12 Philanthropy as a De-risking Tool for SDG Finance

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INTRODUCTION

As of the end of 2024, fewer than 6 percent of Africa's thirty-two measurable Sustainable Development Goals (SDGs) were on track to be met by 2030. Closing an annual funding gap of $1.3 trillion is crucial, but this challenge is compounded by declining overseas development assistance (ODA) and rising public debt, leaving governments with less capacity to invest in services and social programs.

The situation in Africa is constantly evolving, notably given its unique demographics and growing population. It is estimated that 10–12 million youths enter the workforce every year, while only 3.1 million jobs are added, leading to extremely high youth unemployment rates. Meanwhile, wealthy nations continue to debate the veracity of climate change while the dire impacts are already being felt across the continent. Africa accounts for less than 4 percent of global carbon emissions yet remains highly vulnerable to their associated impact. According to the 2024 Africa Sustainable Development Report, more than half of African countries have been impacted by climate change, with more than 110 million people directly affected by climate, weather, and water-related disasters.[1]

These metrics may suggest an overwhelming challenge, but they also highlight a remarkable opportunity for impact. The reality is that sufficient capital exists in the global economy to achieve the SDGs, and if any continent is primed for innovation and transformation, it is Africa. The scale and complexity of its social challenges

[1] UNDP Africa. (2024, July 16). 2024 Africa Sustainable Development Report. Retrieved from www.undp.org/africa/publications/2024-africa-sustainable-development-report.

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create unparalleled opportunities for testing and refining impact-driven solutions. If a solution succeeds in Africa, it is likely to be globally scalable. This positions Africa not only as a continent capable of addressing its own challenges but also as a leading hub for social innovation worldwide.

Approximately 1 percent of total global wealth – estimated at $450 trillion in 2023 by UBS's Global Wealth Report[2] – will be needed to achieve the SDGs, highlighting the critical role of private investment. However, many private investors still perceive social investments as too risky, believing they fail to offer attractive risk–return ratios. This underscores that the real challenge is not a lack of capital per se but rather a shortage of *risk-tolerant* capital to mitigate investment risks and unlock additional private funding in the impact space.

Achieving the SDGs without private-sector involvement is unrealistic, yet relying on a single source of finance is equally inadequate. A diverse spectrum of funding must be mobilized to meet the continent's sustainable development needs. Among these, philanthropic capital holds a uniquely catalytic role due to its capacity to absorb risk, exercise patience and flexibility, and ensure impact additionality, intentionality, and integrity. These attributes position philanthropy as a powerful enabler of private investment, making it perhaps the most crucial financial lever for driving sustainable growth and scaling impact.

Catalytic capital typically includes debt, equity, guarantees, and other investments that accept higher risk and/or concessionary returns compared to conventional investments. Its primary goal is to generate positive impact while enabling third-party investment – particularly from private capital providers – that would not otherwise occur.[3] Additionally, catalytic capital encourages private investors to explore opportunities they might otherwise avoid.

[2] UBS. (n.d.) Global Wealth Report 2024. Retrieved from www.ubs.com/us/en/wealth-management/insights/global-wealth-report.html.

[3] Tideline. (2020). Catalytic Capital. Retrieved from https://tideline.com/wp-content/uploads/2020/11/Tideline_Catalytic-Capital_Unlocking-More-Investment-and-Impact_March-2019.pdf.

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This definition, however, overlooks a crucial element: philanthropy. Often underestimated, philanthropy carries a uniquely high risk appetite and is expanding rapidly both globally and across Africa. According to the 2021 African Giving Index, more than $10 billion in philanthropic capital is directed annually toward social causes on the continent.[4] This includes donations, grants, and investments from wealthy individuals, foundations, and impact investors, underscoring philanthropy's growing role in development finance.

As the sole source of pure risk capital – prioritizing social impact over financial returns – philanthropy has the potential to be exponentially catalytic when deployed strategically. By absorbing risk in blended structures, philanthropy can help attract private capital into markets that would otherwise be deemed too risky. Over the long term, it plays a critical role in building investment-ready enterprises capable of securing patient and, eventually, large-scale commercial capital. The fundamental objective of catalytic philanthropy is leverage: For every dollar of philanthropic grant capital deployed, how much follow-on private capital can be unlocked?

This chapter examines the evolving role of philanthropy in driving impact and explores why Africa is uniquely positioned for this opportunity. The landscape of impact capital has expanded significantly beyond traditional donations, incorporating a wider range of financial tools to support sustainable development. We will explore philanthropy's critical function in de-risking investments, particularly in early-stage enterprises, enabling them to scale, enter new markets, and foster collaboration across sectors.

