British International Investment

Insight

Pioneering catalytic capital: A decade of learning

Practical thinking on investing for development

Insight is a series of practical and digestible lessons on the issues of private sector investment and development. They're based on our experiences, knowledge and research and are aimed at investors, businesses, development professionals, and anyone with an interest in private sector development.

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"Reflecting on the development of our Catalyst portfolio, it is clear how a delineated pool of capital with greater risk appetite in pursuit of impact not only expanded the investment universe for BII but contributed to the strengthening of our impact capabilities across the firm. I look forward to seeing how Catalyst will continue to bolster BII's proactive investments in Africa and Asia, paving the way for others to follow."

Laurie J Spengler, Non-Executive Director, British International Investment

"BII's portfolio has been enhanced by having Catalyst. It has encouraged us to take more risk to gain more impact at scale, at market level and within individual transactions. We are very proud of how this innovative investment strategy has enabled us to partner with businesses in new ways to help meet the SDGs."

Liz Lloyd, CBE, Chief Investment Officer,
British International Investment

"First of all, I and my family are able to feed well, which is the most important thing, then I'm hoping they will keep helping me so I can expand and grow beyond just being able to feed my family. I can then talk about having money to do big things."

Coscharis Farms supplier, Nigeria

01

Overview

British International Investment (BII) has always been in the business of taking risks in exchange for impact. We are the UK's development finance institution and impact investor, and as such our mission is to help solve the biggest global development challenges by investing patient, flexible capital in impactful businesses. In 2014, we took this a step further by introducing a separate pool of capital with a mission to optimise for enhanced development impact by embracing a flexible approach to risk. While still seeking a positive financial return at the individual deal level, the strategy sought to transform markets by targeting high-impact investments in sectors and geographies where risks were not always fully compensated by additional returns. We named the resulting portfolio 'Catalyst'.

Ten years on, we have committed $1.6 billion of Catalyst capital to 91 businesses and funds through 120 transactions. We have built a high impact portfolio that, at the end of 2023, was supporting over 108,000 jobs, contributing to over 324,000 megawatt-hours (MWh) of power production, 100 per cent of which is renewable, and reaching over 7.7 million farmers.

This report celebrates a decade of Catalyst investments into nascent markets and innovative solutions that promote pioneering impact. We are sharing our learnings in the hope that like-minded investors may benefit from our journey and insights. The Catalyst portfolio is young and continues to evolve to meet the changing needs of the markets in which we invest. However, now feels like an appropriate time to take stock of our portfolio and reflect on our experience and lessons to date.

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$1.6 billion

commitments to 91 businesses and funds in our Catalyst portfolio.

Catalyst's most significant contribution has been enabling us to offer financial support to a broader range of high impact businesses and projects, along with their stakeholders, than we could have without it. Through Catalyst, we have placed patient, flexible capital into the hands of high-impact businesses that otherwise lacked access to the necessary volumes and types of financing. For example, through Catalyst we have:

- provided much-needed local currency to companies like SunKing that offer solar home systems to low-income households;
- established MedAccess, a new company specifically targeting the challenge of universal access to healthcare;
- offered credit lines to banks in Zimbabwe and Ethiopia for agricultural lending through Dashen and NMB Bank;
- invested patient, risk bearing equity into African agribusinesses both directly and through specialised intermediaries such as AgDevCo and African Foresty Impact Platform;
- anchored funds that are pioneering innovative, impact-focused investment strategies like Insitor, Omnivore, and Novastar Ventures.

We could not have done these deals without the Catalyst portfolio.[1]

Drawing from our decade-long experience managing a capital pool that targets enhanced development impact, we've distilled five key insights that may guide other like-minded investors as they consider incorporating a high-impact portfolio into their asset allocation strategy.

Lesson 1.	Maintaining clarity of purpose and discipline is critical
Lesson 2.	An enhanced impact allocation can strengthen broader understandings of impact across an organisation
Lesson 3.	Capital preservation (at a minimum) is possible when taking a flexible approach to risk
Lesson 4.	A strong learning culture is crucial to success
Lesson 5.	Catalysing markets requires patience and partnerships

We remain committed to the original Catalyst objectives of achieving enhanced impact and catalysing nascent markets. From here, we will build on momentum in the existing portfolio, as well as using Catalyst to expand into new areas – in conjunction with our new blended finance facilities where appropriate – and we will continue to partner with like-minded organisations as together, we test and refine the use of catalytic capital and its contribution to global development.

Through Catalyst, we have placed patient, flexible capital into the hands of high-impact businesses.

1 Further examples of Catalyst investments can be found throughout the paper and in Annex 1.

"I was able to buy land for myself. I am the first woman in my family to have land in my own name."

Aavas Financiers customer, India

02

Why did we create Catalyst?

The need for Catalyst

All investments carry some degree of risk, and most investors employ strategies aimed at maximising risk-adjusted returns, where higher risks are accepted in exchange for the potential of greater financial gains. At BII, impact is at the heart of what we do and we aim to maximise positive development outcomes through our investments in line with our investment policy.[2] Therefore, we are prepared to tolerate higher levels of risk, not just for greater financial gain, but for higher levels of impact.

We are prepared to tolerate higher levels of risk for higher levels of impact.

For Catalyst, this means backing early-stage businesses implementing new technologies and business models, investing in challenging or nascent sectors (e.g. digital financial services targeting low-income customers) and providing finance for businesses operating in challenging environments (e.g., with volatile currencies and/or political instability), all in return for a high degree of impact. This differentiates Catalyst from other blended finance facilities. The focus is not on using blended structures to crowd commercial capital into transactions that are marginally too risky, but about pushing the boundaries of these risk dimensions to test (and show) what can be done.

By backing companies that are testing new approaches we hope to have direct impact by helping them grow to commercial sustainability, but also, in many cases, to catalyse the markets in which those businesses operate. This happens as other organisations copy their model (replication), other investors respond to their success by investing in the market in a way they would not have otherwise (demonstration effect at investor level), or they themselves affect the enabling environment or the skills available in the market. And in some cases, we support market development by going beyond the provision of capital, engaging with the right actors – including industry groups and other investors – in the areas of the market ecosystem where changes are most needed. All of this requires tenacity. Developing new business models and markets is a process of innovation and discovery, and while it has the potential to be transformational, there are no guarantees of success.

