Can impact-driven finance survive the shock economy?

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Introduction: What is the shock economy?

The promise of impact-driven or blended finance has always been that it could reach where commercial capital would not. The model's foundational success depends on two fundamental realities. First, functioning, predictable financing modalities to identify, prepare and de-risk businesses for investment. Second, stable enough operating environments for those businesses to perform and scale. Both are now under severe threat.

In February 2026, coordinated strikes on Iran triggered a chain of retaliatory attacks on merchant vessels transiting across the Strait of Hormuz. Tanker traffic, which carried roughly one-fifth of global petroleum supply, dropped toward zero. War-risk insurance premiums on a single transit for large crude carriers surged, adding millions of dollars per crossing.

The Strait of Hormuz is the latest shock in a sequence with no clear end. The war in Ukraine in 2022, as the shoots of recovery from the COVID-19 pandemic were beginning, already contributed to fractured global fertiliser supply chains. This drove some inputs to double or more against 2020 levels—shocks that sub-Saharan African farmers were still absorbing as recently as mid-2024.

Beyond escalating conflict across these and other fronts, a second set of seismic shocks occurred in donor capitals. The United States gutted its foreign development assistance, the United Kingdom has drastically slashed its commitments, and countries across Europe have made deep cuts of their own.

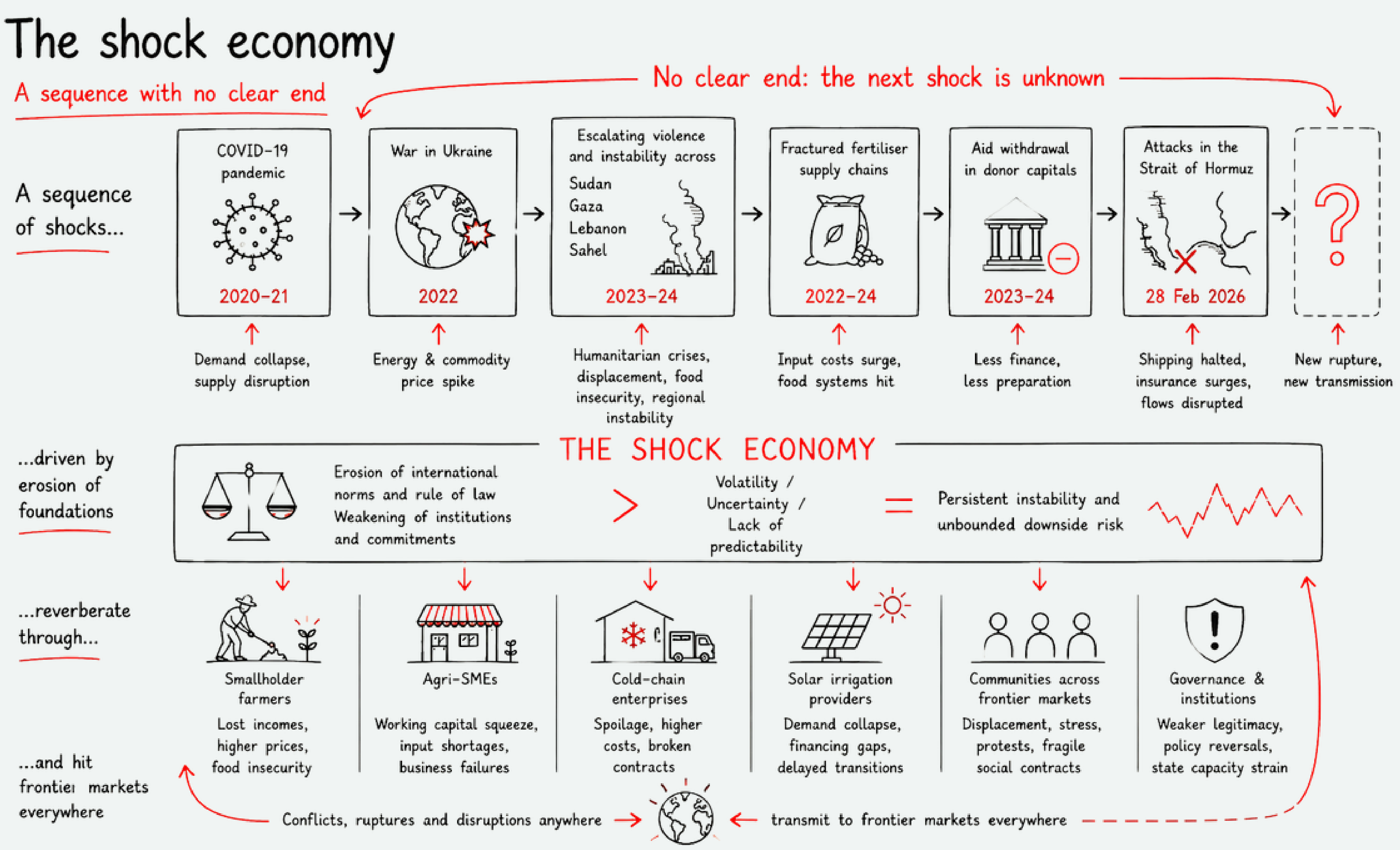
This is grant infrastructure that was developed—and has evolved over years of evidence generation and learning—to prepare frontier-market businesses for investment. Now it is being dismantled precisely as the operating environment for those businesses becomes the most volatile it has been in at least a generation.

