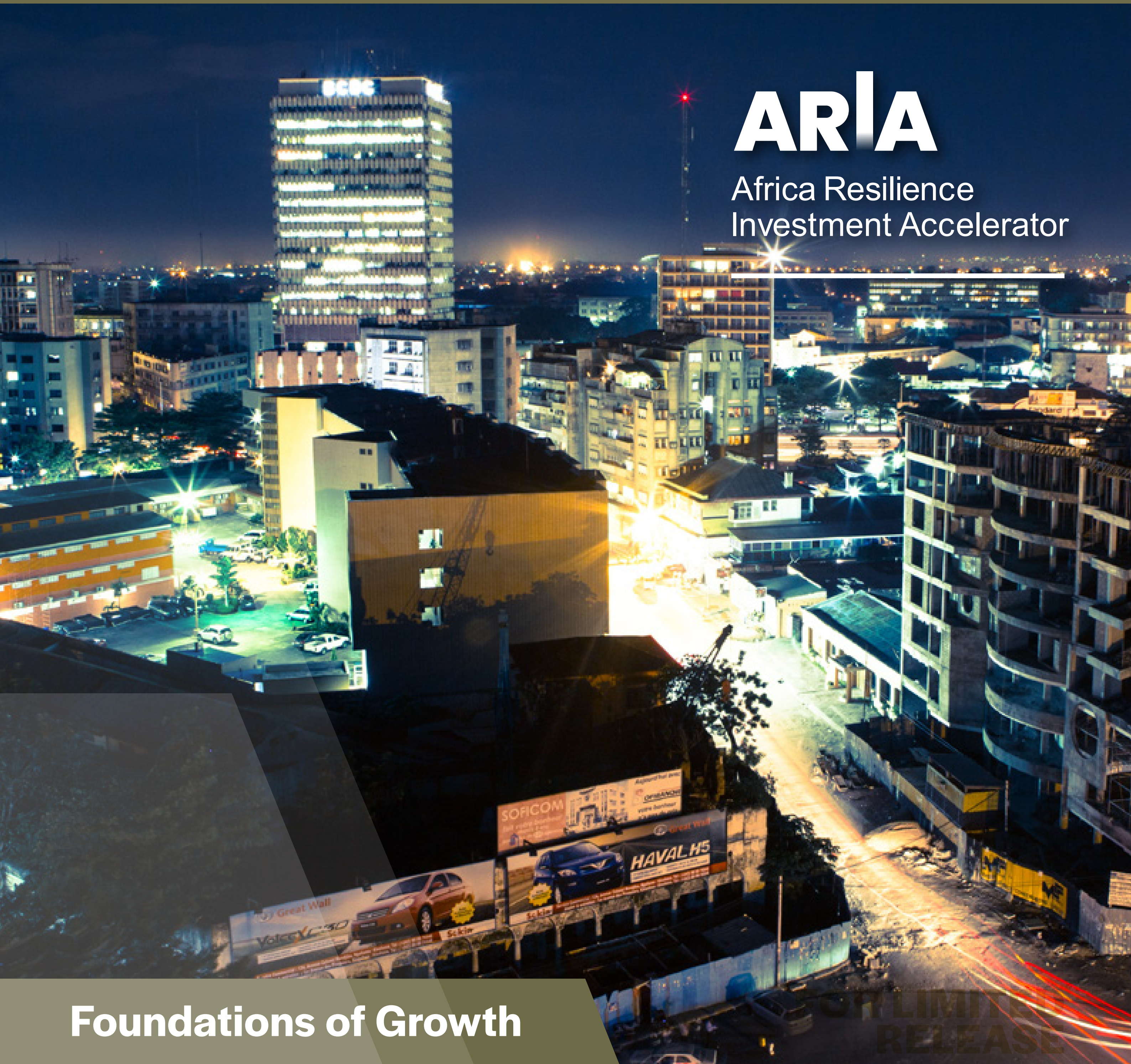


ARIA
Africa Resilience Investment Accelerator

Foundations of Growth

June 2024

DFI investments in frontier markets: Activities, lessons learned and approaches to fostering investment

British International Investment

FMO
Entrepreneurial Development Bank

This report was authored by Marcos Sampablo and Maxime Van Laer, from CrossBoundary, on behalf of the the Africa Resilience Investment Accelerator (ARIA)

Foundations of Growth

Foundations of Growth is a series of publications that shares the trends, lessons, challenges, and opportunities of investing in frontier markets in Africa. The series is aimed at helping development finance institutions and impact investors develop their strategies for operating in these markets.

Other reports in the series can be found at **ariainvests.org**.

ARIA
Africa Resilience Investment Accelerator

1. Introduction

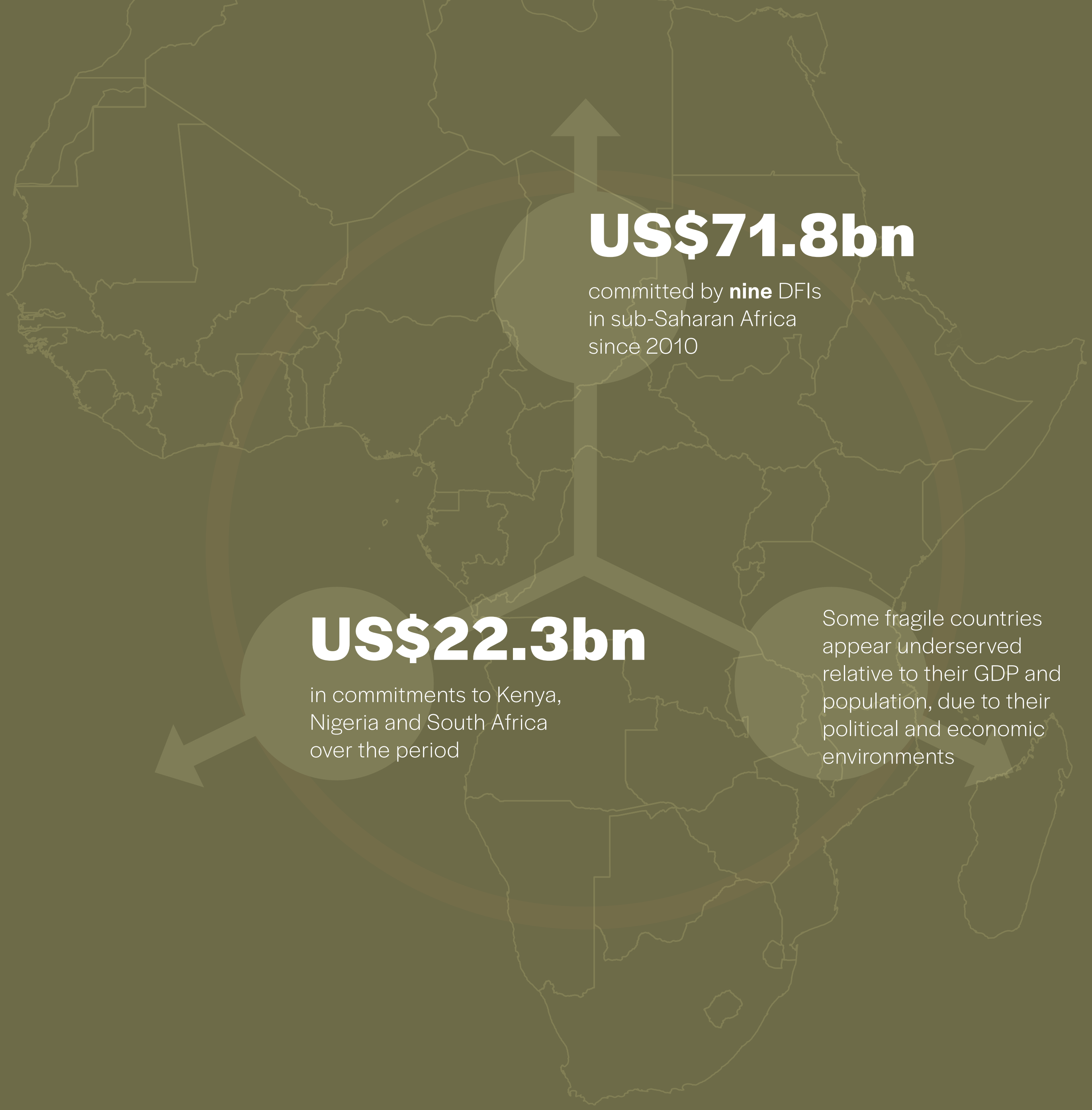
This publication is the first in ARIA's Foundations of Growth series and highlights how development finance institutions (DFIs) are investing across frontier countries (often termed 'fragile') in sub-Saharan Africa, including the countries where the Africa Resilience Investment Accelerator (ARIA) currently operates.

Section 2 provides an overview of DFI activity in sub-Saharan Africa. Drawing on an analysis of 2,718 investments from nine major development finance institutions (DFIs)[1] since 2010 the section provides an overview of DFI activity by country both on absolute terms and relative to their GDP and population. The analysis shows there is a correlation between a country's GDP size and the volume of DFI investments it receives. However, there are also some outliers, with several fragile countries mobilizing below-average DFI investment volumes. In some cases, this seems to be due to the lack of conducive political and regulatory environments.

Sections 3 to 6 review the approaches DFIs are taking to investing in these countries, the barriers they face, and opportunities to boost their investment activity. Section 5 includes case studies of successful investments in frontier markets to highlight some of their key characteristics. These sections draw on responses to a survey carried out in January 2024 with 21 investment professionals from 11 DFIs.

