



INVESTING FOR IMPACT



Catalysing Impact

Catalytic Capital in Europe
Whitepaper

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From research to resolve

In the impact investment landscape, where possibilities abound and dynamism fuels progress, the most compelling investments are not stumbled upon but consciously crafted. Remarkable success has been achieved, the impact ecosystem is growing, yet **global social and environmental crises are escalating, becoming increasingly complex and urgent.**

What are we missing?

**One answer in two words:
CATALYTIC CAPITAL.**

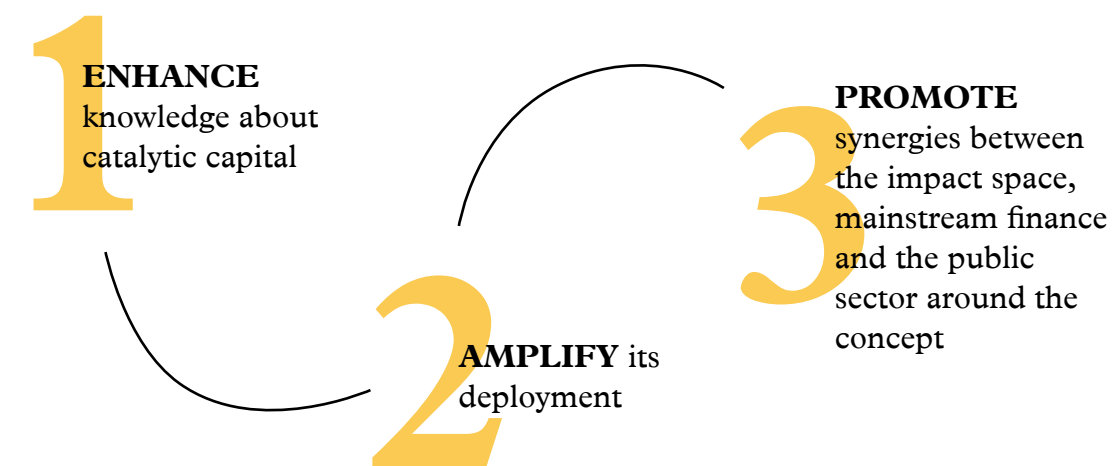
As defined by EVPA's community of practice, catalytic capital "addresses gaps left by mainstream capital, in pursuit of impact for people and planet that otherwise could not be achieved." Its purpose is to reverse-engineer solutions, de-risking investments and ensuring both impact and long-term financial sustainability. It is patient. It takes risks. It is additional.

EVPA's research journey

2022

EVPA's journey on catalytic capital began in 2022, when our organisation entered a partnership with the Catalytic Capital Consortium to **help increase the knowledge, awareness and use of catalytic capital** to address critical social and environmental goals across Europe.

The collaboration marked the start of an exploratory journey, fuelled by **three core ambitions**:



FEBR

MAR

Together with our catalytic capital community of practice, EVPA worked to identify and share best practices, developed practical resources and facilitated engaging convenings.

MAY

JUN

The **community of experts** – ranging from engaged grant-makers and fund management companies to foundations, corporations and academics – includes:

75

FROM

17

TOTAL OF

90

organisations

countries

engaged participants

The community is primarily composed (75%) of catalytic capital providers, which collectively manage an estimated €2 billion in assets – substantial financial resources for impact.

Experienced practitioners with track records of catalytic capital deployment, such as Silke Horakova (Tilia Impact Ventures), Michelle Mouracade (Alfanar) and Bjoern Struwer (Roots of Impact) and many others, were essential to the knowledge exchange that was the intention of the community of practice.

The capital providers in the community were mainly impact funds, foundations and other engaged grant-makers, while the remaining quarter included a mix of networks, academic institutions and service providers, which ensured a diversity of perspectives.

SEPT

OCT

Throughout September and October 2022, we organised **5 gatherings for EVPA members** (41 participants from 32 organisations) to delve deeper into the concept of catalytic capital, its challenges and the lessons learned from real-world experiences.

Without these gatherings, many of our members would still have remained unsure of the definition of catalytic capital, let alone their next steps for boosting its deployment. It was important to elevate understanding for the member audience not just because of their stated interest in the topic, but because many members control significant resources that could be deployed more catalytically.

Between October and November, we selected **14 compelling case studies** from an open call to members, some of which were published on our [website](#) and highlighted during Impact Week, EVPA’s annual conference.

At the end of 2022 we joined forces with [Impact Hau](#), a major European Research Council-funded project at the University of Bologna, to publish more cases in 2023.

NOV

DEC

The catalytic capital sessions at **Impact Week** showcased 17 organisations from four different continents, with each dedicated session offering a unique perspective on catalytic capital and its potential. Through the contributions of experts and EVPA's sister networks, participants explored the global perspective on how catalytic capital is driving impactful solutions in different scopes and geographies. As practitioners shared their cases, changemakers across the impact ecosystem had the opportunity to learn from their experiences and gain actionable insights into the key elements that make capital catalytic. Such insights were followed by a session on development, where expert leaders fostered interactive discussions on challenges and breakthroughs, and identified key stakeholders who are taking a leading role in the field. Discussions concluded with a focused session on impact funds, where insights were further tailored to an audience with the resources to start deploying capital catalytically.

Alongside physical events, we maintained an active schedule of **online talks** to engage with a wider community and lay the groundwork for further exploration. Through collaborations with our sister organisations (Latimpacto, AVPN, AVPA), we conducted a comprehensive calendar of events from June 2022 to October 2023, discussing the global potential of catalytic capital. In Europe, we specifically addressed the implications for various audiences, including catalytic grant-makers¹.

2023

A recent consultation on catalytic capital, expanding beyond our immediate community, received contributions from **25 respondents** from **24 different organisations**.

Through these activities, we shored up Europe's most up-to-date wisdom on catalytic capital. The aim was to enable action.

Research fuels resolve

While EVPA's research journey began with member-driven interest, as it continued the authors of this paper realised the immense potential of catalytic capital for solving challenges for people and planet. Hearing from such a wide variety of practitioners steeled our resolve to foster an inclusive environment that welcomes organisations at every stage of their journey; we feel this topic is too important to leave anyone out.

The journey is far from over: we remain committed to further advancing the understanding and deployment of catalytic capital as a powerful tool in driving sustainable development and social progress. Advancing understanding, we believe, is a way to drive more deployment of catalytic capital – and make sure deployments are optimised with the latest insights.



What is catalytic capital and why does it matter?

