

# MARKETLINKS



**Bridging the Gap: Unlocking Synergies between Private Sector Development and Development Finance**



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**MARKETLINKS**

# BRIDGING THE GAP



Unlocking Synergies between  
Private Sector Development  
and Development Finance

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# INTRODUCTIONS

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## **POLL 1**

**What types of work are you currently involved in? (Select all that apply)**

# AGENDA

1. Introduction
2. Findings and recommendations
3. Conclusions and way forward

# I. INTRODUCTION

# INTRODUCTION

## Rationale:

- BII and Gatsby Africa recognise that development finance and PSD often aim to achieve **similar objectives around poverty reduction and sustainable growth** in lower- and middle-income countries.
- Examples of approaches to reach these goals becoming **less transactional and more transformational**, with growing interest from both sides in supporting lasting, sector-wide change.
- **Transformational change relies on multiple enabling factors** – such as markets, investment, and policies – coming together to unlock growth.
  - In theory, alignment between development finance and PSD can support this, however in practice this did not appear to be happening to a significant extent.

## Aims of the study:

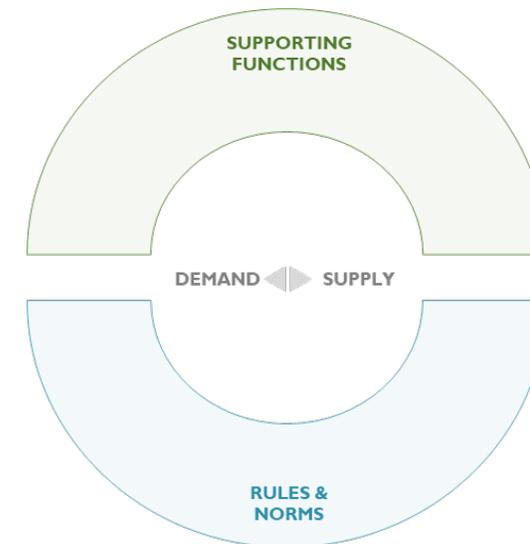
1. Explore examples to better understand the drivers of / barriers to successful alignment
2. Provide recommendations for both sides that could strengthen alignment moving forward
3. Further dialogue and provide a springboard for action

## Methodology:

- Study ran August – October 2021 and comprised a literature review, 38 interviews and a rapid survey, with a global scope
- Exploratory approach and few ‘model’ examples

## DEFINITIONS: WHAT DO WE MEAN BY “PSD”?

- The study focussed on **market-shaping PSD** - initiatives that work to address **underlying, market-level constraints** to inclusive economic growth, including systemic barriers to responsible investment. Particular interest in high-impact sectors. Also looked at other types of PSD with transferable lessons.
- A variety of models with some common features:



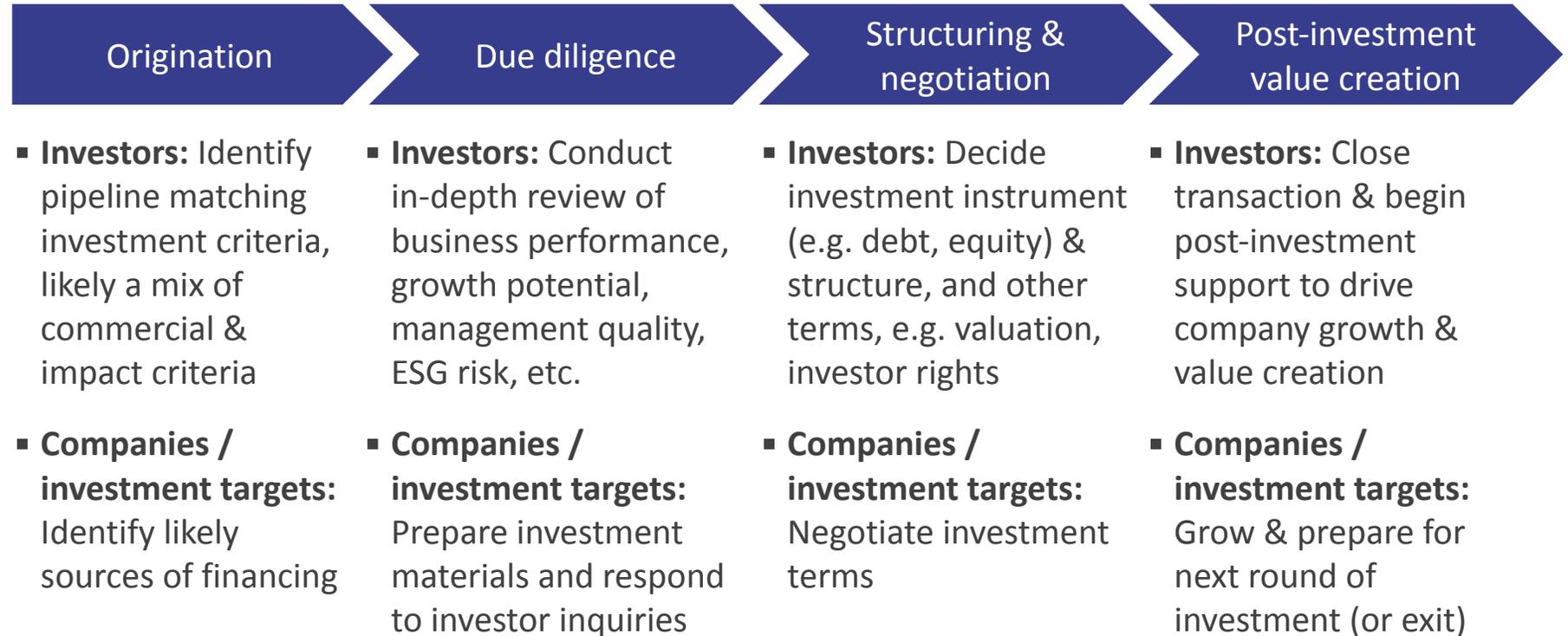
- A mainstream approach within donor PSD strategies (FCDO, USAID, Sida, SDC, etc.). Growing interest in applying the approach to challenges like economic transformation and youth employment.
- Increasing interest among DFIs (like BII and FMO) in thinking beyond transaction-level TA.

