Synthesis Report

Analysis of mobilisation in four BII-backed funds

An evaluation commissioned by the Foreign, Commonwealth and Development Office

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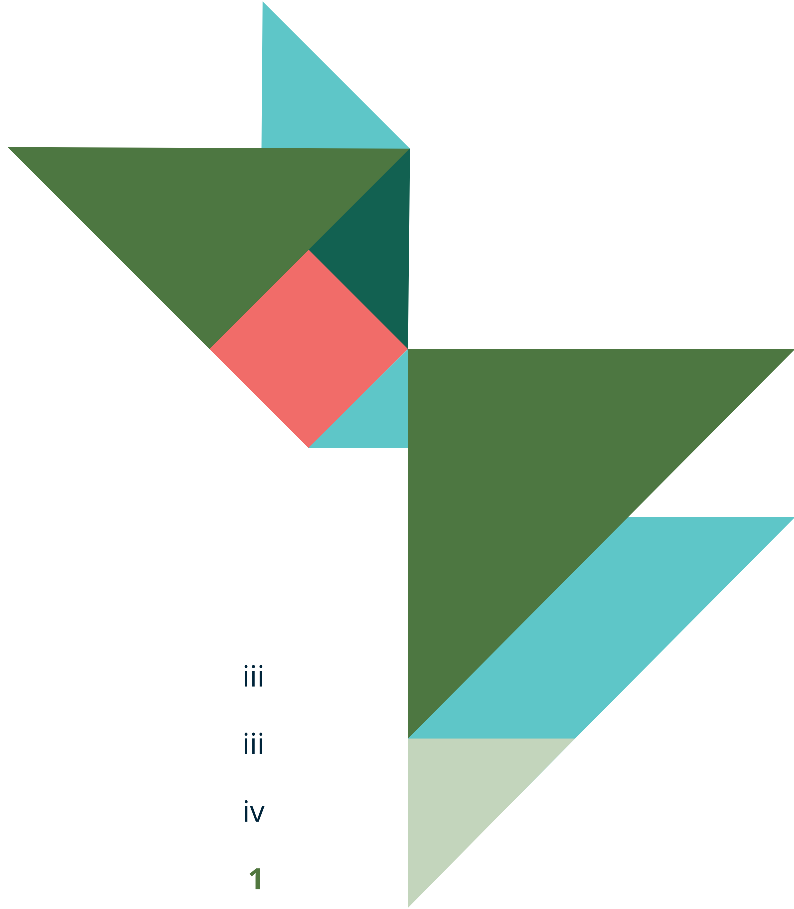

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List of acronyms

BI	Business Integrity
BII	British International Investment (formerly CDC Group plc)
B&P	Brummer & Partners
CIV	Collective Investment Vehicle
DFI	Development Finance Institution
EBRD	European Bank for Reconstruction and Development
ESG	Environmental, Social and Governance
EU	European Union
FCDO	Foreign, Commonwealth and Development Office
FMO	Dutch Entrepreneurial Development Bank
IFC	International Finance Corporation
IPO	Initial Public Offering
IVF	India Value Fund
LDC	Least Developed Country
LIC	Low-Income Country
LMIC	Low- and Middle-Income Country
LMS	Longitudinal Mobilisation Study
LP	Limited Partner
MDB	Multilateral Development Bank
MIGA	Multilateral Investment Guarantee Agency
NDF	Non-Deliverable Forwards
OECD	Organisation for Economic Co-operation and Development
PE	Private Equity
SDG	Sustainable Development Goal
SEC	Securities and Exchange Commission
TIAA	Teachers Insurance and Annuity Association
UK	United Kingdom
UMIC	Upper Middle-Income Country
US	United States (of America)

Executive summary

Introduction

This briefing paper summarises findings from cases in Bangladesh, India and Nigeria that explore British International Investment's (BII's) role in mobilising capital into these markets. The studies are part of the Longitudinal Mobilisation Study (LMS), which seeks to understand both the extent to which BII has mobilised investment (directly and indirectly) and the drivers of this mobilisation. The ultimate aim is to help BII mobilise investment more effectively.

The four case studies in this paper focus on equity funds. For each country, the study was organised around a central case, where BII had supported a family of funds over a sustained period. In Nigeria, BII backed four **CAPE** funds (CAPE I to IV) over a 15-year period from 2000 to 2015. In India, BII invested in the first three **Lok funds** and three **India Value Funds** (IVFs) from 2005 to 2009. In Bangladesh, BII invested in both **Frontier Funds** from 2009 to 2019. The aim of this approach was to capture BII's role in mobilising capital into these funds (direct mobilisation) and also to gather insights into wider market-building and demonstration effects. These indirect effects are notoriously hard to measure, but are at the heart of what BII – and the Foreign, Commonwealth and Development Office (FCDO) – are trying to achieve. The long-term lens applied to these studies was thus designed to start to fill this gap.

These case studies focus on investments made prior to BII's current 2022-26 strategy[1] and are based mainly on information collected until 2021. As a result, the report reflects the context as at that time.

Direct mobilisation

Direct mobilisation is not just about bringing in investors; more importantly, it is about creating the conditions that make investment opportunities attractive to these investors. The case studies found evidence of BII's contribution to both. In all cases, the presence of BII supported the credibility of the funds and reassured potential investors that high standards with respect to business integrity (BI) and Environmental, Social and Governance (ESG) will be followed. Beyond this, the studies identified four specific mobilisation events:

- **CAPE IV, Nigeria 2015–16:** BII's investment in CAPE provided the influence needed to persuade the general partners to launch a local-currency-enabled vehicle. This was directly responsible for attracting local pension funds to invest. As well as working with CAPE, BII had engaged extensively with the Nigerian pension fund sector to achieve this outcome.
- **IVF, India 2008–10:** BII supported the third IVF fund in the immediate aftermath of the global financial crisis, when investor risk appetite for emerging markets, including India, was suppressed. Several actors confirm that BII's presence as an anchor investor provided confidence at a difficult time, which led to a number of limited partners (LPs) deciding to invest in IVF III.

[1] For more information on BII's current strategy, please see: https://assets.bii.co.uk/wp-content/uploads/2022/01/06170001/2022-2026-technical-strategy-2.pdf.

- **Lok III, India 2014–17:** Findings from our analysis[2] indicate that BII's long-term role was critical to the existence of Lok funds. BII provided counter-cyclical support to successive Lok funds before and after the Andhra Pradesh microfinance crisis and shaped aspects of Lok III's identity to make it attractive to development finance institutions (DFIs) and impact investors. This study highlighted the importance of developing and maintaining long-term relationships with fund managers.
- **Frontier Funds, Bangladesh 2007–09:** BII was instrumental in changing the structure of the original investment vehicle to a pure private equity (PE) fund with the necessary legal features. This made it possible for other DFI investors to subsequently come on board, and was therefore essential from a direct mobilisation perspective.

Market-building and demonstration effects

While BII had an important influence over the funds examined in this study, perhaps more significant with regard to longer-term mobilisation was their demonstration effects. The studies suggest strongly that the most important demonstration effect a fund can create is through financial performance.

The studies found demonstration and wider market effect in five core areas:

1. **BI:** In Nigeria, India and Bangladesh, the central-case funds have a good reputation for BI. In Nigeria and India, the investments have helped set the tone for PE in the country.[3]
2. **ESG:** All funds studied have a reputation for high ESG standards. For example, in Nigeria, virtually every PE fund has a DFI investor, with BII backing many of them. As a result, they have all had direct ESG inputs from DFI investors and it is not possible to isolate the specific impact of BII across the market.
3. **Fund structure:** In Bangladesh, BII played an important role in instilling international best practice in the design and operation of investment and advisory committees. CAPE and IVF also helped embed and normalise best practice in these areas in their markets.
4. **Investment strategy:** The IVF model, where a controlling stake was used to build value in companies through direct influence over operations, was new in India but has since grown. BII did not initiate the approach with IVF, but it supported it and helped the fund managers persevere with it in the face of opposition from other investors who argued for a less long-term strategy. In Nigeria, CAPE did not take full controlling stakes but also exerted strong operational influence over its companies, something taken further by other funds in the market after being pioneered by CAPE. This aspect of the market development in both India and Nigeria can be linked to BII's influence. This is important, as the potential of PE to positively influence economic development is a function of whether PE investors actively add value or not. Passive investors are essentially along for the ride. Active investors can improve productivity, thus supporting growth, but they can also influence the nature of this growth in terms of inclusiveness and sustainability.

