment TA). GFs recognize the inherent risk associated with providing capital to small and growing enterprises in their markets. The TA spans a wide range of business support needs. The top priorities consistently center on finance and strategic management, followed by operations, human capital, and governance. This focus is deliberate: it reflects the areas that directly strengthen growth capacity and reduce risk in the first year after investment.

Assessing and managing risk inherent in small business finance
 Because market risks are so high [in Africa], funds require a greater emphasis on portfolio value creation to generate alpha and attractive returns.¹⁸

Growth Funds recognize the importance of pairing financing with tailored business support. **iungo Capital** integrates pre- and post-investment technical assistance into its model, aligning instruments and capacity-building with the specific needs of its East African portfolio.

iungo Capital Investment and TA Support Process

- **Screening.** Based on return expectations, risk appetite, and impact verticals (including gender).
- **Pre-investment TA process.** A majority of the small SMEs iungo works with are not due diligence ready. iungo ensures that the company is set for receiving additional capital. (Re)build the necessary information. Pre-investment TA provides an indicator of the company’s post-investment behavior.
- **Impact and ESG.** iungo assess the alignment on strategic objectives, ESG – applying IFC’s Performance Standards.
- **DD Process.** Due diligence is executed based on the newly provided information, focusing on operational, financial, legal, and impact
- **Investment Decisions.** IC of 4 independent members, the majority of whom are based locally, familiar with the reality of our target SMEs.
- **Investment Construct.** Contracts hold several tranches with milestones for disbursements, including ESG targets. Co-investing business angels are party to the contract.
- **Post-investment.** iungo staff TA support continues, with core emphasis on finance, accounting. ESG and impact tracked and supported.



¹⁷ “Sustainable Business for Uganda (SB4U) Platform – Final Report,” EU Delegation to Uganda and Private Sector Foundation Uganda (PSFU), 2025.

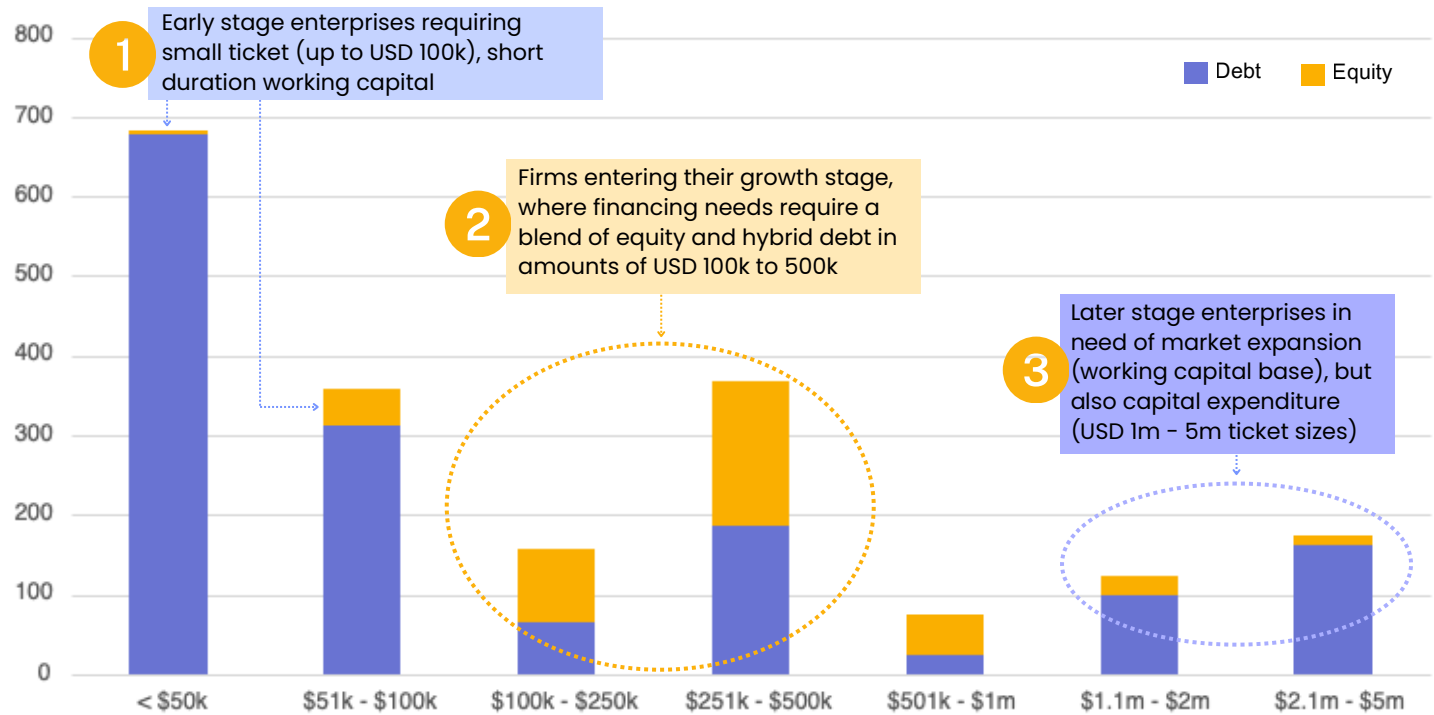
¹⁸ “Private Equity: A New Model for Value Creation in Africa,” Bain & Company, 2017.

Appropriate Amounts, Tenors and Terms

These funds operate with purpose and precision – “meeting SGBs where they are” in their business stage and financing capacity. GFs focus on the use of funds, informing on the enterprise’s capacity and timeframe for repayment.¹⁹

As illustrated in the following graphic, as an asset class, the largest percentage of transactions are for smaller ticket working capital. However, as enterprises grow and their needs expand, larger financing amounts are provided; and in addition, more equity like instruments are applied to better align with the repayment capacity of the enterprise.

Number of Investments per Ticket Size



Typically writing checks ranging from \$20,000 to \$1 million, GFs target businesses that exist in the “missing middle” – enterprises too large for microfinance but too small or intangible-heavy for commercial banks, and too steady-growth for venture capital. With tenors extending from 30 days to 7 years, GFs offer a broad array of capital solutions, including debt, equity, and quasi-equity, designed around cash flow rather than collateral.

Achieving Financial and Impact Returns – Moving Towards Scale

As a class, Growth Funds are executing on their thesis: unlocking capital for Africa’s most promising businesses, achieving returns, and delivering impact.

At the enterprise level, GFs are targeting both impact and financial returns, critical considerations for DFIs. Over 50% of portfolio companies target double-digit revenue and cash flow growth, while 80% had growth in direct and indirect staffing levels. Across portfolios, more than 3,200 “good jobs” have been created—defined as full-time roles paying a living wage. Women and youth represent a significant share of these new hires. Funds like Balloon Ventures report that 94% of portfolio employees gained skills that improved their future employability.

¹⁹ In the case of equity investments GFs focus on the timeframe for enterprise value creation and mechanism in order to monetize their investments.

Jobs Impact Case Study

Balloon Ventures partnered with a Dutch Foreign Ministry program, Challenge Fund for Youth Employment, to assess the jobs impact on the enterprises that Balloon finances. In sampling Balloon’s portfolio they looked deeper into employment, looking beyond the simple number of individuals hired. Rather they looked at the qualitative factors related to those jobs.

The following video adds further context to the type of impact such GFs are having with their portfolio enterprises.



450+ Loans **3200** Good jobs created

Each investment creates or improves 12 Good Jobs. **“Good jobs” are contracted and pay a living wage.**

55% jobs are for first-time employees

75% jobs filled by youth

40% jobs are filled by women

94% Have gained new skills increasing opportunity for better job in future



GROWTH FUNDS

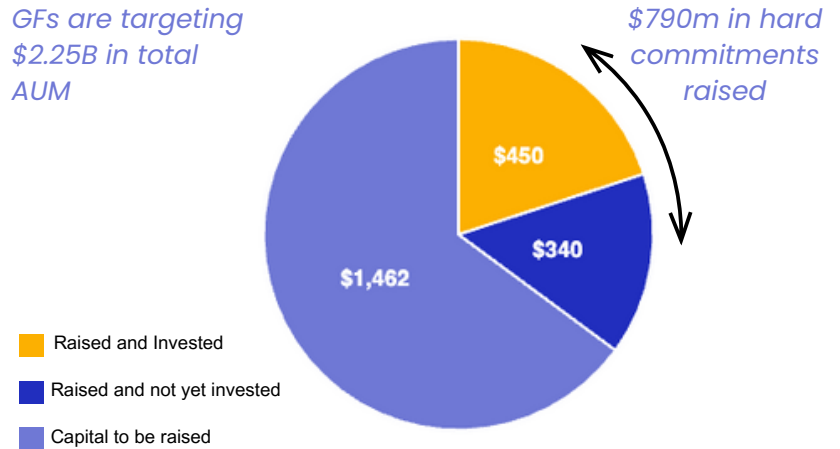
Taking the Asset Class to Scale

GFs are proving their value, yet scaling this emerging asset class remains a challenge. They are meeting the needs of growth-oriented entrepreneurs and while doing so have demonstrated viable financial performance and driving social and economic benefits.

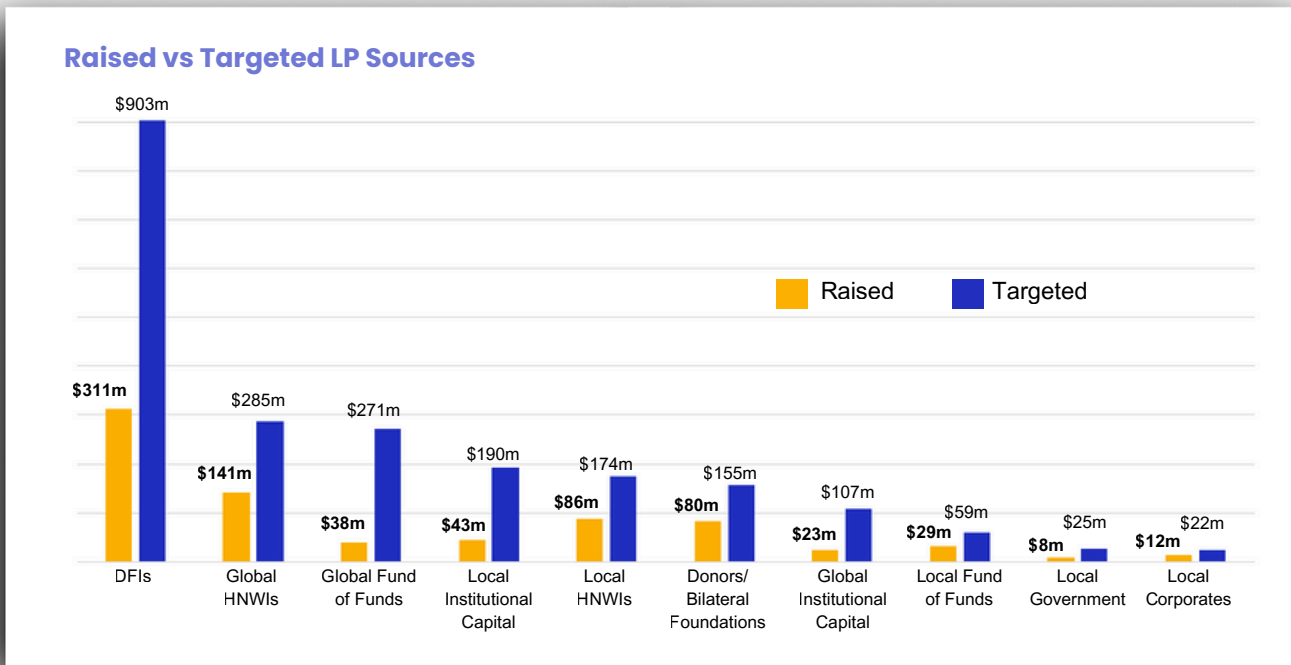
Collectively, they've raised \$790 million in capital. While material, the amount raised is far short of what the sector requires, an estimated \$2.25 billion. When surveyed, local capital managers cite access to institutional LP and DFI capital as their single biggest barrier.

Market Growth Potential

GFs are targeting \$2.25B in total AUM



While Growth Funds provide a pathway to channel impact capital at scale, funding from DFIs and institutional capital holders continues to lag. DFI commitments reflect the largest in absolute terms; however, their commitments are heavily concentrated in a limited percentage of funds where 90% of DFI funding has gone to less than 10 GFs. Therefore, while total amount from DFIs appears large, they have been slow to look at supporting the sector, despite their mandate and the total sum of catalytic capital they manage.