1 African Development Bank, British International Investment (BII), DEG, Development Finance Corporation (DFC), Finnfund, FMO (the Dutch entrepreneurial development bank), IFC, Norfund and Proparco. These DFIs were selected as they provide relevant investment data in their web portals. It must be emphasized that data is not always comparable, particularly in the definition of regional projects. While some DFIs detailed the full list of countries covered by regional projects, others may account for a project targeting several countries based only on the location of the main office receiving the funding. It must also be emphasized that some errors have been identified in the reported DFI data. While the authors have corrected identified errors, they cannot certify that DFI reported data is always accurate.

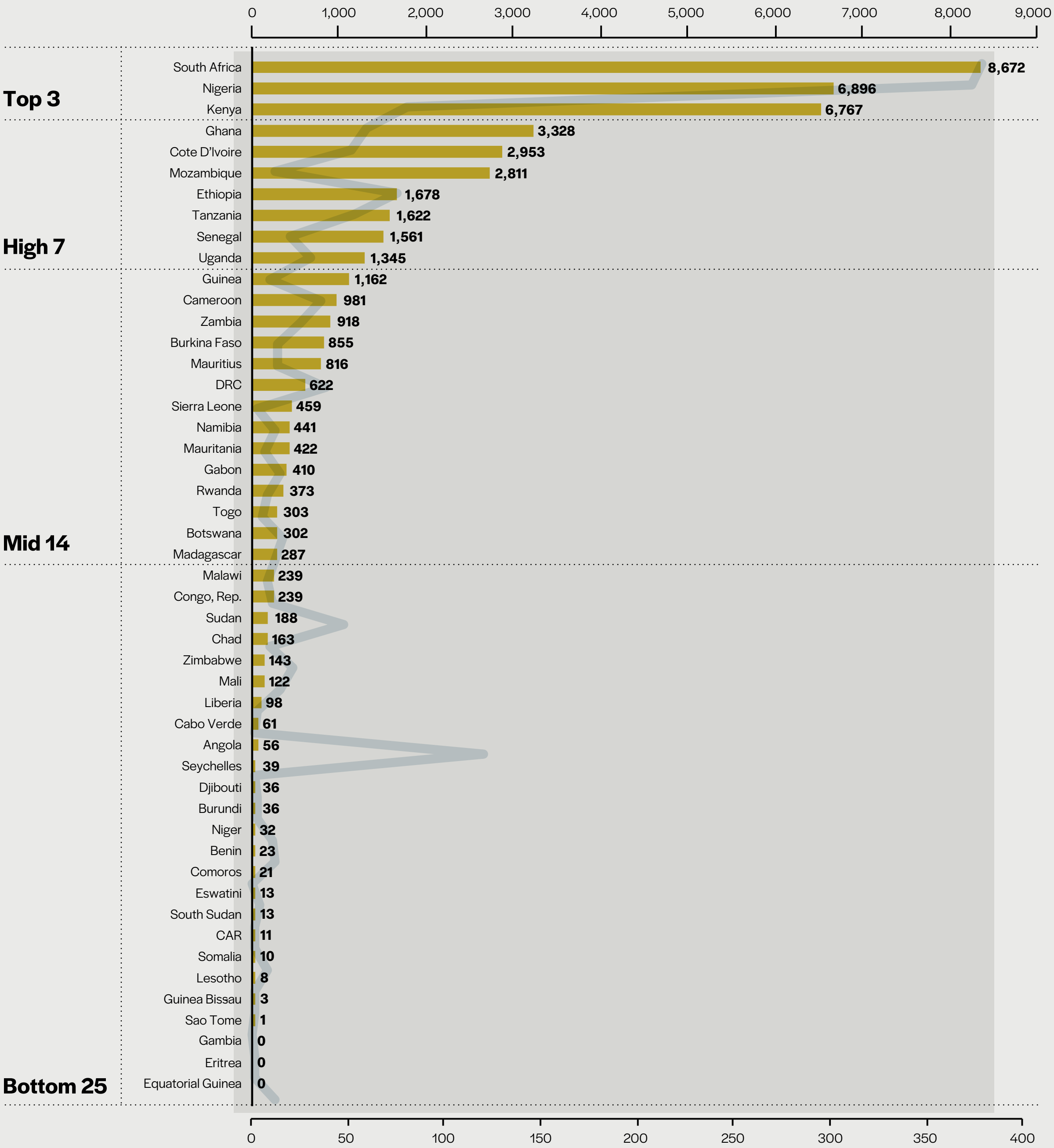
2. **The state of play:** How DFIs are investing in Africa and frontier markets



As it may be expected, DFI investment activity is highly correlated with the GDP of countries. Since 2010, the nine DFIs reviewed have committed US$71.8 billion in sub-Saharan Africa, with one-third of investments targeting two or more countries. The three largest economies (South Africa, Nigeria, and Kenya), which account for 50% of the region's GDP, received 47 percent of DFI country-specific investments (US$22.3 billion). A group of seven relatively large economies (Ghana, Cote D'Ivoire, Mozambique, Ethiopia, Tanzania, Senegal, and Uganda) accounted for commitments of US$15.3 billion, or 32 percent of country-specific investments. An additional fourteen countries (Guinea, Cameroon, Zambia, Burkina Faso, Mauritius, the Democratic Republic of the Congo (DRC), Sierra Leone, Namibia, Mauritania, Gabon, Rwanda, Togo, Botswana, and Madagascar) accounted for commitments of US$8.4 billion, or 18 percent of country-specific investments. The remaining 25 countries combined received just US$1.5 billion, equating to only 3 percent of the total country-specific investments. A correlation analysis reveals a strong positive relationship (r = 0.84) between GDP and DFI investment volumes across countries.

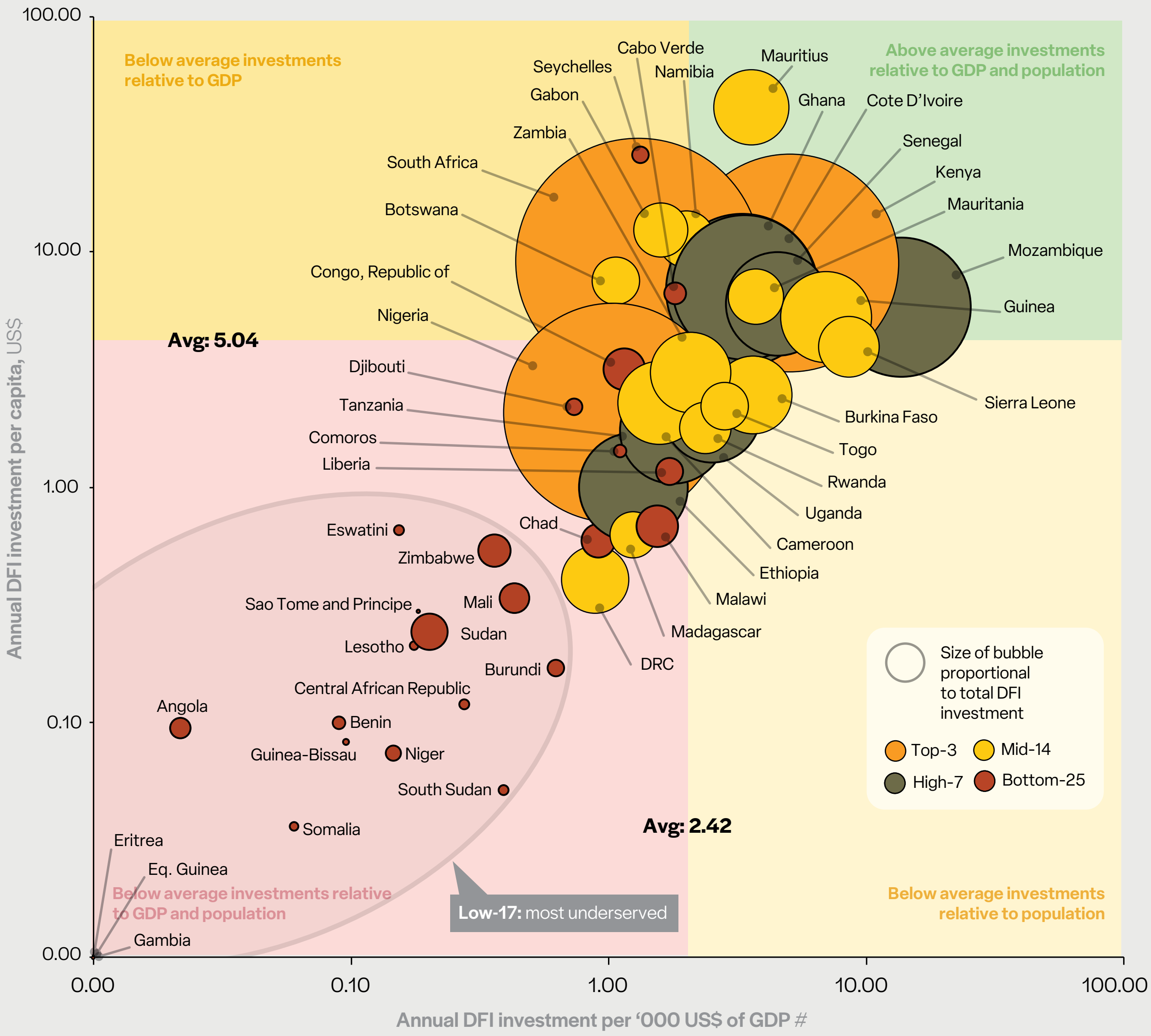
Figure 1 | **Cumulative non-sovereign DFI commitments in Africa per country 2010 to 2023**

in million US$ (top) versus country GDP in 2017 in billion US$ (bottom)