The studies suggest strongly that the most important demonstration effect a fund can create is through financial performance

[2] These findings are based on triangulated evidence from multiple data sources.

[3] The equity fund sector has yet to develop in Bangladesh, so it is not possible to observe such effects.

5. **Relationship between financial performance, impact, BI and ESG:** Financial performance is the key driver of demonstration effects – with successful funds, or features of funds, being replicated; while unsuccessful ones are not. Many of the preceding areas of BII influence were positive in this regard. Just as important, however, is the relationship between impact, BI and ESG on the one hand and financial performance on the other. This relationship determines the type of demonstration effect that is created – in other words, whether financial performance is seen as positively related to these other objectives or not. Other funds are more likely to adopt best practice in those areas where this is the case than in those where the relationship is less supportive. The studies found examples of both. CAPE, for example, exited one high-profile investment with many multiples of its original investment, partly because of the 'ESG premium' it has helped to build. Conversely, Lok had difficulty attracting commercial investors as they were seen as too focused on impact, despite the fact that commercial performance was strong. It is therefore not just the reality of the performance–impact relationship that matters but also investor perceptions of this dynamic.

The studies also identified a number of constraints and challenges for future market development in the three countries.

In Bangladesh, the regulatory framework was the main challenge, combined with a more general country brand issue. Given problems with the country's reputation, one key investor argued that it needs to be easier to operate there than in alternatives, but because of regulatory problems, the opposite is largely true. Given this, it has proved impossible to create demonstration effects through successful exits and attractive returns.

In Nigeria, the main constraint is political and economic instability. United States (US) pension funds that invested prior to 2015 describe how the subsequent volatility, which seriously impaired dollar returns, changed their perspective, and they would not consider investing again. At fund and sector levels, the PE sector has been transformed, not least because of BII's investments. Yet as long as the macro environment can eliminate years of good returns with exchange rate movements, the PE sector will not fulfil its potential.

The main constraint in India as at 2021 is seen as the lack of internationally competitive performance. Despite this, commercial actors believe this can and will be resolved over time by the private sector. They argue that while BII cannot ignore performance, it can add most value in the high-impact, nascent parts of the PE market where more commercial investors may then follow, enhancing the development impact of the PE sector.

It can still take several generations of funds, sometimes over decades, to mobilise commercial investment at scale

Lessons for improving mobilisation

Lesson 1

The case studies suggest that sustained, high levels of mobilisation will only be achieved when conditions are supportive at three levels: the deal, the ecosystem and the investment climate. However, these may take many years to address. While it is not necessary or possible to achieve perfection at any of these levels, some minimum standards (for example, with the regulatory framework or macroeconomic stability) are needed.

Lesson 2

Identifying the binding constraints in each country is key to unlocking private capital. Precisely where efforts need to be focused to reach the minimum standards described above will vary from country to country. This can be seen as the 'binding constraint' to investment. In Bangladesh the regulatory framework appears to be most important. In Nigeria it is macroeconomic stability. Other countries will have different constraints, but identifying and addressing these is key to unlocking capital.

Lesson 3

PE investors need to show they can add value and translate this into attractive realised returns. For company owners to be willing to accept investment from PE investors – that is, to relinquish some control – there has to be an observable benefit with respect to commercial performance. In countries with little or no experience of PE, this needs to be clearly demonstrated. Relatedly, to attract investors to new markets, PE funds need to generate realised returns for investors that are attractive relative to other markets. Again, this needs to be demonstrated. While this may seem obvious, the benefits of the PE model to companies, and the returns that can be achieved for investors, are not always self-evident and need to be demonstrated, not just articulated.

Lesson 4

The relationship between financial performance, impact, BI and ESG determines the level and nature of demonstration effects. Investors have different return requirements and different views of non-commercial issues. As a result, they will be attracted, or not, by different kinds of demonstration effect, for example, financial performance as well as impact, BI and ESG.

Excellent financial returns combined with strong performance in the other areas is the 'ideal' type of effect and will be attractive to the widest set of investors, that is, commercial actors, impact investors and those with dual mandates. Strong financial performance not positively associated with these other objectives may still attract commercial investors but not DFIs or impact investors. Where strong impact/BI/ESG is negatively correlated with financial performance, this may attract those heavily focused on impact, but not commercial actors.

Lesson 5

DFIs can use non-commercial finance to improve synergies between financial performance and other development objectives. The relationship between financial returns, impact and BI/ESG will vary by sector as well as by country. BII and other DFIs are increasingly deploying non-commercial finance, such as blended finance, as part of their activities to fund development performance, and there is strong potential to do more to increase the alignment between financial performance and development objectives, including in equity fund structures.

Longitudinal Mobilisation Study

DFIs can only hope to address a small part of the sustainable development goal (SDG) funding gap through their own investments. A key part of their role is therefore to mobilise investment from others, particularly private investors. This briefing paper provides background on mobilisation, looks at BII's mobilisation rates, and summarises findings from BII-backed cases in Bangladesh, India and Nigeria. It highlights the key constraints to mobilisation at the deal, ecosystem[4] and investment climate[5] levels and suggests ways in which DFIs can improve the likelihood of success.

1. Introduction

DFIs such as BII are at the forefront of efforts to increase investment into low- and middle-income countries (LMICs) in two main ways. First, they invest their own capital to stimulate inclusive and sustainable growth directly – with BII's capital enabling businesses to grow, generate jobs and provide services. Second, they mobilise investment from others, particularly private investors. This can take the form of co-investment in the same deal (direct mobilisation) or triggering future private investment through the example of successful current activities (indirect mobilisation resulting from 'demonstration effects'). The importance attached to this issue by the United Kingdom's (UK) government is demonstrated by its commitment to mobilise up to £8 billion of UK-backed finance a year through its British Investment Partnerships by 2025.[6] In its business case for supporting BII, FCDO described its approach to mobilisation as follows:[7]

> *Long-term patient capital from BII (backed by high environmental, social and business integrity standards) delivers development benefits, while allowing businesses that would otherwise not attract funding to grow, and management skills to develop. This can demonstrate the financial viability of investing responsibly in the world's poorest countries and thereby mobilise private sector investment.*

In many frontier markets, DFIs are often the only investors willing to back first-time equity funds.[8] In addition to supplying capital to developmentally important businesses, this helps to develop the financial ecosystem, encouraging other equity funds to start (such as through demonstration effects) and supporting a virtuous circle of capital raising and investment to support an expanding economy. Over time, the role of DFIs should gradually diminish relative to commercial investors until they are no longer needed, with funds raised solely from domestic and international commercial sources.

[4] 'Ecosystem' refers to the network of fund managers, entrepreneurs and returning diaspora, plus domestic and international investors.

[5] 'Investment climate' refers to the broader enabling environment such as regulations, political/economic stability and market sentiment.

[6] FCDO (2023) Policy Paper: The UK government's strategy for international development. https://www.gov.uk/government/publications/uk-governments-strategy-for-international-development/the-uk-governments-strategy-for-international-development

[7] FCDO (2017) Business Case: *Capital increase to CDC*, the UK's development finance institution. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/651848/2017_to_2021_CDC_capital_increase_business_case_publication_1038.pdf

[8] The focus of this note is equity funds, but this is also true of direct equity and debt, particularly longer-term debt.

Figure 1, taken from the FCDO business case quoted above, illustrates this process from the point where DFIs invest in underserved sectors with the aim of catalysing private investment over time. This creates positive market signals, which are reinforced by the demonstration of attractive returns allied to impacts. Private investment generates growth and positive spillovers, further increasing the attractiveness of the market. In time, DFIs can exit as a fully private market is established.