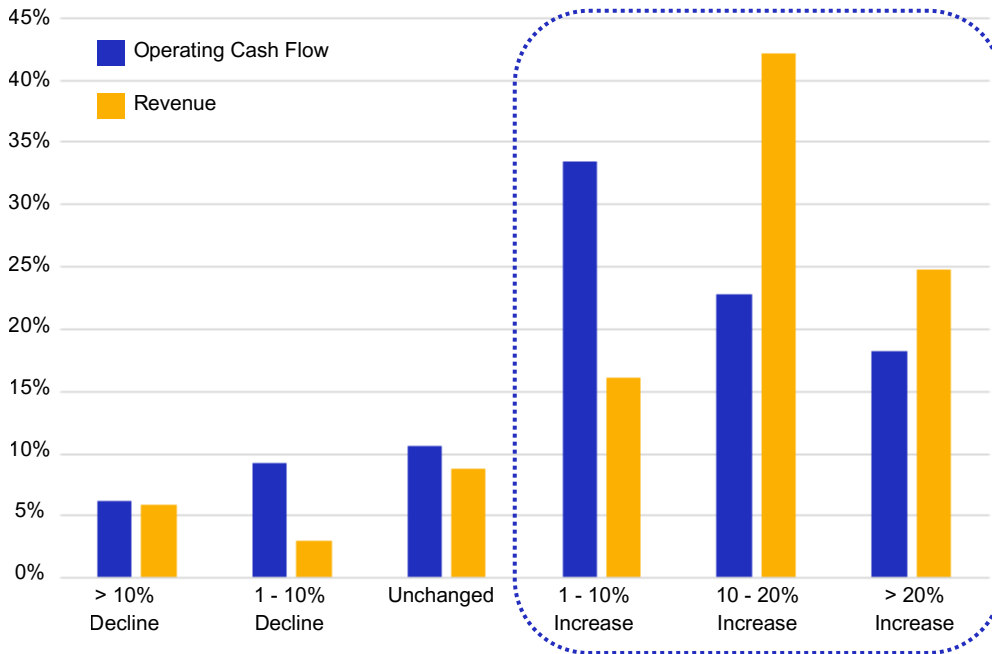
In contrast, family offices and high-net-worth individuals are the most active early supporters, representing a larger number of LP commitments relative to their size. They represent ~30% of LP funds raised to date – critical players in supporting system change innovation.

Performance not Driving Access to Institutional and Development Capital

The lack of DFI and institutional capital persists even as Growth Funds build strong, well-performing portfolios, driving social and economic impact despite a challenging economic environment.

Portfolio Impact Performance

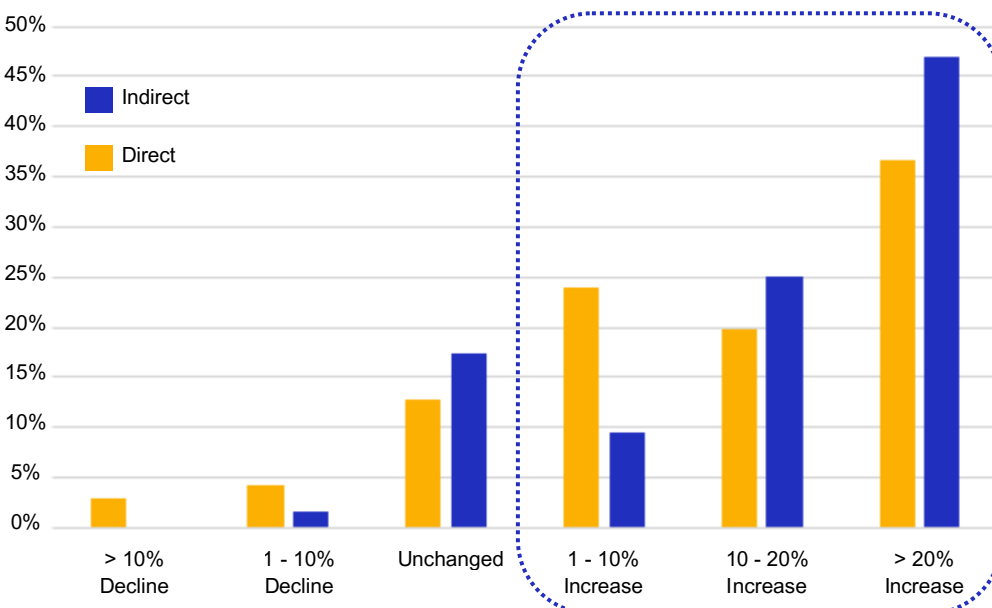
Positive trends despite economic environment



>65%
of portfolio companies achieved double-digit revenue growth

Employment Impact - Portfolio Level

Increase in FTEs in past 12 months



Portfolio companies are showing measurable job gains.

37%
of funds reported >20% growth in direct employment.

Low incidence of employment decline (0-4% of funds reported job losses).

The question, therefore, arises – what are the barriers to accessing institutional and development capital? As an emerging asset class, Growth Funds point to three primary challenges.

Perceived Risk

The issues related to the risk perception associated with small business finance and the team’s capacity to manage such risk combine to be the biggest barrier.

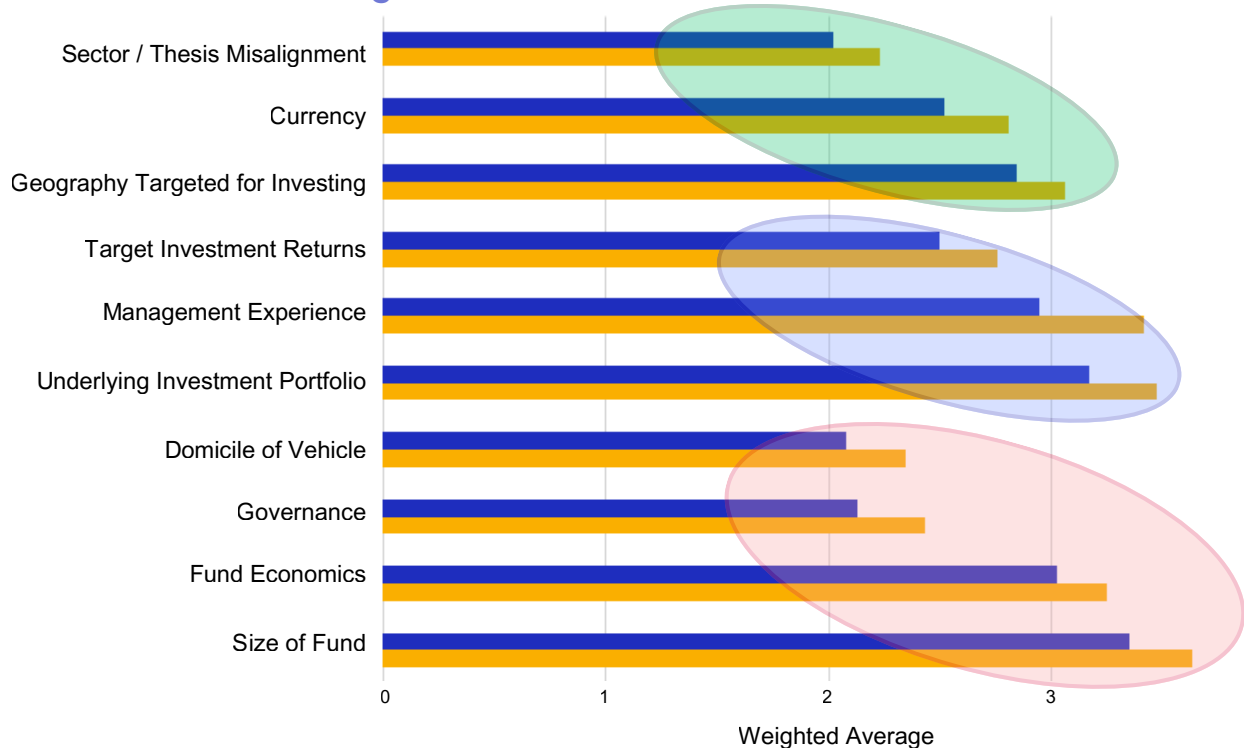
Fund Size, Economics, and Governance

The perceived viability of fund economics is another significant barrier. Based on traditional “fund” economics, minimum size plays a constraining factor. Intertwined with this, is the minimum commitment targets of major DFIs. In a recent gathering of the top European DFIs, they expressed preference to put >\$20million in play for anyone fund investment. In the case of small business funds, which target \$20-30million in fund size, this would be too great a concentration from any one LP.

Geography and Sector Priorities

Preference as to countries, economic sectors, and thematic impact results in the institutional and development capital being placed into narrow silos. The currency management brings additional hurdles. Often development agencies place limits on their investing activities based on country priority. Further, DFIs do not make local currency investments, requiring local funds to take on hard currency exposure (e.g. USD, Euro).

Barriers to Fundraising

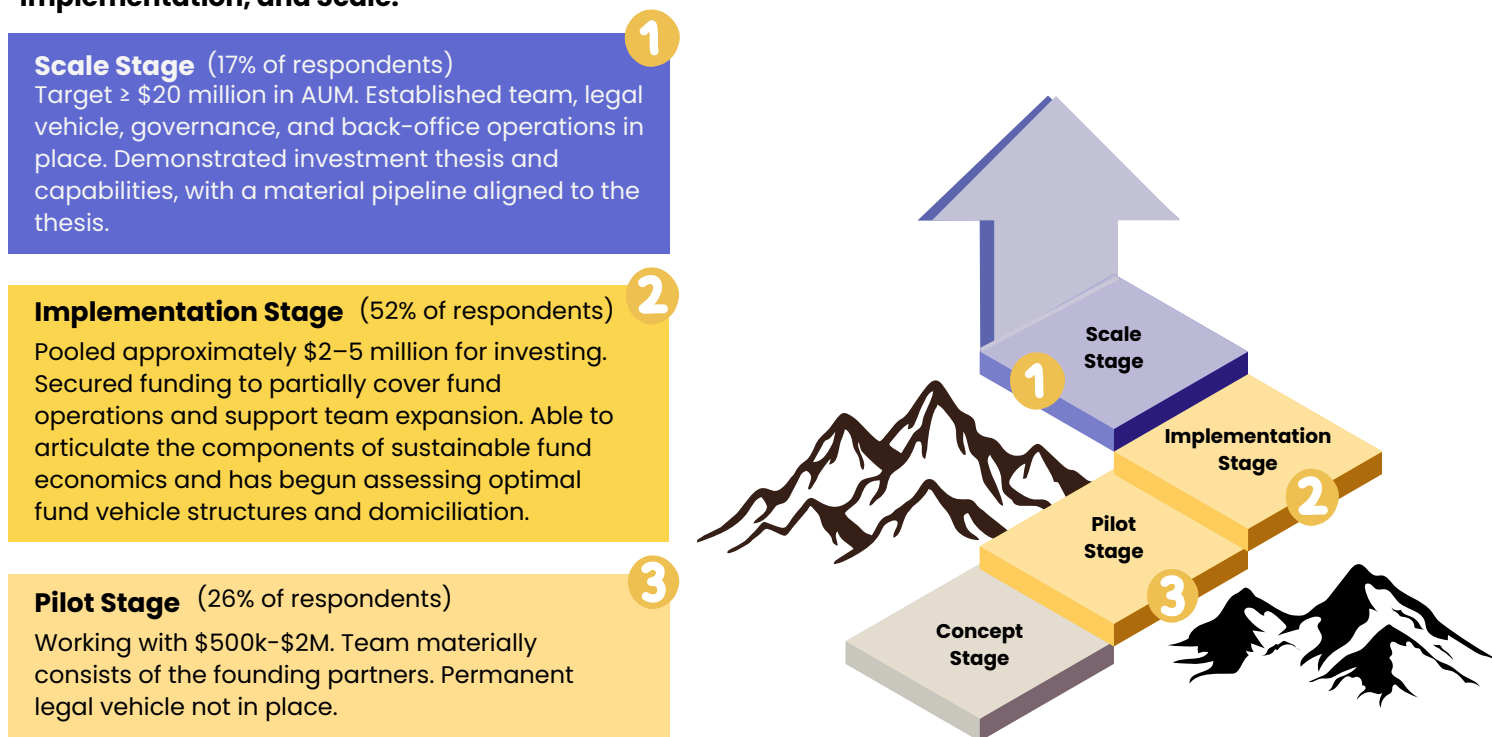


Understanding the Evolutionary Path of this Emerging Asset Class

How are informational and structural constraints driving barriers to finance?

- At its core, ongoing barriers reflect information asymmetry: LPs still lack a clear understanding of the role, value proposition, and needs of Growth Funds.
- Structural considerations also create barriers, as LPs tend to prefer larger-scale commitments, limiting their interest in supporting smaller, earlier-stage funds.
- Without recognizing this value, investors have yet to design financing structures that truly support GFs, especially important given the diverse needs of this emerging asset class.

