MAKING CATALYTIC CAPITAL COUNT

Exploring Intermediary Additionality in Agri-SME Finance

Developed by
Agri-SME Learning Collective (ASLC)

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EXECUTIVE SUMMARY

Agricultural small- and medium-sized enterprises (agri-SMEs) are central to food systems, rural employment, and climate resilience, yet conventional finance often fails to serve them well given seasonal cash flows, limited collateral, and the high cost of underwriting smaller, rural businesses. Catalytic capital — *capital that accepts higher risk or lower return to generate positive impact that otherwise would not be possible* — helps close this gap, but it remains scarce and is too often deployed without clarity on where it is needed most. This report focuses on one piece of that puzzle: how the intermediaries that channel catalytic capital to agri-SMEs define, measure, and report on their additionality at the SME level.

Additionality matters because it is what justifies the use of catalytic capital, particularly capital drawn from public sources, as Section 2 explores in greater depth. Understanding additionality is also essential context for interpreting impact, and as a safeguard against catalytic capital displacing or distorting local capital markets.

Drawing on interviews with nine intermediaries that received first-loss and other forms of catalytic capital, this report examines how additionality is defined, assessed, and resourced in practice. Section 3 presents five key findings: (1) There are many ways to be additional, and additionality should not be treated as comparable across fundamentally different strategies. (2) Practices for assessing additionality vary just as widely, from simple binary determinations to formal scoring frameworks tied to portfolio-level targets. (3) Accountability around SME-level additionality remains underdeveloped: donor and investor engagement on the topic is minimal, and only a small share of intermediaries report on additionality formally. (4) Delivering additionality carries real costs covered through first-loss capital, above-market management fees, technical assistance (TA) facilities, embedded advisory services, or partnerships that are rarely made visible to capital providers. (5) The relationship between capital mobilization and additionality is complicated and should be considered separately.

Section 4 translates these findings into a shared call to action for greater clarity, transparency, and accountability. Donors and investors should define the types of additionality they want their capital to support, build accountability into due diligence and reporting, and avoid treating capital mobilization as a proxy for additionality. Intermediaries should clearly articulate, and where appropriate, measure and report on their additionality, and be transparent about its costs. Ecosystem builders can help by building shared data on additionality and its costs, and by creating space for intermediaries to compare approaches and share lessons learned.

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1 / INTRODUCTION

Overview

Agricultural small- and medium-sized enterprises (agri-SMEs) are essential to food systems, rural employment, and climate resilience. They connect smallholder farmers to markets, create jobs for rural workers, and help deliver food and agricultural products to consumers. To grow and generate positive impact in these areas, they require reliable access to capital. Yet commercial finance often does not adequately serve agri-SMEs because of risk-return barriers, including seasonal cash flows, limited collateral, climate and commodity price volatility, the time and cost required to underwrite and monitor enterprises in remote rural areas, and the high transaction costs of serving smaller or less formal enterprises.

Catalytic capital — *capital that accepts higher risk or lower return to achieve positive impact that otherwise would not be possible* — is both scarce and vital in the agri-SME context. It helps address financing gaps in underserved markets, particularly where commercial capital is limited by perceived and real risks or market failures. However, the limited catalytic capital available for agriculture and agri-SME finance is too often deployed without sufficient clarity on where it is most needed, what it should enable, and how its effectiveness should be assessed. This creates a real risk for scarce catalytic capital to be used suboptimally, rather than directed toward the enterprises, market gaps, and financing structures where it can be most additional.

When well-designed and strategically applied, catalytic capital enables investors to reach underserved segments, improve the terms and types of finance available to agri-SMEs, and mobilize additional private investment where appropriate. It has the potential to unlock critical financing that drives inclusive and sustainable development. However, realizing this potential requires better decision-relevant information to guide capital providers on how much catalytic capital to deploy, when to do so, where it is most needed, and how it can be used most effectively.

As part of the Catalytic Capital Framework, the Agri-SME Learning Collective (ASLC) is generating evidence and practical insights to help capital providers and practitioners make more informed decisions about the use of catalytic capital in agri-SME finance. In 2024, the ASLC, a network of 23 organizations including impact investors, donors, intermediaries, researchers, and networks of practitioner organizations, developed a preliminary version of the Catalytic Capital Framework. The framework aims to unpack the many considerations that can inform how catalytic capital can be optimally deployed. To further advance the framework, the Global Donor Platform for Rural Development's (GDPRD) Thematic Working Group on Sustainable/Blended Finance for Food Systems partnered with the ASLC in 2025 to conduct an initial pilot test with a set of donors and intermediaries. The results of this pilot are summarized in the following section, *Evolving the Catalytic Capital Framework*.

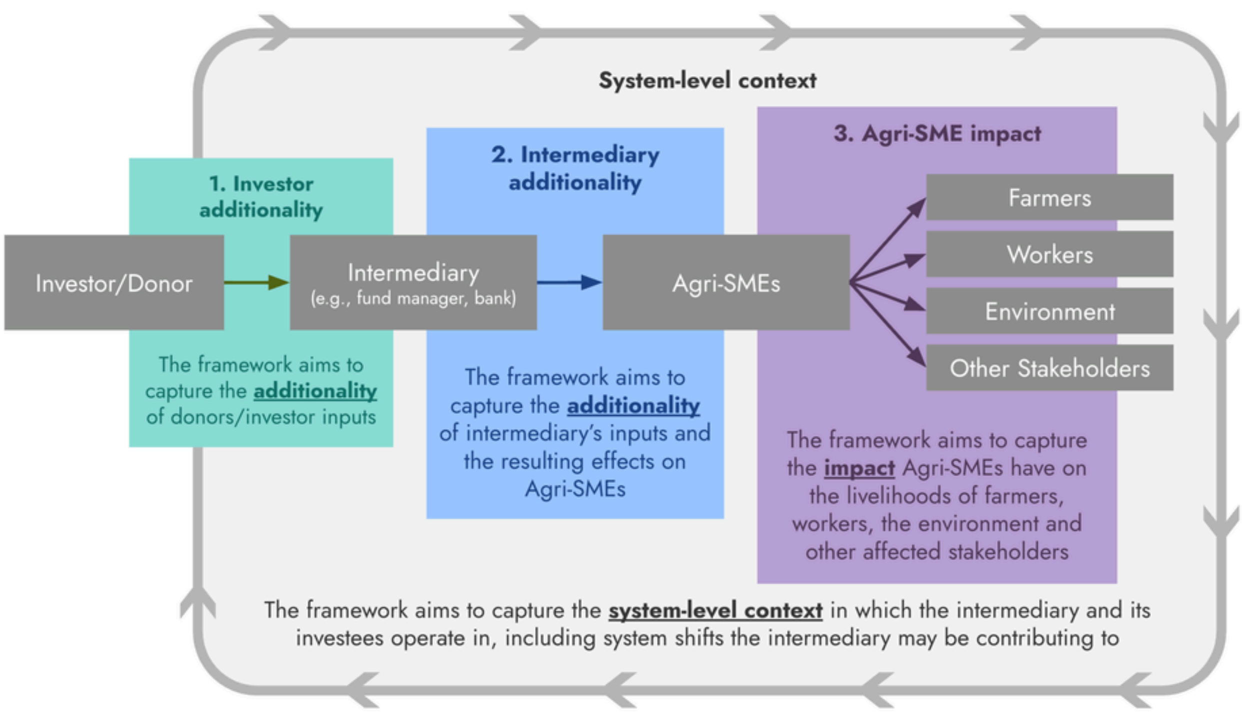
This report makes the case that intermediary additionality should be central to how catalytic capital is designed, allocated, and assessed in agri-SME finance. Given the persistent financing gaps faced by agri-SMEs, the report examines how intermediary additionality is currently defined, measured, managed, reported, and supported. In doing so, it offers a practical call to action for donors, investors, other capital providers, intermediaries, and ecosystem builders to bring greater clarity, intentionality, and discipline to the deployment of catalytic capital.

