Ministry of Foreign Affairs of the Netherlands

GSG IMPACT

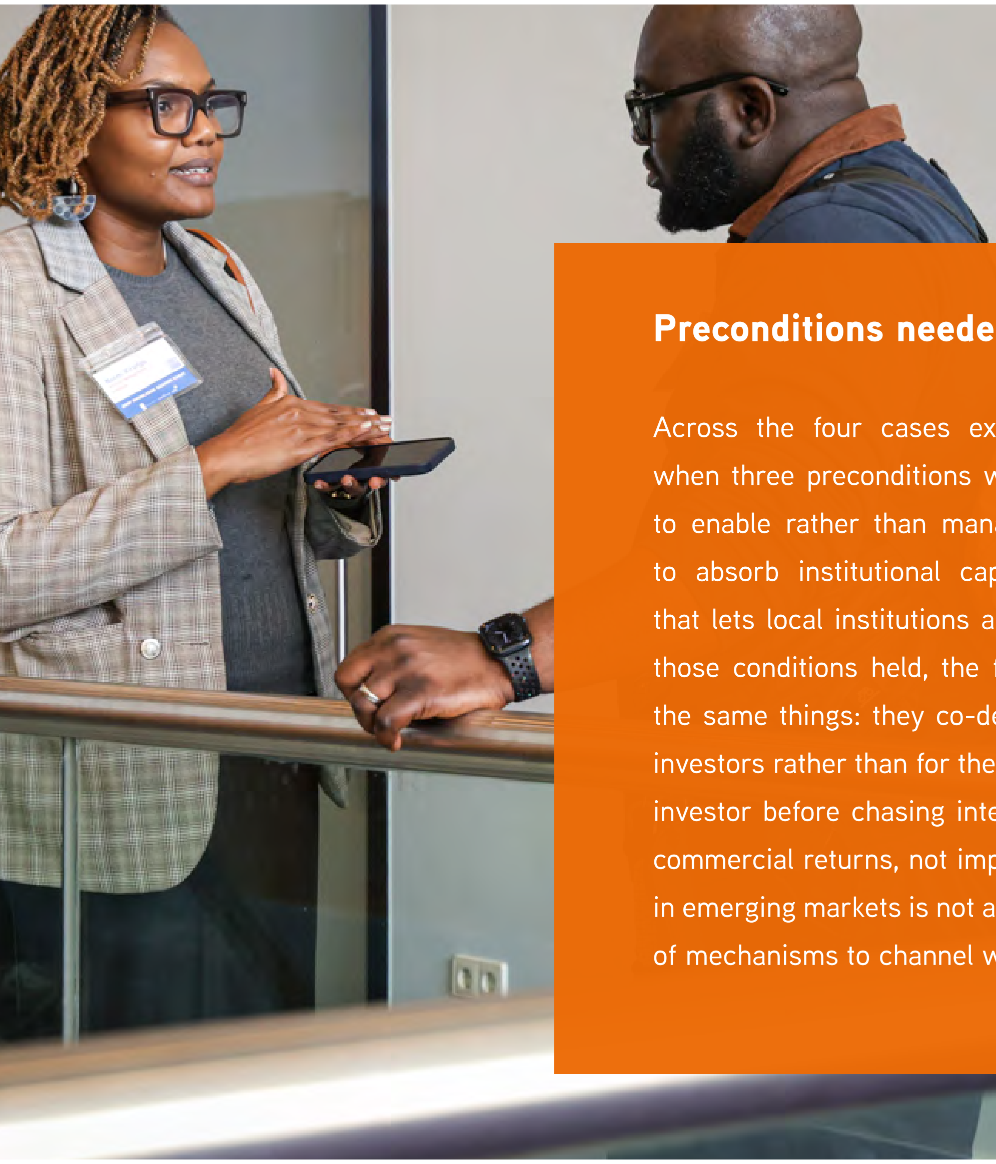
DGGF SC & BD KNOWLEDGE PRODUCT SERIES:

LOCAL CAPITAL MOBILIZATION FOR SME FUNDS

JULY 2026

1. INTRODUCTION

This paper draws on DGGF's and its partners' portfolio of SME fund investments across Latin America, Asia, Sub-Saharan Africa and Middle East and North Africa (MENA) to explore what conditions are necessary to mobilise local capital for SME finance vehicles in practice. The picture is not uniform: local capital mobilisation varies from country to country, and is shaped by the maturity of capital markets, regulatory frameworks, and the appetite of domestic investors. But across these differences, patterns emerge in how fund managers structure their approach to local investors, in the conditions that enable or constrain mobilisation, and in what it takes to move from intent to commitment.



Preconditions needed to mobilise local capital

Across the four cases examined here, local capital moved when three preconditions were in place: a government willing to enable rather than manage, an ecosystem mature enough to absorb institutional capital, and a regulatory framework that lets local institutions allocate to alternative assets. Where those conditions held, the fund managers who succeeded did the same things: they co-designed structures with their target investors rather than for them, they anchored on a credible local investor before chasing international capital, and they led with commercial returns, not impact. The constraint on SME finance in emerging markets is not a shortage of capital, it is the absence of mechanisms to channel what already exists.

2. A FINANCING GAP THAT LOCAL CAPITAL IS BEST PLACED TO CLOSE

SMEs in emerging markets face a vast and worsening financing gap: an USD 8 trillion annual shortfall, 40% of formal SMEs underserved, and SME lending falling 9% in 2023 alone.[1] The gap does not reflect an absence of capital in these markets. Pension funds, insurance companies, banks and development institutions hold substantial and growing pools of domestic capital; the problem is that very little of it reaches SME finance.

These pools are growing fast. Pension fund assets in 12 African markets quadrupled between 2008 and 2020 to USD 1.1 trillion, with comparable growth in family office and corporate assets across emerging markets[2]. Even modest reallocations would be transformative: 2% of African pension assets, around USD 7 billion, would be enough to double SME financing pipelines in some markets.[3] But reallocation at this scale is not straightforward. Each investor segment operates under different mandates, constraints and return expectations, which is why understanding what moves each one is a prerequisite for mobilisation at scale.