Catalytic capital intentionally fills gaps left by mainstream finance or by the public sector, in pursuit of impact for people and planet that otherwise could not be achieved.

As the demand for innovative, impact-driven **solutions** intensifies, catalytic capital responds, by design, to those solutions' needs, ensuring impact and often offering a path to future scale and financial sustainability.

It can help impact ventures develop their business model and track records (Alfanar p.30). It can attract significant and diverse follow-on funding, from development finance institutions to global energy giants (Acumen, p. 37). It can create a country's social housing market (Fondazione Cariplo, p. 39) It can leverage public resources to target acknowledged gaps in the market (Kampani p. 44).

It fills gaps. It addresses solutions. Clearly, it's of interest to any investor focused on impact. And yet, in Europe, catalytic capital's deployment – even its precise definition – still engendered uncertainty at the outset of our research.

Essential questions

Towards a succinct but in-depth definition, the following table answers the essential questions about European catalytic capital, from who can deploy it to why it matters.

Who?

All impact capital providers, from foundations to fund management companies, from crowdfunding platforms to large financial institutions.

How?

By intentionally targeting a market gap, catalytic capital provides flexible financing conditions compared to the market, commonly including one or more of the following traits: higher-risk, more patient, flexible and/or concessionary.

Catalytic capital is often deployed to accelerate the influx of other investors alongside or following its deployment.

Catalytic capital can generate positive outcomes at different levels: enterprise and ecosystem, for example. Supporting impact enterprises to grow their impact and financial sustainability, whilst also favouring the piloting and scaling of a model that can lead to creation of new markets. Microfinance and social housing are two examples of impactful markets which started with catalytic capital deployed at the enterprise level.

Where?

It can be deployed everywhere, but gaps are very different in different areas of the world, as are the characteristics of the funding needed to close those gaps.

The differing roles of public institutions and maturity of social infrastructure support networks, country by country, create differing challenges and opportunities for catalytic capital deployment.

Essential questions

What?

Catalytic capital refers to **capital deployed to achieve impact through the catalysing effect of its intervention.**

It is the intentional approach that defines it, not the instrument or asset class that the capital represents. It covers the full spectrum of financial instruments, from grants to debt, equity and hybrid instruments. Catalytic approaches apply to all asset classes.

The element that distinguishes it among all these forms is its **impact focus**, tolerance for risk and/or willingness to accept concessionary returns.

Why?

During the second of a global series of webinars, the vast majority of the attendees agreed with a statement that identified catalytic capital as the main tool to effectively tackle the gaps left by the public and private market. In other words, catalytic capital is the most promising means we have to restore a balance towards people and planet.

If there is a gap, there is an unserved need. Unserved needs lead to tensions and conflicts, which in turn exacerbate existing problems and create new ones. To echo a statement we heard in our experts-only gathering in 2022, finance may have lost the aim of serving the needs of society and the environment, leaving too much space for profit maximisation; some argue that serving these needs should be finance's primary aim. Markets based on outdated concepts of risk and reward exclude large portions of society and are not fit for purpose to face today's greatest challenges. **Catalytic capital is the most promising means we have to restore a balance towards people and planet.**

Catalysing impact – the basics

“The time to act as an impact catalyst is now. To face uncertainties and challenges, help change millions of lives and combat rising inequality in life, we need more catalytic capital.”

This was a message presented and endorsed at EVPA’s catalytic capital practitioner gathering. Participants concluded the discussion by actively advocating for increased awareness and strategic deployment.

At the simplest level, every impact investor can aim to be more catalytic in their provision of capital. First steps towards this goal include inserting into their deployment process some fundamental questions before decisions:

Could I be more catalytic with the resources and funding I’m deploying?

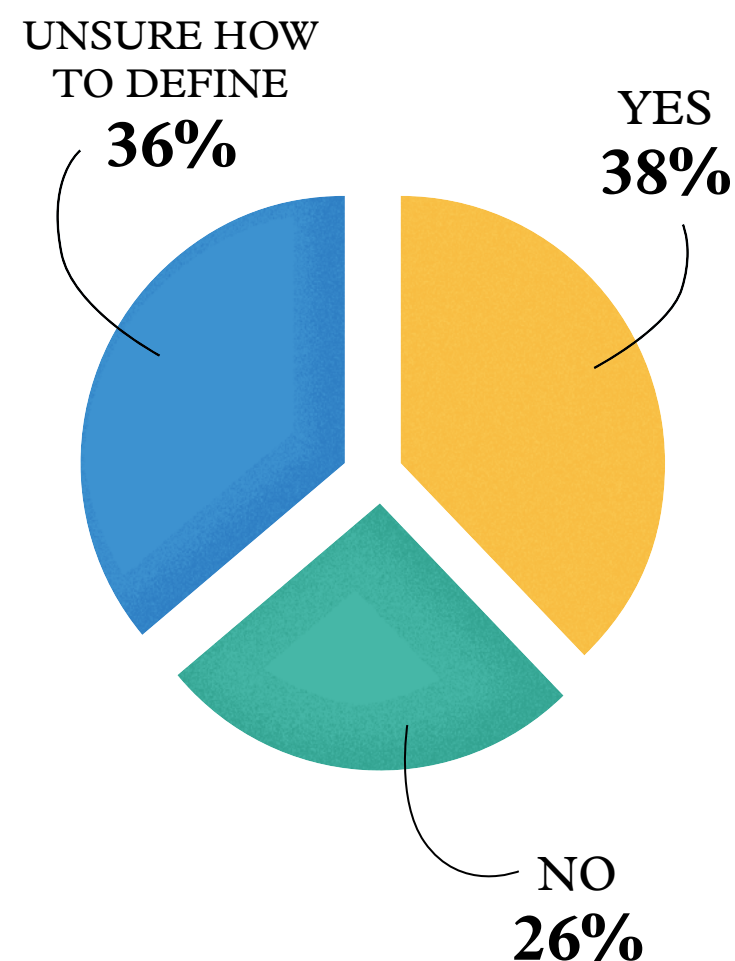
Are there actions I could take to make it easier for other capital to follow me?

Am I replacing other capital or providing new capital?

Those leading the charge go beyond these questions. They’re **impact capital pioneers**, many of whom generously provided their insights for this paper. From our own membership we see three groups of actors we believe are replicated across the impact ecosystem:

Do you deploy catalytic capital?

