DCED member exchange on finance

In person meeting, Geneva ,16 June 2025

Meeting Minutes

Participants

1. Susanne Thiard-Laforet (ADA)
2. Gottfried Traxler (ADA)
3. Harry Devonshire (Argidius Foundation)
4. Giang Duong (FAO)
5. Cormac Quinn (FCDO)
6. Mika Vehnamaki (Finland MoFA)
7. Serena Bassi (FMO)
8. Alan Duggan (FMO)
9. Claire Nyambori (FMO)
10. Rosalind Tan (FMO)
11. Tobias Leeg (GIZ)
12. Tobias Zeller (GIZ)
13. Martha Melesse (IDRC)
14. Nic van der Jagt (IKEA Foundation)
15. Patricia Richter (ILO)
16. Ines Aguiar Machado (ITC)
17. Mumbi Maina (ITC)
18. Karen Suassuna (ITC)
19. Shuya Minzuno (JICA)
20. Kota Tsudo (JICA)
21. Takafumi Ueda (JICA)
22. Pascal Fabing (LuxDev)
23. Lisanne van Beek (Netherlands MoFA)
24. Joes de Natris (Netherlands MoFA)
25. Marleen van Ruijven (Netherlands MoFA)
26. Peter Beez (SDC)
27. Valérie Donzel (SECO)
28. Anette Andersson (Sida)
29. Sara Spånt (Sida)
30. Elena Mayer-Besting (UN ESCAP)
31. Bartol Letica (World Bank)

Harald Bekkers, Melina Heinrich-Fernandes
Muneeb Zulfiqar (DCED Secretariat)

Agenda Items

1. **Welcome and introductions**
2. **Overview of discussion to date on SME finance and DCED's possible 'niche':** Key findings from the member consultation in May 2024 and the DCED Global Seminar in October 2024.
3. **Pipeline as a public good: Examples of collaboration between investors, donors and local actors for market creation.** Presentation by Alan Duggan on how FMO seeks to bridge the gap between early-stage PSD/MSD SME grant funding and more commercial investment.
4. **Impact Measurement and Management (IMM) at Investee/Grantee Level**: **How to avoid driving blind and achieve systemic change more sustainably.** 'Pitch' by Peter Beez on the importance of using the lessons learned from the DCED Standard to improve the quality of (self-reported) impact data at the investee/grantee level to create an 'impact economy'.
5. **Updating the DCED knowledge offer on BDS and finance more broadly.** 'Pitch' by Harry Devonshire.
6. **Conclusions and way forward**

v. 9 July 25

1. Welcome and introductions

The session, which was the first in-person thematic meeting of DCED members on the topic of finance, was opened by Harald Bekkers (DCED Secretariat); all participants then introduced themselves.

2. Overview of discussion to date on SME finance and DCED's possible 'niche'

Harald Bekkers provided a brief overview of how DCED has engaged on the topic of SME finance over the last three decades. As with other topics, the DCED's guiding principle has always been to avoid duplicating the efforts of other institutions and platforms, i.e., to add value where it is uniquely positioned to do so. For example, when CGAP spun off from DCED in 1995, DCED no longer actively pursued a microfinance agenda. Because the impact investing 'revolution' soon resulted in the establishment of the Global Impact Investment Network (GIIN) in 2009, DCED primarily focused on selected measurement aspects of impact investing.

The interest in Business Development Services (BDS) in the second half of the 1990s sparked a 'revolution' in the form of the shift towards 'indirect' implementation, facilitation and what would become systems thinking. The lack of traction of early BDS programming, combined with the success of Markets for the Poor (M4P) initiatives with an emphasis on embedded services, resulted in what could become Market Systems Development (MSD)—an approach that is strong on systems and facilitation, strong on embedded services and some transacted services (e.g., vocational training), particularly in agricultural value chains and some (service) industries, but less knowledgeable on BDS practices and SME finance.