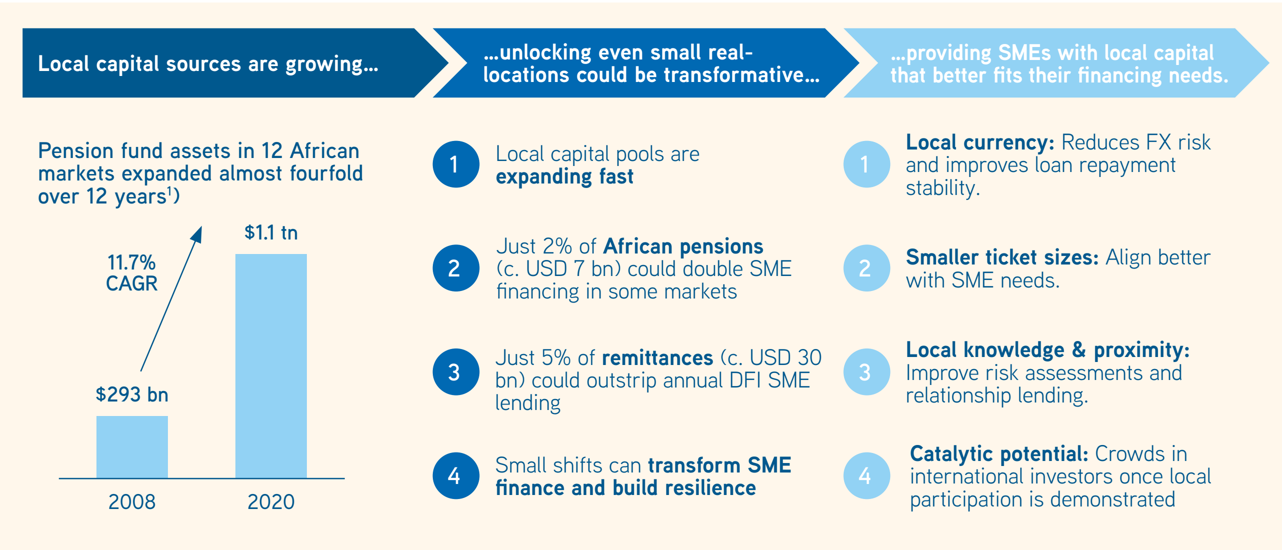


Figure 1: Growth of local capital pools and the opportunity for SME finance (Source: DGGF and GSG Impact, 2025)

Local capital is also better matched to SME needs than the international finance that currently dominates: local currency, smaller tickets, and the market proximity that supports relationship-based lending. It is catalytic too. Once local investors commit, international investors tend to follow, reassured that domestic stakeholders have put their own capital to work. But the opportunity is not uniform: whether local capital can actually be mobilised depends on ecosystem maturity, regulation, and the alternatives available to local investors. The cases that follow examine how this has worked in practice.

1. Source: IFC / World Bank SME Finance Forum, *MSME Finance Gap;* OECD, *Financing SMEs and Entrepreneurs: Scoreboard 2025 Highlights;* OECD. *Unlocking Local Currency Financing in Emerging Markets and Developing Economies*
2. Source: Making Finance Work for Africa (MFW4A)
3. Source: GSG Impact

3. LOCAL CAPITAL PROVIDERS DIFFER IN THEIR CHARACTERISTICS AND MOTIVATIONS

Local capital providers are not a homogeneous group, and the practical implication for fund managers is that each segment needs a different entry point. What works for a pension fund will not work for a corporate foundation, and what attracts a development bank will not move a family office. The segmentation below summarises what motivates each group, what holds them back, and where they are most readily mobilised. The case studies that follow show four of these segments in action.

Segment	Profile	Motivations	Interest in local SME finance providers	Considerations
High Net-Worth Individuals & Angel Investors	Wealthy individuals/ groups with networks	• Diversification • Economic growth • "Giving back"	• Early-stage risk capital providers with value creation mandate (e.g. VC funds), • Innovative SME finance models (e.g. fintechs)	• Regulatory and tax constraints
Family Offices	Investment arms of families	• Wealth preservation & financial performance • Long-term growth • Legacy	• Equity providers (e.g. PE funds, VC funds), focus on digital and AI	• Risk aversion • Regulatory constraints
Corporates & Business Conglomerates	Corporate investment arms	• Strategic investments to grow or complement core business • Increased competitiveness • Shareholder value • CSR	• Growth and risk capital providers (e.g. VC funds, NBFIs)	• Regulatory constraints • Value/supply chain fragmentation • Sector preferences
Local Development Banks	Domestic (private or public) banks, domestic development banks	• Portfolio growth • Regulatory mandates • Brand positioning and CSR	• Debt finance (e.g. SME loan products)	• Regulatory capital requirements • Operational costs
Local Institutional Investors	Pension, insurance, sovereign funds	• Stable returns • Diversification • Impact mandates	• Structured products (e.g. debt)	• Regulatory constraints • Return on investment timelines • Due diligence capacity and costs
Impact Investors	Impact-focused funds	• Social/environmental impact • Strategic alignment • SME financing innovation	• Early and growth capital • Technical assistance	• Scalability • Sector preferences
Local Government & State-Linked Investors	Municipal / regional agencies, state funds, sovereign wealth funds	• Social/environmental impact • Strategic sectors	• Structured products (e.g. debt)	• Bureaucratic processes • Limited funding • Political shifts
(Corporate) Foundations	Corporate foundations of large companies or banks, with impact mandate.	• Mission alignment with local development priorities • Catalytic focus • Corporate reputation and CSR	• Impact-oriented equity and growth capital funds • Funds aligned with impact goals or geographic mandate	• Small balance sheet limits ticket size • Long fund cycles require patient capital commitment • Narrow mandate

Figure 2: Local investor segmentation (source: DGGF)

Across all segments, one challenge recurs: investing in local SME finance vehicles requires a due-diligence and monitoring approach that differs from more familiar asset classes. Building that capacity, or demonstrating it convincingly, is itself a precondition for mobilisation.