However, recognizing philanthropy's expanded role does not mean abandoning traditional grant-making. Grants remain essential, particularly for mobilizing concessional capital, but they should be viewed as part of a broader financial strategy rather than a stand-alone

[4] Global Philanthropy Forum (Member Only Access). Retrieved from https://philanthropyforum.secure.nonprofitsoapbox.com/community/africa-philanthropy-forum.

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tool. By adopting more sophisticated funding models, philanthropists can enhance the effectiveness of grants, driving greater innovation and long-term sustainability.

Meeting Africa's pressing challenges requires fresh solutions, diversified capital sources, and strategic partnerships. This transition demands new skills, stronger alliances, and a shift in mindset regarding the use of resources, technology, and finance. Time is critical – deploying risk capital swiftly is essential for addressing socio-economic challenges at scale. As a uniquely flexible and adaptive funding source, philanthropy is well positioned to lead this transformation.

A CONTINENT RIPE FOR INNOVATION

While Africa faces socio-environmental challenges similar to those of other developing regions, it also possesses unique assets that, when optimized, can drive innovative and sustainable solutions – not just for the continent, but for the world. Though Africa's complex social challenges are often perceived as overwhelming or insurmountable, we see them as compelling opportunities for impact investing and social transformation.

Africa's youthful and rapidly growing population is a powerful asset. As the workforce of the future, young Africans have the potential to drive growth in key sectors such as health care and technology, with entrepreneurship emerging as both a strength and an opportunity. However, this potential is often mischaracterized as a challenge rather than recognized as an unparalleled testing ground for innovation with globally scalable benefits.

A key myth fueling this misconception is the belief that profit-driven entrepreneurial solutions are incompatible with development or that Africans prefer free services over affordable, reliable products. In reality, market-based solutions that create sustainable incomes empower local communities and foster homegrown responses to development challenges – from financial inclusion to green energy–driven economies. Moreover, Africa's lack of entrenched legacy

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systems and infrastructure gaps create a unique opportunity for innovation to leapfrog traditional barriers, as demonstrated by transformative successes like M-Pesa and Zipline.

The rise of social enterprises across Africa has begun to address these challenges, with a vibrant ecosystem of social start-ups emerging across the continent. According to research by the World Economic Forum, large numbers of social entrepreneurs are actively driving impact in Africa, including approximately 85,000 in Kenya, 135,000 in Egypt, 140,000 in South Africa, and an estimated 1.3 million in Nigeria,[5] underscoring the increasing role of entrepreneurship in tackling social and economic challenges through innovative solutions. The research also estimates that across Sub-Saharan Africa, social enterprises are estimated to directly create between 28 and 41 million jobs. The power of this movement can help inspire larger-scale private capital players toward a mindset shift and dispel the idea that solving for development needs cannot be financially viable.

Moreover, data increasingly shows that investment aligned with the SDGs *can* lead to acceptable financial returns. Three of the Goals – 6, 7, and 9 – across five African countries (Nigeria, Kenya, Ghana, Uganda, and Zambia) have attracted $200 billion in investment opportunities, promising long-term, robust returns.[6] Combining an entrepreneurial approach to social impact with sustainable financial returns requires strategic investment in capacity building. This involves equipping philanthropists and investors with a deeper understanding of returns-based impact while fostering a cohesive, rather than fragmented, community-driven approach to social and economic transformation.

[5] World Economic Forum. (2023, January 19). How social entrepreneurs can drive an inclusive 'Africa's century'. Retrieved from www.weforum.org/stories/2023/01/davos23-social-entrepreneurs-inclusive-africa/#:~:text=Research%20suggests%20that%20there%20are,28%20and%2041%20million%20jobs.

[6] Standard Chartered 2020. Opportunity2030, The Standard Chartered SDG Investment Map. Retrieved from https://av.sc.com/corp-en/nr/content/docs/Standard-Chartered-Opportunity-2030.pdf.

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Knowledge and information are crucial in this transition, enabling management teams and boards to make informed decisions. However, despite Africa representing the largest impact opportunity globally, only one university on the continent offers formal academic programs in sustainable and innovative finance.[7] This gap significantly hinders the development of a critical mass of impact-capable talent needed to mobilize and deploy capital at the speed and scale required for meaningful transformation. Addressing these foundational challenges remains an urgent priority.