Figure 1: “Do you deploy catalytic capital within your existing portfolio?”
Source: EVPA Membership Satisfaction Survey 2021



To all actors – deployers, non-deployers, the unsure – we need visionary investors who intentionally target market gaps. Investors who can help design, build and/or prove optimal financing frameworks to bridge these gaps (not just work around them). Without catalytic capital, mainstream finance dynamics will keep failing to meet the needs of the underserved, making the transition to greener economies a privilege for the few, not the many. No matter where you identify yourself in the groups above, engaging with catalytic capital makes you part of the solution.

For those who can’t wait to get started: In the final section of this paper – **Catalysing the future** (p. 46) – we go into specific detail on how each audience can make their investments more catalytic.

FAQs



WHAT IS THE RELATIONSHIP BETWEEN CATALYTIC CAPITAL AND CONCESSIONARY CAPITAL?

While the focus on gaps left by market and/or the public may require the provision of capital that accepts lower returns compared to market rate, this is **not** a necessary or universal attribute of catalytic capital. Catalytic capital is driven by impact gaps and is an approach to address them.

WHAT IS THE RELATIONSHIP BETWEEN CATALYTIC CAPITAL AND BLENDED FINANCE?

Blended finance is a structuring approach that allows organisations with different objectives to invest alongside each other while achieving their own objectives (whether financial return, social impact or a blend of both). Catalytic capital is an essential ingredient within a blended finance structure. It is much broader than its adoption within blended finance structures.

WHAT IS THE RELATIONSHIP BETWEEN CATALYTIC CAPITAL AND ADDITIONALITY (AND INVESTING FOR IMPACT)?

By definition, catalytic capital pursues impact for people and planet *that otherwise could not be achieved*, which, in other words, means **it is additional**. Catalytic capital is one of the strategies investors adopt in order to be additional in the impact they generate, but it is not the only one. Since investing for impact is tied to the concept of additionality in all its forms, it is then broader than catalytic capital.

IS GRANT FUNDING CATALYTIC CAPITAL?

Certain categories of grants can be considered as catalytic capital because they cover all the elements included in the definition.

Catalytic criteria



The missing piece

Among agents of change, catalytic capital providers arise as dynamic connectors, linking visionary concepts with concrete and impactful investments. Their investments fill gaps – and enable filling even more gaps.

For example, Acumen's catalytic investment in d.light, presented in further detail later in this paper, is a clear example of a powerful enabler. The funding addressed the lack of reliable and clean energy sources in remote and off-grid areas in India and Kenya, where affordable financing options were limited. d.light's products improved the quality of life for millions of people, reducing health risks associated with traditional kerosene use and enabling extended study hours and productive activities after dark. Acumen's investment served as an **initial enabler** for pioneering new models of consumer financing, unlocking microfinance institutions and supporting pay-as-you-go systems. This expanded access to d.light's products, improved financial inclusion, and generated additional social and economic impact.

Acumen took a leading role with a high-risk investment. And yet, a recurring message heard at the five EVPA catalytic capital expert-only gatherings is that there are many impact investors willing to collect the fruits, but too few planting the seeds.

This is the context where catalytic capital providers have an opportunity to inspire and lead. While acknowledging they are the ones planting the seeds, they also recognise that follow-on investors will collect the fruits alongside them.

It starts and ends with **IMPACT**

“Creating an impact business doesn’t work without catalytic capital. If it can start from scratch with purely commercial capital, it would probably not be considered an impact business anymore.”

These are the words of Bjoern Struwer, Founder and CEO of Roots of Impact. Bjoern’s point sums up a view we heard again and again at practitioner gatherings: **impact starts with catalytic capital.**

But what does an investment need to have to be considered as catalytic capital? How can an investor be qualified as a catalytic capital provider?

Catalysing additional investment is one criterion, but it is not sufficient on its own. The true essence of catalytic capital is its potential to lead to additional impact – one that would not have happened otherwise – going beyond mobilisation of resources to generate better outcomes.

Deployers target areas where there is an impact gap and take deliberate actions to achieve real progress towards impact goals. In this way, catalytic capital is one of the strategies adopted by investors to pursue additionality.

The impact ecosystem gathers a variety of capital providers who differ in their deployment strategies and financial instruments – everyone from grant-makers like Alfamar to development actors like Kampani, whose cases are later discussed. Capital providers show a variety of impact and financial risk appetites, but also different governance structures and investment processes.

Catalytic capital represents one among many strategies available to investors. It is neither better nor worse, but rather complementary, as different roles are needed to drive impact at scale.

The role of catalytic capital in this mix is characterised by its unshakeable alignment to an enterprise’s impact goals. The latest evidence of this among our practitioners was in our recent webinar on Catalytic Capital: The Key to Additional Impact, where Yasmina Zaidman, Chief Development and Partnerships Officer at Acumen, highlighted the alignment between catalytic capital and the mission-driven nature of impact ventures.

By targeting the same gaps impact ventures are trying to fill, “catalytic capital enables impact actors to focus on their mission without compromising their goals due to pressure for short-term financial growth.”

What it can be

As the partners of the Catalytic Capital Consortium and the broader impact investing community investigate the traits of catalytic capital, EVPA and its members have played an active role in the debate. This community used the direct examples of partners in the field to define the following **key characteristics of catalytic capital**.

1. Catalytic capital takes risks

A shared concern in the EVPA community of practice on catalytic capital is the **financial risk aversion** from many impact investors. Such concern aligns with literature² and echoes EVPA's narrative on investing for impact³.

In an effort to address this prevailing concern, EVPA curated a selection of 17 successful catalytic capital cases, all of which demonstrated the potential catalytic capital holds in de-risking impact solutions in **two primary ways**.

First, catalytic capital enables the development of **new markets** by investing in **innovative or**

underserved areas, such as technologies, geographies, sectors, profiles of founders and volatile currencies.

Second, catalytic capital provides funding for under-funded solutions in the **missing middle**, filling critical financing gaps.

Catalytic capital seeks to mitigate the inherent high risk attached to early-stage projects by channelling resources towards them, thereby enabling them to gain a foothold and establish themselves as viable entities for subsequent investments.

This intervention not only creates investor confidence, but also

serves as an impetus for potential investors who are typically risk-averse when venturing into new markets. Here the de-risking effect of catalytic capital is crucial: it helps reduce barriers associated with traditional investment financing that limit scalability and sustainable development of ventures operating in these early-stage spaces.

In understanding the value of catalytic capital, one should recognise that it is not a private subsidy; it is an essential investment to foster new markets, generate pipeline and ensure that no solution with high impact potential is underfunded or must compromise its impact.

2. It entails patience

Patient capital, a term well-known in the impact community, has significant overlap with catalytic capital. Indeed, a feature of catalytic capital is its patient approach.

