

From Grant to Growth Capital: A Swisscontact learning brief about building markets for SME financing



Development finance has a familiar failure mode: a promising SME gets a grant, uses it well, and then hits a wall the moment the grant runs out, because nothing around it has changed. The investors still don't understand the sector. The business advisory market still doesn't exist. The next SME in line starts from zero, exactly where the first one did. The transaction succeeded...the market didn't.

The end state most funders want is straightforward to state - SMEs move from relying on grants to increasingly attracting private finance on their own. That progression matters as it makes SMEs independent, lets them carve out their own growth pathways rather than ones shaped by project cycles, and reduces the pressure on scarce donor resources to keep funding the same enterprises indefinitely. A harder question is how to lay out that pathway in practice. SMEs don't sit at a single point on the journey from grant-dependent to investment-ready - they're spread across very different stages, sectors, and risk profiles. Getting them from wherever they start to where private capital can meet them requires an SME finance system built to cater to that diversity, not a single instrument or a one-size-fits-all readiness programme.

There's also the "missing middle" to contend with - the gap where SMEs are too large for microfinance but too small or too risky for conventional bank or private equity finance. This isn't a developing-country problem alone; it shows up anywhere lending's fixed costs make small loans a losing proposition for the lender. In emerging markets, though, the effect compounds: smaller SME ticket sizes, weaker regulatory environments, and thin information on borrowers combine to make pricing that risk close to impossible.

It's worth being clear about what the industry agrees doesn't work here. Guarantee instruments, donors' usual first move, have drawn real criticism for working against their own goal: they send the wrong signal to institutions being asked to build lasting SME banking or investment capability, implying the underlying lending isn't worth doing on its own merits. The other standard options have limits, too. Venture capital typically chases scale over development outcomes; impact investors often come with restrictions on how their capital can be used; and both banks and PE firms struggle to price SME risk sustainably without real technical assistance behind them first.

The question isn't how to make individual SMEs creditworthy or what new instruments are required...it's how to change the market conditions that make lending to them unprofitable in the first place. That is a systems question, and it demands a systems answer. So, let's start with an example...

Our work with the agri-SME Annapurna and the private equity firm Team Ventures in Nepal demonstrates how we use a relatively modest amount of technical assistance to build the systemic conditions that make deals like it repeatable, and eventually unnecessary to subsidise at all.

The starting conditions were stacked against private investment in agriculture. Only 3.9% of Nepal's total private equity and venture capital investment since 2012 had gone into agribusiness. The country's business development services (BDS) market was weak as SMEs don't naturally seek out or pay for the kind of support that makes them investable. And the actors who might otherwise fix this had no reason to meet each other: agri-SMEs didn't know how to present to investors, and PE firms didn't have the sector expertise, screening criteria, or risk appetite to look at agriculture seriously; and support providers didn't see SMEs as a viable customer. This is the "missing middle" problem in a specific, concrete form. It isn't that Annapurna Feed, a fish feed producer, was unfinanceable in principle. It's that the market infrastructure needed to recognise it as financeable didn't exist yet.

So, we positioned ourselves as a facilitator working to both create and develop the ecosystem comprising SMEs and financiers, business development service providers for SMEs and investors - as well as Associations, BMOs, institutions and Government bodies that can act as amplifiers of the learning. Our role was to facilitate introductions and relationships, co-create new business models, brokers deals, test new ways of doing business, absorbs transaction costs and build capacity. Moving SMEs from grant dependency to private finance requires work across the whole eco system.

Building investment readiness of agri-SMEs.

On the supply side, we channelled GBP 41,406 in technical assistance to Annapurna delivered via local BDS service providers, with Annapurna itself co-investing GBP 10,352 - covering feed quality and nutrition, packaging and branding, market reach, and the decisive basics of an investment case: business plans, financial projections, operational strategy, and a pitch deck. The goal wasn't just to make Annapurna a better business with expanding smallholder markets; it was to make it legible to an equity investor, with auditable financials and a proven track record. We also worked with the Fish Feed Association supporting their work to share the opportunities and success of the SME's journey for other similar SMEs to learn from. Annapurna is now preparing for a public listing.

Shifting investor mindset and bolstering confidence.

On the demand side, we spent GBP 55,652 working with Team Ventures, Nepal's first agri-focused private equity fund, with Team Ventures contributing GBP 27,826. We supported them to map an investable pipeline of 65 agri-SMEs, built their internal screening criteria and competencies, supported the embedding of an in-house agri-investment analyst and built their capacity to offer pre and post investment support to its portfolio companies. Crucially this involved support to create, test and derisk a new equity structure. Much of this support was facilitated via market-based support providers. We also worked with the Nepal Private Equity Association to run workshops encouraging other PE firms to replicate the approach and relevant elements of the business model.



