

Insight



Five ways UK development partnerships are mobilising local investment and deepening domestic capital markets

Practical thinking on investing for development

Insight is a series of practical and digestible lessons on the issues of private sector investment and development. They're based on our experiences, knowledge and research and are aimed at investors, businesses, development professionals, and anyone with an interest in private sector development.

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Introduction

British development partnerships are mobilising capital at scale across borders.¹ But while cross border investment is important, especially where capital is needed in large quantities to finance the energy transition, it is only part of a bigger picture. In most countries, the volume of domestic investment is around ten times larger than foreign inflows.²

Sustained economic progress rests on the development of a local financial sector capable of turning domestic savings into productive investment.³ Once this engine of development shifts into gear, it can ignite a virtuous circle: productive investment yields higher wages and profits, which refuels domestic savings, which powers further growth. But the components of a high-performance financial engine are not always in place and can take time to assemble.⁴ Without them, businesses struggle to access the capital they need, while domestic savings often end up invested in government debt or overseas.

This note outlines five ways in which development partnerships are helping countries to build and tune their financial engines.⁵

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1 Through partnerships with asset managers, British International Investment (BII) is creating co-investment opportunities and blended finance structures to channel capital towards the energy transition in emerging and development economies. The UK government programme Mobilising Institutional Capital Through Listed Product Structures (MOBILIST) works with partners to create listed products through which institutional capital can be directed toward development goals. The Emerging Africa & Asia Infrastructure Fund (EAAIF), a partnership between asset manager Ninety One and the Private Infrastructure Development Group (PIDG) is delivering long-term debt for impactful infrastructure projects. These are just some examples.

2 The ratio is lower in some smaller and lower-income countries, especially those with large mining and fossil fuels industries.

3 The fact that domestic investment exceeds foreign investment does not mean the local financial sector is working well or allocating appropriate capital to businesses with strong growth prospects. In countries with weak financial sectors, investment can be limited to what businesses can afford from internal cash flows.

4 The Foundations of Growth report: [Investing in financial institutions in frontier markets: lessons from DFI activity](#) describes the characteristics of underdeveloped financial sectors.

5 For a more extensive review of local capital market development across global development finance, see: [How DFI private capital mobilisation can support local capital market development in Africa](#)

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1 Creating investment intermediaries

The flow of domestic savings, including pension funds and the financial assets of insurers, into local productive investment must be channelled through local intermediaries, such as banks and fund managers that match the requirements of savers with the needs of businesses. In countries with undeveloped financial sectors, such intermediaries may be limited in number or capability. By working with local partners, British development finance can help establish intermediaries that bring new capacity to the financial sector.

BII has for many years helped establish pioneering local private equity and credit funds that specialise in supplying capital to businesses that want to grow.⁶ More recently, BII has created innovative lenders in Ghana and Zambia, known as Growth Investment Partners, that were designed from the outset to raise finance from local pension fund managers.⁷ These institutions offer flexible subordinated or mezzanine debt to small and medium-sized enterprises (SMEs) which is often hard to access from local banks.

BII is also helping to create secondary vehicles that transfer ownership from project developers to local long-term investors. In South Africa, we recently partnered with Alexforbes Investments, the country's largest multimanager, to anchor the Revego Africa Energy Fund, a pivotal step in supporting a secondary market for renewable energy assets. In a similar vein, alongside Norfund, BII launched EnerGrid in 2024, a \$300 million platform to develop greenfield transmission and battery energy storage projects in India. Once projects are operational, these assets will be acquired by IndiGrid, a locally listed investment trust.



By working with local partners, British development finance can help establish intermediaries that bring new capacity to the financial sector.

⁶ See our 2024 report: [Investing for impact in African private equity funds - British International Investment](#) for more information.

⁷ The National Pension Scheme Authority, Zambia's largest pension fund, was a founding investor in GIP Zambia, and Axis Pension Trust recently announced an investment in GIP Ghana.