Evolving the Catalytic Capital Framework

The goal of catalytic capital is to "generate *positive impact* and enable *third-party investment* that otherwise would not be possible."[1] To better understand the need for and effects of catalytic capital, it can be helpful to examine where this positive impact and investment can occur along the agri-SME finance chain. Typically, donors, investors, and other capital providers provide capital to intermediaries (e.g., fund managers, financial institutions), who then provide capital (and support) to agri-SMEs — enterprises that in turn have effects on the livelihoods of farmers, workers, communities, and the environment. The relationship between each element of the agri-SME finance chain plays an important role in determining the necessity, type, and amount of catalytic capital that is needed.

The Catalytic Capital Framework that was pilot-tested in 2025 covered four related areas of the agri-SME finance chain: (1) investor additionality, (2) intermediary additionality, (3) agri-SME impact, and (4) system-level context, described in Figure 1 below.

Figure 1: Agri-SME finance chain with Catalytic Capital Framework overlays



[1] Catalytic Capital Consortium, "Catalytic Capital at Work," March 2019.

Pilot testing the Catalytic Capital Framework with GDPRD confirmed the value of a structured framework to support donors, intermediaries, and practitioners in considering the many factors related to catalytic capital across the agri-SME finance chain. It also generated several important findings that helped shape the subsequent phase of work:

- **Different prioritization of impact and additionality factors:** Donors apply different strategies to catalyze additional capital and impact across diverse geographies, delivery models, sectors, and target beneficiaries. These differences reflect donor-specific mandates, experience, and strategic preferences, which are often not clear to the intermediaries they invest in.
- **Varying approaches to assessing additionality:** Donors assess their own additionality at the intermediary level using factors such as funding alternatives, expected private capital mobilization, leverage ratios, geography, and risk profile. Yet, the depth and rigor of these assessments vary considerably. Additionally, this assessment of additionality is almost exclusively focused on the relationship between the donor and intermediary and not between the intermediary and SME.
- **Different intermediary-level practices:** Intermediaries also have varying approaches to how they assess, measure, and report on SME-level impact and additionality. These variations appear to be reflective of differences in strategy, resources, understanding of best practices, and investor expectations/requirements.
- **Limited consistency in definitions and calculations:** The pilot found limited consistency in the definitions, methodologies, and calculations used to measure impact and additionality, particularly for leverage ratios, private capital mobilization, and market ecosystem change.
- **Lack of agreement on how certain factors relate to impact and additionality:** While common themes emerged across donors and intermediaries, there is not yet a shared understanding of how factors should be interpreted or weighted within a common framework. For example, does a higher leverage ratio equate to more or less additionality?

These findings pointed to the need to examine specific elements of the framework separately, and in greater depth, to better understand their complexity and relation to catalytic capital needs. In Q4 2025, the ASLC partnered with one of its members, Financing for Agri-SMEs in Africa (FASA), to further advance this work. FASA is a fund-of-funds providing catalytic capital and technical assistance to investment funds with the goal of unlocking financing for agri-SMEs across Africa. As a supporting partner in this project, FASA brought its practical experience and an external learning agenda, creating a useful opportunity to further inform the development of the Catalytic Capital Framework.

This subsequent phase of work narrowed the focus to additionality between intermediaries and agri-SMEs for two reasons: first, the direct relationship between additionality at the SME level and the need for catalytic capital, particularly where conventional financing is insufficient or unavailable; and second, the significant variation in how additionality at the intermediary level is defined, measured, and reported that became evident during the pilot. The approach to this research is described further in Section 3.

2 / ADDITIONALITY AND ITS IMPORTANCE

What is additionality and where does it occur?

Additionality refers to providing inputs that lead to effects which would not have occurred otherwise.[2] In the context of impact investing, these inputs can be provided in order to make the investment happen, make it happen materially faster than it would otherwise, or improve other aspects of its development impact.

Additionality is typically broken down into financial additionality and non-financial additionality, aligned with the types of inputs/actions outlined below.

Types of investor inputs[3]

Financial (e.g., types of capital provided, terms, structuring, duration, risk-tolerance)

Non-financial (e.g., governance participation, capability building, technical assistance, stewardship, policy engagement)

The Catalytic Capital Framework focuses on additionality at two points along the agri-SME finance chain (see Figure 1): 1) between a donor/investor and an intermediary; and 2) between an intermediary and SMEs.[4] **This paper focuses specifically on the latter: additionality between intermediaries and SMEs.**

[2] Winckler Andersen, O., H. Hansen and J. Rand (2021), "Evaluating financial and development additionality in blended finance operations", OECD Development Co-operation Working Papers, No. 91.
[3] Impact Frontiers, Impact Performance Reporting Norms, which build off of the Multilateral Development Banks Harmonized Framework for Additionality in Private Sector Operations and other frameworks.
[4] Note that additionality can also happen at a systems level, but is not a focus of the Catalytic Capital Framework at this stage.

Challenges in definitions. One of the central challenges in understanding additionality is the variation in definitions and interpretations across the impact investing industry. At the conceptual level, some organizations focus only on inputs that an investor provides relative to what is otherwise available, while others take a broader view, examining what those inputs enable and how outcomes compare to what would have happened without them.

Layered on top of this conceptual variation is terminological inconsistency. Some organizations use "Investor Contribution" and "Additionality" interchangeably, while others treat them as distinct concepts. Several initiatives, including the work being done by Impact Frontiers, are striving to build consensus around these definitions. This paper does not seek to resolve these challenges; instead, it explores the different approaches intermediaries are using to define, measure, and report on additionality at the SME level.