This gap in PSD practice is mirrored in a finance gap for SMEs on the ground, which is also dubbed the 'missing middle' (or better: the many missing middles). It is difficult for SMEs to obtain access to finance between USD 100,000 to USD 2M. This is caused by the fact that the market for SME finance—including actors, instruments, practices, regulations and market data—remains underdeveloped. In other words, the 'missing middle' refers to financial instruments *and* the institutions that could deliver these. In the DCED member surveys 2024 and 2025, SME finance surfaced as a member priority.

In May 2024, DCED organised an online member consultation on SME finance to better understand member priorities and where they felt DCED could add most value. All twelve members present described initiatives to reduce the SME finance gap, further strengthen inclusive microfinance markets, or better capture investment impact. Both the motivations for, and the instruments used to, achieve these ambitions varied between members. Motivations included a desire to reduce Technical Assistance (TA) and grants for PSD, better connect PSD to Development Finance Institutions (DFIs), better leverage private and/or commercial finance, stimulate systemic SME financial market development, or combination of the above. Instruments used included technical assistance (to helps banks, local capital allocators, BDS service providers innovate at the last mile, manage costs, access funders), guarantees (to reduce risks, costs), blended finance (same), impact-linked finance (to stimulate an impact orientation) and impact investing. Further distinctions can be made in terms of which finance is targeted: local, private, commercial, or institutional. For more details, please refer to the meeting minutes.

The box below summarises key questions emerging from the May 2024 member consultation:

1. Systemic financial market development for SMEs (comparable to how the microfinance sector was built up). This includes:

- ✓ Support to banks to innovate, segment SME markets, develop last-mile products and processes (including regulatory reform required for this).
- ✓ Support to Local Capital Providers (to help diversify the ecosystem in terms of types of financial products such as equity, mezzanine) in terms of establishment and improving fund economics (by reducing the time to attract funds, standardising legal requirements, and thereby reducing costs, standardising social standards and reporting requirements and thereby reducing costs).
- ✓ Improving capital flow through local (currency) capital market development and reform (this includes strengthening local market actors such as credit rating agencies) and best practice use of (blended) financial instruments to reduce costs and risks.
- ✓ Support the establishment of finance (aggregation and wholesaling) platforms to match supply and demand for diverse investment sizes and risk appetites.
- ✓ Support the digitalisation of the value chain, including transactions and employment, to create transaction records that facilitate access to finance.
- ✓ Support for the financial inclusion of underserved market segments (women, youth, etc).
- ✓ Creating cost-effective access to business services (embedded, transacted, subsidised).

2. Bridging the gap between donors (and donor-funded PSD/MSD) and (developmental) finance. This includes:

- ✓ How PSD/MSD can originate deals, support pipeline development for DFIs and, vice versa, how DFIs can support PSD/MSD.
- ✓ How systemic private sector development and systemic financial sector development (as described above) can intersect and benefit each other.
- ✓ Coordination and exchange between the 'PSD/MSD world' and finance sector bodies and experts.
- ✓ How donors can more effectively leverage private capital by pooling resources, agreeing on instruments and conditions.

