# Epilogue

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## Catalytic Capital in a Fractured World: Building a Road Map

As the authors in this compendium have articulated, catalytic capital – and philanthropy as a critical enabler thereof – holds immense potential for mobilizing financial and nonfinancial resources to tackle so-called wicked problems and drive positive, systems change. However, it is not a panacea. To realize its full impact, catalytic capital requires concomitant structural reforms within the international development architecture as well as a rethinking of the role and nature of impact finance in a world of "permacrisis."

We find ourselves in an era of radical transformation, where the tectonic plates of an eighty-year-old world order are shifting. The advent of artificial intelligence – set to become as prevalent as electricity[1] – coupled with shifting geopolitical dynamics has brought us to a "boiling frog" moment: one in which the sheer gravity, speed, and magnitude of these changes are difficult to fully comprehend in real time. Yet, the juxtaposition of the inspiring opportunities championed in this compendium and the stark realities of cuts in development funding, democratic institutions under threat, and a simmering risk of global conflict compels us to try.

As our manuscript moved into production, we engaged with additional voices across the impact space to gain fresh perspectives on the challenges ahead, given the ever-evolving global landscape. We sought to test the resilience of our hypothesis on catalytic

[1] Andrew Ng, "What AI Can and Can't Do Right Now," *Harvard Business Review*, November 9, 2016, https://hbr.org/2016/11/what-artificial-intelligence-can-and-cant-do-right-now.



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capital's potential and assess whether additional parameters must be considered for it to achieve its full promise. These insights shape our final reflections, offering a clearer path for how catalytic capital and the philanthropic sector can enhance their efforts and foster a more resilient future.

## INSTITUTIONAL REALIGNMENT

The global order that has underpinned international finance, diplomacy, and development for decades is fracturing. A new era of geopolitical realignment, characterized by revised multilateralism, has ushered in a period of deep geopolitical realignment, evolving global alliances, and more transactional, interest-driven foreign policy. These disruptions have created new levels of uncertainty that require a rethinking of long-standing commitments to multilateral cooperation and trade agreements. Meanwhile, climate risks intensify, inequality widens, and financial volatility spreads, placing further strain on institutions already grappling with underfunding, restructuring, or evolving mandates.

This evolving global landscape demands a fundamental rethinking of how capital is mobilized, who holds financial power, and which institutions will drive the transition toward a sustainable and equitable economy. With traditional development models in decline, there is growing pressure for alternative capital sources to fill the void. Catalytic capital – long positioned as a complement to state-led finance – now has an opportunity to take on a leadership role.

## ADDRESSING SYSTEMIC RISKS: DISCOUNTED CASH FLOW AND SHORT-TERMISM

Within this context, risk is a key parameter. This compendium has demonstrated that philanthropy has the capacity to de-risk investments to enable systemic interventions and offset negative externalities. Yet, this potential remains underleveraged, often overlooked by philanthropists themselves, as well as by other actors in development finance and impact investing.

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This challenge is further exacerbated by one of the fundamental limitations of financial markets: the difficulty in fully internalizing externalities such as climate change, inequality, and biodiversity loss. Traditional investment models prioritize short-term financial returns over long-term resilience, at times reinforcing systemic risks rather than addressing them. Market incentives, driven by quarterly earnings cycles, defy long-term investment in sustainable solutions. If the broader financial system does not account for negative externalities, then catalytic capital's role in mitigating them is severely constrained, rendering its potential impact marginal rather than transformative.

The concept of discounted cash flow (DCF), which discounts future cash flows to their present value based on the time value of money, is a case in point. Investments with longer payback periods – such as sustainable infrastructure or climate adaptation – may appear financially less attractive. DCF models also assume perpetual growth and are rarely calibrated for systemic risks such as climate disasters and economic inequality – an approach that "discounts future generations and ignores planetary boundaries."[2] Given these limitations, alternative valuation frameworks that integrate social returns and sustainability metrics need to be developed to help mitigate the short-term bias inherent in traditional financial models.