The result is systemic not transactional...

The immediate outcome was Team Ventures and its affiliated partners investing £1.3 million into Annapurna, a mobilisation of over 22 times our original grant. But the more interesting evidence is what happened around that single deal.

Demonstration effects. Support on the supply side, facilitating technical and business support to Annapurna to ensure investor readiness, ultimately gave an equity investor the confidence to invest; and it demonstrated demand for technical and business support services to agri SMEs. Annapurna's deal proved the returns were there for the investor, other PE firms observed Team Ventures' success and began replicating the model. Three PE and investment firms are now deploying capital into the same feed-mill sub-sector as Annapurna, using an investment support structure that mirrors the same design. **A sustained actor, not a one-off.** Team Ventures now sources deals, conducts due diligence, and exits investments independently. It has built a pipeline of £13–16 million in investable agri-SMEs against an £8.1 million agri-envelope (20% of its total £40.6 million fund) and has trained 20–30 PE professionals now more confident that agri-SME investment is viable. **Amplifiers doing the ongoing work.** The Fish Feed Association is sharing Annapurna's business case to crowd in peer producers; a copycat investment into Birat Feed Mill is early evidence that the sector is attracting capital. The Nepal Private Equity Association is disseminating lessons sector-wide to PE firms and pulling other investors into the pipeline of investable agri-SMEs. Nepal's capital markets regulator and a local bank now sit inside Annapurna's own financing journey as it moves toward an IPO. Here is a finance ecosystem that has deepened around one company as it has matured, rather than being built fresh for it each time.

None of this was straightforward.

Understanding our role was probably the harder challenge for the partners. As a systems facilitator, we fit no familiar category for transactional finance actors – we weren't offering money or selling a service - so partners had to work out what kind of actor they were even dealing with before they could decide how much to trust us. Convincing Team Ventures to co-invest into building internal agri-investment capacity required significant trust-building. For the local BDS providers delivering support to Annapurna, the risk ran the other way: without careful management, they could easily have treated the engagement as a one-off sale tied to a development project, rather than the start of a genuine, ongoing relationship with Annapurna as a long-term client.

Understanding Annapurna was the corresponding challenge from the investor side. Even after technical assistance had strengthened Annapurna's financials and business case, Team Ventures' own due diligence found that a conventional equity structure wouldn't work for the deal and a model was needed. Team Ventures' understanding of what Annapurna was, and what it needed, evolved substantially over the course of the engagement. The pipeline-mapping exercise helped by giving Team Ventures a structured assessment framework to work from but translating that framework into genuine conviction about one specific company took repeated, direct engagement.

The structural context made things harder. With such little previous PEVC investment ever touching agribusiness before, it wasn't an underperforming market to nudge, we were building something that barely existed, because the two sides of it were operating in genuinely different worlds with no shared language or trust. We weren't correcting a dysfunctional relationship between SMEs and investors; we were building the relationship, and the trust infrastructure underneath it.

This case is an instance of a repeatable model

We apply systemic thinking and practice specifically to the SME financing market – and this is the mechanism that closes that gap....and makes it stick. Just like it has in Nepal.

Our grant to growth capital model starts by diagnosing the dysfunctional nature of the market and how close it is to a non-market or a malfunctioning market. That distinction determines how much patience and trust-infrastructure everything that follows will require. From there, the model facilitates both the supply and demand sides. SME-side investment readiness - bankable financials, a credible business case, operational strategy - is built in parallel with investor-side capacity: screening criteria, sector appetite, pipeline, and the internal expertise to act on it. Neither side's work pays off without the others. This requires work to build the support market for technical and business support services. It isn't enough to deliver technical assistance directly to the SME and the investor – a key goal is to grow the market of BDS and support-service providers who deliver that assistance. That means working through and with local providers to research, develop and test relevant services - and demonstrating the demand for those services and SMEs as viable and durable clients.

Then it's about facilitating the deal - brokering introductions, co-creating new instruments where existing ones don't fit, absorbing transaction costs, and building the trust that lets an unfamiliar counterparty commit its own capital rather than simply receive a grant. The facilitator's role here is active -a broker working inside the transaction itself.

A single deal only becomes systemic, though, if it's deliberately amplified into the wider ecosystem - connected outward to industry associations, peer investors, regulators, and market infrastructure, so the demonstration effect travels without the facilitator having to broker every subsequent relationship by hand. And the final measure of whether any of this worked is replication and independence: the investor sourcing deals on its own, peer firms copying the model unprompted, and the ecosystem - including the support-service market - deepening around the SME as it matures.

With some evolving learning and implications around the model...

