# Evaluation of the C3 Initiative

## INTERIM REPORT

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# Glossary

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| **Catalytic capital** | Debt, equity, or guarantees that accept disproportionate risk and/or concessionary returns from the perspective of a conventional investment in order to generate positive impact and/or enable third-party investment that would not otherwise be possible. |
| **C3:** | Catalytic Capital Consortium, comprising the MacArthur Foundation, the Rockefeller Foundation, and the Omidyar Network. |
| **CDFIs:** | Community development financial institutions are financial institutions that help underserved communities by providing affordable financial services and support. CDFIs can be banks, credit unions, loan funds, or venture capital funds, and they are certified by the U.S. Department of the Treasury's CDFI Fund. |
| **DFIs:** | Development Finance Institutions are development banks or subsidiaries set up - typically by governments - to support private sector development in developing countries. |
| **HNWI:** | High Net Worth Individual. |
| **Implementing partners:** | Organisations that have received grants or contracts to implement the C3 initiative. |
| **Strategic partners:** | The three foundations that make up C3 and that have pooled grant resources at New Venture Fund for the grantmaking component of the initiative. |
| **Network partners:** | Networks of investors of different types and geographies that are part of implementing partners. The network partners are: |
| ‣ **AVPN** | Asian Venture Philanthropy Network |
| ‣ **AVPA:** | Africa Venture Philanthropy Alliance |
| ‣ **Convergence:** | a global network of investors involved in blended finance |
| ‣ **EVPA:** | European Venture Philanthropy Association |
| ‣ **GIIN:** | Global Impact Investing Network |
| ‣ **Latimpacto:** | Network of impact investors in Latin America |
| ‣ **TONIIC:** | a global network of high-net worth, family office, and foundation investors |
| **NPC:** | New Philanthropy Capital, the Evaluation and Learning Partner (ELP) for the C3 initiative. |
| **PRIs:** | Program-related investments are a type of investment made by a foundation or public charity to advance a charitable mission. To be considered a PRI, the primary purpose of the investment must be to advance one or more of the foundation's exempt purposes, the production of income or appreciation of property cannot be a significant purpose for the investment, and the investment cannot be used to influence legislation or take part in political campaigns. |
| **Strategic partners** | The three foundations (The Rockefeller Foundation, the Omidyar Network, and the MacArthur Foundation) that make up C3 and that have pooled grant resources at New Venture Fund for the grantmaking component of the initiative. |

# 1 Introduction

# 1. Introduction

**This is NPC's first evaluation report of the Catalytic Capital Consortium (C3) initiative, a collaborative effort launched in 2019 to increase the knowledge, awareness, and use of catalytic capital–a vital form of impact investing that is patient, risk-tolerant, concessionary, and flexible in ways that differ from conventional investment.**

Through both grantmaking and investing programs, C3 seeks to demonstrate the power of catalytic capital as synergistic with other forms of investing across the full continuum of capital (including commercial rates of return) to safeguard the environment, support those most in need, and ultimately to help achieve the UN Sustainable Development Goals (SDGs).

The C3 Strategic Partners—The Rockefeller Foundation, the Omidyar Network, and the MacArthur Foundation—are jointly funding $10 million in grantmaking work; MacArthur is financing $123.5 million in C3-related investments (Field Partnership investments). The report covers the period between the inception of C3 (2018-2019) up until the end of August 2023.[1] [2]

**NPC synthesised data from several sources (see Section 3.4) to answer three strategic questions[3] about the C3 initiative to date:**

1. Does progress to date demonstrate significant, meaningful contributions? What were the contributions?[4] What will endure?
2. What approaches or elements of the workplan played a significant role in MacArthur's ability to contribute to changes in the impact investing field?
3. How did the landscape, and changes in the landscape, affect progress?

The report covers the C3 initiative with reference to the broader context and background to the initiative. The Field Partnership investments made by the MacArthur Foundation to advance C3 are, in most cases, approximately 10 years in duration. The grants made by the C3 Grantmaking joint pool (through the New Venture Fund project) will expire between 2023 and 2024. This interim report will be updated with a final report in 2027.

The remainder of the report is organised into the following sections:

- Section 2: Overview of the C3 initiative
- Section 3: Progress to date towards achieving the outcomes
- Section 4: Assessment of the implementation of the C3 initiative
- Section 5: Effect of the landscape on C3
- Section 6: Considerations for the remainder of the grant period
- Appendices

1. Different data sources cover slightly different timeframes for practical reasons. See Annex 1.
2. This report does not focus on the future-facing work announced by the C3 initiative for 2024 and beyond. Any references to future-facing work in the report are correct at the original date of writing (November 2023).
3. See Appendix 2 for a list of additional questions that guided the evaluation.
4. This is an evaluation of the initiative as a whole. It is not an assessment of the performance of any grantee, investee, company or individual that helped implement the initiative. Accordingly, with a few exceptions, this report does not name any of these implementing partner organizations.

# 2 Overview of the Catalytic Capital Consortium (C3) initiative

## 2.1 Background

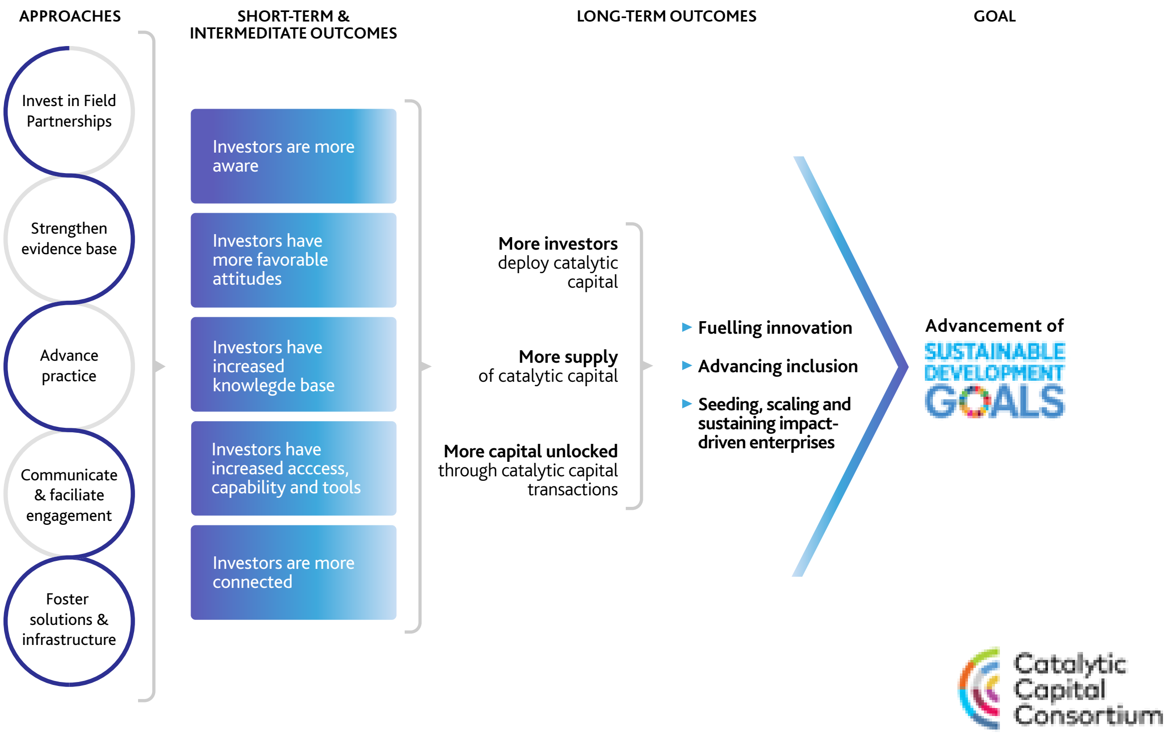
The genesis for the C3 initiative was growing concern among a group of impact investors, including the C3 strategic partners, that conventional capital that seeks market returns is insufficient to meet the financial needs of impact-driven efforts that investors consider too risky, small, or not profitable enough. A wider range of investing practices and forms of capital is needed to bridge gaps, fuel innovation, advance inclusion, and help seed, scale, and sustain impact-driven enterprises. This is illustrated by the persistent annual funding gap for achieving the UN Sustainable Development Goals and 2030 agenda—originally estimated at $2.5 trillion for developing countries alone but since estimated at $4.2 trillion.[5] This gap has not been closed with the use of public sector funding and conventional capital. For the impact investing field to realize its full potential of contributing to positive social and environmental change, the flow of catalytic capital must increase. These original intentions, linked to the 2030 agenda, have been complemented by the net-zero challenge and the growth of climate finance, one of the fastest growing areas of catalytic capital (see Section 3.2). To this end, starting in 2018 the C3 strategic partners –the John D. and Catherine T. MacArthur Foundation ("MacArthur"); The Rockefeller Foundation; and Omidyar Network– funded a series of investments and a combined $10 million in grants to promote the short-term, intermediate, and long-term outcomes shown in Figure 1. The investments were made by MacArthur, and the grant programme was funded by all three strategic partners.

**Catalytic capital is debt, equity, or guarantees that accept disproportionate risk and/or concessionary returns from the perspective of a conventional investment in order to generate positive impact and/or enable third-party investment that would not otherwise be possible.**

**It can be used to 'seed', 'scale' or 'sustain' business models that generate significant positive social and environmental outcomes.**

Leijonhufvud, C., Locascio, B, Pemberton, A, & Kaur, K. (2019). *Catalytic Capital: Unlocking more investment and impact. Tideline.*

*Figure 1: Conceptual Framework for the C3 Initiative*




5. OECD (2020). Global Outlook for Financing Sustainable Development for 2021: A New Way to Invest for People and Planet. OECD Publishing, Paris. Retreived from: https://doi.org/10.1787/e3c30a9a-en

## 2.2 Approaches for achieving the intended outcomes

### Five approaches have been used to promote the deployment of catalytic capital:

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| 1 | **Investment in Field Partnerships** | Between 2018 and 2020 the MacArthur Foundation made commitments to impact investments totalling $110 million[6] to draw attention to powerful examples of catalytic capital, develop lessons on deploying catalytic capital, directly create positive social and environmental impacts, and provide evidence on the impacts of catalytic capital (see Section 4.3 for findings to date). |
| 2 | **Strengthen the evidence base** | In 2021 $2.2 million in grant funding (out of a combined pool of $10 million committed by MacArthur, Rockefeller, and the Omidyar Network) was provided via C3 Grantmaking to support 14 research projects on past uses of catalytic capital around the world to build up knowledge about catalytic capital. The research projects looked at various examples of why and where catalytic capital has been needed, what it looks like, who has been involved, how it has been utilized, and what outcomes have been the result. |
| 3 | **Advance the practice** | In 2021, the C3 strategic partners funded a series of peer learning sessions that took place in 2022 among experienced practitioners to help them identify and share current best practices to inform and support effective deployment of catalytic capital. Lessons were summarized in three papers intended to serve as Practitioner Guides. The expectation was that participants in these sessions and others who read the papers would lead the way for the development of a community of practice that the C3 team could begin to help shape and guide in 2024, collaborating with other leaders in the field. |
| 4 | **Communicate and facilitate engagement** | In two grant-making rounds, one in 2021 and the second in 2022, just under $2 million in grants were awarded to a group of eight leading impact investing networks (see Appendix 2) to promote awareness and understanding of catalytic capital among their membership (mainly investors of different types or located in different geographies). Activities included disseminating outputs and learnings from other activities supported by the initiative, shining a spotlight on the Field Partnerships, connecting with and showcasing catalytic capital activity in the field, and producing thought leadership around catalytic capital. In addition, the C3 Grantmaking team also supported media coverage of catalytic capital by Impact Alpha, a leading impact investing news service. |
| 5 | **Foster solutions and infrastructure** | In late 2022 and early 2023, C3 grants were used to invest in twelve innovative pilots and projects to enhance the deployment of catalytic capital. These are relatively recent grants and hence have not been part of the scope of this evaluation report. |

6. One remaining commitment to the SDG Loan Fund, which closed in 2023, has not been announced publicly. Additionally, subsequent commitments totaling $13.5 million have since been made, bringing the overall commitment to $123.5 million.

## Examples of C3 grants to date:

### Strengthening the evidence base

Impact Investing Ghana in collaboration with Asheshi University researched how catalytic capital has been deployed—such as what forms it has taken and what financial or risk concessions were made--in Ghana's SME financing sector to address the social and economic needs of various underserved populations.

### Communicating and facilitating engagement

Toniic, a network of approximately 500 individual impact investors and family offices, have developed resources and held webinars and training for investors to help them deploy catalytic capital based on member input on what would be useful.

### Fostering solutions and Infrastructure

Invest Appalachia is operationalizing a blended capital impact investing fund to catalyze community investment in the Central Appalachian region.

## The C3 initiative's approaches seek to influence:

### ► Potential and existing providers of catalytic capital

primarily foundations, family offices, ultra-high net worth individuals (UHNWIs), but also development finance institutions (DFIs).

### ► Other providers of private or public capital

who provide the associated investment mobilized by catalytic capital, as part of a blended structure or through a subsequent investment.

### ► Intermediaries

such as investment advisors and asset managers who help define and shape investment practices and policies.

### ► 'Influencers' and thought leaders

such as academics, journalists, and think tanks.

This report includes quotes from people who belong to one of these groups and were interviewed for this evaluation. The purpose of the quotes is to illustrate particular points. The quotes have been anonymized to preserve confidentiality.

# 2.3 Evaluation methodology: approach, challenges, and strengths

## The evaluation has been developmental in approach.

It has been an iterative and ongoing process of collecting and reviewing data, developing, and testing hypotheses, and reporting to the MacArthur team. NPC collected primary data and triangulated this with secondary data to answer the evaluation and strategic review questions. There were ten different data sources / methods (see Annex 1 for a description of each). This combination of a developmental and mixed-method approach has allowed for a rich understanding of if, how, and why the C3 strategy has achieved its goals, and to identify challenges, barriers, and opportunities.

*This combination of a developmental and mixed-method approach has allowed for a rich understanding of if, how, and why the C3 strategy has achieved its goals, and to identify challenges, barriers, and opportunities.*

To reflect the rolling nature of the implementation of the C3 initiative described in Section 3.2 and simplify tracking of changes, the report below describes changes in outcomes and in landscape from a **baseline** period of three years prior to the official launch of C3 (2016-2018) to a period we call **T1** which covers the first few years after its launch. For quantitative data, including the media monitoring data and data on the number of investors and the volume of catalytic capital, T1 covers 2019-2021. However, as interviews took place in the first half of 2023, interviewee opinions for T1 cover 2019 to the first half of 2023. This discrepancy between the period covered by T1 does not affect the conclusions.

**The limitations of the approach are that:**

- NPC relies in part on grantees for collecting and reporting data who were not consistent in the amount of, or quality of data collected and reported, which leads to gaps in the analysis.
- As there is no clear counterfactual (i.e. estimate of what may have taken place in the absence of the C3 initiative) there is some uncertainty as to the degree that the impacts observed were due to the contribution of C3 rather than something else. NPC judged the contribution of C3 on the impact investing field by combining stakeholder opinions with more objective data while taking into account other factors that likely influenced the intended outcomes of C3.

# 3 | Progress towards achieving the outcomes

# 3. Progress towards achieving the outcomes

**Strategy review question 1**

Does progress to date demonstrate significant, meaningful contributions? What were the contributions? What will endure?

This chapter discusses the extent to which C3 has contributed so far to its intended outcomes, namely: increased awareness of, more positive attitudes towards, and improved capabilities to deploy catalytic capital, and ultimately higher levels of catalytic capital deployed. It is important to note that not all of these are likely to have changed in the few years since the initiative's launch.

Moreover, the initiative is ongoing with some grants continuing until 2026. Many of the grantmaking workstreams are still in an early stage of development. MacArthur and the C3 Strategic Partners expect that activities planned for the next couple of years, along with the ongoing dissemination of the initiative's outputs, will lead to further progress.

## 3.1 Short-term and intermediate outcomes

### Between 2019 and 2023, the C3 initiative has made varying degrees of progress so far towards the five short-term and intermediate goals.

**Awareness of catalytic capital, both as a term and as a concept, has increased:**

- The term and concept of catalytic capital is established in the segment of the impact investing sector targeted by the initiative. There has been a significant increase—by some measures a doubling—in the use of broader catalytic capital terminology in news and social media since the initiative's inception. This increase is primarily driven by increased use of the term 'blended finance'[7] reflecting the size and importance of the development finance sector, but also by increased use of the specific term 'catalytic capital'. In NPC's view this is where the C3 initiative has been most successful to date.
- Stakeholders have either embraced or had a neutral reaction to the introduction of catalytic capital as a new term in the lexicon. Some investors and advisors, such as those in the climate sector or in developing markets, have embraced the framing of catalytic capital. Others—such as Development Finance Institutions (DFIs), foundations, and family offices—seem to prefer to use existing terms such as impact-first investing or patient capital. As a new term for many investors and advisors, the nuances of the interpretation of catalytic capital and exactly how it differs from impact investment or mainstream capital is a concern to some.

7. Increased use of blended finance as a term advances the goals and objectives of C3, as blended finance does not exist without catalytic capital. Blended finance is the outcome of catalytic capital combining with development finance and other forms of conventional investment within a capital stack.

While some investors have embraced the notion of catalytic capital, there is limited evidence of changing **attitudes** toward catalytic capital in the few years since C3 was announced. In part, this reflects challenges in measuring such changes as well as the short time since C3's inception.

- There is some suggestion that attitudes are changing for high net worth individuals and family offices via generational shifts.[8]
- Willingness of investors to accept either disproportionate risk or a below market return to receive outsized social and environmental impacts is a difficult attitude to change.

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While C3 grants have directly contributed to the evidence base around catalytic capital, and awareness of catalytic capital has increased as noted above, there is still a gap in the **knowledge base** about the track record of catalytic capital deployment in terms of financial and impact returns achieved:

- Grants to researchers made through the C3 initiative have directly contributed to increasing the knowledge base about catalytic capital. These research awards have been well received. By design, the research collectively show the breadth and range of how catalytic capital can be deployed. As most are targeted to specific issues, geographies and / or sectors, the audience for each individual study may be limited.
- It is too early to tell whether the C3 initiative has spurred greater research about catalytic capital though some C3 grantees do plan to continue building the evidence base.

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Interviewees noted it is difficult to access the **skills and capabilities** needed to deploy catalytic capital effectively because such investments are more complicated than mainstream or impact investments as they require, among other capabilities, a deep understanding of the impacts of the investment and the ability to assess trade-offs between financial and social and environmental returns.

- Despite this, some interviewees noted it is easier to access skills now than five years ago.
- C3 grants contributed directly to increasing skills and capabilities needed to effectively deploy catalytic capital by convening experts to share experiences and practices, and by funding some efforts by network partners that focused on training.
- Learnings from the sessions with experts were published but plans for wider dissemination through training, a new website, and network engagement are mainly scheduled for late 2023, 2024, and beyond. Therefore, the learnings have not yet reached much beyond the participants.

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Grants to the network partners have helped them **engage and connect** investors within their networks around the idea of catalytic capital with moderate to strong degrees of enthusiasm. In general, but with exceptions, it appears members of the newer and/or regionally focused networks tend to have a stronger degree of enthusiasm about the concept of catalytic capital.

Changes in connections among investors were difficult to track as:

- The tangible benefits of the increased connections are not yet clear because of the early-stage nature of the initiative.
- Most network partner activities promoted connections within rather than across different types of investors, the latter of which would be more visible.

Nonetheless:

- All the network partners are aligned with the mission of C3 and so expect to continue promoting catalytic capital in some way in the future.
- Efforts to build on-going network connections and establish a community of practice are currently being established along with a C3 convening that occurred in October 2023 subsequent to GIIN conference that brought together all of the Field Partnerships, grantees, and other implementing partners for the first time.

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The rest of this section provides more detail on these contributions to outcomes.