Essentially, the post-World War II conditions that development finance was built on—aid expansion, open trade corridors, a widely accepted rules book and international norms, and multilateral cooperation—delivered real but incomplete progress. Now the world is so paradoxically polarised and deeply interconnected that conflicts, political ruptures, and supply chain fractures anywhere transmit to frontier markets everywhere.

The speed and unpredictability of that transmission have outpaced most impact and returns blended finance was designed to absorb, creating a recurring state of economic shock.

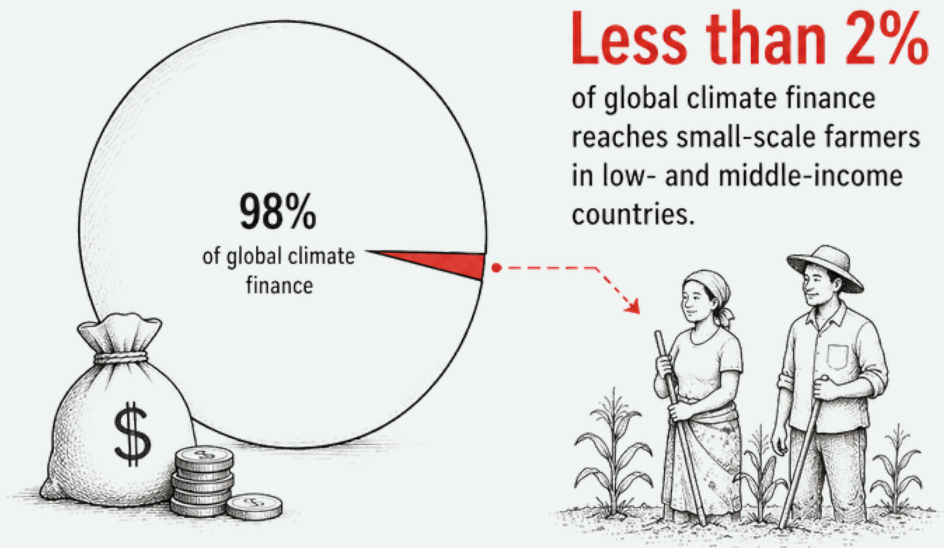
Wars are repricing inputs and closing trade corridors, while aid withdrawal is removing the scaffolding. For communities and businesses we work with—smallholder farmers in Tanzania, agri-SMEs in West Africa, cold-chain enterprises in Kenya, solar irrigation providers in Cambodia—this is now the new operating environment.

Can blended finance survive and deliver on its promise in a world like this: A world living through what we call the 'shock economy'?



The investment pathway reality check

Less than 2% of global climate finance reaches small-scale farmers in low-and-middle-income countries. This figure is cited often and acted on rarely, because the development-investor field has convinced itself that the problem is one of pipeline. It is in large part, however, one of architecture.