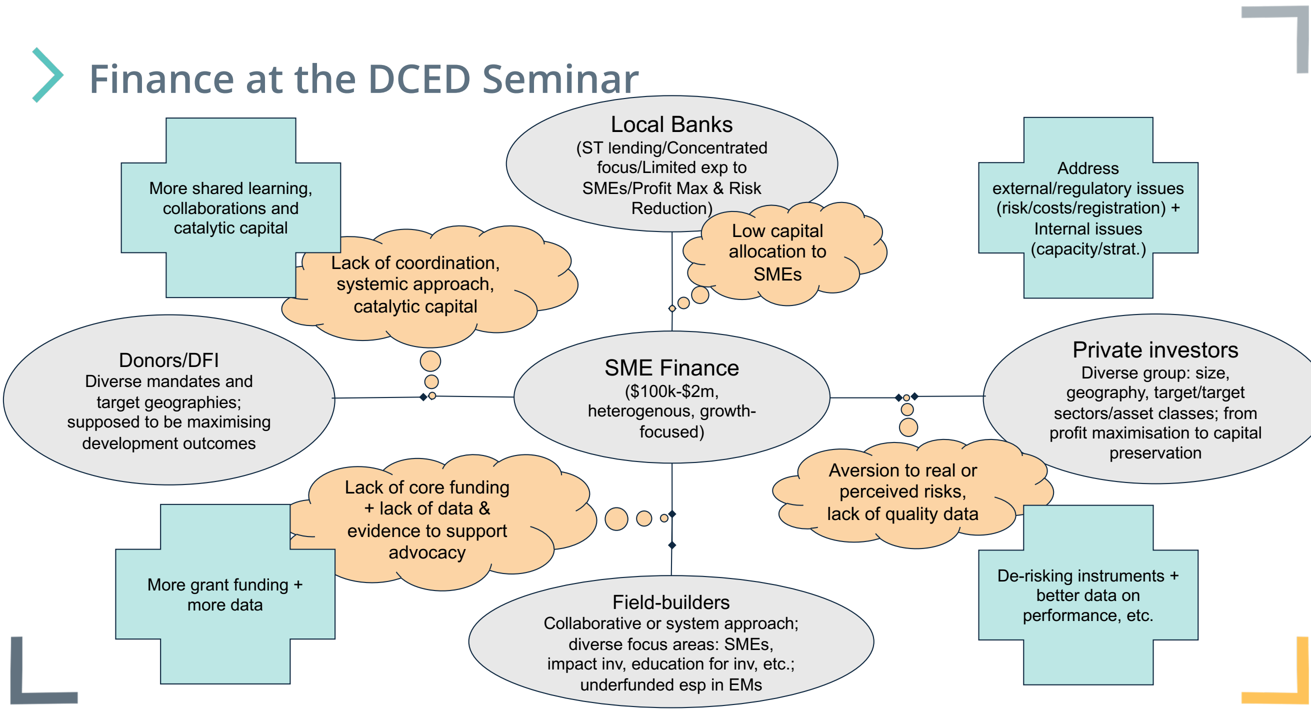
3. Good practices for measuring the impact of financial market development. This includes:

- ✓ Tracing the impact of financial instruments through several layers of actors on SMEs or households (this includes the notion that for some layers, information may be self-reported or 'lean').
- ✓ Assessing the positive and negative effects of financial inclusion of those previously underserved
- ✓ Measuring the effect of policy reform on financial market development.
- ✓ Measuring system change in the financial sector in support of SME financing.
- ✓ Understanding SME demand for finance (different SME segments, different gaps, different options).
- ✓ Sharing lessons learned: what worked, what did not, and why.

In an initial response to members' interests, four SME finance sessions were organised as part of the DCED Global Seminar in October 2024. Together, these formed the Seminar stream that received the highest number of participant votes for the most interesting Seminar sessions. These sessions were:

1) **Innovative Pathways for Systemic SME Financing.** This scene-setting plenary brought together the constraints that need to be tackled to create functional SME finance markets. This includes innovation in banking practices and regulatory reform, more market data on risks and performance/returns, more efficient access to local and international finance, institutional support for non-traditional capital allocators, and donor and DFI coordination (please refer to the figure below).
2) **Unlocking Synergies between PSD and Development Finance.** This session focused on the Building Bridges report from the Africa Resilience Investment Accelerator (ARIA). This report discusses cases and lessons learned from collaboration between PSD initiatives and DFIs. A key outcome is the need for proximity and a shared language to understand each other's needs.
3) **Financial Inclusion of Small and Women-led SMEs.** This session focused on the practices developed by banks and non-traditional local capital allocators to engage with SME clients. Like with other last-mile market development efforts, innovation and commitment (and targeted facilitation) are essential.
4) **Let's Talk Business: How to Mobilise Commercial Finance to Scale Impact.** In this session, PSD practitioners were able to pitch SMEs, which in their eyes deserved access to finance to scale up, to financial experts. The lesson learned here was obvious: none of the PSD practitioners could produce the financial statements that the financial experts first asked for. PSD programming should include creating financial track records with SMEs if the ambition is to mobilise finance for scale up.