8. These generational shifts that are often referred to as the global wealth transfer were a core factor influencing MacArthur in launching the C3 initiative.

**Tracking progress in these outcomes needs to account for two considerations:**

1. The five outcomes are not expected to change at the same speed within the timeframe covered by this report. For example, awareness of any new idea can increase quickly—often directly related to the paid or unpaid media coverage—whereas attitudes may take time to evolve and knowledge about the idea will develop at the pace of implementation and research.

2. As catalytic capital is a new framing of existing ideas,[9] progress could be assessed using 'catalytic capital' in the baseline (e.g., changes in attitudes specifically towards 'catalytic capital') or related ideas such as impact-first capital or concessionary capital, in the baseline (e.g., changes in attitudes towards capital that are similar to or synonymous with catalytic capital). The latter is more closely aligned than the former to the aim of C3, and reflects, as described below, the approach used by this evaluation. Accordingly, we assess progress towards these five outcomes in this report by distinguishing:

- change in absolute terms (e.g., has awareness of the term and/or concept of catalytic capital increased?) from change in relative terms based on what we expect a priori to see between the baseline (see box) and T1;
- change related to the specific term or definition of 'catalytic capital' from change related to the idea of catalytic capital but expressed using different terms. The latter more inclusive approach is used in this evaluation except when otherwise noted;
- first-hand opinions versus second-hand opinions, such as when interviewees report about their direct experience compared to that of their colleagues or peers; and
- subjective from objective data.

## 3.1.1 Awareness of Catalytic Capital

**Progress towards increasing awareness of catalytic capital between the baseline and T1 is tracked by:**

1. **Levels of exposure to catalytic capital**
2. **Familiarity with catalytic capital** (i.e., have heard of)
3. **Understanding of catalytic capital** (i.e., can explain)

### Exposure to catalytic capital:

► **Many people in the target audiences within parts of the impact investing sector have been exposed to the term and concept of catalytic capital.**

Use of the term catalytic capital grew significantly since the launch of C3 though it started from a low base. The number of articles using the term increased from 13 to 91 and the number of social posts mentioning the term increased from 91 to 538 between the baseline and T1. In addition to the growth in media, the eight network partners have a combined membership of over 1,100 members, most, if not all, who would have been exposed to the concept through case studies, articles, webinars, surveys, and/or conference sessions. There was near consensus among interviewees and survey respondents that exposure to the term catalytic capital has increased since the baseline.

9. 'Catalytic capital' was used by Thornley et al (Thornley, B., Clark, C., & Emerson, J. (2014). The impact investor: Lessons in leadership and strategy for collaborative capitalism. John Wiley & Sons) with a definition that slightly differs from the one above. But as noted by Leijonhufvud et al. there are a number of terms that have the same or a similar meaning, such as concessionary capital, impact-first capital, subcommercial capital, flexible capital and patient capital.

### Likewise, many people in the target audience have been increasingly exposed to related terms and concepts.

The media monitoring research found an increase—more than doubling by some measures—in the volume of conversation around catalytic capital terminology from the baseline period to T1 across the media landscape. For example, there was an 85% increase in mentions of catalytic capital terminology[10] on social platforms and a 156% increase (from 153 to 392) in distinct news articles about catalytic capital. Articles by Impact Alpha, which was funded by C3 to cover this area, accounted for about half of this increase (124 out of 239).

### This exposure comes from many sources.

Just over 6,700 unique authors published posts, comments, shares, and retweets using catalytic capital terminology which were delivered to approximately 27 million users.

**6,700**

Authors published posts, comments, shares, and retweets using catalytic capital terminology

## Familiarity with catalytic capital:

### Many interviewees are familiar with the specific term 'catalytic capital' but there are exceptions.

Nearly all the interviewees who were asked reported that they were already familiar with the term catalytic capital before they received an invitation to be interviewed. This group mainly comprised people who are familiar with the work of the C3 strategic partners and are not representative of the whole impact investing sector. The term has permeated the parts of the impact investing market that C3 targeted, specifically those represented by the network partners. But not all impact investors read Impact Alpha or are members of one of the network partners. It is less clear how deeply the term has permeated the following audiences:

- Mainstream finance. Three interviewees who work for or engage with mainstream financial institutions pointed out that while they are familiar with the term 'catalytic capital' and the C3 initiative, colleagues or peers who are not engaged in impact investing are not familiar with the term.[11]
- The development finance sector. The term 'catalytic capital' is used to some degree in this sector. However, this sector primarily uses the concept of blended finance and to a lesser extent patient capital, and use of these terms is growing.[12] For example, the number of news articles that included 'blended finance' increased from 53 to 119 between the baseline and T1. Similarly, 'concessionary,' 'below-market-rate returns'[13] and 'mobilising private capital' are all widely used in the OECD's reporting frameworks. Convergence, the field leader in blended finance and the C3 network partner most closely engaged with the development finance sector uses 'catalytic capital' in its definition of blended finance.[14]
- The research community. Catalytic capital is under-researched and under-theorised relative to mainstream impact investing (see Knowledge base about catalytic capital below). Some academics interviewed for this study noted that unless their research colleagues have a specific interest in catalytic capital, it is not a topic they tend to focus on.

10. Catalytic capital terminology includes the following terms: catalytic capital, patient capital, flexible capital, concessionary capital, sustaining capital, blended finance, impact-first investing, and social impact investing.

11. Mainstream investors are included as an audience for the C3 initiative in order to increase receptivity to participation in blended finance transactions rather than to promote their deployment of catalytic capital.

12. As noted earlier, blended finance is the outcome of catalytic capital combining in a capital stack with conventional capital. The term is not a synonym for catalytic capital; however, tracking the usage of the term blended finance is helpful to understanding the awareness and use of catalytic capital, as blended finance cannot exist without catalytic capital

13. We use the term 'below-market rate returns' to refer to an investor taking lower risk-adjusted returns than would be considered typical in any given market.

14. Convergence's definition of blended finance is "the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development."

### ► The growth in media coverage of catalytic capital terminology suggests that more people (or at least journalists) are familiar with catalytic capital.

The increase in media coverage is driven primarily by the use of the term 'blended finance' and by 'catalytic capital' to a lesser extent. The media monitoring analysis found that in the baseline period, 'patient capital' was the leading term on social media, but that in T1 this was overtaken by 'blended finance'.

> "Our heart and soul is our philanthropic intent to get dollars into communities... I think we recognized at some point that the more conventional side of the impact world was really just not having the direct impacts on underserved communities that we sought our capital to have. And that's where we really picked up this mantle of impact first or catalytic capital … MacArthur has done a very good job of popularizing that term."

## Understanding:

### ► Most impact investors appear to understand catalytic capital in the way envisioned by the C3 strategic partners.

Impact investors—even among those who do not use the term catalytic capital—appreciate that catalytic capital plays a role between philanthropy and market-rate returns in the full spectrum of capital.

### ► The nuances of the definition for catalytic capital generated attention and discussion as people sought to understand how it fits with other concepts and terms.

Some professionals use or conceptualize the term differently from the Tideline/C3 definition, reflecting their own particular context or view. Some are technical differences that are broadly consistent with the aim of C3 and mainly affect the measurement and categorisation of catalytic capital. For example, some investors and organisations include some grants, such as technical assistance grants to design an investment, as a component of catalytic capital. The C3 interpretation counts grants as catalytic capital only when used as investments, not for technical assistance.

### ► Some uncommon interpretations of catalytic capital are in tension with the aim of C3 to raise up the role of capital that is willing to accept lower than risk-adjusted market returns for outsized social and environmental impacts.

If these interpretations are taken up widely—which seems unlikely so far—then catalytic capital could be used in the future to refer to investments that do not fit the intended definition. For example:

- Some refer to catalytic capital if it disrupts an ecosystem, or otherwise catalyses large social and environmental impacts regardless of whether or not it provides a market return or takes on disproportionate risk.
- Some seem to interpret the scope of the second "and/or" in the Tideline/C3 definition (see Section 3.1) to imply that an investment does not necessarily involve taking a lower than risk-adjusted market return if it is followed by third-party investment. Under this interpretation, an investment is catalytic simply if it precedes additional funding in the same round or subsequent rounds of funding, similar to venture capital.
- One key informant noted that some impact investors think the best way to catalyse change—improve social and environmental outcomes—is to fund investments that have the potential to produce market-rate returns and hence will scale up. This view is consistent with the use of catalytic capital in its seeding role when the investment is taking disproportionate risk; however, it illustrates how important nuances can be missed.

The definition and interpretation of catalytic capital has generated much discussion within network partners and in interviews, though it is not clear if these have a material effect on investor behaviour. The idea of intentionally pursuing disproportionate risk or below market returns to promote social and environmental outcomes does trouble some investors, even some who deploy catalytic capital. The crude distinction between "market-rate" vs "less than market-rate" options can also be a theoretical nicety rather than a practical issue for novel potential investment opportunities that are not easily placed on a risk-return frontier. The C3 strategic partners may want to monitor how the term catalytic capital is used to make sure it does not undermine the key message that often it may be necessary to forgo market-rate returns (or take on disproportional risk) to achieve greater social and environmental impacts.

► **The most common understanding is that catalytic capital primarily refers to investments that fund innovative, high-risk projects or companies and for "scaling" to a lesser extent.**

The GIIN 2020 survey reported that among impact investors providing catalytic capital, 69% did so to support innovation or early-stage investments. The idea of using catalytic capital to "sustain" organisations or impacts is rare and a few interviewees suggested that the notion of capital that is 'catalytic' is at odds with it being required on an ongoing basis given that the definition of a catalyst is something that provokes or accelerates a significant change or action rather than sustains change.

> "Catalytic capital to me has that very specific meaning of catalysed innovation, whereas impact capital could very well be sustaining capital as well."

## 3.1.2 Attitudes towards catalytic capital

**Attitudinal changes have been separated into:**

1. **Investor willingness to accept a risk-adjusted below-market-rate return**
2. **Seeing catalytic capital as an appropriate use of capital**
3. **Embracing the framing of catalytic capital espoused by Tideline and C3.**

The first two are necessary for investors to deploy catalytic capital. The third is a more tactical decision that some investors or advisors make depending on their circumstances.

**Acceptance of disproportionate risk or a below-market return**

► **NPC has not found evidence that different types of investors are increasingly willing to accept disproportionate risk or a below-market-rate return as of the date of this report, but this core attitude is both difficult to track and change not least because some investors have mandates and regulations that prevent change.**

The level of willingness has not been tracked directly in the evaluation so far but a shift in attitude does appear to be emerging at a generational level (See Section 5.1). This is a slow change. The proportion of respondents to the GIIN survey who report they target below-market-rate returns[15] has fluctuated between 33-37% in recent years. However, some interviewees noted that high net worth individuals may be increasingly inclined to deploy catalytic capital in recognition of the vast wealth gap. While public investors are charged with deploying catalytic capital to address market inefficiencies and failures, the willingness of private investors to accept disproportionate risk or a below-market risk-adjusted rate of return reflects their values and priorities. These may not be readily susceptible to being changed by evidence or logic.

15. This was the term used by the GIIN, which represents an imperfect proxy for catalytic capital.

#### Catalytic capital as an appropriate use of capital

### ► There are indications that some foundations and family offices are becoming warmer to the idea that catalytic capital is an appropriate use of capital.

In a survey of supporters of catalytic capital, 16 out of 17 respondents noted that people in their network are a little more (11) or much more (5) favourable to catalytic capital compared to five years ago. The 2020 GIIN survey of impact investors reported that 78% of respondents (N=294) had either engaged in catalytic capital structures or plan to do so in the future. Most of these have engaged in catalytic capital structures prior to 2020, but notably eleven per cent (32 investors) reported they have not engaged with catalytic capital to date but plan to do so in the future. Of the GIIN survey respondents, 'Below-Market' investors had engaged or planned to engage the most with catalytic capital (91%) and private-equity focused investors had engaged the least (66%). But interviewees gave mixed responses on whether there has been much change in attitudes towards catalytic capital among foundations and family offices.

> "[speaking about the landscape for catalytic capital:] I think, among family foundations in particular, but also among the leaders of institutional foundations, generational turnover generally causes people to want to do something different than the last people did."

### ► As the number of news articles that include catalytic capital terminology more than doubled between T0 and T1 (see above), they continue to be largely positive. The proportion of positive articles was largely unchanged between baseline and T1.

Sixty-nine percent of news articles that included catalytic capital terminology were positive at T1, about the same percentage as the baseline. In contrast, social media posts remained largely neutral at 63%, dropping slightly from 70% at baseline. The difference in positivity is not surprising as nearly half of news pieces at T0 were authored by practitioners while social media posts in this sector (on any topic) are typically made by organisations or professionals sharing information rather than expressing a view. Nevertheless, the proportion of media posts that were positive increased from 18% to 29%.

### ► Nevertheless, there are concerns about the effectiveness of catalytic capital among some interviewees who are otherwise supporters of impact investing in general.

Hesitation and resistance is due at least in part to: 1) the lack of evidence that deploying catalytic capital produces greater benefit or value than alternative uses of capital; 2) concerns with subsidizing market-rate seeking investors; 3) the complexity of catalytic capital deals which often include disproportionate costs related to due diligence and determining appropriate pricing for taking on higher risks or lower than expected financial returns, relative to the size of the investment; 4) the dominance of return-maximizing mindset reflected in existing training, tools, and practices. The C3 strategic partners are aware of these issues which have been discussed in various fora.

**18% ▲ 29%**

The proportion of media posts that were positive increased from 18% to 29%.

"[to make more use of catalytic capital] I would need to be sold on the idea that giving concessionary capital would generate more impact than giving more commercial capital … we think if a business is more commercially sustainable it's stronger and commercially it will scale faster. It will reach more people. It will have a greater impact. Whereas [if] we have this business over here that's not quite as efficient, not quite as commercially sustainable, [to say] 'Let's give it money and it'll create more impact.'… I don't quite see it."

► **There appears to be increasing openness to use catalytic capital for climate / energy related investments.**

The volume of catalytic capital deployed in this sector is discussed in Section 3.2.3. Willingness to invest in high-risk opportunities in this sector may be forward-looking by investors who see the size of the energy market and the imperative for a shift away from fossil fuels as a sound financial investment. However, there is relatively little concessionary[16] investment into the riskiest climate adaptation projects because finance for climate mitigation is more readily accessible and adaptation projects are difficult to evaluate and price.[17] The media monitoring analysis found that discussion of climate was a top investing focus in media coverage during T1, with news mentions more than quadrupling from 3.9% of total articles to 17.1%.

**3.9% ▲ 17.1%**

News mentions of climate quadrupled during T1 from 3.9% of total articles to 17.1%.

## 3.1.3 Knowledge base about catalytic capital

**Changes in the knowledge base can be broken into:**

1. Empirical
2. Practitioner
3. Theoretical knowledge

The C3 initiative funded support for the development of the former two forms of knowledge, but not the latter.

### Empirical knowledge

► **The C3 initiative funded empirical research on catalytic capital that was well received but the paucity of such research is still seen as a barrier to the use of catalytic capital.**

Many of the outputs of the C3 funded research have only recently been published and mostly after the interviews we undertook for this evaluation. Hence it is difficult to assess its effect. Eight of the 14 grantees funded to undertake research were interviewed for the evaluation. Six reported their research was received positively among regional and investor networks and several reported that they have identified further research questions they would like to explore as a result of their C3-funded research, although these are not yet funded.

16. Some organisations, especially in the international development sector, use "concessional capital" rather than catalytic capital. This report uses concessional capital when referencing data or findings from those organisations. Hence there are references to "concessional" capital (OECD; IFC-DFI), "concessional climate finance" (Climate Policy Initiative), and "below market rate" capital returns (GIIN and ANDE surveys).

17. Adaptation and resilience is a well identified capital gap in the field of climate finance, with the field of catalytic capital investors beginning to focus on this topic in recent years. MacArthur's Field Partnership investment into Zero Gap made an important commitment to CRAFT, the first scaled climate adaptation fund that is managed by the Lightsmith Group.

A summary report that pulls together learnings, reflections, and consistent themes from this research was published with C3 support in 2024.[18] However, interviewees also reported that catalytic capital is still of limited interest in academic impact investing networks at this time.

### ► The evidence base for the use of catalytic capital[19] for development is increasing and has been growing stronger than for other parts of the impact investing sector.

This evidence base and growth in the development finance sector is complementary too but predates C3's launch. The evidence generally reflects the perspective of a government providing public subsidies to correct for market failures rather than the perspective of private investors, though the goals of the two groups may overlap.

### ► There is a strong demand for more evidence on the use of catalytic capital on what works and what does not work, but there are significant constraints on producing generalisable and objective evidence.

Many interviewees cited the need for more case studies and to spread practitioner knowledge and data on the track record of catalytic capital types and intermediaries.

> "Yes, definitely [the research has generated interest]. .. we don't think that there's anything else than been written in this way with case studies in a really practical approach and a very action-oriented approach. ...everyone that we've interviewed is really excited about what we're sharing and can't wait to give it to their next…investor so that they don't have to go through all of this."

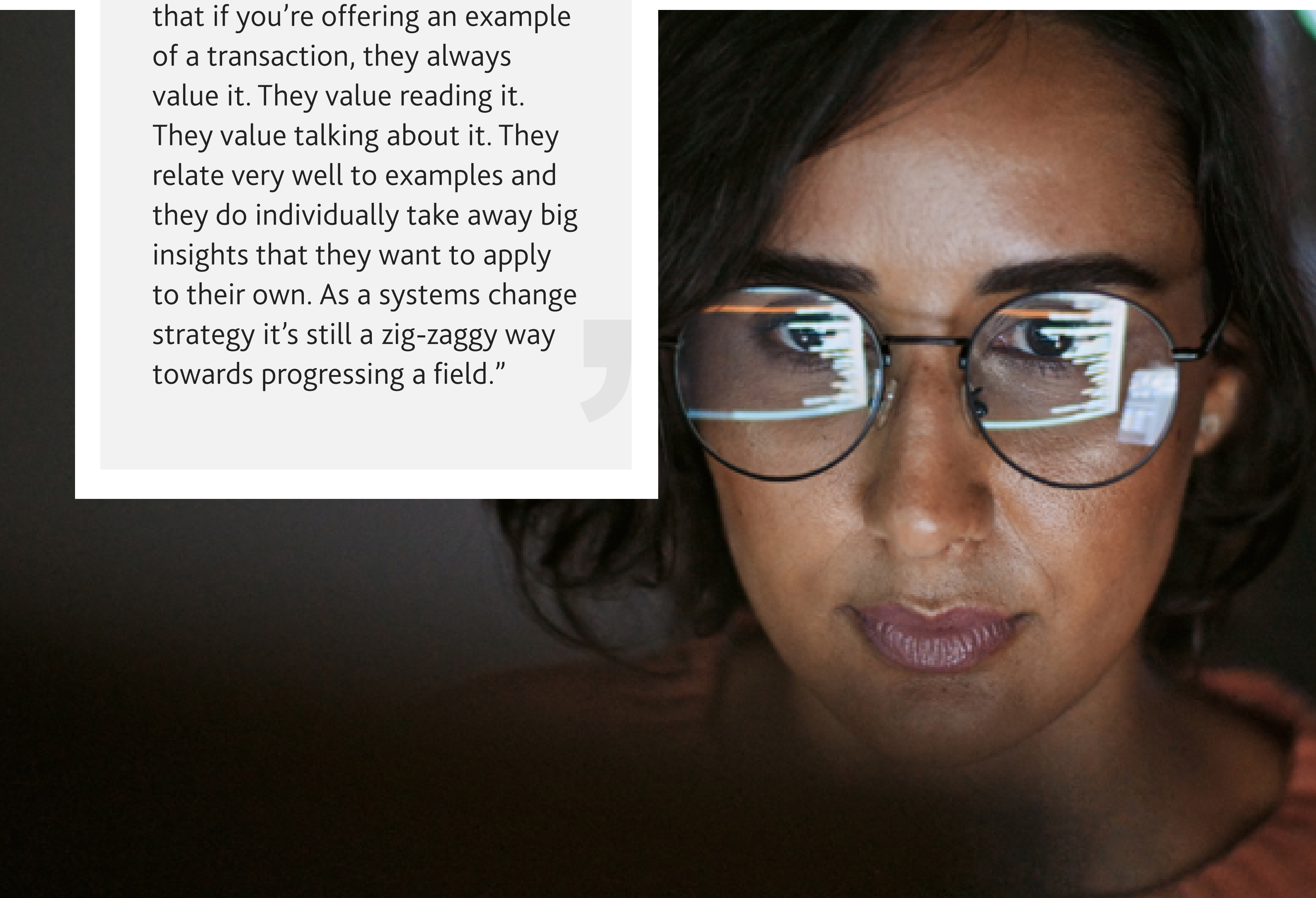
Individual case studies can be very useful for practitioners as they are easy to relate to and can provide practical and actionable insights. But they are generally recognised by social scientists as not well-suited for generating generalised lessons on their own, in part because they are susceptible to positivity bias. For example, two recent studies found that impact investors' self-reported social and environmental impacts were surprisingly positive, although the authors did not directly question the accuracy of the self-reported impacts.[20 21] Creating useful, robust, empirical data on the track record of catalytic capital is difficult because most investments are private and the types of investments are, by nature, non-standard.