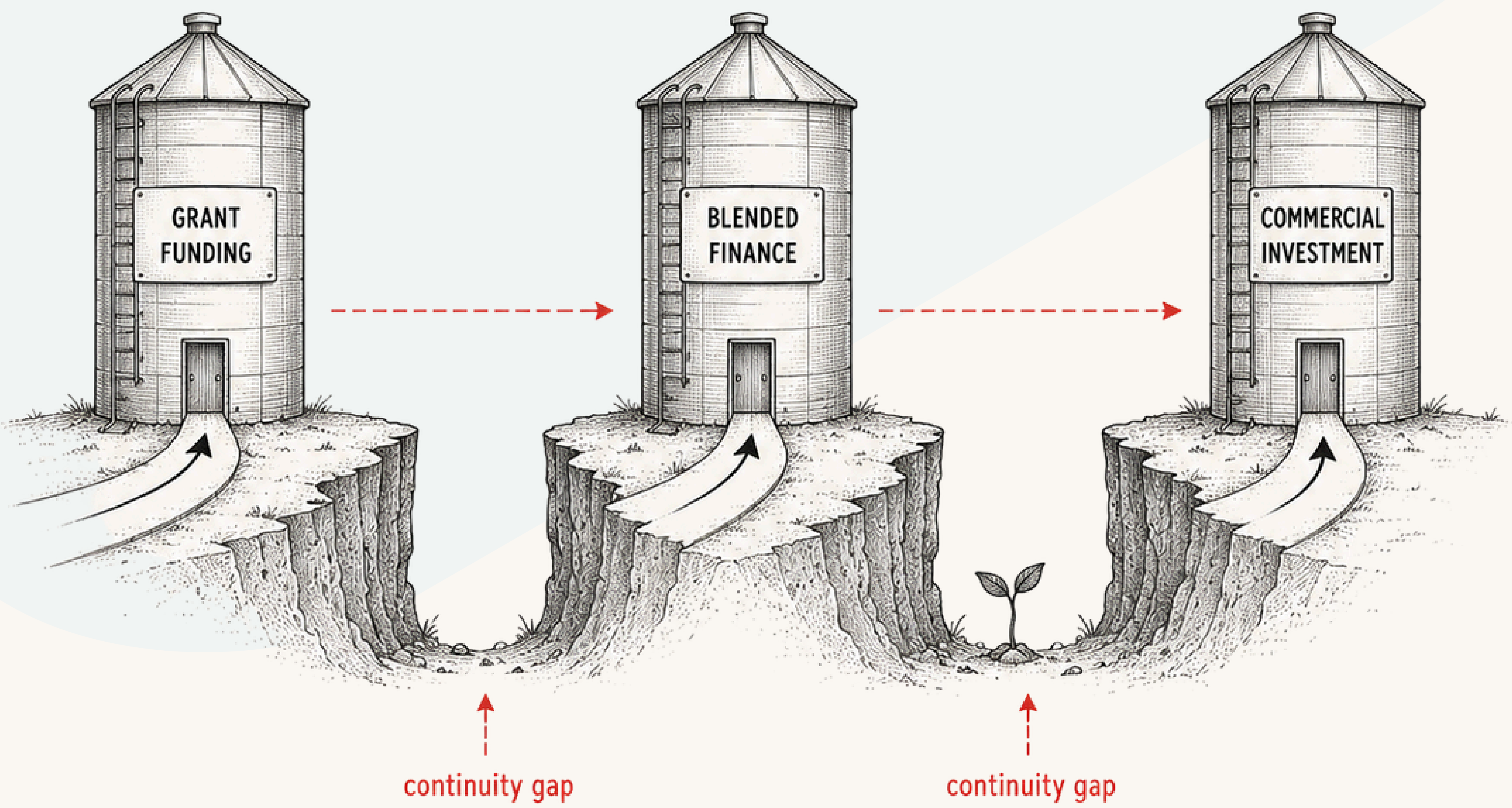


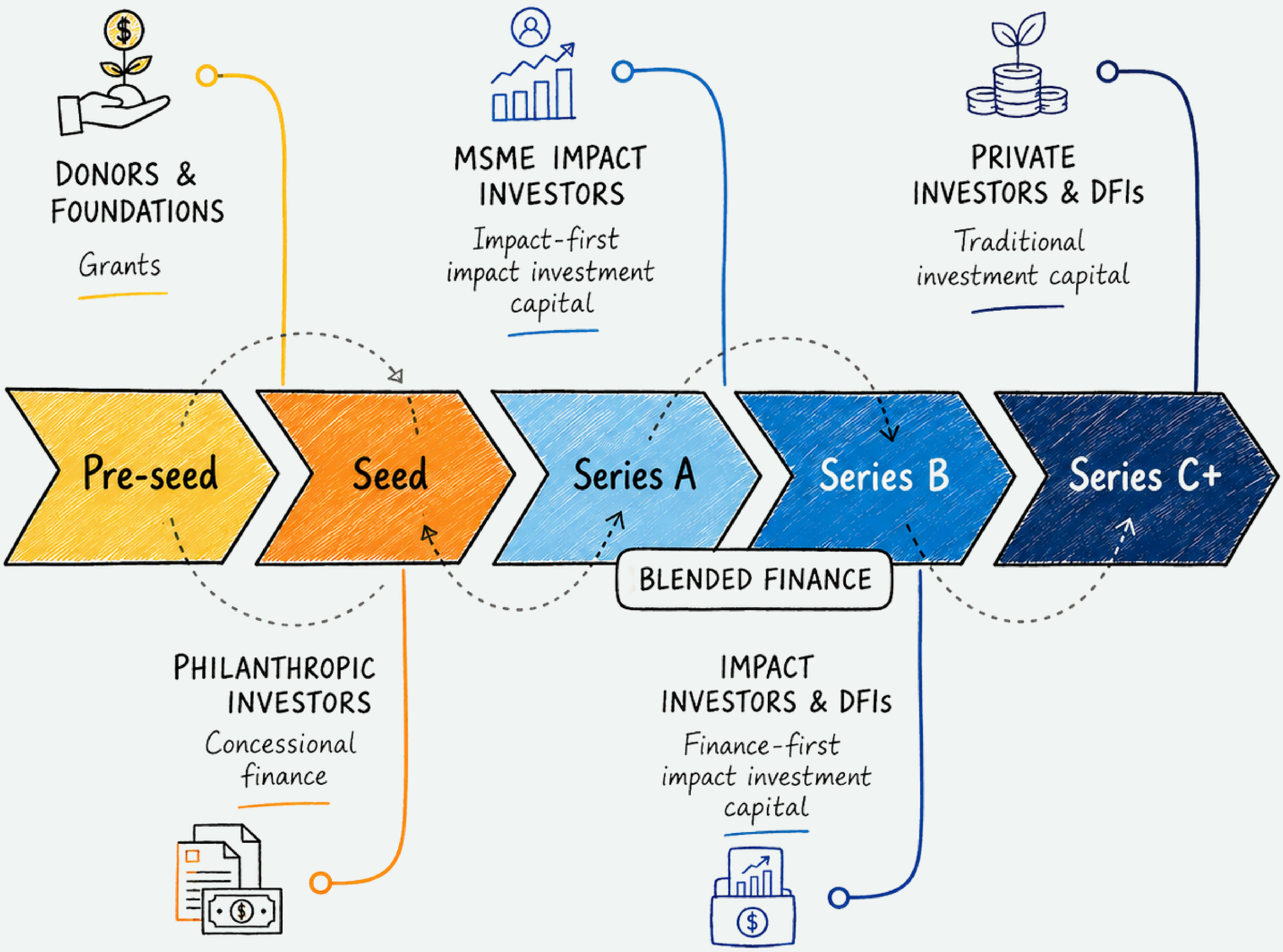
Blended finance was designed for a world moving towards common standards and frameworks, international norms and returns-timelines premised on stable inputs and degrees of predictability. The shock economy has exposed every one of those assumptions simultaneously. And the architecture may no longer hold.

The narrative has been too comfortable: that capital will find frontier markets if the instruments are right; that technical assistance is a complement to investment rather than its prerequisite. In a shock economy defined by broken supply chains, collapsing aid budgets, and every major power pulling inward, that narrative is no longer defensible.

Even before the current crisis, the structural failure was visible to anyone following frontier-market businesses through real financing journeys. You saw grant support end before businesses reach the stage where investors can engage, technical assistance being defunded at precisely the moment it was most needed, each new investor rebuilding due diligence from scratch. There's also been the challenge of too many 'grantpreneurs': repeat and duplicative grant cycles that are wasteful and don't build from previous grants, and therefore are not truly catalytic.

Ultimately, within the old and new realities, it has also long been clear that the missing middle is not a financing gap, but one of continuity. This is produced by an architecture in which grant funding, blended finance, and commercial investment operate in silos, each completing its mandate and exiting rather than preparing the ground for what comes next. So where do we go from here?





Patient, connective capital

Groundbreaking initiatives such as Finance in Common are showing the transformational potential of strengthened partnership amongst Public Development Banks (PDBs), whilst highlighting the impact-generating opportunities through enhanced collaboration with other actors within the development ecosystem.

