

The power of additionality: Why impact investing should focus on building companies that otherwise wouldn't exist



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As impact investing continues to grow, one of its most essential principles—additionality—is becoming a central topic of conversation. In simple terms, additionality refers to the idea that an investment has a positive societal impact that would not have occurred without the intervention of that capital. While it's easy to focus on financial returns and measurable impact metrics like carbon reduction or jobs created, additionality raises a more profound question: Are these companies addressing problems that would remain unsolved without their innovation?

In a world facing challenges like climate change, inequality, and healthcare systems under immense pressure from population growth, resource shortages, and pandemics, additionality isn't just a metric—it is about building companies that tackle society's most urgent issues that traditional investment models don't support.

Our role as investors is not just to sustain what already exists, but to create what should exist.

Why additionality matters in impact investing

The growth of impact investing is undeniable. According to the Global Impact Investing Network (GIIN), the impact investing market was valued at \$1.164 trillion in 2022—a significant leap from \$715 billion just two years earlier. While this increase is promising, it raises critical questions about the deployment of this capital: If these companies or initiatives would have existed without impact capital, can we truly call that an impactful investment? Additionality ensures that the investments we make aren't just displacing other funding but are, in fact, enabling the development of new ventures where market forces alone aren't enough to drive innovation.

Take healthcare innovation, for instance. While investments in sectors like digital health and telemedicine have gained significant attention, certain transformative healthcare technologies face persistent funding shortages. Technologies such as next-generation diagnostic tools for detecting diseases at an earlier, more treatable stage, or biotechnologies focused on eradicating infectious diseases, remain largely underfunded.

One reason for this shortfall is the growing average size of investment funds observed in recent years. As funds grow larger, they naturally gravitate toward bigger-ticket investments, which unintentionally results in fewer resources being directed toward early-stage companies - those with unproven but potentially transformative ideas and the biggest additionality potential.

Venture building and the return to additionality

This is where the concept of additionality becomes not just relevant, but essential. To drive meaningful societal change, investments must address market failures and fill the gaps that traditional funding often overlooks. Venture building has emerged as a powerful tool to meet this need. Unlike conventional funding models, which increasingly

prioritize larger, later-stage investments, venture builders are specifically designed to support startups from the ground up, providing not only capital but also the strategic and operational resources critical for early-stage success.

This hands-on approach is transformative. By actively guiding ventures through their foundational stages, venture builders ensure that impactful innovations move beyond theoretical concepts and into real-world solutions. With a focus on scaling ideas that address pressing social and environmental issues, venture building enables high-additionality projects that might otherwise struggle to secure traditional investment.

As more capital flows into impact investing, venture builders will play a crucial role in ensuring that investment dollars continue to drive transformative change. These companies are built not just to succeed financially, but to solve the world's most urgent challenges and create a tangible, positive impact.

How additionality will shape the next decade

As we look to the future of impact investing, the principle of additionality must remain at its core. Investors are increasingly demanding more than just greenwashed portfolios; they want to know that their capital is actively driving change. This shift in investor sentiment will likely redirect capital flows towards ventures operating in high-need, high-impact areas such as early-stage healthcare, rural infrastructure, and breakthrough clean energy technologies.

The next decade of impact investing will be defined by our ability to measure and verify additionality. Advances in data analytics and impact measurement tools will play a crucial role in this development, enabling investors to track and quantify the true additionality of their investments. This increased transparency will both bolster the credibility of impact investing and also drive capital towards ventures that are transformative.

The challenge—and opportunity—for impact investors is clear: to ensure that our investments are not just profitable, but truly transformative. By focusing on additionality, we can address the systemic gaps in our global economy, driving long-term, sustainable change. In doing so, we transform capital into catalysts for companies that will shape a better future—companies that, without the deliberate intervention of impact capital, might never have existed.



Discover how your investment can drive real, lasting change. Scan the QR code to learn more about NLC's groundbreaking approach to building transformative healthcare ventures.