The importance of additionality becomes clearer when set against how intermediaries typically report their impact. A typical impact report in the agri-finance space might highlight aggregate numbers such as the number of smallholder farmers reached, the proportion of women served, or the volume of capital deployed to agri-SMEs. Some organizations go further and track changes over the course of an investment, such as job growth within SMEs or increases in smallholder farmer income. Yet these results on their own do not tell the full story — would these same results have occurred without the intermediaries' inputs?

Examining additionality means asking questions such as:[5]

- What inputs did the intermediary provide?
- How did these inputs compare to what was otherwise available?
- What did these inputs enable?

Table 1 provides tangible examples of financial and non-financial inputs from intermediaries to SMEs, how these compare to available alternatives, and what these inputs enable. Appendix A includes a parallel table covering inputs from investors to intermediaries.

[5] Note that depending on how an intermediary organization defines additionality, it may also examine what likely would have happened without the investor's inputs.

Table 1: Examples of intermediaries providing financial and non-financial inputs to SMEs

Type of input	Example investment	Alternatives available	What the input enables
Financial inputs			
Type of capital	An intermediary provides revenue-based financing to an SME.	The SME is too small to take on traditional debt and too early for equity. No other options are available.	Enables the SME to access growth capital aligned with its cash flows.
Repayment terms	An intermediary provides an SME a loan with a 2-year grace period.	All other options available require immediate payments.	Enables the SME to invest in growth (e.g., equipment, hiring) and stabilize operations before repayment begins.
Risk tolerance	An intermediary provides CAPEX loans to SMEs without required collateral.	All other financing options require first-ranking collateral, which the SME does not have.	Enables the SME to acquire productive assets while leaving collateral available to leverage commercial working capital.
Non-financial inputs			
Technical assistance	As part of its investment, an intermediary provides business development services to help an SME digitize its accounting systems and strengthen financial management.	Comparable support would need to be purchased directly by the SME, which lacks the resources and networks to do so.	Enables the SME to improve financial reporting and investment readiness, increasing its ability to access and manage future financing.

Why does additionality matter for catalytic capital?

For the purposes of this paper, catalytic capital is defined as capital that accepts higher risk and/or lower return to generate positive impact that otherwise would not be possible.[6] The phrase *otherwise would not be possible* is what connects catalytic capital directly to additionality (which refers to the resulting effects of inputs that *would not have occurred otherwise*).

Investments with greater additionality tend to have characteristics that other investors (typically commercial investors) shy away from, such as higher perceived or real risks, lower or uncertain returns, longer time horizons, and/or limited track records or market infrastructure. Catalytic capital helps bridge this gap by absorbing risk (e.g., first-loss), accepting lower returns, and/or covering the cost of non-financial inputs (e.g., governance participation, capacity building).

Because catalytic capital is anchored in its ability to enable outcomes that would not otherwise occur, additionality is central to how catalytic capital should be understood, allocated, and assessed.

Publicly subsidized capital comes with additionality, transparency, and reporting obligations. For intermediaries accessing catalytic capital from public institutions — e.g., development finance institutions (DFIs), multilateral development banks (MDBs), or donor agencies — demonstrating additionality is not optional. Public capital comes with an expectation that it be deployed only where it fills gaps that commercial capital cannot or will not fill. This additionality should be demonstrated at both points along the agri-SME finance chain: between a donor/investor and intermediary, and between an intermediary and SMEs (see Figure 1).

Why is additionality important to agri-SME investing?

Making finance markets work better for agri-SMEs requires patient, tailored capital alongside a broader ecosystem of support including technical assistance, risk-sharing mechanisms, market infrastructure, and enabling policies that current financing models and market conditions do not provide. Agri-SMEs operate within market conditions that conventional capital is poorly suited to serve. While commercial capital may be available, it is often structured in ways that do not meet the needs of SMEs working in smallholder value chains, which face seasonal cash flows, climate and commodity price volatility, limited collateral, fragmented supply chains, and thin margins.

As a result, agri-SMEs require financing structures that differ from standard commercial products including longer tenors, grace periods, flexible repayment profiles, smaller ticket sizes, and combinations of debt, equity, and quasi-equity. Many also require business

[6] Similar to definitions of additionality, the industry faces challenges with regards to inconsistent definitions for Catalytic Capital as highlighted in this SSIR article, May 2025.

development support to strengthen financial management, governance, and operational resilience. These characteristics increase transaction costs and complexity but do not generate proportionally higher returns.

As noted in the preceding section, catalytic capital helps bridge these gaps by absorbing risk, enabling more flexible financing structures, and supporting the additional costs associated with serving underserved markets. In doing so, it allows intermediaries to pursue investments and support models that would otherwise be difficult to sustain on purely commercial terms, while helping build more effective and inclusive markets that can serve agri-SMEs.

Relationship between additionality and displacement of private actors. Central to assessing additionality at the SME level is understanding how the inputs provided by an intermediary compare to what is otherwise available, including from local capital markets. It is *essential that catalytic capital not displace* commercial capital by subsidizing investments the market would finance independently, nor distort local markets in ways that undermine long-term development goals. Examining the specific reasons why an intermediary is additional — what it offers that others do not, and why those alternatives are insufficient — is an important safeguard against the inadvertent displacement of local market participants. Catalytic capital should complement and develop local markets rather than substitute for them.

3 / FINDINGS AND INSIGHTS

To build on the insights from the pilot phase of the Catalytic Capital Framework, we interviewed nine intermediaries (listed in Appendix C) that received first-loss and other forms of catalytic capital from donors and/or investors. Through these interviews, we explored how each intermediary defines and manages its additionality at the agri-SME level, including how it covers the associated costs. We also reviewed additionality documentation shared by participating intermediaries. Five key findings emerged. Each is described below, alongside why it matters, and informs Section 4: *Call to Action*.

Finding #1

There are many ways to be additional

The nine intermediaries we spoke to all allocated capital to agri-SMEs, but their strategies varied significantly. In addition to investing directly in agri-SMEs, some invested in financial intermediaries serving agri-SMEs, while others dedicated portions of their portfolios to non-agri-SME investments. Investment approaches also differed across geographies and capital structures, with some operating closed-end funds and others using open-ended structures. Ticket sizes ranged widely, from $10,000 to $12 million, and there was considerable variation in both tenor and the types of instruments used. Target returns spanned from below-market to market-rate. These differences in investment strategy translate directly into differences in additionality.

All intermediaries we spoke to were able to identify and describe what they viewed as their financial and non-financial additionality. Several noted that their additionality varied for each investment, but all were able to identify one or two primary aspects of their investment approach that anchored their financial additionality. For example, Acumen Resilient Agriculture Fund (ARAF) noted that the **structure of its investments** is a large part of its additionality. One type of product it offers is self-liquidating loans, which offer a preferred structure for many agri-SMEs that is not available through traditional loans.