2 For details on how we define and deliver impact, see our publication 'What Impact Means to Us'.

The history

In 2011, BII (then known as CDC) underwent a series of reforms driven by its shareholder. The outcome was a "radical new business plan" with a move towards "new ways of investing", including "more investment tools to get capital to where it is most needed."[3] This shift from a fund-of-funds model to a broader range of instruments coincided with a narrower focus on geographies – new commitments from 2012 onwards were limited to Africa and South Asia.[4] These changes were designed to increase our impact ambition by focusing on the places and businesses where we could be most additional.

The 'Impact Fund' was launched in 2012 as part of the UK Government's Impact Programme. The Impact Fund pilot of £75 million – scaled up to £305 million in 2016 – was set up as a fund-of-funds, managed by BII, backing fund managers investing in pioneering businesses. It made its first investment in 2014. In 2015, the Impact Accelerator was added as a complementary direct investment facility.[5] Both the Impact Fund and Impact Accelerator were explicitly given a higher risk tolerance than our core portfolio at the time (which is known as our 'Growth' portfolio). This opened the door to financing riskier enterprises and funds with the potential to have a significant positive impact in the places where it was most needed.[6] A key feature of this innovation was its status as a facility directly capitalised by the UK Government that sat off BII's balance sheet. This approach was taken to test the investment model – and the development impact it could achieve – while preserving clarity on our core mandate.

Having demonstrated the ability to deploy in line with the mandate, the Impact Fund and Impact Accelerator moved from 'piloting' to 'scaling'. The path taken was to bring them 'in-house', moving the portfolio onto BII's balance sheet while maintaining it as a ring-fenced pool of capital with a clear set of criteria. Over time we also shifted from a model where Catalyst capital was allocated solely by a small, designated team, to one where it became a core component of our toolkit, available for teams across the organisation to deploy. This was a pivotal moment in the development of Catalyst, enabling it to grow significantly and reach scale.

3 'DFID and CDC announce new business plan for CDC' (31 May 2011)

4 In our 2022-26 Strategy, this was expanded to the Caribbean and South East Asia, with a focus on climate finance in these regions

5 Technical Assistance (TA) resources were also available for both, providing post-investment support to businesses in areas such as environment, social, and governance (ESG), financial management, and business operations and strategy.

6 This 'enhanced' development impact was expected to occur through several channels, originally including: supporting new ways of delivering basic goods and services to a high number of low-income beneficiaries at affordable prices; providing employment to people in poor areas; providing low-income producers with opportunities for predicable revenues; and/or driving significant commercially viable solutions to environmental and social challenges.

"My income increased greatly as I was able to harvest 20 bags of maize compared to 10 bags before Apollo Agriculture. We also have plenty of food to eat."

Apollo Agriculture customer, Kenya

03

What have we used it for?

Between 2016 – the year the portfolio was brought into BII – and 2018, cumulative commitments jumped from $100 million to $466 million and Catalyst assets as a percentage of our total net asset value (NAV) increased from less than 1 per cent to over 4 per cent (see Figure 1). The scaling of Catalyst has accelerated over the decade, with almost two-thirds of the portfolio committed since 2020. There has also been a shift in the types of instruments used. The first few years were exclusively funds and equity, largely aligned with BII's wider strategy of the time. However, debt has increasingly played an important role in recent years reflecting the growth of debt in the BII portfolio overall. In each of 2022 and 2023, Catalyst investments were over a fifth of BII's total new commitments (around $320m each year) and the portfolio represented 12 per cent of BII's total NAV.[7] Direct equity represents the largest share of the current portfolio (39 per cent), though it is roughly balanced with funds (33 per cent) and debt (27 per cent) too.

21%

In 2023, Catalyst investments made up around one fifth of total BII's new commitments.

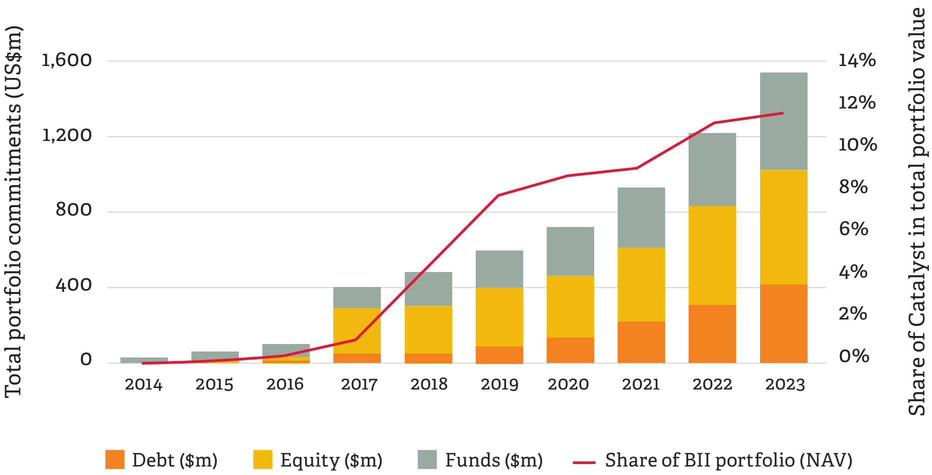


Figure 1: Total value of Catalyst commitments by product and share of NAV

7 We agreed a target with our shareholder – set out in our 2022-26 Investment Policy – that Catalyst would aim to comprise 10-15 per cent of NAV by the end of the 2022-26 strategy period, which we are well on track to deliver.

Primary sectors for cumulative Catalyst commitments are financial services ($403 million) and food and agriculture ($271 million), reflecting the strong thematic focus on access to basic goods and services. Infrastructure has grown to become the second-largest Catalyst sector ($388 million), in line with our enhanced focus on climate finance in recent years. While individual Catalyst investments range from $2 million (in venture capital co-investments) to $200 million (patient equity into new platforms) the average ticket size of around $10 million is lower than that of BII's overall portfolio, highlighting Catalyst's focus on early-stage businesses and nascent sectors. Most of the portfolio is concentrated in Africa, though there is also a meaningful portfolio in India, where Catalyst has enabled us to back businesses that, for example, specifically target low-income populations (see Figure 2).

$2m – $200m

Catalyst investments range from $2 million to $200 million.