In Nigeria, InfraCredit, a supplier of long-term local currency guarantees set-up in by PIDG in partnership with the Nigerian Sovereign Investment Authority, has unlocked financing from 20 pension fund investors across renewable energy, transport and telecommunications. FSD Africa also supported InfraCredit with technical assistance and a risk-sharing backstop facility, helping it to take on earlier-stage, higher-risk investments with greater development impact.⁸ The rapid success of this model enabled InfraCredit to list as a public company with the assistance of the MOBILIST programme. PIDG and MOBILIST have both since successfully sold their InfraCredit shareholdings. This was the first of several credit enhancement facilities PIDG has set up in emerging market and developing economies (EMDEs) to mobilise domestic private capital through local currency credit guarantees. In 2024, PIDG and FSD Africa helped establish Dhamana to apply the same model in East Africa. They also supported InfraZamin, which supplies credit enhancements for infrastructure projects in Pakistan, and also partnered with the Credit Guarantee Corporation of Cambodia.

2 Anchoring local debt capital markets

As an economy matures and its businesses grow, corporate bonds often replace bank loans as the primary means of financing operations. Bonds are not necessarily cheaper than bank loans, but they can offer longer terms, greater predictability, and larger funding amounts. They also make it easier for local savers and investors to participate more directly in corporate finance. Crucially, the reporting requirements that accompany bond issuances result in a radical increase in the amount of information available to investors about companies and the markets in which they operate. In many emerging and developing economies, limited information can be a major barrier to investment.

Local bond markets are booming across low and middle-income countries.⁹ Since 1990, non-financial firms in these countries have, on a net basis, issued around \$1.5 trillion of bonds, most of them domestic bonds. Many of these issuers are new to capital markets and tend to be smaller, younger, and more productive. Firms that issue bonds typically go on to expand and hire more workers than those that do not. Despite encouraging signs of progress, including smaller firms tapping the emerging local green bond market, sub-Saharan Africa has not yet participated at scale. Instead issuance is still largely dominated by international hard currency bonds issued by oil producers, mining companies, and telecoms operators.¹⁰

By anchoring domestic bond issuances, development partners provide a signal that attracts other investors and ensure issuances succeed. The African Local Currency Bond Fund is a partnership between London-based Cygnum Capital and KfW, the German development finance institution (DFI), with early equity investment from FSD Africa that helped the fund to scale. The fund works with African issuers to bring new bond transactions to market, acting as an anchor investor and providing technical assistance. To date, it has participated in 97 issuances across 16 countries, mobilising around \$3.5 billion in co-investment.

PIDG's GuarantCo has guaranteed bonds and loans enabling \$6.8 billion of private sector investment in Africa and Asia. PIDG has helped transform the Kenyan sustainable student housing market through a long-term partnership with Acorn, particularly with a guarantee for the first green-certified bond and project bond to be issued across East Africa, also a market first at KES 4.3 billion. Its work in India is also notable, especially a framework agreement with the local Axis Bank to provide a \$200 million (INR equivalent) guarantee facility to accelerate the country's electric vehicle adoption rate.



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⁸ BII has also supplied InfraCredit with a local currency counter-guarantee.

⁹ See: *Financing Firm Growth: The Role of Capital Markets in Low- and Middle-Income Countries (2025)*

¹⁰ See our 2025 insight: *A mobilisation machine: International corporate bonds in sub-Saharan Africa – British International Investment*

FSD Africa has worked with several countries to facilitate the issuance of green bonds. For example, in Tanzania, it helped revise the rules of the Dar es Salaam Stock Exchange to allow the issuance of sustainability-linked instruments. It also supported Tanzania's NMB Bank to develop its social bond framework, which led to the \$32 million Jasiri gender bond, anchored by the International Finance Corporation (IFC), the first gender bond in sub-Saharan Africa. BII subsequently made an anchor commitment equivalent to \$15 million to NMB Bank's inaugural Jamii sustainability bond, alongside the IFC. The total issuance was TZS 400 billion (\$160 million) making it the largest sustainability bond issued in the East African region and was backed by more than 5,600 local investors.