4. FOUR FRICTIONS THAT BLOCK LOCAL CAPITAL FROM REACHING SME FINANCE

Understanding which investors could be mobilised is only half the picture. The other half is naming what stops them. Across the markets examined for this paper, four frictions recur. They are not the only barriers, but they are the ones that fund managers and anchor investors have had to solve before local capital actually moves.

- **The connection gap.** Local capital and local fund managers both exist, but the infrastructure to connect them, including vehicles, intermediaries, and trusted track records, is missing. Capital sits in pension funds and foundations; fund managers raise abroad or not at all.
- **The ticket-size mismatch.** Local fund structures often deploy ticket sizes too large for the SMEs they are meant to reach, or too small to attract institutional investors. Without deliberate design, the vehicle ends up serving neither side.
- **The conviction gap.** International investors look for a local signal before committing, and local investors look for international validation and de-risking. In the absence of a credible anchor, both wait, and capital does not move.
- **The capacity gap.** In many markets the professional fund management industry is too shallow to absorb significant institutional capital. Even where investor appetite exists, there are too few credible managers for that appetite to flow to.

The four cases that follow show how each of these frictions has been resolved in practice, across Sub-Saharan Africa, the Middle East and North Africa, Latin America and Asia, through a different type of anchor investor in each market (see table below).

Dimension	Ci-Gaba (Ghana)	Fonds Mohammed VI (Morocco)	Fundación Bancolombia (Colombia)[4]	SIDBI (India)
Market maturity	Emerging PE/VC ecosystem; ~20 years of fund manager development via prior government fund of funds	Constrained private capital market	Impact investing ecosystem developing over past 8 years	Mature alternative investment ecosystem built over two decades
Anchor investor type	Catalytic philanthropic funds	Sovereign Wealth Fund	Corporate foundation of largest commercial bank	National development finance institution
Primary capital mobilised	Local pension funds	Local pension funds, banks, insurance companies, DFIs and international Sovereign Wealth Funds	International capital	Domestic institutional investors and private capital
Core friction addressed	Disconnect between local pension capital and local fund managers	Mismatch between fund ticket sizes and SME absorption capacity	Absence of local conviction signal to attract international investors	Limited depth of professional fund management industry
Catalytic vs. mobilised capital	30% catalytic / 70% mobilised	24% catalytic / 76% mobilised	~13% catalytic / ~87% mobilised	9% catalytic / 91% mobilised
Replicability	High; explicit ambition to replicate	Moderate; requires credible state-linked anchor and baseline PE ecosystem	High at principle level; specific institution unique	Low at scale; transferable as model for national DFIs

4. Fundación Bancolombia operates as a signalling anchor rather than a dedicated catalytic capital layer. The percentage reflects its ~USD 3 million commitment relative to Fund 2's total size, but the structural role differs from the other three cases.

LOCAL INSTITUTIONAL INVESTORS

CI-GABA, GHANA. BUILDING A MARKET FROM THE GROUND UP

Ci-Gaba demonstrates how patient ecosystem building and deliberate fund structuring can unlock institutional capital in a market where local investors and local fund managers exist, but the connections between them do not. Ghana has a longer history of private capital market development than many African markets. A government-backed fund of funds established in 2004 seeded 13 fund managers over two decades, creating a pool of local investment talent. By the early 2020s, a second generation of fund managers was actively fundraising, and local pension funds had accumulated significant assets. Yet capital was not flowing. The infrastructure for connecting the two sides of the market was missing.