Nevertheless, some countries are outliers in terms of DFI investment relative to their GDP and population. Relative to GDP, as highlighted in figure 2, all Bottom-25 countries received lower-than-average investments, with 17 receiving less than US$1 in DFI investment per US$1,000 of GDP, compared to an average per country investment of US$2.42 per US$1,000 of GDP. Three countries (Equatorial Guinea, Eritrea and the Gambia) characterized (up to 2017 in the case of the Gambia) by authoritarian governments and limited rule of law did not mobilize any investment from DFIs. Angola, despite being one of the largest economies in sub-Saharan Africa, mobilized only US$56 million. Other countries that mobilized below-average investment from DFIs include Mali, South Sudan, Zimbabwe, the Central African Republic, Sudan, Sao Tome and Principe, Lesotho, Eswatini, Niger, Guinea-Bissau, Benin and Somalia, with commitments ranging from US$0.57 to US$0.09 per US$1,000 of GDP. Conversely, countries such as Mozambique[2], Sierra Leone, Guinea[3], Kenya, Mauritius, Senegal, Mauritania, Cote d'Ivoire, and Ghana received larger than average investments relative to their GDP and population.

Figure 2 | **DFI commitments in SSA countries from 2010 to 2023 relative to country GDP and population**

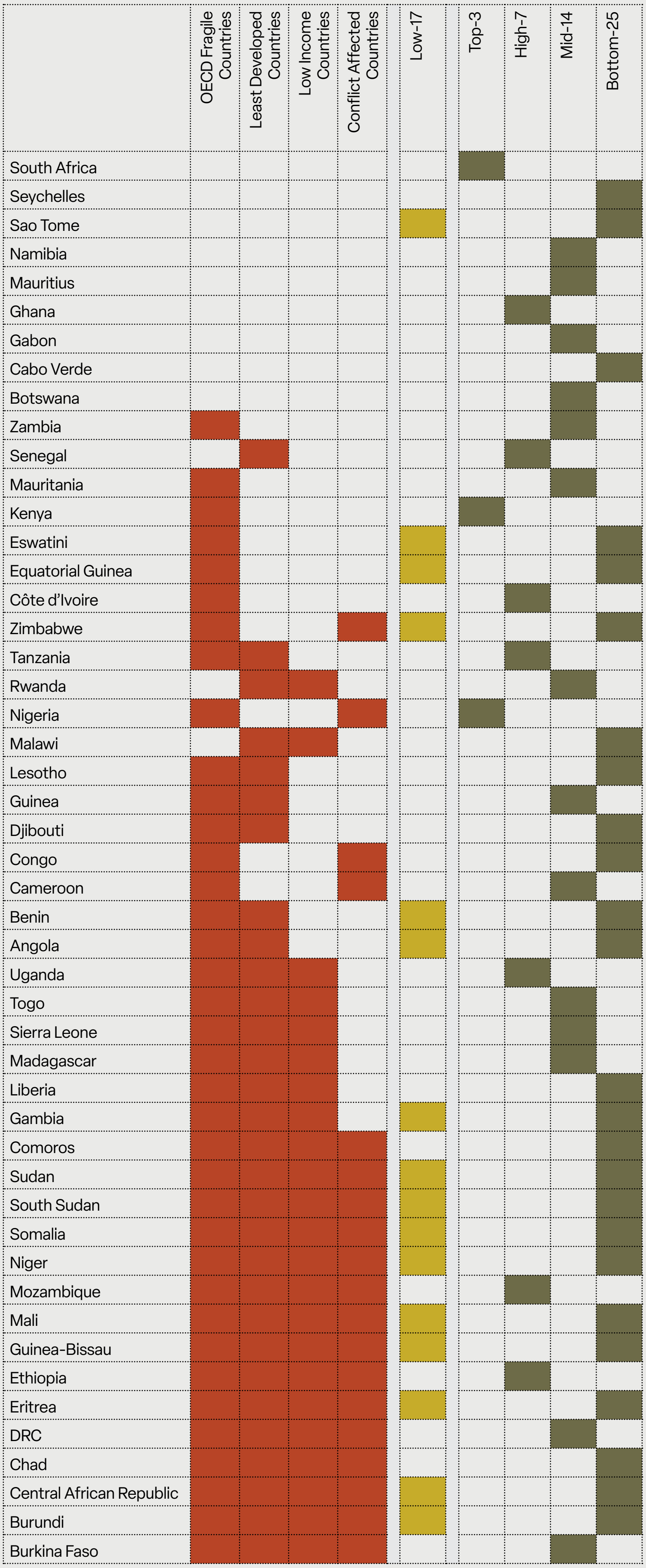


2 Amongst others, Mozambique's DFI Investment figures include US$ 1,500mn of political risk guarantee from DFC for the Rovuma LNG project, and several other large investments in the LNG and power sectors.

3 Guinea's mining sector accounted for two thirds of total DFI investments.

16 out of the 17 most underserved countries fall within the OECD's list of fragile countries. There are many ways of measuring a country's 'fragility' and level of development. These include the OECD list of fragile countries, the UN's classification of least developed and low-income countries, and the World Bank's list of conflict-affected states. The OECD list of fragile countries includes 37 countries in sub-Saharan Africa, of which 16 fall within the group of 17 most underserved countries by DFIs. These results highlight that while underserved countries are often fragile, not all fragile countries are underserved. Further analysis of fragile countries is required to assess in detail why some are more successful than others in attracting DFI investment. However, generally speaking, the absence of internal conflict, the protection of human rights, the presence of economic opportunities, and the implementation of reform-focused policies all contribute to making some frontier countries more successful in attracting DFI investments than others.

Figure 3 | **DFI investments vs development and fragility country groups**

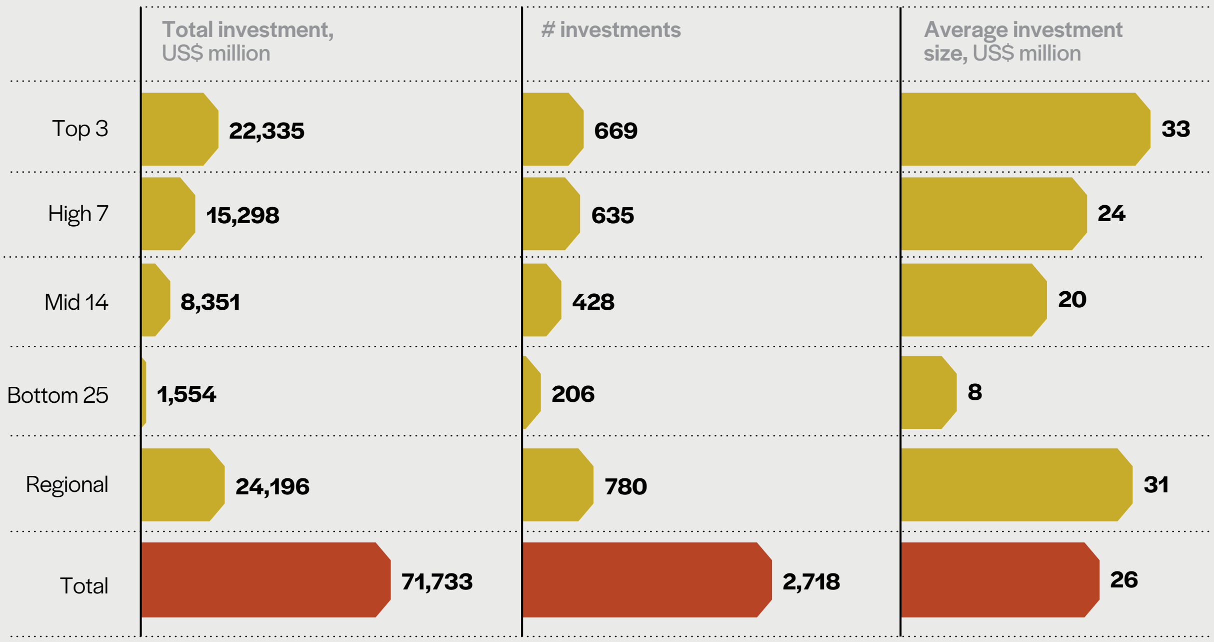


Benin, DRC, Ethiopia, Liberia and Sierra Leone — the five countries where ARIA operates — have had varied results in attracting DFI investments. While Ethiopia has received US$1.7 billion in DFI commitments since 2010, and the DRC US$622 million, both countries saw a slightly smaller than average share of DFI investments when adjusted for GDP and population. Ethiopia's infrastructure and energy sectors attracted some major investments. This includes British International Investment's (BII) and IFC's US$583 million investment in the privatization of the country's telecom sector between 2021 and 2023, and several loans totaling US$197 million from AfDB to Ethiopian Airlines. It also includes multiple trade finance facilities provided by IFC for the import of petrol. In the DRC, major investments include IFC's US$50 million loan to telecom company TIGO and BII's loans to Virunga Energy for a total amount of US$19 million. Sierra Leone, as previously highlighted, attracted a relatively high share of DFI investments relative to its GDP, partially as a result of political and economic reforms being implemented in the country. Nevertheless, most of the funding has been concentrated in a few large transactions. For instance, the Development Finance Corporation (DFC) committed US$267 million to the CECA's gas-to-power project, IFC invested US$60 million in Sierra Rutile, and BII invested US$57 million on three separate transactions with Standard Chartered Bank. During the same timeframe, Liberia received investments from DFIs of US$98 million, equivalent to US$2.02 per US$1,000 of GDP and close to the average of US$2.42 per US$1,000 of GDP. Finally, Benin received investments of just US$23 million, equivalent to US$0.13 per US$1,000 of GDP and well below the average.