> "When we talk to the institutions about these opportunities [to invest in catalytic capital] transactions [their questions are] Where are the deals? How many have been done? What size are they? What fund managers are offering them?... I don't think anybody's really curated a database of deals or started to aggregate data and track records and size of deals. It feels like the information's very scattered and so it's hard to talk about anything except for a small individual deals that aren't related to other deals, there's no track record… they're all structured differently."

18. The summary report was published after the period covered in this Synthesis Report (ie, after August 2023).
19. Concessional capital is more commonly used in the international development sector.
20. Zelenczuk, N. and Bery, A. (2023) Evaluating the Impact of Blended Finance: Convergence's Case Study Portfolio Revisited. Convergence.
21. Brown, M. (2022). Impact Underperformance: what it is and why it matters? In Why Impact management? Salesforce and Mission Investors Exchange.

“A very subjective, unempirical impression, is that I’m not sure that I’m seeing a greater degree of systematic and scientific reflection on the part of people who have catalytic capital to compare the terms of different allocations that they’ve done and the original intent to try to develop an empirical body … and more of a genuine sampling of controlled comparison outcomes….it could be that the volume of deal making that providers of catalytic capital do, it doesn’t lend itself to that because you need a certain volume of sample....[but] I find that if you’re offering an example of a transaction, they always value it. They value reading it. They value talking about it. They relate very well to examples and they do individually take away big insights that they want to apply to their own. As a systems change strategy it’s still a zig-zaggy way towards progressing a field.”

“One of the fundamental challenges here is to get to the most interesting question, which is about the differential impact of that philanthropic subsidy and catalytic capital [compared] to the impact of a marginal grant……some of the catalytic capital investments have huge impact for small, small concessions… [but] I haven’t seen the case studies or the papers that lay that out and for good reason because it’s really hard to do.”



### Practitioner knowledge

► **There have been some recent positive developments that support the creation of useful and empirical research on the use and impact of catalytic capital.**

These include: the expansion of Mission Investor Exchange's library; the work of Convergence collating and analysing data on blended finance deals; the OECD DAC's work on blended finance, contribution reporting, and mobilisation; and developments in impact management and measurement frameworks and tools. These are complementary to the C3 initiative[22] and some have been financially supported by C3 Grantmaking and/or other grants made by C3 strategic partners. The role of the Advancing Practices workstream in promoting practitioner knowledge is discussed more in Section 4.

### Theoretical knowledge

► **There is not a widely accepted theoretical basis for how to maximize the impact of catalytic capital to guide the practice of private investors, but there also is limited interest in such a theory.**

Public welfare economics focuses on maximizing public welfare but is targeted to managing economies through policy, regulation, and taxes. This provides a theoretical justification for governments providing public subsidies via catalytic capital that does not directly apply to private investors seeking to maximize their combined financial and non-financial goals. In contrast there is an abundance of economic and financial theories that explain how to maximize financial returns using conventional investments. A theory of how to make best use of catalytic capital for non-governmental investors is challenging as it needs to combine two perspectives and sets of precepts that are typically compartmentalised: altruism/philanthropy and self-serving/profit-maximizing. Impact investing generally and the C3 initiative in particular, seeks to counter that compartmentalization.

## 3.1.4 Investor capability to deploy catalytic capital

**Investor capability to deploy catalytic capital can be broken into:**

**A** Reflections on skills required to deploy catalytic capital

**B** Access to skills internally or externally, both technical skills and 'soft' skills

**C** Access to and ability to use frameworks and tools

**D** Access to relevant investment opportunities (for direct investors) and relevant offerings from investment funds.

22. Although the expansion of Mission Investor's Exchange's library was funded directly by C3 Grantmaking.

## What skills are required?

**► Some respondents suggested that a shift in mindset needs to precede skill development. The appropriate mindset includes:**

- understanding situations for which catalytic capital is most appropriate;
- systems change thinking / understanding the development issues and desired outcomes; and
- becoming a 'deal maker' rather than a 'deal taker' to ensure that how investments are structured fits the intended outcome.

Fifteen out of the seventeen respondents who were surveyed as supporters of catalytic capital noted some **skills needed to deploy catalytic capital go beyond those needed for other impact investments**. Of these fifteen, nine reported it is difficult to access them while only one said doing so is easy. The difficulty of accessing appropriate skills is also supported by comments from interviewees. This is consistent with survey data that shows providers of catalytic capital are more likely than their market-rate seeking counterparts to agree that impact investing is hard, relative to conventional investing. [23]

**► Technical skills needed to deploy catalytic capital noted by survey respondents and interviewees include:**

- knowledge of appropriate finance structures and vehicles and P3 (public-private partnership) skills;
- sophisticated due diligence skills;
- impact measurement and management valuing the magnitude of the expected impact and analysis of whether that justifies accepting a return below a risk-adjusted market return;
- legal expertise; and,
- understanding of how different products might suit different kinds of risks.

**► Some interviewees observed improvements in impact measurement capabilities from T0 to T1**

However, some reported that this is still a capacity gap for investment teams. Interviewees observed that there is also a need for particular skills in differentiating the anticipated impact of potential investments to aid in selection.

> "[What is required is] deep understanding of the development (social and environmental) issues we are trying to address through catalytic capital strategies… without this we are only discussing means, techniques and methodologies which risk being irrelevant or not suited to the reality we want to change for good"

> My personal view is that if someone is going to pay you for your expertise, then you need to be an expert… I think Catalytic Capital requires a great deal of subject matter expertise. If one of my clients focuses on water systems in a particular region, I'm not the expert on that. I might be the expert on structuring a Catalytic Capital financing vehicle, but I'm not going to be able to answer 'is this water investment going to be the best one for your mission.' So for me, it's hard to imagine having the information I need to advise on this, because part of what I think is missing is the programmatic expertise as well as the financing expertise..."

23. Presentation by Michael Brown, Whaton ESG Initiative, to a cohort of Impact Frontiers workshop participants. Retrieved July 20th, 2023 from: https://www.youtube.com/watch?v=SripAR_otal

► **Soft skills needed**

include the ability to create deals and understanding of the perspectives of investors higher up the capital stack.

► **Several interviewees noted the importance of being able to integrate finance skills and experience with an understanding of, and ability to assess impacts to make good investment decisions.**

This combined skill set seems to be difficult to access, though they may not need to be in the same individual. This may be required in impact investing generally rather than specifically to deploy catalytic capital.

> "One of the changes [in the landscape] that's been really important is more impact management and measurement because it's been both more, but also more precise. I think in previous days there was a lot of measuring outputs... units created, number of patients served, number of students taught, that kind of thing… now the industry has moved to much more outcome-oriented metrics and there are more people using theories of change…. I think that has influenced people's willingness to both use catalytic capital but also align with catalytic capital because you can measure what you're trying to achieve."

> "We generally get an expectation that because something is impact first or catalytic, the impact measurement or reporting needs to be much more robust and generally speaking, the teams are much leaner and don't have the capacity to do that. So that's been a very tricky thing."

## Access to skills

► **Two-thirds of survey respondents suggested that it is getting easier to access needed skills.**

Of the fifteen survey respondents who listed skills needed to deploy catalytic capital, ten said it is easier to access the skills and knowledge than it was five years ago, even though it is still hard as noted above.

► **There are mixed views on whether family offices have or can access the necessary skills to deploy catalytic capital.**

Some survey and interview respondents questioned whether family offices have the appropriate level of skill/capacity to consider deployment of catalytic capital or resources to conduct appropriate due diligence. Others noted that HNWI/family offices have lower barriers to decision making than larger organizations and can develop expertise in house in specific areas if needed or seek external support easily.

► **Access to skills: DFIs generally do have skills and capacity to structure deals, price financial concessions and conduct due diligence appropriate to catalytic capital deals**

but have more regulations and oversight, making the deployment process longer and more complex. DFI's also struggle to attract non-public catalytic investors due to market silos and the size of deals.

### Access to investment opportunities

► **Access to opportunities is a barrier for some investors.**

One-third of respondents to Mission Investor Exchange's 2021 Member Survey[24] noted better access to catalytic capital product offerings (33%) would help increase deployment of catalytic capital. Similarly, 32% of Toniic's 2021 survey of 72 private investors reported agreed that "limited access to deal flow at accessible ticket sizes" was a barrier to deploying catalytic capital.[25] This is difficult to interpret as it begs the question of why there are not more offerings.

## 3.1.5 Connections among investors

**The C3 initiative directly funded networks to promote knowledge and awareness of catalytic capital among their members.**

Different network partners placed different degrees of emphasis on using the grants to convene and connect investors. There was more emphasis on increasing connections for more recently established network partners than more established ones for whom many connections already exist. Interviewees did not provide a clear picture as to whether connections among investors have increased or not:

- Many interviewees spoke to the central role of existing impact investing networks to their networking on catalytic capital, such as the well-established community for discussions of blended finance for DFIs. Several network partners funded by C3 reported increased awareness and interest among their members and increasing opportunities for their members to connect for discussions about catalytic capital.
- A number of interviewees perceive that people do not lean into formal networks because of their interest in catalytic capital per se, but because of their interest in a sector or problem issue. One interviewee specifically noted that it can be difficult to distinguish catalytic capital-specific networking from more general impact investing networking.

> "The networking community of investors who are deploying catalytic capital… they're not coming in [to a particular network] because they're leading with catalytic capital, they're coming in because they want to understand how do I manage performance, how do I become a great Impact/Financial manager."

- For others, subscription fees for the mainstream impact investing networks can be a barrier to meeting other investors interested in catalytic capital.
- Interviewees' comments overall point to a distinction between networks for raising awareness, generating interest in catalytic capital, and providing members with examples of transactions, versus networks that are useful for a pipeline of deals. While the existing impact investing networks are useful for the former, there seems to be scope and demand for more networks for deal making. At least one family office interviewee noted that they are now more actively working on strategic networking specifically related to catalytic capital, whereas previously this had been more ad hoc.
- For the most part, interviewees did not specifically speak to the impact of COVID-19 on networking for catalytic capital. (Interviewees were more likely to discuss COVID-19 in their responses to the landscape and opportunities for catalytic capital investment). Those few who did mention it noted that it had made travel harder for conferences.

24. The Member survey is not publicly available but MIE granted permission for this data point to be included here.
25. Toniic. (2023). Catalytic Capital Research Report. Retrieved November 1, 2023 from: https://www.impactterms.org/download/catalytic-capital-research-report-pdf/

> "What would be the appetite for being part of such a community of practice?... there were several over the last few years on structured exits, alternative deal structures and the like and eventually they lose steam a little bit. They seem useful if they solve very specific pain points... a short term thing could be a pain point for some of the participants, whereas others want to learn more broadly, more philosophically …but all of them want the pipeline, they actually want to move capital. So I could see a community of practice that emerges around specific [catalytic capital] deal or investment opportunities where they learn as they as they move money."

## 3.2 Long-term outcomes

**This section assesses changes to date in the intended long-term outcomes of C3, namely:**

**1** The number of impact investors who deploy catalytic capital

**2** The supply of catalytic capital

**3** The volume of capital leveraged

As with the short-term changes, the outcomes are tracked between T0, the baseline period of the C3 initiative (2016-2018), and T1 (2019-2021).

**Data on these outcomes came from:**

- a review of secondary sources, namely surveys and databases from C3 Network Partners and other industry bodies;
- selected primary data from:
  - responses from people interviewed as part of the evaluation of the C3 initiative; and
  - research commissioned by the MacArthur Foundation on recently established catalytic funds.

**Between T0 and T1:**

1. **The number of impact investors who deploy catalytic capital appears to have slightly increased. While the number of impact investors is increasing, the proportion deploying catalytic capital has not changed significantly.**

   Whilst for-profit investors have not shown a meaningful increase in the deployment of catalytic capital there is evidence of increased deployment of catalytic capital amongst foundations and non-profit fund managers. This implies a growing interest among the target groups of the C3 initiative.

2. **The estimated AUM of impact investors—the potential pool of catalytic capital--has increased, as well as the number of transactions made. This is also true of DFIs, where the total stock of blended finance funds and facilities has increased.**

   This is also true of DFIs, where the total stock of blended finance funds and facilities has increased.

3. **It is difficult to track the actual deployment of catalytic capital by impact investors and by DFIs, but we tentatively conclude that overall there has been an increased deployment of catalytic capital by impact investors, DFIs and US foundations between T0 and T1.**

   This conclusion is tentative as measures of different types of catalytic capital point in different directions.

For example, the deployment of catalytic capital by DFIs through blended finance structures has increased according to some sources (the OECD and IFC-DFI working group) but decreased according to data collected by Convergence.[26]

## 4. It is difficult to track meaningful or significant trends at regional or sector level.

With the exception of increased deployment through US-based Program-related Investments (PRIs) and CDFIs, and a significant recorded increase in concessionary climate finance, regional and sectoral tracking of catalytic capital has not been consistent or robust.

## 5. There is anecdotal evidence of increasing investment in catalytic capital though this is not reflected in changes in aggregate levels of catalytic capital reported in secondary data.

A study commissioned by MacArthur identified 44 examples of new catalytic capital investment funds (four of which pre-dated C3) that have been implemented since 2018. (see Section 4.2.3, Primary data: findings from interviews and review of recently established funds). While MacArthur sees this as a significant increase, NPC is more cautious as we do not have a baseline for this study.

**However, two important considerations should be kept in mind:**

### 1 Estimates of the amount of catalytic capital and number of providers are far from precise.

There are various interpretations of catalytic capital, and it is deployed in various forms and asset types that are not routinely or consistently tracked or even trackable. We have used the best available data on catalytic capital but there are still omissions, overlaps and unreliability in this data. The absolute figures should be therefore treated with caution.

### 2 As with changes in some of the short-term outcomes, it is unlikely a priori that the C3 initiative will have made a large enough impact on decisions to deploy catalytic capital to show up in international or national data.

If the C3 initiative is or will be effective in increasing the deployment of catalytic capital, there will likely be a lag before increased volumes are observed.

**To assess whether there has been any progress made on these long-term outcomes to date, we:**

- focused on the direction of change in various indicators of deployment of catalytic capital over time rather than absolute levels; and
- combined a “top down” review of deployment of catalytic capital using secondary data with a “bottom-up” review of recently established catalytic funds, alongside network partner data and interviews.

As a source of secondary data with the most consistent reporting and catalytic capital-aligned themes, the GIIN survey of impact investors provides insights on long-term outcomes at the sector-level. Other secondary sources relating to the development finance market, climate finance market and regional markets have also been considered; these are summarised in Table 1.

26. Convergence and OECD databases only cover publicly shared deals.

## 3.2.1 Number of investors who deploy catalytic capital

The number of investors who deploy catalytic capital appears to be slowly increasing, though not as much as the number of self-identified impact investors.

**Data from GIIN's annual surveys of impact investors show a 19% increase in the total number of investors who principally target below-market returns (from 81 investors at T0 to 96 in T1), against a 24% increase in the total survey sample of impact investors (from 234 at T0 to 289 at T1).**

Thus, as a percentage of total impact investors the overall proportion deploying catalytic capital has changed little, although subsets of investors have seen some notable increases and decreases (see Figure 2 below). We use the GIIN's terminology of targeting of below-market returns as an imperfect proxy for the deployment of catalytic capital. But since the GIIN survey represents only a sample of impact investors (albeit some of the largest), it underestimates the total number of investors who deploy catalytic capital. In the 2020 GIIN report the number of investors who have ever engaged in catalytic capital structures within a year is estimated at 141. Comparable data for the baseline period is not available, though eleven percent reported though they have not yet engaged with catalytic capital they intend to do so in the future.

However, the number of investors is a strong proxy for likely future increases in deployment, rather than total figures for impact investing assets under management (AUM) which are more difficult to interpret and contextualise.

**There is some potential for growth in the proportion of large philanthropic impact investors who supply catalytic capital.**

Already over 60% of the non-profit investors who complete the GIIN survey report they primarily target returns in line with catalytic capital.[27] The proportion of family offices deploying catalytic capital that accepts sub-market returns increased significantly between T0 and T1 from 24% (c. 3 family offices) to 59% (c. 7 family offices) although these are very small samples since GIIN primarily comprises of for-profit asset managers (51% of respondents) over family offices (4% of respondents).

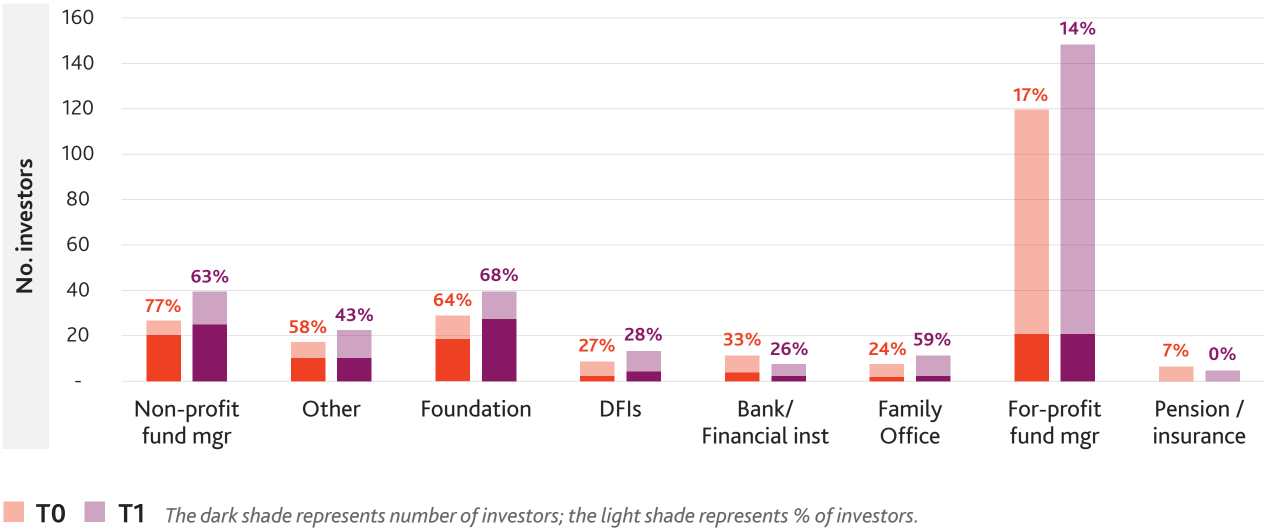
**Over 60%**

of the non-profit investors who complete the GIIN survey report they primarily target returns in line with catalytic capital

By contrast, there appears to be no significant change in the number of DFIs targeting below-market returns, with approximately only one quarter of DFIs (N=14) reporting they target such returns in T1, similar to the proportion of financial institutions.[28] This is in line with the typical balance sheet of DFIs–the majority of which will target market returns in challenging markets–and also with their status as early movers in catalytic capital investments, rather than recent adopters.