Ci-Gaba was designed to fill that gap. It is a fund of funds structured to blend catalytic capital with commercial capital from local pension funds in a 30/70 ratio. The structure was developed through a series of co-creation workshops with the seven largest pension funds and trustees, who were asked directly why they were not investing in alternatives. Their response shaped the fund design: a locally domiciled vehicle, denominated in local currency, with meaningful de-risking built in. Foundations, international development funding and DFIs providing technical assistance were brought in to form the catalytic layer, absorbing first-loss risk and making commercial returns viable for pension investors.

Alongside the fund structure, Ci-Gaba invested heavily in investor capacity building. Using real fund data and simulations, pension investment teams were trained to assess and monitor alternative assets, creating the internal capability that institutional investors needed to participate with confidence.[5] This programme ran for three years in parallel with fund design and fundraising, through structured peer-to-peer learning and simulations using anonymised data from actual fund data rooms.

Ci-Gaba was marketed to pension funds as a commercial diversification opportunity, not as an impact vehicle. Early attempts to lead with impact and gender lens framing stalled conversations. Repositioning around commercial returns opened them. Impact targets were disclosed, but not used as the primary investment rationale.

The results to date show that the model works in practice. A small number of pension trustees committed early capital for warehouse deals, enabling Ci-Gaba to make its first fund investments before reaching formal close. Alongside the fund, Impact Investing Ghana developed Deal Source Africa, a platform connecting SMEs with impact fund managers. The platform has already facilitated USD 2 million in closed deals, with a further USD 10 million in the pipeline, and 210 businesses have engaged in deal rooms with 34 funds.

Ci-Gaba recently reached first close at USD 35 million, with local pension funds as the anchor commercial investors. The fund targets 250 SMEs, 25,000 jobs and 94,000 lives supported, with 30% of investee fund managers to be women-led. The team's explicit ambition is replication: a fund structure and ecosystem-building approach that others can copy, contributing to the broader shift in capital allocation that the Ghanaian market needs.

5. https://impactinvestinggh.org/publications/unlocking-domestic-pension-capital-in-africa-for-smes/

SOVEREIGN WEALTH FUNDS

FONDS MOHAMMED VI, MOROCCO. THE STATE AS A CATALYST

Fonds Mohammed VI demonstrates how a sovereign wealth fund (state-owned) investor, operating at arm's length from fund managers, can mobilise private and international capital at scale for SME finance.

Morocco's private capital market has historically been constrained by a high share of public investment, with private investment accounting for only around one-third of total investment. Fonds Mohammed VI launched a new approach through its sectoral and thematic funds programme aiming to provide Moroccan companies with financing solutions in order to bolster their equity and enhance their capacity to invest, create sustainable jobs and expand into new geographical markets. In this approach, rather than managing investments directly, it selects fund managers through a competitive tender, issues conditional engagement letters to those that meet its criteria, and acts as an anchor investor while fund managers conduct their own fundraising.

A deliberate focus on ticket size was built into the programme from the outset. Most existing fund managers in Morocco were offering investment tickets too large to reach most SMEs. The generalist funds were segmented by the ticket sizes they deploy to companies, covering a wide range of tickets starting at USD 2 up to 30 million, and above. This ensured capital could reach smaller businesses, alongside sectoral funds targeting specific sectors (including industry, tourism, transport and logistics, agriculture).

The results of the first tender are significant. Fonds Mohammed VI committed USD 480 million, which mobilised an additional USD 1.55 billion in 3rd party capital, a ratio of approximately 3x. Total capital raised across 14 funds reached around USD 2.0 billion over a 6-12 month period, roughly equivalent to what Morocco's private equity industry had raised over the previous 15 to 20 years. Around two-thirds of third party investors are local, primarily pension funds, banks and insurance companies and one-third are international.

Four design principles underpin this outcome. A robust regulatory framework governing investment funds was introduced in 2023. A rigorous and transparent fund manager selection process created a credible quality signal that gave other investors confidence to follow. Strict governance separation, with investors represented on an investors' committee but excluded from investment committees, preserved fund manager independence in line with best Private Equity industry standards. And the matching requirement ensured that public capital acted as genuine catalytic capital rather than a substitute for private investment.