Others, like AgDevCo, noted that the **longer tenor** (often in the 3-8 year range) of its lending was a key aspect of its additionality. Longer tenors are designed to match the cash flow realities of agricultural investments, and are significantly longer than commercial options. Kampani focuses its additionality on the **required conditions** for investment, by providing long-term unsecured loans (without collateral). IDH's Farmfit Fund can take the **highest risk position** (e.g., first-loss) in transactions, enabling other lenders to participate that would not have participated otherwise. Balloon Ventures noted that its financial additionality lies in **bigger loans** (3x what banks will offer to similar clients) with **shorter turnaround time** (10 days, compared to 60 days at a bank).

All intermediaries articulated their non-financial additionality through both investment management activities and capacity building activities funded through technical assistance facilities. These activities varied between intermediaries by type and significance of inputs provided, but broadly covered support including general advisory services, ESG trainings, investment readiness, governance and management support, network access and market linkages, and digitalization of operations.

Why this finding matters

The range of additionality approaches reflects a genuine diversity of market gaps. This diversity is a feature of the agri-SME financing landscape, not a flaw, but it has important consequences for how catalytic capital is allocated. Treating additionality as comparable across fundamentally different strategies could lead to systematic misallocation of capital. As an important first step in matching catalytic capital needs with supply, it is essential that donors and investors define the specific types of SME additionality they want their capital to support, and that intermediaries clearly articulate how and why they are additional. See *Call to Action: Donors and Intermediaries* in Section 4.

Two investments with different additionality rationale

Investment A is a $30,000 unsecured working capital loan to a first-time borrower, a women-owned maize processor in a rural area. No commercial bank in the area offers uncollateralized loans at this ticket size. Without this loan, the SME would not have any access to formal financing.

Investment B is a $2 million loan to an established agri-SME that aggregates crops from hundreds of smallholder farmers. Commercial banks will lend to this business, but only at short tenors that do not match its seasonal cash flows. This intermediary provides a 7-year loan with a flexible repayment structure, terms and conditions unavailable from any commercial lender in the market.

Both investments are additional, but for different reasons — one is defined by borrower profile and collateral requirements, the other by tenor and repayment structure. It is not yet possible to determine that one is more additional than the other. What matters is that each intermediary can clearly articulate why they are additional, and that donors understand and communicate which types of market gaps they want their catalytic capital to address.

Finding #2

Practices for determining and assessing additionality vary significantly

Building on Finding #1, just as there is no single way to be additional, there is no single way to determine and assess additionality. The majority of intermediaries we spoke to noted that additionality is primarily examined at the point of investment decision-making. Almost all have a **dedicated section in their investment memos** requiring an articulation of how the intermediary's financial and non-financial inputs are additional. This practice is aligned with Impact Measurement and Management (IMM) best practices as defined by the Operating Principles for Impact Management (OPIM) and other IMM-related standards.

Within the investment decision-making process, many intermediaries take a binary approach to assessing additionality, determining simply whether an investment is additional or not. IDH Farmfit Fund (FFF), for example, has clear **additionality criteria** that require evidence of how FFF's offer compares to alternative financing options available to the investee. For intermediaries like Kampani, whose strategy is focused exclusively on a clear market gap — small CAPEX loans to small SMEs without collateral requirements — additionality is embedded in the strategy itself, and is determined primarily at the strategy level rather than investment by investment.

Many of the intermediaries we spoke to were able to articulate what happened as a result of their non-financial inputs. For example, Nutritious Foods Financing Facility (N3F) described the support provided to a dairy company that resulted in **improving the nutritional value** of its products, including refining product formulas to preserve product sweetness while reducing sugar. Root Capital conducts regular surveys with advisory business clients to assess **improvements in knowledge and practices** following its non-financial support. They also conduct in-depth research studies to isolate the impact of Root Capital affiliation on business-level and landscape-level changes across an array of outcomes. Catalyst Fund pointed to its high Net Promoter Score (>95) as an **indication of the effectiveness of the support** it provides to venture companies.

Several intermediaries, however, recognize that additionality exists on a spectrum within their portfolios and have developed **frameworks that rate the level of additionality of each investment**. The approaches of these ratings frameworks vary: some score financial and non-financial additionality separately, while others combine them into a single score; some only assess additionality expectations ex-ante, while others also evaluate outcomes ex-post. MCE Social Capital, for example, is developing an **investor contribution and additionality scorecard that classifies investments** into one of four categories (catalytic, strategic, enabling, or supportive), drawing on an assessment of both financial and non-financial inputs, their expected results, and what actually happens.

AgDevCo's additionality framework similarly assesses both financial and non-financial additionality, producing a **score of 1-4 for each dimension**, with an overall score calculated as the average of the two. All of AgDevCo’s investments are scored ex-ante, and individual scores are aggregated and managed as one factor among many at the portfolio level.

A key aspect of AgDevCo's management of additionality is **portfolio-level additionality targets** which are set as a way to maintain a large proportion of investments that score high on their additionality framework.

Root Capital has a user-friendly decision tree that supports consistent assessment of financial additionality for each investment. This assessment feeds into an **aggregate score** called the Expected Impact Rating (EIR) which assesses both financial additionality and expected agri-SME impact, should Root Capital provide a loan to the enterprise. The EIR supports intentional portfolio development and provides a holistic view of the role of Root Capital's catalytic capital over a multi-year timeline. EIR scoring is conducted as part of the due diligence process. See Appendix B for more details on both AgDevCo's and Root Capital's additionality approaches.

Why this finding matters

The variation in how intermediaries assess additionality is not inherently problematic — different strategies warrant different approaches. However, what the field lacks is a shared expectation of additionality management practices and associated transparency. Intermediaries should (1) clearly define additionality in the context of their strategy, (2) disclose how they assess it, and (2) report what their assessments show. This matters not only for internal management, but also for accountability. Without consistent and transparent additionality assessment practices, donors, investors, and other capital providers have no reliable basis for asking meaningful questions about additionality performance. As Finding #3 shows, the absence of these practices is part of what has allowed additionality-related accountability to remain underdeveloped. See *Call to Action: Intermediaries and Donors* in Section 4.

Finding #3

Accountability around additionality remains underdeveloped

Despite the importance of additionality in justifying the use of catalytic capital, formal accountability mechanisms around it remain largely absent. Among the intermediaries we spoke to, donor/investor engagement on SME-level additionality was minimal. Several intermediaries noted they had **never been directly asked about SME-level additionality**, and others shared that it was only briefly discussed as part of a donor's/investor's due diligence. Where additionality does come up in donor and investor conversations, the focus tends to be on how the donor's/investor's capital would be additional at the intermediary level. For example, many intermediaries noted the interest from donors/investors in understanding how much additional capital an intermediary expects to mobilize based on a donor's/investor's catalytic capital investment, rather than on how the intermediary's investments are additional for the SMEs they serve.