THE CONTINUUM OF CAPITAL

Since gaining independence in the 1960s, African countries have primarily relied on governments, ODA, and, to a lesser extent, philanthropy for social investment. While these efforts have driven progress, the continent continues to face persistent challenges such as climate change, economic inequality, and a rapidly growing youth population with limited opportunities. These issues threaten food security, political stability, and broader systemic resilience. Addressing evolving challenges with outdated solutions is no longer viable – innovative, sustainable, and scalable approaches are urgently needed.

One of the greatest barriers to transformative change is the funding gap. The UNDP estimates that Africa requires an additional $1.3 trillion annually to meet the SDGs. However, neither ODA nor government spending alone can bridge this shortfall. Engaging investors with varying risk and return preferences can drive long-term impact while ensuring capital is deployed strategically and sustainably.

A key framework facilitating this shift is the "returns continuum," introduced by Omidyar Network in 2017.[8] This model has

[7] The Bertha Centre for Social Innovation and Entrepreneurship is a research and innovation hub based at the University of Cape Town (UCT) in South Africa. It is part of the Graduate School of Business (GSB) at UCT.

[8] Stanford Social Innovation Review 2017. Across the Returns Continuum. Retrieved from https://ssir.org/articles/entry/across_the_returns_continuum.

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gained traction within philanthropy and impact investment, offering a structured approach to deploying capital across financial and impact objectives. The continuum spans grants that prioritize social outcomes with no financial return, impact investments that accept concessionary returns in exchange for social or environmental benefits, and commercial investments delivering both high impact and market-rate returns.

Venture philanthropy extends this model by combining financial capital with nonfinancial resources such as expertise, technical assistance, and intellectual property. Organizations and individuals with restrictions on how they deploy capital can use the continuum as an interconnected ecosystem rather than operating in silos. Philanthropy can support early-stage enterprises with investment readiness assistance, while impact investors leverage these efforts to de-risk investments and build a stronger pipeline of commercially viable opportunities.

One of the most significant benefits of this approach is its ability to address Africa's "missing middle." Many early-stage enterprises struggle to secure capital because they are too large for microfinance but too small or risky for commercial banks. This misalignment between investor expectations and investment-ready businesses limits growth. Deliberate collaboration between diverse stakeholders, including ecosystem builders, networks, and intermediaries, is crucial to ensuring capital flows effectively to where it is needed most.

The capital continuum ensures that financing aligns with the specific needs of investee organizations at various stages of maturity, scale, and impact. It supports a diverse range of actors, from nonprofits addressing challenges unsuitable for commercial models to small and medium enterprises (SMEs) seeking growth capital and publicly traded companies investing in supply chain transformation. By matching the right capital to the right business model, this approach enhances efficiency and effectiveness in capital deployment.

Maximizing impact requires leveraging each funding type's unique strengths: fueling innovation, de-risking early ventures,

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scaling proven solutions, and mobilizing larger investment flows. Clinging to outdated distinctions between philanthropic, concessional, and commercial capital only limits progress. A flexible, collaborative, and strategic approach to capital deployment is key to unlocking Africa's financial ecosystem and driving sustainable, high-impact transformation. By embracing the capital continuum and fostering cross-sector collaboration, Africa can mobilize the necessary resources to address systemic challenges and build a thriving, inclusive economy.

CHALLENGING THE TRADITIONAL VIEW OF PHILANTHROPY

In Africa, as in many other regions, both the private finance and the philanthropic sectors lack awareness of the opportunity of the continuum of capital. Perhaps more damaging, the language and intentionality mismatch creates a pseudo-philosophical divide that is difficult to bridge. Some philanthropies are skeptical of "profit-hungry" investors and some commercial investors are dismissive of "bleeding-heart" philanthropists. Even among the actors in the middle such as venture philanthropists and impact investors, there has been a history of division and distinction rather than harmony and collaboration, with many of them failing to recognize their respective synergies.

Impact investors have long grappled with the perception that adopting an impact lens necessitates a trade-off in financial returns. To attract large-scale capital providers, the impact investment community has focused on showcasing investments that challenge this assumption. Notably, the Ford Foundation made a bold statement in 2017 by allocating $1 billion of their endowment to impact investments, explicitly pursuing risk-adjusted, market-rate returns.[9] The

[9] Ford Foundation. (2017, April 5). Ford Foundation commits $1 billion from endowment to mission-related investments. Retrieved from www.fordfoundation.org/news-and-stories/news-and-press/news/ford-foundation-commits-1-billion-from-endowment-to-mission-related-investments/#:~:text=NEW%20YORK%20%2F%205%20April%202017,largest%20by%20a%20private%20foundation.