Using survey data, market activities and case studies, CFF has further developed an understanding of GFs activities, building upon our 2019 “[Closing the Gap](#)” report.²⁰ Presented below is a refined segmentation of local fund managers. Based on responses from more than 100 Growth Funds, along with insights from the technical assistance support we have provided, we identify four stages of evolution: **Concept, Pilot, Implementation, and Scale.**²¹



The Need for Different Capital at Different Stages of GF Evolution

An interesting market dynamic is also emerging among institutional and development capital holders – namely, the conflation of **catalytic capital** with **capital mobilized at scale**. Growth Funds in the *Pilot* and *Implementation* Stages require catalytic capital designed to drive system change. This demands a careful balance between commercial discipline – to ensure long-term viability – and the patience and risk tolerance needed to support early-stage market development.

Given their stage of evolution, these funds often lack the scale necessary to sustain core fund economics. In Africa, the *Pilot* and *Implementation* phases are frequently prolonged, a period we refer to as the “**Valley of Perseverance**,” discussed further in this section.

²⁰ “Closing the Gaps: Finance Pathways for Serving the Missing Middle – Executive Summary,” Collaborative for Frontier Finance (CFF), 2019.

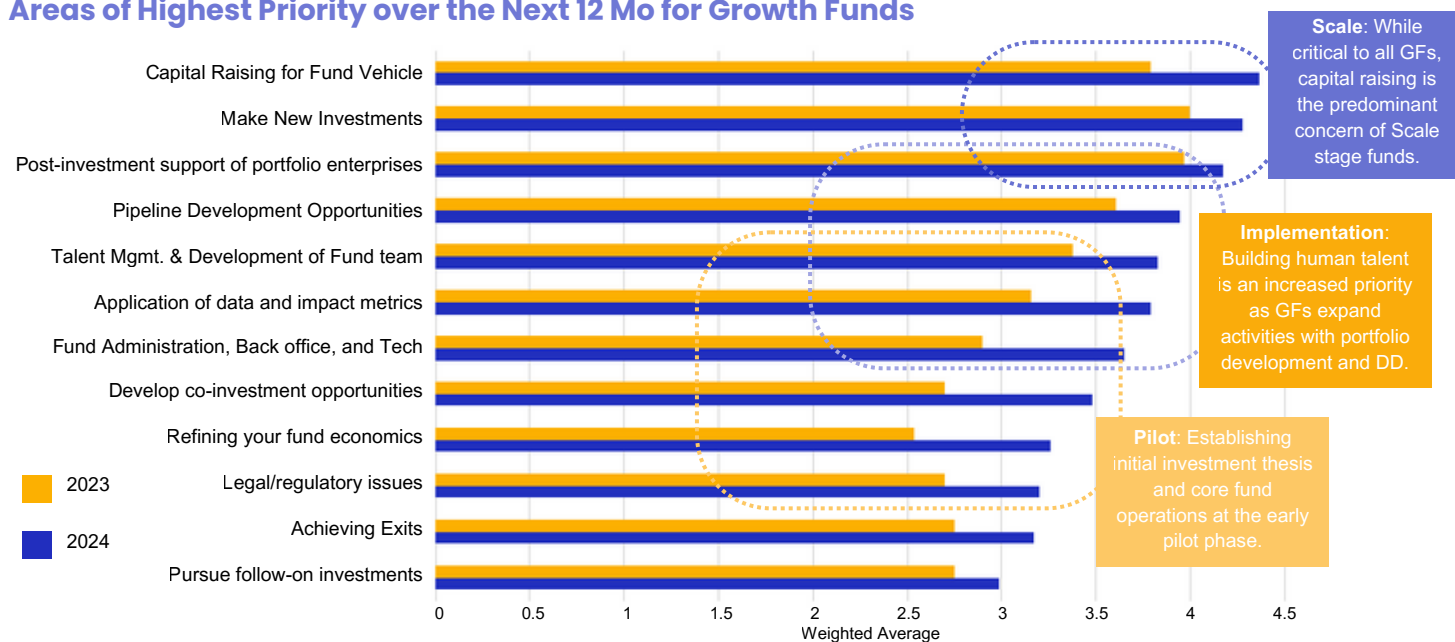
²¹ For the purposes of this report, we have not focused on GFs at the concept stage.

Scale Stage funds, meanwhile, are well positioned to mobilize large pools of capital and channel them toward financing and investing in Africa’s growth-oriented enterprises.

It is important to note that progress through these stages – and the type of capital required – varies considerably. There are no fixed boundaries or “light switch” transitions. Rather, funding Growth Funds requires LPs to take a thoughtful, engaged approach: understanding where each fund sits along its evolution and adapting their resources accordingly.

As illustrated in the graphic below, Growth Funds have distinct priorities and needs over the coming year. For LPs and field-building organizations, understanding these differences is essential to effectively support and strengthen this emerging asset class.

Areas of Highest Priority over the Next 12 Mo for Growth Funds



Mobilizing Capital – Working with Scale Stage Funds

Funds in the *Scale Stage* have institutional-grade governance, diversified pipelines, and proven investment theses and capabilities. They can absorb investment ticket sizes that DFIs and institutional capital holders prefer. Fund vehicles operate with positive fund economics, all while delivering measurable development impact. Although several have already attracted DFI participation, overall engagement remains far below what is needed. So, what is constraining this group that “checks the boxes”. CFF’s observations include:

- **DFIs focus and prioritize other capital asset classes.** The largest percentage of DFI portfolios are with local regulated banks. On equity, focus has been materially on venture capital and private equity funds. In doing so, applying the global north standards with regards to fund economics and close-ended vehicle constructs.²²
- **Lack of participation by domestic pension funds.** Even for those pension funds that have moved into alternative investments, capital directed to the small business finance sector is insignificant.²³
- **Conflating microfinance and small business growth capital.** For decades, under World Bank directives, the priority of poverty eradication has steered capital toward microfinance and livelihood programs. While essential, this emphasis has often come at the expense of channeling capital to intermediaries positioned to provide both commercial financing and technical support to growth-oriented enterprises.

²² *A New Lens on SME Mobilisation: How to Maximise Private Capital Flows to SMEs,* GSG Impact, supported by the Centre for Development Finance Studies (CDFs), 2025

²³ *Unlocking Local Pension Fund Capital: The Case for Local Investment,* Collaborative for Frontier Finance (CFF), 2022.

- **Unsupportive domestic regulatory environment.** In many markets, central banks and finance ministries remain focused on curbing predatory lending practices. While important, this caution has slowed the creation of enabling frameworks for professional, impact-oriented capital managers. The result is a regulatory environment that inadvertently constrains funds designed to serve small and growing businesses.

Mobilizing Capital

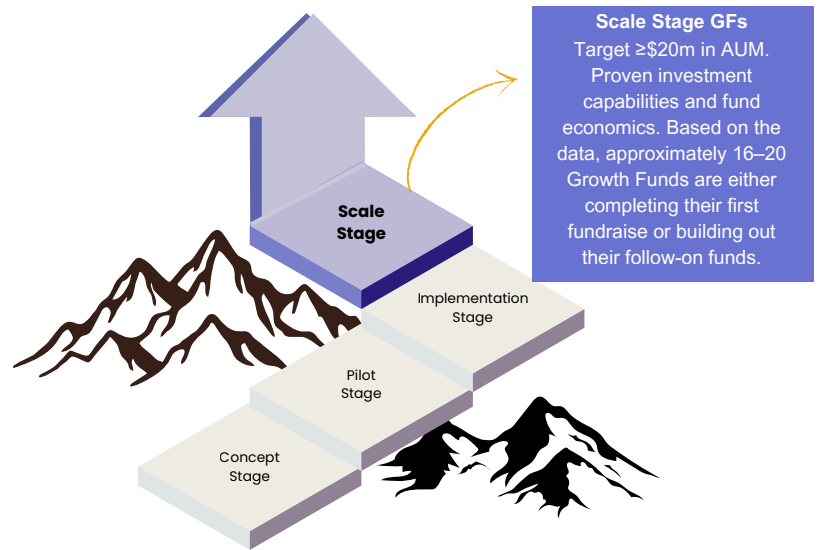
Entrenched Bias Regarding Local Capital Managers and Capital Vehicles

When surveyed, GFs identified three main barriers to accessing DFI and institutional capital:

- Small business finance risk perception and management
- Fund vehicle operations, governance and sustainable economics, and
- LPs narrow prioritization of specific countries, sectors and development themes.²⁴

As a result, even Scale Stage funds – despite offering credible investment vehicles and addressing the supply side of the hourglass dilemma – remain constrained by entrenched assumptions about small business finance and fund models. Overcoming these barriers requires addressing the information asymmetries that hinder Scale Stage funds and challenging outdated perceptions that persist across the market.

The following section outlines several key barriers and considerations that continue to constrain the mobilization of capital for Scale Stage funds.



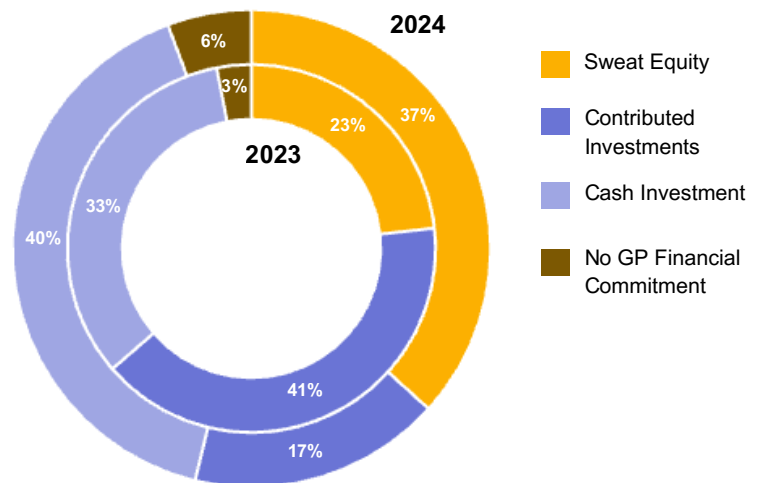
Fund Managers’ Financial Commitments and Experience

During due diligence, a critical consideration raised by LPs is the level of commitment from Growth Fund partners. In traditional venture capital and private equity models, LPs typically expect a substantial financial contribution from GP partners.

However, in Africa, the financial resources of founding GPs are limited and cannot be compared to the “cash commitment” in OECD markets. Meanwhile, what is not given sufficient merit by investors is the level of “in kind” commitment.

54% of GPs have undertaken extended timeframes of foregoing income = “sweat equity” and/or have committed existing assets to their investment vehicles. These forms of contribution should be considered equivalent to any cash commitment.

Type of GP Commitment

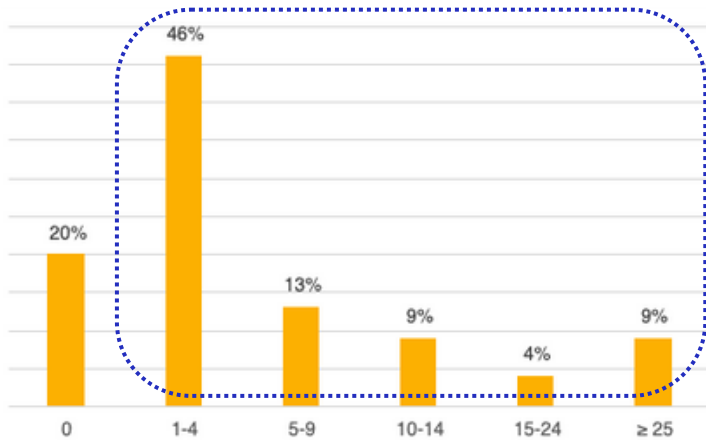


²⁴ CFF’s interviews and advisory role with multiple DFIs and development agency adds an additional insight – these agencies largely work with silos, with little intentional co-creation of catalytic level initiatives. As a result, these programs do not leverage prior learnings, often incurring similar conceptual and structural of prior efforts. As an example, see commentary in Section 2 the Supply side discussion on EIB’s review of their programs in Uganda.

Regarding experience, it remains a foundational element of investment assessment by LPs, as it should be. What we see, however, is a greater opportunity to recognize the founding partners' business experience, local networks, and value chain expertise.