Countries attracting more investments are also attracting larger investments. The Top-3 countries registered 669 DFI investments over the period, with an average size of US$33 million. The High-7 countries received 635 investments at an average size of US$24 million. The Mid-14 countries saw 429 investments at an average size of US$20 million, while the Bottom-25 countries received 206 investments at an average size of US$8 million. This pattern is common to most DFIs.

Figure 4 | Number and average size of DFI commitments in SSA

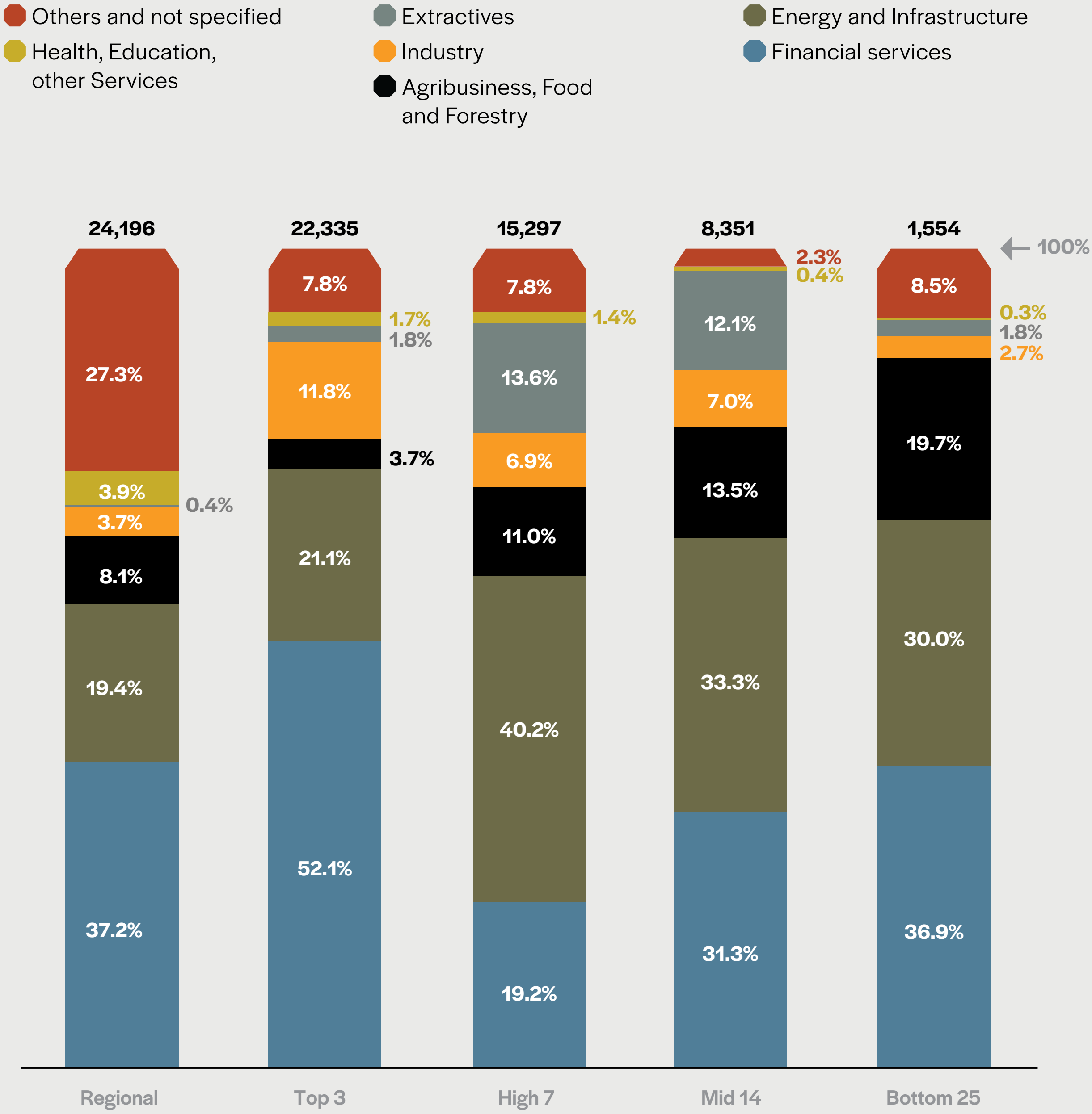
by country group 2010 to 2023



While investments in financial institutions and infrastructure projects account for about two-thirds of total DFI investments across all country groups, commitments in agriculture account for a much larger share of total investments in the Bottom-25 countries. Of the US$72 billion invested in the region over the period, US$27 billion was invested in financial institutions, and US$19 billion in energy and other infrastructure projects. The concentration of capital in these two sectors is higher in the Top-3 and Bottom-25 countries, where they account for 73 percent and 67 percent of total capital invested, respectively. As it may be expected, the share of investments in industrial projects decreases from 12 percent in the Top-3 countries to 3 percent in the Bottom-25 countries, reflecting a small industrial base in the smaller and more underdeveloped economies. Correspondingly, the share of the agriculture sector in total investments grows from 4 percent in the Top-3 countries to 20 percent in the Bottom-25 countries.

Figure 5 | **Cumulative non-sovereign DFI commitments in Africa**

by sector and county group 2010 to 2023, million US$



3. How DFIs approach investing in frontier markets

The data shared in this section is based on responses to a survey carried out with investment professionals from 11 DFIs.

50%

of respondents surveyed report having a dedicated strategy for investing in frontier markets in Africa, and **18%** have a strategy under development

82%

consider the impact performance of their investments to be good, very good or excellent

45%

report having specific KPIs for investments in frontier markets

68%

consider the financial performance of their investments in frontier markets to be fair

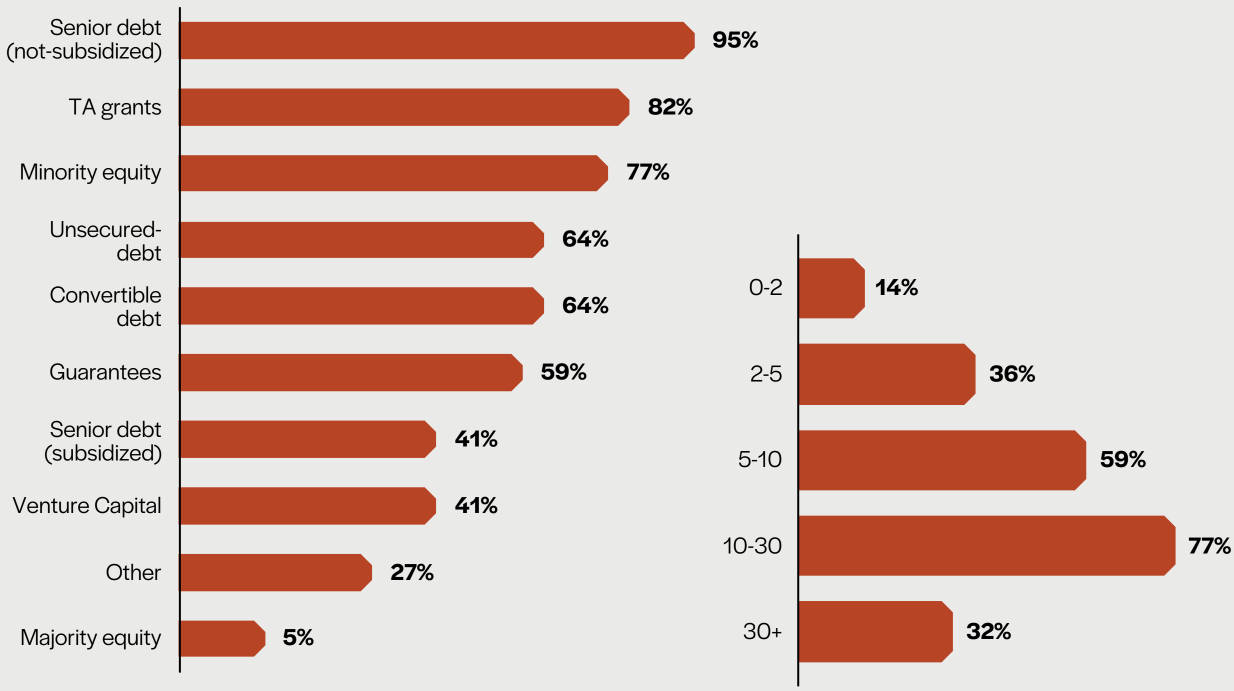
While there is not a shared definition of frontier markets that DFIs use, the organizations covered in the survey all aim to reach frontier and less developed countries. The IFC prioritizes supporting stability and growth in fragile and conflict-affected situations (FCS). FMO, Proparco and Finnfund have specific approaches to the least developed countries (LDCs) and fragile states, using the World Bank's definitions. BII uses the term 'Alpha countries' to describe the most underserved and frontier markets, categorizing them based on an aggregation of economic and development indicators. DFC prioritizes low- and lower-income countries, while the African Development Bank applies a uniform approach across the continent.