The figure below guided the plenary panel discussion in the Innovative Pathways for Systemic SME Financing and brings together key constraints that need to be addressed to develop markets for SME finance.



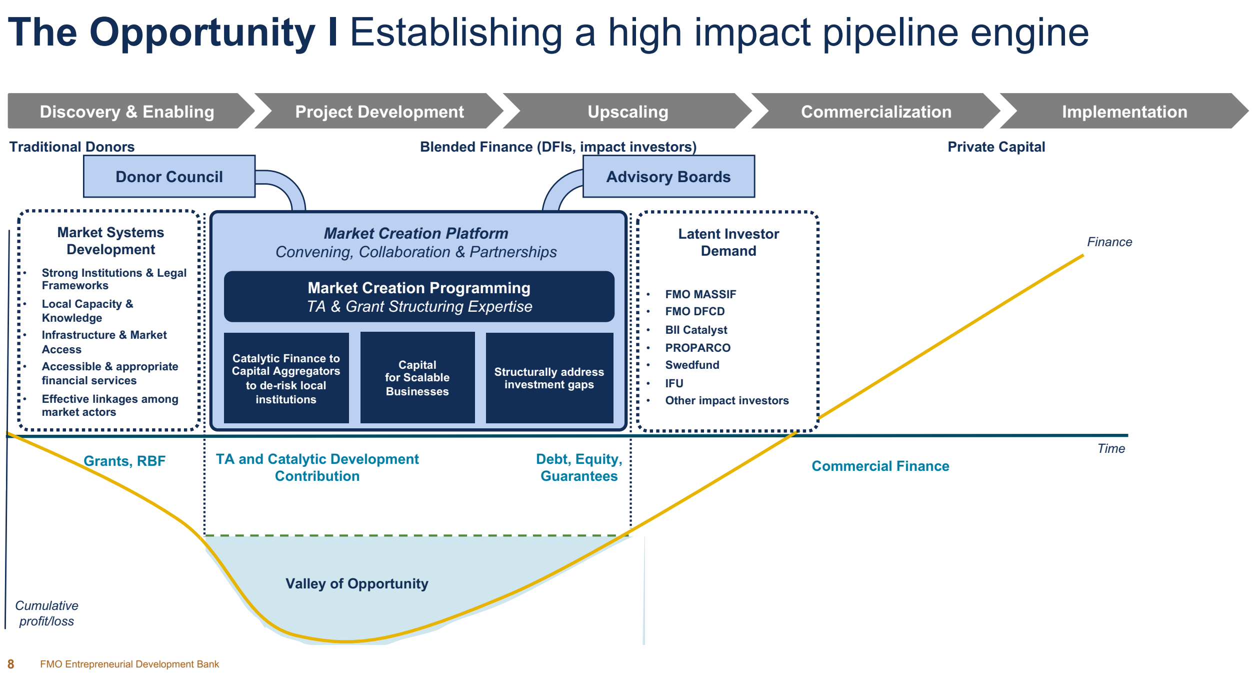
3. Pipeline as a Public Good: Examples of collaboration between investors, donors and local actors for market creation

Following this introductory overview, Alan Duggan (FMO) shared FMO's lessons learned from their pioneering work to close the SME finance gap between PSD/MSD TA and grants and 'traditional' DFI lending. PSD/MSD typically offers TA and grants to facilitate the emergence of functional market systems around SMEs. These TA and grants can be allocated to lead firms, but also to SMEs early in their lifecycle ('pre-seed/seed'), which are still working out their business models. DFIs typically can only entertain loans sizes over several million USD.