Figure 1. Transition from DFI to commercial

	DFI role	Private sector role
1. DFI makes an investment with the aim of catalysing private sector investment	• Invests in underserved sectors, where there is insufficient private investment • Investment is normally made at commercial rates	• A local company, multinational corporation, project or fund is invested into by a DFI
2. DFI investment signals to other investors, Improves market conditions	• Reduces perceived risks • Provision of value additionality to support investment • Direct development of sector	• Growth in the investee • Other private investors see signals of this growth, risk reduction and development of sector
3. Returns and impact lead private investors to invest in the same market	• DFI investment makes commercial returns • DFI communicates its successful investment to private sector	• Over time, the private sector invests in similar opportunities
4. Investment generates growth, externalities and wider investments	• Achievement of some economic development goals often including job creation and poverty reduction	• Private sector develop ancillary infrastructure & skill base • Increasing investment in areas beyond original sectors contribute to economic growth (e.g. supply chain expansion in industries that service that sector)
5. Sustainable market develops allowing DFI to exit	• DFI exits the market and deploys its capital in an area of higher need	• Private sector investment has created a functioning market • Private sector investors replace the DFI
6. Follow on investment purely from private investors	Fully private market	

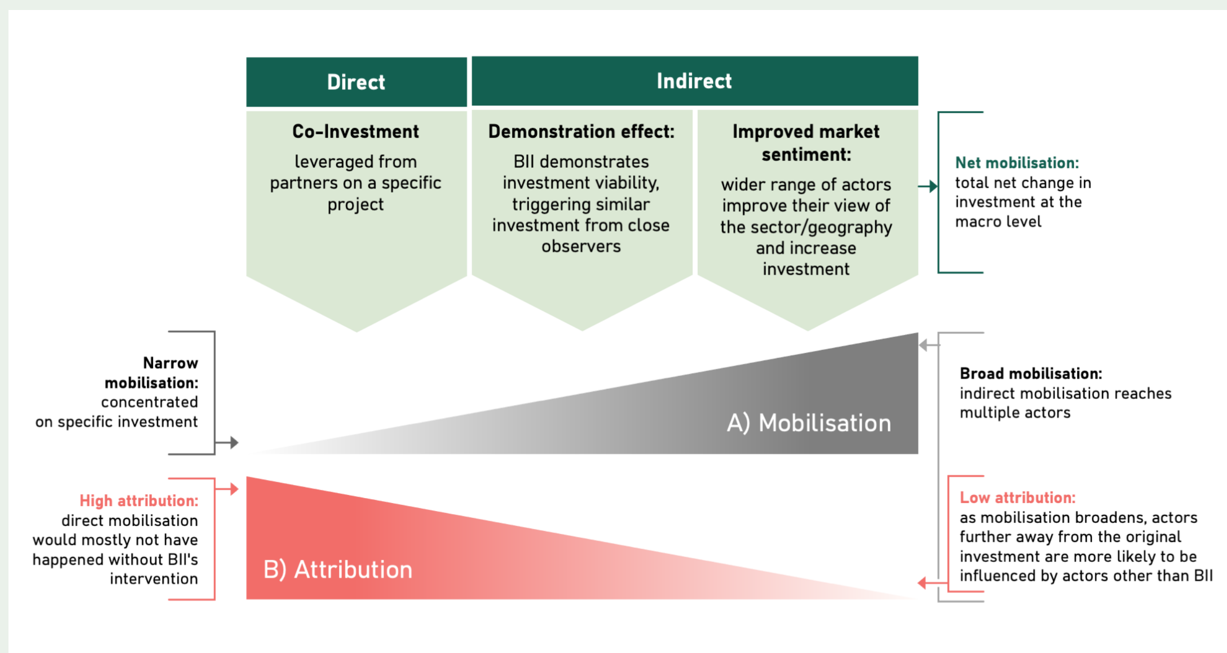
Source: FCDO (2017)

Despite the importance of this process, we know surprisingly little about how successful it has been in practice. This study begins to fill this gap. It is part of the Longitudinal Mobilisation Study (LMS) of BII, which aims to increase our understanding of the drivers of mobilisation. See Box 1 for details.

Box 1. The Longitudinal Mobilisation Study

The LMS seeks to understand the extent to which BII has mobilised investment, the drivers of this mobilisation, and the influence of country and sector contexts. The ultimate aim is to help BII mobilise investment more effectively, including through FCDO support to these efforts.

The LMS distinguishes between direct and indirect mobilisation. 'Direct mobilisation' refers to co-investment in BII deals, and 'indirect mobilisation' is investment that has been influenced by BII but where BII is not a co-investor (i.e. 'demonstration effects'). Indirect mobilisation is much more difficult to capture than direct mobilisation, but in the long run it is likely to be the more important of the two forms. Despite the difficulties involved, therefore, it is very important to deepen our understanding of the drivers of indirect mobilisation, and particularly the ways in which it can be increased. Accordingly, the LMS has developed a methodological approach that can be applied to both forms of mobilisation with increasing levels of robustness over time.



The LMS uses contribution analysis to estimate BII's role in mobilising investment. The approach is based upon logic models (theories of change) that link BII activities to subsequent investment, with evidence gathered on how much this investment is the result of BII's activities. In the equity fund sector, an example would be BII acting as an anchor investor, with their reputation in the market positively influencing investment decisions. We have integrated Bayesian updating into the research framework, which enables us to systematically assess and improve the degrees of confidence we have in particular hypotheses – for example, that activity x is the most important driver of mobilisation in sector y and country z.

Before examining the findings of the four case studies, the next section gives some background on the issue of mobilisation, including findings from other key actors about the most important drivers.

2. Background on mobilisation

2.1 Who are the key actors involved?

Multilateral development banks (MDBs) and bilateral DFIs often frame their goals in terms of private capital mobilisation (World Bank 2021). This may involve the creation of demonstration effects to encourage investors into new geographies or sectors, or the sharing of risk with private investors to create bankable opportunities.

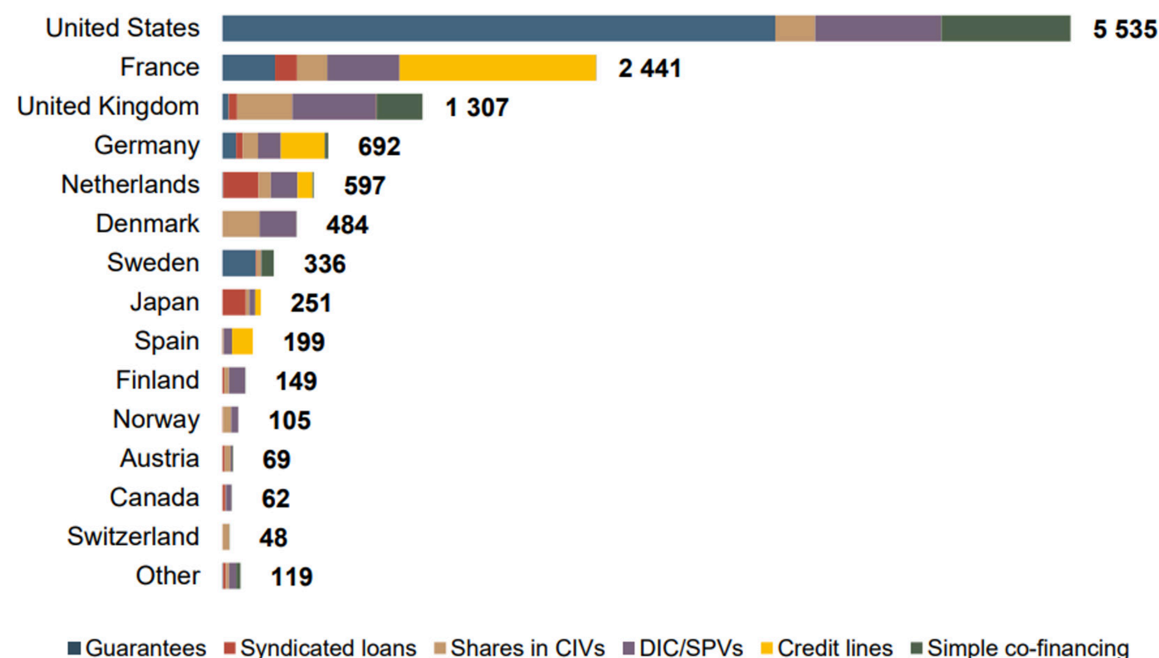
The main actors involved are MDBs and DFIs. Figure 2 gives Organisation for Economic Co-operation and Development (OECD) figures for the amounts mobilised from 2018 to 2020 by these two categories, and the main institutions in each. As can be seen, MDBs mobilise around 69% of private capital, with DFIs responsible for 25%. The largest multilateral mobiliser by far is the International Finance Corporation (IFC), followed by the European Bank for Reconstruction and Development (EBRD), European Union (EU) institutions, the Multilateral Investment Guarantee Agency (MIGA) and the World Bank and Regional Development Banks. The largest bilateral mobiliser is the US, followed by France and the UK, with Germany, the Netherlands and Denmark in the next group down.