Whereas conventional investment strategies prioritise immediate financial gains, providers of catalytic capital acknowledge the importance of a more extended timeframe when addressing social

The case of Kampani, further elaborated later in this paper, exemplifies the high-risk nature of catalytic capital in impact investment. This inherent risk arises from the potential mismatch between the social impact goals and the financial performance of the investment. Kampani operates in a niche that most investors tend to avoid, focusing on impact-first social impact investments that often require significant compromises in terms of financial returns. Kampani's unique approach and target regions introduce additional complexities and uncertainties, as they operate in countries with varying socio-economic conditions and political landscapes. But in Kampani's case, the risk paid off in impact: the investment enabled the growth, diversification and scaling of investees, reaching thousands more farmers who were not served by other investment funds.

and environmental challenges. They understand that forging a lasting impact often demands time for experimentation, adaptation and continuous evaluation.

This is the best scenario for impact ventures, as many of them are not yet ready to deliver commercial returns, or at least not without jeopardising their social mission. Catalytic capital providers are willing to accept

below-market returns for a varied period of time, regardless of the degree of maturity ventures have achieved.

Laurence Hulin, ICFA Programme Director, pointed out the need for a mindset shift to build more patience into the system: “We need to change the mentality around catalytic capital. We cannot expect the same return as market-based investments. Those market frames do not give access to smaller projects and favour big players. Flexibility is key.”

The flexibility Laurence describes points to the fact that catalytic capital has an influence at both the seeding and scaling stages of impact ventures. This effect was highlighted in a series of reports⁴ developed by the Catalytic Capital Consortium in 2022, shedding light on the transformative role such capital plays in supporting early-stage development to expansion and growth.

For those at seeding stage, as indicated in the reports, catalytic capital providers make a courageous move by investing in emerging projects that have potential but lack proven solutions.

This essential support allows investees to create prototypes, authenticate their models and prove feasibility.

For those at scaling stage, catalytic capital providers adopt an enduring and transformative role by assisting in expanding operations in order to reach a wider community of beneficiaries. This approach enables impact projects to strengthen distribution networks, enhance organisational capacity and increase production.

The case of ERSTE Foundation, partnering with Slovenská Sporiteľňa’s social banking unit and Project DOM.ov, presents a compelling example of patient capital in action, specifically in the seeding stage. By establishing a guarantee fund of €50,000 in 2017, ERSTE Foundation provided a secure platform for micro-housing loans, allowing marginalised Roma communities to access affordable housing.

With a guarantee fund that covered 25% of each loan, it generated a four-time leveraging effect. The fund closed in 2019, providing housing loans ranging from €15,000 to €18,000 with an 18-year duration and a 12-month grace period. Through this strategic approach, ERSTE Foundation showcases patient capital’s endurance, a long-term vision and a transformative role in enabling sustainable impact over an extended timeframe. The solution benefited 100 families from marginalised Roma communities, 60 of which were able to save for 12 months, building 21 houses; 38 families secured regular jobs after 5 years.

3. It is designed to be flexible

Flexibility unlocks the true potential of catalytic capital. It is flexible in the sense of being **versatile** and **responsive** to the financial requirements and operational constraints of impact ventures.

Flexibility comes from the use of different investment instruments, where equity and other risk-sharing mechanisms are considered more flexible than fixed-rate debt. Flexibility also lies in the ability of catalytic capital providers to comprehend and address the unique circumstances of each impact venture at every stage of their journey.

In this way catalytic capital holds a chameleonic power. Its providers can respond to evolving situations and changing necessities, modify and tailor their techniques to what is most necessary, and support business challenges or adjust resources accordingly.

The benefits of this approach for impact ventures seeking growth cannot be overstated. Enterprises are better equipped to manoeuvre the challenges that come with expanding their operations, enhancing smoothness

and efficiency. Flexible funding allows businesses to modify their approaches, strategically designate resources and grasp new growth prospects promptly – ultimately escalating their effectiveness while driving substantial transformation on a greater scale.

The flexible nature of catalytic capital is exemplified through real-world cases such as the Roots of Impact’s initiative, Social Impact Incentives (SIINC), a catalytic funding instrument that aligns capital with incentives to drive change for people and the planet. A receiver of such support was Clínicas del Azúcar, a leading provider of specialised diabetes care in Mexico, catering to lower middle-income groups.

SIINC’s flexible nature enabled the company to leverage the benefits of this instrument. While receiving a maximum SIINC amount of \$275,000 over a period of 2.5 years, Clínicas del Azúcar simultaneously raised \$1.5 million in equity investment.

SIINC offered Clínicas del Azúcar time-limited payments and allowed parallel fundraising, enabling the company to fuel its growth. This combination of flexible instruments and timeline showcased catalytic capital’s capacity to evolve and respond to the specific needs of impact ventures, empowering them to seize growth opportunities.

4. It tolerates concessionary returns

Catalytic capital is characterised as **concessionary** as it bears reduced rates of return. In other words, a catalytic capital investor understands and agrees with receiving a financial return which is lower than the risk-adjusted market rate. The concessionary feature is crucial in blended finance mechanisms, where the catalytic capital portion mobilises resources from other funding sources with less flexibility in terms of returns.

This element is particularly evident in the sustaining stage of impact enterprises, where catalytic capital providers deploy concessionary funding to ensure their long-term sustainability and growth. It not only facilitates the development of resilience within these projects, but also enables them to adapt to shifting market conditions. As an added benefit, the concessionary layer of capital empowers organisations to navigate economic volatility by exploring innovative revenue streams.

However, this is not always as straightforward as it may seem. As pointed out by an experienced practitioner in one of EVPA's community of practice gatherings, "there is a risk for fund structures to not translate the disproportionate risk and concessionary returns into their strategies, leading them to engage in activities that mirror purely commercial investments."

This statement fostered a broader discussion on concessional characteristics and market rates: Is catalytic capital inherently concessional? Can it still drive significant change without it? Are there examples of successful initiatives that are not concessional in some way?

After reviewing EVPA's own collection of case studies and the literature available publicly, we have yet to find examples of catalytic capital investments that consistently generate adjusted market-rate returns. This calls for further exploration; we would value the chance to examine a contrary example, one showcasing how catalytic capital can indeed deliver both impactful outcomes and competitive financial returns. Please get in touch if your organisation exemplifies this effect.

Grant-making plays an essential role in supporting impact solutions that are either not ready for repayable instruments or lack a viable business model at their current stage of development. Versatile by nature, catalytic grants can have two main roles.