(CORPORATE) FOUNDATIONS

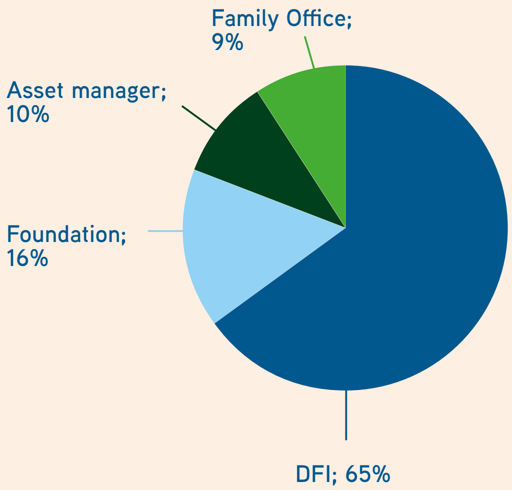
FUNDACIÓN BANCOLOMBIA, COLOMBIA. LOCAL COMMITMENT AS A CATALYST FOR INTERNATIONAL CAPITAL

Fundación Bancolombia illustrates how a mission-driven local investor can play a catalytic role in building the investor base of an SME fund, using its own commitment to signal credibility and attract international capital. Fundación Bancolombia is the corporate foundation of Bancolombia, the largest commercial bank in Colombia, with a 50-year mandate focused on rural development in Colombia. Over the past decade, the foundation has shifted from pure philanthropy toward a revolving impact investment model, deploying capital into funds that generate returns to fund future activity. Alive Ventures, a Colombia-based impact fund manager investing in early-stage technology-driven companies across Latin America, was one of the first funds the foundation backed. Fundación Bancolombia has invested approximately USD 3 million across Alive Fund 1 and Fund 2, making it one of the anchor local investors in both vehicles.

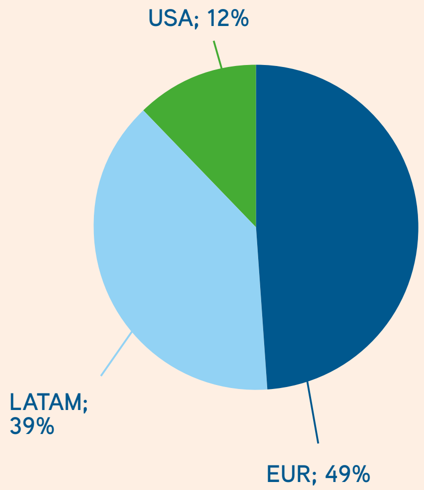
Fundación Bancolombia's decision to invest was grounded in two factors: mission fit and a deliberate intent to catalyse international capital. ALIVE's focus on technology-driven solutions for low-income and rural communities in Colombia fits directly with that mandate. The foundation invested in Fund 1 before Alive had a track record, backing the team because of their Acumen affiliation and the fund manager's personal reputation in the Colombian market.

Critically, the foundation saw local investor presence as a precondition for attracting international capital, not a consequence of it. In the foundation's own framing: if international investors come to Colombia and see no local capital committed, the investment case is weakened. By committing approximately USD 3 million across Fund 1 and Fund 2, the foundation provided an early signal of local conviction that helped validate the fund to international investors. The catalytic effect is visible in the composition of ALIVE Fund 2, around 40% of committed capital comes from Latin-American investors, including Colombian foundations, the Colombian DFI Bancoldex, regional impact investors, high net-worth individuals and family offices. The remaining 60% are international investors, primarily from Europe and the United States.