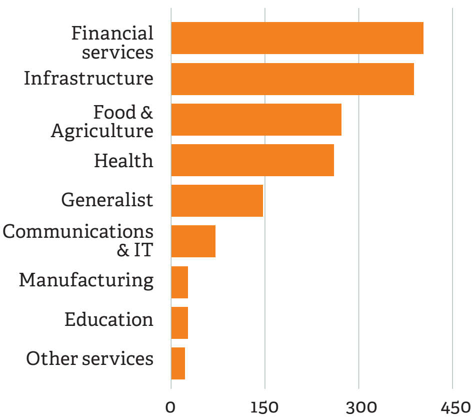
$10m

Average Catalyst portfolio investment size.

54%

of Catalyst commitments are in Africa.

Catalyst commitments by sectors ($m)



Share of Catalyst commitments by region[8]

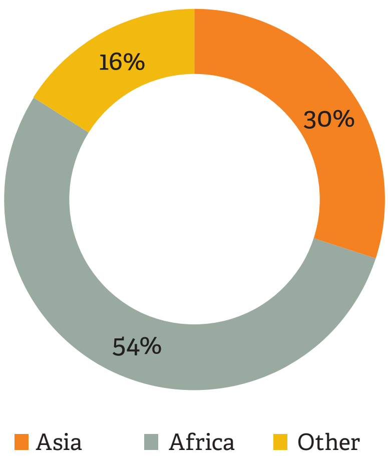


Figure 2: The Catalyst portfolio: sectors and regions (as at December 2023)

Catalyst and inclusion: portfolio examples

Jacoma Estates is an agribusiness providing direct employment and supporting over 5,000 independent farmers in an area of Northern Malawi with few employment opportunities.

iMerit is a data solutions company that recruits and trains young people, over fifty per cent of them women. In a survey, iMerit workers reported an average 73 percent increase in their incomes. Female workers also attributed disproportionately high improvements in quality of life to the company.

At the time of investment, **Medical Credit Fund (MCF)** was the only debt fund fully dedicated to the African health sector. It has provided loans to 1,800 health small and medium-sized enterprises (SMEs) in Kenya, Ghana, Nigeria, Tanzania and Uganda, combined with support for business and quality improvement through which 80% of borrowers are able to improve their services.

"Through iMerit I could support my family financially... and my parents also feel proud of their youngest daughter. I am feeling very good now that I could make my own identity."

iMerit employee, Female, 24

8 The 'Other' category includes investments that span both Africa and South Asia, as well as investment in other countries beyond these regions.

Our current Catalyst portfolio has been constructed around a set of strategies which fall into two groups: 'Generalist Strategies' and 'Thematic Strategies' – all investments proposed under Catalyst must link to an existing Catalyst Strategy. Generalist Strategies represent a broad range of investments, acting as a 'sandbox' for testing new models and themes to deepen our inclusion and deliver transformational climate impact. Thematic Strategies are more targeted and designed to address specific market failures by investing in multiple firms within a sector and fostering innovations that complement each other. We make long-term commitments through our Thematic Strategies and assign dedicated staff with clear ownership who bring expertise and experience of the market to the problem. This approach enhances our ability to identify the levers most likely to lead to market development such as using volume guarantees to overcome demand uncertainty in critical medical supply chains or extending local-currency debt to close financing gaps for distributed energy companies. We adopt two approaches to deliver Thematic Strategies – in-house (led by our investment teams) and platforms (delivered as separate entities that target specific Thematic Strategies – see lesson 5 in Section 5).

Of total Catalyst commitments, 58 per cent fall under Generalist Strategies. This is partly because the Accelerator and Catalyst Funds grew out of the original off-balance sheet facilities (Impact Funds and the Impact Accelerator) that trace back to the birth of Catalyst, and partly because Generalist Strategies have broader investment mandates and are open to a wider range of investment teams.