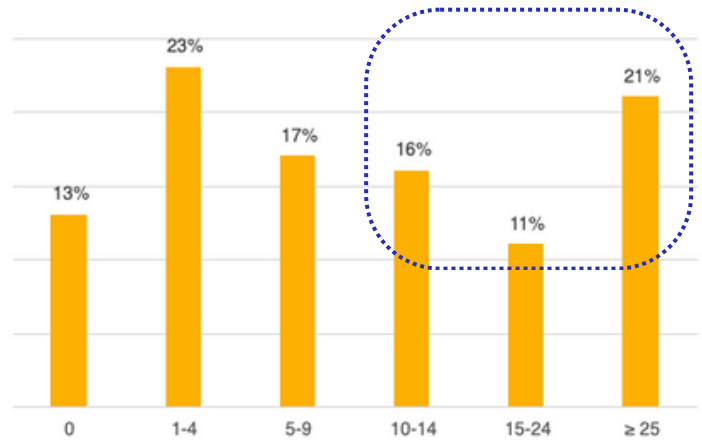
Number of Exits/Monetizations

~80% of principals have experiences portfolio monetizations and exists prior to current fund



Number of Investments

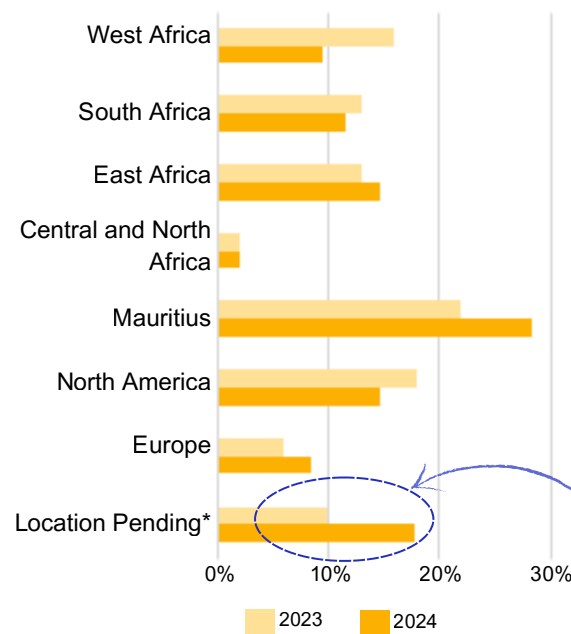
~60% of fund managers made ≥ 10 investment transactions prior to current fund



Fund Vehicle Domiciliation and Construct

Selecting a domicile that meets the governance and oversight standards of institutional investors and DFIs is essential. These LPs expect world-class governance, operations, legal, tax, and regulatory compliance. Yet vehicle domiciliation and fund administration remain challenges for many African growth-stage funds. Increasingly, GF managers recognize the need to establish vehicles in jurisdictions that “check the box” for institutional LPs in order to attract their capital. Over the past three years, coming off of the “grey list,” Mauritius has increasingly become the location of choice for GFs.

Domicile Location



Domiciliation Criteria The top considerations are legal and regulatory environment, and LP preferences. Secondary issues being domicile tax regime, and country where their investments are made.

Vehicle construct remains a challenge. Many Growth Funds offer self-liquidating financing and recognize that small businesses often require longer timeframes to achieve sustained cash flows. These dynamics suggest that open-ended vehicles may, in some cases, be better suited than the closed-end models typical of venture capital and private equity. While most Growth Funds initially favored open-ended structures, recent years have seen a shift back toward closed-end models – driven largely by DFI preferences for this construct.

**“Location pending” highlights the iterative nature of fund structuring. Many managers use transitional vehicles to refine their approach, focusing on proving the investment thesis before choosing a final domicile.*

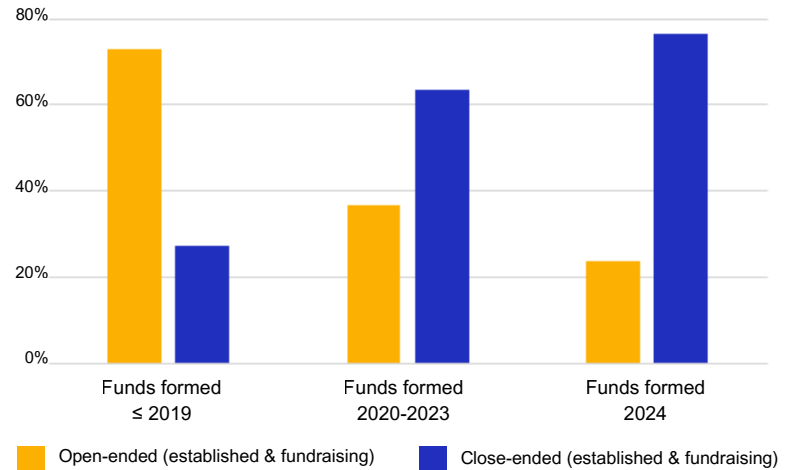
60% of Debt funds are open-ended, illustrating the use of flexible constructs to provide a range of debt-related applications and tenors

73% of Equity funds are close-ended. Equity funds are leaning towards the more traditional 2/20 vehicle construct.

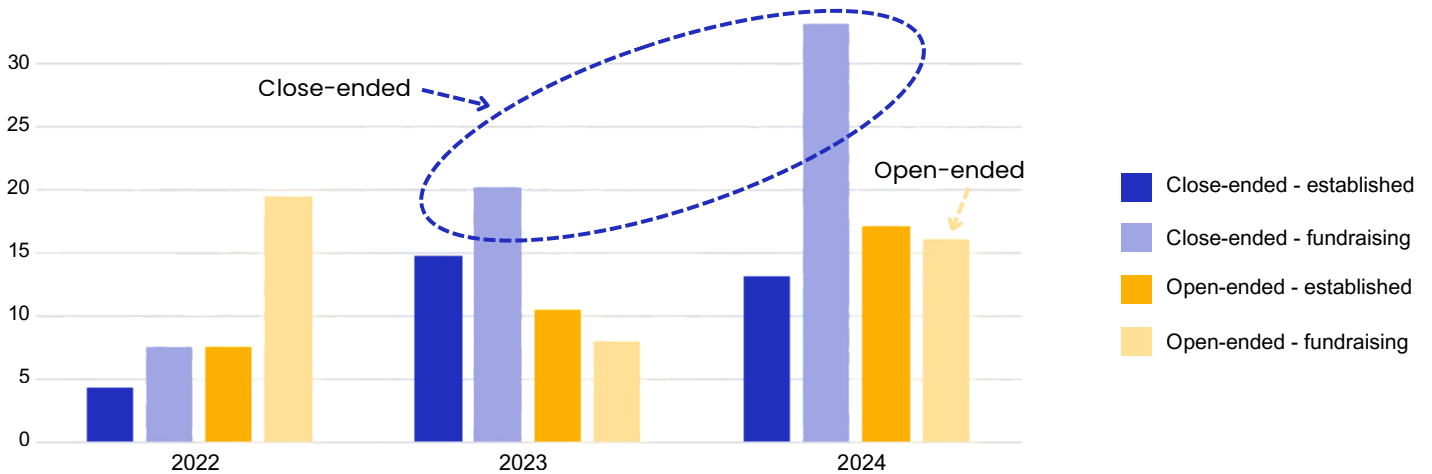
As illustrated in the accompanying graphics, prior to 2020, GFs opted to set up open-ended vehicles – structures that provide more flexibility in managing their investment portfolios in the challenging Africa marketplace. In the last two years there has seen a material reversal. In interviews with GPs, the change is LP preference driven – and hence, if they wish to attract the interest of DFIs and institutional investors they are forced to apply close-ended constructs. This is another illustration of the Hourglass Dilemma in which lack of flexibility by LPs limits the establishment of vehicles that best meet the needs of GFs and their portfolio SGBs.

Fund Structures

Based on fund establishment year



Number of Fund Types Established and Fundraising



Going forward, there is scope for greater dialogue between LPs and Growth Fund managers to explore vehicle structures and investment terms that align more closely with the realities of small business finance in Africa.

Fund Size

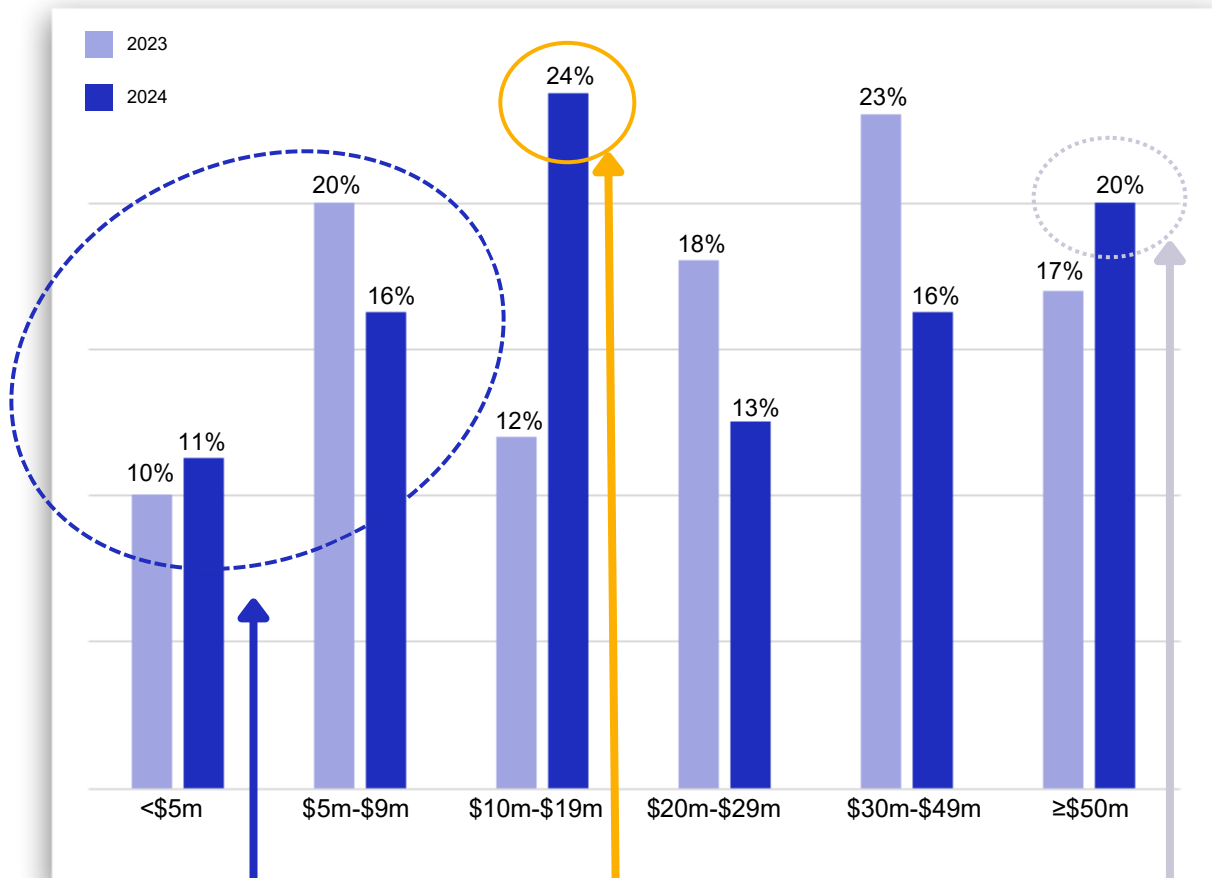
Institutional Investors and DFIs have traditionally applied a \$50 million minimum AUM threshold for private equity and VC funds. This mimics the established assumptions in developed markets regarding sustainable fund economics under a 2/20 fee model. Additionally, LPs have a preference to allocate larger commitments per fund investment, further adding pressure for GFs to implement larger fund vehicles. However, these rules of thumb do not fit the context of Small Business Growth Funds in Africa, another illustration of the Hourglass Dilemma.

For GFs, average deal sizes are smaller, requiring smaller overall fund sizes to manage portfolios effectively. They also operate with leaner teams that leverage their market proximity, business expertise and financial acumen. Smaller teams allow for fund economics that differ significantly from conventional PE models.

In the early stages of this emerging asset class, many fund managers sought to align with DFI expectations around “optimal” fund sizes for small business finance. This often led to initial targets of \$30–50+ million, modeled after traditional PE structures, a scale that proved challenging for early-stage Growth Funds. As illustrated in the following graphic, managers are now taking a more phased approach, focusing on fund sizes around \$20 million in the initial stages and building scale progressively through subsequent funds. As they advance to their second and third vehicles, assets under management begin to increase materially.

Fund Target Size

Recognizing the staging with bias towards Mid-to-Large Funding Ranges



Tapping new “catalytic” FoFs for a “pilot phase”.

- Target Sub \$10m initial fund vehicle
- Allows for demonstration of investment thesis and capabilities
- Tap concessionary capital to cover operating expense
- Benefit from fund management shared services and infrastructure

Recognition that the “Sweet Spot” of small business funds is in the ~\$20m range.

- Lower end of achieving appropriate fund economics
- Based on limited LP capital – this number should increase as managers demonstrate impact, viability, and returns

Established GPs looking at fund #2 or #3.

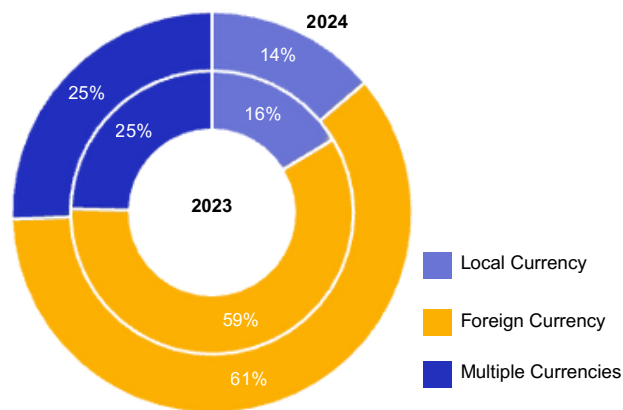
- Have demonstrated capabilities
- Deemed attractive by DFIs who can provide larger amounts

Currency Management

DFIs and international investors (institutional, impact and family offices) continue to provide the substantial majority of their funds in hard currencies. This leaves local funds to directly carry the currency exposure by extending their capital in local currency, or passing the currency risk directly onto the small businesses by providing hard currency lending or equity. This is despite the fact that the majority of small enterprises lack natural hedges, and at their stage of evolution, not well-equipped to manage currency fluctuations.