Type of Investor



Geographic Distribution



LOCAL DEVELOPMENT BANKS

SIDBI, INDIA. A NATIONAL DEVELOPMENT BANK AS MARKET BUILDER

SIDBI demonstrates what becomes possible when a national development bank commits systematically to SME fund investment, using its anchor investor role to build an entire alternative investment ecosystem from the ground up. The Small Industries Development Bank of India (SIDBI) is a government-owned development finance institution established in 1990 with an explicit mandate for the promotion, financing and development of MSMEs. With an asset base of USD 71 billion, SIDBI operates across direct credit, institutional finance, microfinance and venture capital. Its fund of funds activity represents a relatively small share of its balance sheet, but SIDBI's stated role is that of a market setter, using its participation to establish standards, signal credibility and catalyse private capital that would not otherwise flow into the sector.

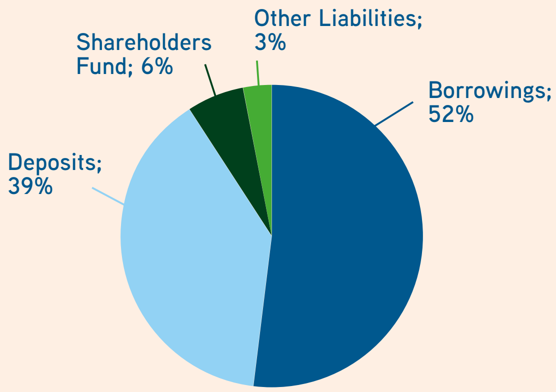
In 2016, the Indian government launched a national startup initiative and committed a corpus of INR 10,000 crore (approximately USD 1.2 billion) to a Fund of Funds for Startups (FFS), managed by SIDBI. The premise was that public anchor capital at this scale would unlock private investment in India's alternative investment fund industry. That premise has been realised. The USD 1.2 billion in government capital has helped mobilise over USD 12 billion into the broader alternative investment ecosystem, primarily from domestic institutional investors and private capital, a multiplier of approximately 10x. The fund has committed to 142 alternative investment funds, with 56 of these being first-time fund managers, directly building the depth and diversity of India's fund management industry.

Total disbursements to date stand at approximately USD 0.7 billion across 124 funds. The investment multiplier on amounts disbursed stands at 3.8x. The gross IRR trend across the portfolio is approximately 20%, with a TVPI of 1.8x and a DPI of around one third. Over 200,000 jobs have been created by portfolio companies, with significant reach into tier 2 and tier 3 cities and over USD 430 million invested in women-led or co-led startups. The SIDBI case illustrates a dynamic that runs through several of the cases in this paper: impact and commercial returns are not in tension. In SIDBI's own framing, wherever they have created impact, revenues have followed. The scale of the Indian market and the strength of SIDBI's institutional mandate make direct replication elsewhere difficult. But the underlying model, a credible public anchor investor using a competitive, professionally managed fund of funds structure to crowd in private capital and build fund manager capacity, is transferable.

Financial Indicators

Asset Base	USD 71.03 Bn (Rs 5,68,239 Cr.)
Loans & Advances	USD 62.04 Bn (Rs 4,96,282 Cr.)
Net profit	USD 0.60 Bn (Rs 4,811 Cr.)
Capital Adequacy	19.62%

Resource profile



Domestic borrowings: Bonds, debentures, money market instruments
FC borrowings from Multilateral & Bilateral Agencies

CONCLUSION

The four cases span different regions, investor types and market contexts, yet several practical lessons emerge consistently. These are not universal blueprints: the right approach will always depend on the local investment landscape, regulatory environment and the maturity of the fund management industry. What the cases do offer is a set of specific, evidence-based insights into the conditions that enable local capital mobilisation and the practices that have made it work.

KEY LESSONS FOR LOCAL CAPITAL MOBILISATION

Where these preconditions are in place, the cases also surface practical lessons for local capital providers, fund managers and other stakeholders.

1. **Build the fund structure with investors, not for them.** Fund structures that successfully mobilised local capital were designed through direct engagement with prospective investors before the structure was fixed. Ci-Gaba's blended structure, local currency domicile and capacity building programme emerged directly from co-creation workshops with Ghanaian pension funds. Fund managers who arrived with a pre-determined structure and tried to fit investors into it consistently struggled to close.