Banks and other issuers can also raise funding by securitising existing assets through bond issuance.¹¹ In partnership with the West African Development Bank and the IFC, BII anchored a securitisation by NSIA Banque Benin to raise finance for further lending to SMEs in Benin, Senegal and Togo. Just over half of the CFA 52 billion (\$90 million) bond was placed with local and regional investors, including banks, pension funds, insurance companies and individual investors.

3 Deepening capital markets

Capital market development requires money to anchor issuances, and technical assistance to help companies with listing requirements. It also requires more foundational work with local policymakers and regulators to put market infrastructure in place and to design a supportive legal and regulatory environment.

FSD Africa focuses exclusively on financial system change and works closely with finance ministries on policy. In Zambia, for example, it is partnering with the Global Green Growth Institute to develop a Climate Finance Unit. This unit will set policy on climate finance in areas such as carbon markets and fiscal incentives and, through a new fund, mobilise capital for investment in the green economy.

FSD Africa also provides technical assistance to capital market regulators across Africa. Support includes helping countries, including Kenya, Zambia, Uganda, Nigeria and Ethiopia, to develop master plans and roadmaps for domestic capital market growth. These consultative processes help set ambitions for capital markets in those countries and ensure future reforms are aligned with national priorities. FSD Africa also supports targeted regulatory change, including supporting Kenya with regulations on green bonds and collective investment schemes, and assisting Rwanda with introducing regulation for asset-backed securities.

In Ethiopia, FSD Africa supported the regulatory framework for establishing the Ethiopian Capital Market Authority, licensing financial intermediaries, and launching the Ethiopian Securities Exchange (ESX). It also provided technical advice on the exchange itself, where it is now a shareholder, and on the Central Securities Depository. Through a market development grant to the ESX, FSD Africa is helping businesses access the new capital market through studies, corporate governance initiatives and the training of intermediaries.

FSD Africa also supports investors in capital markets. It works with pension funds through the Africa Pension Supervisors Association, which represents pension regulators from 15 African countries with \$350 billion of assets under management. It also supports asset managers through the Pan African Fund Managers' Association, which now represents 150 member asset managers with a collective \$200 billion of assets.



These consultative processes help set ambitions for capital markets and ensure future reforms are aligned with national priorities.

¹¹ See: [The role of securitisation in developing local capital markets in Africa](#) for more.

Capital market regulators are responsible for market development as well as supervision, often with limited resources and tight public budgets. Providing grant funding to help regulators develop their markets can be a highly effective way to help mobilise private capital, by building confidence that markets are well regulated, support innovation, and protect investors' interests.

4 Helping lenders expand into new markets

Banks are the foundation of the financial system, intermediating between savers and borrowers. They play a particularly important role as lenders to smaller businesses through their branch networks, and there is strong evidence that local economic activity picks up as banks expand into new regions.¹² But banks have their limitations, and the products they offer, and how they make lending decisions, can vary in sophistication. In some markets, banks mainly offer short-term loans to well-established borrowers with collateral. This offers limited support to younger firms seeking capital to finance growth. The behaviour of banks is also shaped by the wider economic environment. In countries where government debt pays high rates of interest, lending to SMEs can appear less attractive and higher risk by comparison to buying treasury bills.¹³

There are several ways in which development partnerships can help banks to expand their activities and improve access to credit. The most direct form of support is by supplying banks with long-term and stable financing. In lower incomes countries, where domestic savings rates are limited, banks often lack the deposits needed to fund new loans. To keep lending, they rely on wholesale funding from institutional sources. There is evidence that banks reliant on short-term liabilities, such as deposits that can be withdrawn on demand, tend to favour short-term lending.¹⁴

BII, often in partnership with other DFIs, has extended long-term financing to several banks across Africa and Asia. Recent examples include participating in a \$265 million funding package for [Rawbank](#), the largest commercial bank in the Democratic Republic of Congo (DRC), and a \$295 million package for [Access Bank](#) in Nigeria.

