2.3 IRMF (IMPACT-READY MATCHING FUND)

Brief Description

The Impact-Ready Matching Fund (IRMF) is a non-repayable matching fund provided at the early stage of an impact enterprise, or enterprises whose impact strategy is still nascent, with disbursements linked to milestones in the development and implementation of an impact management system. IRMF is a hybrid instrument designed to be provided in parallel to a commercial investment by (e.g. angels or early-stage venture capital) investors. If milestones are met the IRMF matches the seed investment, typically on a 1:1 basis and subject to a cap and thus lowers the financing cost of the enterprise significantly.

The model involves a donor/philanthropic entity committing to provide non-repayable funding to the enterprise against the achievement of milestones linked to the development and implementation of an impact management system within the enterprise. The IRMF agreement is signed before the investment contract is closed, which helps the enterprise attract investment, and the successful raise of that investment is a precondition for any matching funds being paid. The amount of the grant is tied to the amount of investment provided by a third-party private investor.

The logic is to provide straightforward support in order to catalyse more early-stage investments while simultaneously incentivising enterprises to improve their impact management capacity. The achievement of the milestones is assessed by the provider of funding or an independent verifier. IRMF is typically targeted at early-stage enterprises, or enterprises whose impact strategy is still nascent, that show potential but are not yet ready for more advanced Impact-Linked Finance models such as SIINC or Impact-Linked Loans, which require stronger and more structured impact, commercial and financial plans.

Purpose/Fit	Catalysing an early-stage investment round while institutionalising impact management within the enterprise. Supports the enterprise for access to impact investment with low-cost capital.
Can replace	Grants (technical assistance, development grants).
Risk/Return Profile	No financial return to the funder; capital is non-repayable.
Enterprise Lifecycle	Early stage, typically seed. Also suited to enterprises further along commercially whose impact strategy is still nascent, but investment sums might be limiting.
Maturity	Funds released over usually one year.

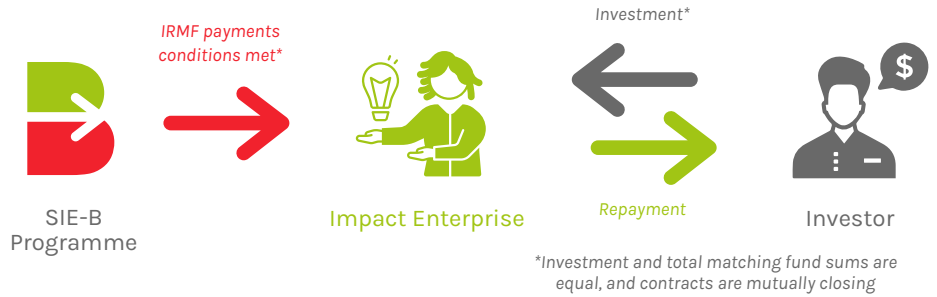


Figure 2.5 – "IRMF", source: Roots of Impact.

Defining Criteria

1. **Milestone-based:** Funding is milestone-based, with disbursements released in tranches against advances in the development and implementation of an impact management system.

2. **Impact management system:** The impact management system refers to structures and/or processes internal to the enterprise which enable the conceptualising, tracking, managing and reporting of impact.

3. **Capital mobilisation:** The IRMF is tied to an investment round which must involve the investment of repayable capital by a third-party investor. Grants do not qualify.

4. **Sequencing:** The IRMF agreement is signed before the investment contract is closed, and evidence of a successfully closed investment is a precondition for the release of any matching funds.

5. **Milestone verification:** Verification of milestone achievement is conducted by the fund manager or an independent verifier, who checks that the impact management system has been developed and implemented to a minimum standard.

Variants and Optional features

- Instead of paying for several milestones in tranches, the funding could be provided in one sum with achievement of the end result (i.e. the first impact report meeting pre-determined requirements).