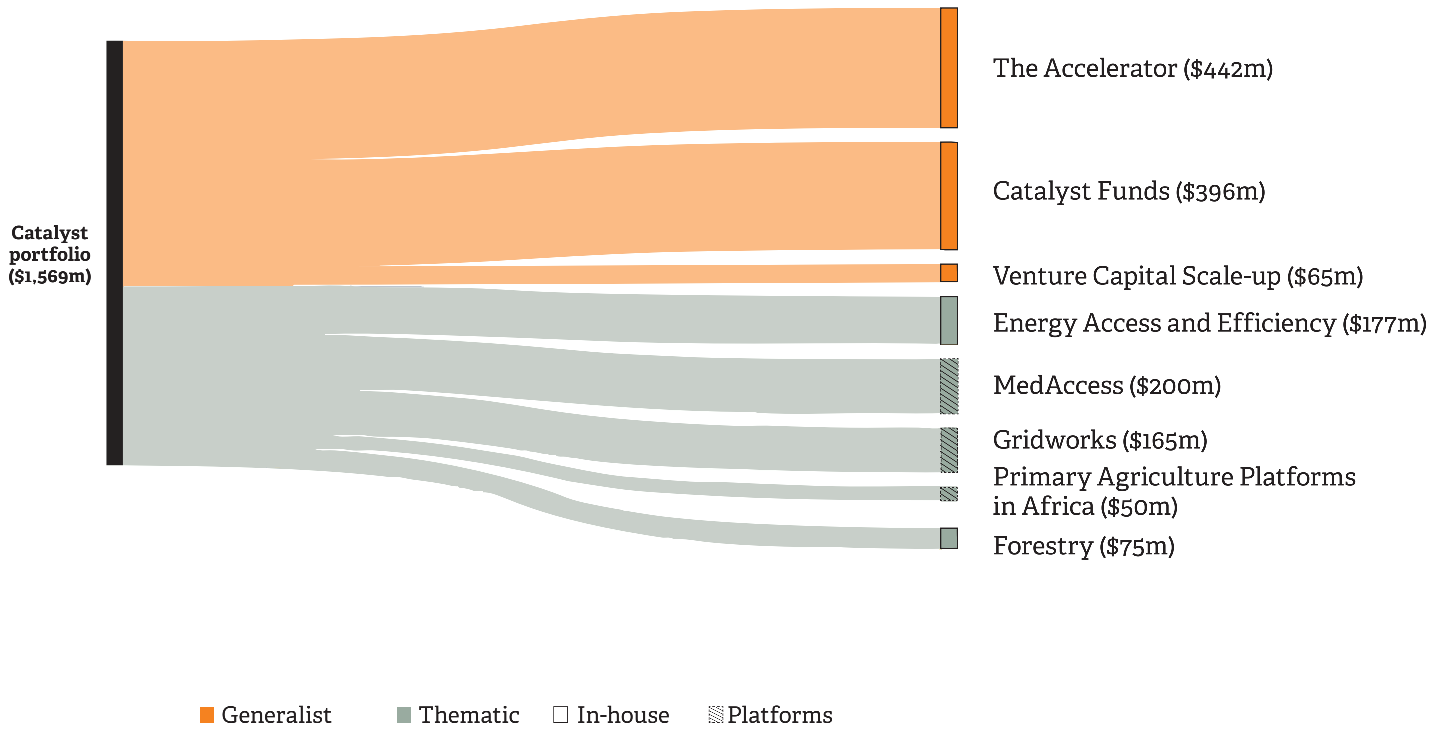


Figure 3: Active Catalyst strategies

Catalyst and climate action: portfolio examples

The Urban Resilience Fund (TURF) is BII's first investment in an urban infrastructure fund and supports the design and scale of climate-focussed infrastructure projects across sub-Saharan Africa – increasing the affordability, safety, reliability, and climate-resilience of public infrastructure in African cities.

The Symbiotic Green Basket Bond programme enables us to provide smaller ticket loans to smaller micro, small, and medium enterprise (MSME) lenders that BII would not normally be able to lend to directly. By partnering with Symbiotics and aligning their proprietary green bond framework to BII's climate finance framework to target these MSME lenders, it accelerates identification and funding of small-scale green projects.

BlueOrchard InsuResilience Investment Fund II invests in companies operating within the climate risk insurance value chain in emerging markets. In doing so, the fund enables climate resilience that mitigates the impact of adverse weather events. The Fund is aiming to reach 37 million customers through impactful insurance products and more broadly aims to develop the climate risk insurance market by revealing information to other market actors and prove product viability to encourage replication.

Catalyst has enabled us to achieve deep impact from both an inclusion and sustainability perspective. Inclusion is about **improving the lives of those most in need**. We define 'inclusive investments' as those that meet the needs and raise the incomes of the poorest and most excluded, so that they experience meaningful positive outcomes. In 2023, 70 per cent of Catalyst deals had an inclusion rating of 3 or more (out of 4) in our Impact Score, indicating that Catalyst investments are reaching the people and places most in need.[9]

For us, investing for enhanced development impact through sustainability means **materially accelerating the pace, scale or depth of change required to make a difference to climate objectives**. This includes investing to mitigate climate change, especially through large-scale green infrastructure, increasing climate resilience and adaptation, and supporting the circular economy.

70%

of Catalyst commitments in 2023 had an inclusion rating of 3 or more (out of 4) in our Impact Score. The same percentage of commitments achieved a sustainability rating of 3 or higher (out of 4).

9 For more information on our Impact Score, see our publication 'Impact Score 2022 – 26 Strategy Period'.

As at the end of 2023, Catalyst investments were:

Supporting
over 108,000 jobs

Contributing to
over 324,000 MWh of power production, 100% of which is renewable

Reaching
over 7.7 million farmers

See Annex 1 for more examples of impactful Catalyst investments.

"Due to this, my business is running very well. I bring something good for my children everyday. Cook something good. I don't have to borrow from anyone."

Kashf Foundation customer, Pakistan

04

What have we learnt?

Each Catalyst investment must meet our Enhanced Development Impact threshold.

The need for catalytic capital far exceeds what BII itself can provide. Continuing to learn and grow through Catalyst is vital, but sharing lessons that other like-minded investors might benefit from is equally important to achieving our own objectives. This is the primary motivation of this report, so we have distilled the key takeaways from our Catalyst journey to date into five areas, framed as what Catalyst has enabled us to do.

Lesson 1. Maintaining clarity of purpose and discipline is critical

Catalysing markets and delivering enhanced impact means taking on investments with inherently different characteristics from those in the core portfolio.

If BII has always taken risks in exchange for impact, why did we need a separate pool of capital to take this further? Why not just expand our risk appetite in the core portfolio? The challenge from the outset was that catalysing markets and delivering enhanced impact means taking on investments with inherently different characteristics from those in the core portfolio – frontier markets, nascent sectors, unproven business models, etc. This demands taking on new, substantial risks, often across multiple dimensions at the same time. **It was therefore critical to be explicit about what type of impact we were looking for and ensure discipline in the types of risk we were willing to take.**

We established the 'Enhanced Development Impact' (EDI) framework to explicitly set out the broad sustainability and inclusion objectives for Catalyst, as well as the various pathways that an individual investment could contribute to those objectives based on minimum criteria of depth, scale, and reach or effect.[10] Each Catalyst investment must meet our EDI threshold. In setting this hurdle, the framework focuses investment teams on originating the most impactful opportunities, facilitates consistent decision-making, and creates a standard to compare against. It is relevant that the level of impact created by Catalyst investments has proven to be powerful in inspiring, motivating, and ultimately retaining staff – the impact they are empowered to deliver through Catalyst is something people are particularly proud of.

10 For more details on how we define and operationalise EDI, see our publication 'Our approach to enhanced development impact'.

Catalyst investments entail a greater degree of downside risk that is not always fully compensated for by return expectations. Therefore, Catalyst was set up with an explicit loss tolerance to provide investment professionals with the freedom to originate high-risk, high-impact investments and to give our Investment Committees the license to approve them. Having Catalyst as an off-balance sheet facility in the first few years further facilitated this psychological switch that fostered a culture of pushing risk boundaries to achieve greater impact. The distinct delineation between portfolios supported the required shift in mindsets, as well as helped in guiding decision-makers and smoothing Investment Committee processes when pursuing the most impactful investments.

Having a portfolio-level loss tolerance does not mean lowering our investment standards. We expect positive financial returns for each individual deal under base-case scenarios. As such, we have maintained underwriting discipline consistent with our overarching market-catalysing objectives of creating a demonstration effect. We want other investors to follow our lead once our objectives are better understood and the business transitions to a more proven model. However, the downside case can be negative with the acceptable spread of return outcomes for Catalyst being much wider than Growth, indicating the higher level of risk (see Lesson 3). Defining what 'good' Catalyst investments look like helps us to avoid the possibility that adopting a higher risk appetite will lead us to go after bad investments. Even in a high-risk portfolio, it is critical to have a clear framing of what is *too* risky.