## VALUING AND PRICING IMPACT

Long-term incentives also play a crucial role in shaping the mix of investors and, consequently, the opportunities for partnership. The sheer diversity of funding sources captured by catalytic capital means that not all "impact investors" are equal. While many investors espouse a commitment to socioeconomic value creation, their

[2] This was a comment made and elaborated on by Steve Waygood, Chief Responsible Investment Officer at Aviva Investors, speaking at the OECD's CoP-Private Finance for Sustainable Development (PF4SD) conference held on February 4–5.

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intrinsic priorities vary: some place financial performance above social impact. As Chris West, board member of Impact Europe, argues,

> *Blended capital structures often devolve into short-term projects driven by financial returns rather than systemic solutions. The most critical layer of capital—risk-bearing philanthropy—is scarce, as many philanthropists avoid subsidizing others' returns, disengage quickly, or fail to ensure impact is valued alongside financial performance. Until we value and price 'impact', blended capital will remain financially driven, prone to 'impact washing', and neglectful of the essential role of intermediaries, which are too often dismissed as mere costs.*
>
> *(Chris West, Personal communication, March 21, 2025)*

Unlike environmental, social, and governance frameworks (themselves under threat due to growing aversion to inclusivity metrics), which primarily seek to mitigate negative externalities, impact investing faces challenges in consistently quantifying and standardizing the measurement of positive public benefits. While frameworks such as Impact-Weighted Accounts, Social Return on Investment, and IRIS+ have been developed, their adoption and application remain inconsistent, leading to concerns over transparency and accountability. As a result, financial returns often remain the dominant measure of success, reinforcing a system where capital flows toward profit-maximizing ventures rather than transformative social or environmental initiatives.

As the chapters in this book illustrate, public–private–philanthropic partnerships hold great promise in this respect, but they too are not infallible. Recognizing the critical role of governments in maintaining essential public services such as health care, education, and agriculture is essential. While impact investing can complement and catalyze public funding, philanthropy cannot be expected to fill these gaps indefinitely. Strengthening existing accountability frameworks – such as voluntary codes of conduct where investors publicly

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disclose how they address financial and impact shortfalls[3] – can help ensure that catalytic capital fulfills its intended purpose rather than merely subsidizing private-sector returns.

## DEVELOPMENT FINANCE UNDER STRAIN

In parallel with these opportunities, the traditional development finance model is under strain. Designed to mobilize public and private capital for long-term global prosperity, this construct is now challenged by geopolitical fragmentation, rising debt in developing economies, and declining donor commitment to multilateral cooperation.

The increasing dominance of short-term private capital (driven in part driven by AI, itself set to reach human-level performance across a very wide range of tasks within the next three years),[4] coupled with fiscal constraints in donor nations, has also made it harder to fund sustainable development. The urgency of climate finance has exposed the inefficiencies of existing mechanisms, which struggle to mobilize the trillions needed to meet the Sustainable Development Goals. Meanwhile, populist pressures in donor countries are reducing political support for foreign aid and climate finance, and traditional debt-based financing approaches are becoming less viable. Development finance institutions are at a crossroads.

Changes in multilateral engagement among major economies exacerbate these complexities. As key financial contributors and architects of global financial institutions, major powers have historically played central roles in stabilizing global capital flows, funding development projects, and supporting international governance. As new geopolitical dynamics emerge, they unleash new variables in terms of capital flows and institutional engagements. These shifts influence multilateral institutions like the World Bank and the

[3] Frameworks such as the Global Impact Investing Network IRIS+ system and the Impact Principles of the International Finance Corporation provide standardized metrics for measuring social and environmental outcomes.

[4] Mustafa Suleyman, *The Coming Wave: Technology, Power, and the Twenty-first Century's Greatest Dilemma*. Crown, 2023.

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International Monetary Fund, presenting both challenges and opportunities for their responsiveness to crises in emerging economies.