27. GIIN. (2020). Annual impact investor survey.
28. ibid

*Figure 2: Percentage of investors who principally target below-market-rate returns, by investor type.*




Source: GIIN Annual Impact Investor Surveys 2016-2020, n=294.

- GIIN is a nonprofit membership organisation with 340 members (as of 2023) that include asset managers, fund managers, DFIs, family offices and foundations. In 2020 65% of respondents to the survey were asset managers.
- Unshaded outline is the total number of investors in the sample. The shaded section is the number of investors from that sample who target below-market returns. The data labels are the % of investors targeting below-market-rate returns.
- *Other – category differs slightly each year but refers to NGOs, CDFIs, nonprofits, university endowments and corporates. For 2019, sovereign wealth funds, permanent investment companies, real estate developers and independent government agencies are included in this group. Source: GIIN (2020).[29]

**Supplementing the GIIN survey, data from other C3 network partners suggests that interest among their members in deploying catalytic capital is high but growing slightly, but this is not consistent:**

- Surveys conducted by Mission Investors Exchange (MIE), a network of foundations, indicate that 62% (n=258) of respondents in 2019 **provided more catalytic capital over the past year than in previous years**, with this rising to 65% (n=292) for 2020 (and 64% for 2021)—meaning catalytic capital supplied by these sources should be rising year on year assuming average investment size does not decrease.
- A 2022 survey (N = 72) of HNWIs / Family Offices who are members of TONIIC found 84% were willing to accept lower or uncertain returns for the same risk as commercial investors but longitudinal data is not available.
- The proportion of impact investors in the ANDE Latin America survey **seeking below-market-rate returns**[30] increased from 43% (n=67) in 2016 to 53% (n=83) in 2018, falling to 39% (n=92) in 2021. The same trend is seen for repeat respondents to the survey who are increasingly seeking market-rate returns whilst remaining flexible to alternatives.

29. GIIN. (2018-2020). Annual impact investor survey.

30. The GIIN terminology of below-market returns excludes the disproportionate risk element of the definition of catalytic capital.

## 3.2.2 Number of transactions involving catalytic capital

There are not good sources of longitudinal data on the number of transactions involving catalytic capital. The GIIN survey has not collected the number of transactions of catalytic capital annually, except for 2019 where 99 respondents (out of 294) reported a total of 2,707 transactions. The median and average number of catalytic capital transactions per investor were 6 and 27 respectively.

According to Convergence **the number of blended development finance deals has remained relatively constant between 2017 and 2021, fluctuating at around 60 deals per annum.**[31] As expected, DFIs, development agencies and governments are the primary sources of catalytic capital in development finance (Convergence, 2022), contributing around 75% to blended finance deals (c. $6.8 billion in T0 and $3.0 billion in T1). Foundations and NGOs contributed around 15% of catalytic capital in development finance deals (c. $1.4 billion in T0 and $0.67 billion in T1)[32] and represent 9% of the total number of blended finance commitments (n=1,209) made to transactions recorded for 2018—2020.

## 3.2.3 Supply of catalytic capital

### Secondary data

**From the analysis of secondary data, we tentatively conclude that overall there has been an increased level of interest in, and in some cases deployment of, catalytic capital by impact investors, DFIs, family offices, and US foundations between T0 and T1.**

However, except for the use of catalytic capital for climate finance, the picture is mixed. The volume of some types of catalytic capital are estimated to have increased over this period while the volume of other types is estimated to have decreased (see Table 1 below). Moreover, the accuracy of the estimates is undermined by varying definitions of catalytic capital, methodological differences in reporting, and omissions and overlaps in the data.

Table 1 summarises both the directional change in catalytic capital stock and flow, and the caveats associated with these changes.[33]

**The mixed picture for changes in stock and flow of catalytic capital can be summarized as follows:**

- The growth of the global impact investing market included an increase in the total AUM of investors who target below-market returns (i.e., the 'potential volume' of CC to be invested). The estimated AUM of the global sample of impact investors surveyed by GIIN who principally target below-market-rate returns (some closer to market-rate and some closer to capital preservation) in their portfolios increased from an average of **$22.7 billion** between 2016-2018 to **$26.3 billion** in 2019 (GIIN, 2020;[34] NPC analysis). These are approximately 10% of the AUM of the total impact investing market. However, the average AUM of these investors fluctuated significantly between 2016 and 2019 and it is not considered an accurate proxy for changes in catalytic capital investment.

An estimated

**$6.4 billion**

**of catalytic capital deployed in 2019**

- The deployment of specifically catalytic capital investments is only available in GIIN's survey of 2019.[35] Investors targeting below-market returns reported making $3.4 billion in catalytic capital investments, which equates to approximately 24% of the total AUM of these investors. Applying this proportion (24%) to the estimated AUM of investors who target below-market-returns for the wider GIIN sample ($26.3 billion per bullet above) gives an estimated **$6.4 billion** of catalytic capital deployed in 2019. This is an approximate estimate and cannot be reliably extrapolated to the impact investing market sample for previous years.

31. Convergence. (2022). State of Blended Finance.
32. Convergence. (2022). State of Blended Finance.
33. Note the figures for climate finance show the relatively large volume of catalytic or concessionary capital investments being made in this sector but the totals may be misleading as they include investors that are not really part of the target audience. For example, Climate Policy Initiative Global Landscape of Climate Finance data includes investments made by public sector funders in their own countries to mitigate for, and adapt to climate change.
34. GIIN. (2020). Annual impact investor survey. Pg. 31.
35. The GIIN survey was paused in 2021 and 2022 but returning for 2023. T1 is therefore not covered in full by the GIIN survey.

*Table 1: Change in key sources of catalytic capital between T0 and T1*

| Key | Green | Amber | Red |
|---|---|---|---|
| **Robustness** | The most confident | Sufficient | Data issues |
| **Alignment with Tideline's definition of catalytic capital** | All data points align with definition | Some data points align with the definition, or are a proxy | Large misalignment with definition |

| Annual estimate for CC (indicator) | Source | Baseline (T0)[36] | T1 | % change | Considerations / reasons for change | Robust-ness | Definition alignment |
|---|---|---|---|---|---|---|---|
| **Global impact investing market (stock and flow)** | | | | | | | |
| AUM of catalytic capital investors in the impact investing market (stock). | Global Impacting Investing Network (GIIN) | **$22.7 B** | **$26.3 B** | **+ 16%** | The proportion of investors targeting below-market-rate returns has been used as a proxy for catalytic capital and applied to the estimated size of the GIIN impact investing market. This indicates an increase in reported AUM of investors targeting below-market-rate returns. | | |
| Average annual catalytic capital deployed in the global impact investing market (flow). | Global Impacting Investing Network (GIIN) | **$5.5 B[37]** | **$6.4 B[38]** | **+ 16%** | The GIIN survey has only recently begun to specifically measure the amount of catalytic capital deployed by impact investors; the figure for T0 is based on an estimate. | | |
| **Blended finance for development** | | | | | | | |
| **Available for deployment (stock)** | | | | | | | |
| Total AUM in blended finance funds and facilities, incl. grants. | OECD funds and facilities survey | **$60.2 B** | **$74.6 B** | **+ 24%** | Increase largely driven by funds. Concessional capital (which is their term and is used as a proxy for catalytic capital) deployed is estimated to be $43.1 billion for T0 and $50.2 billion (+18%) for T1, based on 2017 figures.[39] | | |
| **Actual deployment (flow)** | | | | | | | |
| Volume of concessional capital in blended finance deals.[40] | Conver-gence historical deal database. | **$1.9 B** | **$0.97 B** | **- 49%** | Only applies to concessional capital for developing countries, and it is unlikely that the whole of the development finance market is captured.<br><br>Convergence cites the COVID-19 pandemic as reasoning for the significant drop in overall blended finance deal volume. | | |
| Total blended finance deal volume with concessional funding, excl. grants (flow). | | **$6.65 B** | **$3.96 B** | **- 40%** | | | |

36. For the baseline (2016 – 2018) and T1 (2019 – 2021), the figures show annual averages to allow for comparisons when data for all years is not available.
37. Estimate for T0 based on the ratio of catalytic capital deployment to total AUM in T1.
38. Catalytic capital deployed by c.294 investors
39. Basile, I. and J. Dutra (2019), "Blended Finance Funds and Facilities: 2018 Survey Results", OECD Development Co-operation Working Papers, No. 59, OECD Publishing, Paris.
40. N=346 deals selected for analysis from Convergence's Historical Deals Database.

| Annual estimate for CC (indicator) | Source | Baseline (T0)[41] | T1 | % change | Considerations / reasons for change | Robust-ness | Definition alignment |
|---|---|---|---|---|---|---|---|
| DFI annual concessional commitments for blended conces-sional finance for private sector projects | IFC—DFI Working Group | **$1.14 B** | **$1.5 B** | **+ 30%** | Only applies to the concessional contribution of DFIs for private sector projects. The source includes grants, which may explain differences to the Convergence figures. | | |
| **Development finance** | | | | | | | |
| Annual volume of private philanthropy investments for development, excl. grants (flow). | OECD Private philanthro-py for de-velopment database | **$1.26 B**[42] | **$1.21 B** | **- 4%** | Figures represent approximately 10% of the total volume captured in the philanthropy for development database. When grants are included in investments, figures rise to $9.05 B for T0 and $10.03 B for T1 (+11%).<br><br>Increase is driven by the grant element of philanthropic investments. | | |
| **Climate finance (flow)** | | | | | | | |
| **Concessionary climate finance, global total** | Climate Policy Initiative Global Landscape of Climate Finance | **$137 B** | **$142 B** | **+4%** | Assuming project-level equity and low-cost project debt are aligned to definitions of catalytic capital. The term “concessionary climate finance” is CPI’s framing and is used as a proxy for catalytic capital. | | |
| Project-level equity | | **$44 B** | **$51 B** | **+17%** | | | |
| Low-cost project debt | | **$64 B** | **$60.5 B** | **-5%** | | | |
| Grants | | **$29 B** | **$30 B** | **+3%** | | | |
| **Concessionary multilateral and bilateral commitments to climate projects, developing countries** | OECD De-velopment Assistance Committee | **$20.4 B** | **$24 B** | **+18%** | Figures available for loan capital only. The OECD uses “concessionary” as a term, which is used as a proxy for catalytic capital in this analysis. | | |
| Bilateral commitments | | **$12.8 B** | **$13.3 B** | **+4%** | | | |
| Multilateral commitments | | **$7.6 B** | **$10.7 B** | **+40%** | | | |

41. For the baseline (2016 – 2018) and T1 (2019 – 2021), the figures show annual averages to allow for comparisons when data for all years is not available.

42. 2016 has been excluded from this estimate due to the sample in the database being significantly lower for this year.

- In development finance, the **overall volume of total capital available in blended finance funds and facilities increased** from $60.2 billion to $74.6 billion, largely driven by funds (OECD, 2022[43]). Applying proportions of concessional capital from the 2017 survey,[44] an estimated $50.2 billion of concessional capital was deployed across funds and facilities in 2020 compared to $43.1 billion in 2017. It is not possible to disaggregate the value of grants, some of which will not align with C3's definition of catalytic capital. The International Finance Corporation (IFC)[45] estimates that **DFIs' concessional contribution to private sector projects increased** by 30% over this period, from $1.1 billion to $1.5 billion, while the proportion of DFIs targeting catalytic capital remained unchanged. This implies that catalytic capital is becoming more prevalent within DFIs compared to the baseline.

- In contrast, data from Convergence (2022)[46] on actual investments shows that **deployment of catalytic capital in blended finance deals in developing countries decreased** between the baseline and T1 from $1.9 billion to approximately $1 billion. This is consistent with OECD data on **investments by private foundations for development which observed a 4% decrease** from $1.26 billion to $1.21 billion (when excluding grants). This reduction in investments may be a short-term impact of Covid-19.

- These two trends in development finance—a decrease in the volume of catalytic capital in blended finance funds, alongside an increase in the total volume of capital in blended finance vehicles—possibly imply that each dollar of catalytic capital has been able to leverage more capital from other sources, although this is difficult to trace or prove. However, the average leverage ratio across all deals recorded by Convergence has remained constant and there is evidence to show that some sectors (industry and trade, infrastructure, and energy) are highly leveraged by catalytic capital.[47]

- There is a mixed pattern at a regional level.
  - There appears to be a 21% increase in capital deployed via PRIs in the US between T0 and T1. During T1, there has been a 58% increase in capital deployed by CDFIs, attributed to new government funding and investments that are aimed at addressing deep-rooted racial injustices.
  - Regional impact investing markets have **grown across Europe** (EVPA), although this is likely due to increased levels of reporting for this region.
  - The volume of impact investment across Sub-Saharan Africa has reportedly declined (AVPA), although this is an uncertain conclusion since formal reporting has not been established. Indeed, qualitative evidence points to a growing strategic interest in Sub-Saharan Africa in catalytic capital amongst the impact investor community.[48]

## Climate

### ► The exception to the mixed picture in the global impact investing market is the large and growing use of concessionary (as a proxy for catalytic capital) climate finance.[49]

Globally, the combined volume of low-cost project debt, project-level equity and grants in climate finance has increased by 4% between T0 and T1, from $137 billion to $142 billion.[50] This is much larger than the figures provided by GIIN as it includes investments made by public sector investors in their own countries and so is not comparable.

### ► The volume of concessionary climate finance has increased significantly more in the development finance market than in the global market overall

by 19% for DFIs and by 18% for multilateral and bilateral providers.[51]

43. Dembele, F., et al. (2022), "Blended finance funds and facilities: 2020 survey results", OECD Development Co-operation Working Papers, No. 107, OECD Publishing, Paris.
44. Funds: 42% concessional; Facilities: 84% concessional.
45. IFC. (2020). Joint Report: DFI Working Group on Blended Concessional Finance for Private Sector Projects. Retrieved from: https://www.ifc.org/content/dam/ifc/doc/mgrt/202012-dfi-bcf-joint-report.pdf
46. Convergence. (2022). State of Blended Finance.
47. Convergence. (2022). Data provided by Convergence for NPC.
48. Invest Africa Insights.
49. Climate Policy Initiative. 2021. IDFC Green Finance Mapping Report. Retrieved from:: https://www.climatepolicyinitiative.org/wp-content/uploads/2022/11/IDFC-2022.pdf. Analysis of concessional loans by a sample of 21 major DFIs, where the term 'concessional' is used by the CPI but aligned to elements of the catalytic capital definition.
50. Concessional climate finance is not a clean subset of the broader catalytic capital market discussed in previous sections; in many cases there will be double counting as investments can be 'tagged' as climate-related within existing datasets. These figures are not designed to be compared or added to figures for overall global catalytic capital flows but indicate the faster direction of travel in climate financing—and in particular in adaptation financing.
51. OECD (2022), Climate Finance Provided and Mobilised by Developed Countries in 2016-2020: Insights from Disaggregated Analysis, Climate Finance and the USD 100 Billion Goal, OECD Publishing, Paris. Retrieved from: https://doi.org/10.1787/286dae5d-en. Analysis of concessional commitments to projects by around 31 major providers.

► **Concessionary capital in climate finance deals is leveraging significant amounts of private capital (c. $15.5 billion in T1),**

although the majority of deals are still oriented towards mitigation solutions rather than adaptation.[52] (Adaptation solutions are seen as more risky to finance but potentially more impactful than mitigation solutions).

► **The majority of commitments to blended climate deals in 2019-2021 were from commercial investors (33%), followed by DFIs/MDBs (29%) and development agencies (19%).[53]**

Foundations and NGOs accounted for 8% of all blended climate finance deals, and 15% of all concessional commitments within these deals.

## Other sectors

Based on the GIIN survey, **healthcare** is the preeminent sector funded by investors that principally target catalytic capital in the global impact investing market, receiving approximately 20% of catalytic allocations. This is followed by **financial services** at 18% of catalytic allocations (excluding microfinance) and **housing** also at 18%.[54]

Based on data from Convergence, **financial services and energy are the largest sectors** as a proportion of the number of blended finance transactions closed in the development finance market.[55]

## Instruments

► **Catalytic capital comes in multiple forms and is deployed in multiple sectors and geographies. This adds to the complication of tracking changes over time.**

Public and private debt appear to be the most prominent instruments for catalytic capital in the global impact investing market, accounting for over half of total allocations captured by GIIN.[56] Considering that a significant proportion (42%) of this capital captured in the GIIN survey has been allocated to the US & Canada, this finding aligns with the broader market trends in the sector where debt is a favoured instrument for making catalytic capital in developed markets while equity/equity-like structures are more commonly used in developing countries. Development finance, given its emerging markets focus, is more varied in terms of utilizing debt, equity and—for facilities specifically—guarantees.

## Geographies

Catalytic capital deployed by GIIN survey respondents has been primarily directed towards the US and Canada; 42% ($6 billion) of the AUM of below-market-rate investors was allocated to these countries in 2019.[57] Sub-Saharan Africa received 16% ($2.3 billion) of allocations by below-market-rate investors. In development finance, Sub-Saharan Africa is also a primary focus for investments, according to OECD[58] and IFC[59] data.

**42%**

**of the AUM of below-market-rate investors was allocated to the US and Canada in 2019.**

Regional datasets naturally show a more local focus. As a percentage of overall capital investment[60] by 496 EVPA members, 62% ($24.2 billion) was targeted towards Europe and 14% ($5.5 billion) to Africa. A negligible amount was directed towards the US and Canada. Likewise, the majority (56%) of surveyed impact investors in the ANDE/LAVCA landscape study targeted their AUM towards Latin American countries, although 19% was directed towards the United States (and 14% of respondents were headquartered there). The AVPA reports only cover regional investment into Sub-Saharan Africa so comparison is not possible.

52. Ibid.
53. Convergence Blended Finance (2022). The State of Blended Finance 2022: Climate Edition. Convergence Report.
54. Ibid.
55. Convergence. (2022). State of Blended Finance.
56. GIIN. (2020). Annual impact investor survey.
57. Ibid.
58. Dembele, F., et al. (2022), "Blended finance funds and facilities: 2020 survey results", OECD Development Co-operation Working Papers, No. 107, OECD Publishing, Paris.
59. IFC. (2020). Joint Report: DFI Working Group on Blended Concessional Finance for Private Sector Projects.
60. Includes all impact investors, 48% of which are aligned to catalytic capital investing but cannot be disaggregated by region as with the GIIN survey.

## Primary data: recent funds and interviews

The secondary data is supplemented by the interviews undertaken by NPC and a review commissioned by the MacArthur Foundation of examples of recently established catalytic capital funds.

The review identified 34 examples of catalytic capital initiatives launched by asset owners and 10 examples of catalytic capital funds launched by intermediaries or advisors since 2018. These examples include four initiatives that pre-dated C3. Around half of these funds have been launched since 2022 (i.e., after T1). The examples in Appendix 3 illustrate the types of catalytic capital initiatives that have emerged since the C3 was launched and show that this is an active segment of the impact investing market.

The data is broadly consistent with the analysis of the secondary data above.

### ► Two US government programs dominate the catalytic capital examples in terms of size.

The examples focus on broad initiatives that extend beyond specific funds. In these examples 34 asset owners made targeted commitments totalling $71 billion of catalytic capital since 2018, $57 billion of which is from two U.S. government departments (EPA and Department of Energy).

### ► While the public sector is the largest type of provider of catalytic capital there have been interesting developments that possibly signal future growth in deployment by other types of providers. For example:

- Some family offices are working with impact-first advisors to launch a $100 million dedicated catalytic fund; wealth managers have created catalytic capital portfolios in response to interest from their family office clients; and high net worth donors are increasingly allocating their hitherto passively-invested, non-impact driven tax-exempt funds--via Donor Advised Funds—into catalytic capital funds.