# DEFINITIONS: WHAT TYPES OF “INVESTMENT” ARE INCLUDED? WHAT DOES AN INVESTMENT PROCESS LOOK LIKE?

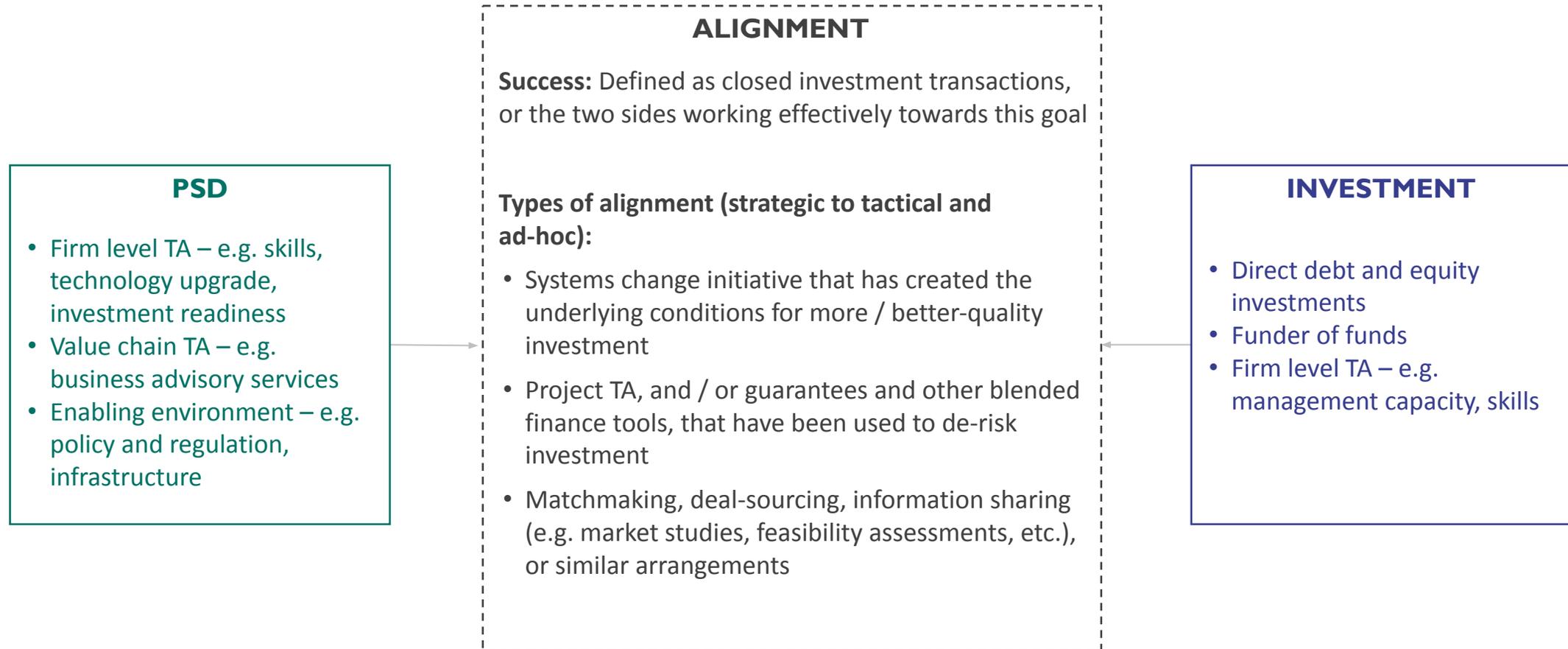
## INVESTOR TYPES

- **DFIs** (direct and indirect investment)
- **Impact investors** funded by DFIs or other concessional capital sources; focus on both impact and returns; ability to invest at “missing middle” ticket sizes
- **Investment arms** of foundations & other donor programmes making high risk, early-stage investments