The value of catalytic grant-making

1. Catalytic grants fuel revenue generation

For ventures equipped with a (potential) revenue-generating model, grants can make a substantial difference in facilitating key activities, such as research, capacity building, piloting business models and generating extra income. These activities help improve foundational skills while supplementing the early-stage income of impact organisations until they achieve financial viability.

To date, a wide range of social entrepreneurs have benefitted from the use of grant funding in their early stages, followed by repayable instruments after proving the feasibility of their concepts. This catalytic approach allowed them to experiment and improve upon their innovative solutions without being burdened by revenue generation pressures in the short-term.

Gathering all the above-mentioned insights, the case below is a clear example of how catalytic grants have the potential to fuel revenue generation.

Investor	Alfanar
Investee	FabricAID
Country focus	Lebanon, Jordan
Type of instrument	Equity, grants and 0%-interest repayable grant
Why is it catalytic?	Alfanar provided patient funding, management support and access to markets for a period of three years, enabling FabricAID to grow their sales without compromising their social impact component, attract other investors and become a leader in the social enterprise sector in the MENA region.
How is this funding catalytic?	The patient capital and the management support from Alfanar helped FabricAid become investment-ready and grow their business while scaling their social impact. The funding allowed FabricAid to multiply its sales by a factor of five, making it more attractive to investors. FabricAid’s ability to raise significant funding became a proof-of-concept for the launch of Alfanar’s upcoming regional impact investment fund, raising awareness on the strong potential of impact investing in the MENA region.
Gaps targeted	FabricAid targets the gap between high clothing consumption and disposal of discarded clothing in landfills. They also aimed to address the gap in access to affordable clothing for over 77 million people in the Arab world who cannot afford new clothes.
Additional impact generated	FabricAid created 120 jobs for youth, including refugees. They supported over 152,000 vulnerable individuals in accessing affordable clothing. Plus, they diverted 332,000 kg of textile from landfills, reducing carbon emissions by 1,200 tons and water consumption by around 2 billion litres. It is realistic to affirm that, without the catalytic funding of Alfanar, FabricAid might have had to reduce its social impact to sell clothes closer to market prices and reach break-even sooner.
Follow-on funding	FabricAid was able to raise \$1.6M in funding after receiving support from Alfanar. This follow-on funding allowed the organisation to grow its number of retail shops, launch new upcycling brands and expand its operations to Jordan and the UAE, allowing it to increase its positive social and environmental impact. One of the funders is a leading VC fund in MENA that doesn’t usually invest in social enterprises.

2. Catalytic grants test ideas for scale

With their diverse capabilities, grants also have the potential to transform ventures without an established revenue stream by providing valuable assistance in testing ideas for scalability.

Grantmakers can offer crucial support to social entrepreneurs through catalytic funding, enabling them to refine their strategies and scale up their operations towards achieving maximum impact potential, even in the absence of assured success. As a result, additional donors can support the solution at a later stage of development, establishing an environment with high sustainability potential.

In line with this benefit at the environmental level, an increasing number of organisations that provide funding are beginning to implement a systems change approach. This not only benefits the recipients of funds and garners further capital, but can also have potential implications for policymakers, altering the methods for addressing social issues – more on this effect in the Rethink Ireland case study below.

Achieving this kind of impact requires a long-term perspective that is adaptable and open to change. Rethink Ireland’s investment not only focused on achieving financial sustainability, but also on ensuring the long-term impact and viability of the organisation.

Investor	Rethink Ireland
Investee	Sensational Kids
Country focus	Ireland
Type of instrument	Grants
Why is it catalytic?	It served as a trigger for Sensational Kids’ advancement and influence. The funding empowered the organisation to expand its operations on a larger scale, transitioning from one child development centre in County Kildare to establishing an envisioned €10.6 million National Child Development Centre. Such expansion would serve 30,000 children over the next decade, showcasing significant growth potential.
How is this funding catalytic?	It provided support to establish a senior management team and a proper organisational structure, two crucial components for future growth. Rethink Ireland’s backing also assisted in creating a fresh marketing and retail strategy that raised brand awareness, online sales and profitability. Moreover, the investment facilitated a study of the organisation’s impact measurement practices, which made it easier to access finance and raise the funds required for their National Child Development Project.
Gaps targeted	Bridge the gap between public and private therapy services for children with additional needs.
Additional impact generated	The organisation witnessed growth in their therapy and retail income streams since 2018, indicating increased recognition and expanded services across Ireland. The funds secured, together with the revenue generated, helped ensure the long-term viability of the organisation, yielding better outcomes for children with additional needs by increasing the availability of vital therapeutic resources at more reasonable prices.
Follow-on funding	In 2022, Sensational Kids secured a total of €390,000 in funding from philanthropic sources, including trusts and foundations. Additionally, they received €66,000 from the private sector and €50,000 from individual donors. Furthermore, they successfully secured €1.3 million in bridging finance specifically designated for a capital project.

3. Key traits of catalytic grants

The defining element of catalytic grant-making is its capacity to **support experimentation** and test-run initiatives regardless of financial or impact histories.

- 1 Catalytic grantmakers create a **leverage effect by de-risking social and environmental solutions and attracting third-party investment** (be it impact investment or further grant-making).
- 2 Catalytic grant-making is also characterised by its **risk proneness**, distinguishing it from traditional approaches. It demonstrates a bold acceptance of the inherent unknowns when addressing market gaps or failures and demonstrates a strong commitment to **go beyond the limits established by other stakeholders in the ecosystem**.
- 3 The third attribute lies in its **flexible funding strategy**, as donors and grantees need to adapt their approach and implementation while data is still being generated.

The above message was reinforced by Alejandro Álvarez, European Vice President of Rockefeller Philanthropy Advisors, in one of EVPA’s discussions among grantmakers.

“There is a whole range of ways in which catalytic grants can be deployed: they can help test a new business model or fund research that provides valuable data. They can also supplement the income of an organisation during its early years, enabling to become financially viable and attract other investors who expect a return on their investment.”

Different types of grant-making (catalytic or not, funding revenue-generating impact ventures or grant-reliant projects) are often complementary. Foundations and grant-makers play a key role in fostering a collaborative impact ecosystem in which catalytic grants can thrive – and where synergies for transformative change are the norm, not the exception.

Catalytic outcomes

We qualify as catalytic capital only investments specifically conceived to generate an additional impact through their financial and often also non-financial support. The *intention* to target a gap is key to determine whether capital can be considered catalytic. However, merely *claiming* to provide catalytic capital does not automatically place investors within this scope.