Adding to these challenges is the geopolitical fragmentation of global finance, fueled by rising trade protectionism, fractured supply chains, and the expansion of alternative financial centers. The rise of China's Belt and Road Initiative and Persian Gulf–led sovereign wealth funds has redirected capital flows toward state-driven investment models, often aligned with geopolitical interests. While some of these initiatives include sustainability-oriented projects, their long-term impact, transparency, and alignment with global development goals remain uncertain.

Many nongovernmental organizations have openly admitted they are "panicking" as they struggle with sudden funding cuts and the urgent need to transition toward investment-based models. While this shift has heightened the importance of blended capital, a critical challenge remains: the need for more expertise in structuring and scaling these models effectively. While public–private–philanthropic partnerships could help bridge this gap by developing standardized templates, alone they are not a silver bullet, since they still require greater financial commitment from the private sector to compensate for the diminishing role of traditional multilateral finance.

## THE ROLE OF PHILANTHROPY IN RESHAPING INCENTIVES AND MARKET-MAKING

Philanthropic foundations themselves can do much more to lead the way. They are estimated to control at least $1.5 trillion in endowments, yet the vast majority – with some notable exceptions – remain untapped for impact investing. While foundation spending requirements ensure some capital is deployed annually, only a fraction is invested in catalytic finance. For philanthropy to realize its full potential, it must go beyond merely de-risking private investments and actively shape markets.

Most foundations primarily deploy funding from their balance sheets, with the vast majority held in endowments focused on

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achieving predefined financial returns to ensure growth. This conservative approach is largely shaped by governance structures where trustees tend to be risk-averse – whether by hesitating to deploy balance sheet funds or outright avoiding the deployment of endowments.

To truly unlock the potential of philanthropy, we must rethink governance and embrace catalytic capital as a strategic tool that adapts to the world's urgent need for creativity and calculated risk-taking. Shifting toward more mission-related investments from endowments and increased program-related investments from balance sheets could be a good starting point allowing organizations to operate with an outcomes-driven framework while ensuring philanthropic capital remains both protected and proactive.

Emerging philanthropic entities in the Global South, fueled by intergenerational wealth transfer, can leapfrog historical trends and take a leading role in this transformation if they invest in institutional capacity and work systematically in a collaborative way. This potential has not gone unrecognized. International development institutions are increasingly understanding that partnering with philanthropic entities needs to go beyond traditional funding solicitations. The Guiding Principles for Financing Climate and Health Solutions, launched by the COP28 Presidency in collaboration with the Green Climate Fund, The Rockefeller Foundation, and the World Health Organization, exemplifies the creation of collaborative structures where philanthropy plays a key protagonist role rather than a "walk-on" part.

Meanwhile, institutional investors must recognize that ignoring systemic risks leads to financial instability. The principle of universal ownership – which asserts that large asset holders cannot insulate themselves from the negative externalities of their investments – must be embedded into mainstream financial decision-making. If major investors fail to internalize these risks, the structural integrity of the global financial system remains vulnerable.

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A critical aspect of enabling catalytic capital to reach its full potential involves financial regulators allowing investments de-risked by philanthropy, such as the senior tranche in a blended capital structure, to be made accessible to retail investors. Currently, their involvement is limited to disclosure guidelines, and regulatory reforms need to be accelerated. Financial services firms possess the liquidity and resources to make a difference but require a green light on distribution. Importantly, this access need not be confined to funds alone: other innovative structures can also be explored.

A hub-and-spoke model for impact investment – where centralized governance structures coordinate common investment products across geographically dispersed markets – could enhance scalability, efficiency, and local expertise. By standardizing investment frameworks and aligning incentives across investors, intermediaries, and local actors, this model could help mobilize more capital while ensuring that local expertise informs global financing decisions. However, for such a system to be effective, it must complement existing impact investment networks and regulatory environments.