## INVESTMENT PROCESS



# DEFINITIONS: WHAT TYPES OF ALIGNMENT DID WE EXPLORE?

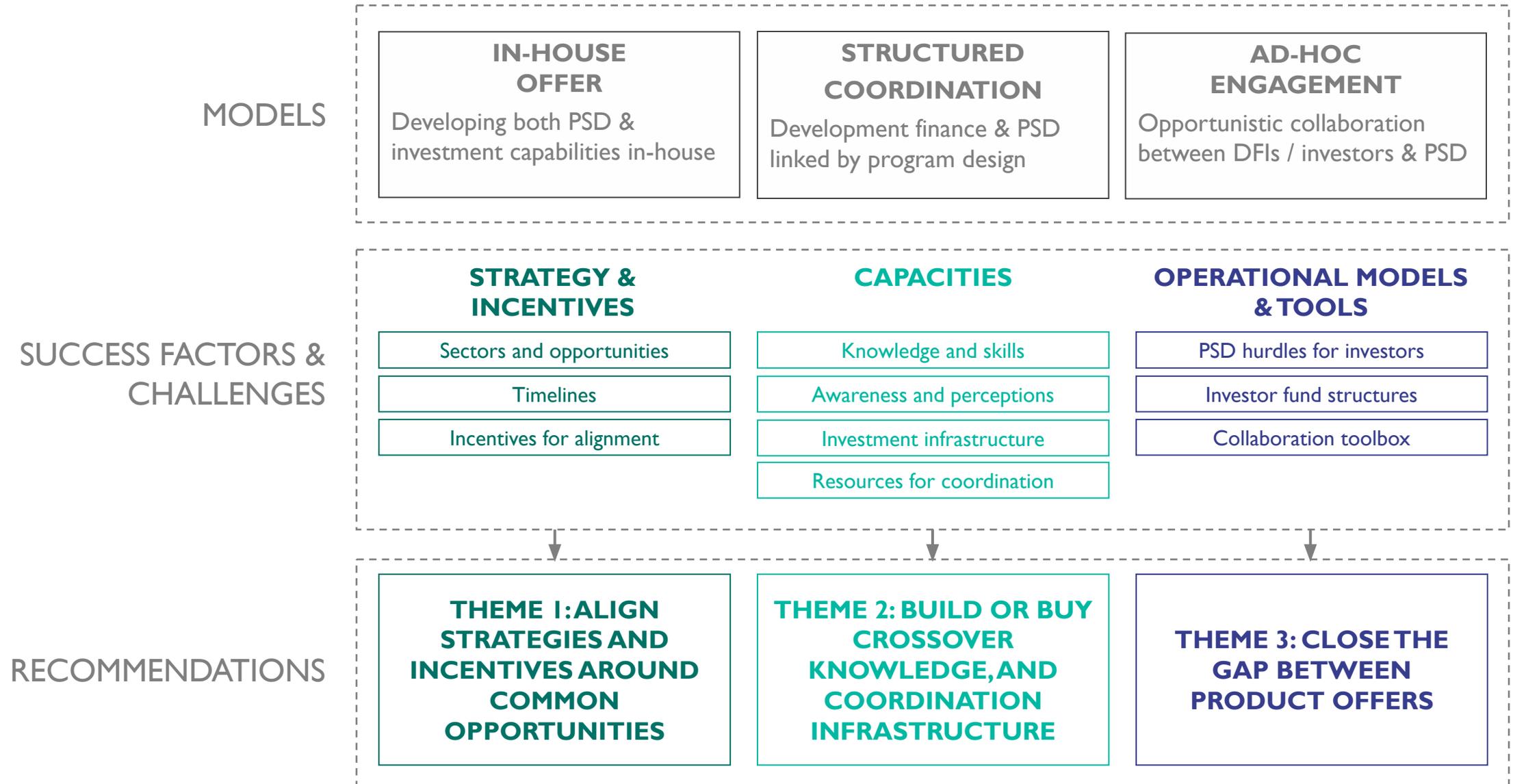


## 2. FINDINGS & RECOMMENDATIONS

## GENERAL OBSERVATIONS

- There was interest across the board in closer alignment:
  - *“Many people say that there is money everywhere, but not enough good opportunities. It seems like market shaping programmes would be key to creating more opportunities.”*
  - *“The development world focuses on enabling environment and capacity building, but doesn’t have capital. DFIs have capital but aren't doing market shaping. Bringing them together is a dream outcome.”*
  - *“The two worlds almost always miss each other. There are very few examples where efforts are joined up and aligned.”*
- There was mixed awareness of the full offer of the ‘other side’, and some misconceptions (sometimes based on perceptions rather than experience).
- There were few ‘model’ examples i.e. market-shaping initiatives and development finance successfully working in unison.
- Coming out of the study, we are excited about the potential to support more alignment (under the right conditions).

# OVERVIEW OF FINDINGS AND RECOMMENDATIONS



# CURRENT MODELS OF ALIGNMENT

## MODELS

In-house offer	Structured coordination	Ad-hoc engagement
Gatsby Africa Aquaculture, Gatsby/Wood Foundation Rwanda Tea, Nepal Invests, FSDA, IFC Upstream, Implementer fund arms.	DFCD, IMSAR Rwanda, NU-TEC Uganda, EnDev, IPDEV2, Lighting Global, Partnerships for Forests, Nepal Hydropower.	USAID INVEST, Manufacturing Africa, AINFP, AIP-PRISMA, SUED, ACE, SOBA, IPDEV2, Nigeria LINKS, Ghana JET, Invest Salone.

- Three broad models of alignment:
  - **Model 1: In-house offer** refers to DFIs building expertise in market shaping technical assistance (TA), and PSD initiatives expanding beyond grants to provide returnable capital.
  - **Model 2: Structured coordination** refers to a deliberate approach to linking development finance with PSD, with pre-defined investors either incorporated at design stage or formally engaged during PSD implementation.
  - **Model 3: Ad-hoc engagement** – which involves more opportunistic collaboration between DFIs and PSD programmes – is the most common model.
- The research did not identify a single ‘best practice’ model. Each model has its advantages and disadvantages, and not all models are feasible for every actor interested in closer alignment.
- Further to this, the study highlighted that closer alignment should not necessarily be a default aim for every PSD initiative and development finance-related investment.