Private investors are also key actors, since it is their capital that MDBs and DFIs attempt to mobilise. These range from local banks in a given country, which might require concessional finance to allow them to provide loans for a broader customer base, to large institutional investors such as pension funds or insurance companies, both domestic and international (MDB Task Force on Mobilization 2021).

Figure 2. Amounts mobilised by provider group, 2018–2020 average, $bn

Source: OECD (2023)

Figure 3. Private finance mobilised by bilateral providers, 2018-2020 average, $bn



Source: OECD (2023)

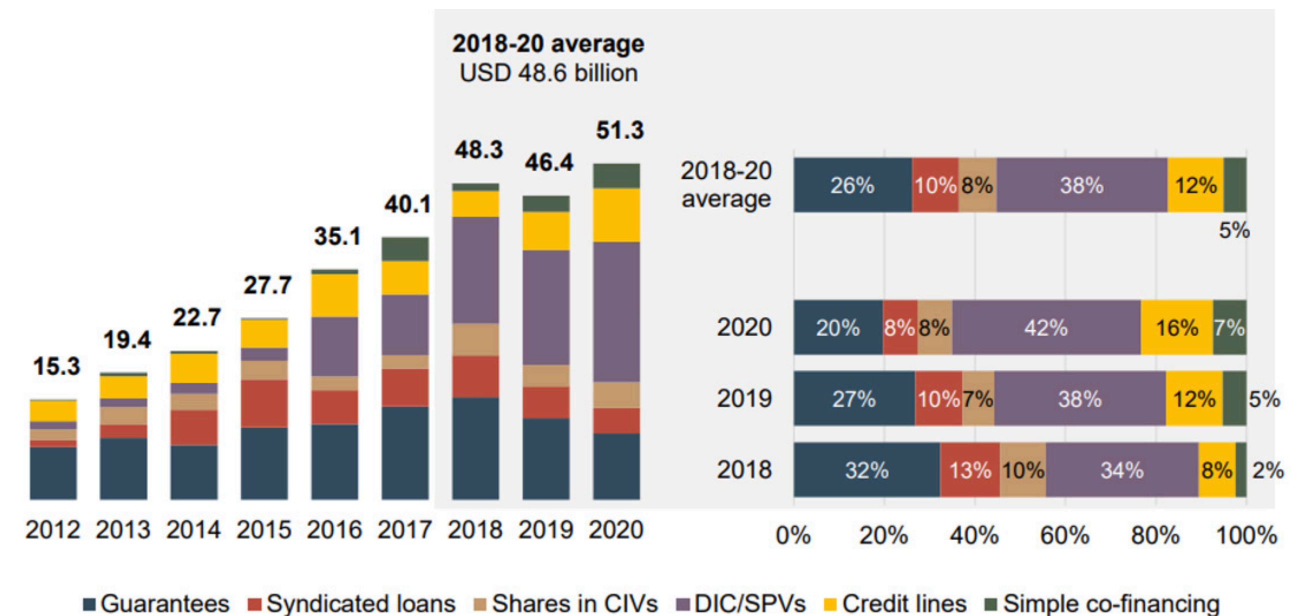
Note on Figure 3: Collective investment vehicles (CIVs) refers to investment in entities that allows investors to pool their money and jointly invest in a portfolio of companies. Direct investment in companies (DIC) refers to on-balance sheet investments in corporate entities which are conducted without any intermediary. Special purpose vehicles (SPVs) refers to a subsidiary created by a parent company to isolate financial risk[9].

Finally, policymakers play a significant role in creating an enabling environment that is conducive to private investment, especially in LMICs, which have less of a track record in private investment (World Bank 2021).

2.2 How successful has mobilisation been?

According to OECD (2023), mobilisation increased annually between 2012 and 2020, albeit with a slight drop in 2019 relative to 2018. For the years 2018–2020, Africa accounted for 34% of mobilised capital, with Asia the next largest region (28%). Latin America and the Caribbean saw 17% of mobilised private investment, and Europe saw 13%. The largest national recipients of mobilised capital were Mozambique, India, China and Türkiye. By income group, 45% of mobilised investment went to upper middle-income countries (UMICs), 42% to LMICs and 12% to low-income/least developed countries (LICs/LDCs). Lastly, looking at sectors, 36% of mobilised capital went to banking and business services, with industry, mining and construction accounting for 21% and energy accounting for 18%. Social infrastructure and services, which includes education, health, water and sanitation, and other social sectors, in total accounts for 7% of mobilisation.

Figure 4. Overall levels of private capital mobilisation by instrument, $bn



Source: OECD (2023)

While the overall increase in mobilised capital is very welcome, it has coincided with a significant increase in the resources available to both MDBs and DFIs. However, OECD figures do not give estimates of how much private capital is mobilised per unit of MDB/DFI input. We cannot therefore say whether mobilised capital is increasing in terms of the effectiveness of mobilising institutions or whether the increase reflects more investment by MDBs and DFIs.

[9] OECD (2020) *DAC methodologies for measuring the amounts mobilised from the private sector by official development finance interventions* https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC-Methodologies-on-Mobilisation.pdf

The MDB Task Force on Mobilization (2021) reports an overall decline in mobilisation from 2015 but an increase for mobilisation in LICs. The latter is the relevant figure in which to situate BII's performance, as we are in interested in mobilisation ratios (i.e., how MDB/DFI inputs relate to mobilisation that is particularly focused on LICs).

While the general mix of financial instruments used to mobilise private capital has remained relatively consistent, one important trend since 2015 that can be seen in Figure 4 is the increasing mobilisation as a result of direct investment in companies and projects. This accounted for 38% of all mobilised capital from 2018 to 2020, but only a small share in 2012. Over the full period, guarantees were consistently a catalyst for private investment (particularly in infrastructure), although mobilisation from guarantees has declined since 2018 both in absolute terms and as a proportion of total mobilisation. Syndicated bank loans and credit lines were responsible for the next largest proportion of mobilisation, although since 2018 these have also declined. Investment in CIVs such as equity funds maintained a small but non-trivial share – 8% of all mobilised capital from 2018 to 2020, and as of 2020 equalled the proportion of capital mobilised by syndicated bank loans.

Blended (concessional) finance[10] has also seen an increase in usage, with $3.1bn of capital being mobilised globally in 2019, compared with $1.7bn in 2018, mostly in LICs (MDB Task Force on Mobilization 2021). The tenor of mobilising instruments has tended to be longer term, with short-term instruments (less than one year) such as credit facilities and trade finance accounting for only $4.8bn of mobilised capital in 2019 (MDB Task Force on Mobilization 2021).

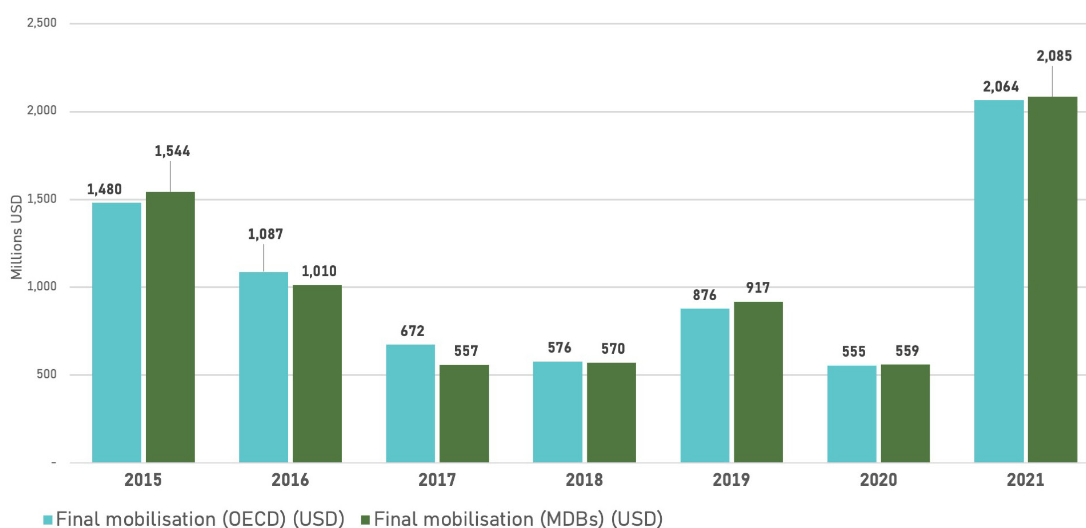
[10] Blended finance has several definitions, as described in Spratt *et al*. (2021). A common feature is its association with mobilising additional investment for the SDGs, where private investment is combined with development-oriented finance. In most definitions, the development finance is concessional, i.e. provided at below market rates, often in grant form. This has the effect of boosting risk-adjusted returns for the private investor, thereby encouraging them to make an investment they otherwise would not make. OECD is unusual in that the non-commercial input need not be concessional, with the defining characteristic being that it has a development objective.