This limited external emphasis on SME-level additionality is reflected in **nascent additionality-related reporting practices**. Only two intermediaries report on SME-level additionality at a portfolio level to investors (AgDevCo, Root Capital). Most intermediaries report on additionality indirectly, primarily through case studies that illustrate the relationship between their activities and outcomes for investees.

Additionality-related governance mechanisms are similarly underdeveloped. Very few intermediaries have formal structures in place to ensure ongoing alignment with their stated additionality objectives. AgDevCo was the only intermediary with agreed **portfolio-level targets** tied to additionality scores, having committed with donors that a certain portion of its portfolio must score a 3 or 4 (scores associated with higher additionality). IDH Farmfit Fund was an example of an intermediary that had embedded additionality accountability into its investment process through clear criteria, agreed upon with donors, that requires **evidence of additionality as a condition for investment**. It is worth noting that some intermediaries are proactively building internal systems in the absence of external requirements. MCE Social Capital, for example, is developing an **investor contribution and additionality scorecard** driven by internal conviction as a tool to manage progress and ensure alignment with its strategy.

Why this finding matters

Limited accountability around SME-level additionality is not a reflection of intermediary indifference. Intermediaries operating in this space are resource-constrained, and building robust additionality tracking systems requires time and capacity that must be weighed against many competing priorities. Therefore, this finding reflects a misalignment in how donors/investors engage with intermediaries. When donor/investor conversations focus on intermediary-level additionality while leaving SME-level additionality largely unexamined, there is less motivation for intermediaries to invest in this area.

Effective allocation of catalytic capital depends on understanding where and how it generates additionality at the SME level. Without that understanding, donors/investors cannot make informed decisions about which intermediary models to support, at what scale, or with what structure. Strengthening accountability will therefore require donors/investors to take a more active role, which can include asking questions about SME-level additionality during due diligence, embedding reporting expectations into investment agreements, and recognizing additionality management as an essential aspect of impact management. See *Call to Action: Donors* in Section 4.

Finding #4

Delivering additionality has real costs, which intermediaries cover in different ways

Additionality at the intermediary level comes with real costs[7], which can be supported through catalytic capital. These costs are worth unpacking. First, sourcing, screening, and executing "financially additional" transactions is resource-intensive. These deals are often difficult to identify and structure, which is why they are not easily financed by existing alternative capital sources. Second, managing investments that are financially additional and/or deliver non-financial additionality also requires resources. These activities typically go beyond what is provided by traditional investors that are not focused on additionality. These costs are further compounded by the fact that the smaller the intermediary, the fewer resources there are to cover fixed costs required for operations such as compliance, before even accounting for the additional costs outlined above.

Across the intermediaries we spoke to, these costs are supported by catalytic capital through a range of mechanisms:

- **First-loss capital:** Because intermediaries have to reach a certain size to cover costs, this form of catalytic capital is often critical in enabling intermediaries to achieve sustainable scale. All intermediaries we spoke to used some form of first-loss structure, allowing them to reduce real and perceived risk and attract additional capital at the intermediary level that would not have been invested without these first-loss protections. Across intermediaries, the share of first-loss capital ranges from 30-60% of AUM, depending on fund type, size, and strategy. Two intermediaries did not raise dedicated first-loss capital, but received previous grants that were initially deployed as lending capital and later recycled as an equity layer used for first-loss purposes.
- **Management fees:** As noted, management fees cover core operating costs, which are typically higher for strategies pursuing additionality. Among the traditional closed-end funds we spoke to, fees ranged from below 2% to 2.5%. Several intermediaries with closed-end funds highlighted the difficulty of raising capital when fee levels exceed market norms (~2%), even when higher fees are needed to support more complex strategies.
- **Operating company support:** In some cases, catalytic support is provided directly at the operating company level. For example, several intermediaries have structures that allow them to raise grant funding at the operating company level, which subsidizes the cost of implementing specific funds and/or vehicles.
- **Partnerships:** Some intermediaries rely on structured partnerships to provide non-financial additionality inputs, and thus avoid incurring the direct costs associated with capacity building and technical assistance. Kampani, for instance, works with NGO partners to deliver advisory and capacity building support.
- **Technical assistance (TA) facilities:** All intermediaries we spoke to provided non-financial support to their investees. Five of the nine did so through dedicated grant-funded TA facilities; the remainder delivered support through other mechanisms such as

[7] See Miller Study on the True Cost of Impact-First Investing

partnerships with NGOs or advisory services embedded in their investment structures. TA facilities varied in size and scope and were most commonly focused on post-investment support. Several intermediaries emphasized, however, that pre-investment TA is particularly valuable. Providing pre-investment TA allows intermediaries to cover the costs of preparing SMEs for investment, which can result in enabling deals that would not otherwise happen.

- **Embedded consulting requirements:** Catalyst Fund's investment structures include a mandatory consulting component — approximately $50,000 of hands-on advisory services per investee, which is embedded in its $200,000 early-stage investment package. Balloon Ventures also has embedded business development services requirements focused on financial and HR support, which are covered directly by Balloon Ventures' lending rates.

Why this finding matters

The range of mechanisms through which intermediaries fund their additionality (first-loss capital, management fees, TA facilities, operating grants, partnerships) reflects differences in strategy, scale, and the types of market gaps being addressed. This diversity is appropriate. However, it is problematic that the costs underlying these choices are rarely made visible. When cost structures are opaque, donors/investors risk making poorly informed allocation decisions. This can result in penalizing intermediaries with more complex, resource-intensive strategies, benchmarking them against simpler models, or underestimating the catalytic capital required to sustain a given approach. Effective allocation of catalytic capital requires looking beyond how much first-loss capital or grant funding an intermediary has received; it requires understanding what that funding is actually covering and why. Greater transparency around cost structures is a precondition for donors/investors to be able to make meaningful comparisons and informed decisions. See *Call to Action: Intermediaries and Ecosystem Builders* in Section 4.

Finding #5
The relationship between capital mobilization and additionality is complicated

One of the key findings during the initial testing of the framework is that among donors, there is not (yet) agreement on how certain factors relate to additionality. The pilot, in part, explored how donors examined the additionality of their investments into intermediaries. Some pilot participants noted a positive relationship between additionality and leverage ratios[8] — where the higher the leverage ratio, the more additional the investment was. Others noted an inverse in this relationship — meaning a higher leverage ratio (particularly at the fund level) meant the capital was less additional.