Catalytic capital has an exceptional ability to generate a wide range of **outcomes** across various stakeholder levels, making it truly disruptive. In addition, its providers have the potential to create a variety of medium- and long-term effects, outlined below, both within their supported organisations and in the larger markets in which they operate.

Investee outcomes

The provision of patient, risk-tolerant and flexible capital enables **early-stage, seed or even pre-seed ventures** to grow. Providing room for innovation and proof of concept, catalytic capital allows these organisations to build track records that can attract other, more traditionally risk-averse investors over time.

Catalytic capital also enables **scaling ventures**. Supporting expansion of ventures to new markets or attracting further mainstream investment through elements of de-risking are just two of the ways catalytic capital is the fuel in the engine of expansion for impact ventures. It is possible because providers typically have an appetite to proactively take on higher risks or concessionary capital positions.

In both cases catalytic capital **protects the impact role** within the venture. By providing funding with specific impact-related

performance metrics or milestones, catalytic capital providers ensure founders’ accountability and commitment to their mission. By placing a value on impact, as part of their investment decision, catalytic capital providers publicly validate ventures’ impact focus. Providing this capital also practically enables ventures to avoid compromising on impact (increasing profitability or cutting costs) to attract funding from non-impact focused providers.

While all the cases included in this paper present outcomes, the one below from Acumen offers the clearest example of an outcomes focus: one that took risks to allow d.light to protect its impact role.

INVESTEE OUTCOMES

Investor	Acumen
Investee	d.light
Country focus	Acumen first invested in d.light focused on India, and later Kenya
Type of instrument	Equity and convertible notes
Why is it catalytic?	Acumen’s investment provided the necessary patient capital that allowed d.light to experiment, innovate and iterate on their product offerings. Its capital model, backed by philanthropic funding, enabled the company to receive early-stage financing and continue its operations and expansion despite the risks. Furthermore, the investment played a crucial role in creating a market that did not previously exist. It acted as a catalyst for the off-grid solar panel industry, paving the way for further investment. To date, the company has sold more than 30 million products and transformed the lives of more than 150 million people across 70 countries.
How is this funding catalytic?	Acumen adopted a risk-tolerant behaviour that was crucial for d.light, providing early-stage funding to a high-risk, high-impact venture. Its patient capital model allowed them to accompany d.light for a decade, supporting the company through experimentation, failure and long-term growth. Additionally, Acumen’s investment helped create a market that previously did not exist, attracting follow-on investors and reaching a larger customer base. Thus, it not only helped the company scale its operations, but also positioned it for further growth.
Gaps targeted	d.light addresses the lack of reliable and clean energy sources in remote and off-grid areas. The cost of solar-powered systems was high and became unaffordable for low-income individuals without financing options. Acumen’s original investment was focused on how to make the products cheaper (through low-cost lanterns). 5+ years later, Acumen made a further investment to also bring customers larger systems through end-user financing.
Additional impact generated	The company generated additional social and economic impact. Its products improved the quality of life for millions of people, reduced health risks associated with kerosene use and enabled extended study hours and productive activities after dark. Additionally, the ability to charge mobile phones facilitated increased connectivity and access to information for individuals in remote areas. d.light’s operations created employment opportunities and supported local economies. They developed and pioneered new models of end-user financing, introducing pay-as-you-go systems and expanding access to their products and improving financial inclusion
Follow-on funding	d.light has received over \$290 million of follow-on funding. Some of these funders include: • KawiSafi, a commercial VC fund established by Acumen but with fully commercial LPs • Nithio and Mirova Sunfunder – two specialist debt providers created out of the early success of companies like d.light • DFIs such as: Proparco, Finnfund, Norfund, Swedfund, Trade and Development Bank • Inspired Evolution Investment Management – South African based energy and infrastructure focused private equity firm • Shell Renewables – the global energy giant

Market outcomes

Catalytic capital also operates at the market level, both through support to an investee that fills a gap and creates a new market, and by focusing on a specific gap and creating a solution at a higher level. It plays a key role in balancing mainstream finance with social and environmental objectives. Beyond filling gaps, it ensures that varied voices and perspectives are represented in the market, promoting inclusivity.

In the mid-term, catalytic capital aids the growth of impact-oriented businesses and intermediaries. In this way it increases the demand as well as the supply side of impactful investments. As previously discussed in the Acumen and d.light case, these individual ventures can create new markets that did not exist.

Simultaneously, a pioneering catalytic capital investment can prove appetite for new ventures. It creates space for accelerators, incubators and other intermediaries to facilitate funding support systems between investors and potential impact ventures.

The long-term benefits are a market or ecosystem that factors in and values sustainable impact. One shining example that gathers all the aforementioned aspects of market benefits is Fondazione Housing Sociale. This investment and its follow-on effect built the social housing market in Italy.

MARKET OUTCOMES

Investor	Fondazione Cariplo
Investee	Fondazione Housing Sociale (FHS)– Fondo Abitare Sociale 1 (now Fondo Immobiliare di Lombardia C1 or FIL) – REDO SGR
Country focus	Italy
Type of instrument	Grants into FHS and equity into the first fund promoted by FHS and into its management company
Why is it catalytic?	By creating Fondazione Housing Sociale, Fondazione Cariplo tested and validated a model to address a gap left by mainstream finance and the public in the housing sector, which was then adopted and scaled by the Italian national promotional bank, Cassa Depositi e Prestiti (CDP). As a result, they built the social housing market in Italy, in parallel to the one developed by social cooperatives.
How is this funding catalytic?	The funding provided by Cariplo was catalytic in four different phases: The initial grant provided to cover the costs of the first feasibility study, conducted by Politecnico di Milano, which provided crucial intelligence for the development of a model to be piloted The grants provided to cover the costs of Fondazione Social Housing in the first three years since its inception in 2004 The €10M donated to Fondazione Housing Sociale in 2008 as an endowment, which allowed them to structure a finance team dedicated to the development of a first housing fund and the creation of strategic partnerships with public entities The €30M equity investment provided to the first real estate ethical fund “Abitare Sociale I”, which facilitated mobilisation of further resources. The €8M equity investment provided to REDO SGR, the benefit company managing the FIL
Gaps targeted	At the end of 1990s, Fondazione Cariplo identified a housing gap for people with an annual gross income between €20k and €50k, who were not eligible for public housing and would have struggled to secure housing in the traditional market.
Additional impact generated	The support provided by Fondazione Cariplo was instrumental to the creation of the housing model scaled by CDP, and without it more than 25,000 families and 8,000 students would have struggled to access housing, which would have led either to over indebtedness or homelessness or, in the case of students, limited or no access to university.
Follow-on funding	In 2007 Fondazione Housing Sociale promoted “Abitare Sociale I”, the first social housing fund with a focus on Lombardy where Cariplo itself invested €30M, which attracted additional €55M from institutional investors. This model had great success and was taken over by CDP to make it a system of funds at the national level. In 2009, CDP structured a system of 29 housing funds that collected €3 billion from private and institutional investors, which is still in place.