3. Reported mobilisation by BII

In 2015, the International Conference on Financing for Development in Addis Ababa recognised the importance of increasing private investment to achieve the SDGs. Global foreign direct investment figures had declined year on year since 2015, however, until a slight rise in 2019. A drop of 35% was seen in 2020 as a result of the Covid - 19 pandemic, before a rise of 64% the following year, bringing FDI back up to just above its 2019 level (UNCTAD 2023). In line with global FDI flows, BII saw a decline in mobilisation from 2015 to 2018, with an improvement in 2019 and a return to 2017–18 levels in 2020 before a large increase in 2021 (as shown in Figure 5).

BII's mobilisation can be driven by one or two large deals each year, with two deals accounting for between 30% and 60% of total mobilisation in each year from 2015 to 2021. In 2021, 60% of total mobilisation was achieved through two deals.

Figure 5. BII's reported mobilisation 2015–21 ($)



Source: BII 2015-21 investment data

The key trends in mobilisation for the period 2015–21 are as follows:

- Both absolute mobilisation and mobilisation per dollar of invested capital decreased between 2015 and 2018, but saw a significant rise in 2021.
- Mobilisation is heavily influenced by a small number of large deals that contribute to large amounts of absolute mobilisation each year, and that also tend to achieve large amounts of mobilisation per dollar of invested capital.
- Fund investments account for the largest number of mobilising deals, but direct investments can mobilise the most capital while being able to deliver higher amounts of mobilisation per dollar of invested capital. However, mobilisation from direct deals is less consistent than that from fund investments.
- The most capital has been mobilised in South Asia, East Africa and in Pan-African investments. However, mobilisation per dollar of invested capital is highest in East Africa, Southern Africa and in global investments.
- Private co-investors mobilised in BII investments are predominantly venture capital and PE funds. Mobilisation of corporate investors is seen most prominently in specific large deals.

4. The case studies

The cases reviewed all focused on BII's different roles in supporting the development of PE. An important part of this is mobilising direct investment into PE funds as co-investors. The findings thus complement the data presented above. In addition, the studies went further, examining the issue of demonstration effects created by BII-backed funds, as well as wider market-building activities to support the growth of the PE sector. To enable this, countries were selected where BII has had significant and sustained historical involvement in PE.

For each country, we identified central BII-supported cases, where possible, for several generations of funds. In Nigeria, BII backed four **CAPE** funds (CAPE I to IV) over a 15-year period from 2000 to 2015. In India, BII invested in the first three **Lok funds** and three **India Value Funds**[11] (IVFs) from 2005 to 2009. In Bangladesh, BII invested in both **Frontier Funds** from 2009 to 2019. See Box 2 for details.

These case studies focus on investments made prior to BII's current 2022-26 strategy[12] and are based mainly on information collected until 2021. As a result, the report reflects the context as at that time.

4.1 Direct mobilisation in the case studies

The case studies found some clear examples of direct mobilisation, as well as others where BII contributed to the factors that are important drivers of investment decisions. In all cases, the presence of BII supported the credibility of the funds and reassured potential investors that high standards with respect to BI and ESG will be followed. Using the Bayesian framework mentioned in Box 1, we identified activities where the evidence was sufficient to give us confidence that they were important for mobilisation. The studies identified four specific mobilisation events:

- **CAPE IV, Nigeria 2015–16:** BII's investment in CAPE provided the influence needed to persuade the general partners to launch a local-currency-enabled vehicle, which was directly responsible for a significant increase in participation by local pension funds. As well as working with CAPE, BII had engaged extensively with the Nigerian pension fund sector to achieve this outcome.
- **IVF, India 2008–10:** BII supported the third IVF fund in the immediate aftermath of the global financial crisis, when investor risk appetite for emerging markets, including India, was significantly suppressed. Several actors confirm that BII's support to IVF during this time was crucial, with BII's presence as an anchor investor providing confidence at a difficult time and leading to several LPs deciding to invest in IVF III.
- **Lok III, India 2014–17:** Findings from our analysis[13] indicate that BII's indirect, historical role was critical to the existence of Lok funds, by providing counter-cyclical support at a critical time and by shaping aspects of the fund's identity that made it attractive to DFIs and impact investors. The Lok study provided strong support for the importance of developing long-term relationships with fund managers. For example, BII certainly had a positive influence on the decisions of the Teachers Insurance and Annuity Association (TIAA) and Swiss DFI Obviam, although other factors may have also supported these decisions.

[11] Unlike in Nigeria, where BII has invested in all of the CAPE funds, BII did not invest in the first IVF fund and has not invested in the two funds that have been launched since IVF IV.

[12] For more information on BII's current strategy, please see: https://assets.bii.co.uk/wp-content/uploads/2022/01/06170001/2022-2026-technical-strategy-2.pdf.

[13] These findings are based on triangulated evidence from multiple data sources.

- **Frontier Funds, Bangladesh 2007–09:** BII was instrumental in changing the structure of the original investment vehicle to a pure PE fund with the necessary legal features. This made it possible for other DFI investors to subsequently come on board.

4.2 Overview of the central cases

CAPE (Nigeria)

CAPE I was the first Nigeria-focused PE fund, and its founding partners brought international experience, a commitment to high international standards, the backing of well-connected local businesspersons and a sound investment strategy. BII backed CAPE from the start, along with IFC[14] and one other European development bank. CAPE funds I and II were very successful, particularly the first fund, and the fund manager (African Capital Alliance) was able to raise significantly more capital in funds III and IV on the back of this performance. BII's rationale for investing evolved, over time, to become more about retaining confidence in the funds (and supporting market growth) than supplying capital per se. BII also used its investments in CAPE III and CAPE IV to support the establishment of a local-currency-enabled vehicle to enable increased participation by domestic pension funds as they were able to avoid foreign exchange risk (discussed below). BII had worked with representatives of the pension fund sector to explain the benefits of PE and also to learn about their needs. Historically, Nigerian pension funds have invested almost exclusively in government bonds; following engagement with BII, they chose to diversify to PE and infrastructure. To support this, BII used the influence gained from committing to invest in CAPE funds to persuade them to launch a local-currency-enabled vehicle, which enabled more Nigerian pension funds to invest and which was an important stage in the development of the domestic capital market.

With over 200 million citizens, Nigeria is Africa's most populous country, with a fast-growing middle class and a potentially vast consumer market. However, as a highly cyclical economy that is heavily influenced by oil and gas, Nigeria is characterised by a short-term approach to economics and finance, which makes it difficult to sell long-term PE investment, as it is impossible to know when to exit. For international investors, a related issue is foreign exchange risk. The naira has been highly volatile against the dollar, falling precipitously at times. CAPE invests in businesses with revenues in naira, where strong performance can be wiped out by exchange rate movements. While mechanisms such as the non-deliverable forwards (NDF) facility of the central bank mitigate this, it remains a major obstacle and disincentive to investment.

The most fundamental constraint to PE growth in Nigeria is that risk-adjusted returns, viewed over the full period of this study, have not attracted international investors. This was not always the case. International investors – particularly from the US – have limited knowledge of Africa, but narratives such as 'Africa Rising' were effective and led to an influx of US investors into CAPE III/IV. However, it has become difficult to attract more international investors, especially after the Nigerian market deteriorated sharply in 2015 and in view of the current economic challenges that Nigeria is facing. Therefore, DFIs are as fundamental to the Nigerian PE market as at 2021 as when BII first invested.

Despite these continuing macro challenges, other factors that have held back the development of the PE sector in Nigeria have improved substantially. For example, BII has put significant effort into training, both among private financial institutions and regulatory authorities, to mitigate the lack of understanding of PE, which was a constraint historically. The same is true for the skills base: where this had been thin and dependent on non-Nigerians, there is now a deep pool of talent, both from the training and experience gained in funds – many backed by BII – and from the returning diaspora.

[14] IFC (1999) https://disclosures.ifc.org/project-detail/SPI/9281/capital-alliance-private-equity-fund

The PE ecosystem is unrecognisable from that which existed in the early 2000s, and BII has been extremely influential in this. The environment, however, remains far from enabling.

