

Addressing Capital Gaps

**A GUIDE TO
STRATEGIC
DEPLOYMENT
OF CATALYTIC
CAPITAL**

Executive
Summary



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The world faces critical financing gaps across a whole range of urgent impact needs. Catalytic capital is a crucial tool for addressing many of these challenges, yet it remains in short supply. How do we deploy it as strategically and powerfully as possible?

This guide seeks to answer precisely that question by applying a more nuanced and comprehensive approach to addressing capital gaps, through all stages of the investment strategy cycle. It provides guidance on how to identify situations, assess gaps, diagnose barriers and formulate interventions in a targeted way. It builds on existing guidance and frameworks, such as the three roles of catalytic capital introduced by [Tideline/C3](#), and is intended for active catalytic capital investors familiar with the fundamentals of the practice.

How this guide advances catalytic capital practice

- ▶ **Separating investee characteristics from investment barriers.** Being a small agricultural enterprise and in rural Africa are characteristics. Barriers emerge from misalignments between those characteristics, and the prevailing requirements and norms of capital providers. This distinction matters because barriers are what we need to remove, while many characteristics are inherent and often inextricably linked to intended impact.
- ▶ **Granular targeting of situations at different depths of capital constraint.** “Trillion-dollar” gaps are too broad to act upon meaningfully. In reality, these typically encompass a range of situations, each with its own unique barrier profile, financing parameters, and impact potential. Disaggregating these allows more intentional choice about where to cut in based on impact ambitions, capabilities and appetite for challenge.
- ▶ **Considering barriers comprehensively—not just rational, deal-specific factors, but also market-level and psychological mindset barriers.** Mindset barriers (lack of awareness, unfamiliarity, negative attitudes) often cause opportunities to be dismissed before rational analysis begins and can persist even after rational barriers are eliminated. Addressing these could require fundamentally different responses.
- ▶ **Forcing explicit discussion of any ‘graduation’ thesis.** Efforts to graduate opportunities to conventional market acceptance are predicated on effectively removing all key barriers. Making the relevant assumptions explicit and discussable mitigates the danger of wishful thinking, leading to more robust strategies and realistic expectations.
- ▶ **Taking a holistic approach that extends beyond catalytic capital itself.** Effective responses may require grant funding for technical assistance, efforts to influence other market actors, and advocacy for market rules changes. Understanding the full portfolio of potential responses—and opportunities for collaboration—enhances strategic impact.

How this guide is structured

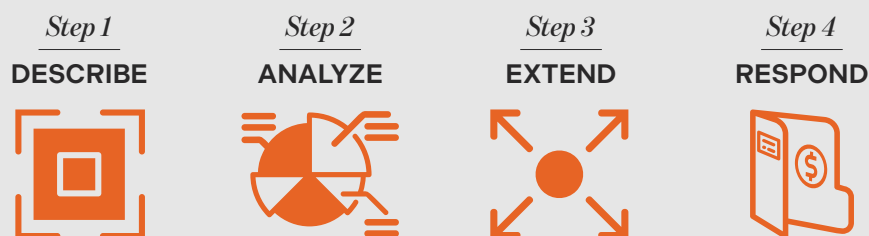
The guide is organized into four chapters that build progressively from analysis to action:

CHAPTER 1: UNDERSTANDING CAPITAL GAPS establishes the conceptual foundation, introducing the investment barriers framework that distinguishes rational barriers (risk, return, cost, liquidity) from mindset barriers (awareness, familiarity, attitudes). It demonstrates how to disaggregate large financing gaps into specific situations at varying levels of capital constraint, using the example of agricultural small business finance in Africa.

CHAPTER 2: RESPONDING TO CAPITAL GAPS explores the assessment of whether barriers are transient (addressable through Seeding and Scaling roles) or structural (requiring Sustaining support). It describes two categories of response—investment and grants for technical assistance—illustrated through the case of financing rooftop solar for small businesses in India. It also briefly introduces two further categories of response: influencing other market actors and influencing changes to market rules.

CHAPTER 3: FROM ANALYSIS TO ACTION walks through the full analytical process from situation segmentation and barriers analysis, to formulation of a comprehensive response portfolio that is focused on enabling a situation to “graduate” ultimately to conventional capital. This is done using an extended case study of employee ownership conversions in the United States. This chapter also explains the importance of examining barriers at both the direct and indirect investment levels.

CHAPTER 4: IMPLEMENTING THE APPROACH offers practical, step-by-step guidance for applying the framework:



Key implications for investors

- ▶ **Invest time in diagnosis before deployment.** A robust understanding of the specific barriers causing a capital gap—not assumptions about what investees need—should ground deployment decisions. A lack of understanding sets us up for failure, and this is particularly amplified when investing and collaborating with others who bring their own assumptions to the table.
- ▶ **Have a market-level orientation.** Investors typically operate deal by deal, but the catalytic effect we seek is often at the market level, especially if we are seeking to “graduate” situations to mainstream acceptance. Having the proper orientation helps ensure that each transaction truly supports and advances the more profound shifts we are aiming for.
- ▶ **Get granular before going strategic.** Clear targeting of situations is critical. Vagueness leads to confusion about barriers and misalignment of investment parameters, which can then result in adverse outcomes including thwarted deals, wasted capital and impact disappointments.
- ▶ **Look beyond the rational.** Mindset barriers are real barriers that require tailored responses, not just more forceful rational argumentation with better data. Because these barriers are often automatic mental blocks, different tactics may be necessary to address and disarm them.
- ▶ **Consider whether barriers could be removed, and, if so, how.** Lay out assumptions and hypotheses for barrier removal, and test them with others bringing diverse perspectives. Then, when formulating interventions, assess the likely time-limited nature of each.
- ▶ **Think beyond capital per se.** Catalytic capital is a powerful tool but it may not be sufficient on its own to address all key barriers. Consider the full portfolio of potential responses—grants for capacity building, engagement with peer investors, and advocacy for regulatory change. This often also means identifying opportunities for strategic collaboration with others, because not all actors are well-positioned to pull all of these levers themselves.
- ▶ **Embrace adaptation without viewing it as failure.** In complex systems, strategies must evolve as you learn. Build in mechanisms for monitoring not just your outputs but also broader market changes, and be prepared to pivot as your understanding sharpens.

This guide was authored by Harvey Koh and published by the Catalytic Capital Consortium in November 2025.