In a report from the MIT Kuo Sharper Center for Prosperity and Entrepreneurship, persistent currency depreciation in Africa during recent years has placed significant strain on the operating environments of small businesses, including their access to finance.²⁵ Several economies experienced double-digit devaluations in less than five years, which in turn took a toll on inflation, liquidity and borrowing costs. Beyond macroeconomic headwinds, the lack of inexpensive hedging tools available to the public often leaves small businesses with costly foreign currency (FX) debt for funding.

Currency Used in LP Commitments



Funds' Currency for Setting Hurdle Rate



For GF's, 85% take on the currency management, which drives up costs and undermines fund economics, another factor in the Hourglass dilemma. In summary, stakeholder behavior continues to be shaped by legacy practices. While governments and the development sector often call for "innovation", systemic changes have yet to take root. The Kuo Sharper report is a result of a concerted effort from key stakeholders on the continent and internationally to frame the currency issues and propose actionable solutions.

Fundamental questions framed during these discussions:

- Should small business be exposed to currency risk?
- If not, then why have development institutions and government agencies not been able to manage the FX risk at their level?
- FX strategies are most efficiently and effectively managed at large scale, not transaction-by-transaction = ecosystem level solutions that do not push the high-cost of long-term hedges onto small businesses.
- What are actionable initiatives? Where is more data analytics and transaction structuring required?
- Who are the partners needed to undertake? How do we map out a process to engage key stakeholders?

²⁵ "Hedging Currency Risk: From Strategies to Implementation," MIT Kuo Sharper Center for Prosperity and Entrepreneurship, MIT Sloan School of Management, 2024.

Key takeaways informed by the Kuo Sharper meetings include:

- Exploring guarantee structures that consider local contexts and enforce clear performance indicators that are essential to adoption.
- Technology. The provision of synthetic hedges against FX volatility through digital platforms offers a promising pathway for mitigating currency risk. These technology-driven solutions can provide investors with structural protection, thereby facilitating greater local capital deployment. Under such arrangements, funding is structured in domestic currency terms but repaid in the lender’s preferred denomination, reducing reliance on costly derivative instruments.
- Unlocking pension fund capital for SMEs.

Preparing for Scale – Traversing the ‘Valley of Perseverance’

As with any new set of players, GFs move through the continuum from concept to scale stages. However, as part of this journey, many face what CFF has labeled as the “Valley of Perseverance.” Small Business Growth Funds traverse through the Pilot and Implementation Stages, a phase in which they seek to expand team and skill set, professionalize operations, demonstrate fund performance, and mobilize larger investment flows.

Given the Hourglass factors we have outlined, fund managers can languish in this valley for 3 – 6 years. They are constrained by a combination of:

- Investor perceptions of risk associated with small businesses and the GP team’s capacity to manage,
- Questions on sustainable fund economics, and
- Investment vehicles that meet the technical and governance requirements of DFIs and institutional investors.

Characteristics of the “Valley of Perseverance” Phase

Growth funds exhibit common characteristics as they evolve their fund vehicle. These include the progression of their team depth and capabilities, organizational processes and capacity. By undertake an action-oriented approach, accessing small pools of capital to make “demonstration” investments into local growth enterprises. With this experience, they refine their investment thesis, instruments and key terms of investment activities – all to inform on the design and operations of the capital vehicle that they seek to take to scale.

However, without sufficient access to appropriate patient or concessionary capital, GPs are obliged to often operate on “shoestring” budgets.

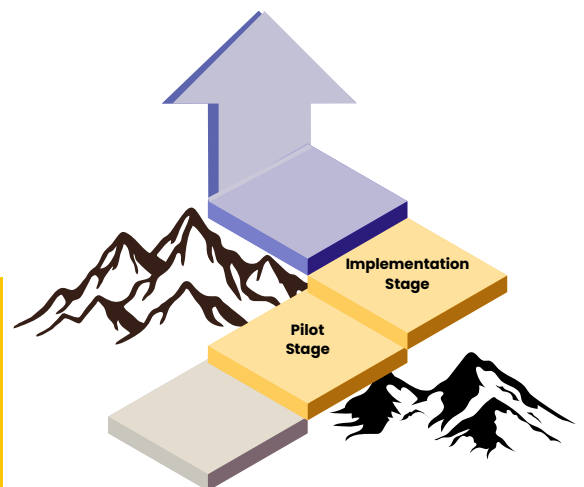
We use the term “**Valley of Perseverance**” to describe this period in which, despite substantial headwinds in establishing their investment vehicles, Growth Fund managers continue to demonstrate remarkable resilience and commitment to driving system change within their markets. They remain steadfast, even when the journey spans several years. As noted, many invest significant sweat equity, take on complementary business activities to subsidize start-up costs, and pragmatically adapt to meet the evolving requirements of institutional investors and DFIs.

Pilot Stage:

- Operating at \$500k–\$2M AUM.
- A critical phase with new managers addressing challenges.

Implementation Stage:

- Operating at +/- \$5m AUM.
- Teams have not been able to experience the portfolio’s investment cycle.

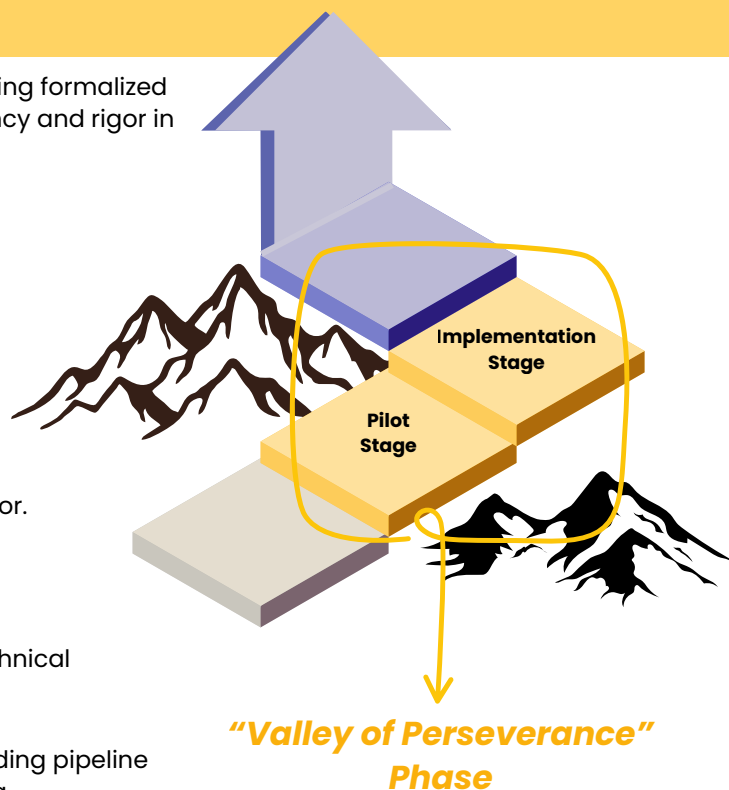


CFF has tracked the progression of GFs over the past half decade. We have noted the key considerations they face at each phase, along with their operational and financial needs as they progress.

Pilot Stage

Needs & Considerations

- Establish clear investment policies and procedures, including formalized portfolio due diligence (DD) processes to ensure consistency and rigor in investment decisions
- Growth Funds often lack sufficient resources to cover team and overhead expenses. As a result, teams are frequently diverted to consultancy or other service activities to subsidize start-up operating costs.
- To strengthen pipeline, implement pre-investment BDS.
- Look to develop a structured governance framework, including a board and a formal investment committee process to ensure accountability and decision-making rigor.
- Put in place initial capital structure; including LPs with different risk and return expectations
- Use concessionary capital to offset start-up costs and technical support; including BDS for target portfolio
- Demonstrate investment capabilities and processes including pipeline selection, investment analytics and transaction structuring
- Map vision for achieving fund sustainability and economics
- Tap concessionary capital to warehouse pipeline financing opportunities and operating overhead lines of credit



Implementation Stage

Needs & Considerations

- Prioritize obtaining anchor investor and follow-on institutional capital.
- Look to sustainably expand team expertise and resources. Implement human development programs and training.
- Implement "world class", legal, tax, financial management systems
- Select fund domiciliation and initiate regulatory approvals
- Seek mentoring/support toward portfolio selection; transaction structuring, and closing
- Use recognized impact methodologies and metric systems
- Formalize pre- and post-investment activities. Establish approach to post-investment portfolio oversight. Build into investment thesis and activities.
- Use investment activities to refine understanding of sustainable fund economics
- Continue to apply concessionary capital to warehouse pipeline financing opportunities and operating overhead lines of credit

Role of Catalytic, Concessionary Capital for the ‘Valley of Perseverance’ Phase

Patient, catalytic capital is critical to accelerate the path through the ‘Valley of Perseverance’ Phase. Growth Funds require capital that provides the flexibility to evolve and adapt as they test and refine their investment approaches. Contrary to common assumptions, fewer than one-fifth of Growth Funds have accessed first-loss mechanisms, and most fund managers do not view traditional credit guarantees as their primary need. Instead, their priorities center on strengthening team capacity, operational systems, and investment processes. This includes pre-investment business development services (BDS) to improve pipeline and investment readiness, as well as post-investment technical assistance to enhance entrepreneurs’ operational performance and capacity to scale.

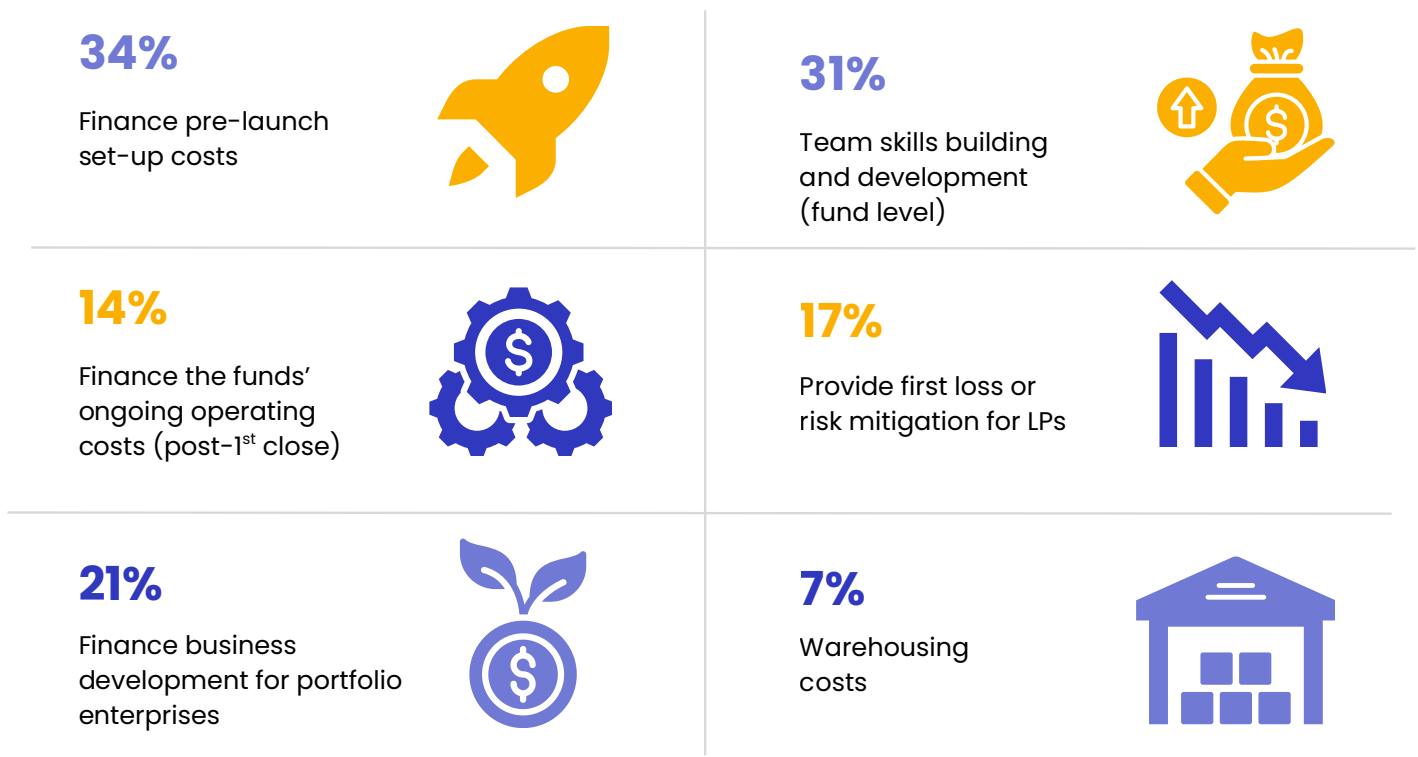
The extended fund-raising period characteristic of the “Valley of Perseverance” phase places significant economic pressure on GPs (see discussion on “sweat equity”). In response, many GPs prioritize the use of concessionary capital to support the launch and early stages of their fund vehicles. This includes financing operational, legal, and administrative costs essential to establishing the fund. In addition, concessionary capital is often used to deliver business development services (BDS) to pipeline enterprises – simultaneously mitigating portfolio risk and enhancing overall fund performance.