IVF (India)

IVF (India) was part of BII's national strategy to develop the PE sector as a source of growth capital in the country. As well as an emerging track record with its first fund (IVF I), IVF had a clear investment strategy that aligned with the approach BII had also developed. Initially, low valuations and rapid asset price growth were the principal drivers of returns in India, enabling high multiples on exit. As capital flowed in, however, valuations rose significantly, undermining this approach. BII and IVF both responded by taking larger – sometimes controlling – stakes in companies and deploying operational expertise to directly improve business performance and generate value and, ultimately, returns. BII thus saw IVF as a good fit and continued to support the funds until a successful transition to commercial finance took place in IVF V.

Lok Capital (India)

When Lok Capital was founded, there were no equity funds in the Indian microfinance sector. BII was directly involved in the creation of Lok Capital itself and was an anchor investor in each of its funds. The first Lok fund was entirely focused on microfinance, and was largely financed by DFIs, with FMO[15], IFC[16] and KfW Development Bank[17] as the main actors. Lok II began to diversify, with investments in inclusive sectors that were seen as complementary to microfinance. Proparco joined Lok II[18], as did smaller, impact-focused investors. In Lok III[19], KfW and one other DFI withdrew, while the US-based TIAA came in for the first time,[20] along with the domestic investors

India has attractions that most other countries lack. It has a huge growing, young population. The potential of the domestic market is as great as in any country in the world. The economic liberalisation that began in the 1980s bore fruit in subsequent decades, accelerating growth. While recent experience has been more mixed, much of the 21st century has been characterised by increasing stability, both politically and economically, with a growing role for the private sector, including the financial sector. Therefore, the conditions for a successful PE sector are in place.

Since BII began investing in Indian PE, the market has matured in important ways beyond size. There is now an ecosystem of fund managers and PE professionals, and the sector has become more varied and specialised. Initially, BII backed generalist (such as IVF) rather than sector-focused funds, but as the PE market grew, it began to back microfinance funds (such as Lok), and has since supported impact-oriented PE funds. Related to this, a better understanding of PE has developed. Historically, selling equity (in family-owned businesses) was seen as a sign of failure. However, not least because of the operational strengths of funds such as IVF, there is now greater appreciation of the value this can bring. More broadly, there is greater understanding of risk in finance, and particularly that in PE some investments will fail: this is the nature of the business.

[15] Business Standard (2016) 'Lok Capital announces first close of Fund III at $40.5 mn' (16 June 2016) https://www.business-standard.com/article/specials/lok-capital-announces-first-close-of-fund-iii-at-40-5-mn-116061600967_1.html

[16] IFC (2005) https://disclosures.ifc.org/project-detail/SPI/24331/lok-microfinance

[17] KfW (2017) 'KfW closes successful Indian fund for microfinance institutions on schedule' (12 July 2017) https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/News/News-Details_425600.html

[18] Proparco (2021) 'In India, Proparco increases its investment in Lok Capital's third fund to support financial inclusion players and to help them face the Covid-19 crisis' (1 Feb 2021) https://www.proparco.fr/en/actualites/india-proparco-increases-its-investment-lok-capitals-third-fund-support-financial

[19] KfW (2017)

[20] Business Standard (2016)

Outside financial performance, opposition to ESG issues has declined significantly. While many continue to see this as a 'box-ticking' exercise, there is an acceptance that it is essential. High standards are also associated with successful investments in some quarters. The role of IVF in promoting this change has been significant. While the Indian system is known for the rule of law, it is also infamous for the slow pace of operations and for a highly bureaucratic system that is difficult and costly to navigate. Though improving, this remains a significant problem.

Returns to date in Indian PE have not been attractive relative to alternatives in Asia, particularly China. The currency lost half its value against the US dollar over the period of this study, reducing returns markedly for dollar investors. There are also other issues. Successful exits have proven difficult at times in India (in contrast to China) where there are fewer potential buyers to enable exit in India than in China. Another constraint on returns in India is the high valuations, making it difficult to generate multiples on exit. PE in India remains dominated by international investors, who account for around 90% of capital, according to an informed observer. These investors will compare potential returns to those available elsewhere. In terms of delivering attractive cash returns, countries such as China, and even developed markets such as the US, have done better than India. While fundamentally attractive, therefore, the general view is that the PE market will remain challenging until it has developed a track record that is attractive relative to its main competitors.

Frontier Funds (Bangladesh)

In 2009 there were no PE funds in Bangladesh. A Swedish hedge fund manager, Brummer & Partners (B&P), established the Frontier Fund I with backing from some of B&P's existing Swedish and Swiss investors and IFC.[21] BII was introduced to the opportunity by IFC and was followed by FMO and Norfund. [22] The focus was on healthcare, agriculture, energy, solar power, food and beverage, consumer electronics and consumer finance sectors. The Frontier II fund was established in 2015, although B&P later halted new investments in Bangladesh.

Bangladesh has significant potential for PE. With a young population of 170 million, consistently high growth, a growing middle class, a strong professional skills base and a stable macroeconomic environment (including the exchange rate), the country should have a larger PE sector than it does.

Bangladesh suffers from a branding problem, some of which is justified, and some which is not. The country has a reputation for volatile internal politics, corruption and for being a difficult place to do business.

For international investors, Bangladesh is a more difficult proposition than alternative countries for a number of reasons: (i) getting money in and out is harder than elsewhere; (ii) exits are difficult, given regulatory uncertainty, slow and expensive initial public offerings (IPOs) and lock-in periods, and a lack of appetite among other international investors; (iii) investment opportunities are restricted due to a lack of understanding of PE and a reluctance to relinquish control of family-owned businesses, combined with readily available debt from banks.

The PE sector in Bangladesh has improved in recent years. Important regulatory reforms have addressed some of the key problems described above, and there is a clear intention on the part of the government to take these further. At the same time, as it becomes easier to invest, a more positive attitude towards PE by domestic companies is likely to improve investment opportunities.

[21] IFC (2009) https://disclosures.ifc.org/project-detail/SPI/27881/frontier-fund-bermuda-ltd

[22] BII. 'Frontier Bangladesh II LP' https://www.bii.co.uk/en/our-impact/fund/frontier-bangladesh-ii-lp/

Further progress is needed. Given its branding issues, it needs to be easier to do business in Bangladesh than in other countries. At the moment, the opposite is still true. For international investors, a track record of strong commercial returns vis-à-vis other countries is also needed, while domestic companies need clear evidence that PE investors can add value.

Ultimately, the ability to generate attractive returns is an important driver of demonstration effects, and lower returns in Bangladesh relative to other markets have likely hindered those effects.

4.3 Demonstration effects in the case studies

While BII had an important influence over the funds examined in this study, perhaps more significant in terms of longer-term mobilisation was the wider example the funds set – that is, their demonstration effects. We have found that demonstration effects are created when a fund is performing well; however, when fund performance declines, so do demonstration effects.

The studies suggest strongly that the most important demonstration effect a fund can create is through financial performance. Both CAPE and the IVF funds have a similar profile in terms of performance with early funds realising good returns.

In Nigeria, India and Bangladesh, the central-case funds have a good reputation for BI. In all cases, fund managers' commitment to these issues predates BII's involvement but has been supported by BII to varying degrees, which has also helped formalise and operationalise principles. In Nigeria and India, the BI approach of CAPE and IVF funds helped set the tone for PE in the country.

BII has been more heavily involved in ESG, where – again – all funds have a reputation for high standards. Despite this, it is difficult to isolate the demonstration effects created by the funds supported by BII. In Nigeria, virtually every PE fund has a DFI investor, and BII has backed many of them. As a result, they have all had direct inputs in terms of ESG from their DFI investors[23]. At the same time, ESG issues have become more important to international commercial investors, who are therefore more comfortable with – and at times insistent upon – high standards in this area. BII has certainly played a key role, but it is hard to isolate causal chains from particular funds to wider market effects.

All the funds had a traditional PE structure in legal terms, for instance protecting investors through limited liability, though this was only adopted in Bangladesh at BII's insistence.[24] BII played an important role in instilling international best practice in the design and operation of investment and advisory committees. Processes for scrutinising and selecting deals were robust, and fund terms were designed in line with the requirements of international investors. BII was influential in all these areas. As with BI, CAPE and IVF helped embed and normalise best practice in these areas in their markets, which BII's influence contributed to.