- Microsoft and Amazon each committed over $100 million from their respective balance sheets into catalytic capital initiatives addressing economic inequality and climate change. These reflected in part the urgency of racial tensions in the U.S. and climate change but may indicate the growing openness of corporations and their foundations to deploying catalytic capital.

- Intermediaries or advisors are launching catalytic capital intermediaries as an efficient way to pool catalytic capital from multiple family offices and foundations.

### ► Catalytic capital is primarily used to seed businesses and products.

Only five of the 34 initiatives launched by asset owners were not designed primarily or in part to support innovation.

### ► The U.S. is the single largest geographical target,

with 30% (13 out of 44) initiatives investing in the U.S., though this may reflect that initiatives were identified mainly from organisations known to MacArthur.

### ► Climate and energy is the largest target sector.

Just over 40% (18 out of 44) of the initiatives target climate and energy solely or partially. Approximately one-quarter (11 out of 44) initiatives are used for a broad economic development agenda, supporting SMEs, employment, education, etc.

### ► Climate and energy is the largest target sector.

Just over 40% (18 out of 44) of the initiatives target climate and energy solely or partially. Approximately one-quarter (11 out of 44) initiatives are used for a broad economic development agenda, supporting SMEs, employment, education, etc.

### ► Diverse types of investment vehicles are used in these initiatives,

though the majority of initiatives were invested in private opportunities.

## ► The review illustrates the complexity and nuances of defining and tracking catalytic capital:

- The ways in which these initiatives differ from return-maximizing investments are sometimes subtle. For example, one prominent effort invests in start-ups led by people who are under-represented in their sectors, but the fund still expects market-rate returns. For climate-related investments, investors expect to jumpstart opportunities that commercial investors may not necessarily see yet and so could be seen as smart far-sighted investment rather than a high-risk catalytic capital investment. Both of these examples fall within the C3 definition of catalytic capital as they represent a willingness to incur what is perceived as disproportionate risk by conventional investors.

- Catalytic capital that is committed at a point in time may not always be made available for investment later, or even actually deployed.

- Counting both commitments or deployments made by asset owners and investment managers likely involves double-counting, though the figures above take this into account.

- The initiatives vary by geography, sector, type of investor, and type of instrument, and do not show up yet in secondary data. Collating primary data on individual initiatives (such on the 44 examples of catalytic capital initiatives identified for the analysis presented below) is costly.

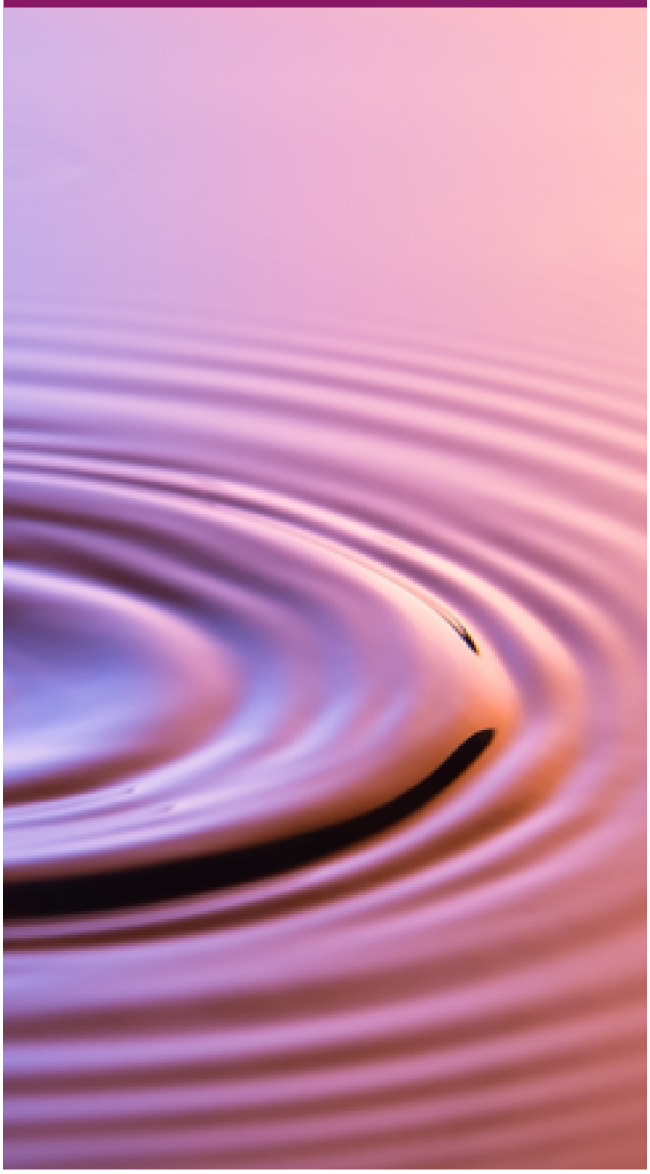
## ► The list suggests that C3 has been influential even in this short space of time:

- Many of the initiatives use ‘catalytic’ in their name, such as Amazon’s “Catalytic Capital”, “USAID Catalyze”, and Sorenson Family Office’s “Catalyst Opportunity Fund”.

- C3 has been aware of and in contact with a significate proportion of these initiatives.  Some of the principals behind these initiatives sought guidance from C3 and a few have privately or publicly credited the C3 initiative for influencing the development of their initiative.

The list provides helpful examples of catalytic capital funds that have been set up and investments that are taking place and demonstrates there is growing engagement in this area. The C3 team sees this as a significant increase in deployment of catalytic capital.

NPC is cautious about drawing strong conclusions from this review as this is not an exhaustive list of recent catalytic capital investments and there is not comparable data available from prior years. Of the 34 initiatives started by asset owners (out of the 44) four pre-dated C3; at least eleven of the asset owners have previously invested catalytic capital; and ten of the initiatives deploy catalytic capital using public funds.



### 3.2.4 Capital Unlocked through Catalytic Capital[61]

Despite the total catalytic capital in blended finance deals decreasing, the average leverage ratios in development finance have increased marginally from 3.9 to 4.2 (4.5%) between the baseline and T1.[62]

Deals led by commercial investors and DFIs appear to leverage the largest amount of capital, with ratios of 4.4 and 3.9 respectively, whilst deals led by foundations and NGOs draw a leverage ratio that is around 50% lower, at 2.9 (combined figure for the two investor types). This is expected; these deals are likely to be the most catalytic (risky) and therefore potentially least successful in leveraging capital from other sources. As such, a lower leverage ratio does not necessarily indicate a lesser role or impact within catalytic structures.

In blended finance deals, North America has the highest leverage ratio at 8.8, likely reflective of the relatively more developed and therefore less risky market. Sub-Saharan Africa also has a fairly high leverage ratio (4.62). Both Convergence and OECD data sources indicate that much of the blended finance funding is flowing to this region, implying that leverage is indeed taking place relative to known concessional and non-concessional capital. Business-orientated deals, such as those aligned with industry and trade, infrastructure, and energy, appear to have to have the greatest leverage of capital.

## 3.3 Perspective of the Field Partnerships

**The Field Partnerships provide a unique perspective on progress towards outcomes because:**

**They reflect**

the investee side rather than the investor side of the investment process regarding the achievement of the short-term outcomes; and

**They contribute**

to the long-term outcomes of promoting innovation and inclusion and seeding, scaling and sustaining impact-driven enterprises.

This section considers both of these in turn based on the interviews with representatives of Field Partnerships (see Annex 1 for more information about the interviewees).

In summary, the perspectives of the Field Partnerships mirrored the views of other interviewees on progress towards short-term outcomes and areas that still need work. The next phase of the evaluation will cover lessons from the Field Partnerships in more depth.

### 3.3.1 Field Partnership perspective on the short-term outcomes

#### Awareness

Representatives of the Field Partnerships agreed with other interviewees that there has been more coverage of catalytic capital in existing impact investing circles, but that catalytic capital is still not widely known outside of these circles.

> "The concept of [catalytic capital] is very welcome and well understood amongst impact investors and very foreign amongst traditional investors...."

61. Robust data regarding leverage ratios is only available for development finance through analysis from Convergence. The leverage ratio is calculated by dividing the volume of market-rate capital within a deal by the volume of below-market rate or concessional capital. For example, a ratio of 3.9 denotes that for every $1 of below-market rate or concessional capital, $3.9 of market-rate capital is leveraged in. 'Market-rate' capital may include public, philanthropic or private sources.

62. Convergence. (2022). Data provided by Convergence for NPC.

## Attitudes

Field partners have observed some shifts in attitudes towards catalytic capital, particularly within a subset of foundations who were already engaged in impact investing. Interviewees reported that some investors are more open to considering a lower financial return in order to reach social impact goals, or to see greater potential for their philanthropic capital to work harder as a catalytic investment to make their work more sustainable. Others reported working with family offices who are now excited and positive about expanding existing impact investments to include an allocation for catalytic investment.

> "I think the spectrum of capital has helped … it's helped the pension fund see that they can be on that impact spectrum without tipping over into concessionary returns…the flip side of that is I hope it's allowed foundations and others who have a more intentional impact agenda to see that they can play in that space on the spectrum of capital to bring the value that that comes from being able to do the more innovative, higher risk strategies."

> "The idea that people think about allocating a portion of their money…in this middle space that's not just giving away but trying to use this money to do something different… has become a familiar concept that is getting a lot of people attending conferences, talking to their financial advisors or their DAF sponsors about what else we can do... Can we always do better? Absolutely. But in my opinion [the change in attitudes] has been night and day."

## Knowledge and tools

Field partners echoed the need for more information about the track record for catalytic capital investments and helping fund managers develop a track record was a purpose of at least one Field Partnership.

> "In the case of [particular fund], there was plenty of evidence, but no track record. I think that's the distinction. ...there was a lot of really good research... which had shown that there were some very effective models being run [addressing a specific social issue needing investment]. But there were reasons why structurally they were still not accessing the capital they needed to grow ...from some of the impact funds that were out there... the fact was no one had actually done it, so the lack of actual 'track record' of having made those investments and operated those partnerships... that had never been done in any significant way, so that was where the catalytic aspect was needed."

## Capabilities

Field partners also echoed the challenge of conducting due diligence for catalytic capital deals cost-effectively, especially for smaller scale investors.

> "The other thing that I think [catalytic investors] struggle with [is] the efficiency of due diligence and the cost of due diligence as a result of... making very small investments.... to the extent that investors can share their due diligence with other smaller foundations, we've seen that as very effective ... it's quite a helpful thing if due diligence can be seen as a kind of shared resource."

They also noted the strain that impact measurement can put on resources for investment teams.

> "We spend a lot of time doing measurement...understanding the impact that our companies are having...and this also takes up bandwidth of the team and time and energy."

## Networks

Most field partner interviews did not address the role of networks or communities of practice. However, one field partner did comment on the value that working with MacArthur Foundation/Impact Investments team has had in opening up networks, providing references, and providing a signal to the market of their investability.

## 3.3.2 Contribution of Field Partnerships to long-term outcomes

MacArthur has developed an Impact Measurement and Management (IMM) framework to track the contributions of the Field Partnerships to social and environmental outcomes. Data from the IMM will be shared publicly in early 2025.

# 4 Implementation of C3

# 4. Implementation of C3

**Strategy review question 2**

What approaches or elements of the workplan played a significant role in MacArthur's ability to contribute to changes in the impact investing field?

This Chapter summarizes NPC's assessment of the C3 Conceptual Framework and the implementation of the C3 programme to date, recognizing that a number of grants have not yet ended, and many are in an early stage of their work. This section also discusses the effectiveness of the different workstreams so far, as well as broader learnings for the rest of the initiative.

Overall, the C3 Conceptual Framework is meaningful, coherent, and feasible. Its implementation has largely gone as planned to date without any notable adverse consequences.[63] Grantees have provided generally very positive feedback about their experience working with MacArthur. As described in Chapter 3, the implementation of the framework has also been adequate and effective in making a difference to some outcomes so far, with more progress likely over the remaining life of the grants. As the long-term goals of the initiative—i.e., to increase the number of investors who deploy catalytic capital and the volume of catalytic capital deployed—are not quantified, it is not possible to judge whether progress have exceeded expectations or not, or what reasonable expectations would be at this point.

**This section is divided into four parts:**

1. Assessment of the Conceptual Framework;
2. Assessment of the contribution of specific workstreams;
3. Summary of feedback from implementing partners on working with C3; and
4. Possible opportunities to further promote the goals of the initiative.

63. See below for one potential concern.

# 4.1 Assessment of the C3 Conceptual Framework

**The assessment is based on the seven criteria noted in the box.**

Overall, the design of the Conceptual Framework contributed to achieving the goals of the initiative, as described in Section 3. Promoting the initiative through existing networks has helped make it meaningful and effective and should help make the outcomes sustainable. The workstreams complemented each other. The overarching goals of the initiative are ambitious and while the resources made available by C3 have helped promote the outcomes in the short term, the strategic partners recognize that sustaining and building on those outcomes will likely require additional support and engagement from others (e.g. investors, networks, researchers, etc.) in the sector.

**The Conceptual Framework was assessed for:**

- **Meaningful / relevance:** did the workstreams address important elements of the Conceptual Framework?
- **Feasibility:** were any of the workstreams unfeasible?
- **Coherence:** was the logic of the workstreams and their implementation sound?
- **Adequacy:** were workstream activities sufficient to make a difference to outcomes?
- **Effectiveness:** did the workstream / grants make a difference?
- **Unintended impacts:** were there any positive or negative unintended impacts?
- **Sustainability:** are impacts likely to endure beyond the grant period?

## 4.1.1 Meaningful / relevant

**The implementation was meaningful and relevant in that each of the outcomes of the Conceptual Framework were addressed by the funded activities.**

These focused on four outcomes: raising awareness, building the evidence base, increasing connections and to a lesser extent developing skills and capabilities. The expectation is that attitudes will become more favourable over time as awareness, evidence, and experience increase.

- While all four outcomes were addressed, increasing awareness, and understanding of catalytic capital was embedded in many activities, which is likely a reason for the success in this outcome as noted above. Increasing awareness requires proportionately less effort than and is a precursor to, changing attitudes or increasing capabilities. As would be expected, the time and other resources spent on raising awareness and understanding of catalytic capital was very helpful for relatively new entrants / geographies / sectors and to experienced practitioners to a lesser extent.
- The need to address the weak evidence base about and the shortage of skills needed to deploy catalytic capital was validated in interviews and was directly addressed by workstreams.
- The initiative has sought to change attitudes largely by: making investors aware of how catalytic capital differs from both market-rate seeking capital and philanthropy; providing examples of how it can be and is used; and by facilitating engagement with investors who deploy catalytic capital. The target audiences were generally favourably inclined to catalytic capital. Few activities tried to influence attitudes of those who may have reservations through debates and discussions. Changing attitudes towards maximizing wealth is difficult and several types of investors are institutionally or legally constrained in making catalytic capital investments.

## 4.1.2 Feasibility

**The workstreams were feasible in that they were carried out more or less as planned and no workstream ran into significant barriers.**

This is an achievement because as shown in Table 1, there have been lots of moving parts to coordinate and implement across a variety of networks, organizations, and geographies. MacArthur was commended by many implementing stakeholders (see Section 4.2).

Inevitably, as with any program, there were a few barriers which led to changes or slower progression than anticipated. For example: the pandemic required workplans to change for the MacArthur team as well as grantees and partners, and competing demands resulted in difficulties at times for some grantees securing attendance at events or for the evidence base grantees collecting data (e.g., having people agree to interviews)

## 4.1.3 Coherent

**The workstreams were coherent in that they mutually supported each other to promote the goals of C3.**

The Conceptual Framework is a variation of the established Knowledge-Attitude-Behavior health promotion model which has a sound logic.[64] The activities addressed each aspect of the Framework (i.e. increasing awareness, promoting knowledge through research, etc.) at the same time, which allowed for meeting different audiences where they were in their understanding of catalytic capital, while also allowing for investors to progressively engage from initial awareness to deploying capital if so inclined. The workstream activities also complemented each other in several ways. For example, several evidence base partners used their research outputs to support their other activities supporting catalytic capital, such as to engage potential investors in deploying catalytic capital. Efforts to reach practitioners and integrate news about the different workstreams were helpful. No interviewee suggested any C3 grant-making activities were ancillary to or inconsistent with achieving the goals.

While the workstreams were consistent and complementary, there were a few ways in which the workstreams have not worked collectively together as much as they could, in large part due to external factors, namely COVID-19 and grantee capacity. There are some plans to address this:

One example of useful sharing of resources across grantees was the train the trainer program. Several grantees called this out as being a useful tool for them to adapt to their markets. Some grantees expressed a desire for this to have been made available earlier on so they could have utilized this tool for their training programmes.

- Some interviewees reported they felt the C3 grants were too siloed and not well-informed about what was going on in other workstreams. They reported they would have liked to have been more engaged with other grantees throughout the grant period – including from the beginning of their C3 engagement – so they both could learn from each other and feel part of a concerted effort rather than operating independently. There was much appreciation for the times when there was interaction among grantees and some interviewees acknowledged the limits on their capacity to initiate contact with others, or make it a priority, even though they appreciated the interaction they did have.
- A convening planned for 2022 was cancelled due to the COVID-19 pandemic. In addition, the limited capacity of the MacArthur and C3 Grantmaking team was cited by interviewees as one factor why they thought there was less convening than they expected. This was also mentioned by several of MacArthur's Impact Investments team members themselves. This was partially addressed when C3 convened a large gathering of more than 100 grantees of C3 in Copenhagen in October 2023 (after the evaluation period covered by this report). Over two days, the attendees shared learnings and insights with each other from the different C3 workstreams and ideas on how to bridge capital gaps using catalytic capital and build models for the future.
- The Advancing Practices workstream facilitated the sharing of ideas and experiences among different types of investors and several participants noted the sessions were valuable. By design, participation was limited to approximately 35 leading investors although lessons from these have been published.
- MacArthur's experience from investing in the Field Partnerships could directly contribute to the building of knowledge and skills in deploying catalytic capital and the evidence base if shared widely and openly, which is anticipated in T2.
- Valuable insights from each grantee network were shared with MacArthur in their reports. These are likely to be valued if they can be shared across the networks.

64. Bettinghaus, E. P. (1986). Health promotion and the knowledge-attitude-behavior continuum. Preventive medicine, 15(5), 475-491.

## 4.1.4 Adequacy

**It is not possible to assess whether activities conducted to date have been adequate to achieve the goals because the C3 initiative is still on-going and because quantifiable measures of those goals - how much increased awareness is enough? - were not set at the outset of the initiative.**

As a pioneering initiative, it is not clear that sensible quantifiable measures could have feasibly been set at that time. The interim evaluation focused on short-term and intermediate outcomes, as well as tracking long-term outcomes. The next phase of the evaluation will address adequacy, sustainability, and the scale of change desired for the remaining duration of the initiative. Section 3.1 shows that the workstreams have made a difference in short-term outcomes, notably raising awareness and understanding. The other outcomes are difficult to achieve at scale and within this short timeframe, and with the disruption caused by the COVID-19 pandemic. For example:

- Typically, there is a choice between scale of impact - influencing a large number of people and organizations - and depth of impact - making a significant change for fewer. Choosing a broad approach that covers different investor types, asset types, sectors and geographies has the opportunity cost of bringing about change in a more focused sector or geography. There is no evidence in favour of either approach in this case.
- As noted above it is hard to change attitudes generally, particularly around a fundamental issue of attitude towards wealth generation.
- While outputs of the evidence base partners were well received, the workstream funded specific topics that, unavoidably, collectively represent a small set of all possible instances of deployment of catalytic capital. Because the resources mobilized by C3 are small relative to the size of the market, the workstream could only make a modest contribution to knowledge about catalytic capital overall. That said, each grant did make notable contributions to the level of historical research in their respective areas (e.g., research into small and medium enterprises in Africa).
- The number of participants in the Advancing Practices sessions related to building skills was (knowingly) limited to approximately 35 experienced practitioners. Outputs of these sessions were published and disseminated by blogs published in Impact Alpha.
- Changes in investment practices do not happen quickly, especially for DFIs, though this investor type was not the primary target of C3.