Catalytic capital in low-income countries⁵

EVPA organised a dedicated online gathering and a session at Impact Week on catalytic capital for development.

Specific opportunities, challenges, the role of Development Finance Institutions (DFIs) and the need to build awareness were the most pertinent topics for discussion among more than 15 experts and practitioners. Below are summarised the learnings that arose from our discussions.

1

More risks ask for more catalytic capital.

Large capital flows into low-income countries, but the majority of this capital does not meet the financial requirements for impact ventures with high-risk and high-growth potential. Moreover, investors operating in low-income countries not only deal with financial risks, such as litigation and currency fluctuations, but also impact-related risks, such as not being able to deploy capital to those organisations that are physically close to the communities they intend to serve. Beyond the risks, lack of infrastructure in low-income countries calls for more patient and flexible conditions of the capital deployed, making catalytic capital especially relevant to build thriving ecosystems in emerging economies. Impact Investing Ghana⁶ released a recent report, gathering six compelling case studies that illustrate the transformative power of catalytic capital in low-income countries; this report was an essential resource for the following findings.

2

Development finance institutions (DFIs) and their use of blended finance have shaped catalytic capital in low-income countries.

DFIs have long been important players in low-income countries, owing to their competence and capability in offering essential funding and tailored knowledge. Due to strict mandates affecting their funding requirements, DFIs' investment strategy is geared towards specific risk-return profiles that do not always align with the needs of high-risk, high-impact organisations. DFIs are increasingly seeing in blended finance a means to support impact ventures that would otherwise not be investable. The joint report developed by the "DFI Working Group on Blended Concessional Finance for Private Sector Projects" shows that, in 2021, DFIs deployed a total amount of \$13.4 billion thanks to the support from blended concessional finance, but the catalytic layer was often provided by philanthropic institutions and development agencies. Impact practitioners agree that DFIs should increase their deployment of high-risk concessionary capital to help impact ventures thrive in low-income countries. It allows for leveraging the expertise and resources of DFIs while mitigating risks and mobilising additional private sector investment. Marlies Kimpe, Associate Director at South Pole and Fundraising Lead at the Landscape Resilience Fund, identified another area of future improvement for DFIs: "Impact could be larger if all DFIs were to adopt a standardised impact framework that is comparable and transferable. This would allow different public funders to come on board, with impact requirements and reporting all following the same format."

3

Catalytic capital in low-income countries goes beyond blended finance.

European catalytic capital providers have made incremental progress in addressing market gaps in low-income countries. The Kampani case below outlines the power of catalytic capital when emerging from public-private collaboration. Kampani's track record of 7 years and 16 deals without any bankruptcies or major restructuring underscores the effectiveness of their model and the potential for scalability. Their example proves the viability of blended finance in a low-income geographical context, demonstrating catalytic capital as the starting point.

While blended finance has proven effective, there is untapped potential for collaboration with a broader range of impact investors; this might include collaboration with impact-focused angel investors and venture capital funds. This approach could be instrumental in catalysing investment in low-income countries because these actors can provide not only capital but invaluable expertise and mentorship to early-stage ventures.

4

Bridging boundaries and solving shared problems requires bi-directional knowledge exchanges.

Despite cultural and economic differences, low-income countries and European regions share some similar social and environmental challenges, such as poverty, exclusion, inequality, climate change and displaced people. Consequently, there is value in understanding the challenges and solutions in low-income countries for knowledge exchange and cooperation. Such economies have acted as hubs for generating innovative solutions, driven by local expertise and resource constraints.

The case below is just one of the examples where catalytic capital providers active in different regions of the world could learn from each other. In this case, the needs of agricultural SMEs across regions are similar enough to consider this solution as widely applicable across geographies.

For a deeper understanding of catalytic capital's effects in specific geographic regions, EVPA's sister organisations – AVPA, AVPN and Latimpacto – serve as valuable points of reference. Beyond the materials already published on their respective websites, a global research project on catalytic capital is in progress – stay tuned for a release date near the end of 2023.

BEYOND BLENDED FINANCE

Investor	Kampani
Investee	Smallholder farmers
Country focus	Africa, Asia and Latin America
Type of instrument	Equity and subordinated debt
Why is it catalytic?	By operating as an impact-first social impact investment fund, they managed to offer an attractive risk-return ratio that involved higher risks compared to traditional investments.
How is this funding catalytic?	The establishment of a first loss tranche with public money provided by the Belgian government de-risked investment for private shareholders. This reduction in risk made Kampani more attractive to risk-averse investors, increasing their participation in the fund. By demonstrating the success of Kampani’s approach, the funding acted as a validation of their model and attracted further interest and support. The injection of public money into Kampani’s operations had a multiplier effect, generating additional impact by leveraging private investment and mobilising resources.
Gaps targeted	Kampani targets the “missing middle” in agricultural finance, which is the gap of investment capital between small individual loans and industrial loans. They provide patient growth capital for capex-heavy investments to producer cooperatives and high-impact SMEs. The focus is on supporting smallholder farmers and people in poverty.
Additional impact generated	Kampani’s expansion allowed them to reach thousands more farmers who were not served by other investment funds. The support provided by them contributed to the growth, diversification and scaling of investees, leading to reduced vulnerability of smallholder farmers and higher/stable net income.
Follow-on funding	Kampani subscribes to the idea that their clients can ‘graduate’ to other types of investment funds. Those that require fully formalised businesses, with a professional financial management, in short mature businesses. In several instances, Kampani has been successful in introducing its clients to investors such as DFI’s. For instance, one of its investees is now a client of EDFI’s AgriFi.