These funds also influenced investment strategy in their markets. The IVF control-stake model, where a controlling stake was used to build value in companies, was new in India but has since grown in use. Market participants expect this to increase. BII did not initiate the approach with IVF, but it did help them persevere with it in the face of opposition from other investors pushing for a more short-term strategy. CAPE did not take controlling stakes in Nigeria but did exert operational influence over its companies in particular areas – something

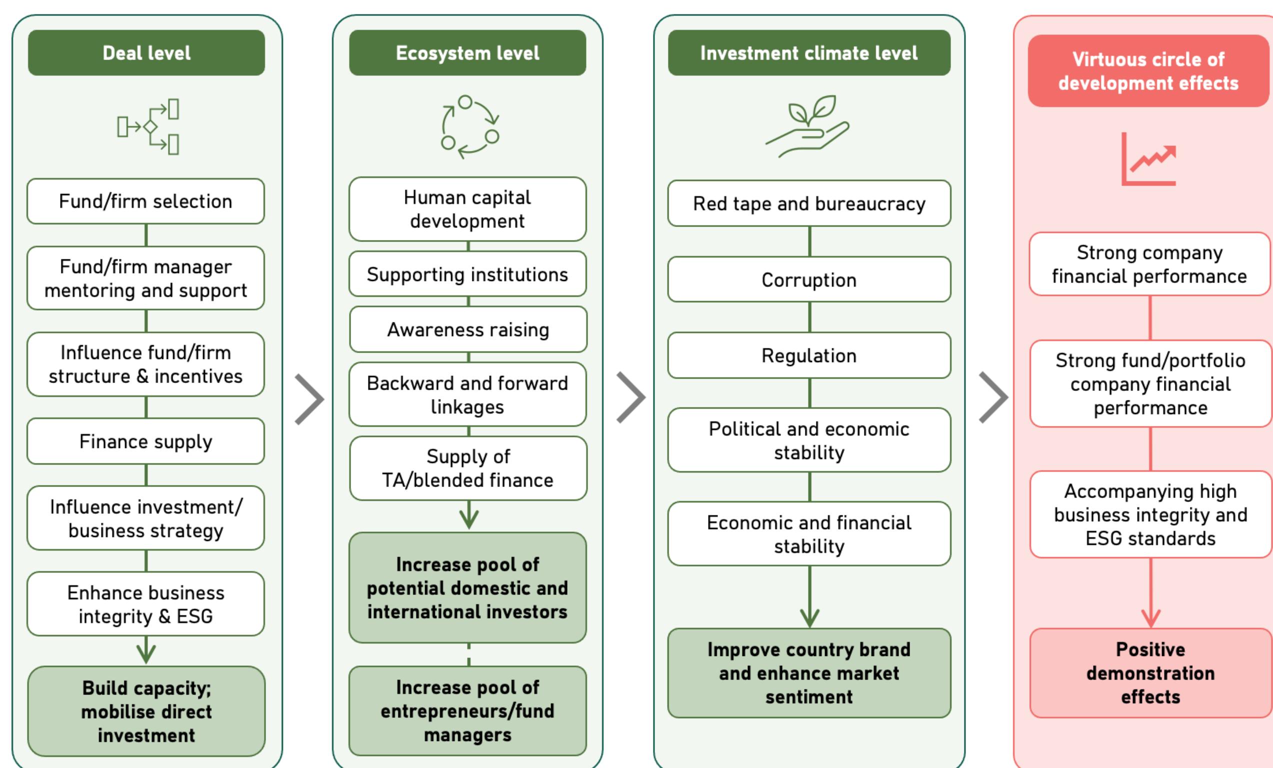
[23] For example, BII has provided long-running ESG workshop programmes and made tools available to fund managers in Nigeria.

[24] This structure is in contrast to the hedge-fund style structure that the Bangladesh fund initially had, in which both public and private could invest, and for which investors could be liable for losses. This would prevent BII and other DFIs from investing in this vehicle.

taken further by other funds in the market after being pioneered by the CAPE funds. Again, this aspect of the market development can be linked to BII's influence. The benefit to investors of an active approach is the potential to increase the value of firms by enhancing performance. The benefit to the economy is increased productivity because of active, rather than passive, PE investment. The wider development benefit of an active approach to PE is that they can also influence the way firms operate with respect to BI and ESG, as clearly seen in the cases reviewed.

The case studies show that financial performance is the key driver of demonstration effects. Another important determinant of investor attitudes is the relationship between financial performance, BI and ESG. This relationship determines the type of demonstration effect that is created – whether or not strong financial performance is compatible with high ESG and BI standards. The studies also find that performance is shaped by factors at three different levels: deal; ecosystem (such as the supply of skilled staff); and investment climate (such as regulation or stability). These levels and drivers are shown in Figure 6.

Figure 6. Drivers of demonstration effects at three levels



While many countries have vibrant PE sectors despite having significant challenges in some areas, it seems likely that a minimum level is required across all three levels for high and sustained mobilisation. Beyond this, the case studies suggest the importance of factors varies from country to country.

In Bangladesh, the regulatory framework appears to have been the main challenge, combined with a more general country brand issue. Given this, a key investor argued that it needs to be easier to operate in the country than in alternative ones, but in Bangladesh it is more difficult, largely because of regulatory problems. As a result, it has proved impossible to create demonstration effects through successful exits and attractive returns. BII recognised this, and its 2009 country strategy aimed to achieve regulatory change. This has taken longer than anticipated, but important breakthroughs have now been made. BII played an important role in achieving these changes, including early efforts to introduce the business community

to the concept of PE, and especially the lobbying of the Securities and Exchange Commission (SEC) to improve regulation. The recent change to the IPO lock-in period, for which BII has pushed hard for many years, is a notable achievement. PE prospects in Bangladesh are now far brighter than they were when BII began to invest.

In Nigeria, the main constraint is instability. US pension funds that invested prior to 2015 describe how the subsequent volatility, which has seriously impaired dollar returns, has changed their perspective, and they would not consider investing again. At fund and ecosystem levels, however, the PE sector has been transformed. There is now a pool of skilled professionals, a range of national and regional funds and a good regulatory framework. Ultimately, however, this is insufficient if the macro environment eliminates years of good returns with exchange rate movements. While good historical performance generated positive demonstration effects and mobilised investment, recent performance has had the opposite effect. It is very unlikely that either BII or FCDO can do much about macro volatility in Nigeria. As a result, a short-term approach to investment is likely to remain common in Nigeria, which is not conducive to long-term PE investing. Given the maturing of the PE sector, however, it is important to seek ways round this issue. In this regard, local currency vehicles and hedging tools to protect international investors should be central to the strategy.

Although the PE sector has matured and expanded enormously, **the main constraint in India as at 2021 is the lack of internationally competitive performance.** While BII cannot ignore performance, market participants believe that commercial actors can address this issue, and BII can add most value in the high-impact, nascent parts of the PE market. There are also some issues with regulation, but largely around red tape rather than the more significant challenges in Bangladesh. Previous challenges have been overcome. For example, when BII began its operations the most important obstacles in India were a lack of funds and a basic unfamiliarity with PE. Given the size of the Indian market, BII's early approach of supporting many generalist funds was effective in addressing this challenge. BII adopted a more focused strategy towards the end of the 2000s, backing specialist microfinance funds such as Lok. This created sector-specific risks, which emerged in the Andhra Pradesh crisis of 2010, sparking a major retreat of private investors from microfinance. BII helped ensure its survival with coordinated, counter-cyclical investments.

The case studies have generated important lessons for improving mobilisation, which have been condensed into a number of propositions. While drawn from equity fund studies, many of these propositions are more generally relevant from a mobilisation perspective.

5. Lessons for improving mobilisation

Regardless of the strength of the product, service or people, funds (and firms) need a supportive ecosystem and investment climate in order to succeed. More formally, the cases suggest that successful PE sector development is dependent upon drivers at three levels. While perfection is not necessary, it seems that a minimum standard is required across each of these levels to enable mobilisation at scale.

Lesson 1:
Sustained high levels of mobilisation will only be achieved when conditions are supportive at the three levels of the deal, ecosystem and investment climate.

While it is neither necessary nor possible to achieve perfection at any of these levels, some minimum standards are needed. This may take a considerable amount of time and effort. In some cases, these will be at the deal level (for example poor business strategies), in others the ecosystem or sector level will be the main issue (such as a lack of supporting firms in the value chain), while the investment climate may also be where the main challenges are situated (including supportive regulation).