MacArthur recognises that creating and sustaining the long-term outcomes involves creating sufficient momentum and commitment among other stakeholders (such as investors, networks, universities, and so on) to continue promoting the goals of catalytic capital once the C3 Grantmaking period ends.

## 4.1.5 Effectiveness

As noted in the outcomes section the workstreams / grants made a difference to varying degrees in promoting the short and intermediate outcomes, most notably in raising awareness among the target audience.

The support to Impact Alpha to cover catalytic capital in their news coverage seemed to be particularly effective, as noted by interviewees and by the analysis of media coverage.

Promoting a 'new' term had benefits (e.g., novelty is attention getting) but also costs, such as some confusion as to the definition and hesitation in using it, especially where similar terms were already in use.

Several interviewees noted they did not feel well informed about what C3 funded as activities. Finding up-to-date information about the grants and workstreams was difficult even for the NPC team as this information was not held in one place. This will be addressed by the new C3 website that has been completed and was launched at the end of 2023.

The workstreams were implemented in an environment that was generally favourable to the intended outcomes of C3 (see Section 5) and there were complementary initiatives, notably around the promotion of blended finance.

## 4.1.6 Unintended impacts

No negative unintended impacts were identified. However, one potential concern is that there were many unsuccessful applicants for C3 investments and grants who collectively invested a significant amount of time and resources applying with possibly little to show for it, though some may have learned from the process. This is inherent in any competitive proposal process. NPC did not interview unsuccessful applicants for this evaluation, and we do not know how participants perceived the process and whether they felt the level of effort involved in applying was proportionate at different stages.

Several of MacArthur's Impact Investments team members noted it would have been time-consuming for applicants, though some applicants noted the process helped them get support from others.

Some evidence base grantees have since collaborated or formed connections, which may count as an unintended positive impact as there has been limited convening of grantees to date.

### 4.1.7 Sustainability

For all grantees, the C3 grant was aligned to their mission, some more closely than others. Accordingly, a number reported they plan to continue the work in one form or another. However, it is unclear what the pace of progress will be without further support of some kind. There is a risk that further progress towards the outcomes will slow once funding ends.

## 4.2 Contribution of the workstreams

**This section summarizes the strengths and weaknesses of each of the workstreams in turn.**

These are broad generalizations that accordingly skip over important details. It is also important to remember that all of the workstreams are still ongoing and some effects will likely last beyond the grant period.

The workstreams were varied and targeted towards different parts of the target audience and each supported more than one short and intermediate term outcome and complemented each other. For example, grantees who were funded to help build the evidence base also used their grant to raise awareness of catalytic capital and develop a network of interested investors. Hence it is impossible to assess the contribution of each of workstream to the C3 goals independently of each other. They each contributed in various and sometimes complementary ways.

The most effective workstream seems to be those promoting awareness of catalytic capital, and in particular the support to Impact Alpha for covering this topic in its news. This helped increase visibility of both the concept of catalytic capital as well as the work of other grantees. The grants made to the Network Partners have also contributed to awareness of catalytic capital.

### 4.2.1 Investment in Field Partnerships

The investment in Field Partnerships have, so far, mainly:

- drawn attention to the C3 initiative, in part via media coverage from Impact Alpha, another C3 implementing partner, a good illustration of the synergies between different workstreams; and
- demonstrated the MacArthur Foundation's commitment to deployment of catalytic capital.[65]

Section 3.3.2 notes that the social and environmental contribution these investments have made are being captured in an IMM framework. The results of the IMM analysis will be released in early 2025 and will add to the evidence base of catalytic capital.

### 4.2.2 Strengthen the evidence base

**The fourteen grants made to build up the evidence base covered a broad range of topics and geographies.**

The upside—and intent—is that this aspect of the initiative has been able to reach a variety of audiences not otherwise engaged with C3 that can potentially engage with the research produced.

The downside is that most of the reports relate to specific parts of the impact investing sector and the audience for each report is likely to be small. A synthesis report written in 2024 drew threads across the reports.

65. The Zero Gap Fund similarly demonstrates the Rockefeller Foundation's commitment to deploying catalytic capital.

Many grantees have used the research to promote other C3 goals, such as promoting awareness of catalytic capital and increasing connections among and between investors and researchers.

Several grantees reported there is limited data available relating to catalytic capital and some evidence of research fatigue when collecting qualitative data.

### 4.2.3 Advancing the practice

The sessions held to identify good practices in deploying catalytic capital were well-attended by approximately 35 experienced investors and were appreciated by attendees, though feedback has not been comprehensively compiled. Much of the credit for this goes to the credibility and connections of the facilitator and time they spent reaching out to attendees. This suggests there is interest and willingness to participate in efforts to share, collate, and disseminate good practices. The content of the sessions was written up in three sets of guidance notes reflecting the collective experience of the participants. Such sharing and documentation is rare, if not unique. It is not yet clear to what extent the published outputs of these learning labs will be read by others and how far the lessons will reach beyond the participants,  but they were disseminated on several websites and promoted via blogs. MacArthur anticipates that a formal Community of Practice will form based on these groups.[66]

### 4.2.4 Communicate and facilitate engagement

**This workstream - made up of grants to eight networks of impact investors and support to Impact Alpha to report on catalytic capital - is varied in the types of activities conducted and audiences engaged. It is thus difficult to draw broad conclusions on its contribution so far.**

**Nonetheless, particularly positive contributions were:**

- **The partnership with Impact Alpha was a very effective way of reaching the target audience.** Impact Alpha was transparent about the support it received. That Impact Alpha received support to cover news about catalytic capital was not raised as a concern by interviewees (though not everyone was aware the coverage was funded by C3).
- **Partnering with existing networks was on the whole a realistic, efficient, and effective way to engage with different types of investors.** It allowed engagement on different questions and issues relating to catalytic capital to be tailored to each audience while leveraging and building existing work, knowledge, and experience.
- **The level of engagement by members of the networks was generally high** though this differed by network and the planned activities.
- **Partnering with networks that are supportive of the idea of catalytic capital** increases the likelihood that the work will continue up to and beyond the end of the grant period.

**Other findings are:**

- **There was some but limited sharing of resources across the networks**, which both reflects the different situations, incentives, and restrictions that face different types of investors, as well as the limited opportunities to engage with each other.
- **In general, but not entirely, the networks in the developing and less mature impact investing markets, found the presentation of catalytic capital as a new idea more helpful** - both as a framing and as an opportunity to promote networking - than investors in more mature markets.
- Unavoidably, investors who are not part of the networks that received grants from C3 were not as exposed to catalytic capital as those that were.

These present opportunities to further promote the goals of the initiative over the remaining period of the grantmaking.

66. A community of practice that builds on the work of the Learning Labs was established by leaders in the field of catalytic capital after the end of the period covered by this report. NPC will review this effort as part of the next phase of the evaluation.

## 4.2.5 Foster solutions and infrastructure

These are recent grants (awarded in November 2022 and March 2023) and have not been assessed for this evaluation. They will be assessed for the final evaluation in mid-2027.

## 4.3 Feedback from implementing partners

**The implementing partners were largely positive about their experience working with C3, sometimes in glowing terms.**

Some grantees noted that at times the C3 Grantmaking team was hard to reach, it took time to get feedback and decisions made, and the team seemed to be stretched at times. Several grantees noted they would have liked more engagement with both MacArthur and other implementing partners.

**There was consistent positive feedback about MacArthur's and C3's:**

- collaborative approach as a funder;
- flexibility in responding to unforeseen challenges and changing circumstances;
- willingness to listen and address challenges together;
- respectful and supportive working partnership; and
- valuable advice and support in helping grantees meet their aims.

"They're really open, they're really collaborative. They are very good listeners..."

"Truly collaborative, open minded and invested"

"Really respectful, professional and supportive team to work with"

"I felt very lucky to have the support of the consortium and they've been great when we've been dealing with them"

As noted above, a number of grantees - both network partners and grantees given research grants - expressed a desire to have more facilitated opportunities to engage with other network partners in order to share learning, resources and feedback on the programme.

"We would like to have engaged more with other Network Partners."

Grantees noted there were difficulties trying to communicate with and / or collect feedback from C3 at points during the grant period due to resource limitations and team changes, following the departure of the initial Program Officer for C3 Grantmaking for another position.

"It took a long time, at various junctures, to get the C3 partners to come back to us with stuff".

# 5 Effect of landscape and windows of opportunity

# 5. Effect of landscape and windows of opportunity

**Strategy review question**

How did the landscape affect progress?

As noted in Section 3.1, the C3 initiative was developed out of concern that the growth in impact investing was leading to an over-emphasis on the role of market-rate seeking investments to try to solve environmental and social challenges. The initiative is predicated on the idea that market-rate seeking investments are essential but insufficient to address all such challenges and to maximize social and environmental outcomes.

**This section considers how changes in the broader landscape have supported or impeded progress towards the C3 initiative's intended outcomes as well as the implication of on-going changes in the landscape for the success of the initiative.**

**These landscape factors considered include:**

### Long-term / slow-changing developments

**A.** Societal concern about existential environmental threats.

**B.** Societal concern about growing income and wealth inequality.

**C.** Generational wealth transfer.

### Short-term factors or external shocks

**A.** Growing perception risks around ESG investing and impact washing.

**B.** Calls for racial justice.

**C.** The COVID-19 Pandemic.

**D.** The Russia-Ukraine war.

**E.** Macroeconomic conditions and policies: quantitative easing and tightening, inflation, foreign exchange risks and the strengthening of the US dollar.

In summary, both the longer-term and shorter-term changes in the philanthropic and investment landscape have generally been favorable to the aims of C3 since its inception during the baseline period. These landscape factors have influenced the changes in the fields of impact investing and development finance during T1 and will do so over T2, or over T1 and T2 combined in ways that have been largely neutral or conducive to increasing the use of catalytic capital. Likewise, the various target audiences have interpreted and responded to those landscape and field level changes in ways that have been largely conducive to the C3's intended outcomes.

*Table 2: Summary of the impact of landscape factors on C3's intended outcomes*

| Landscape factor | Promoted or hindered aims of C3 between baseline and T1? | Expected to promote or hinder aims of C3 post T1 / after grant period ends? |
|---|---|---|
| **Slow changing / long-term landscape factors** | | |
| Societal concern about existential environmental threats | Promoted | Expected to promote |
| Societal concern about growing income and wealth inequality | Mixed effect* | Unclear |
| Generational wealth transfer | Unclear effect* | Expected to promote |
| **External shocks / short-term landscape factors** | | |
| Backlash to ESG investing and concerns about impact washing | Mixed effect | Unclear |
| Calls for racial justice | Promoted | Expected to promote |
| COVID-19 Pandemic | Mixed effect | Expected to be neutral |
| Macroeconomic conditions and policy: quantitative easing and tightening, inflation, strengthening of US dollar | Impeded | Unclear |
| Russia-Ukraine war | Unclear effects | Expected to be neutral |
| **Changes in impact investing field** | | |
| Growth in sustainable investing and impact investing | Mixed effect | Unclear |
| Increasing ESG and impact reporting requirements | Promoted | Expected to promote |
| Growing maturity of impact measurement and management | Promoted | Expected to promote |
| Increasing use of impact verification | Promoted | Expected to promote |
| **Changes in the development finance field** | | |
| Changes in overseas development assistance | Promoted | Expected to promote |
| The increasing financing gap to achieve the SDGs | Promoted | Expected to promote |
| Changes in the financing of the SDGs: use of blended finance, mobilization of private finance, and use of concessional capital | Promoted | Expected to promote |
| Growth of climate finance | Promoted | Expected to promote |

• *Effects are mixed if factor both promotes and impedes the goals of C3 in ways that cannot be compared. Effects are unclear (retrospectively) or neutral (prospectively) if the factor is relatively weak and / or has mixed effects that neutralize each other.*

## NPC's approach to predicting the influence of factors going forward

To predict the influence of each landscape factor after the grant period ends, NPC used the principle of inertia: each factor is expected to have the same influence in the future as in the past unless there is a countervailing factor. Thus

| | | |
|---|---|---|
| Promoted | ► | Expected to promote |
| Mixed effect | ► | Unclear |
| Impeded | ► | Expected to hinder |
| Unclear | ► | Unclear |
| Neutral | ► | Expected to be neutral |

**The exceptions are:**

- Generational wealth transfer is expected to be supportive of catalytic capital in the future as younger generations take on more decision-making.
- Macroeconomic conditions will be unclear as they will change in ways that are difficult to predict.
- The COVID-19 pandemic will be neutral as it has passed.
- The Russia-Ukraine war will be neutral as markets adjust.

**The rest of this section:**

- describes each of these landscape factors in turn;
- describes changes in the fields of impact investing and development finance that have been influenced by these landscape factors; and
- notes the effect of changes in the landscape factors and changes in the field on the C3 target audiences.

# 5.1 Slow changing / long-term factors

### Societal concerns about existential environmental threats have promoted the aims of C3 between the baseline and T1.

This is evident from the growth in deployment of capital deployed/committed to climate finance and initiatives launched by impact investors. Pre-2017 Development Finance Institutions (DFIs) were investing relatively smaller amounts towards climate finance, but this has changed significantly now. As noted in Section 4.2.3, the volume of DFI capital that is catalytic in nature in this sector has recently increased. Outside of the DFI world, several other large foundations/family offices have launched climate focused investment initiatives that can be considered catalytic, such as the Global Energy Alliance for People and Planet (GEAPP) by Rockefeller and others, Bezos Earth Fund, etc.). Beyond the C3 grant period we expect the transition to a carbon neutral energy market to continue to require—among other things—catalytic capital to help new technologies and practices become established. Over the longer term, these investments will likely generate commercial returns and catalytic capital may be used less in this sector.

*...we expect the transition to a carbon neutral energy market to continue to require—among other things—catalytic capital to help new technologies and practices become established...*

### The impact of societal concern about growing inequality in wealth and income on the goals of C3 is unclear.

On the one hand, evidence that the dominance of pro-market economic policies over recent decades has promoted inequalities within countries is an argument against continued reliance on conventional finance to promote equality. On the other hand, the proponents of market-rate impact investing argue it can reduce wealth inequalities. It is unlikely that there will be a clear winner in this debate, though demographic changes suggest there will be less confidence in conventional finance to address inequalities.

### The transfer of wealth to younger generations, who show greater concern for environmental and social factors than their predecessors, has supported the growth of impact investing generally.

However, it is not yet clear if this trend, which was a core factor motivating the launch of the C3 initiative, has yet resulted in a clear growth in the use of catalytic capital. While there are some examples of younger High Net Worth Individuals advocating for and deploying catalytic capital, such as Lukas and Samantha Walton, some interviewees noted that many of these individuals are not necessarily key decision-makers yet when it comes to investing family wealth (unlike the example of Lukas and Samantha Walton and their efforts with The Builders Vision). The expectation is that going forward the broad demographic changes will generally be mildly favorable to the goals of C3, although efforts in T2 could shift this trajectory.

## 5.2 External shocks / short-term factors

**The backlash against ESG investing and concerns about impact washing has had very little but probably countervailing effects on the use of catalytic capital to date.**

Catalytic capital investors are concerned about impact and are sensitive to risks of impact washing, but going forward are unlikely to be put off by criticisms of ESG or the risk of impact washing. A priori such criticisms are as likely to promote great commitment to good practices as lead to disillusionment.

> *…the murder of George Floyd accelerated the development of thematic investment funds/ initiatives focusing on DEI issues and financial inclusion.*

**Calls for racial justice have had a positive effect on CC in terms of bringing to attention opportunities to back investments that are aimed at addressing deep-rooted racial injustices.**

While this issue predates the establishment of C3, the murder of George Floyd accelerated the development of thematic investment funds/initiatives focusing on DEI issues and financial inclusion.

**Current macroeconomic conditions are testing the impact investing market which emerged during a period of historically low interest rates and predominance of debt.**

Rising interest rates globally and especially in the developed markets have put pressure on expected returns from equity investments in the developing world. This is likely to have a dampening effect on the use of catalytic capital as several catalytic investments are in the developing world.

**The COVID-19 pandemic's impact on the goals of C3 appears to have been mixed.**

On the one hand, many investors reduced new investment commitments because of the uncertain market conditions. Several investees / companies went under due to the global lockdown. On the other hand, while DFIs were reducing their new investments/commitments during the pandemic, several made distressed / rescue investments or set up resilience funds to shore-up failing investments / funds that could not survive the pandemic which reflects a form of catalytic capital. The disruption and digital innovation in response also provided investment opportunities with the potential for expanding reach to underrepresented communities and cohorts.

**It is unclear how the Russia-Ukraine War affected the goals of the C3 initiative other than contributing to difficult market conditions in the short-term.**

High energy prices in 2022, which have since lessened, could be mixed—may have promoted interest in transitioning away from fossil fuels but would have also limited capital available to make sure investments. It seems the impact on the goals of C3 has been limited.

> *Rising interest rates globally and especially in the developed markets have put pressure on expected returns from equity investments in the developing world.*

# 5.3 Changes in impact investing field

**The landscape factors above along with others have led to changes in the impacting investing field. The main changes to the field and the effect of these changes on C3's intended outcomes are described below.**

### Growth in sustainable investing

has contributed to awareness of catalytic capital as an impact-oriented strategy. However, it is unclear to what degree this has impeded or enhanced C3 outcomes as most sustainable investing opportunities focus on delivering market-rate financial returns which may or may not be conducive to more capital flowing to catalytic investments. Some thematic impact investing strategies require subsidy for which catalytic capital is the solution. But the success of market-rate impact and sustainable investing—that it is possible to achieve social and environmental returns while achieving a market-rate return—can be in tension with the central idea of catalytic capital that some goals can only be achieved with a lower than market return or higher than market risk.

### Increasing ESG and impact reporting requirements

likely has a positive impact on the goals of C3 as most investors want to invest in positive social and environmental outcomes and be seen to be doing so. Greater transparency on outcomes may influence some investors to consider deploying or increasing the deployment of catalytic capital. However, the effect is likely to be small as changing reporting requirements is a weak incentive to deploy catalytic capital. Further transparency around impact data is likely to be an enabler of catalytic capital, but impact washing and any backlash may be a barrier.

*Greater transparency on outcomes may influence some investors to consider deploying or increasing the deployment of catalytic capital.*

### The growing maturity of impact measurement and management

should be an enabler of catalytic capital in the long term as it helps focus attention on impact achieved via different sustainable and impact investing initiatives and potentially highlights the case for a higher degree of impact that can be achieved through CC investments. However, the lack of data relating to the financial, social, and environmental impacts of private transactions currently inhibits the use of catalytic capital.

### Increasing use of impact verification

should reduce the risk of impact washing and help provide confidence around any trade-offs between social and environmental goals and financial returns. So, this is expected to promote the goals of C3 though there is little indication of much influence to date.

# 5.4 Changes in the development finance field

**The landscape factors above along with others have also led to changes in the development finance field. The main changes to the field and the effect of these changes on C3's intended outcomes are described below.**

## Changes in overseas development assistance

Governments are under on-going pressure to limit their use of, and to make best use of, overseas development assistance they provide. Macroeconomic factors and exogenous shocks have affected national accounts and domestic political attitudes towards and capacity to sustain commitments to funding overseas development assistance. Catalytic capital—or more specifically blended finance that uses catalytic capital to leverage private sector investment—is increasingly seen as an attractive use of overseas development assistance and hence is increasingly used.

**$2.5 ▲ > $4 trillion**

**The financing gap is estimated to have grown from $2.5 trillion annually for developing countries only to more than $4 trillion.**

## The increasing financing gap to achieving the SDGs

acts as a driver of innovative financing solutions and the attempts mobilize private capital. As noted above in Section 3.2, that gap is estimated to have grown from $2.5 trillion annually for developing countries only to more than $4 trillion. While not a positive trend for the world, it promotes the case for greater use of catalytic capital.