While this form of support is vital in channelling DFI capital into local SME lending, on its own it does not mobilise local capital. To achieve that, DFIs often combine their capital with technical assistance to help banks develop new products and expand into new markets. Once a bank has demonstrated it can serve a new market segment successfully, it can expand its activities with finance raised locally.

By helping banks develop new lending practices, DFIs can expand the ability of local financial systems to allocate capital for a wider range of purposes. For example, through a \$25 million risk-sharing facility with Ecobank Sierra Leone, BII combine risk cover with embedded technical assistance that helps the bank learn to originate and manage longer-tenor, local-currency SME lending in higher-risk sectors. This helps create lasting underwriting capability beyond the life of the facility. In Zimbabwe, directed lending to NMB Bank has been paired with impact-linked incentives and technical assistance, linking pricing to sustainable agriculture outcomes, helping to deliberately overturn legacy risk biases and bring new credit decisions into the bank's core portfolio. In South Africa, BII is working with [FirstRand](#) to develop a transition finance offering for high-emission companies that are moving towards adopting cleaner technologies and lower-carbon practices.



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¹² This evidence is summarised in footnote 7 of the BII blog: [Why the financial sector matters for development](#)

¹³ See: [Distributional crowding out effects of public debt on private investment in developing economies](#)

¹⁴ See: [Liquidity risk and long-term finance: evidence from a natural experiment](#)

BII has also offers dedicated financial services technical assistance through **FSG Plus**, which has worked with more than 55 financial institutions, and led to over 60 practice changes. These include new or improved products, expansion into new markets or segments, and stronger internal systems. For example. FSG Plus helped one of Bangladesh's largest private commercial banks to strengthen its climate lending capability and identify new green investment opportunities, positioning the bank to attract additional climate finance beyond the original BII loan. In India, it helped a financial services firm train 300 loan officers on gender awareness and to launch a loan product for women, which saw women borrower numbers increase by 60 per cent in the first year after launch.

5 Market building

Local capital can only flow where there is a pipeline of suitable investment opportunities. As well as increasing the supply of local capital, development partnerships can help build demand. This can include working with businesses to develop their investment proposition and prepare the information investors need, and supporting local service providers, such as accountants and law firms, that help investment transactions take place.

InfraCo, the development project arm of PIDG, operates across Africa and Asia. It takes projects from concept to reality. This requires a range of capabilities, including local knowledge to understand community needs, rigorous technical and environmental assessments, and the ability to navigate shifting political and economic conditions. It also requires early-stage equity to finance all the costs involved in getting projects off the ground. These capabilities have so far helped PIDG bring more than 200 projects to financial close, many of which have raised capital from local investors.

FSD Africa has a catalytic transactions team that works with investors, fund managers, and project developers. It helps design and deploy innovative financial instruments that mitigate risk, enhance liquidity, and support market exits. The aim is to attract local institutional capital and accelerate investment in climate-aligned and inclusive sectors. It also runs a programme called Financing Urban Transformation for Resilient Environments (FUTURE) which focuses on transaction preparation for adaptation projects in urban contexts.

Manufacturing Africa is funded by the Foreign, Commonwealth & Development Office (FCDO) and works with manufacturing firms in Nigeria, Kenya, Ethiopia, Tanzania and Rwanda to help them attract investment. It has helped more than 250 companies to secure over £2 billion of investments. A recent example is Ethiopian edible oils brand **Tena**, where Manufacturing Africa helped develop a local supply chain strategy, resulting in a \$21 million investment from a consortium of private investors managed by 54 Capital.

BII is unusual among DFIs in our ability to sponsor new companies that have in-house project development capabilities, which can then attract capital from local banks and investors, such as Globeleq and the Africa Gateway.¹⁵ In recent years, BII has also piloted a programme-driven approach to market building in selected countries. Our aim is to identify the underlying barriers that stop investment from flowing – such as the investment readiness of firms, a lack of local service providers, or an unsuitable regulatory environment – and work to remove them.