Lesson 2:
Identifying the binding constraints in each country is key to unlocking private capital.

The most important demonstration effect is through performance (both positive and negative). A fund manager can adopt the highest standards for integrity and ESG, but if they do not make a good financial return, then others will not seek to replicate what they do. If high standards are associated with poor financial performance, a negative demonstration effect will be generated, and vice versa. The Nigeria case is a good example of how this can work positively. CAPE's investment in the telecom pioneer MTN has become legendary, with CAPE's first fund investing at a valuation of $400m, and exiting at a valuation of $13bn, with subsequent investments from CAPE II and III funds also benefiting from this strong performance[25]. As well as attracting interest in the PE sector and fuelling CAPE's rapid expansion, this demonstrated the value of high ESG standards. Experts on the Nigerian market believe MTN attracted an 'ESG premium' at IPO, having always been run to the highest standards, helping to attract international investors and offset Nigeria's negative reputation in this area.

This can also work the other way round. Prior to 2015, international investors were positively influenced by the 'Africa Rising' narrative and the performance of CAPE funds I and II. This led to an influx of US investors into CAPE III/IV. The market then deteriorated sharply, creating problems across the PE sector. This experience will make it hard to attract such investors to Nigeria for the foreseeable future.

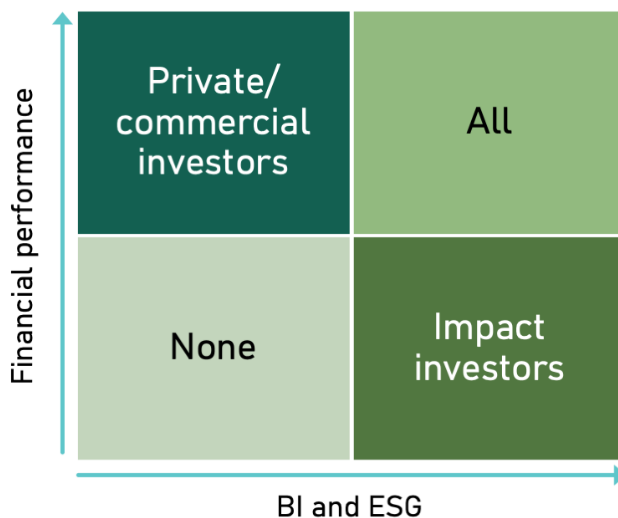
[25] African Capital Alliance (2022) https://acagp.com/our-business/private-equity/mtn-nigeria-communications-ltd/

Lesson 3:
PE investors need to show they can improve financial performance and need to demonstrate to other investors that they can translate this into attractive realised returns.

In Bangladesh, PE was a new concept when BII began operations, and companies had relatively easy access to cheap debt financing from banks. PE therefore needed to demonstrate value beyond the supply of capital by improving the performance of companies. This does not seem to have been sufficiently achieved. At the same time, it has not been possible to generate a track record in Bangladesh, as exits have been extremely difficult. International PE investors have proved unwilling to seriously consider investing in the country, and the IPO process is slow and bureaucratic, with large shareholders locked in for three years. This has created a negative demonstration effect, and it has proved impossible to raise new funds in Bangladesh, even though the conditions are now more supportive. What may be needed is a DFI-backed series of funds that can generate good returns in these better conditions, to prove that such returns are now possible.

Lesson 4:
The relationship between financial performance, impact, BI and ESG determines the level and nature of demonstration effects.

Figure 7. Types of demonstration effect



As we have seen, investors have different return requirements and different views on non-commercial issues. As a result, they will be attracted, or otherwise, by different kinds of demonstration effect. We can identify four broad types, as shown in Figure 7, where each quadrant is labelled according to the investors anticipated to be attracted by that type of demonstration effect.

The top right quadrant is where excellent financial performance is achieved at the same time as strong standards for BI and ESG. This is the ideal type of effect, which will be attractive to the widest set of investors, that is, commercial actors, impact investors and those with dual mandates.

The top left quadrant has strong financial performance, but this is not positively associated with BI and ESG. While many commercial investors will still be attracted by such examples, this is not the case for DFIs or impact investors. The type of demonstration effect shown in the bottom right quadrant reverses this, where strong BI/ESG are negatively correlated with financial performance. This may attract those heavily focused on impact, but not commercial actors. The bottom left quadrant of weak performance on all fronts attracts no one.

The first, 'ideal' type of demonstration effect approximates to the early years of CAPE and IVF. From a demonstration effect perspective, the signals were positive for the relationship between performance, BI and ESG. This was supported by some high-profile deals that generated high returns, with this put down partly to an 'ESG premium'.

Lesson 5:
DFIs can use non-commercial finance to improve synergies between financial performance and other development objectives, and can accelerate the transition to commercial viability.

It can still, however, take several generations of funds to mobilise commercial investment at scale, in other words, achieve the transition shown in Figure 1. Doing so while also delivering high-impact and robust BI/ESG standards is harder still. In some cases these objectives will be correlated, but there will be examples where the relationship is negative, at least in the short to medium term. Non-commercial finance, such as blended finance, has the potential to change this relationship by offsetting transitional costs or boosting investor returns, thus enabling more investments to create 'ideal' demonstration effects (high impact–high return), mobilising more private capital, and accelerating the transition to commercial viability.

6. Conclusions

This paper has shown that while BII's reported mobilisation has been mixed in recent years, this is the result of its focus on more challenging environments and of the complicated economic conditions in these environments. The most recent set of figures, for 2021, suggests an improving picture.

We have also presented the findings from a series of country case studies, where we explored BII's long-term role in developing PE, including with respect to mobilisation. As well as examples of direct mobilisation, the studies found that BII played a vital role in generating demonstration effects in the case study countries, particularly with respect to investment strategies and funds' approaches to BI and ESG issues.

We also find that the most important demonstration effect is financial performance – funds that perform well commercially encourage others to replicate what they do, while those that perform badly have the opposite effect. This works in relation to the way that funds operate, as well as financial performance. Where high ESG standards are associated with strong financial performance, for example, an 'ideal' type of demonstration effect is created, with others more likely to see a robust approach to ESG as commercially beneficial rather than as an unnecessary cost.

We also find that financial performance is shaped by factors at three different levels: deal; ecosystem; and investment climate. The most important factors will vary by country; thus it is important to diagnose the 'binding constraints' in each case. While it is not necessary to achieve perfection in all the areas that could influence performance, there is a minimum level that must be reached before successful demonstration effects can be consistently generated and capital mobilised at scale.

These findings suggest that DFIs should: focus mobilisation efforts in markets where the minimum level has been reached, concentrate on reaching this level in others, and use the tools at their disposal – including non-commercial finance – to increase the synergies between financial performance and other development objectives.

This is in line with findings from the wider MDB literature. The World Bank (2021), for example, emphasises the investment climate as a key driver of mobilisation, and suggests that mobilising efforts should focus on countries that have reached a certain level in this area. Two issues highlighted by the Bank are the lack of understanding of the role of private capital, and what is needed to attract it, and public expenditure crowding out private capital rather than crowding it in (ibid.).

As well as improving domestic conditions in developing economies, the literature highlights the importance of aligning mobilisation efforts with the needs of different types of investors. The MDB Task Force on Mobilization (2021), for example, notes that pension funds are a potentially large source of capital, but most have little investment in emerging markets, and no exposure to Africa. Despite an increasing focus on ESG risks in the pensions industry, these are largely used as risk-screening metrics rather than opportunities for active impact investment. The lack of bankable projects in many LICs, as well as the perceptions of risk around these countries, also puts off large institutional investors (ibid.). As discussed above, non-commercial finance, such as blended finance, is an effective way to enhance risk-adjusted returns for these types of investors.

Mobilising capital is an essential but arduous task. The need for investment is rarely matched by the ease of attracting private capital. For some, the conclusion is to focus mobilisation efforts on countries where more of the preconditions are in place – for example, a good investment climate – while seeking to improve these conditions in countries where they are less positive. Others try to do both, seeking to mobilise in more challenging environments, often using blended finance and/or de-risking products to increase their attractiveness. As shown by the interest in institutional investors, there is no shortage of capital. The challenge is to shift a larger share of this towards high-impact investments in developing countries, a puzzle that no one has yet solved. Given its extensive experience, BII has much more to contribute to this vital issue.

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