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high-profile nature of this allocation places significant pressure on the foundation to demonstrate that meaningful impact can be achieved without compromising financial performance – helping shift the narrative and create a pathway for more risk-averse investors.

At the opposite end of the spectrum, some philanthropists argue that grant capital is a scarce and invaluable resource that should be reserved for nonprofit organizations serving the most vulnerable populations. Many philanthropic funders are wary of using their capital to de-risk investments for commercial players, questioning why philanthropy should be leveraged to subsidize financial returns. However, catalytic capital is not about subsidizing private investors – it is about addressing market failures and filling critical gaps where traditional capital is unwilling or unable to go.

In regions like North Africa and Nigeria, philanthropy is often conflated with charity. In North Africa, for instance, there is no direct Arabic translation for "philanthropy," limiting the vocabulary to more traditional forms of charitable or association-based giving. While local, one-off community donations play an important role, they must be expanded into more strategic, long-term approaches that tackle root causes rather than just symptoms. This shift requires a deeper understanding of the unique attributes of philanthropic capital – its high-risk tolerance, flexibility, and patience – which, when deployed effectively, can unlock systemic change and sustainable impact.

HOW PHILANTHROPY FITS INTO THE CAPITAL STACK

Estimates of the size of the global philanthropic capital pool vary enormously with no single source of centralized data. According to the Global Philanthropy Tracker, "the countries covered by their 2023 report contributed $70 billion in philanthropic outflows in 2020. When combined with ODA, remittances, and private capital investment, the total rises to $841 billion ... [with] the largest portion of this money [coming] from the high-income countries, which contributed about 95 percent of the total amount

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measured."[10] Even when topped up with the $10 billion of estimated African giving, this is a mere drop in the ocean compared to the volume of commercial capital.

However, for all the reasons mentioned earlier, philanthropy has an outsized role to play. It can fund innovation by providing risk capital through grants, convertible loans, and patient capital to test new products, services, markets, and models. Beyond seed funding, philanthropy can also support growth-stage innovations by funding proof-of-concept initiatives, reducing risk, and enabling scaling through impact investors, governments, and eventually commercial capital. This allows innovative solutions to expand into new markets and geographies while maintaining their impact thesis and integrity, free from the pressure of profit-driven investors.

In Africa especially, the perceived risks for any small business are significant, and the venture capital industry is not as developed as on other continents. Entrepreneurs also have little option of getting funding from friends and family. Meanwhile, most financial institutions are not designed to respond to the needs of very early-stage entrepreneurs who tend to have little to no track record or collateral. Coupled with unfavorable sovereign credit ratings, the cost of capital in Africa tends to be higher than in similar economies. As an illustration of this issue, the average cost of capital for energy projects was about seven times higher in Africa than in Europe and North America,[11] with Ghana recording the highest weighted average cost of capital from 20.47 percent to 22.87 percent.[12] Philanthropic capital can provide guarantees, first-loss capital, and impact-linked

[10] ScholarWorks Indianapolis. (2023, April). 2023 Global Philanthropy Tracker Full Report. Retrieved from https://scholarworks.indianapolis.iu.edu/items/427139fd-e626-4436-aff6-ef91638a915e.

[11] G20 Cost of Capital Commission: A Proposal, DAVID MCNAIR, THE ONE CAMPAIGN. Retrieved from https://saiia.org.za/research/cost-of-capital-commission-a-proposal/

[12] Clean Air Task Force. (2024, October 24). Evaluating the Weighted Average Cost of Capital (WACC) in the Power Sector for African Countries. Retrieved from www.catf.us/resource/evaluating-weighted-average-cost-capital-wacc-power-sector-african-countries/.

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incentives that help bring down this high cost of capital. As James Chen, a renowned venture philanthropist and founder and seed funder of Clearly, stated, "privatize failure and socialize success,"[13] pointing to private philanthropy as being able to take big risks and build the opportunities for more risk-averse funders to invest into downstream and scale-proven models.

PHILANTHROPY AS SEED FUNDING

Despite the structural and systemic challenges that hinder the full potential of catalytic capital in Africa, there is significant hope in the innovative models already emerging across the continent. One such example is the Segal Family Foundation (SFF), which has pioneered a blended approach to deploying patient capital in Africa. By combining grant-making with impact investments, SFF has strategically supported early-stage social enterprises – particularly those that are African owned and led – recognizing their potential to drive sustainable development and create lasting change. This model exemplifies how catalytic capital can be effectively leveraged to nurture local solutions, de-risk investments, and build a more resilient impact ecosystem.