As illustrated in the following graphic, the use of concessionary capital for fund set-up aligns with the expected focus by GPs over the coming twelve months. Team skills building and development ranks second only to fund raising as a priority.



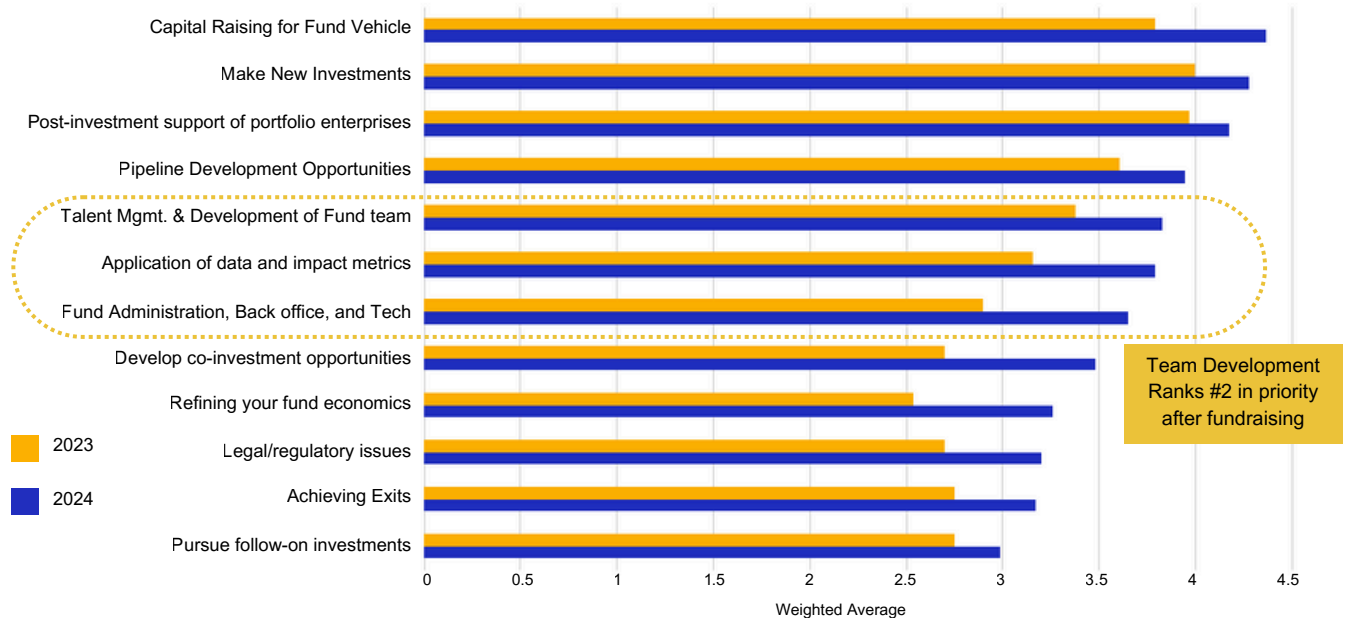
≈60%
of GFs have
accessed
concessionary
capital²⁶

Growth Funds Application of Concessionary Funds (% of GFs that have allocated Concessionary Funds to the activity)



²⁶ While approximately 40% of Growth Funds have not accessed concessionary capital, discussions with GPs suggest that this reflects the difficulty of accessing such capital, not a lack of need for it.

Areas of Highest Priority Over the Next 12 Mo for Growth Funds

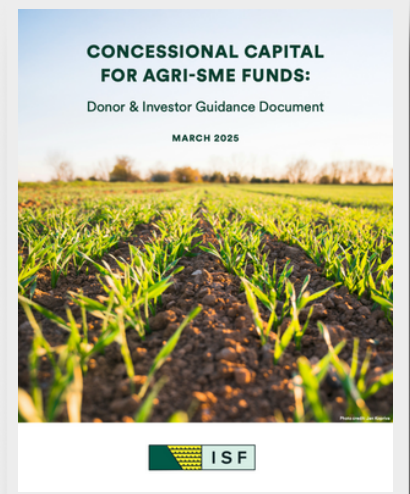


As noted, earlier this year ISF Advisors assessed the use and value proposition of concessionary capital for fund vehicles supporting the agri-value chain sector. Data from the 100+ funds in CFF’s survey indicates that ISF’s recommendations on the application of concessionary capital are equally relevant for Growth Funds financing Africa’s growth-oriented enterprises. While risk mitigants such as first-loss instruments provide value, the most critical use of concessionary capital lies in supporting the management and operational capacity of emerging funds.

When Concessionary Capital Works Best: Lessons from ISF on Tackling Multiple Pain Points

Data from CFF’s surveys aligns with ISF Advisors’ recent assessment of the use of concessionary capital, which provides an important reframing of its most effective applications. Their analysis found that concessionary capital delivers the greatest impact when it is structured to address multiple “pain points” simultaneously.

- Leverage risk capital**
Anchor risk mitigating tranche to address institutional investor risk perception.
- Appropriate TA**
Provide the funding for TA support that is both value-additive and cost-effective.
- Reduce start-up constraints**
Subsidize fund start-up costs, particularly with regards to ensuring appropriate human talent.



Accessing and Mobilizing Domestic Institutional Capital

As noted in the currency management section, the best means of managing FX risk is mobilizing local pension funds and domestic institutional capital holder. At the upcoming November 2025 All Africa Pension Summit there will be \$700 billion pension fund capital in attendance. The Summit host, NSSF Uganda, has laid out the discussion of financing Africa’s small business as a key topic. Africa’s pension capital has been growing by an average of 15-20% per annum.²⁷

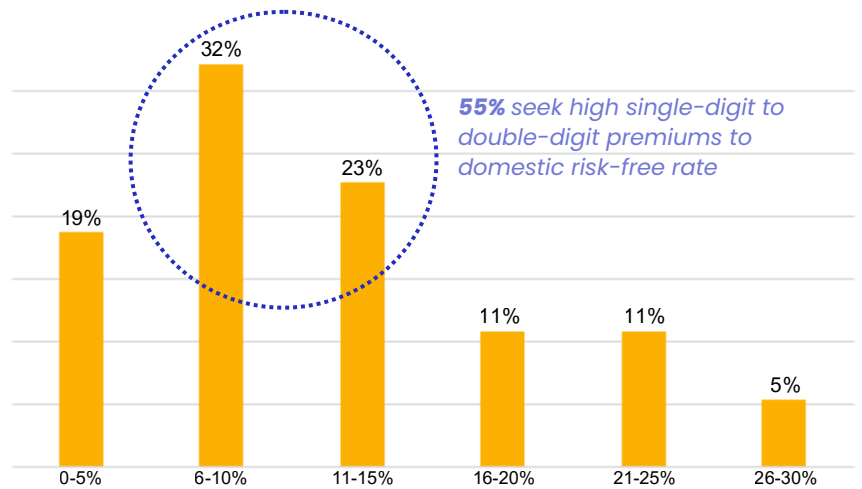
NSSF Uganda sees small business finance as key to their social and economic mandate of growing the percentage of the country’s population that have pension coverage. However, in few cases will pension funds be in a position to directly finance SMEs, due to ticket size, transaction management cost and administration, expertise and risk concentration. To tap into small business finance pension funds will require the means of building investment-ready SME portfolios that match institutional standards.

GF vehicles offer a pipeline of intermediaries who can structure and manage investment products. Investing in small businesses via Growth Funds provide asset and liability management potential for pension funds.

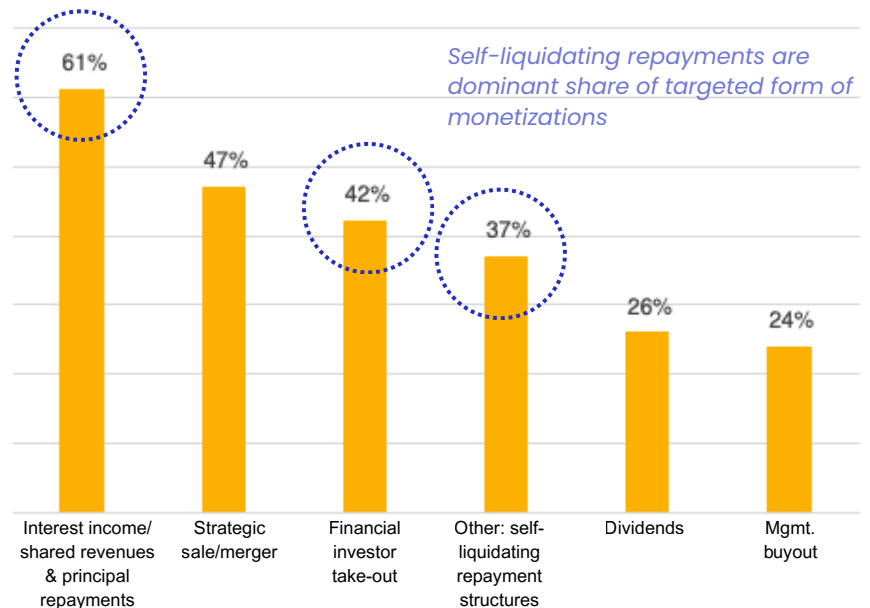
On the asset management side, over 55% of GFs are targeting high single-digit to low double-digit returns above their local domestic government debt issuances – a credible risk/return balance for pension funds. Further, GFs offer risk diversification as they manage a portfolio of multiple small businesses.

As pension funds build out their alternative investment portfolios, they will require investment profiles that match their liability management requirements. GFs are increasingly focused on the application of self-liquidating instruments. Such instruments provide a prudent balance of small business finance risk/return, while offering repayment profiles, tenors and liquidity that are well aligned with the liability side of pension management. Additionally, shared revenues instruments provide current returns to LCPs while offering higher potential than straight debt instruments.

Target Local Currency Returns Above Local Government Bonds



Percent of Funds Using Form of Monetization or Exit



²⁷ "Pension Markets in Focus 2024," Organisation for Economic Co-operation and Development (OECD), 2024.

Pension funds in Africa are going through a steep learning curve with regards to alternative assets such as Growth Funds. Small Business Growth Funds are providing new investment opportunities for institutional investors on the continent.

Case Studies – Three Growth Funds Tapping Domestic Institutional Capital



Secha Capital

Embedding human talent to drive growth

Secha Capital is a Black, female-founded growth capital impact firm investing in traditional industries making the tech-enabled, green economy transition in Southern Africa. Secha’s Operator-Investor model places highly skilled human capital resources into Secha’s portfolio companies to work on high impact value creation projects that deliver growth for its entrepreneurs. Secha’s Fund I proved that the combination of equity investments and human capital for growth stage businesses is a replicable model for generating financial returns and social impact.

Secha Capital tapped investments from blue-chip investors **RMB Ventures, 27four Investment Managers, The SA SME Fund, and Caleo Capital.**

\$14m+ deployed to SMEs



Mirepa Investment Advisors

Local pension funds invest in diverse sectors

Mirepa’s focus is on light manufacturing, technology, and cleantech investments in sectors spanning agribusiness/ agro-processing, education, healthcare, financial services, and business services. It offers patient capital to high-growth SMEs throughout Ghana, contributing to economic expansion, job and wealth creation, offering strong returns for investors.

Mirepa Capital SME Fund I raised funding from 8 institutional investors/pension fund managers including Stanbic Investment Management Service (SIMS), Venture Capital Trust Fund (VCTF), Databank Asset Management Service Ltd, CAL Asset Management Company Ltd and Fidelity Assets Management. These funds were sourced from over 14 underlying pension funds including Axis Pensions Trust, Ghana Education Investors, among others.

Exceeded 90% of capital raise targets despite adverse impact of Covid and Ghana domestic debt crisis



Linea Capital

Applying flexible structure that delivers financial return

Linea Capital applies its innovative revenue-based financing model to small and growing business, balancing financial returns with an attractive form of non-dilutive capital.

Its solution aligns the interests and motivations of growth-oriented business founders and investors, supporting long-term value creation.

The value proposition of Linea’s model has attracted domestic institutional capital in South Africa.