## FAMILY OFFICES: EMERGING PROTAGONISTS IN THE CATALYTIC CAPITAL LANDSCAPE

Within this context, family offices are emerging as significant providers of catalytic capital. With global wealth transfer accelerating – an estimated $60–80 trillion moving to next-generation wealth holders by 2030[5] – these private investment structures represent a growing pool of capital that operates with different constraints and motivations than institutional investors or traditional foundations.

[5] Forbes. (2023, August 9). *The Great Wealth Transfer from Baby Boomers to Millennials Will Impact the Job Market and Economy*, www.forbes.com/sites/jackkelly/2023/08/09/the-great-wealth-transfer-from-baby-boomers-to-millennials-will-impact-the-job-market-and-economy; Community Foundation of Anne Arundel County. (2024, March 22). *The Great Wealth Transfer: Millennials, Be Prepared*, https://cfaac.org/archives/the-great-wealth-transfer-millennials-be-prepared.

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Family offices possess distinct advantages: unlike publicly traded companies or investment funds driven by quarterly returns, they can adopt truly patient capital approaches, sometimes spanning generational timeframes. This extended investment horizon aligns precisely with the long gestation periods required for systemic change initiatives.

Many family offices, particularly those led by next-generation wealth holders, integrate values-driven mandates that transcend purely financial metrics. This values alignment creates natural affinity with the objectives of catalytic capital, allowing family offices to balance financial sustainability with meaningful impact in ways that more constrained investors cannot.

The operational flexibility of family offices also positions them uniquely in blended finance structures. Unburdened by many of the regulatory constraints facing larger institutions, they can deploy capital across the spectrum – from grants to equity – and pioneer innovative financing vehicles that bridge traditional investment and philanthropy. Their ability to take calculated risks on unproven but promising approaches makes them ideal partners in early-stage market creation.

## THE ROLE OF INSURANCE IN CATALYTIC FINANCE: BRIDGING RISK IN AN AMORAL MARKET

Insurance-backed financial instruments could also be a game-changer in this transition by providing mechanisms to de-risk impact investments, lower capital costs, and attract institutional capital at scale. If properly integrated, insurance underwriting could reduce or even replace the first-loss grant layer commonly used in blended capital structures. This approach would not simply subsidize profit-making ventures but rather enable more catalytic capital to flow toward high-impact initiatives designed to address systemic challenges and generate public goods. By facilitating the establishment of credit ratings for high-impact projects, these mechanisms could unlock significant capital currently inaccessible to sectors most in need of investment.

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As Geoff Burnand, Founder and Chief Investment Officer of Investing for Good, a UK-based impact investing and blended finance specialist, argues,

> The insurance market's potential to revolutionize impact investing remains vastly underexploited. Expanding underwriting mechanisms could systematically de-risk investments, reduce capital costs, and replace dependency on first-loss grants by enabling credit ratings that unlock vast, untapped capital. Philanthropy can play a catalytic role by funding premiums to enhance accessibility, while DFIs must expand their underwriting expertise beyond climate finance to address critical social challenges.
>
> *(Geoff Burnard, Personal communication, March 24, 2025)*

Development finance institutions should actively share their underwriting expertise, particularly where it has been successfully applied in climate finance, to broaden the scope to include social-purpose initiatives, thereby enhancing the overall catalytic potential of these financial instruments. These instruments have already proven effective in climate finance, particularly through insurance for disaster recovery, catastrophe bonds and resilience bonds, and microinsurance models for underserved communities.

However, their wider application in impact investing – particularly in social sectors – remains limited. One of the key barriers to scaling catalytic capital is the lack of mechanisms to secure credit ratings, preventing institutional capital from flowing into high-impact but high-risk sectors. If insurance underwriting were more widely integrated into impact finance, it could help bridge this gap, unlocking institutional capital at the scale necessary.