Liana N. Nsengimana, SFF's investment manager based in Kigali, Rwanda, highlights a major challenge: the lack of access to early-stage patient capital for African entrepreneurs. Despite increasing investment flows, African-led enterprises struggle to secure funding due to perceived market risks, limited cash flow or assets for debt financing, and their position in the "missing middle."

In response to this gap in the market, SFF has taken a proactive approach by offering flexible and responsive financial instruments. These include a debt facility and recoverable grants, which provide patient capital to promising early-stage entrepreneurs developing

[13] YPO. (2021, April 9). James Chen Helps the World See More Clearly the Importance of Global Vision Care. Retrieved from www.ypo.org/2021/04/james-chen-helps-the-world-see-more-clearly-the-importance-of-global-vision-care/.

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scalable solutions to Africa's social and environmental challenges. SFF believes that by identifying high-growth, high-impact enterprises and providing appropriate capital and support, these businesses can drive economic growth and long-term sustainability.

For many early-stage enterprises, the only available sources of seed funding come from accelerator programs that offer small cash prizes, typically ranging from $2,000 to $5,000. While these funds can help entrepreneurs take their first steps, they are often insufficient for businesses that are looking to grow. As a result, entrepreneurs are frequently forced to move from one competition to another, relying on small, fragmented sources of funding just to keep their operations running. In contrast, SFF offers seed funding in the range of $20,000 to $30,000, a level of support that Nsengimana notes has enabled entrepreneurs to build viable business models and position themselves for the next stage of funding.

Nsengimana is also keen to point out that the SFF has a "capital plus" model that stresses the importance of providing human and intellectual capital in addition to financial capital. Capacity support, technical assistance, and business development services help shore up the investment and bring value to the investee while also mitigating risk for the investor.

Another compelling example of philanthropy serving as seed capital is Villgro Africa, an incubator and impact investor supporting emerging health care businesses across the continent. As an intermediary, Villgro Africa strategically pools philanthropic capital from foundations, corporations, and government funders to provide innovative financing solutions tailored to early-stage businesses. These enterprises, often overlooked by traditional capital markets, benefit from Villgro Africa's approach, which bridges funding gaps and enables high-impact health care innovations to scale sustainably. This model underscores the critical role of catalytic capital in nurturing ventures that might otherwise struggle to access the resources needed for growth and impact.

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The innovative financing model employed by Villgro Africa is a unique approach that blends investment capital with tailored technical assistance. Typically, Villgro provides early-stage health care enterprises with a minority equity stake or convertible note investment of approximately $50,000, coupled with technical assistance vouchers of equal or greater value. These vouchers are often directed toward African universities, enabling locally contextualized market research that fuels the company's next stage of growth. This dual-support model not only helps enterprises refine their business models but also strengthens their investment case, making them more attractive to future investors.

Villgro Co-Founder and Executive Chairman, Rob Beyer, highlights that for several health care start-ups, an initial investment of $50,000 in equity plus $50,000 in research vouchers has directly resulted in million-dollar follow-on investments from institutional investors. This success underscores the power of integrating capital with knowledge-driven support.

Additionally, Jackson Mwatha, the lead advisor for corporate finance and business support at Villgro, emphasizes that portfolio companies often value the technical assistance and advisory services more than the equity investment itself. Recognizing this critical market gap, Villgro has built a dedicated team of senior experts and mentors who offer industry-specific guidance in health care, as well as expertise in business and financial strategy. One of the most impactful services Villgro provides is sell-side support: helping enterprises in which it holds an equity stake evaluate term sheets and position themselves for follow-on investments.

Importantly, while Villgro is motivated to achieve strong returns on its investments, these returns do not benefit executives or original donors. Since the fund is backed by philanthropic capital, any realized returns are reinvested into the fund to support the next generation of African entrepreneurs. This approach ensures a sustainable, evergreen model that continuously nurtures

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innovation, scales impact and strengthens Africa's health care ecosystem.

PHILANTHROPY AS SCALING CAPITAL

Access to capital remains a major challenge for businesses in Africa, where commercial loan rates are prohibitively high. Nsengimana from SFF noted that average loan rates range from 18 percent to 20 percent, with some countries seeing even higher rates. To address this gap, SFF offers recoverable loans to companies with annual revenues between $50,000 and $80,000, allowing them to invest in equipment and production capacity to scale. These zero-interest loans have proven highly effective; one investee repaid their loan six months early while quadrupling their capital. Beyond financial relief, such de-risking mechanisms enhance business credibility, making it easier to secure follow-on funding from larger investors.