Their embrace of Linea’s approach signals a growing openness among “traditional” investors to back alternative financing solutions that serve both commercial and development goals.

100% unsecured

100% RBF non-dilutive

Domestic institutional capital lack familiarity with the asset class and with small business finance in general. It will require targeted education to pension trustees on risk-adjusted returns. In addition, this is where concessionary capital can play an important role. Application of subsidized risk mitigation instruments by concessionary capital holders would provide an incentive mechanism for pension funds to expand more aggressively into alternative assets such as Growth Funds. The principal value of risk mitigation would be to address the perceived risks associated with small businesses. Structuring pathways for this pool of capital is key to addressing the Hourglass dilemma, and in doing so, mobilizing significant funding for SGBs. This is the critical additionally offering that DFIs require when using their more catalytic funds.

In terms of mobilizing capital into the small business finance sector, domestic pension funds offer the most relevant and largest pool of long-term capital. This should not be surprising. In the US capital markets, investments into PE funds account for 15 – 25% of pension fund overall investments.²⁸ Meanwhile, US public and private pension funds hold about 31 percent (\$307 billion) of aggregate private credit fund assets.²⁹

²⁸ “The Great Pension Shift: Why Endowments Are Doubling Down on PE,” VCI Institute, July 7, 2025.

²⁹ “Private Credit: Characteristics and Risks,” Fang Cai and Sharjil Hague, US Federal Reserve, Fed Notes, February 23, 2024.

Role of Regional and Local Fund of Funds

The supply-side analysis shows that catalyzing capital requires the right vehicles, incentives, and technical assistance to ensure capital flows effectively. Local and regional Fund of Funds in Africa offer an opportunity to for catalytic role to reach GFs, particularly for those operating through their Valley phase. Local fund of funds vehicles invest in a portfolio of small businesses funds, and in doing so offer several benefits such as risk diversification. They allocate their investments across a portfolio of GFs operating with different geographic and sector mandates. Given the perceived risk associated with small business finance, and with early-stage GF vehicles, FoFs provide a pathway that mitigates such risk perception and portfolio concentration.

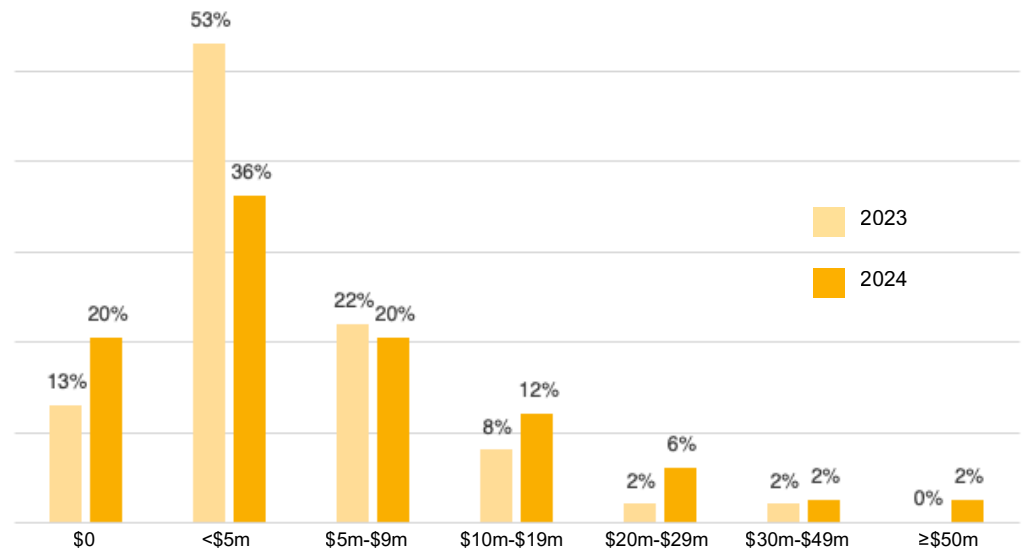
Nearly **60%** of Small Business Growth Funds funds are presently managing **AUM ≤\$10m**.

An increasing trend is the launching of a “pilot” or “demonstration” fund. This is influenced by two key factors:

- i. Limited available LP capital
- ii. Emerging managers need to provide demonstration of investment thesis and capabilities

Hence, a notable share now falls within the \$5million to \$9million range.

Fund Sizes Achieved



In addition, fundraising remains a top challenge for GFs, particularly for pilot- and implementation-stage funds with limited track records. Many operate below \$5 million AUM, sustained by the sweat equity of founding teams and without the infrastructure needed to satisfy institutional investors. DFIs often set minimum commitments of \$15 – \$20 million—amounts too concentrated for smaller vehicles.

FoF vehicles often provide a better pathway for LPs to allocate their large pools of capital and their preference for larger ticket size per investment transactions. However, as noted in the supply-side discussion, vehicles such as fund of funds require careful construction and the capital tranches (often referred to as blended finance). It is critical that FoFs are designed with local input and embedded the flexibility in operations and governance that is required in the ‘Valley’ phase. Alongside accessing funding for investments, FoFs need to prioritize tapping capital for enterprise-level capacity support.

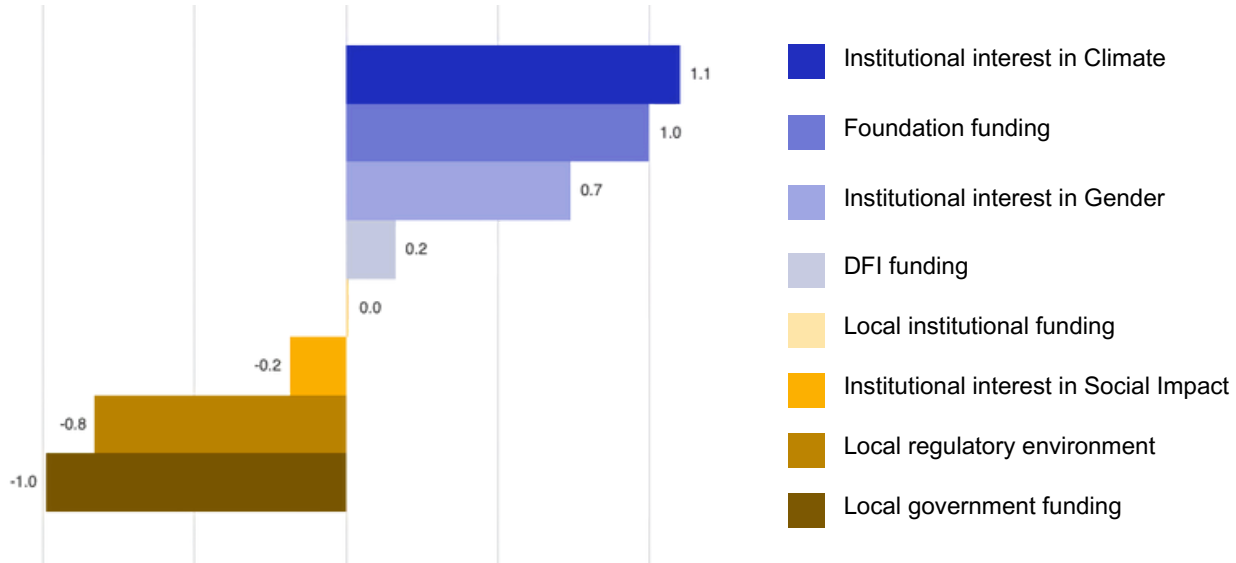
At this time, FoF initiatives are emerging across Africa and MENA to address these systemic gaps in the early stages of GFs. In South Africa there is the SASME Fund; while in Egypt, with the support of the World Bank, the government established the \$50m MSMEDA vehicle. Thematic FoFs such as FSDAi Nyala Ventures, the Mastercard Foundation Africa Growth Fund, and FASA are also providing the early-stage catalytic capital to assist GFs through the Valley and Scale stages. At the time of this report, the Ci Gaba fund of funds in Ghana is nearing first close. New initiatives are under consideration in Morocco (Mohammed VI Fund), Zambia (SBGI), Nigeria (WIIF) and Uganda (an NSSF-led initiative). Increased engagement by concessionary capital holders and field building organizations would have material impact on the pace of the scaling this emerging asset class of Growth Funds, and in doing so, better align capital to address the Hourglass Dilemma.

Supportive Regulatory and Ecosystem Environment

By financing Africa’s small and growing businesses, GFs are having an impact across the SDGs. When surveyed, GFs reported strong institutional investor interest in climate-related investments. In contrast, appetite for social impact investments remains minimal.

At the same time, managers note that local government support and the regulatory environment are perceived as increasingly unfavorable year-on-year. This is a concerning trend given the headwinds in the international development field.

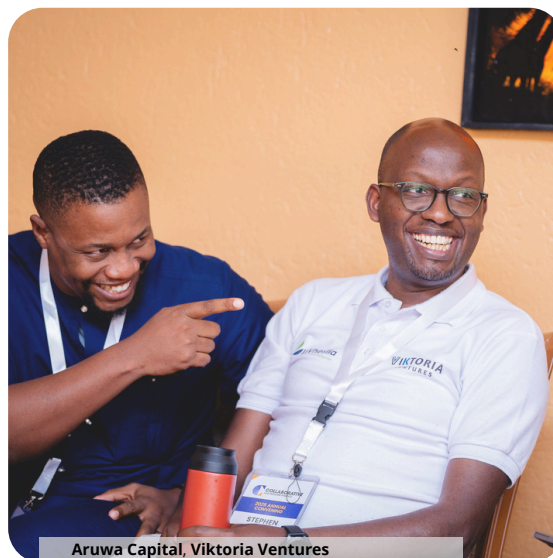
Perception of Trends Managers are Observing in the SGB Financing Sector



More favorable engagement by regulators is critical to address the system level barriers that hold back a more flexible small business finance sector. For example, the pension sector, operating under historically tight regulatory oversight and compliance, would benefit from reduced transaction costs through simplified regulatory processes. Without a conducive regulatory environment, pension capital is likely to remain parked in safe government treasuries. Meanwhile, a number of countries continue to lack appropriate regulations regarding the establishment of nonbank financial intermediaries such as Growth Funds, further impeding the scaling of this critical asset class.



Inua Capital, ATG Samata, Vakayi SME Fund



Aruwa Capital, Viktoria Ventures



Ortus Africa Capital, Warioba Ventures

EXPANDED **INSIGHTS** & RECOMMENDATIONS

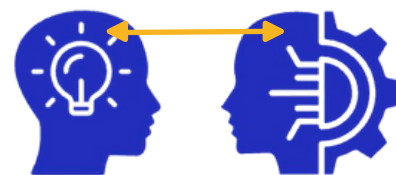
This section synthesizes key lessons from CFF's research and on-the-ground work with Growth Funds (GFs) and distills them into a bold but practical action plan. These insights aim to address the underlying structural, financial, and operational barriers preventing capital from reaching the SGBs that form the backbone of African economies.

1. CLOSE THE INFORMATION ASYMMETRY GAP

ESTABLISH A MECHANISM TO TRACK AND SHARE MARKET-LEVEL PERFORMANCE DATA

Why it Matters?

Investors, donors, and policymakers want data to guide decisions. For Growth Funds to gain support from DFIs data is critical. How the operations and finances of enterprises are tracking, and how this translates into fund management performance, are a prerequisite for tapping institutional investors.



To date, this data is lacking and as a result, small business finance remains opaque, hard to benchmark, and difficult to scale. As noted, SGBs are a heterogeneous group of enterprises, operating in diverse geographies and sectors – and at different stages of their own capacity and business development. At the fund analytics level, the challenge of standardized data is further constrained as GFs apply different instruments, tenors and exit strategies. For the data to be relevant, it needs to take into consideration these factors, while allowing performance benchmarking across the asset class. Simply put, better data translates into better capital deployment, better policy design, faster innovation – all leading to mobilizing capital at scale for the SGB sector.

Recommended Approach

Prior efforts, while well intended, focused performance metrics at the institutional investor level. This, however, does not provide sufficient insight into how the actual enterprises are performing. Further, this approach conflates the different investment strategies that individual GFs apply. Analytics and standards need to be developed at the enterprise and fund levels.

- Establish a working group of GF managers to obtain insights on how they evaluate portfolio performance. Look at how to translate this into comparable reporting metrics across the asset class.
- Develop an online platform with tools for data reporting, aggregation and analytics – allowing for ease of application across the asset class and for institutional investors.
- Socialize these with a working group(s) of local pension funds, fund advisory firms and DFIs to ensure that the metrics are applicable to their own reporting and regulatory environment.
- Pilot an aggregation of longitudinal data across a cohort of funds and portfolio companies.