This same tension held true for how intermediaries think about the relationship between their additionality and leverage ratios of the SMEs they invest in. Several intermediaries cited their ability to mobilize additional capital into SME transactions as a meaningful aspect of their additionality — by taking a first-loss position or structuring a transaction in a way that enabled other investors to participate who otherwise would not have. At the same time, others noted that their highest-additionality investments were precisely those where no other investor was willing to participate. These intermediaries noted that the lack of other investors was evidence of how additional their capital was — the investment was high-risk enough that it would not have occurred without them. These contrasting perspectives echo the same split seen among donors during the pilot: capital mobilization and additionality are related, but the nature of that relationship depends heavily on context and strategic objectives.[9]

Why this finding matters

Capital mobilization and leverage ratios should not be conflated with additionality. Capital mobilization is a legitimate and valuable goal for some donors and investors, but the relationship between additionality and capital mobilization should be explored thoughtfully. Donors and investors should be explicit about how they weigh these two objectives when designing and evaluating catalytic capital deployments. See *Call to Action: Donors* in Section 4.

[8] There are different ways to calculate leverage ratios but it is typically calculated as the Total private or commercial capital mobilized ÷ Total concessional (public/philanthropic) funds invested.
[9] See Aceli's Learning Report 2020-2025 for concrete research on the relationship between additionality and capital mobilization, where the focus on additionality is around first-time borrowers.

4 / CALL TO ACTION

The findings from these interviews point to a central conclusion: additionality at the SME level is a key consideration in determining catalytic capital needs, but current practices for defining, assessing, managing, funding, and reporting on it remain fragmented and underdeveloped. At the same time, the diversity of intermediary approaches to SME additionality suggests that this fragmentation is not necessarily a weakness but rather a reflection of the early stage of market development.

The findings usefully point to a set of gaps that are holding the field back: donors and other allocators of catalytic capital are not holding intermediaries accountable to SME-level additionality; intermediaries are operating with limited resources and little external impetus both to build additionality-related tracking/reporting systems and to implement additionality-focused strategies; cost structures are opaque; and there is confusion over the relationship between additionality and capital mobilization.

The recommendations below are not intended to standardize any measurements of additionality. Rather, they are intended to promote greater clarity, transparency, accountability, and intentionality among the key actors shaping the agri-SME financing ecosystem. The sections below outline suggested actions for donors and other allocators of catalytic capital, intermediaries, and broader industry builders seeking to strengthen the effective deployment of catalytic capital in support of agri-SMEs.

Donors, investors, and other providers of catalytic capital

Additionality at the SME level can take many forms across different markets, business models, and financing needs. It is not yet possible to determine that one investment strategy is inherently more additional than another, and treating them as comparable risks misallocating capital.

What donors can do now is **establish a clear view of where and how they want their capital to be additional**, including defining and articulating the specific types of financial and non-financial additionality they seek to support at the SME level. These priorities should then be embedded throughout the investment process and used as the basis for comparing intermediary strategies.

By embedding SME-level additionality priorities into the investment process, donors can take a **more active role in additionality-related accountability**. Asking questions about SME-level additionality during due diligence, embedding reporting expectations into intermediary investment agreements, and recognizing additionality management as an essential aspect of impact management are practical steps toward closing this gap.

Finally, catalytic capital providers should resist using capital mobilization or leverage ratios as a proxy for additionality at both the fund and SME levels. Investments reaching first-time borrowers and underserved market segments tend to generate lower leverage ratios. Catalytic capital providers should be explicit about their capital mobilization priorities when designing and evaluating catalytic capital deployments.

Example Guiding Questions for Additionality Due Diligence

Market gap

- What financing (and/or business support) gaps does the intermediary aim to address?
- Why is the private sector not currently serving the market segment targeted by the intermediary?

Financial additionality

- What are the financing options for the intermediary's target SMEs?
- How do the intermediary's investment products, including size, tenor, structure, collateral requirements, and repayment profile, compare to the alternatives available to its target SMEs?

Non-financial additionality

- What non-financial support does the intermediary provide, such as technical assistance, governance support, market linkages, or investment readiness support?
- Why is this support important for the SMEs being served?

Cost of additionality

- What costs are associated with delivering the intermediary's additionality (financial and non-financial)?
- How will those costs be funded, for example through management fees, technical assistance facilities, grants, partnerships, or other structures?

Governance and accountability

- What governance mechanisms are in place to ensure the intermediary remains aligned with its stated additionality objectives?
- How will additionality be assessed, managed, and reported over time (at the individual investee and/or portfolio level)?

Intermediaries investing in SMEs

Intermediaries receiving catalytic capital are best positioned to understand how their investments are additional for the SMEs they serve and should take ownership of defining, measuring, managing, and reporting on their additionality.

As a starting point, intermediaries should **articulate how and why they are additional**, grounding this in their specific investment strategy. Where additionality varies across investments, they can **develop a scoring approach** that allows additionality to be tracked and managed at the portfolio level, alongside financial returns, risk, and impact performance.

Intermediaries should also **invest in understanding and be transparent about the costs associated with delivering their additionality** and how those costs are covered. Without this transparency, donors and investors cannot make informed decisions about the types and amounts of catalytic capital needed to support different models.

Finally, intermediaries should **share their additionality approaches and learnings** with the broader field. No single approach to defining, measuring, and/or reporting on additionality will be universally applicable, but collective transparency will strengthen additionality management practices as well as the evidence base that the field needs to deploy catalytic capital more effectively.

Ecosystem builders

Strengthening the effective deployment of catalytic capital in agri-SME markets requires better data and more structured opportunities for learning across the field. Industry builders, including networks, research organizations, and platforms focused on impact investing and agri-finance, are well positioned to advance both.

The field currently lacks the **data needed to understand the relationship between intermediary additionality on SMEs and catalytic capital needs** across different contexts. Building this evidence base will require coordinated efforts to bring together and analyze key variables — including ticket size, tenor, instrument type, target market segment, and first-time borrower status — alongside the types and amounts of catalytic capital used to support different strategies. Where feasible, this could also include indicators that shed light on the likely financing counterfactual, such as whether borrowers had previously been declined by commercial lenders, pricing and collateral requirements, and whether they subsequently access commercial capital, repeat financing, or additional lenders. Equally important is **data on the costs associated with delivering additionality**. Without greater visibility into the cost structures underlying different intermediary models — how much it costs to source, structure, and manage transactions, and how those costs are being covered — donors and investors risk benchmarking across fundamentally different strategies in ways that are misleading and potentially harmful to intermediaries pursuing the most complex additionality approaches.