In Zambia, a similar effort is underway through the Catalytic Capital Consortium and the Zambia National Advisory Board for Impact Investing (NABII Zambia), which established a Credit Guarantee Fund (CGF) to improve SME access to financing.[14] With fewer than 30 percent of SMEs in Zambia having access to formal financial services, high lending rates – ranging from 22 percent to 30 percent annually – effectively block many from securing the capital needed for growth and productivity improvements. By lowering the risk for local lenders, the CGF makes it more viable for them to finance this underserved segment while also unlocking institutional capital from pension funds and other investors.

The effectiveness of catalytic capital is evident in its growth over the past two decades, having expanded more than fivefold while leveraging three to four times the original investment in additional funding.[15] One notable example is the Venture Capital Trust Fund

[14] Catalytic Capital Consortium. (n.d.). Retrieved from https://catalyticcapitalconsortium.org/partners-projects/fostering-solutions-infrastructure/.

[15] Ashesi University. (2022). Impact Investing Ghana, Catalytic Capital Investments in Ghanaian SMEs. Retrieved from https://impactinvestinggh.org/publications/

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(VCTF), which plays an enabling role by taking a first-loss position in investment funds. In this structure, if the fund incurs losses, VCTF's equity absorbs them first, safeguarding other investors.[16] This de-risking mechanism is a powerful tool for attracting risk-averse institutional capital, such as pension funds, into impact investment. First-loss capital and other concessionary instruments, such as guarantees or below-market-rate returns, are fundamental to most catalytic finance models, helping unlock private capital for social impact.

SFF has observed a growing shift among philanthropists who are moving beyond traditional grant-making to deploy capital in a similar manner. However, this trend remains in its early stages and is largely driven by international philanthropists. To fully harness the potential of catalytic capital, there is an urgent need to connect philanthropic funding with Africa's market realities and innovative investment strategies responsive to local contexts.

One example of a development-focused investor leveraging catalytic finance is GroFin, which provides long-term funding and business development services to entrepreneurs across Africa. With more than $300 million invested in more than 400 businesses across 13 countries, GroFin has created more than 50,000 jobs, many in high-unemployment areas. Its ability to scale was made possible by $10 million in grant funding from the UK-based Shell Foundation, which helped seed its operations and refine its business model before it became financially self-sustaining.

Recognizing the need for more coordinated catalytic funding, the African Venture Philanthropy Alliance (AVPA), in partnership with the Children's Investment Fund Foundation (CIFF) and the US government's Prosper Africa, has launched a collaborative catalytic capital fund. This pooled fund aims to mobilize $200 million in grants,

catalytic-capital-investment-in-ghanaian-smes-strategies-hurdles-and-outcomes-report/.

[16] Ashesi University. (2022). Impact Investing Ghana, Catalytic Capital Investments in Ghanaian SMEs. Retrieved from https://catalyticcapitalconsortium.org/partners_projects/ashesi-university-impact-investing-ghana/.

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leveraging at least ten times that amount from domestic private-sector investors and targets high-impact ventures addressing health care, education, agriculture, and climate resilience. By financing early-stage social enterprises and intermediaries with demonstrated potential for sustainable growth, the fund seeks to scale impactful solutions that deliver both financial and social returns. Its collaborative nature brings together diverse expertise and resources, strengthening Africa's impact investment ecosystem.

Designed to unlock new opportunities for African entrepreneurs, the pooled fund enables them to seed and scale high-impact solutions while fostering cross-border investment and knowledge sharing. By incorporating credit guarantees, impact bonds, revenue-sharing models, and other innovative financing mechanisms, the initiative de-risks capital deployment for SMEs. Additionally, it addresses key ecosystem challenges such as impact measurement, deal sharing, investor readiness, and data collection, ensuring more informed decision-making across the investment landscape.

The ultimate goal is to mobilize more than $2 billion in domestic private capital, with a key focus on engaging local African foundations in the initiative. By inviting them to participate, the fund allows African philanthropists to shape the investment agenda while learning from global best practices in catalytic finance. Over time, this exposure equips them to establish their own catalytic funds, driving sustained capital flows into local impact opportunities.

PHILANTHROPY AS A CATALYST FOR COLLABORATION

These examples demonstrate how philanthropy acts as a catalyst for collaboration, enabling mission-aligned partners to pool resources and amplify impact. Collaborative funds play a crucial role in this process by leveraging shared capital to either scale direct support for nongovernmental organizations and SMEs or serve as catalytic capital to de-risk investments and attract private funding. By distributing risk,

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costs, networks, and investment pipelines across multiple stakeholders, these funds enhance efficiency while lowering barriers for private investors to engage in impact-driven initiatives.

