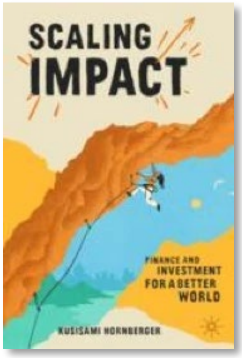

SCALING IMPACT: FINANCE AND INVESTMENT FOR A BETTER WORLD

BY KUSISAMI HORNBERGER / Dalberg Global Development Advisors, Washington, USA

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Interview with Bjoern Struewer, Founder & CEO of Roots of Impact

EXCERPT

Q5: HOW DO SIINCS COMPARE TO OTHER TYPES OF RESULTS-BASED FINANCE, SUCH AS THE IMPACT BOND?

BJOERN: They appear to be similar and are often confused, but if you have a closer look, there are only two similarities: Both are outcomes-based and involve investment. Everything else about SIINC is more similar to carbon finance, with the important difference that SIINC is applicable to all the other SDGs, too. It’s carbon finance for social impact, so to speak. First of all, SIINC is for market-based organizations, not for nonprofits. The payments go directly to the enterprise that creates the value, not to the investor. It's a way to monetize positive externalities and can serve as an additional revenue stream for the enterprise. We use it as a blended finance instrument that leverages repayable investment. The leverage depends on the context, but typically it is between 1:3 and 1:5. In an impact bond, however, the donor pays the full cost of the intervention plus the investor's return in case of success. Considering that SIINC only pays a business for marginal, incremental impact, it is very cost-effective for the outcome payer. We also design the transactions so that the company is still able to deliver the impact long after the SIINC transaction has ended. I don't mean to say that with SIINCs and impact bonds, one is better than the other, but they are two very different tools for very different purposes. Impact bonds aim to test innovation by shifting risk to investors, while SIINC is used to scale what works and unleash the full impact potential of market-based solutions.

Q8: How did you come from SIINC to impact-linked finance?

BJOERN: As we experienced the uptake of SIINC and anticipated its future potential, we quickly realized that there is no reason why the principle of SIINC should not be integrated directly into any repayable investment instrument - two in one, so to speak. Indeed, rewards for positive outcomes can be built into all financial instruments, from equity to debt to guarantees. Think of linking the interest rate of a loan to a predetermined impact performance – this effectively lowers the cost of financing and creates strong incentives for the borrower to perform on impact. Simply put, this is an effective way to “bake” impact into the core of financing. We call this practice Impact-Linked Finance and sometimes refer to it as "better terms for better impact." We developed specific design principles for it so that it can be applied by anyone who wants to unlock the full impact potential of a business. The more social or environmental value a company creates, the lower its cost of capital. And, more importantly, it can further optimize its impact. As a result, resources flow to what matters most to society. You might say that this is too bold a vision. But everything is already in place to make it a reality: There are many development finance actors and catalytic capital providers around the world eager to create deep impact and social value with their funds; there are a growing number of impact investors and venture capitalists interested to access high-quality impact deals; and there are many great, bold, and inspiring entrepreneurs ready to scale their proven, high-impact solutions. Given the daunting challenges we face on this planet, it's not just Roots of Impact and a few like-minded players that should be implementing this practice. Every financial intermediary, every consulting firm, and every professional working on impact should be doing it. We need a much bigger push, and it starts with capital. This is why those at the forefront of impact, i.e., the development funders, public agencies, and catalytic funders, are uniquely positioned to push the boundaries.

Q10: WHAT IS NEXT FOR ROOTS OF IMPACT, AND WHAT ARE YOU MOST EXCITED ABOUT WORKING ON MOVING FORWARD?

BJOERN: I think the simple idea of “better terms for better impact” is not just another results-based finance approach but a paradigm shift. It has the potential to change the way we finance impact. It could even have positive spillover effects on the way we use finance in general….[ ]

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