BI-DIRECTIONAL KNOWLEDGE EXCHANGES

The Venture	Aceli Africa is a market incentive mechanism to mobilise financing for agricultural SMEs in Africa and thereby unlock their growth and impact
The challenge	The Sub-Saharan region faces a significant \$65 billion gap in meeting the \$240 billion market for agricultural finance.
A novel approach	Aceli Africa’s solution addresses risk and return constraints to make agricultural SMEs more attractive to lenders. Lenders are provided with a safety net that minimises their exposure to losses. Lenders can also access transaction subsidies to defray the costs of originating loans to SMEs located in remote regions. These donor-funded incentives mobilise 11x in private capital by Aceli’s 30+ lending partners, including both commercial banks and non-bank lenders.
How can we harness their expertise?	Challenges faced by agricultural SMEs in Europe, including access to finance and serving the missing middle, mirror those observed in sub-Saharan Africa. Aceli Africa’s portfolio-first loss coverage and origination incentives structures can be adapted to encourage European lenders to support higher-risk segments and new borrowers without compromising investment returns. European investors have a unique opportunity to drive change in agricultural finance by adopting Aceli Africa’s transformative practices: facilitating access to finance for agricultural SMEs, which can significantly contribute towards unlocking their growth potential and improving overall market viability. Additionally, Aceli Africa’s data-driven approach and impact evaluation, in partnership with the International Growth Centre generate insights to support policymakers in promoting more inclusive financial markets.

Catalysing the future

Breaking barriers

Catalytic capital has gained **significant momentum** in the impact investing landscape due to its numerous advantages and promising impact. Whether or not the ecosystem is fully ready to leverage its potential, however, remains to be seen.

When considering the main **barriers** faced by catalytic capital deployers, our approach started with the community of practice gatherings. These insights were then compared and evaluated alongside the catalytic capital consultation with an additional 24 organisations, enhancing our understanding of the broader landscape and the arising challenges.

Knowledge gaps among capital providers,
due to the absence of compelling case examples
and best practices

1

EVPA and its sister organisations are actively working to provide the impact community with success stories and facilitate knowledge exchange, as part of a broader effort coordinated by the Catalytic Capital Consortium. In addition to this whitepaper, EVPA has gathered a collection of 17 successful catalytic capital cases, showcasing tangible examples of impactful investments and organised five engaging gatherings dedicated to sharing best practices.

Knowledge gaps include **misperceptions about who benefits from catalytic capital**

and who bears the costs. The perception that catalytic capital is *only* a way to subsidise commercial returns through philanthropic capital is incorrect – and yet persists.

As part of our member gatherings, catalytic capital deployers highlighted the opportunity to take on a leadership role. Being catalytic implies a greater responsibility and a need to provide substantial evidence of this higher standard. This is particularly important when aiming to bridge the gap between catalytic capital and mainstream investors, as the expectations for proof of impact are heightened.

High variation among impact
assessment approaches

2

A lack of harmonised assessment standards hinders the effective evaluation and reporting of catalytic capital’s impact. A group of experienced practitioners from Rethink Ireland, Tiresia and Roots of Impact agreed that measuring outcomes and defining KPIs for catalytic capital investments can be challenging, particularly

considering its distinctive nature and impact compared to other investments. Should we focus on measuring the overall impact or specifically the difference made by catalytic capital in achieving outcomes that wouldn’t have been possible otherwise? This question remains unanswered among practitioners.

The difficulty of securing funding for catalytic
capital due to its inherent risk element, resulting
in limited allocation for its expenditure and
constraints on investors’ ability to prioritise these
initiatives within their portfolios

3

“One of the major barriers to get more access to catalytic capital is that most traditional capital is not ready yet to make this trade-off between revenues and impact.”

LAURENCE HULIN, INTERNATIONAL
CLIMATE FINANCE ACCELERATOR, 2023

The prevalence of conventional financial
approaches in designing impact funds

4

Traditional risk/reward expectations married to inadequate participation from community-based groups reinforces risk-averse strategies.

Opportunities and calls to action

Deployers, non-deployers and the unsure: all of these groups can take action on catalytic capital in some way. Whatever the scale of an investment, sharing the experience in case studies, webinars, even podcasts can help close the **knowledge gaps and misperceptions** (barrier 1).

When it comes to arriving at a **harmonised approach to assessment** (barrier 2), there was no consensus among the practitioners we spoke with, yet we see the ongoing debate as a healthy part of developing the ecosystem knowledge on the topic. It would be unrealistic to expect pioneers of a new approach to be in total agreement; there's hope for emergent standards as catalytic capital is put to further use over time.

To secure funding for **riskier investments** (barrier 3) and **challenge conventional approaches** (barrier 4), it will similarly take time to generate more examples. It will also take **courage**.

Courage begins with courageous people; an organisation or a fund cannot be inherently courageous, but the people who lead them, and the practitioners who choose to empower others with knowledge, can be courageous. And acts of courage can't help but inspire.

A troop of firefighters charge into a burning building; one of them has to be courageous enough to go first. This person's courageous action begets more courageous action.

One catalytic investment begets the next.

DEPLOYERS

Existing gaps are your target. The solutions you may invest in will address these gaps – great! – but it's still important to take careful measure of how far you may have to go.

Furthermore, by sharing insights with the community, you can empower more deployers to do it better. Transparency and knowledge-sharing – including mistakes and unknowns – is the key to scalable solutions and collective action.

Leveraging the power of measurement can help: when you pursue measurable outcomes, setting clear goals and metrics that demonstrate the tangible impact of your catalytic investment, it makes it much easier to enter a continuous process of improvement for your organisation and produce real data to share with the community.

Whether you are a corporation or a foundation, if you're deploying catalytic capital, you're already at the forefront of building a just society. You can have a powerful influence as the innovation engine for the wider impact investing market of the future.

If you aspire to pursue investments that make enduring impact on existing gaps, there is no alternative strategy more powerful than deploying catalytic capital.

NON-DEPLOYERS

For the resource-challenged:

Advocacy is a practical option; even small-scale pilot projects can have an outsize effect if your organisation can properly communicate commitment to the principles of catalytic capital. Even low-resource projects have the power to inspire the community and motivate others to deploy.

For potential deployers with

resources: Family offices, HNWIs, foundations and corporations are among the best-positioned capital providers to step-up and undertake this strategic transition. Imagine the impact you can make by unlocking your untapped capacity to deploy catalytic capital – now is the time! The EVPA community is here to support you every step of the way, providing the tools and network necessary to transform your aspirations into impactful actions.

THE UNSURE

We strive to provide comprehensive resources, such as this whitepaper, to equip organisations with all the knowledge they need to get started. You're not alone on this journey; expert guidance and peer support is available, not just in our ongoing community of practice, but globally through organisations like Catalytic Capital Consortium, ImpactAlpha and Bridgespan.

If you're ready to start testing the waters with pilot projects, a mindset of starting small and learning from practical experiences can help.

**And to all:
stay courageous!**

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