Strengthening Accountability and Impact Measurement: Key findings from the Catalytic Capital Framework testing

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OVERVIEW

Catalytic capital—investment that accepts higher risk or lower returns to achieve impact—is both scarce and essential. It plays a critical role in addressing financing gaps in underserved markets, particularly where commercial capital is constrained by perceived risks or market failures. When thoughtfully designed and deployed, catalytic capital enables investors to reach underserved segments and acts as a powerful multiplier by mobilizing private capital. In the context of agricultural small and medium enterprises (agri-SMEs)—which are foundational to food systems, rural employment and climate resilience—catalytic capital has the potential to unlock critical financing that drives inclusive and sustainable development.

However, despite its potential, key challenges remain in fully utilizing the limited catalytic capital available. One major challenge is the lack of sufficient information for capital providers to guide decision-making around how much, when, where, and how to deploy this capital effectively. To address this challenge, the Agri-SME Learning Collective developed a Catalytic Capital Framework, which was piloted in collaboration with GDPRD's Thematic Working Group on Sustainable/Blended Finance during an initial round of testing.

ABOUT THE FRAMEWORK

The long-term objective of the framework is to support donors, intermediaries and practitioners in developing harmonized standards and benchmarks for catalytic capital. This will help address important questions related to the right amount of catalytic capital needed and the most appropriate types for different contexts, whether guarantees, first-loss capital for a fund, or incentive facilities. It will also provide clarity on the necessary reporting metrics and evaluation approaches that ensure accountability while contributing to sector-wide learning.

The framework aims to balance comprehensiveness with usability, supporting decision-making while minimizing reporting burdens. **It is designed with structured indicators across three sections:**

1. **Additionality:** This section captures the unique contribution of catalytic capital—what happened as a result of a capital provider's actions that likely would not have happened otherwise. The framework considers additionality both between donors and intermediaries, and between intermediaries and agri-SMEs.

2. **Impact:** This section captures not only the direct impact of investments on agri-SMEs, such as enterprise growth and operational performance, but also the broader outcomes experienced by those connected to these enterprises, including farmers, workers and surrounding communities.
3. **Context:** This section assesses the broader enabling environment, including factors such as political stability, poverty levels, financial sector development, and vulnerability to climate change.

Across the indicators in the sections listed above, the framework aims to assess the rigor of the information provided—evaluating the credibility of the source, the quality of the methodology, and the consistency and frequency of data collection. The goal is to support informed decision-making by accounting for the transparency, verifiability and quality of information used to populate the framework.

KEY FINDINGS AND APPROACH FROM PHASE 1 PILOT

The pilot was conducted from December 2024 to April 2025 with participation from five donors (Global Affairs Canada (GAC), Norwegian Agency for Development Cooperation (Norad), Swiss Agency for Development and Cooperation (SDC), U.K. Foreign, Commonwealth & Development Office (FCDO), U.S. Agency for International Development (USAID)) and covered 13 distinct agri-SME finance initiatives. Phase 1 of the framework testing involved interviews, document reviews, and application of the framework to each initiative. The pilot also gathered feedback from a practitioner cohort made up of ASLC members.

Phase 1 pilot testing focused on gathering feedback on the framework indicators as well as on donors' general approaches to impact and additionality. **These key insights and their implications for the framework include:**

Diverse donor priorities:

Donors take different approaches to catalyse additional capital and impact across diverse geographies, delivery models, and target beneficiaries. In doing so, donors differ in how they prioritize factors related to impact and additionality. Some focus on specific SME segments (e.g., smaller enterprises), target particular regions (e.g., developed countries), or concentrate on priority sectors (e.g., nutrition). Others adopt a broader mandate or apply different structuring preferences. These differences reflect each donor's experience and strategic preferences.

Differences in priorities are expected given the different strategies of donors, and the framework will be designed to allow donors to identify and prioritize the different factors that matter most to them. The framework aims to capture both shared patterns and experiences, as well as differences in factors related to additionality and impact.

Varying approaches to assessing impact and additionality:

Donors tend to place heavy emphasis on their own additionality at the intermediary level. To do this, donors look at a variety of factors including the intermediary's alternatives for funding, expected private capital mobilized, overall leverage ratio, geography, risk, and track record of the intermediary. While there were common themes across donors, approaches to assessing these factors varied. For example, some donors have very sophisticated risk modeling approaches leveraging dedicated internal experts, while others use more general risk assessment approaches.

Intermediaries also have varying practices in assessing their own additionality to agri-SMEs. Many intermediaries conduct extensive research and studies on the need for capital and the lack of alternatives for their target SME market as part of the initiative's design. In addition, some intermediaries also measure additionality at the investment level.

Regarding impact measurement, there were similarities in the types of output indicators (e.g., number of smallholder farmers reached, number of employees at SMEs) and outcome indicators (e.g., SME growth rate, improved income for smallholder farmers) used. However, very different approaches were used in measuring these indicators, particularly outcome indicators. For example, some agri-SME finance initiatives sampled investees on an annual basis to assess changes in income for smallholder farmers while others relied on different proxies to estimate changes in income.

The framework will need to reflect measurement approaches that are agreed upon best practices while acknowledging differences in strategy, impact objectives, resources, and other factors that vary within and between donors and initiatives.

Inconsistent Metrics:

As expected, the pilot found little consistency in definitions and calculations used to measure impact and additionality. For example, one donor uses a methodology for calculating private capital mobilized that incorporates an aspect of attribution and requires estimating what would have happened otherwise, while many others do not incorporate attribution. Similarly, there was no consistency across participants in definitions, scope and calculations used to define and measure market ecosystem change.

The differences in definitions and calculations for additionality and impact factors reflect industry-wide challenges within impact investing. The pilot's findings highlight the usefulness and importance of standardization to get comparable data and the role the framework can play in advancing these objectives. The pilot also highlighted ways some framework indicators will evolve (e.g., collecting information for complex topics such as market ecosystem change in a more qualitative way).

NEXT STEPS

The Catalytic Capital Framework aims to assess the additionality, impact and context of catalytic capital—the combination of which constitutes the north star for impact measurement within impact investing. Pilot participants recognized the importance and ambitiousness of such a framework and the need to design one that provides useful data for decision-making without being overly burdensome.

The pilot identified key areas to improve the framework's usefulness and effectiveness. The next phase will focus on refining and retesting the framework with various groups of initiatives. Over the longer-term (2028–2029), the goal is to establish industry-wide benchmarks and lessons learned that can inform donor policy and investment strategy.

The pilot testing phase confirmed a strong momentum and demand among donors and practitioners for benchmarkable data and consistent practices across the thematic areas addressed by the framework. While further development is required to reach the ultimate goal of benchmarking, this work presents a meaningful opportunity to contribute to building a more efficient ecosystem.