To create a market in between those two 'worlds', and thereby strengthen the pipeline from PSD to DFIs, FMO works to establish multi-stakeholder market creation platforms in which donors, investors and local market actors collaborate and co-invest in diverse financial instruments and market solutions to close this gap (please refer to the FMO slides for details). FMO's market creation is publicly funded—this enables it to take risks, which as a bank it cannot take, and thus 'reach out' into a market space, which as a bank it cannot cover.

Market creation entails identifying SME potential, using targeted TA and grants to address specific bottlenecks, using other financial instruments (debt, equity) when appropriate, as well as addressing regulatory barriers. Different programs and partners can address different barriers. FMO has a market creation team, which focuses on building partnerships to address bottlenecks in frontier markets with strong latent investor interest

The figure below summarises FMO's market creation approach. It identifies what kinds of development activities and instruments (in dark blue) need to be coordinated to establish a pipeline from PSD to DFIs and beyond.



One concrete example is Accelerator for Pipeline Development in Africa (ARIA) initiative, which has created a pipeline of 187 investments in Africa. Another example is the newly established Nepal in Business program, in which BDS (component 1) and business reform (component 3) is paired up with market creation (component 2), which includes work with banks and local capital allocators. Ultimately, a country lens in terms of what is needed, combined with building local coalitions of trusted partners, is what creates a local pipeline - essentially a ladder for SMEs to climb up.

Participants raised several questions and reflections during the discussion. GIZ and ITC asked about the practical aspects of preparing local financial institutions to better serve SMEs and the importance of developing partnerships at the country level. JICA expressed interest in building startup ecosystems and enquired how FMO's approach could support local innovation finance. ILO asked how the Nepal programme was addressing local capacity building—not just in financial institutions, but also in investment bodies and within enterprises themselves. Alan clarified that while FMO cannot itself conduct direct capacity building at the local level, it works through partners and local actors to strengthen this element.

Argidius Foundation mentioned that the last successful example of market creation entailed donor investment in microfinance institutions. Initially these institutions needed significant support to establish themselves, work out their instruments and services, and attract finance. However, what emerged from this public investment is a viable industry and a recognized asset class with 'known' risks and returns, able to attract finance. For SME financing a similar task is at hand.

4. Impact Measurement & Management at the Investee/Grantee Level: How to avoid driving blind and achieve systemic change more sustainably

Peter Beez (SDC) made a pitch for how to strengthen impact measurement at the level of investees or grantees.

Currently, impact is often measured by a project to report to a donor; projects do all the work, and when the project stops, the impact measurement stops too. SMEs lack the tools or immediate incentives to continue. The question is: How to shift towards longer-term Impact Measurement and Management (IIM) at the investee-level?

Why is this important? For entrepreneurs, continuous measurement can help them manage for better performance, more impact. For those interested in impact, SMEs have the potential to produce a lot of impact but without measurement this is not captured. This also means there is no accountability—it is not possible to distinguish between those SMEs generating more and those generating less impact. Social accounting should become as normal as financial accounting.

Finally, it is important to shift to a system in which SMEs can better capture and communicate this impact so that they can attract their own investment and thereby reduce any dependency on dwindling development funds. This will facilitate a shift to an impact economy.

SDC likes to invest in social enterprises and uses tools such as impact linked finance or impact first investment; these require that SMEs can communicate their impact. Larger firms and other (impact) investors want to invest in social returns as well. Better impact data creates a clearer business case for investment; more demand from investors. Business Development Services should include IIM in their support to SMEs, and the same applies to Market Systems Development. This would enable SMEs to learn how to measure and sell their impact, including developing their own results chains.

