



Catalytic Capital

Impact Investing's Contribution to Sustainable Development Financing

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This think piece is part of the ongoing collaboration between UNESCO's Social and Human Sciences Sector and the "la Caixa" Foundation, within the framework of the Management of Social Transformations (MOST) Programme.

The MOST Programme is an intergovernmental initiative dedicated to understanding and responding to societal transformations. It draws on the social sciences to support governments in navigating the interconnected changes that are shaping today's world, ranging from climate and technological changes to evolving socio-economic challenges.

Through its collaboration with the "la Caixa" Foundation, MOST develops in-depth flagship reports, as well as policy papers and shorter think pieces derived from jointly organised events.

Together, these results produced under the MOST—"la Caixa" knowledge partnership aim to strengthen the contribution of the social and human sciences to global policy debates.

Catalytic Capital: Impact Investing's Contribution to Sustainable Development Financing

This article discusses the crucial role of catalytic capital and impact investing in financing sustainable development, in the context of the widening financing gap to achieve the Sustainable Development Goals (SDGs).

Based on the event co-organized by SpainNAB, Fundación "la Caixa", AECID and COFIDES in April 2025, the fundamental concepts of impact investing, additionality and blended finance are explored, highlighting their ability to mobilize private capital towards underserved sectors and regions.

It also includes the perspectives of key actors (development finance institutions, impact funds, foundations and NGOs) that underline the need for strategic public-private partnerships and innovative financial structures.

The article concludes that catalytic capital, due to its willingness to take risks, facilitates the entry of new resources and allows scaling effective solutions to close the financing gap for development, proposing the consolidation of impact investing as a central pillar in the global sustainable financing agenda.



Key messages:

- The financing gap to achieve the SDGs requires new financial instruments.
- Impact investing, catalytic capital and blended finance instruments are key to shaping a new financing structure for development.
- You need patient, flexible and risk-tolerant capital, such as impact capital, but also a “whole-of-economy” approach.
- The intersection between private investment capital, public capital and philanthropic capital, combined with technical knowledge of on-the-ground needs, is the key to achieving the volumes needed to scale solutions to global challenges.

Background

Last April (2025), SpainNAB together with the "la Caixa" Foundation, the Spanish Agency for International Development Cooperation (AECID) and COFIDES co-organized the event entitled *Catalytic Capital: Contribution of Impact Investing to the Financing of Sustainable Development*.

In turn, this event was part of the preparatory talks for the 4th United Nations International Conference on Financing for Development (FfD4) that took place in Seville from June 30 to July 4.

This article seeks to clarify concepts such as **impact investing**, **catalytic additivity** and its role in **financing sustainable development**, as well as the positions of the different actors by collecting the main conclusions of this meeting.



1. Introduction

In 2015, during the World Bank and IMF Annual Meetings, the *From Billions to Trillions: Transforming Development Finance agenda* was launched, highlighting the need to shift from billions in official development assistance to trillions in total investment to achieve the SDGs and deliver on the 2030 Agenda for Sustainable Development. A decade later, however, the financing gap not only remains but has, in fact, widened.

According to the United Nations' "2024 Report on Financing for Sustainable Development", the annual deficit to meet the SDGs is currently between 2.5 and 4 trillion dollars globally, with a large part of this gap concentrated in developing countries (UNCTAD, 2024). For its part, the United Nations Development Programme (UNDP) estimates that the gap amounts to 4.2 trillion dollars per year, in a context in which global financial wealth exceeds 450 trillion dollars (UNDP, 2023).

It should also be noted that this financing gap is not neutral, as it disproportionately affects groups that are structurally excluded from access to finance, such as women and girls, especially in key sectors for sustainable development. A substantial part of this gap is also concentrated in Africa, where investment needs in infrastructure, basic services and sustainable production systems far exceed the available public financing capacity.

This structural gap shows that, despite the growth of impact investing and mechanisms such as *blended finance*, current resources are far from meeting needs, and that it is essential to accelerate the use of innovative instruments such as **catalytic capital** to mobilise private investment towards the SDGs.

2. Impact Investing and Catalytic Capital: Concepts and Fundamentals

According to the Global Impact Investing Network, the global impact investing market reached USD 1,571 trillion in Assets Under Management (AUM) in 2024, with a compound annual growth of 21% since 2019.

Despite this significant growth in impact capital, the market remains small (around 2.5% of total eligible assets according to sources from the *Global Steering Committee for Impact Investments* - GSG Impact).