Even in a high-risk portfolio, it is critical to have a clear framing of what is too risky.

How do we assess risk?

Catalyst is designed to take on more risk than BII's core capital. However, while the probability of loss is higher, the expected return at the time of the investment is still positive. The risk/return dynamics can vary across Catalyst strategies but in all cases, the level of risk being taken is not compensated for by the probability-adjusted returns. Catalyst investments can take risk across four dimensions. Each deal is assessed against this framework and while not all deals are high risk on all dimensions, the overall risk must meet a minimum threshold to 'qualify' for Catalyst capital. The country, market and company-level risk are assessed first, with instrument-level risk a secondary consideration. This is because Catalyst's primary goal is to back high potential companies in challenging or nascent environments.

11 Our Investment Policy 2022-26 sets the intent for loss tolerances for the Catalyst Portfolio at 30 per cent. This is at the portfolio level – individual investments are assessed on their own merits.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Lesson 2. An enhanced impact allocation can strengthen broader understanding of impact across an organisation

Catalyst helped to shape BII into the impact-first institution it is today – an outcome of Catalyst that was perhaps unforeseen a decade ago. It was on Catalyst deals that BII started thinking about a wide range of impact KPIs, focusing on "who" was being reached with an investment, and including development impact professionals in deal teams.

Responsibility for impact in pre-Catalyst days lay with one or two development impact (DI) professionals in a designated team. When the Catalyst portfolio was introduced, dedicated impact professionals were assigned to work on Catalyst at the deal level, but also at a broader strategic level. The impact professionals hired to work on Catalyst were lead contributors to the development of many of the impact frameworks that are at the core of the industry leading impact management system that we use today. After a few years of having DI professionals integrated into every Catalyst deal team, this approach was rolled out across BII. This journey has led to where we are today, with DI professionals embedded within investment teams to ensure impact is front and centre of the entire investment lifecycle. In 2013, BII had two dedicated impact professionals – today BII's DI resourcing is around 40.

Catalyst helped to shape BII into the impact-first institution it is today.

Another innovation that emerged from Catalyst was our approach to technical assistance (TA). In the early days of Catalyst, technical assistance was available for strengthening the impact of Catalyst investments only. This was later expanded to the whole portfolio as BII launched its in-house technical assistance facility (now BII Plus) in 2018. Through technical assistance, BII was able to provide co-funding for capacity building and advisory services for the investees in the Catalyst portfolio and, from 2018 onwards, market shaping projects. TA has since grown into a critical part of our toolkit, essential for enhancing the impact and sustainability of our investments. For instance, BII Plus has supported DeHaat, a tech-enabled agribusiness working with smallholder farmers in India to pilot the delivery of a 'phygital' extension model to increase access to inputs and advisory for over 75,000 farmers in Uttar Pradesh. DeHaat has now scaled the model in other states using its own funding.

Technical assistance was initially available to strengthen the impact of Catalyst investments but has since been expanded to our whole portfolio.

The development of the framework for assessing enhanced development impact also helped shape the framework that BII uses for assessing impact today. Since 2022, our impact scoring system assigns a score to all BII investments according to the expected (and actual) DI it delivers. It operationalises our objectives of productive, sustainable, and inclusive development, and it is a vital portfolio management tool.[12] Some of the key features of the Impact Score were originally developed as part of the thinking for impact management in Catalyst. Reach to low-income populations is a critical aspect of how we assess 'inclusion', contribution to climate finance enables us to assess 'sustainability', and the potential to catalyse markets is part of the 'productivity' element of the Score.[13] These aspects of impact all appeared in early stage Catalyst impact frameworks and have been built upon and refined in the latest BII impact management system which enables us to rank and prioritise potential deals in a way that has strengthened the impact of our whole portfolio.

12 See our publication 'What Impact Means to Us'.

13 For more information, see our publication 'Impact Score 2022 – 26 Strategy Period'.

Flexible approach to risk and responding to crises: Catalyst and COVID-19

The nature of risk is contextual and changes over time. While certain types of risk can be anticipated and strategic approaches can be designed to manage them, others cannot be foreseen. The pandemic was an unprecedented example of the latter.

Catalyst formed a key part of BII's COVID-19 response. We used Catalyst extensively to provide liquidity to banks to direct funding to sectors particularly impacted by COVID-19. A review of Catalyst investments in 2021 found 90 per cent of all Catalyst trades supported under our Master Risk Participation Agreements (MRPAs) were in food and agriculture, contributing to food security at a critical moment.

We also used Catalyst to play a leading role in setting up the Energy Access Relief Fund, a debt fund providing concessional loans to energy access companies impacted by COVID. This helped to directly protect over 12,000 jobs and sustain and enhance energy access, preventing a potentially major reversal in poverty reduction efforts.

MedAccess – BII's platform for improving access to life-changing medical supplies – also provided support for UNICEF to enable low-income countries to secure vital supplies for their COVID response, significantly increasing their procurement speed for much-needed resources like PPE and diagnostics to protect low-income populations.

While BII's whole portfolio played a vital role in our COVID-19 response, Catalyst's risk appetite in the face of an unprecedented global shock helped us respond more quickly and in different, more flexible ways than we could have otherwise. This does not mean all investments suddenly became Catalyst due to the elevated risk, but rather that we could use Catalyst and Growth in slightly different ways. It showed that a flexible pool of capital can serve as a powerful counter-cyclical tool.

12,000

jobs protected by the Energy Access Relief Fund during the COVID-19 pandemic.

Catalyst's risk appetite in the face of an unprecedented global shock helped us respond more quickly and in different, more flexible ways than we could have otherwise.

Lesson 3. Capital preservation (at a minimum) is possible when taking a flexible approach to risk

Greater impact is the central goal of Catalyst. However, the 'transition' of investees and target markets to more commercial capital is also one of our markers of success. As such, the portfolio's commercial performance matters.