Standard products offered in frontier markets include senior debt, technical assistance grants and minority equity, together with unsecured debt, convertible debt, and guarantees. Several DFIs, including BII, DFC, FMO, and Proparco, can make early-stage minority equity investments, though the offering of majority equity is rare. BII, through its Catalyst program, and FMO's Ventures Program, can invest concessional capital into market-shaping projects, with higher risk profiles and lower expected returns. Through Catalyst, BII has funded the likes of Gridworks (which makes equity investments in transmission, distribution, and off-grid electricity in Africa), and MedAccess (a provider of volume guarantees to facilitate distribution of medical supplies). Similarly, Proparco and BIO-Invest can leverage blended finance mechanisms to invest in catalytic transactions at below commercial-equivalent.

Figure 6 | **Products and ticket sizes offered in frontier markets**

A | What products do you offer in frontier markets?

B | What ticket sizes does your DFI finance in frontier markets? (million US$)



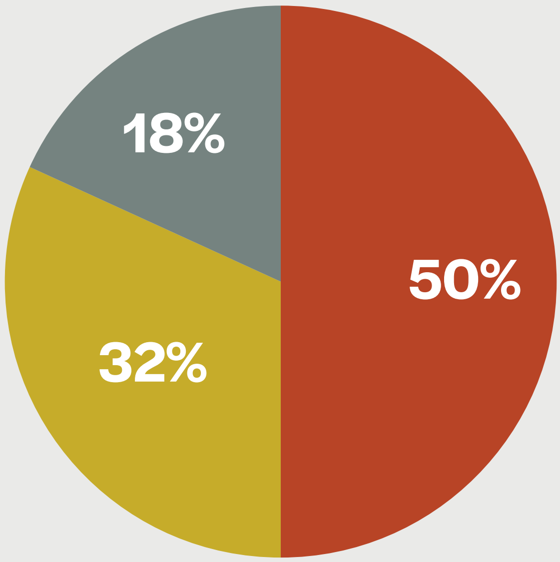
In terms of investment size, the most common range is from US$10 to 30 million, followed by US$5 to 10 million. Fewer DFIs offer smaller tickets (which are typically needed by SMEs in frontier markets), with BIO-invest, Proparco, FMO, Finnfund, and Norfund offering tickets of US$2 to US$5 million. DFIs like FMO and Proparco can make, in limited cases, investments of less than US$2 million. At the other end of the spectrum, several DFIs, such as BII, DFC, FMO and Proparco, make investments of more than US$30 million.

While most DFIs have a specific strategy for frontier markets, they sometimes do not have specific KPIs and approaches. As shown in figure 7, 50 percent of respondents highlight having a specific strategy for frontier markets (and 18 percent have a strategy under development). 45 percent of respondents report having specific products and performance indicators for frontier markets. When specific goals are in place, they are mostly related to investment targets in LDCs and frontier markets.

Figure 7 Strategy and performance indicators specific to frontier markets

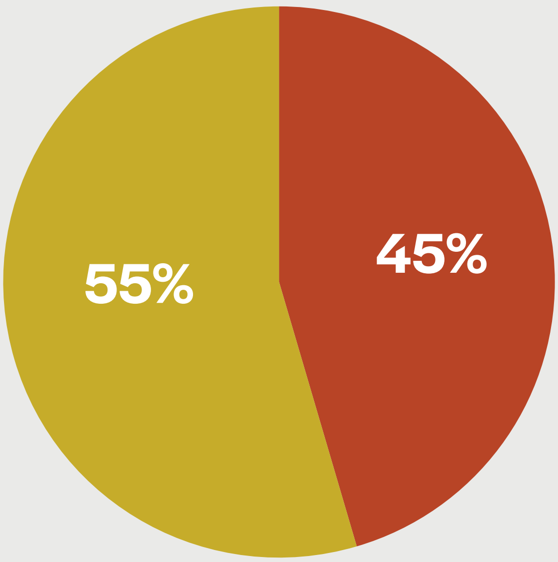
A Does your DFI have a specific investment strategy for frontier markets in Africa?

Yes No Under Development



B Does your DFI define specific KPIs for frontier and underserved markets?

Yes No



DFIs have multiple impact targets and a requirement for investments to be additional. Typical impact targets include job creation, increasing access to essential goods and services, addressing climate change and, more broadly, supporting the UN Sustainable Development Goals. For example, FMO screens for investments that are expected to reduce inequalities (through MSME, women or youth financing) and are climate-friendly (green financing). Meanwhile, BII has targets for reaching Black African-owned companies, women-led businesses, projects with a climate focus, and investments that contribute to poverty reduction and improved livelihoods. Additionally, DFIs see it as imperative not to crowd out local commercial banks. Consequently, they typically invest in projects that, due to their duration or other requirements, would not be funded by local commercial banks.

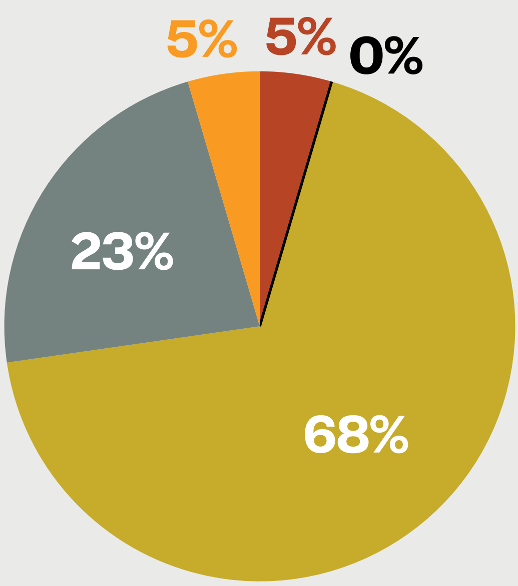
When assessing investments in frontier markets, respondents generally report fair financial performance alongside significant impact. While some DFIs say that default rates in frontier markets are higher than in other markets, 68 percent of respondents assess the financial performance of their investments in frontier markets as fair, and 28 percent say it is good or very good (figure 8). 50 percent of respondents assess the actual impact of their investments as very good or excellent, 32 percent as good, and 18 percent as fair.

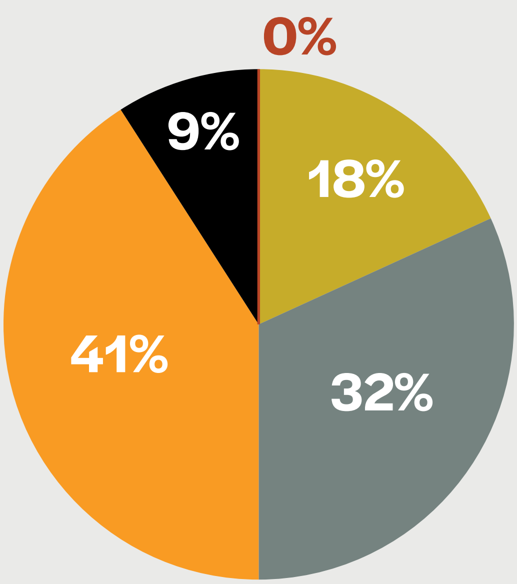
Figure 8 | **Financial performance and impact of DFI investments in frontier markets**

A | How would you assess the financial performance of your investments in frontier markets?

B | How would you assess the impact of your investments in frontier markets?

Poor · Fair · Good · Very good · Excellent





4. What are the barriers to investing in frontier markets

95%

of respondents are 'very interested' or 'interested' in expanding their activities in frontier markets

68%

see currency risks as a major or very significant obstacle

45%

see limited capacity and resources to invest in opportunity identification as a major or very significant obstacle

41%

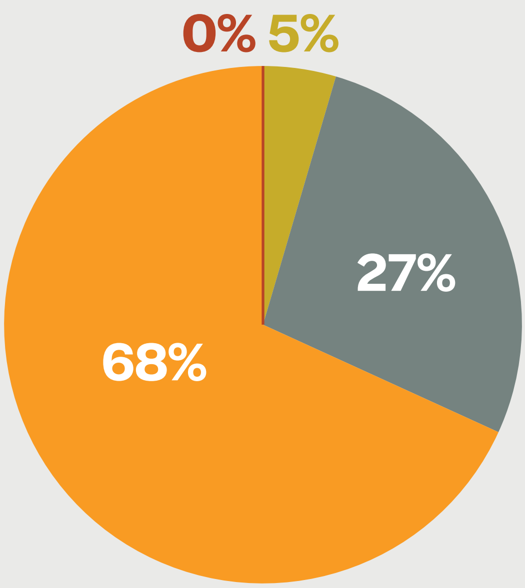
believe that the lack of investment products tailored to frontier markets is a major or very significant obstacle

DFIs are interested or very interested in expanding their activity in frontier markets. While 32 percent of respondents say their organization has limited or moderate activity in frontier markets, 95 percent of respondents highlight being interested or very interested in expanding their activity in these markets.