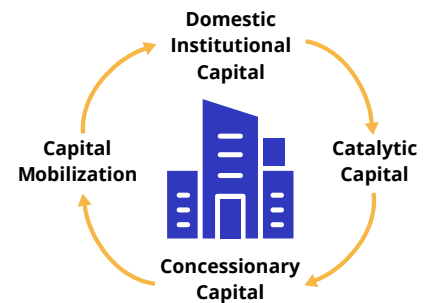
The Deeper Shift:

This is about moving from a “top-down” approach to the development of analytical tools at the market level in order to appropriately track and report performance. Ensures that the tools and methodologies allow for benchmarking across the asset class of small business finance – driving the requisite transparency as to what is working and what is not in financing Africa's growth-oriented enterprises – and mobilizing private sector development.

2. MOBILIZE MORE DOMESTIC INSTITUTIONAL CAPITAL INTO SMALL BUSINESS FINANCE

Why it Matters?

Africa's pension funds hold over \$700b in assets under management. However, they have traditionally favored safe, high-yield investments like government bonds or real estate—missing the opportunity to support high-impact small business finance. In the developed economies, no asset class has achieved scale without tapping into the deep pools of capital held by institutional capital holders. Presently, US pension funds collectively hold on the order of \$600 billion in private credit investments,³⁰ approximately 30% of the overall funding into private credit.³¹ Allocations by US pension funds into private equity and venture capital funds are equally critical sources of LP capital.



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Another key consideration is supporting the development of local institutional capital holders as investors into Growth Funds is the FX management considerations. Currently, the vast majority of capital flowing into capital vehicles that support SGBs is in hard currency (approximately 2/3rd of LP funds). Requiring either the fund manager or their portfolio enterprises to carry the risk associated with foreign currency sourced funding. Therefore, the most effective hedge mechanism is to have institutional capital sourced domestically in local currency.

Mobilizing Capital for Scale Stage Funds

As the graphic below illustrates, GFs have been tapping pension funds in their local market. Approximately 2/3rd of funds in our network fall into the scale or implementation Stages. The funds in the scale stage have institutional-grade governance, diversified pipelines, and proven investment theses. They can absorb institutional LP size tickets and uphold strong operational systems, all while delivering measurable development impact. They would be therefore excellent candidates for direct investments by local pension funds.

For mobilizing capital at scale, DFI support would play a key accelerator role. Through their well-respected due diligence and underwriting process, DFI direct support would have tremendous signaling benefits for domestic capital holders that are seeking to diversify into alternative investments such as Growth Funds. This measure of additionality should be the "scorecard" for DFIs seeking to increase the volume of capital to growth-oriented small businesses, and in doing so, solve for the Hourglass Dilemma.

³⁰ Center for Economic and Policy Research, 2023.

³¹ "California Public Employees' Retirement System (CalPERS), the largest U.S. public pension plan, holds over US\$92 billion in assets in private equity commitments," Wall Street Journal, 2024.

Mobilizing Capital for Implementation Stage Funds

Fund vehicles in the Implementation Stage have experience managing through their fund's investment cycle. They have Board governance, an established investment committee, and core team in place. They may lack longer track records on performance, hence benefit from catalytic funding to further demonstrate their investment capabilities and impact.

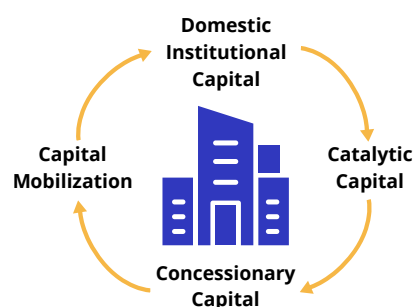
Along these lines, funds at this stage would benefit from funding support via local or regional fund of funds (FoFs). FoFs offer a solution to the Hourglass Dilemma by allocating LP capital across a number of funds, providing risk diversification. In addition, it would allow for better alignment of size commitments as most funds at Implementation stage are not ready to absorb \$10mm in commitment size that an individual institutional size LP or DFI typically prefer to allocate to a single transaction.

To date there are examples of local and regional FoFs that are targeting funds at this stage; Nyala Ventures, FASA and Ci Gaba are representative examples. Similar vehicles are under development in Uganda, Nigeria and Zambia – offering DFIs and impact investors opportunities to catalyze the growth of this asset class. Similarly, with an appropriate layering of risk capital, local pension funds would be able to provide investment funding into FoFs.

Recommended Approach

1. DFIs can engage with Scale-stage funds:

- **Invest to scale the asset class.** Backing scale funds showcases replicable financing models in frontier markets
- **Be additional.** The scorecard for this additionaly is getting domestic pension funds involved in the asset class.



2. Work directly with domestic pension funds to (i) **address knowledge gap** on investment opportunities with GFs, and (ii) **develop vehicle constructs** that would facilitate investments by pension funds.
3. **Engage holders of concessionary capital** to provide de-risking mechanisms in order to assist pension funds to allocate monies into local small business funds at the implementation stage.
4. Design and **implement local/regional fund of funds** to support investments into implementation stage funds. Where existing vehicles exist, work with such FoF managers to raise additional LP capital to expand their funding resources.
5. Establish a **working group of GFs, pension funds and ecosystem stakeholders** to investigate mechanisms to provide liquidity and asset valuation metrics that allow pension funds to address their regulatory and liability management obligations.

The Deeper Shift:

This recommendation is about democratizing development finance—reducing over-reliance on foreign sources of capital, unlocking Africa's own institutional wealth for domestic enterprise growth. It's also about building "homegrown" capital ecosystems that foster resilience and accountability.

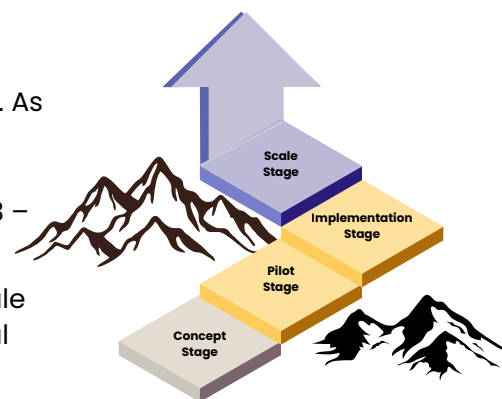
3. BRIDGE THE “VALLEY OF PERSEVERANCE” ON BEHALF OF LOCAL GF MANAGERS

Why it Matters?

GFs surveyed are looking to raise an additional \$1.5bn from institutional, HNW/Family offices and development funders. However, many promising funds stall between the “concept” and “scale” stages – curtailing their ability to access this capital.

They have sound strategies and strong teams, but they lack the early-stage capital and the “perceived” credibility needed to reach first close. As an emerging asset class, Growth Funds traverse a path from concept stage – pilot – fund implementation stage – finally scale and sustainability. This phase, dubbed the Valley of Perseverance, can last 3 – 5 years.

While most persevere, too many are materially delayed in reaching scale in a timely manner, substantially curtailing the potential of these capital managers to support Africa’s growth-oriented enterprises.



Recommended Approach

1. Subsidize and Standardize the Initial Set-up of World Class Legal Vehicles.

Institutional investors and DFIs require world class governance, legal, financial and regulatory capacity of funds in which they invest. For GFs in Africa, the operational setup of an appropriate high quality fund vehicle has led to material delays and costs. In addition, GFs are often led to set up vehicles in legal jurisdictions and with legal vehicle constructs that do not appropriately align with their investment strategy and target markets. 50% of GFs have stated that the domiciliation is fully dependent upon the preference of anchor investor – another hidden challenge in the Hourglass Dilemma. Further, as we have noted, GFs are increasingly being pushed to use closed-end vehicle constructs, despite that in many cases, open-ended vehicles would better align with their investment strategies and instruments.

2. Establish Warehousing Line of Credit.

This is particularly beneficial for GFs at the pilot phase. The most often cited constraint to accessing LP capital at this stage is “proven track record”, despite the prior financial and business experience of the fund management team. Through warehouse facilities, GFs can accelerate their ability to demonstrate their investment thesis and capabilities.

3. Talent Support and Operating Expense Line of Credit.

A constraint has been the ability to bring on staff a full investment team during the Valley of Perseverance phase. Unlike new funds in developed markets, the GP teams in Africa are left with self-funding the early stages of their fund setup, with sweat equity and contributed assets as the main source of “keeping the lights on”. A line of credit to fund the early overhead and team expenses will accelerate their ability to demonstrate to LP investors that they have the skills and resources to successfully manage a fund vehicle. Concessionary capital – in the form of technical assistance and risk-tolerant, patient capital opex lines – is critical to support the key asset of GFs – their human talent.

4. Linkages to FoF Vehicles.

As noted in Recommendation #2, the catalytic capital available from regional and local FoF vehicles can play an important role in anchoring funding for Implementation Stage funds.

The Deeper Shift:

This is about accelerating the establishment of a large-scale solution to the Hourglass Dilemma. CFF estimates that Africa needs over 300 of these local capital managers, with a collective AUM of \$7bn – \$9bn. Just as startups need incubation and acceleration, so do emerging fund managers. Supporting them through the “valley” is not a handout, it’s a smart investment in the infrastructure of small business finance. In addition, these recommendations focus on a people-centric approach to building an asset class. Rather than funneling money into programs that assume what fund managers need, it is critical that we support local players to address local capital market problems.

4. INNOVATIONS IN CURRENCY MANAGEMENT FOR SMALL BUSINESS FINANCE

Why it Matters?

Most SGBs generate revenue in local currency. Yet most LP capital is denominated in hard currency. This currency mismatch creates FX risk—often passed down to fund managers and, ultimately, to entrepreneurs who are least able to absorb it. The result? Hesitancy to invest, stunted growth, and misaligned incentives.



Currency mismatches continue to be a major barrier for small business capital provision across Africa. Over 2/3rd of LP capital is sourced in hard currencies. As illustrated, the substantial majority is not hedged, leaving GFs and their portfolio enterprises exposed. It is unreasonable to continue to anticipate that growing small business can be achieved by such enterprises directly carrying and managing FX. Further, this requirement by DFIs and international investors directs capital to naturally hedged export-oriented businesses, leaving behind the tremendous investment opportunities for those local enterprises addressing underserved markets for products and services

Recommended Approach A two-pronged approach.

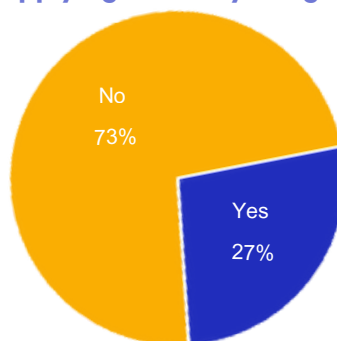
1. Accelerate Access to Domestic, Local Currency Institutional Capital

As noted in Recommendation #2, the best hedge is to have institutional capital sourced domestically. This re-enforces the need to accelerate the engagement of local pension funds and domestic institutional capital referenced in Recommendation #2.

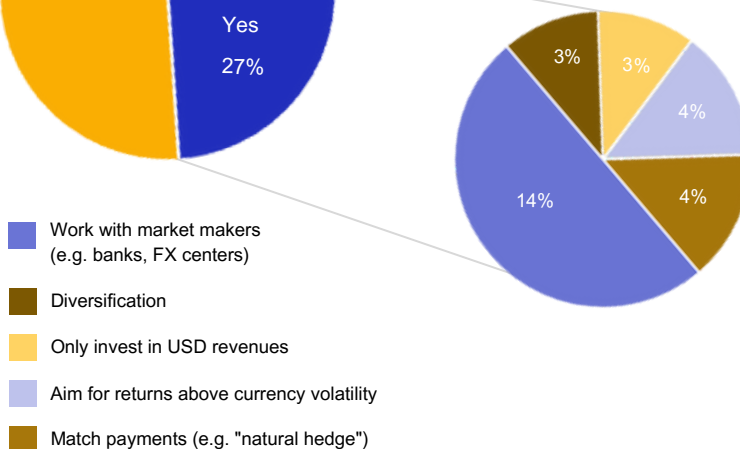
2. Collective Action Implementing Scaled Hedging Strategies

Secondly, for continued access to hard currency capital sources, new approaches to hedging at the intermediary level are required. This requires collective action among multiple stakeholders and funders. The sector would benefit by engaging through such collective efforts as the working group set up to pilot “Unlocking local capital for MSME lending” to reduce risk pricing due to currency volatility for MSME lending in Africa. This is an initiative that has been supported by MIT Kuo Sharper Center for Prosperity and Entrepreneurship after convening over 80 entrepreneurs, investors, policymakers, and ecosystem players to explore solutions to Africa’s currency volatility and its impact on SME financing using guarantees, tapping into local capital, and tech-enabled innovation with five selected markets: Kenya, Uganda, Nigeria, Egypt, and Zambia. Development institutions and agencies should consider how they can provide concessionary funding to subsidize this pathway, allowing for affordable financing by GFs.

Applying Currency Hedging



Form of Hedging Strategy



The Deeper Shift:

This is about making capital fit the needs of businesses, not the other way around. Instead of asking local enterprises to shoulder global financial risk, the system needs to deepen access to local currency LP capital; while building a risk management infrastructure that allows for cost-effective hedging at the institutional investor level.