Efficient financial markets price risk into assets by demanding higher returns as compensation for greater uncertainty.[14] However, as Catalyst's focuses on investing in places where market failures exist, it's not always possible to price assets such that we're fully compensated for the additional risks we take. Given this uncompensated risk, our focus on enhanced impact, and an explicit loss tolerance, one might expect the Catalyst portfolio's performance to be significantly lower than the rest of BII, with the higher probability of failed investments weighing on the portfolio's overall returns. However, early indications are that commercial performance is tracking well against expectations. Whilst the portfolio is still young and returns are largely unrealised, and there have been some individual investments that have not worked out, overall portfolio-level returns are currently positive.

The 'graduation' of investees to more commercial capital is one of our markers of success.

14 See our paper 'Risk, return and impact'.

Figure 4 shows the distributions of portfolio-level quarterly returns, with the difference between Catalyst and Growth is revealed by their shapes. Quarterly returns for Growth exhibit less variation, reflected by the tall, narrow curve. In contrast, the Catalyst distribution is flatter, with a negative skew and fatter tails indicating a broader range of outcomes and a higher incidence of quarters with negative returns. The mean average quarterly return for Catalyst is still positive, though lower than for our Growth portfolio.

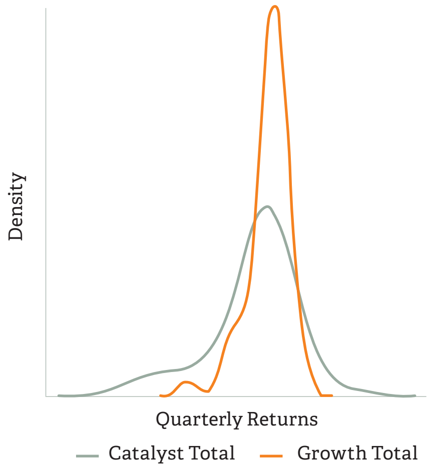

Figure 4: Distribution of portfolio-level quarterly returns, 2012/14 to 2023[15]

At this early stage, our Catalyst experience suggests it is possible to preserve capital – and secure a modest return – while applying a high-risk appetite to invest for transformational impact.

Our Catalyst experience suggests it is possible to preserve capital – and secure a modest return – while applying a high-risk appetite to invest for transformational impact.

Lesson 4. A strong learning culture is crucial to success

Higher risk means a higher likelihood of Catalyst investments losing money. This can mean that the business does not reach commercial sustainability and the investment doesn't meet its target return, or that it does not deliver the intended development impact. However, from the outset, the Catalyst philosophy has been that failures can be OK if we reflect, learn, and, where appropriate, course correct.

Catalyst has thrived within BII as a result of an intentionally curated learning culture. Partly driven by formal governance structures, and partly by the more informal Catalyst community, the existence of the portfolio has created a culture of honest and open reflection and learning. By ring-fencing Catalyst as a separate pool, BII was able to complement the new way of thinking about risk that Catalyst embodied with a fresh emphasis on learning. This took time to bed-in, but the Catalyst experience shows that a learning culture grows organically when you have the right frameworks, incentives, forums, and processes for capturing learning in place.

Catalyst has thrived within BII as a result of an intentionally curated learning culture.

The Catalyst annual review process has been crucial in this regard, enabling BII to take stock (at the senior management and Board level) of how Catalyst is tracking against key metrics, where it is going, and how it can be improved. Lessons are often not binary – in the sense that the right conclusion is rarely that we should never do X or always do Y – so space needs to be created for honest reflection and strategic adjustments at the right level. Governance structures play a key role too. These include the Catalyst Council, which meets quarterly to guide and share lessons across Catalyst Strategies, and quarterly meetings of The Accelerator and Catalyst Funds representatives to provide coordination for the strategies, discuss pipeline, and share lessons within these strategies. These structures have been in place for years, and consistently generate lively discussion and useful insights.

15 The figures in the chart are for each portfolio since its inception to the end of 2023. For Growth, the series starts in 2012 and for Catalyst 2014.

Catalyst was also a learning journey for our Investment Committee. It took time for our Investment Committee to understand how they should think about risk for Catalyst transactions, and it required a lot of education and discussion before we got it right. We now have independent Investment Committee members with a specific focus on Catalyst deals, which was an important step.

Examples of how Catalyst's strong focus on learning has enabled us to correct course include:

Moving away from *excessive* layering of risks. The risks associated with impactful investments come in multiple forms. In our experience, investment-level failures in Catalyst are more common when multiple risks are layered upon each other – for example opting for risky instruments to catalyse risky sectors in risky places, or working with first-time teams to test new technologies in nascent markets. Certain direct equity investments in Africa have served as examples. They have given us both notable successes and failures, with the latter linked to pushing the risk frontier in too many directions at once.

Investment-level failures are more common when multiple risks are layered upon each other.

Adjusting our strategic approach to Catalyst Funds. In the early years of Catalyst, BII backed several funds that narrowly invested in primary agriculture-focused small and medium-sized enterprises (SMEs) due to the extremely high impact potential, yet this proved to be a difficult strategy for fund managers to execute. The lessons learned shaped BII's Food & Agriculture Strategy, with a shift to funds taking a more integrated approach across the value chain, including agri-enablers/agtech funds that maintain a high-impact focus but have proven more commercially sustainable by diversifying risk across a broader range of business models and sectors. Poorly performing funds have also revealed how high-impact, high-risk investments are not necessarily well suited to 'traditional' private equity fund structures. It is sometimes necessary to deviate from the traditional fund model to support impactful strategies.[16] Yet this requires a balanced approach – implementing bespoke structures is resource intensive (for BII and fund managers), and non-standard terms require significant alignment among limited partners (LPs) and can inhibit mobilisation.

Tailoring investments in fragile states. Investing in fragile and conflict-affected states (FCAS) is particularly challenging due to the multiple layers of risks the instability creates. Catalyst's FCAS investments, which have included investments in Afghanistan and Myanmar, have not always gone well as risks have materialised, though they have yielded important lessons which continue to shape Catalyst strategy. A clear need to thoroughly consider worst-case scenarios in structuring investments has emerged, particularly in scenarios where there is a threat of political tensions deteriorating into active conflict. This may involve including investment terms that enable fast decisions in response to unforeseen events. It is also important to be realistic about scale in thin, fragile markets, and be cautious when using risky instruments (i.e., equity) in FCAS, especially when supporting SMEs.

It is important to be realistic about scale in thin, fragile markets, and be cautious when using risky instruments.