Figure 9 | **DFIs' interest in frontier markets in Africa**

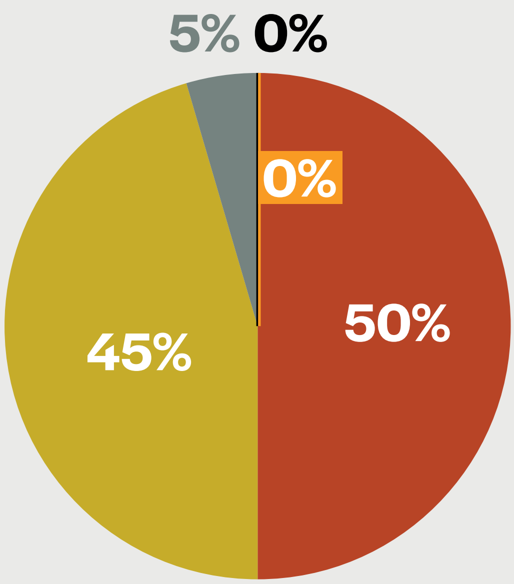
A | To what extent is your DFI currently active in frontier markets in Africa?

Not Active, Limited Activity, Moderate Activity, Extensive Activity



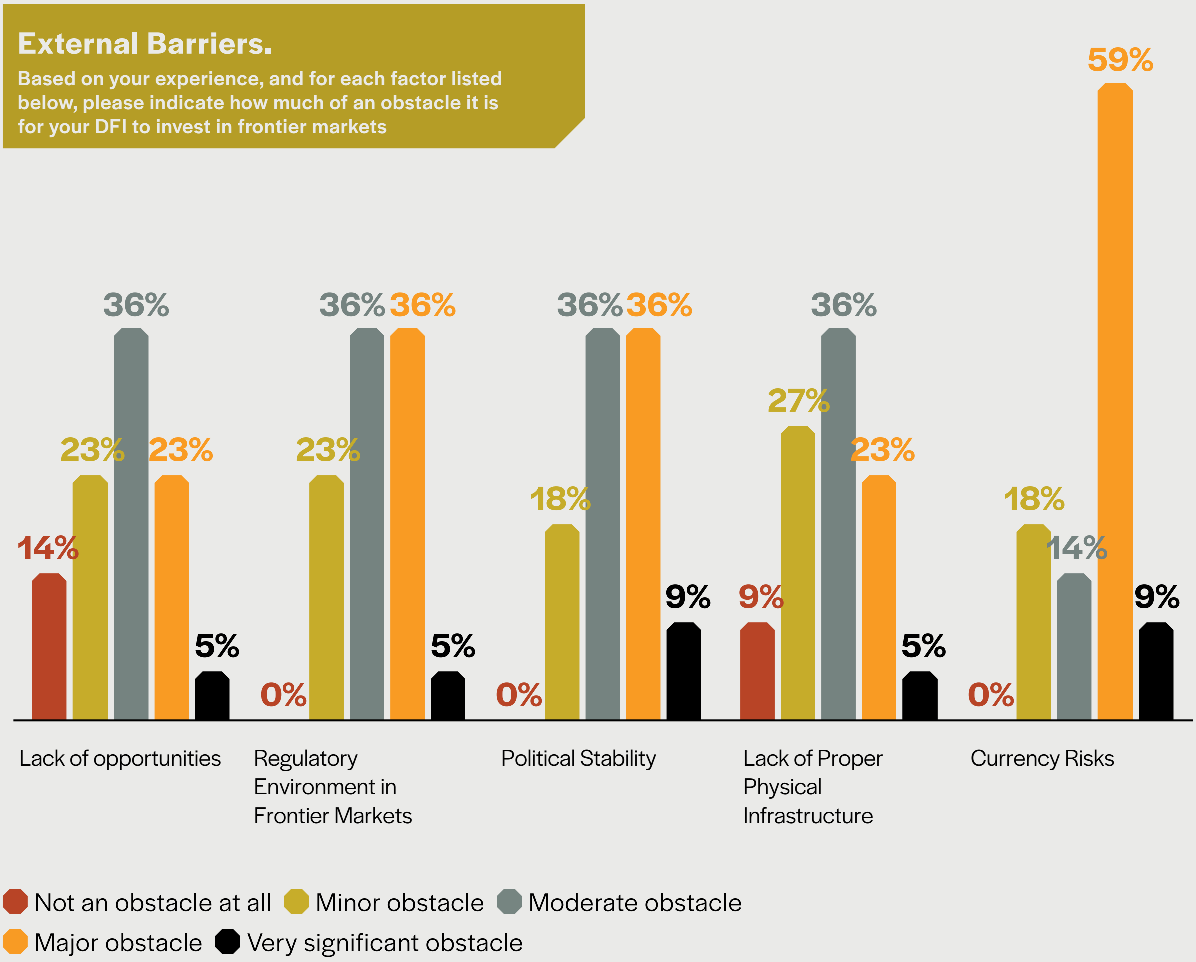
B | How interested is your DFI in expanding its investment activity in frontier markets in Africa?

Very Interested, Interested, Neutral, Not Interested, No Comment



There are both internal and external barriers that limit DFI investment in frontier markets. Externally, currency risk is identified as the most significant hurdle (figure 10). Political instability and insecurity, a poor regulatory environment and compliance (resulting in unreliable corporate governance and financial information), and the lack of proper physical infrastructure are identified as major or moderate obstacles by most respondents. Energy projects, for example, which typically need a reliable off-taker, are particularly affected by the poor financial performance of state-owned utilities. The lack of investment opportunities is generally only seen as a moderate obstacle.

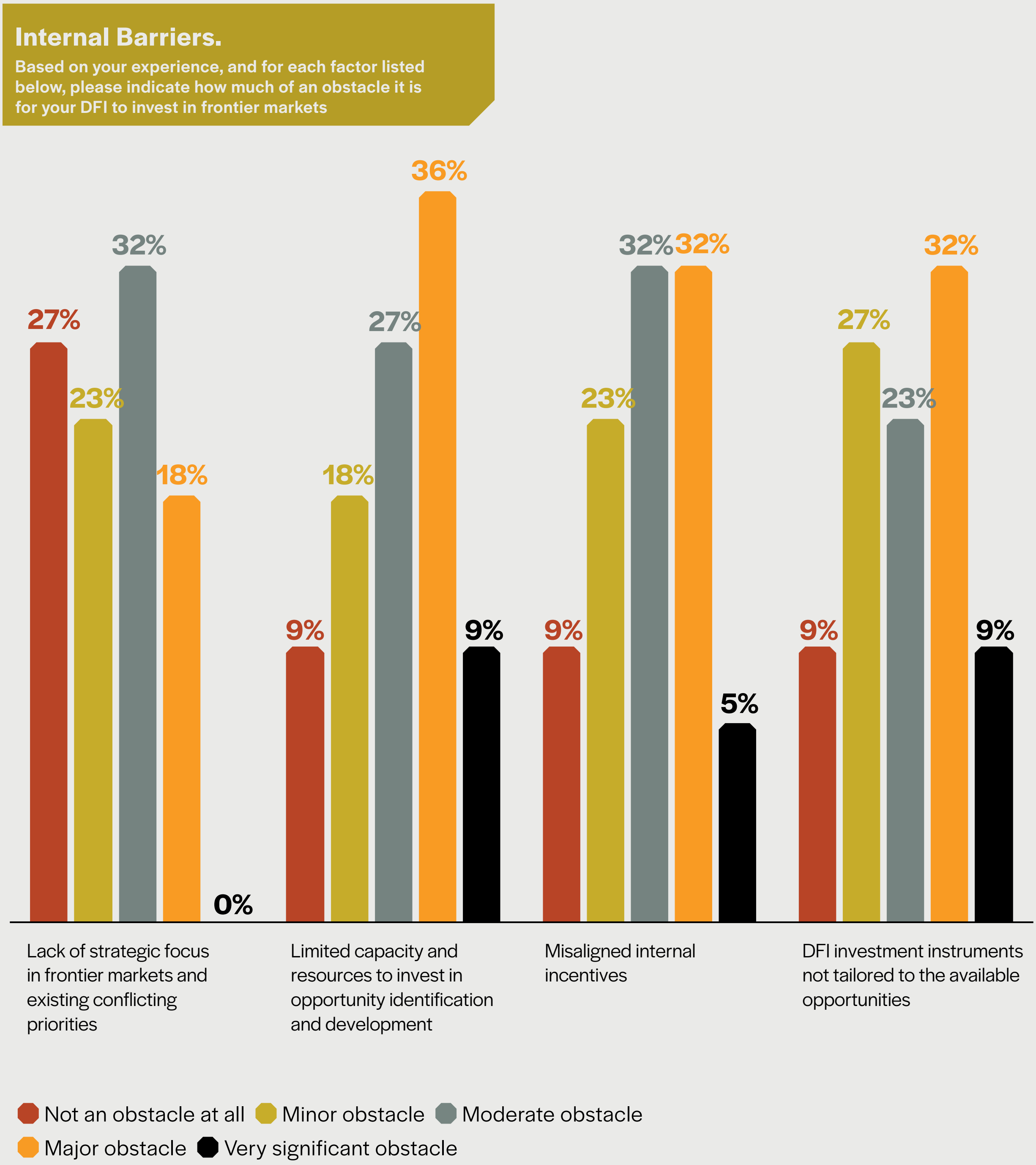
Figure 10 | External barriers to investment in frontier markets



Among internal barriers, limited capacity and resources to invest in pipeline development, misaligned internal incentives, and existing investment instruments not fully tailored to the needs of frontier markets are most often identified as major or moderate obstacles (figure 11)**.** A lack of strategic focus in frontier markets is mostly identified as a moderate or minor obstacle. Respondents suggest that providing flexibility for smaller ticket sizes and a greater risk tolerance through venture capital and venture debt products may result in more transactions completed in frontier markets.