What sets impact investing apart from traditional investing? To begin with, impact investing is made on unlisted projects and organizations and, therefore, they are less liquid (or illiquid). Beyond this, impact investing is defined by a longer-term perspective and a deliberate pursuit of returns that go beyond the purely financial, encompassing measurable social or environmental impact. Thus, compared to traditional investing, impact investing incorporates three

essential characteristics: intentionality (the explicit purpose of contributing to positive social or environmental outcomes), additionality (the ability to generate change that would not occur without that investment, either by providing capital, knowledge or risk-taking) and measurement (systematic and transparent evaluation of the impact achieved, through verifiable indicators; It should be noted here that it is especially important to incorporate indicators disaggregated by gender and territory in these contexts, which allow for a more accurate assessment of the extent of the impact in the Global South).

While traditional investing seeks to optimize risk-adjusted returns without explicit extra-financial objectives, impact investing integrates social and environmental criteria into investment decisions from the outset, requiring accountability for results. This combination of financial return and positive impact, underpinned by intentionality, additionality and measurement, makes it a strategic tool to **close the SDG financing gap** and **advance financing for development**, mobilizing private capital to areas and territories where public and philanthropic resources are insufficient.

Despite the reported growth in impact investing, the volumes remain far below what is needed to close the SDG financing gap. This shortfall has driven the emergence and consolidation of complementary approaches, aligned with the objectives of impact investing and the need for greater **financial innovation** in development finance. **Catalytic capital** and **blended finance** are two approaches that expand the reach of impact investing, channeling resources toward sectors, regions, and populations that would otherwise be overlooked or underserved by traditional finance.

On one hand, catalytic capital refers to funding that is willing to **take on higher risk or accept lower financial returns in order to attract additional investment** toward projects with significant social or environmental impact that would not be viable under standard market conditions. Development finance is therefore considered key, as it can act as a “bridge” that opens the way for other investors, financing essential initiatives to achieve the SDGs. In many development contexts, and particularly in Africa, this type of capital should be focused on correcting market failures that affect women entrepreneurs and sectors that are intensive in social impact in a differentiated way.

Blended finance, on the other hand, refers to a public or philanthropic capital structure that, together with private investment, **improves the risk-return profile of development projects**. It facilitates the financing of critical sectors (such as water, health or education) where the direct financial return is low, but the social and environmental impact is high, allowing solutions to be scaled up and replicated.

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3. Strategic Roles in Catalytic Capital

Given the inadequacy of official development assistance (ODA) and the also insufficient growth of impact capital, the conclusion is clear: the active involvement of the economy as a whole is necessary if we are to achieve the volumes required to achieve the SDGs. A whole-of-economy approach is therefore required to face the challenges of development effectively, in the words of researchers and professors of the ICADE Chair of Social Impact, Carlos Ballasteros and Bárbara Calderón (“Renewing commitment, redefining solutions”, Elcano Policy Paper, 2025).

And, for this reason, impact capital is called to grow and mobilise more and more resources, but, above all, to align itself with and participate in public-private strategies and structures that, if well designed, will be the ones that manage to scale the solutions.

In this way, the Barcelona event organized by SpainNAB served not only to discuss the role of catalytic capital, but also to hear first-hand the vision of the most relevant actors in financing for development.

At the Spanish institutional level, Ángela Pérez, president of COFIDES, underlined the opportunity represented by the **Fourth International Conference on Financing for Development (Seville 2025)** to position Spain as a leading actor. He highlighted COFIDES’ commitment to public-private collaboration and its willingness to take risks that the private sector could not, always seeking to combine financial profitability and social and environmental impact. He stressed that the Seville meeting must «move from ideas to realities» and leave a concrete work plan for the coming years. Also in his speech at the second round table discussion, on public-private partnerships, Miguel Tiana (COFIDES) stressed that catalytic capital in the public sector is key to overcoming the perception of risk in immature sectors and geographies, as well as that communicating success stories is essential for the demonstration effect.

Continuing with the representation of voices from development finance institutions (DFIs), the **European Investment Fund (EIF)** also participated, represented by David González, who explained the role of this multilateral

organisation as «the EU’s financial arm for SMEs», providing experience in structuring funds and guarantees that attract private investment. Its action is mainly based on the provision of **guarantees, co-investment and participation in funds** that, by reducing the risk for other investors, facilitate the entry of institutional private capital.

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Finally, Juan Vázquez Zamora, representing the **Organization for Economic Cooperation and Development (OECD)**, also offered this vision as a multilateral organization, in this case, pointing out the importance of local knowledge in the management of funds, as well as the role of multilaterals in reducing political and convertibility risks, creating enabling conditions for impact investment. Specifically, the OECD’s Development Assistance Committee (DAC) has an important regulatory and coordinating role in establishing international standards for measuring and reporting Official Development Assistance (ODA), providing transparency and practical learning to the different donors and, recently, promoting guidelines for mobilising private capital through *blended finance instruments*.