As well as increasing the supply of local capital, development partnerships can help build demand.

¹⁵ See the 2025 ODI Global report: [DFI sponsorship of new platforms and ventures: why and how?](#)

This approach combines capital with tools, including technical assistance and other activities, in countries with local partners. Although this approach to market building is relatively new for BII, early results from programmes in [Nepal](#), [Ghana](#), Zambia and across a wider set of frontier markets through the Africa Resilience Investment Accelerator ([ARIA](#)) are encouraging.¹⁶ ARIA is a collaboration between BII, the Dutch development bank FMO and French counterpart Proparco, to provide investment readiness support and facilitate long-term sustainable investment in Benin, the DRC, Ethiopia, Guinea, Liberia, Togo and Sierra Leone. These programmes have contributed to 32 investments worth a combined \$415 million, involving DFIs, cross-border impact investors and local investors.

The key to success is partnership – between DFIs, governments development agencies, and local actors. Building on early successes, BII intends to deepen and expand our on-the-ground market building activities, especially in frontier markets.

Conclusion

Local investors are often the best source of finance for a business. They tend to have a better understanding of local markets, are less likely to withdraw in a downturn, and avoid foreign exchange risk that can make cross-border financing costly. However, in many countries, the local financial sector remains small and bank dominated, offering a limited range of products to a narrow group of businesses.

This note has outlined some of the ways in which partnership between UK development finance and local actors are helping capital markets evolve to make it easier for domestic savings to support productive local investments.

The Global Partnership Conference, taking place from 19–20 May, in London,¹⁷ will bring together partners from around the world to highlight the need for more diverse forms of finance and explore how partnerships can continue to strengthen local financial development.

¹⁶ See: [Unlocking investments, shaping ecosystems: lessons from BII's market building programme](#)

¹⁷ See: [BII co-hosting Global Partnerships Conference to build new international coalitions to tackle shared challenges for more.](#)

About the report partners

British International Investment is the UK's development finance institution. We invest in businesses in developing countries to improve people's lives and help protect the planet, while making a positive financial return that we reinvest to support even more businesses. Owned by the UK Government, we're a vital part of its work to make the world a more prosperous place for everyone. Our investments create jobs and opportunities. They generate tax revenues and strengthen local economies. They help combat the climate crisis. Our work helps countries break free from aid dependency for good. By proving what is possible, we help attract the private capital that gives these countries the economic conditions to shape their own futures. Find out more at bii.co.uk

FSD Africa is a specialist development agency making finance work for Africa's future. We work with governments, regulators, and financial institutions across 30 countries to strengthen markets, shape policy, and mobilise capital into opportunities supporting growth, climate resilience, the clean energy transition, and nature-positive development. Supported by the UK Government alongside philanthropic and development partners, we also deploy catalytic capital through our investment arm, FSD Africa Investments. Learn more at FSDAfrica.org

The Private Infrastructure Development Group (PIDG) is an innovative infrastructure project developer and investor which mobilises private investment in sustainable and inclusive infrastructure in sub-Saharan Africa and south and southeast Asia.

PIDG offers technical assistance for upstream, early-stage activities and concessional capital; invests in early-stage project development and project and corporate equity through its project development solution, InfraCo; its debt solution EAAIF (the Emerging Africa & Asia Infrastructure Fund) is one of the first and more successful blended debt funds in low-income markets; and its guarantees solution, GuarantCo, provides credit enhancement and local currency solutions to de-risk projects. PIDG also supports a growing portfolio of local credit enhancement facilities, which unlock domestic institutional capital for infrastructure financing.

PIDG is funded by the governments of the United Kingdom, the Netherlands, Switzerland, Australia and Sweden, and Global Affairs Canada. www.pidg.org

For further information:

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