There is need for credible, practical tools and standards that enable SMEs to capture and communicate their impact. This could create a market for IIM, support technology to make this easier. Ultimately, this would help towards creating a market for buying and selling impact—and then they do not need 'donors' anymore.

In the discussion that followed, JICA suggested that Social Return on Investment (SROI) could be a useful framework to explore further. FMO suggested that just like attaching a cost/value to carbon enabled a market to develop, assigning a value to social impact could similarly drive more investment and accountability. However, given the heterogenous nature of social impact this might more complex. Others felt that these are market problems that can be solved.

IKEA Foundation and LuxDev underlined the importance of considering local perspectives on what constitutes as social impact, as these may differ from donor or external views. They also asked how collaboration with local institutions could be strengthened.

Argidius Foundation highlighted examples of systemic-level measurement being used effectively—such as employment data in Colombia. Developing accessible tools such as simple impact calculators could help enterprises measure and communicate their social impact more effectively.

5. Updating the DCED knowledge offer on BDS and finance more broadly

Harry Devonshire (Argidius Foundation) facilitated a discussion on updating the DCED knowledge offer on SME finance. Harry gave the example of the 'Blue Book': Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, published by the DCED in 2001. This could be updated, or new guidelines could be developed for effective ways to establish and support entrepreneurship ecosystems.

In the discussion that followed more ideas came up. Reference was made to the earlier market creation comments that the need to support SME finance institutions is comparable to what was done previously for micro-finance institutions. However, an accessible case study that explains how the microfinance market was created (and which lessons this entails for SME finance market creation) has thus far not been developed.

Several participants noted the language gap between private sector development practitioners and financial specialists. It was also noted that, even among finance specialists, terms such as 'blended finance' have a different meaning depending on whom you talk to. FMO mentioned that they had wrestled with the language when framing their market creation concept. There was a concrete suggestion, supported by several participants, to explore the need for a SME Finance Primer with language that 'both sides of the isle' can understand.

Another area of interest that emerged in the discussion was to organise member exchanges on, for instance, specific financial instruments, approaches to mobilising local capital, and effective ways of integrating IMM/impact measurement into financial interventions (see the discussion above).

Is there a need for a SME finance market development/creation toolbox? In additional to other, more financial instruments, TA and grants remain important to spur institutional development, but can this be used in a more catalytic manner? What can be done about currency risks? How to achieve more coordination in country to cover risk, support innovation along the finance supply chain? How to measure performance, impact and risks? Several members, including GIZ, Sida, and ITC voiced interest in building a shared learning agenda on finance.

Finally, several members suggested that the DCED could do more to support coordination at the country level, where donor alignment and local partnerships are essential for advancing market creation efforts.

6. Conclusion and Way Forward

The meeting concluded with a strong consensus that there is significant interest in continuing this exchange. Two possible ways forward were proposed: continuing informally, to narrow down areas of common interest, or establishing a formal working group (which should be supported by at least four member agencies).

By a show of hands, more than four agencies expressed their support for establishing an SME Finance Working Group (provisional title). Those members who supported the establishment of a Working Group included Argidius Foundation, JICA, LuxDev, Netherlands MoFA and FMO, and SDC. The Ikea Foundation, which is in the process of becoming a DCED member, also indicated support for this initiative.

In closing, participants emphasised the value of the exchange and the relevance of the topics discussed. There was clear recognition that SME finance, market creation, and IMM are areas where DCED can contribute meaningfully as a knowledge broker and facilitator of shared learning.

7. Outcomes of the DCED Business Session, 19 June and next steps

In response to this member exchange, on 19 June 2025, at the business day, the DCED members approved the established of a Working Group on finance.

As immediate next steps, the Secretariat will draft a Terms of Refence (TOR) for the Working Group and convene a meeting in the autumn to discuss the TOR, Working Group composition, priorities and next steps.

These meeting Minutes will be shared with the members present at the meeting in Geneva, those who took part in the member exchange in May 2024, and other interested members.