Aligned funding strategies further strengthen this collaborative potential. CIFF, for example, prioritizes co-funding partnerships to enhance collective support for grantees. As a seed funder for the new AVPA Catalytic Fund, CIFF strategically aims for high leverage, ensuring that every philanthropic dollar mobilizes additional private capital to maximize.

Beyond financial contributions, collaborative philanthropy takes an active approach, offering investees more than just funding by helping them scale, refine business models, and secure follow-on investments. A compelling example is GGem Farming in Malawi, a long-time investee of SFF. GGem has expanded its impact by training farmers, improving infrastructure, and providing input loans while also creating an ethical marketplace that ensures greater financial returns for farmers. With SFF's initial seed capital, GGem successfully raised $1.5 million in debt financing from investors in New Zealand, Australia, and the United States. Within a year, the company repaid its debt and secured an additional $2.5 million in funding. This success enabled SFF to exit and reinvest its capital into new social enterprises, demonstrating how philanthropy can bridge the financing gap, attract external investors, and sustain a cycle of impact-driven funding.

For Villgro Africa, catalytic philanthropy extends beyond individual investments to strengthening the broader impact ecosystem. Philanthropic investors play a critical role in increasing the pipeline, track record, and visibility of African enterprises, making them more attractive to domestic investors. This de-risking effect stimulates local investment flows while reducing reliance on external capital. While Villgro operates with a "for Africa, by Africa" vision, it also recognizes the importance of preparing international investors for long-term engagement in African markets. Equipping global capital

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providers with the insights and frameworks necessary for sustainable investment ensures that financing is aligned with local needs and realities, fostering more effective and enduring impact across the continent.

RETHINKING AFRICA'S SUSTAINABLE GROWTH MODEL

Philanthropy has the potential to play a transformative role in Africa's shift away from dependence on declining aid and shrinking government budgets toward more sustainable socioeconomic development models. However, for this potential to be realized, philanthropic capital must be deployed strategically – not in isolation but as part of a broader continuum that integrates grants, blended finance, and private capital to scale social interventions. The examples discussed in this chapter highlight key lessons in mindset, operational models, and funding priorities that can accelerate this transition and unlock Africa's full economic potential.

A crucial shift required is **prioritizing the problem over rushing to solutions**. Too often, philanthropic interventions are developed in response to an assumed solution rather than a thorough understanding of the issue at hand. Without rigorous research and market data, these efforts risk being misaligned with actual needs, lacking an evidence base, and ultimately failing to deliver sustainable impact.[17] The most effective interventions emerge from an iterative process of understanding, testing, and adapting – where the problem is as much a focus as the solution itself.[18] Aligning philanthropic efforts with established frameworks like the SDGs, ensures that investments complement rather than duplicate existing initiatives, increasing their effectiveness and potential for scale.

Another major opportunity lies in **reducing currency risk through local capital mobilization**. Africa's impact investment

[17] Oliver, K., Innvar, S., Lorenc, T., Woodman, J., and Thomas, J. 2020. "A Systematic Review of Barriers to and Facilitators of the Use of Evidence by Philanthropists and Funders." *BMC Public Health* 20: 1254. https://doi.org/10.1186/s12889-020-09317-2

[18] Ibid.

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landscape remains heavily reliant on foreign capital, which exposes enterprises to currency fluctuations and increases financing costs. Philanthropists and impact investors must prioritize unlocking Africa's own private capital, which is more stable and better suited to long-term investments. The African Development Bank estimates that $1.8 trillion in dormant capital sits in pension funds, insurance companies, and inactive bank accounts across the continent.[19] Catalytic capital can play a pivotal role in activating these resources, fostering a more resilient and self-sustaining financial ecosystem for impact-driven investment in Africa.

Beyond enterprise funding, **building strong ecosystem connectors** such as AVPA is essential.[20] Intermediaries, incubators, accelerators, research institutions, and industry networks bridge critical market gaps, facilitate knowledge sharing, and drive investment alignment.[21] Without these connectors, the impact ecosystem remains fragmented, hindering collaboration and scalability.[22] Well-developed ecosystems not only align stakeholders around shared goals but also help cultivate the talent pipelines necessary to sustain long-term innovation and policy reforms that create an enabling environment for impact investing.[23]

A related priority is **institutionalizing education and capacity building in sustainable finance**. Despite Africa's position as the world's largest impact investment opportunity, specialized training

[19] African Development Bank. (2020, January 21). Keynote Speech delivered by Dr. Akinwumi A. Adesina at the UK-Africa Investment Summit, "Sustainable Infrastructure Forum," London. Retrieved from www.afdb.org/en/news-and-events/speeches/keynote-speech-delivered-dr-akinwumi-adesina-uk-africa-investment-summit-sustainable-infrastructure-forum-london-january-21-2020-33619.