## Changes in the financing of the SDGs

particularly the need for DFIs to mobilize private finance to achieve the SDGs, has contributed to awareness and use of catalytic capital through the emphasis on blended finance as an investment tool. Societal awareness and concerns about environmental crises, climate change and social injustice, including disparities between nations have been part of the public and private discourse around financing the SDGs and calls for racial justice have accelerated racial equity as a driver of thematic approaches. Despite increasing societal concern, there remains an insufficient supply of commercially investable or 'bankable' climate or SDG projects which promotes the need for increased deployment of catalytic capital to achieve the SDGs.

## Increased awareness of and data about the risks posed by climate change

and the outputs of UN institutions such as the Intergovernmental Panel for Climate Change (IPCC) and UN framework convention on climate change (UNFCCC) and broader societal attitudes have all accelerated the focus on climate finance. In addition, the Russia-Ukraine war has exposed the vulnerabilities of climate transition to energy market capture and is also accelerating climate finance. The use of blended finance approaches within development finance are now widely being deployed within climate finance, drawing on the use of catalytic capital, although not always using that term. Climate finance is very suitable for the use of catalytic capital in the short-term because of the potential for high returns to be made in certain markets as the markets develop in the future. It is not clear if catalytic capital will be needed in the long-term in this sector.

# 5.5 Changes to specific target audience groups

**Changes in the landscape as described above have generally had a consistent effect of making different investors more conscious of the social and environmental impacts of their investments and more able to take actions to improve those outcomes.**

Investors that are less bound by market pressures (i.e., all except corporations and financial institutions) have had more freedom to take up such actions.

### Public and philanthropic donors

The response to changes in the landscape by public and philanthropic donors largely supports C3's aims. Macro-economic effects on development finance and the increasing financing gap for the SDGs incentivize public donors to want to make their grant money go further, looking to how it may mobilize investment, support innovation, and provide investment readiness support or technical assistance to build the investing environment in target markets. Public donors are incentivized to use grant capital within development and climate finance to make money go further and awareness of specific market failures is incentivizing grants to support technical assistance, impact measurement and management, and place-based investment ecosystems.

### Private and community foundations

The response to changes in the landscape by private and community foundations supports C3's aims. The growth of development finance provides opportunities for larger foundations engage in cross-border investments with DFIs,[67] while the ambitions of smaller foundations are shaped by increasing opportunities and examples for impact investing in emerging markets and developing economies. An increased awareness of sustainable finance and impact investing is driving some to consider a shift towards 'total portfolio' impact across grant and investment programs, and others to consider impact carve outs. More foundations are becoming aware of blended finance and deploying capital into blended structures, both in historically underinvested communities of color in the US, and globally within development finance and climate finance.

### HNW individuals and single or multi-family offices

The response to changes in the landscape by HNW individuals and single or multi-family offices supports C3's aims. In particular, the next generation of these investors are widely influenced by social and environmental landscape factors and increasingly concerned with stewardship. However, there is only anecdotal indication that this has yet affected the level of catalytic capital deployed. The ability to of these investors to use catalytic capital to maximize impact is helped by their freedom to set flexible risk and return expectations and have a long-term time horizon and by their engagement in venture philanthropy and early-stage equity investing.

### Governments, multilateral Development Banks (MDBs) or Development Finance Institutions (DFIs)

The response to landscape factors by this target audience strongly supports C3's aims with the growth in the use of blended finance and concessional public funds to generate bankable project pipelines, achieve scale, and mobilize private capital all incentivizing the use of catalytic capital. The primary barrier being that development finance is still heavily reliant on public grant funding as overseas development assistance.

67. The sources of philanthropic giving for developing countries are highly concentrated. The largest ten philanthropic cross-border funders provided USD 26 billion, or 76% of all cross-border financing. Retrieved from:: https://www.oecd.org/development/beyond-oda-foundations.htm

### Corporations & corporate foundations

Responses to changes in the landscape, such as increasing ESG awareness among corporations is incentivizing corporates, through their foundations and through general CSR efforts, to pay more attention to addressing social inequities and environmental issues arising through their activities or in the geographical areas of their operations. This gives some support to C3's aims, with some corporate foundations showing increasing interest in catalytic capital-type grant-making or investments. See Appendix 3 for examples of recent catalytic capital initiatives by Amazon, Microsoft and Johnson and Johnson among others.

### Financial institutions

The response to changes in the landscape for financial institutions is somewhat supportive of the aims of C3. The growth of sustainable investing and impact investing, along with the other social and environmental landscape factors, is driving the creation of new products and strategies to cater to an emerging market and changing consumer preferences. However, while many more financial institutions are adopting impact investing funds and strategies, they are not generally employing or deploying catalytic capital. An exception is in climate finance, which is incentivizing commercial financial institutions to make use of catalytic capital as a transition mechanism to foster innovation, develop new markets, and deliver investment in new technologies at scale.

### Impact investment wholesalers

Impact investing wholesalers are responding to changes in the landscape in ways that are strongly supportive of C3's aims, seeking to amplify growth in the impact investing market by deepening awareness about catalytic capital, acting as cornerstone investors in catalytic funds, and promoting research into capital gaps.

### For profit institutional investors (e.g., Pension funds and Insurance companies)

This is an overarching category that covers different types who are subject to different incentives and constraints including regulation and not the primary target group of C3. Some institutional investors are responding to changes in the landscape by increasingly becoming activist investors in climate with moves to reinterpret fiduciary duty as including long-term social and environmental outcomes within an asset stewardship framework. There is a backlash in the US that is a barrier, but also a sign of success to date. However, the small scale of catalytic capital deployed, limited supply of bankable investments or aggregation platforms, as well as market risks, remain disincentives for institutional fiduciaries to use available catalytic capital.

*Some institutional investors are responding to changes in the landscape by increasingly becoming activist investors in climate...*

### Advisors

Some advisors are responding to changes in the landscape through responding to client demands, increasing sophistication and growing awareness of innovative approaches, all of which broadly supports C3's aims. Despite this, some interviewees noted that financial advisors tend to be a barrier to increased deployment of CC (particularly by HNWIs) as they do not have the relevant experience, mindset and/or skills. This is a theme that will be explored further in subsequent landscape research.

# 6 Opportunities for remainder of the grant period

# 6. Opportunities for remainder of the grant period

**Planning for the remainder of the grant period and beyond should build from success to date and strengths of the initiative:**

- The initiative has been successful in raising awareness of and promoting catalytic capital as a way of investing.
- The breadth of the initiative means the concept of catalytic capital has reached much of the intended target audience.
- Grants were strongly aligned with grantee interests and there is interest in continuing the work in some way.
- A common refrain from grantees is that they are interested in meeting with and learning from other grantees, which began to occur more frequently with an initiative-wide convening that fell outside the time period for this initial evaluation.
- There is goodwill towards the strategic partners.
- Grantees reported working with MacArthur's Impact Investments team was largely a very positive experience.
- The landscape is largely favorable to the goals of C3.

## There are also a few concerns or risks for MacArthur to consider:

- **The definition and framing of catalytic capital has largely been positive but:**
  - there is a risk that communication gets bogged down in definitional issues. There have been questions and debates in the field as to what catalytic capital means and how it differs, if at all, from existing terms. Much of this involves semantics and nuances that may not be practically consequential, but some have been genuine misunderstanding.
  - there is a risk of the bandwagon effect where the intended meaning is diluted as people adopt the term to mean different things by different stakeholders in different contexts. The flexibility of the term can be useful but does raise the risk the term may be co-opted in unintended ways.
- **It seems likely that catalytic capital will be used alongside rather than replace other terms**, which does not contradict with C3's ultimate goal to increase the use of catalytic capital.
- **A number of grantees:**
  - found it hard to access the findings and work of others, though they were keen to do so. The launch of the website in Q4 2023 should address this concern going forward.
  - felt somewhat isolated and not part of a collective effort during the grant period.
  - thought the MacArthur's Impact Investments team was too stretched.

- **Some interviewees raised concerns about the use of catalytic capital that have been widely or explicitly discussed so far:**
  - whether an investor can have a greater impact by investing in a financially successful business that makes marginal improvements in social and environmental outcomes than a less financially successful business that has greater impacts.
  - identifying when (under what conditions) it is appropriate to use catalytic capital and when it is not.
  - concerns about subsidizing or appearing to subsidize market-rate investors who co-invest alongside catalytic capital.
- **Based on feedback collected from grantees, partners, and non-grantee experts, observations in the field, and literature, NPC has identified several opportunities that MacArthur could take to build on progress achieved to date, many of which already are in the current strategic plan for the initiative over the next phase of the work:**
  - organise various convenings and webinars to allow grantees to share their findings and discuss their experiences. The C3 event at the 2023 GIIN event was useful in this regard.
  - disseminate written materials that provide the perspective of grantees. Grantee reports to MacArthur had many insights that others may consider insightful. There is a risk these may get lost.
  - review how to further promote the C3 goals of increasing skills and capabilities and building the knowledge base. The grants helped directly with these but they were relatively small efforts relative to size of the goals.
  - engage grantees and others in addressing the difficult issues around appropriate and inappropriate use of catalytic capital, making trade-offs as between short-term impacts vs long-term financial sustainability and growth and concerns about subsidizing mainstream investors.
  - share appropriate data from Field Partnerships as part of building the evidence base around the use of catalytic capital.
  - C3 strategic partners could supplement learnings from the initiative by sharing their own experiences and internal debates about when it is appropriate to deploy catalytic capital.

## Next Steps (updated 2024)

The C3 initiative will continue through the life of the Field Partnership investment commitments, with C3 Grantmaking at New Venture Fund extending through 2026, bringing in a new cohort of Strategic Funding Partners to support grantmaking and field-building for three additional years. The evaluation will continue to track changes in the intended grant outcomes and the impact of the Field Partnerships. A final evaluation report will be delivered to the MacArthur board in 2027.

# Appendices

# Appendix 1: C3 Grants

**A summary of all grants awarded through the joint C3 Grantmaking pool can be found on the Catalytic Capital Consortium webpage.**

## Network Partners

- **The Global Impact Investing Network (GIIN)**
  the largest global community of impact investors (asset owners and asset managers) and service providers engaged in impact investing.
- **TONIIC**
  whose members consist of around 500 high net wealth individuals, family office, and foundation asset owners.
- **Convergence**
  a global network of 165 public, private & philanthropic member institutions involved in blended finance.
- **Mission Investor Exchange**
  approximately 200 US based foundations involved in impact investing.
- **The European Venture Philanthropy Association (EVPA)**
  a network of approximately 300 impact investors in Europe.
- **The Asian Venture Philanthropy Network (AVPN)**
  a network of more than 600 members across 33 countries aimed increasing the flow of financial, human, and intellectual capital from around the world into the social sector in Asia.
- **The Africa Venture Philanthropy Association**
  a Pan-African network of social investors (membership size unknown).
- **Latimpacto**
  a network of investors aimed at increasing the flow of human, intellectual and financial capital directed to impact in Latin America and the Caribbean with 1,100 members.

## Strengthening the Evidence Base:

- **200 Million Artisans**
  Study of the role catalytic capital for craft-based micro, small, and medium-sized businesses in India's artisan sector.

- **Aceli Africa and Dalberg Advisors**
  Research on use of catalytic capital for agricultural small and medium-sized enterprises (SMEs) in East Africa.

- **Ashesi University + Impact Investing Ghana**
  Study of why, where, and how catalytic capital has been deployed in Ghana to drive the growth of SMEs.

- **Center for Financial Inclusion**
  Study of how catalytic capital has spurred development of a thriving digital credit industry in select markets.

- **First Peoples Worldwide**
  Evaluation of how catalytic capital is being deployed in Indigenous communities and to Indigenous-led enterprises and entrepreneurs.

- **Impact Finance Research Consortium**
  Support for development of the Impact Finance Database with a focus on researching catalytic capital.

- **Initiative for Blended Finance**
  at University of Zurich, the University of Cape Town GSD Bertha Centre for Social Innovation and Entrepreneurship, and Roots of Impact. Research on the perspectives of entrepreneurs in the Global South as the end users of catalytic capital.

- **Institute for Multi-Stakeholder Initiative Integrity (MSI)**
  Review of past and present catalytic capital deployments in employee-owned enterprises in the United States, a sector that includes an estimated 7,000 firms.

- **Investisseurs & Partenaires (I&P)**
  Analysis of the experience of multiple funds providing catalytic and other capital to African entrepreneurs through more than 150 transactions.

- **New Growth Innovation Network**
  Synthesis of evidence on the ways that catalytic capital has supported wealth creation in Black, Indigenous and People of Color (BIPOC) communities.

- **Open Capital Advisors**
  Exploration of specific segments of dynamic small and growing businesses (SGBs) in Africa to document how catalytic debt can unlock growth.

- **Periferia Policy and Research Center**
  Research into the characteristics of both the demand side and the supply side of the housing sector in 8 countries in Eastern and Southeastern Europe and identify bottlenecks that need to be overcome for the two sides to meet.

- **Prime Coalition**
  Analysis of the capital gaps in science and engineering innovation that are matched to key social challenges to build a framework to help practitioners decide whether or not a specific gap might be appropriate for catalytic capital intervention.

- **Urban Institute**
  Study of transaction-level insights in an urban setting—both market-rate and catalytic capital—to better understand how and where mission-driven organizations are deploying catalytic capital and the gaps that remain.

## Other implementing partners:

- **Impact Alpha**
  support to cover news and articles about catalytic capital

- **Courageous Capital Advisors**
  running learning labs to collect advanced practices for catalytic capital investors

## Fostering Solutions & Infrastructure

- **Agora Partnerships**
  To develop an Information Exchange Platform (IEP) focused on women-owned small- and medium-sized enterprises in Honduras, Guatemala, El Salvador, and Mexico.

- **Coalition for Green Capital**
  To establish an "implementing entity" for the $27 billion Greenhouse Gas Reduction Fund enacted in the U.S. as part of the Inflation Reduction Act.

- **The Global Steering Group for Impact Investing**
  To deliver a roadmap for actionable solutions that would positively impact the multi-dimensional development of informal settlements in the Global South.

- **The Impact Investing Institute**
  To work towards an inclusive transition to net zero carbon emissions by helping increase the capacity of catalytic capital providers and local managers in the Global South to develop and launch financial products that can attract institutional capital at scale, as part of the Institute's Just Transition Finance Challenge.

- **Invest Appalachia**
  To operationalize a blended capital impact investing fund designed to catalyze community investment in the Central Appalachian region. IA's multi-sector approach focuses on connecting national investment and philanthropy to local markets, in alignment with community needs.

- **KOIS**
  To build the Dignity in Labor platform, bringing together a consortium of service providers, lenders, and donors to develop and deploy systemic financial solutions and infrastructure that accelerate socio-economic mobility for unbanked and underbanked customer groups in India.

- **Opportunity International**
  To launch a vehicle that will de-risk loans for micro and small borrowers in the agriculture and education sectors in Latin America, Sub-Saharan Africa, and India.

- **NABII Zambia**
  To establish a credit guarantee fund that can support local small and medium-sized enterprises (SMEs) in Zambia, address the key challenges associated with SME financing, and determine the extent to which the financing can be relatively quickly scaled-up.

- **Pacific Community Ventures**
  To develop a guidebook for a U.S. place-based funding model that brings together private and public investment, grant support, and community partnerships to activate catalytic capital for BIPOC entrepreneurs and fuel community wealth-building.

- **Rhia Ventures**
  To develop, test, and share an investment framework that utilizes a health, gender, and racial equity lens, particularly related to maternal and women's health.

- **Total Impact Capital**
  To create an innovative vehicle to deploy impact notes that provide capital to scale high-impact enterprises serving low-income communities in emerging markets around the world.

- **Village Capital**
  To develop, test, and deploy a digital financing diagnostic and matching platform to help startups identify financing mechanisms that are most appropriate for them and connect to investors who offer that type of financing..

# Appendix 2: Evaluation and Learning Questions

The evaluation framework was developed by NPC and MacArthur, with input and consultation from various partners and external experts, around three main areas of exploration: outcomes, feedback, and landscape. C3 is a 10-year initiative with the evaluation finishing in mid-2027. The evaluation plan and possibly evaluation questions may be adapted between now and then as new learnings surface.

*Figure 3: Evaluation areas*

## Impact Activities

Collect information to better understand the ultimate contribution of the Foundation's work and progress toward achieving aspirational changes.

**We will measure and track the changes in**

C3 is part of the Foundation's field support program to build the field of impact investing via the short, intermediate, and long-term outcomes, rather than to acheive a specific impact. Thus, this section is not applicable.

## Outcome Activities

Measure progress toward specified results of the work.

**We will measure and track the changes in**

- Short/intermediate-term: Changes in awareness of, attitudes towards, knowledge about, and capability to implement catalytic capital, along with reduced barriers to deployment.
- Long-term: Supply of catalytic capital; number and type of investors that deploy catalytic capital; level of capital that is unlocked through catalytic capital transactions.
- Use of catalytic capital in promoting innovative solutions, inclusive markets, and supporting impact-led funds, enterprises and fields.

## Landscape Activities

Explore context in which the work takes place.

**We will explore and track**

- Types and uses of catalytic capital and current actors involved.
- Policy and regulatory environment.
- Changes in society and philanthropy that support or impede use of catalytic capital.

## Feedback Activities

Garner information from Foundation staff, partners, grantees, and beneficiaries about how the work is progressing.

**We will explore and track**

- Strengths and weaknesses of the C3 conceptual framework and how C3 is implemented.
- Oppotunities to further promote the goals of C3.
- Utility of the evaluation and learning activities.

# Outcome questions

Outcome questions consider how much progress has been made against the outcomes specified in the conceptual framework. The questions are:

**To what extent has the C3 initiative demonstrated significant, meaningful contributions to the intended outcomes in the conceptual framework (if at all)? Which ones? In what ways? What evidence is there to show progress?**

- Have the approaches helped increased awareness, promoted positive attitudes, contributed to the evidence base, increased investor capabilities, and promoted connections among investors who use catalytic capital?
- Once potential providers have an aligned set of attitudes, knowledge, and capabilities to use catalytic capital, as well as new connections with other investors, do they increase their supply of catalytic capital? Can they find suitable investments and participate in them?
- Is the impact investing field embracing the notion and practice of "catalytic capital" in a way that is aligned with C3's definition and understanding?
- To what extent are the Field Partnerships influencing the attitudes, knowledge, and behavior of the actors in their sector and investors more broadly? To what extent are Field Partnerships able to obtain follow-on funds?
- Are there outcomes, target audiences, or geographies where little progress has been made? Why? What has been the most challenging?
- Is there evidence that suggests increased use of catalytic capital promotes innovation, inclusive markets, and more support for impact-led funds, enterprises, and fields?

**What is the existing landscape from which the Conceptual Framework seeks to generate its intended significant, meaningful contributions?**

- How much catalytic capital is in use? Who is providing it? What is it used for? etc.
- Who are the primary actors engaged in the ecosystem? How supportive are they of the use of catalytic capital? What are the different experiences of different stakeholder groups?

**What are the barriers that inhibit different investors from using catalytic capital? Are these being appropriately addressed by the C3 approaches?**

**To what extent are there any unintended consequences of the C3 strategy, either positive or negative, especially on historically marginalized communities?**

- Is there evidence of any spill-over effects in sectors and industries (e.g., inappropriately distorting markets) not directly addressed through the strategy? If so, what are they?
- To what extent have unintended consequences influenced the success of the C3 strategy?

# Feedback questions

Feedback is about understanding how the implementation of the strategy is working in order to respond and adapt accordingly. This part of the evaluation drills into specific components of implementation, including strategy design/development with strategic partners, grantmaking with New Venture Fund (NVF)/strategic partners, and impact investing with Field Partnerships.