## THE RISE OF INVESTMENT VOLATILITY

Despite years of effort to mobilize private finance, institutional investors remain hesitant to engage in emerging markets at scale, leaving a critical gap in sustainable development finance. Regulatory

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frameworks such as Basel III, Solvency II, and SFDR impose capital requirements and compliance burdens that make long-term, high-impact investments more costly and less attractive for mainstream financial institutions. At the same time, blended finance has yet to deliver on its promise with only marginal ODA allocations toward catalytic investments, highlighting the difficulty in transitioning concessional capital into sustainable market-driven investments.

Compounding this challenge is rising macroeconomic and geopolitical volatility, which has further deterred private capital flows into high-risk, high-impact sectors. Global finance is becoming more fragmented, with economic nationalism, trade protectionism, and shifting capital alliances increasing uncertainty for investors. Institutional investors already perceive emerging markets as volatile, and the growing divergence in capital flows – driven by competing economic blocs and alternative financial centers – has made long-term commitments more complex than ever. Without a fundamental restructuring of financial incentives and stronger global cooperation, catalytic capital alone cannot fill this widening gap.

## LEADERSHIP IN CRISIS

Shifts in foreign aid policy and global funding disruptions underscore the critical need for strong, adaptive leadership as organizations grapple with reduced financial support, operational uncertainty, and an urgent need to restructure funding strategies. In this landscape, catalytic capital has become more essential than ever, not just as a financial tool but as a governance and leadership strategy for resilience.

For catalytic capital to drive meaningful change, financial leaders must embrace innovative governance models that embed impact into financial decision-making. Historically, catalytic finance has been used to de-risk private investment, but that alone is no longer sufficient. Leaders in philanthropy and impact investing must rethink how this capital is deployed, ensuring it is used not just to

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mitigate financial losses but to fundamentally reshape investment structures and long-term sustainability models.

As organizations adapt to evolving realities, leadership must develop beyond responsive management and focus on systemic transformation. This means redefining investment and financial governance models that prioritize resilience over dependence on fluctuating funding sources. It will also require building diversified funding strategies, incorporating local resource mobilization, sustainable revenue models, and blended finance structures. Advancing strategic risk-taking and ensuring that impact-driven organizations can navigate financial shifts without compromising long-term objectives will be a substantive challenge for sector leaders.

It also creates an opportunity to challenge outdated aid paradigms and advocate for community-led development approaches that prioritize long-term capacity-building over short-term relief. Leaders who embrace bold, forward-thinking financial strategies will be best positioned to drive the next era of sustainable impact finance.

## A NEW POLICY ARCHITECTURE: THE URGENCY OF SYSTEMIC CHANGE

At three degrees of global warming, the world risks becoming unbankable and uninsurable, with money ceasing to function as a reliable store of value. This is not a distant scenario – it is the inevitable trajectory of a financial system that continues to misprice risk, ignore externalities, and prioritize short-term returns over long-term survival. Yet, global financial regulation remains inert, failing to incorporate the largest systemic threat in human history into capital flows, risk models, and market structures.

The real crisis is not capital scarcity – it is the failure to allocate capital where it is needed most. Credit rating agencies still assess sovereign and corporate creditworthiness based on outdated models that ignore long-term climate and social risks. Financial regulators continue to focus on disclosure rather than transformation, leaving

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trillions of dollars trapped in legacy investment models that exacerbate the climate crisis rather than mitigate it.

A new coalition must emerge – not one that waits for political consensus, but one that builds financial systems fit for a world that no longer has time for incremental change. Philanthropy, institutional investors, development banks, and financial regulators must recognize that markets will not self-correct. The challenge is not whether catalytic finance should step up, but how it will do so with the speed, scale, and ambition required.

If catalytic capital remains confined to de-risking private investors, concessional finance, and first-loss structures, it will fail. If philanthropy continues to operate within short-term grant cycles, it will fail. If development banks refuse to take on greater financial risk, they will fail. This is not just a crisis of investment – it is a crisis of imagination. But if these actors collectively embrace risk, actively shape markets, and start to value, price, and trade impact, thereby redefining capital flows, then catalytic finance will not only survive this fractured world – it will help rebuild it.

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