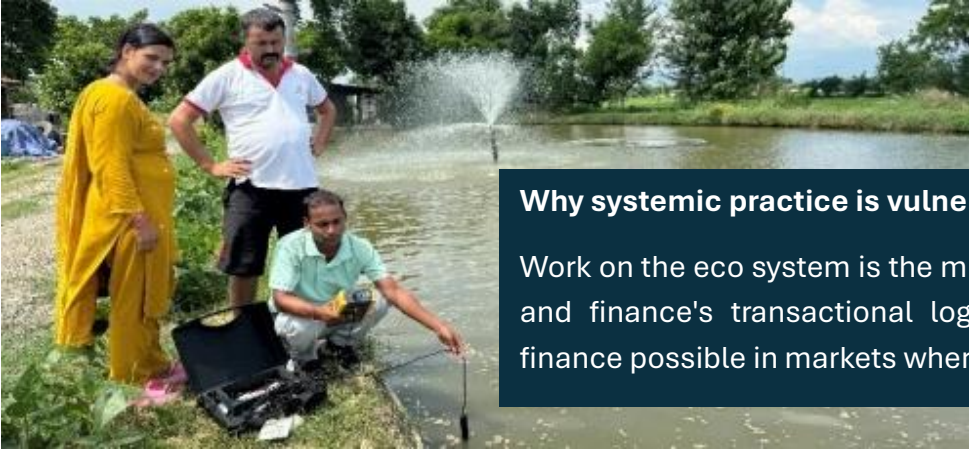
Sequencing should be an explicit design parameter. SME-side and investor-side work should run in parallel and be designed to meet the moment due diligence and the SME's financials are both mature enough for a deal to be structured.

Building the support-market needs its own success measures. Because building the SME and investor support market is easy to fold invisibly into "technical assistance" and equally easy to underfund, evaluation frameworks that score only transactions closed will systematically undervalue it. Measures like support providers retained as ongoing partners, screening criteria adopted independently, and capacity absorbed by the investor are indicators worth adopting.

Leverage ratios are only meaningful alongside the sequencing and market-building story. The evidentiary value comes from it being traceable to the specific mechanism that produced it - parallel SME and investor capacity-building, sitting on top of a deliberately built support market and engaged institutions.

Industry and investor associations should be a named channel and used purposefully. These are the difference between things becoming a pattern rather than a one-off - the bodies that give the model channels to travel through that don't depend on programmes continuing to broker relationships.

Regulatory and market-infrastructure engagement is a leading indicator of ecosystem depth. When other actors get involved its evidence that the finance ecosystem around the company is deepening. This is a measure worth attention.



Why systemic practice is vulnerable and worth protecting...

Work on the eco system is the missing glue between PSD's ambitions and finance's transactional logic - the infrastructure that makes finance possible in markets where it currently can't flow.

Donor-funded systemic work, contextualised differently across countries depending on SME segments and the financial service providers available locally, isn't an alternative to DFI or PE deployment. It's the precondition for it. That's exactly what makes this work vulnerable. Systemic response is the piece most at risk of disappearing as bilateral budgets contract under value-for-money pressure and shorter funding cycles. If it stops, commercial capital has nowhere productive to go, and pipelines like Team Ventures' dry up before they ever reach the investment stage...no capacity, no screening criteria, no deal to price. Instruments like the repayable grant - neither pure grant nor pure investment, structured so that early capital can be reclaimed and used again elsewhere, funding this work without demanding a commercial-return justification from the onset - are one answer to keeping it moving.

But the field's vulnerability isn't only financial. It's a language problem too. Many practitioners talk fluently about "systemic facilitation" among themselves, while others have been building their own parallel vocabulary to describe much of the same territory - FMO's four-gear model, for instance, treats market creation as the first gear that prepares SMEs for concessional financing, which leads to bank financing, then commercial capital. That's a useful, operational way of sequencing exactly the work this brief describes. But without an explicit bridge between the vocabularies, the field risks ending up with more jargon and two well-developed languages rather than one shared one. The [DCED SME Finance Community of Practice](#) is the forum where that reconciliation belongs – the sessions at the DCED Seminar in 2026 initiated coordination and the evolving outputs of the working group will shape how funders commission and evaluate SME finance programming...**and a shared case like Annapurna's is the kind of concrete evidence all audiences can point to rather than talk past.**

This model and case study from our Commercialising Agriculture for Smallholders and Agribusinesses (CASA) programme (implemented by NIRAS and Swisscontact) were prepared and presented by Ailsa Buckley at the [DCED BEAM Seminar](#) in June 2026, as a contribution to the ongoing debate on creating markets for SME finance. We welcome continued engagement.