[20] World Economic Forum. (2020, October 20). The Future of Jobs Report 2020. Retrieved from www.weforum.org/publications/the-future-of-jobs-report-2020/.

[21] Chesbrough, H. *The Ecosystem of Innovation: A Guide to Open Innovation*. Springer, 2017.

[22] Kania, J., & Kramer, M. *Collective Impact*. Stanford Social Innovation Review, 2011.

[23] Organisation for Economic Co-operation and Development. *The Role of Policy in Strengthening the Social Impact Ecosystem*. OECD Publishing, 2021.

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in sustainable and innovative finance remains extremely limited. Without the development of local expertise, Africa risks falling behind in the global shift toward impact-driven economies. Recognizing this gap, AVPA, in collaboration with the Impact and Sustainable Finance Consortium, is working to establish dedicated programs that will equip African universities with the tools, curricula, and networks needed to train the next generation of sustainable finance leaders.[24] Just as mobile banking revolutionized financial inclusion across Africa, strengthening human capital in impact finance could be equally transformative in mobilizing and deploying capital for sustainable development.

Expanding pools of catalytic capital on the continent is also crucial. Africa is not short on capital – it is short on *risk-tolerant* capital. With the triple challenge of declining aid, shrinking fiscal space, and a rapidly growing population, Africa must tap into private capital markets to close its $1.3 trillion SDG financing gap. This will require the growth of catalytic funding mechanisms, such as AVPA's Catalytic Pooled Fund, which enables philanthropists to pool resources and provide first-loss capital, guarantees, and other risk mitigation instruments to attract commercial investment.

Finally, **policy and regulatory frameworks must evolve** to facilitate the mobilization and absorption of catalytic capital. Governments, lawmakers, and regulators must be engaged to develop policies that encourage impact investing and remove barriers that currently hinder philanthropic capital from flowing efficiently. Too often, regulatory environments misunderstand the role of catalytic capital, treating it as purely charitable rather than a critical enabler of market solutions. Strengthening regulatory capacity, leveraging technology – such as AVPA's social investing dashboard – and improving

[24] United Nations Environment Programme. (2021). UNEP Finance Initiative 2021. Retrieved from www.unepfi.org/industries/banking/annual-overview-2021/.

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impact data collection can create a more transparent and effective policy environment that fosters sustained capital flows.

A CALL TO ACTION: UNLOCKING AFRICA'S POTENTIAL

Africa stands at a pivotal moment where the convergence of challenges – from climate change to youth unemployment – demands an innovative and sustainable approach to financing development. The traditional reliance on ODA and government funding is no longer sufficient to address the continent's pressing socioeconomic needs. However, within this challenge lies an unprecedented opportunity for philanthropy to evolve into a powerful catalyst for sustainable development.

By embracing its role as catalytic capital, philanthropy can unlock the continent's dormant domestic capital, attract international investment, and drive long-term economic transformation. This requires a fundamental shift in how philanthropic resources are viewed and deployed – moving beyond conventional grant-making to embrace innovative financing models such as guarantees, first-loss capital, revenue-sharing mechanisms, and outcome-based financing.

To achieve this, we call on philanthropists to "fall in love with the problem" rather than predetermined solutions, allowing for more effective collaborations, market-aligned interventions, and scalable innovations. We urge greater support for ecosystem builders like AVPA, which can facilitate partnerships, knowledge exchange, and the growth of catalytic funding pools. Equally critical is the development of institutional capacity through universities and training programs, ensuring that Africa can cultivate its own pipeline of impact finance leaders who will sustain and expand these efforts in the years ahead.

The time for action is now. From traditional philanthropists to impact investors to commercial capital providers, each plays a vital role in this evolving ecosystem. By working together and leveraging philanthropy's unique ability to take risks, exercise patience, and

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maintain impact integrity, we can unlock the tremendous potential of African innovation and entrepreneurship. The continent that has long been seen primarily as an impact destination is now poised to become a global laboratory for transformative social innovation – creating solutions that will work not only for Africa but for the world.

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