8 Key Takeaways

from 8 years of Impact-Linked Finance practice

Share your priorities and information needs with us!

Impact-Linked Finance (ILF) has proven to be an effective means for unlocking the potential of high-performing enterprises. The ILF practice shows substantial promise to lead to greater levels of inclusivity and tangible impact. Here is a brief overview of recommendations for the effective application and design of Impact-Linked Finance. Our full report will enable a deeper insight into the practical details and nuances of ILF selection and structuring. Moreover, we debunk some of the most common myths that we were able to uncover in this field.

Better terms...

For example:
- Interest-rate step-downs
- Cash incentives
- Lower repayment amounts
- Longer repayment terms

...for better impact

For example:
- More inclusivity or access for underserved populations
- Additional income
- Additional jobs
- Better health outcomes

When to apply ILF

01 "Always, always align with the strategy of the enterprise"

A good understanding of the enterprise's long-term strategy is crucial - and the outcomes to be rewarded should be well aligned with it. There are two effective ways to do so:
- Enabling the enterprise to reach its impact goals at an even higher level.
- Jointly discovering an opportunity to unlock a previously hidden impact and business potential.

02 "The greater the impact variance, the more ILF is needed"

Even if the impact performance of an enterprise has been "proven" in the due diligence, it will not be constant or linear in the future.

Reality shows that enterprises are constantly innovating and changing –and their impact changes with them.

03 "The range of use cases is broad"

Today, we can distinguish five different areas of application that can be addressed with a broad range of ILF instruments and features.

(1) Nudging a commercially strong enterprise to create bigger and deeper impact.

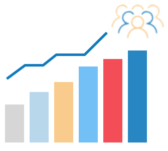
(2) Creating an additional source of revenue and contributing to investment readiness when an enterprise is still on the way to establishing itself commercially.

(3) Unlocking an enterprise's specific, previously hidden impact potential, such as gender impact.

(4) Helping an enterprise stay "on mission".

(5) Creating additionality not only by using incentives but also through the investment itself.

5 identified ILF use cases



"With ILF, you can create additionality across various stages and types of a company."

..and 3 more design learnings

04 "Too early for Impact-Linked Finance? Smart design makes all the difference."

Start-ups with a proof of concept can be good ILF candidates once certain features are used in the ILF design. Rather than defining annual impact performance targets at the time of contract signing, the enterprise can first develop its impact measurement and management (IMM) system. Only after reaching this milestone, you agree on concrete impact performance targets.

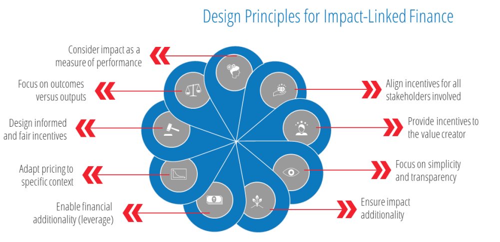
05 "Sector- and theme-specific funds enable comparability, learning and efficient implementation."

There is no better way to build a pool of relevant data than implementing many ILF transactions within the same sector or focusing on addressing similar challenges. Data and lessons learned from these transactions are of great significance when it comes to the appropriate pricing of incentives and defining additionality.

06 "Combining incentives and technical assistance is a winning formula."

For example, a technical assistance (TA) activity may focus on supporting an enterprise to develop a gender strategy and action plan. Attaching incentives to such an action plan is sensible, as it ensures that the defined actions will lead to the desired results. Consider including incentive payments in the TA budget.

07 "The Design Principles for Impact-Linked Finance continue to represent the most important benchmark for good market practice.



We have begun creating a simplified and open-source ILF assessment methodology based on the Design Principles for Impact-Linked Finance. This methodology will not be a panacea, but an important step towards making terms "effectiveness" and "quality" more tangible and reaching a common understanding.

Execution makes all the difference

08 "Incentive schemes must be adaptive as a rule, not an exception."

High-impact enterprises are particularly dynamic and responsive to their environments due to their high levels of innovativeness. We learned that adaptability is crucial not only for the enterprises we support but for their ILF incentive schemes as well.

Find many more insights in our full report!

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