On the other hand, also within DFIs, we find the prominent role of bilateral aid organisations and, specifically, with the **Spanish Agency for International Development Cooperation (AECID)**, whose director, Antón Leis, defended a vision of cooperation «less in terms of aid and more in terms of investment», also underlining the idea that impact investment and ODA are complementary. He pointed out that the role of the AECID is precisely to act as a catalyst and driver of the impact investment ecosystem in Spain and internationally, and that the reform of the agency and the creation of the new Spanish

Fund for Sustainable Development (FEDES, which will replace the current FONPRODE) seek to strengthen financial cooperation as a vector of growth. He stressed that this public-private commitment responds both to a commitment to development and to a legitimate interest in shared stability and prosperity.

In regions such as Africa, the intervention of development finance institutions is key to mitigating regulatory, political and currency risks, creating a more favorable environment for impact investing and private capital mobilization.

Mobilizing capital for sustainable development requires a financial architecture that combines a wide range of resources, knowledge and capacities

This private capital and, specifically, impact funds should be understood as another set of strategic actors. These often operate with hybrid structures that facilitate the entry of public, private and philanthropic investors, and employ rigorous impact measurement methodologies. Specifically, this meeting was attended by well-known voices in Spain that have promoted impact investing towards the Global South, such as GAWA Capital or Global Social Impact Investment – GSII, and we also had the participation of Phitrust, a French fund manager with an important track record and experience in impact investing, who emphasized the role of impact investing in systemic change, highlighting the importance of governance in public-private partnerships to ensure sustainable results.

Agustín Vitórica, founder and Co-CEO of Gawa Capital, stressed that the main value of impact investing is that it is patient capital that not only finances projects, but also opens markets, breaks down barriers and generates confidence for other investors to join. For her part, María Ángeles León (CEO of Global Social Impact Investments) shared the experience of a hybrid public-private fund, noting that the combination of catalytic capital with commercial investment is key to serving underserved sectors and geographies, especially in Africa.

Finally, the key role of foundations is also highlighted. On the one hand, since strategic philanthropy has evolved towards a results-oriented investment model aligned with the SDGs. Foundations and philanthropic organizations provide their own resources as catalytic capital, taking initial risks to facilitate the entry of other investors, incubate innovative projects and generate evidence on their effectiveness. This was evident when, at the institutional opening of the meeting, HRH the Infanta Doña Cristina, director of the international area of the "la Caixa" Foundation, presented the experience of the *Work4Progress* programme, which promotes inclusive employment and sustainable business in vulnerable communities in the Global South, acting as a catalytic capital to encourage the participation of local financial institutions.

But, on the other hand, foundations and NGOs also in the exercise of their own activity valuable to the objective indicated by all multilateral agents: that of knowledge of the needs of the field and its communities, due to their tradition and presence with them and the relationship of trust established with them that facilitates and benefits a more horizontal relationship. This knowledge naturally includes an understanding of local and community dynamics, where gender and power relations are configured and from which a gender approach is built that allows for the design of more equitable and transformative investments.

Guiomar Todó, executive director of EDUCO, highlighted this dual role of NGOs and explained that having their own funds allows them to influence the priorities of the funds and ensure that the voice of the communities is at the centre, which, in their case, means prioritising children as direct beneficiaries.

All of these interventions reinforce the idea that mobilizing capital for sustainable development requires a financial architecture that combines a wide range of resources, knowledge and capacities. The experiences shared during the day pointed out how Spain has the actors, tools and leadership to play a relevant role in the global agenda, provided that progress is made in the scale and coordination of these efforts, as also reflected in the article by SpainNAB in the monograph of the journal *Política Exterior*, «Impact capital, engine for sustainable development».

References

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Conclusions and recommendations

At the closing of the conference, the Secretary of State for International Cooperation, vindicated the evolution of cooperation policy towards a **model that integrates private capital and impact investment as legitimate tools to transform lives and values**. He emphasized that, in a context of uncertainty and global tensions, pedagogy is essential to explain to society that talking about capital and companies in cooperation is not contradictory, but part of a **more effective strategy**. He recalled the Government's political will to strengthen financial cooperation and public-private partnerships aimed at meeting the SDGs.

His words, again, summed up the main idea of the day: catalytic capital has its main value in that it allows the **confluence of interests and resources at the service of a common strategy**, which allows scaling up the solutions with a positive impact fundamental to address social and environmental challenges at a global level.

SpainNAB, as an association that represents different private and third sector actors working for the transformation of the economic model towards a positive impact economy through, fundamentally, impact investment, defended the need to design strategies adapted to the territory under a logic based on the field and promoting the coordination of all the actors in the ecosystem.

Mobilizing private capital for development requires the **use of innovative and context-sensitive financial instruments** that, in combination with public resources and well-designed structures, demonstrate that it is possible to significantly multiply available resources.

For all these reasons, impact investing must be consolidated as one of the pillars of financing for development.