Today, more than ever, there is a need for an impact capital continuum: a deliberately designed sequence in which each stage of financing prepares a business for the next, with technical assistance running through all of it. The concept is more radical than it sounds. It requires actors across the investment chain to coordinate their mandates, timelines, and definitions of success in ways the field has historically resisted.

Individual actors have practiced pieces of this for years.

Think of Root Capital staying present in agricultural lending across Africa and Latin America through the stages where commercial banks will not go. Or Acumen building a patient capital model premised on remaining engaged through years of de-risking before any commercial return is realistic. But these remain islands (of excellence, no doubt) in a landscape that requires deliberate connection.

As this 'deliberate connection' is built, it's essential to resist the 'scramble and exclude' tendency that a shock economy can create. This is not a moment for PDBs to exacerbate competition or displace those actors who have trust, access, market understanding, and contextual knowledge.

Creating additional competition, instead of innovating to enhance collaboration is counterintuitive (and in the long run, harmful).

The development finance ecosystem can orientate systemically instead, harnessing relevant actors in a more intentional, optimised way, with roles clear along the capital continuum.

What can this look like? A case in point is Stewards Globe Limited. The Zambian seed company first received support through Innovations Against Poverty, a Swedish-funded initiative supporting inclusive agribusiness innovation.

The company scaled its climate-resilient seed systems with support from the Dutch Fund for Climate and Development's Origination Facility, a mechanism designed to bridge the gap between early-stage grant support and commercial investment readiness.

It has since secured a US$3.75 million debt term sheet from British International Investment, validating its commercial model and growth potential.

That journey from incubation to a structured investment proposition would not have been possible without the sequence of grant-funded technical assistance, market development, and business strengthening that preceded it. This is precisely the continuum makes possible when the sequencing holds.

In stable times, the absence of this impact capital continuum was a failure that could be deferred. In a shock economy, without the continuum, the businesses most exposed to disruption are also the ones least likely to access the investment that could help them absorb it.

What needs to change

There are a number of things development finance actors can do differently, and none of them is complicated; they just require a greater level of coordination and commitment to continuity.

1 Make the pipeline visible.

Early-stage businesses sit in fragmented programmes and donor-specific pipelines—each credible in isolation, none generating the visibility needed to attract investors working with minimum ticket thresholds.

Nationally anchored investment opportunity portals, harnessing the positive momentum towards country platforms, would give investors a coherent, predictable view of a market currently shaped by dispersed small-ticket prospects. Where aggregation is also needed—pooling smaller businesses under a shared platform to reach investable scale—local financial institutions can play a critical role.

2 Align the grant money with the investment pathway.

Early-stage grants operate on timelines and objectives rarely aligned with what investors need to see later in the chain. Shared investment-readiness milestones and structured handover protocols between grant instruments and investment facilities are the mechanism by which ODA becomes genuinely catalytic rather than merely preliminary.

3 Fund technical assistance as a core instrument.

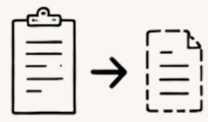
The 'valley of death'—the gap between early-stage grants and investable scale—is where most frontier-market businesses fail and where technical assistance is most consequential and most consistently absent.

At this stage, risk thresholds remain unmet, operational systems are still maturing, and deal sizes fall below the minimums that most investors require. Allocating a defined proportion of financing resources to long-horizon technical assistance, structured to continue through this stage rather than ending at its entrance, addresses the most consequential gap in the continuum.

4 Stop rebuilding origination from scratch.

Strong early assessments—feasibility studies, ESG reviews, climate-risk analyses—do not travel across the investment chain. Each new investor rebuilds from zero, slowing momentum precisely when businesses are gaining traction.