# HOW CAN WE DRIVE MORE ALIGNMENT?

## THEME I: ALIGN STRATEGIES AND INCENTIVES AROUND COMMON OPPORTUNITIES

### Current barriers to alignment:

- Different views on the role of the firm presented a key point of divergence ('starting races versus picking winners')
- Selecting common sectors and opportunities – different prioritisation of impact vs. commercial considerations – has been challenging
- Divergent timelines between investors with limited fund horizons & long-term PSD objectives; PSD implementation cycles can kill momentum
- Mismatched incentives for alignment on both sides

Recommendations	For whom?				Quick win?
	PSD donors	Implementers	DFIs	Other investors	
1. Develop sector and opportunity selection criteria based on both impact & commercial viability	✓	✓			
2. Engage the 'other side' in setting investment strategies & program design	✓	✓	✓		
3. Increase focus on investment in PSD results frameworks, without creating perverse incentives	✓				
4. Increase emphasis on market shaping as part of investment process; tie it to performance incentives			✓	✓	
5. Build exit strategy into PSD program design to maintain strategic alignment, including handovers of key investment-related activities	✓	✓			

# HOW CAN WE DRIVE MORE ALIGNMENT?

## THEME 2: BUILD OR BUY CROSSOVER KNOWLEDGE AND COORDINATION INFRASTRUCTURE

### Current barriers to alignment:

- Mixed mutual perceptions & limited awareness of ‘other side’, particularly in terms of approaches, value proposition, & mechanics of engagement
- Lack of internal capacity around investment within PSD programmes, and vice versa, market systems thinking within investors
- Infrastructure specific to investment facilitation often needed
- Coordination critical but usually under-resourced

Recommendations	For whom?				Quick win?
	PSD donors	Implementers	DFIs	Other investors	
6. Assign responsibility and resources for mapping of country-level economic development ecosystems	✓		✓		
7. Recognise and support effective investor-PSD coordination initiatives at country level	✓	✓	✓		
8. Pool DFI TA around joined-up initiatives			✓		
9. Pilot cross-functional or cross-organizational secondments	✓	✓	✓		⚡
10. Implement training for donors, implementers, program teams, and investment personnel (investment 101, mini-CFA, market systems in practice)	✓		✓		⚡
11. Utilise investment advisory & facilitation expertise	✓	✓			

# HOW CAN WE DRIVE MORE ALIGNMENT?

## THEME 3: CLOSE THE GAP BETWEEN PRODUCT OFFERS

### Current barriers to alignment:

- Real and perceived hurdles to engaging with PSD initiatives; many investors view donor engagement as resource-intensive & overly prescriptive
- Current investor fund structures & return expectations constrain investment ticket sizes & risk
- Investors most value technical expertise from PSD programmes, but both sides work from limited ‘toolboxes’ that constrain collaboration

Recommendations	For whom?				Quick win?
	PSD donors	Implementers	DFIs	Other investors	
I2. Build the commercial relevance of the PSD ‘offer’ to investors/investees	✓	✓			⚡
I3. Experiment with increasing use of RBF / pay-for-performance financing as part of PSD programmes	✓	✓			
I4. Re-align systems change terminology to resonate with investors	✓	✓			
I5. Proactively support first-time local fund managers & experiment with new fund models	✓		✓		⚡

## POLL 2

**Which of the recommendations resonated most clearly? (Please choose three)**

### 3. CONCLUSIONS AND WAY FORWARD

## CONCLUSIONS

- A complex challenge and a lot to take in.
- An encouraging level of interest from both sides through the research process and subsequently - most of us believe that more alignment is a desirable goal.
- Today's conversation is a starting point: the next step is to start testing new approaches.
- We are interested to capture additional examples of alignment and identify partners interested in taking ideas forward: <https://www.questionpro.com/t/ATYU6Zr2SY>

# DISCUSSION

THANK YOU FOR ATTENDING TODAY!

For more information, please contact [info@marketlinks.org](mailto:info@marketlinks.org)