Several respondents highlight that internal incentives should be better aligned with the goal of promoting investments in frontier markets. For instance, staff performance and promotions should be assessed on metrics that go beyond size and financial performance of transactions executed, as both tend to be lower in less developed markets. Despite a growing interest in expanding activities in frontier markets, respondents note that increasing business integrity and environmental and social requirements can pose challenges for companies seeking capital.

Figure 11 | External barriers to investment in frontier markets



5. How can DFIs successfully invest in frontier markets?

Lessons from case studies

The survey reveals several key characteristics of successful investments in frontier markets. Collaboration among DFIs in identifying and executing investments is crucial, as it helps to distribute and minimize risks. Equity investments in these markets can lessen the risk for partners, stimulate further investments, and deliver significant development impact. Likewise, identifying strong project sponsors, establishing solid working relationships, and engaging partners early in the process can all be vital to success. These elements, among others, are illustrated by the following case studies.

1 Collaboration helps DFIs share and minimize risks

As many of the examples in this publication underline, DFIs often partner on investments in frontier markets. Partnerships allow organizations to share resources and expertise. For instance, FMO's understanding of the contextual factors around the KivuWatt project on Lake Kivu in Rwanda, allowed it to offer an unsecured loan of US$31.25 million which was instrumental in mobilizing additional financing from DFIs with no prior exposure to Rwanda. Similarly, IFC's historical track record with Indorama and the fertilizer sector in Nigeria reassured DFC and led to the commitment of US$250 million in the ongoing expansion of the company's fertilizer manufacturing plant.

2

Equity investments help reduce the investment risk of partners, catalyze major investments and help deliver significant development impact

For instance, in 2021, BII created a joint venture with the world's third-largest port operator, DP World. The partnership aims to strengthen economic development across the African continent by investing in improving and expanding ports, including a port in Berbera, Somaliland, of which DP World owned 51%. Part of BII's US$325 million equity investment helped facilitate a first-of-its-kind investment in Somaliland. The expansion of the Port of Berbera is expected to facilitate trade equivalent to nearly 27% of GDP and 75% of total trade in Somaliland by 2035, supporting 53,000 indirect jobs. In Ethiopia, the Berbera port is expected to enable trade equivalent to 8% of GDP and 32% of national trade by 2035, supporting 1.2 million jobs.

3

Partnering with a technically and financially strong sponsor helps minimize risk for lenders

The methane-to-power KivuWatt project on Lake Kivu in Rwanda, commissioned in 2015, was sponsored by Contour Global, a well-capitalized project developer. The project was funded by several DFIs including FMO (which provided US$32 million), AfDB (US$25 million), the Private Infrastructure Development Group's Emerging Africa Infrastructure Fund (US$25 million), BIO (US$10 million), which combined contributed 43 percent of the project cost in debt. The power plant has been used at 95% of its capacity since its commissioning and represents 25 percent of total grid electricity sales in Rwanda. This has greatly improved the grid-wide security of supply, reduced electricity imports, improved the financial performance of the Rwandan energy sector, and contributed to the improvement of the country's energy security and economic development opportunities. The project developer's expertise and financial security allowed it to absorb cost overruns caused by construction delays.

4 DFI investment can support the growth of local companies and their international expansion, creating impact locally and beyond

IFC and Proparco have invested in Nuru, a mini-grid developer based in the DRC and are helping the company to scale. Nuru's utility-scale solar mini-grids are designed to provide 24/7 reliable and renewable energy to the communities where they are installed. In the Ndosho district of Goma, Nuru's 1.3MW solar PV plant provides affordable and reliable electricity to around 3,000 households and businesses. In 2023, the company completed a US$40 million Series-B fundraising round to build new mini-grids across the DRC. Another example of a DFI assisting a company to scale is IFC's support of Singapore-based Indorama's entry into 'high-risk' markets, which helped the business grow from a mid-sized, domestically focused business into one of the world's fastest-growing petrochemical and fiber companies. In 2016, Indorama completed a 1.4 million metric ton per annum (MMTPA) urea fertilizer facility in Nigeria, making it the first major fertilizer export plant in the country. IFC provided US$225 million in debt and mobilized US$150 million from several DFIs. Subsequently, in 2018, IFC arranged financing of US$1 billion to finance the plant's expansion to 2.8 MMTPA.

5 Technical assistance and close partnerships can help modernize critical sectors

DFI investments in the Zambia National Commercial Bank (Zanaco) are helping it modernize and provide greater support to the country's agricultural sector. Zanaco is a leading indigenous bank in Zambia with assets of US$2 billion[4]. The bank offers retail and corporate banking services, including to high-growth startups and SMEs. 45.59 percent of Zanaco's capital is owned by Arise B.V., an African investment company backed by Norfund and FMO. The bank borrowed €42.5 million from EIB between 2018 and 2021, and borrowed US$50 million from BII in 2022. The funds have enabled Zanaco to provide a direct lending line for micro-SMEs and climate-related projects. Zanaco has also benefited from a technical assistance package aimed at building climate and gender investment capacity within the bank. Similarly, in August 2023, FMO and BII teamed up to lend US$40 million to Dashen Bank, Ethiopia's oldest private bank, for on-lending to agriculture exporting clients. Dashen is the second-largest private bank in the country. It has assets of US$2.6 billion and serves almost 4 million customers. Since investing, FMO and BII have worked closely with Dashen and funded technical assistance to help the bank develop improved ESG standards.

4 Zambia National Commercial Bank Plc (Zanaco.zm) 2022 Annual Report". Zanaco. Zambia National Commercial Bank Plc. https://drive.google.com/file/d/1BHUaixEdj-NsZqMBD3D-irfGByG6Z3nU/view

6

Early engagement in project development helps gain a competitive edge

BII partnered with Vodacom and Sumitomo early on to bid for Ethiopia's first independent telecoms license, which was awarded in 2021. While other DFIs took a more conservative approach, preferring to wait for the tender results before offering financing to the winning consortium, BII committed to investing US$213 million in equity to contribute to project development. Early project engagement allowed BII to monitor and contribute to the sector's regulatory reform, de-risk the project and bring an impact investing lens.

7

Beyond funding capital investments, DFIs need to ensure that greenfield projects have enough access to working capital to quickly operate at scale

A DFI's investment in a shea butter plant in West Africa encountered challenges due to limited working capital. The project, developed by a local industrial group, involved the construction of a state-of-the-art facility partially financed by a loan from a DFI. The company invested in the development of its supply chain and secured a sales agreement with a major international off-taker. However, once construction was completed, the company initially struggled to operate at scale due to limited access to working capital to finance the purchase of inputs. This issue came from the business' lack of an operational track record and the absence of facilities to support companies in earlier stages of operations.

8

Improved corporate governance can facilitate and accelerate the investment process

Risks associated with poor corporate governance and regulatory compliance limit companies' abilities to tap into non-traditional sources of finance. Corporate governance risk can come from a lack of internal control systems that limit the ability of the entrepreneur to monitor their company, and the capacity of an investor to protect its investment. Regulatory compliance refers to gaps in meeting existing regulations – for example, in terms of financial accounting and reporting, tax payment or labor management. Identifying issues at an early stage and supporting target companies in implementing corrective actions can accelerate the fundraising process and avoid situations where investments are derailed at the due diligence stage after significant resources have already been committed.

9

Investments in SME funds allow DFIs to reach companies they could not serve otherwise – but their success depends on supporting competent fund managers

While they can be effective in reaching smaller businesses, investments in SME funds require identifying a well-resourced fund manager, with a clear focus, on-the-ground presence, and the ability to deliver. Multiple DFIs such as BII, BIO Invest, FMO, IFC, Norfund, Proparco and Swedfund, have invested in several generations of the African Rivers Fund, a private equity growth and expansion fund managed by XSML, a fund manager active in Central and East Africa. XSML has a good environmental and social management system in place, provides ESG training to all its investment managers and works with several consultants to assess the portfolio companies and to develop environmental action plans. Despite the challenges in these markets, the manager has been able to refine and hone its underwriting approach over time, matching the financing needs of local entrepreneurs. These factors have helped contribute to DFIs investing in several funds managed by XSML. Similarly, DFIs such as BII, DFC, FMO, IFC, SIDA, SDC and FCDO, have invested in SIMA's Energy Access Relief Facility (EARF). EARF is a concessional debt fund that targets SMEs in the energy access sector that experienced financial challenges during the COVID-19 crisis. Such businesses would have been very challenging for the DFIs to reach directly. Since its launch in September 2021, the fund has allocated around 121 loans ranging from US$50,000 to US$2.5 million. The choice of SIMA (an impact-driven asset manager) as a fund manager has been highlighted as critical, due to their proven record of investing in and supporting energy access companies that serve bottom-of-the-pyramid consumers.