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Type	Benefits	Considerations
Outcome payer	Straightforward means of catalysing early-stage investment rounds	Funder's cost includes milestone management and verification, while the benefit (stronger impact management within the enterprises) is less easily quantified than the investment mobilised
	Directly links payments to milestones and results, unlike a simple matching grant	Greater administration requirements, including tranche management and a verification
	Maintains a direct link to an investment round while building impact management capacity, unlike a technical assistance grant	Selecting enterprises with genuine potential for impact and scale requires significant upfront assessment
	Builds pipeline for later-stage impact investors	Maintaining the impact focus and systems once funding is fully disbursed depends on the enterprise's own commitment and resources
	Helps promote impact management practice across the wider ecosystem	Capital is non-repayable, so there is no financial return and no recycling of funds
Third-Party Investors	Investee receives non-dilutive capital alongside the investment, improving runway without affecting the investor's stake	Investment must be repayable capital, which may not suit every early-stage investor
	Enterprise emerges with an impact management system, improving reporting quality and follow-on potential traction	Better suited to enterprises that can devote some resources towards impact management systems creation without compromising growth prospects

Benefits and Considerations, Enterprises

Benefits	Considerations
Matching funds are non-repayable and non-dilutive. As the enterprise raises repayable capital in parallel, the total capital received exceeds the amount subject to repayment, lowering its blended cost of capital.	Funding is contingent on successfully closing an investment round, so it cannot be relied on as standalone capital
Strengthens the enterprise's position when raising additional capital	Milestone delivery over 12 to 18 months requires sustained management attention
Institutionalises an impact focus early, which is relevant for access to later-stage impact investment	Tranched disbursement means cash arrives in instalments, not upfront
Dedicated funding supports the building of impact management capacity. It provides enterprises with the required resources alongside the know-how	Funds are released against milestone reporting and verification, which requires management time and attention

Selection Criteria Checklist

Use to test whether an IRMF is a good fit for a given deal.

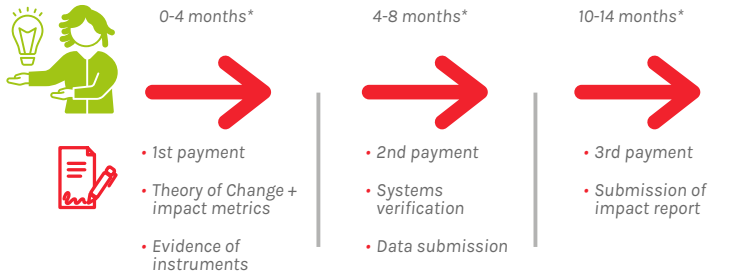
- ☐ **Credible investment round in prospect:** the enterprise has raised repayable investment recently or is actively raising.
- ☐ **Impact management gap worth closing:** the enterprise has a genuine impact proposition but lacks the systems to conceptualise, track and/or report it.
- ☐ **Not yet ready for advanced ILF:** the enterprise's impact, commercial and financial plans are too nascent for other ILF instruments such as SIINC or an Impact-Linked Loan.
- ☐ **Capacity to deliver milestones:** the enterprise has management bandwidth to build and operate an impact management system over 12 to 18 months alongside growth.
- ☐ **Non-repayable capital is acceptable:** the funding side accepts no financial return.

Common Pitfalls

1. Treating early deliverables as an end in themselves. A theory of change and an indicator list satisfy the first tranche, but later tranches build on collecting data against these indicators, so data collection should be planned from the start.
2. The instrument funds the build, not the running of the system. Without a plan for how the enterprise maintains it after disbursement ends, the capacity built can erode quickly.
3. The IRMF agreement is signed first, but matching funds are paid only once the investment round has closed. If the round falls through, no funds are released, leaving a funding gap for an enterprise that has already planned its spending around them.

Examples of Relevant Terms

As formulated in a contract; bracketed values are illustrative and negotiable.

Matching	The IRMF matches (1:1) repayable investment received by the enterprise within (12 months of the date of this agreement), up to an amount of (USD 100k).
Milestones-based disbursement	1st milestone/disbursement: Initial 30% of the matching funding will be disbursed after the enterprise has developed a theory of change ("TOC") and a plan to track a set of impact indicators that address a key element of the organisation's impact. 2nd milestone/disbursement: A further 30% of the payment will be disbursed upon submission of data and after verification that the agreed-upon metrics have been established and operationalised. 3rd milestone/disbursement: The final 40% will be disbursed after the enterprise has submitted an impact report meeting minimum requirements.  * Two Preconditions: (1) After signed IRMF (2) Investment contract submitted

Other external case studies and additional resources about IRMF can be found **here.**