As the findings illustrate, intermediaries are developing a range of approaches to defining, assessing, and managing additionality — but these efforts are largely happening in isolation. Ecosystem builders can play an important role in creating **structured opportunities for**

intermediaries to share frameworks, methodologies, and lessons learned, including on cost structures and the tradeoffs inherent in different additionality strategies. Practically, this could take the form of peer learning cohorts, shared repositories of additionality frameworks and assessment tools, or facilitated convenings that bring together intermediaries, donors, and researchers to compare approaches and build toward **greater transparency and comparability** across the field. In support of its goal to build the collective evidence base the field needs to deploy catalytic capital effectively, the ASLC is focused on creating a safe space for practitioners to share lessons learned with regards to measuring and managing SME-level additionality.

Additionality through other models

This paper has focused on additionality at the intermediary level, examining how intermediaries provide capital and support to agri-SMEs that would not otherwise be served, thanks to catalytic capital received at the intermediary level. The majority of intermediaries engaged for this research were externally managed investment funds. However, an important complementary channel deserves attention: using catalytic capital to incentivize local banks and other financial institutions to lend directly to agri-SMEs they would not otherwise serve.

Several models have emerged to do this, including guarantee schemes that reduce credit risk, concessional credit lines that provide liquidity, and performance-based incentives that defray the higher transaction costs of serving smaller borrowers. Examples include:

- IFC's Global SME Finance Facility combines guarantees with performance-based incentives to encourage commercial banks to expand lending to underserved SME segments.
- Tanzania Agricultural Development Bank operates a guarantee scheme that provides both risk coverage and liquidity to partner banks for on-lending to agri-SMEs.
- Aceli Africa emphasizes that transaction costs are at least as significant a barrier as risk, and therefore combines portfolio first-loss coverage with origination incentives that defray loan transaction costs, activating African banks to increase agri-SME lending.

Building the capacity and willingness of local financial institutions to serve SMEs is an important channel of additionality and is distinct from, and complementary to, the intermediary models examined in this paper – thus warranting dedicated attention in future research.

APPENDIX A

Examples of donor/investor financial and non-financial inputs to intermediaries and what the investment enables.

Type of input	Example investment	Alternatives available	What the input enables
Financial inputs			
Type of capital	A donor provides grants to a fund to cover the cost of in-depth impact due diligence.	The fund operates on very slim margins and cannot afford the cost of detailed impact diligence, which often includes seeking input from affected stakeholders.	This funding enables the fund to gather detailed impact information as part of due diligence in order to make more informed investment decisions based on the impact potential of investees.
Risk tolerance	An impact investor provides first-loss capital to a fund.	The fund needs to attract commercial capital to reach scale but commercial investors will not invest without risk protection.	The first-loss capital reduces the perceived risk of the fund and enables other investors that would not have proceeded without this protection to invest.
Non-financial inputs			
Network access and market linkages	A DFI leverages its relationships to connect a fund manager with potential co-investors.	The first-time fund manager has limited networks and access to these relationships.	This support enables the fund manager to more easily and efficiently structure deals that require co-investment.

APPENDIX B

A document summarizing AgDevCo's additionality framework.

AgDevCo

AgDevCo Additionality Framework

1. Additionality Framework

AgDevCo's additionality framework assesses both financial and non-financial additionality producing a score from 1-4 for each with the overall additionality score calculated by averaging the two scores. All potential investments are scored ex-ante using the scoring framework.

1.1 Financial Additionality

AgDevCo defines financial additionality as providing financial investment that is beyond what is available and otherwise absent from the market and does not crowd out the private sector[1].

Table 1: Financial Additionality Scoring Criteria

	Available Finance	Indication
4	No funding from concessionary or commercial financial sources is available	Commercial and concessionary finance has not been provided for a reasonable period of time
3	Funding is available from concessionary financial sources but not on terms that accept the same risks appetite as AgDevCo's finance	DFIs or impact investors have invested in the past/are still invested but offering terms that are more risk averse than AgDevCo
2	Funding with similarly viable terms* is available from concessionary financial sources	DFIs or impact investors have invested in the past/are still invested in making similar investments in the company as AgDevCo
1	Funding with similarly viable terms* is available from private/fully commercial financial sources.	The investment is competitive against commercial financial institutions, or commercial financial institutions were/are already invested

*'Similarly viable terms' – This does not just mean providing finance on more favourable terms than private financial sources would. A sponsor may prefer more favourable terms (length of grace period etc.) but their project would still be viable using the private finance available. Strictly speaking, financial additionality requires the accompanying judgement that the project would not have been viable unless financed using the terms AgDevCo is offering.

1.2 Non-financial additionality

AgDevCo defines non-financial additionality as *providing non-financial assistance that is not otherwise available and contributes to development impact. This assistance includes the following:*

- Providing investees (or other co-investors) with risk mitigation comfort for non-financial risks such as country, regulatory, project, economic cycle, or political risks;
- Assisting (and/or requiring) investees to meet improved standards, including ESG, operational, and financial management standards; and
- Providing expertise, innovation, knowledge and/or capabilities that are material to the timely realization of the project's anticipated development impact.

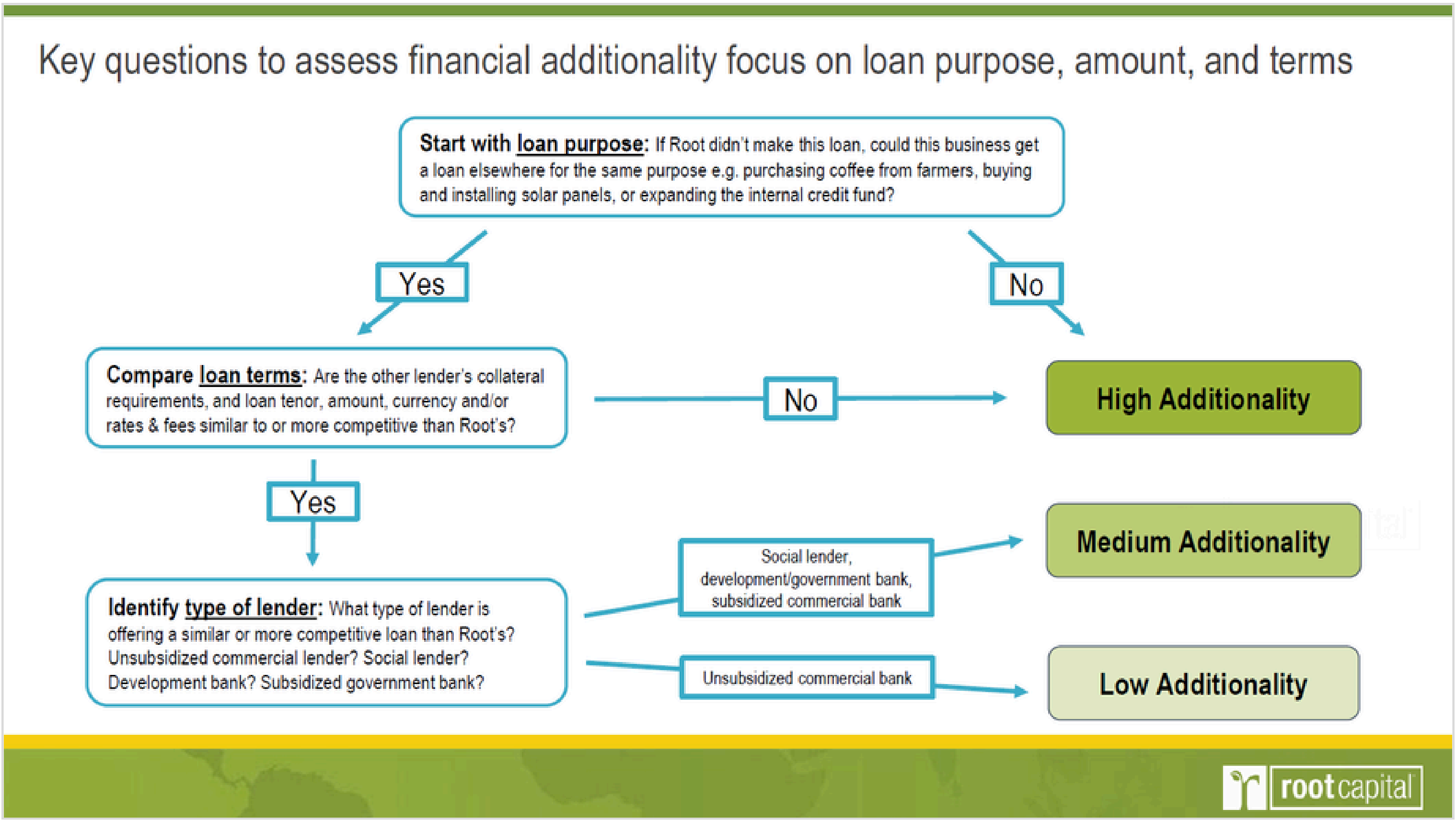
[1] This is adapted from the Multilateral Development Banks' harmonised framework for additionality. More information here.