Lesson 5. Catalysing markets requires patience and partnerships

The distinct role of DFIs as investors is not just their focus on development impact, but their willingness to inject *patient* capital to achieve it. Building markets takes time, is resource intensive, and is multifaceted. We've learned that this is best pursued with a long-term collaborative mindset that allows a spectrum of stakeholders to play to their strengths. This is particularly true with respect to the nascent markets in which Catalyst focuses where momentum must be created from a standing start.

16 We have experimented with adapting traditional fund terms, including longer fund life, fees reflective of costs, blended finance structures, appropriate incentive structures and innovative uses of TA.

This idea long pre-dates Catalyst and is also relevant to BII's non-Catalyst investments, yet it is a particularly important foundation of strategies deploying catalytic capital. **The timeframe for impact through Catalyst investments is generally longer than we originally anticipated**, both at the market level – in terms of visible signs that a market is successfully growing – and individual company level. Furthermore, it is difficult to define and measure progress in market development, so we have had to be patient as an organisation in assessing and reporting how catalytic we are being.[17] Progress can also be slowed, or even reversed, by external events, and there is a need for support beyond just capital, such as through market-building grants or TA. In Nepal for instance, BII Catalyst investments into WorldLink Communications Ltd. and Dolma Impact Fund II are complemented by the the BII Plus Invest for Impact Nepal (IIN) programme (co-funded alongside by FMO and SDC) that supports the intermediary ecosystem (funds and FIs) to unlock more DFI investments into underserved segments.

A central feature of our Catalyst portfolio is what we refer to as platforms. DFIs traditionally have a demand-led model, meaning investments typically have their origins as a response to a private enterprise (a sponsor) that is seeking finance. However, in some cases, suitable private enterprises which address specific development challenges might not exist. Often, these are also the cases where the potential for development impact is highest. Catalyst has provided us with a unique opportunity to sponsor the creation of new enterprises ourselves, either by incubating and financing a start-up or by acquiring operating assets that originate the investment opportunities we seek. Due to the high risks of launching and taking control positions in such ventures, Catalyst has been a critical tool in the delivery of platforms.

Platforms require particular patience. GridWorks and MedAccess, our earliest Catalyst platforms, have shown they need significant time upfront to build investment and operational capacity, as well as governance. Setting up a platform may generate great impact – since 2017, MedAccess-supported products have reached 539 million people in over 110 low- and middle-income countries – but as well as requiring time to deliver, they are costly, operationally complex, and labour-intensive as our input goes well beyond simply investing capital.

539 million people

reached by MedAccess in over 110 low-and middle-income countries.

Innovating to tackle global healthcare challenges: MedAccess

MedAccess is an innovative social-finance company set up by BII in 2017 to help improve access to life-changing medical supplies at an affordable price. Medical innovations often fail to reach people in low- and middle-income countries for years or even decades, and, when they are available, supply may be limited or at an unaffordable price. This is affected by market failures in their pricing, production, procurement, and distribution. One of MedAccess's key instruments is legally-binding volume guarantee agreements with manufacturers. This eliminates demand risk for manufacturers, enabling them to: (i) optimise production at greater scale at reduced unit costs; and (ii) reduce the time-lag between production and availability of a medicine in developed vs. developing countries.

17 We are currently designing and conducting three market-level evaluations to understand how these markets have changed and our role in these changes. We expect these to be published from 2025.

Strengthening electricity networks across Africa: Gridworks

Gridworks was launched by BII in 2019 to develop and invest in financially sustainable electricity networks to improve the quality and availability of power in Africa. Recent years have seen a focus on investments in power generation to address the need for reliable electricity, yet there has been a gap in targeted investment in the networks that transmit and distribute that power. Gridworks develops and invests in critical electricity network infrastructure. This includes utility concessions, public private partnerships, management contracts, rural electrification programmes, isolated grid systems, off-grid to on-grid investments, and utility services companies.

One example is Weza Power, which is the result of a multi-year development partnership between Virunga Power (a Gridworks investee company) and the Government of Burundi. In a country with one of Africa's lowest electrification rates (12 per cent), Weza Power aims to enable electricity access for 70 per cent of the population.

Platforms are a part of our toolkit we have learned to use selectively. Our experience suggests that key conditions for platforms to be successful include, but are not limited to where:

- They can do smaller ticket sizes while maintaining robust portfolio management.
- There is a need for an entity to act more as owner/operator than pure investor.
- They are the most effective means to deliver expertise, both in terms of credible local presence as well as sector or product expertise.
- They offer a more effective model of partnering with other organisations and delivering on mobilisation ambitions.
- They enable experimentation with different products (e.g., volume guarantees) or investment parameters (e.g., permanent capital vehicle for equity investments in agriculture) that fit the market.

We are still on a learning journey here and plan to share more soon.[18]

Platforms are a part of our toolkit we have learned to use selectively.

18 BII is developing a separate paper on platforms which we expect to publish by early 2025.

“My life is easier because of them. I get paid fast and consistently. I’m able to grow my business. I can pay my children’s school fees easily.”

Valency supplier, Nigeria

05

What is next for Catalyst?

While the ten-year anniversary marks a significant milestone in the life of Catalyst, it is still only the beginning for this relatively young portfolio. As the projects and companies we have backed develop and grow, they will undoubtedly need to navigate challenges. Those that are successful will lead to positive development outcomes and we hope that more commercial capital will follow as these investments ‘transition’ from the need for catalytic capital. Where things do not work out, we will learn and try alternative approaches to tackling those same development problems.

As Catalyst evolves, we want to ensure that the portfolio continues to execute on its mandate to catalyse nascent markets. We have initiated evaluations to investigate if, how, and to what degree Catalyst investments have helped to address market failures and will refine our approach based on the insights. In tandem, we are developing new thematic strategies that draw from momentum created in the existing portfolio. These efforts will be supported by Kinetic, a new blended finance facility added to our toolkit, enabling us to push boundaries even further. We will also continue to partner with like-minded organisations in our efforts.

We are developing new thematic strategies that draw from the momentum in the existing portfolio.

We remain committed to the original Catalyst objectives of achieving enhanced direct impact as well as seeking to catalyse nascent markets and look forward to the portfolio reaching $2 billion in commitments while remaining at least 10 per cent of BII’s NAV by the end of 2026 (the end of our current five-year strategy period). We hope our experience and reflections so far will prove useful for asset managers contemplating how to integrate enhanced impact investing into a broader portfolio as well as for donors and impact investors thinking about how to allocate their capital. We look forward to sharing more in due course.