2. **A credible local anchor investor is one of the most powerful mobilisation tools available to attract both international and local capital.** Across the cases, local anchor investors consistently unlocked broader capital mobilisation in ways that international capital alone could not. Fundación Bancolombia's early commitment to Alive signaled to international investors that informed, mission-aligned local capital had validated the opportunity. Fonds Mohammed VI's anchor commitment gave fund managers a credibility signal, enabling them to mobilize significant fundraising from local and international third-party investors while also shortening fundraising timelines. SIDBI's participation signals to the broader Indian financial market that a vehicle meets institutional standards. In each case, the identity and credibility of the local anchor investor mattered as much as the size of the commitment.

3. **Impact framing is not a universal entry point for local institutional investors.** Ci-Gaba and Fundación Bancolombia both learned through experience that leading with impact framing when approaching local institutional investors is counterproductive. Pension funds and corporate foundations respond to commercial returns, portfolio diversification and risk management. Impact targets can be disclosed, but positioning a fund primarily as an impact vehicle with local institutional investors narrows the conversation before it has started.

4. **Public capital is more likely to mobilise private capital if it stays out of investment decisions.** Fonds Mohammed VI's fund of funds program and SIDBI succeed because they invest through independently governed funds, with investors represented on investors' committees but excluded from investment committees. This separation is not a governance formality: it is a structural precondition for private capital to follow.

5. **A single successful fund is not enough; multiple investment vehicles are needed for broader local capital mobilisation.** In Ghana, Ci-Gaba invested three years in building market infrastructure: capacity building for pension investment teams, transaction advisory support for SMEs, and participatory co-creation processes. In India, SIDBI's systematic anchoring of first-time fund managers has deepened the pool of credible fund management talent over two decades. Local capital mobilisation at scale requires the conditions for replication, not just one well-structured fund.

PRECONDITIONS FOR LOCAL CAPITAL MOBILISATION

Drawing on the four cases above, three preconditions emerge that need to be in place for local capital mobilisation to be feasible.

1. **An ecosystem at a workable level of maturity.** Local capital mobilisation requires a baseline of local fund management capacity, prior attempts to learn from, and at least some local success stories that demonstrate the asset class works. Where this baseline is absent, mobilising local capital is unlikely to succeed regardless of how well a specific fund is structured, because there are no credible local managers for the capital to flow to.

2. **A regulatory framework that enables institutional allocation to alternative assets.** Local institutional investors, particularly pension funds and insurance companies, operate under allocation rules that determine whether they can invest in SME finance vehicles at all. Where these rules accommodate alternative asset classes, even modest reallocation can mobilise significant capital. Where they do not, mobilisation is structurally constrained regardless of investor appetite.

3. **A government willing to enable, not manage.** The public sector plays a critical role in catalysing local capital, but only where it participates on terms that preserve fund manager independence. Where governments have instead tried to manage what they fund, the results have consistently been slow disbursement and weak private capital response. The precondition is therefore not whether the government participates, but how.

Commissioned on behalf of:

The Dutch Good Growth Fund is part of Investment funds for local Small and Medium Enterprises (SMEs), a "fund of funds" investment initiative from the Dutch Ministry of Foreign Affairs. The initiative aims to improve financing for the "missing middle" – missing middle' SMEs lack a convincing proposition to mainstream investors, often due to a combination of their small size and high risk. Greater access to finance enables these local enterprises to grow, thereby contributing to sustainable development, the financial ecosystem and better markets worldwide. The Seed Capital and Business Development (SC&BD) program was established to increase the impact of the DGGF by providing technical assistance, seed capital and business support services to intermediary investment funds and local SMEs. The program incorporates a knowledge development and sharing component that supports research, tests assumptions and shares insights into financing SMEs in developing countries and emerging markets - fostering industry-wide knowledge exchange.

In collaboration with:

GSG Impact, co-host of the webinar that formed the basis for this paper and contributor of the local investor segmentation framework.

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