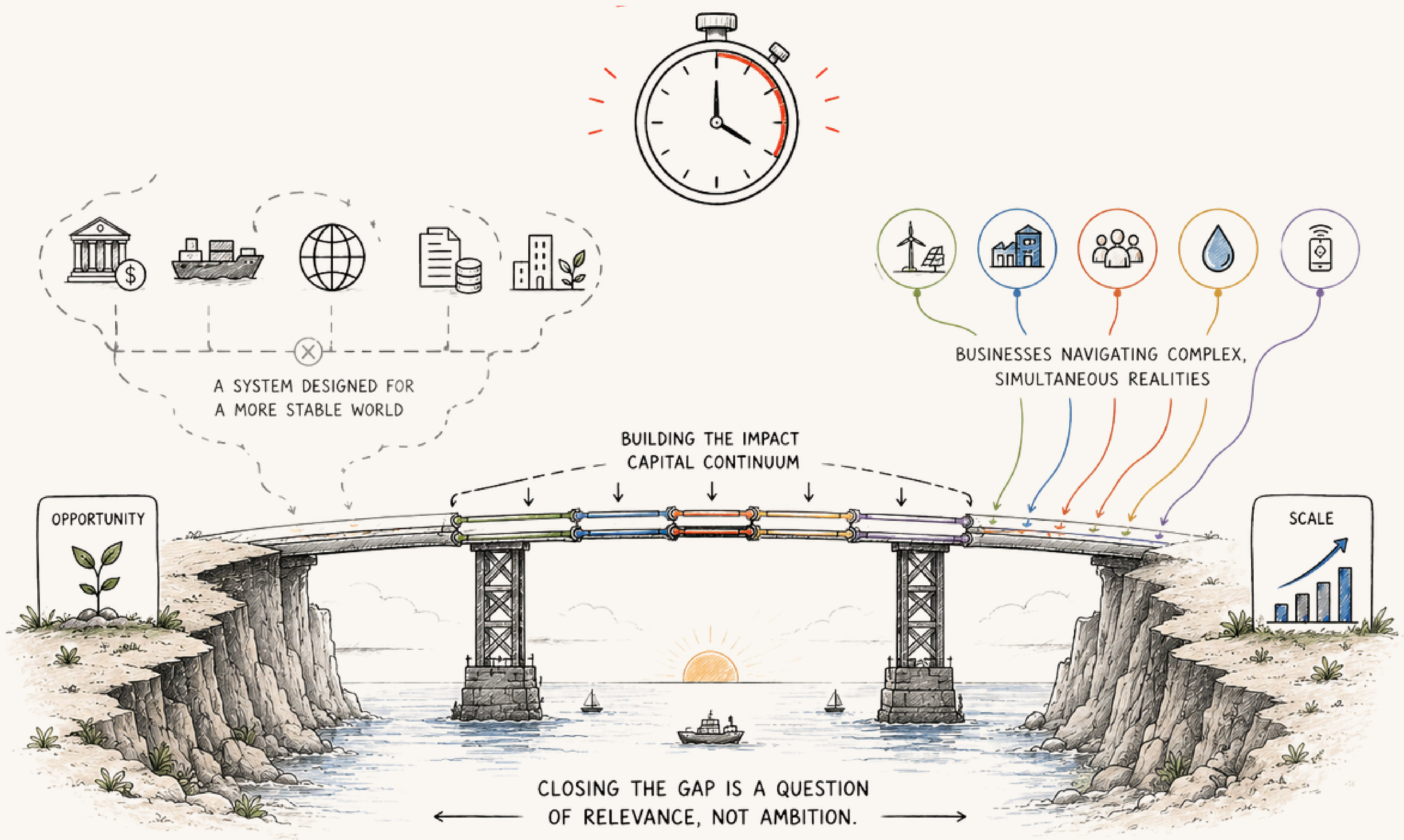
A shared origination architecture, in which core assessments are mutually recognised across the chain, would preserve that momentum rather than restart it. The development finance field has known this for years and done almost nothing about it.



5 Measure what actually matters.

Businesses delivering the outcomes most relevant to the current moment—local resilience, adaptive capacity, stable food production, biodiversity gains—are consistently under-financed because those outcomes fall outside conventional investment metrics.

In a world where disruption is the operating environment, resilience is not a secondary outcome but the primary indicator of whether an investment is reaching the businesses that actually need it. Integrated measurement frameworks that translate these outcomes into indicators that public and private financiers can use would do more to redirect capital than any new instrument the field might design.



Closing the gap

The world blended finance was designed for—stable aid budgets and supply chains, functioning multilateral cooperation, reliable grant infrastructure, and predictable operating environments—is gone.

The businesses blended finance aims and claims to serve are navigating these new realities simultaneously, and the architecture that was supposed to connect them to capital is being defunded at precisely the moment it is most needed.

To use a reference presently defining our times, the Strait of Hormuz is 21 miles wide. The gap between the promise and reach of blended finance's promise does not need to be as vast, nor should it widen further as a consequence of structural underinvestment in connective architecture and an unwillingness to be honest about what that costs. Closing this gap in a shock economy is less a matter of ambition and more a question of relevance. It's critical that the relevant actors come together and commit to more intentional, optimised collaboration along the impact capital continuum.
The clock is running.

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