Annex 1: Catalyst portfolio examples

Direct equity

Investment name: Planet Solar
Region/country: Sierra Leone
Vintage: 2023
Investment Amount: $10.4 million

Planet Solar is a greenfield 50 MW solar PV project in Sierra Leone, which is expected to increase electricity supply by 30 per cent. As Sierra Leone's first large-scale solar project to be connected to the grid, the project will support the Government of Sierra Leone's ambitious plans to significantly increase energy access and reach 92 per cent of the population by 2030.

Investment name: Akshayakalpa
Region/country: India
Vintage: 2022
Investment Amount: $8.9 million

Akshayakalpa is a fully-integrated direct-to-consumer dairy brand in South India. Its organic and sustainable practices increase yields for low-income smallholder farmers in a sustainable way, which is expected to result in reduced emissions intensity per litre of milk produced. Evidence suggests that, in working with Akshayakalpa, farmers' incomes increase (by 2.5 times) and become more predictable and regular due to daily payments.

Investment name: Apollo Agriculture
Region/country: Kenya
Vintage: 2022
Investment Amount: $2.0 million

Apollo Agriculture provides farm financing as part of a bundle of agri-services, including farming resources, advisory, climate insurance and market access, with plans to reach 2.3 million low-income farmers by 2026. The company improves economic opportunities for smallholder farmers while strengthening their resilience to climate change. Customers report significant positive changes in quality of life, productivity and income stability.

Investment name: mPharma
Region/country: East and West Africa
Vintage: 2020
Investment Amount: $2.1 million

mPharma is a tech-enabled healthcare company developing a more-efficient supply chain for pharmaceutical products across Africa. The company's mission is to make quality healthcare affordable and accessible to all consumers in Africa. A survey found that 42 per cent of customers reported life had 'very much improved' due to increased access to affordable, quality pharmaceuticals, 61 per cent of whom mentioned improved health, 30 per cent reduced medical expenses, and 17 per cent increased savings.

Direct debt

Investment name: NMB Bank
Region/country: Zimbabwe
Vintage: 2024
Investment Amount: $10.0 million

NMB Bank Zimbabwe is a registered commercial bank and one of the largest lenders to corporates in Zimbabwe. BII's directed line to NMB supports on-lending to exporting agribusinesses with 30% earmarked for agribusinesses investing in climate-smart farming practices. The counter-cyclical loan facility will increase access to capital to a critical sector of the Zimbabwean economy at a time when there is a significant US dollar funding gap.

Investment name: Arohan Financial Services
Region/country: India
Vintage: 2021
Investment Amount: $8.2 million

Arohan is a leading NBFC-MFI with operations in financially under-penetrated low-income states of India that provides income generating loans and other financial inclusion related products to customers who have limited or no access to financial services. More than 75 per cent of Arohan's borrowers are groups traditionally underserved by formal financial services, such as women, people from rural communities, and small business owners. A survey of customers found Arohan positively impacted cash availability, growth rates in sales/income, profitability, and personal savings and household savings.[19]

Investment name: Virunga Energy
Region/country: Democratic Republic of Congo
Vintage: 2016
Investment Amount: $9.0 million

Virunga Energy is a hydro-electric power business in the Democratic Republic of Congo (DRC). It provides clean electricity to communities living in and around Virunga National Park in Eastern DRC. BII's investment helped Virunga create over 25,000 new mini-grid connections between 2017 to 2022. The mini-grid has improved access to electricity for underserved communities, with newly-connected settlements having experienced an improvement in their standard of living.

Investment name: DCD CHealth
Region/country: India
Vintage: 2023
Investment Amount: $9.8 million

DCDC is an India-based single-specialty operator of haemodialysis clinics, with focus on the Public-Private Partnership (PPP) model providing subsidised treatments to low-income households. DCDC operates more than 120 dialysis centres across the country. BII's investment funds capital expenditure and the roll-out of dialysis machines for both PPP centres and standalone centres accredited to public insurance schemes, enabling the company to expand provision life-saving treatment in remote towns.

19 For more on Arohan, see the evaluation 'Reviewing the impact of microfinance in India: A case study of Arohan financial services'.

Funds

Investment name: Circulate Capital Ocean Fund I-B
Region/country: South and South-East Asia
Vintage: 2023
Investment Amount: $7.0 million

Circulate Capital Oceans Fund I-B is a circular economy fund targeting investments that transform recycling and waste management supply chains to address the global crisis of plastic waste management, particularly in Asia, which contributes 60 per cent of plastic marine pollution. While the primary focus of the fund is on scaling circularity, the fund will also support the creation of job opportunities for informal workers (plastic collectors) and women.

Investment name: Novastar Ventures East Africa Fund I
Region/country: East Africa
Vintage: 2015
Investment Amount: $15.0 million

Novastar Ventures East Africa Fund I is focused on investing into early-stage companies in East Africa that address latent demand for essential goods and services in local markets through highly scalable business models. BII helped anchor the Nairobi-based fund as part of a broader market-building exercise to help catalyse venture impact investing in Africa. BII continued to support the manager by investing $15m in their second fund, Novastar Ventures Africa Fund II.

Investment name: African Rivers Fund IV
Region/country: Central and East Africa
Vintage: 2023
Investment Amount: $15.0 million

African Rivers Fund IV, managed by XSML Capital, provides long-term financing through various debt instruments in challenging markets where SMEs struggle to access capital, such as the Democratic Republic of the Congo (DRC), Uganda, Angola, and Zambia. The fund supports the growth of SMEs through more flexible pricing and repayment terms than traditional banks and the provision of technical assistance, which in turn enhances economic opportunities, creates jobs for employees, and improves access to goods and services for customers.

Investment name: African Forestry Impact Platform
Region/country: Sub-saharan Africa
Vintage: 2023
Investment Amount: $75.0 million

Co-developed by BII and New Forest, the African Forestry Impact Fund (AFIP) is a vehicle to invest in forestry assets in sub-Saharan Africa. AFIP seeks to develop the challenging forestry sector as a nature-based climate solution, protecting and restoring natural capital while creating economic opportunities for mostly rural and low-income populations. The long-term aim is to build a sustainable forestry asset class by developing a track record in the sector that can attract further investment.

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