6. How DFIs can foster investment in frontier markets

77%

of respondents say streamlining investment processes for smaller companies would be helpful

68%

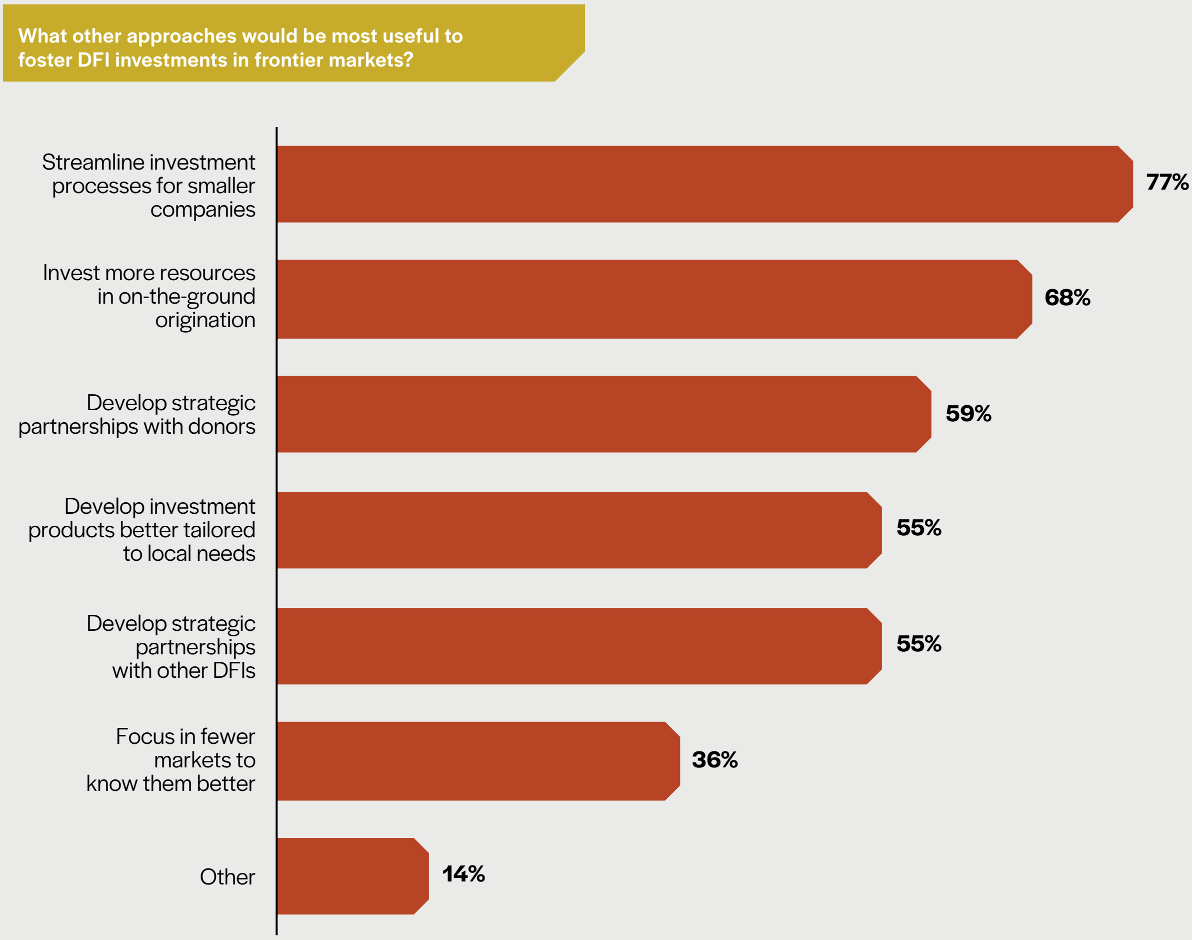
say investing more resources in on-the-ground origination would help

91%

think more blended finance would be beneficial

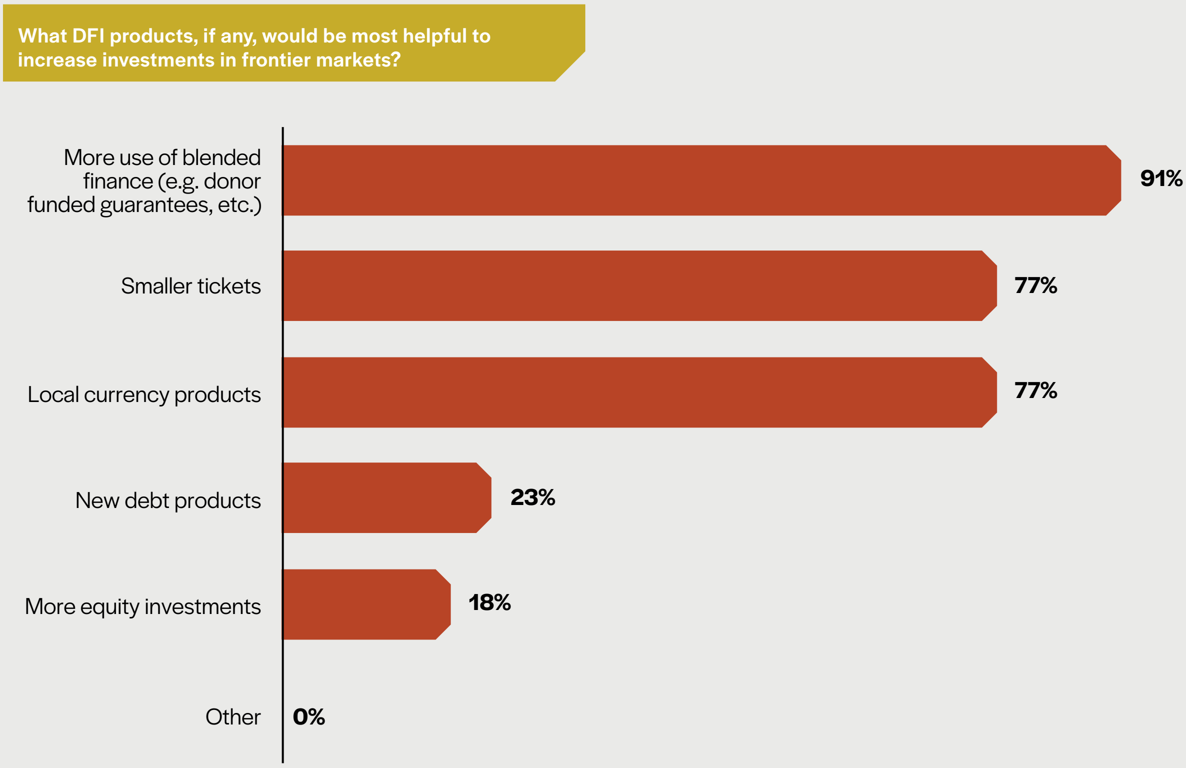
Survey respondents highlight multiple approaches that can contribute to increasing DFI investments in frontier markets. 77 percent of respondents support streamlining investment processes for smaller companies, focusing on making procedures more efficient and accessible (figure 12). 68 percent of respondents highlight the need to invest more resources in on-the-ground origination. Most also point to the potential of developing strategic partnerships and enhancing collaboration, both with other DFIs and donors. Some believe a more focused approach to fewer countries may be required.

Figure 12 | Approaches that can help increase investment in frontier markets



55 percent of respondents identify better tailored investment products as an important factor in fostering greater investment into frontier markets. Examples of products with strong support include blended finance instruments, such as donor-funded guarantees (91 percent), lower ticket sizes (77 percent) and local currency products (77 percent) [figure 13]. New debt products and more equity investments received less support, with 23 percent and 18 percent respectively saying they would be helpful.

Figure 13 | Products that can help increase investment in frontier markets



7. Conclusions

The data shared in this report shows how, since 2010, DFI investments have been highly correlated with a country's GDP and have typically been concentrated on sub-Saharan Africa's largest markets. This is understandable given that larger, more industrialized countries can absorb more capital. When accounting for GDP and population size, though, several frontier (and typically fragile) countries remain largely underserved.

Encouragingly, across the board, DFIs are taking an active interest in investing more in frontier markets in Africa. The report underlines important lessons from case studies, emphasizing the value of identifying robust partners, early engagement, and fostering strong collaborative platforms for successful outcomes in frontier markets. Notable examples include partnering with a technical expert for an energy project in Rwanda, early investments in Ethiopia's telecom sector, and collaborative efforts to support SMEs during the COVID-19 crisis.

Looking ahead, the survey points to a way forward for strategies that can boost investment from DFIs in frontier markets. Developing more efficient processes for investing in smaller companies and dedicating more resources to on-the-ground origination are the two most popular approaches for delivering greater investment. Meanwhile, using more blended finance, providing smaller ticket sizes and local currency products are seen as the most helpful strategies from a product perspective.

Future publications in this series will delve deeper into these issues and explore strategies to increase investment in frontier markets.

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Foundations of Growth

DFI investments in frontier markets:
Activities, lessons learned and approaches to fostering investment

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Contact

To learn more about ARIA and to explore partnership opportunities, please visit our website at **www.ariainvests.org**. ARIA has country representatives in Sierra Leone, Liberia, and the DRC, with plans to add more in Ethiopia and Benin. For inquiries regarding potential opportunities, please feel free to contact the ARIA team currently implementing the program.

Contact us at aria@ariainvests.org

About ARIA

The Africa Resilience Investment Accelerator (ARIA) exists to unlock investment in frontier markets in Africa. It was launched in 2021 at the G7 summit. It is sponsored by the UK's development finance institution (DFI), British International Investment, and the Netherlands' DFI, FMO (the Dutch entrepreneurial development bank).

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