The following feedback questions are high-level and may be refined as time goes on and as protocols are developed. Further targeted and specific questions will be put to the stakeholders to answer these high-level ones:

**Is the C3 Conceptual Framework adequate, meaningful, feasible, and measurable?**

- Should any part of the conceptual framework be reconsidered or adjusted? If yes, in what way(s)? If no, why not? Are there any new assumptions, risks, and/or unknowns that should be incorporated?
- What are the strengths of the C3 strategy and how it is implemented? How can these strengths be maintained, amplified, and/or scaled?
- What are the weaknesses of the C3 strategy and how it is implemented? How can we adjust our strategy to mitigate or eliminate these weaknesses?

**How has the implementation supported the advancement of strategy?**

- Has the implementation of C3 gone as planned? If not, why not, and with what consequences?
- Are there any additional activities or opportunities that might help make progress toward the outcomes of the C3 strategy?

**Has the original understanding of the enabling factors and opportunity changed?**

- How is the landscape changing, and how does this affect the likelihood of achieving C3 goals?
- Does the landscape suggest a value-add role for C3 to play, with windows of opportunity for progress toward significant, meaningful contributions?
- What enabling factors support the success of the C3 strategy?
- What are the known challenges and risks to the C3 strategy achieving the intended outcomes and impacts?

**What are the next steps for the C3 strategy? What will it take (beyond what we've done or are doing) to make a difference towards intended impact?**

# Landscape questions

Landscape questions are about exploring the context in which the work takes place, thus ensuring MacArthur can embed their strategy within external drivers and challenges. Landscape questions are geared towards understanding what factors, besides C3, promote or hinder the use of catalytic capital. Landscape data and information will help contextualize changes in outcomes and impacts. The landscape questions are:

**What policies (governmental and institutional) support or hinder the use of catalytic capital?**

**What are the key trends in impact investing and conventional investing, more broadly? Where is the overall context shifting, and is that favorable or not to catalytic capital? (For example, are there changes in the use of grants in combination with traditional capital)?**

**To what extent is awareness and concern with economic or racial inequities, such as movements around racial and economic justice, galvanizing funders, or investors to shift deployment of capital?**

**What is the policy landscape and what are the broader trends in philanthropy that currently influence or may influence the use and contribution of catalytic capital?**

# Appendix 3: Summaries of a selection of catalytic capital initiatives organized by sponsor types

**Several notable catalytic capital initiatives have launched between 2017 and 2024.**

**Below are several examples organized by sponsor type.**

1. Corporations
2. Family Office
3. Wealth Management Firm
4. Foundations
5. Development Finance Institutions
6. Intermediaries

# Catalytic Capital

Visit website[68]

## Goal

To provide more startups led by underrepresented founders with access to capital, mentorship, and collaboration opportunities so that they can grow. To accomplish this goal, Amazon Catalytic Capital invests in organizations that invest in, and support, this category of startups.

## Description

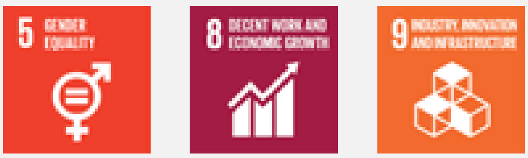
Dedicated investment program with an initial $150 million in funding to invest in venture capital funds, accelerators, incubators and venture studios that have a track record of, and commitment to, supporting startups led by underrepresented founders.

Examples of investments include Energy Impact Partners' Elevate Future Fund, a fund that invests diverse founders working on solutions for a more sustainable and clean energy future; and Techstars Rising Stars, a pre-seed fund investing in underrepresented founders of color in the U.S.

## What Makes this Catalytic

Amazon Catalytic Capital selects opportunities where its capital can spark "a force-multiplying effect" by encouraging others to invest, fostering inclusion and innovation, positively impacting communities, and creating generational wealth and financial return.

### Target Sustainable Development Goals




68. Retrieved from: https://www.amazoncatalyticcapital.com, August 5th, 2024.

# Climate Innovation Fund

Microsoft

Visit website[69]

## Goal

**The focus of the fund is to:**

- invest in emerging climate technology solutions that have early commercial traction and need capital to scale in the market.
- provide project financing to bring existing climate solutions to scale
- invest directly in companies, with opportunities to:
    - Scale new innovative solutions in the market
    - Demonstrate the viability of new technologies
    - Partner with other investors to meet the world's climate objectives

## What Makes this Catalytic

One of the Climate Innovation Fund's stated criteria is to address capital gaps and seed climate solutions in underfunded markets. This implies that the fund is intentional about assuming disproportionate financial risk in order to enable and scale climate solutions.

## Description

$1 billion investment initiative launched in 2020 to make investments to accelerate technoloyg development and deploymnet of new climate innovations through equity and capital.

**Investments are based on four criteria:**

1. have meaningful measurable climate solutions in the areas of carbon, water, waste, and ecosystems;
2. address underfunded markets where the capital need for climate solutions is not being met;
3. support technologies that are relevant to Microsoft's core business and its customers;
4. ensure developing economies and underserved communities benefit from climate solutions.

## Target Sustainable Development Goals


69. Retrieved from: https://www.microsoft.com/en-us/corporate-responsibility/sustainability/climate-innovation-fund#fund-managers, August 5th, 2024.

# Ceniarth

Visit website[70]

## Goal

To benefit underserved communities globally by deploying capital to funds, financial intermediaries, and social enterprises that support marginalized and vulnerable populations.

## Description

Ceniarth is a family office that has $685M of A.U.M. invested in non-profits, for-profits, financial intermediaries, and social enterprises with a focus on agriculture, affordable housing, financial inclusion, and climate justice.

## What Makes this Catalytic

In 2018, Ceniarth announced its intention to focus its capital on impact-first investments, namely transactions that maximize the impact in underserved communities but that often require more modest return expectations, or more acceptance of risk, than a conventional financial investor, or even a conventional impact investor, might accept. Forty percent of Ceniarth's total portfolio is currently defined as impact-first with an intention to move toward one hundred percent.

## Target Sustainable Development Goals


70. Retrieved from: https://ceniarthllc.com, August 5th, 2024.

# AlTi TIEDEMANN GLOBAL - Catalyst Strategies

Visit website[71]

## Goal

To reshape inequitable systems by using creative, flexible, patient and financially- risk tolerant capital.

## Description

AlTi is a global wealth management firm with $72 billion[72] in assets under management or advisement, $5 billion of which is committed to private impact and publicly traded ESG strategies. Within their broader impact advisory offering, AlTi has built a Catalytic Platform of strategies that they will allocate to on behalf of a number of families and foundations.

**Their Catalytic Platform has two approaches:**

1. An emerging manager investment program which seeks to address inequitable barriers for many diverse new fund managers while also investing in innovative new impact solutions; and
2. Patient, flexible and low cost financing to underserved communities. In both cases, these are private debt and equity investments into aiming to drive outsized impact through things like employee ownership models, nature based solutions, sustainable and equitable wealth-creation, decarbonizing technologies, and increased access and affordability of housing, education and wellness solutions.

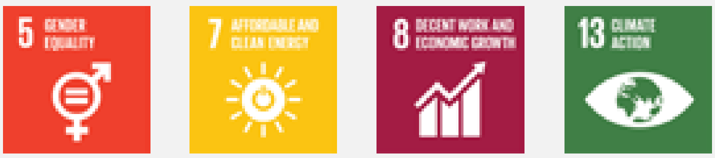
## What Makes this Catalytic

One of four impact approaches used across a total portfolio mindset, AlTi's Catalytic Platform uplifts solutions that invest patient, risk-tolerant and flexible capital into solutions that prioritize impact. These solutions often require investors to accept higher perceived risk and/or intentionally lower return in pursuit of outsized environmental and social impact. AlTi is guided by a set of principles, including evidence of additionality (in that this solution would not exist were it not for a catalytic investment intention) and solidarity (whereby the fund managers have lived and/or professional backgrounds aligning them with the community aimed to serve by the solution) to hold true to the deep intentionality of this form of investing.

## Target investors

Foundations and ultra high net worth families.

## Target Sustainable Development Goals




71. Retrieved from: https://alti-global.com/offering/impact-investing, August 5th, 2024.
72. As of June 30, 2024

# SDG Outcomes Initiative

Visit website[73]

## Goal

To direct impact investment capital into outcomes-based financing programs, to achieve more effective social and environmental outcomes for the most vulnerable people in developing countries. A key characteristic of this fund is funding outcomes to reward achievement of results and support entrepreneurialism and innovation.

## Description

The 12-year SDG Outcomes Fund[74] is a blended capital fund led by UBS Optimus Foundation, which has anchored the fund with $20 million in grant funding to serve as first loss to catalyze mezzanine and senior debt investors into a target $100 million fund. The Fund is managed by Bridges Outcomes Partnerships. Over the fund life, the aim is to invest into 20 outcomes-based financing programs in education, health, employment, livelihoods, and the environment. The initial investments include scaling improvements in numeracy and literacy outcomes for over 42,000 children in Sierra Leone and 40,000 children in Ghana and financing the collection and recycling of over 30,000 tons of plastic waste and creating over 700 associated jobs over the next five years in Nigeria.

## What Makes this Catalytic

The fund is undergirded by a $20 million first loss layer the purpose of which is to assume disproportionate risk relative to the target best-case financial return in order to attract other impact investors to invest in scaling proven interventions in the fund's target sectors.

## Target investors

**Catalytic layer:** The $20 million catalytic, first loss layer is funded by UBS Optimus Foundation with donations from over 30 UBS clients. Other investors include British International Investment, the US Development Finance Corporation and the Tsao Family Office. Legatum is one of the senior debt investors.

## Target Sustainable Development Goals


73. Retrieved from: https://www.ubs.com/global/en/media/display-page-ndp/en-20230720-sdg-blended-finance.html, August 5th, 2024.

74. Retrieved from: https://www.bii.co.uk/en/news-insight/news/british-international-investment-makes-first-investment-in-development-impact-bonds/, October 10th, 2024

# Catalyst Strategies

Visit website[75]

## Goal

Shape nascent markets towards inclusive and sustainable economies by applying a flexible risk appetite to finance pioneering and "enhanced development impact" strategies.

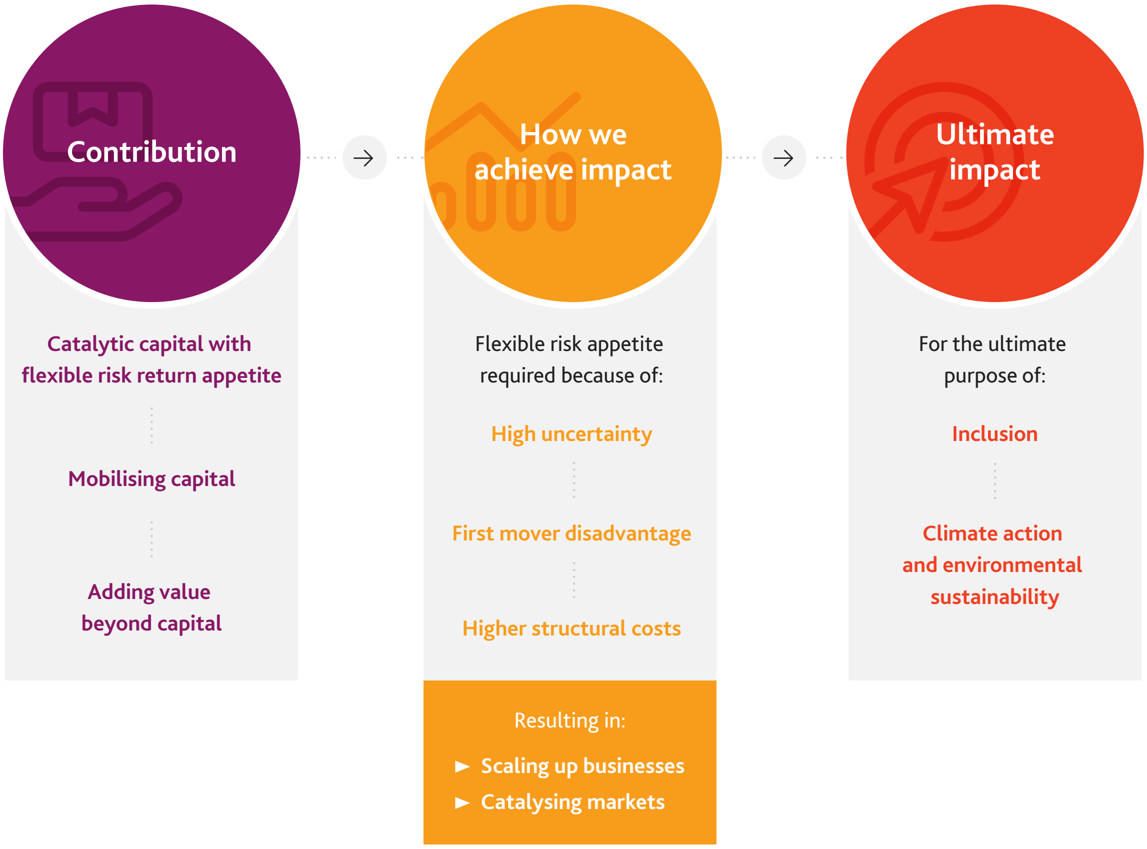
## Description

British International Investment's (BII) Catalyst Strategies is a portfolio of "enhanced development impact" investments, i.e., investments that have higher impact hurdles to accomplish economic inclusion and/or climate action and environmental sustainability goals as well as more flexible financial return objectives. BII has two broad types of catalyst investment strategies that allow it to take a flexible approach to financial risk in exchange for pioneering impact:

- **Generalist Catalyst Strategies** include a broad range of investments addressing persistent market failures or building on emerging trends:
  - **The Accelerator and Catalyst Funds** - These strategies provide a 'Sandbox' for British International Investment to test new models and themes, through direct and intermediated investments respectively, with the ultimate aim of deepening economic inclusion or having transformational climate impact.
  - **Venture Capital Scale-Up** - Through this strategy, BII invests in early-stage companies that use technology and innovative business models to achieve transformational impact. Investments in this part of the Catalyst Strategies portfolio expand BII's existing work investing in venture capital funds in developing countries to bridge the funding gap for early-stage businesses and develop the venture capital ecosystems in Africa and South Asia.
- **Thematic Catalyst Strategies**. BII also invests through thematic Catalyst Strategies to address a need within a sector. For example, to close gaps in value chains, financing, inclusion or sustainability. BII currently manages five thematic catalyst strategies:
  - **Gridworks** targets equity investments in transmission, distribution and off-grid electricity in Africa. BII is the founding and sole investor.
  - **Energy Access and Efficiency** aims to increase off-grid access to clean energy and provide finance for resource-efficiency projects, through local currency lending.
  - **Greenovate** aims to address, through concessional debt, financing constraints for high impact infrastructure projects caused by first-mover disadvantage, lack of precedent, or affordability challenges.
  - **MedAcces** aims to increase patient access to life-changing medical supplies. It does this by offering volume guarantees to reduce commercial risk and allow medical manufacturers to accelerate supplies to markets at affordable and sustainable prices.
  - **Primary Agriculture Platforms** strategy aims to support primary agriculture to create economic opportunities for remote and often poor rural populations in developing countries, and address food security and nutrition goals.
  - **Forestry** aims to support the African forestry sector in reducing pressure on natural forests, contributing to climate change mitigation, and having a significant positive and sustainable impact on improving local livelihoods.

75. Retrieved from: https://www.bii.co.uk/en/about/our-company/investment-portfolios/catalyst/, August 5th, 2024.

*Figure 4: Impact Risks*




## What Makes this Catalytic

In Catalyst Strategies, BII makes investments that carry higher financial risk in order to achieve additional development impact.

## Target investors

Because BII's Catalyst Strategies can provide very early capital to address market failures, it does not always initially seek to crowd-in other investors. Mobilizing other sources of capital could however be a primary objective at later stages of an investment.

## Target Sustainable Development Goals

# Impact First Fund

Visit website[76]

Press Release[77] Article in Impact Alpha[78]

## Goal

Mobilize some of the $1.5 trillion charitable capital that is currently in donor-advised funds held by high-net-worth individuals and families, and family and private foundations into catalytic, impact-first funds that support positive impact for marginalized groups and for the planet.

## Description

The Social Finance Impact First Fund provides a holistic, diversified portfolio of catalytic investments for individuals and institutions looking for a straightforward and efficient way to pursue impact-first investment opportunities. The Fund primarily invests in emerging, private market funds with effective strategies for achieving positive social and environmental impact, often led by or supporting people from marginalized communities.

The fund launched publicly in November 2023. The open-ended fund is looking to raise $250 million to invest primarily in emerging, private impact funds that support enterprises led by and serving individuals from marginalized communities, It is managed by Social Finance Advisors, LLC (SFA), an impact finance and advisory nonprofit.

## Target investors

Donor-advised funds and accountholders, private and family foundations, and high net worth individuals.

## What Makes this Catalytic

The Fund intends to be catalytic by investing in funds that use market-based solutions to address massive capital gaps where traditional capital markets have been less present and less effective.

**Supporting fund managers to themselves make catalytic investments into portfolio companies:** The Fund's impact-first investment criteria also centers around managers with impact-first investment theses that seek to catalyze wealth generation for portfolio companies' employees or ultimate beneficiaries of projects being financed by the funds.

## Target Sustainable Development Goals


76. Retrieved from: https://socialfinance.org/work/impact-first-fund/, August 5th 2024
77. Retrieved from: https://socialfinance.org/news/the-social-finance-impact-first-fund-launches-as-one-stop-solution-for-individuals-family-offices-foundations-and-donor-advised-funds-seeking-to-catalyze-positive-impact/, August 5th, 2024
78. Retrieved from: https://impactalpha.com/social-finance-taps-donor-advised-funds-for-impact-first-investments/, August 5th, 2024.

# Trimtab Impact[79]

Visit website[80]

## Goal

Trimtab aims to enable and empower asset owners to prioritize impact in their investments. By building market infrastructure and channelling capital to a wide-range of impact-first intermediaries, Trimtab hopes to illustrate what would be possible in a financial system that tailored capital to fit the needs of solutions instead of tailoring solutions to fit the needs of capital.

## Description

Trimtab is a purpose-built impact-first financial institution. Currently, Trimtab is investing in innovative, impact-first fund managers across sectors and geographies. Trimtab prioritizes the creation of additional impact even if those solutions are, or are perceived to be, outside of the conventional risk/return spectrum.

Incubated by The ImPact and Blue Haven Initiative, sponsored by a coalition of family offices, and with design funding grant support from the John D. and Catherine T. MacArthur Foundation, Trimtab is seeking to create a collaborative, connected community to amplify the work being done in the impact-first ecosystem.

## What Makes this Catalytic

Trimtab explicitly prioritizes impact and capital additionality by investing in highly neglected markets and innovative models where investments and outcomes would not otherwise occur. Trimtab seeks to engage asset owners and increase capital availability for impact-first finance while partnering with ecosystem stakeholders to conduct research and establish best practices for growing the field.

Trimtab seeks multi-modal additionality. This is defined as:

1. **Intervention-level additionality:**
   Generate deep, long-lasting counterfacutal outcomes for customers and beneficiaries
2. **Fund manager additionality:**
   We invest in neglected markets at terms that would not be available, but for this solution. We prioritize innovative fund models with fungible IP that can be replicated, scaled, or adapted by the broader market.
3. **Trimtab's capital additionality:**
   We invest where others are not investing. We prioritize investments where our flexible capital can be of outsized importance to help a new manager launch.

## Target investors

Trimtab currently accepts investment from private asset owners who invest into the common equity of Trimtab's corporate structure. In the future, Trimtab will build products that are more widely accessible to investors of all types seeking to deploying impact-first capital.

79. MacArthur Foundation is providing grant support.

80. Retrieved from: https://trimtabimpact.com, August 5th 2024.

## Target Sustainable Development Goals

NPC