Table 2: Non-Financial Additionality Scoring Criteria

	Assistance Offered By AgDevCo	Indication
4	Offering non-financial assistance that will improve the development impact of the company, and no other interested investors (commercial or concessionary) will/can offer.	No other available funding is offering this assistance and there is a clear narrative on how this assistance will change outcomes for employees and small value chain actors
3	Offering non-financial assistance that will improve the development impact of the company and is not available to the company from commercial lenders but is available to this company from concessionary investors.	The assistance planned for the investee in the IA goes beyond complying with AgDevCo minimum requirements, and we have evidence other concessionary investors provide very similar assistance to this investee
2	Offering non-financial assistance that is limited to assisting the investee to comply with AgDevCo standards and is not available to the company from commercial lenders but is available to this company from concessionary investors.	The assistance planned for the investee in the IA focuses on complying with AgDevCo minimum requirements, which we have observed other concessionary investors provide to their investees
1	Either offering no non-financial assistance*, or only offering non-financial assistance which is also available from other interested/potential commercial investors	The company already receives similar assistance from a commercial investor, or interested commercial investors provide this assistance to their other investees

* This includes when the investee already meets all the standards AgDevCo requires from investees and therefore our insistence on these standards will not result in any changes.

A visual summarizing Root Capital's financial additionality decision tree.



APPENDIX C

The following is a list of intermediaries we spoke to for this work.

Intermediary name/vehicle	Target investee/strategy	Type of investments	Term structure	Instrument	AUM/loan portfolio	Type of catalytic capital received at intermediary level	Additionality focus at SME level	Ticket size
Acumen Resilient Agriculture Fund (ARAF), Acumen	Early-stage agribusinesses in East and West Africa with a focus on climate adaptation for smallholder farmers.	Direct only	Closed-ended	Primarily equity/ quasi-equity	$58M	First-loss, grants for TA facility, design grant	Investment structures (e.g., self-liquidating) and non-financial support	$300k to $4M
AgDevCo	SME agribusinesses in Sub-Saharan Africa that promote food security, job creation, and climate resilience.	Direct only	Open-ended	Debt, equity, and mezzanine financing	$340M	First-loss (via grants that have become equity), grants for TA facility	Investment structures, tenor, and non-financial support	$3M to $12M, average $9M
Balloon Ventures	"Brick and mortar" SMEs (retailers, schools, agribusiness) in emerging markets, particularly in Kenya and Uganda.	Direct only	Open-ended	Debt	$50M*	First-loss (via grants that have become equity), grants for operations/business support	Larger, quicker loans combined with tech-enabled business support	$10k to $70k with follow-on investments going up to $250k
Catalyst Fund	Early-stage venture businesses focused on climate resilience in Africa.	Direct	Closed-ended	Equity	Target $40M	First-loss, grants for operations	Early-stage equity combined with venture building business support	$200k, $50k of which goes to BDS
IDH Farmfit Fund	Agri-SMEs, MFIs, agtechs, fintechs, and other value chain actors that serve smallholders.	Mostly direct	Closed-ended	Debt, equity, and mezzanine financing	$107M	First-loss, second-loss guarantee, grants for TA	Terms, tenors, use of funds, as well as high-risk positions, and non-financial support	€1M to €10M

Intermediary name/vehicle	Target investee/strategy	Type of investments	Term structure	Instrument	AUM/loan portfolio	Type of catalytic capital received at intermediary level	Additionality focus at SME level	Ticket size
Kampani	CAPEX investments in agribusiness SMEs in Africa and Latin America.	Direct only	Open-ended	Debt	$50M*	First-loss	Unsecured CAPEX loans, longer tenors, with potential grace period, and non-financial support provided via partners	€100k to €500k with follow-on investment capped at €1M
MCE Empowering Sustainable Agriculture ('MESA') Fund, MCE Social Capital	SMEs and financial intermediaries across emerging markets in Africa, Latin America, and Asia.	Indirect and direct	Closed-ended	Debt	$42M	First-loss, design grant	Terms and size of loans, non-financial support	SMEs ($300k to $1.5M), financial service providers ($350k to $4M)
Nutritious Foods Financing Facility (N3F), Incofin/GAIN	SMEs producing/distributing safe, affordable, and nutritious foods for low- and middle-income households in Sub-Saharan Africa.	Direct only	Open-ended	Debt	~$13M*	First-loss, grants for TA facility, Design grant	Types of loans (e.g., CAPEX), non-financial support	$300k to $3M, average $700k
Root Capital	Small and growing agricultural businesses that build sustainable livelihoods in Africa, Asia, and Latin America.	Direct only	Open-ended	Debt	$59M*	First-loss, grants for operations and for TA	Terms, use of funds, and size of loans; non-financial support	$50k to $4M, average $500k

*Intermediary is currently fundraising for this vehicle