

INNOVATIVE FINANCE TOOLKIT 2.0

Alternative structures for financing early-stage impact enterprises in Bangladesh

D-BRIDDHI
Scaling Impact Enterprises of Bangladesh



Innovative Finance Toolkit 2.0

Alternative structures for financing early-stage impact enterprises in Bangladesh

Created by D-BRIDDHI Scaling Impact Enterprises of Bangladesh

A programme by Supported by Switzerland · Roots of Impact · LightCastle PARTNERS

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PREFACE

Early-stage impact enterprises across Asia still most often raise capital using standard equity or equity-like instruments designed to support fast-growing tech ventures. If a company is building a network of smallholder farmers, or a solution helping disadvantaged youth into formal employment, why would it be funded on the same investment terms used to fund Facebook or Google?

Impact enterprises focusing on the most disadvantaged people and marginalised markets are able to deliver social and environmental returns far beyond their own profits. Some of them have the potential to become “impact unicorns” if they get appropriate support at the right time. They might be able to generate considerable financial returns, but what makes them unique is their ability to find innovative ways of creating value for society.

The terms of investment need to be redefined to fit the attributes of impact enterprises, whether through more patience, unconventional repayment options, or rewards for impact. This toolkit sets out alternative structures that can be used to support impact enterprises on their journey to create much-needed impact at scale.

This updated edition is written for two audiences. For capital providers, it sets out how each structure works, what it demands, and where it fits. For enterprises, it shows what each instrument offers and what it requires in return, ensuring conversations with a funder begin from a shared understanding. Each instrument is paired with practical guidance on when to use it and what tends to go wrong, alongside examples drawn from application in comparable markets. The aim is to move from awareness of these structures to their use.

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INTRODUCTION

Access to finance is a key barrier for early-stage impact enterprises to grow, but this is not only about the appropriate type of financing. There are more issues that entrepreneurs need to address to successfully approach investors and raise capital for scaling. The work of incubators, accelerators, and other service providers is of crucial importance for entrepreneurs on their journey towards investment and scale.

This toolkit is about innovative financing options tailored to the needs of impact enterprises depending on their capital requirements, business models, and stage. It is based on a multitude of inputs from experts, professionals, investors, entrepreneurs and other stakeholders, and encompasses the view of impact entrepreneurs, incubators and accelerators, field experts and investors. Although it contains practical application guidance, it is not intended to be a comprehensive or a definitive guide to early-stage impact enterprise financing.

Both the first edition and this updated toolkit were developed within the scope of the programme "B-BRIDDHI: Scaling Impact Enterprises of Bangladesh", which supports the efforts of key actors in Bangladesh in order to contribute to an ecosystem where impact enterprises have better access to investment, and investors can tap into a pipeline of investment-ready impact enterprises. More information about capacity building support of the programme can be found on the **website B-BRIDDHI.**

What is new in this edition

This is an updated edition of the Innovative Finance Toolkit, first published to support the B-Briddhi programme in Bangladesh with the aim to focus on practical application rather than develop a theory-based knowledge piece.

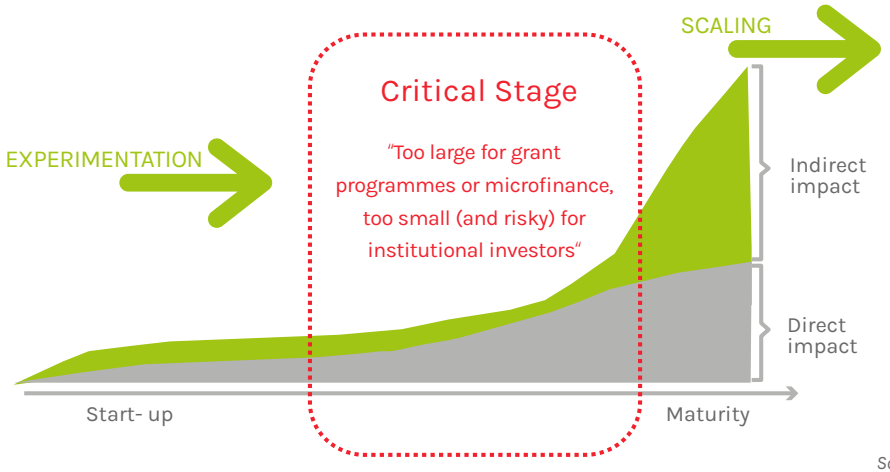
The range of structures has been expanded, reflecting instruments that have emerged or matured since the first edition. Each instrument entry now includes ***a "Practical Application" section: benefits and considerations set out separately for capital providers and enterprises, a selection criteria checklist to test whether the structure fits a given deal, and the pitfalls that recur in implementation.*** The content draws on evidence from the application of these instruments in practice, rather than on concept alone.

The purpose of these changes is straightforward. The first edition set out what these structures are. This edition is intended to help readers decide whether to use them, and to use them well. The aim is to focus on both awareness and the use of these structures.

Why impact enterprises need different terms

Impact enterprises usually operate in a different ecosystem than traditional enterprises. They face more uncertainty, typically more challenging target client segments, and infrastructure barriers that can lengthen the early stage. A lot of impact enterprises are scalable and profitable, but their business, by definition, is not traditional, and investors should not treat it as such by offering only traditional financing instruments.

This creates a twofold challenge. Impact enterprises in the early and growth stages are unlikely to meet the return requirements demanded by traditional private equity investors and venture capital funds. They also cannot always provide adequate risk mitigation to access traditional debt providers such as banks. As a consequence, many do not survive past the seed stages of financing, a critical period known as the "valley of death".



Source: Ashoka

Exit expectations compound the problem. In conventional finance, venture capital and private equity firms exert considerable influence and usually expect a financial return to come from a sale to third parties. This can be appealing for an entrepreneur looking for a strategic acquirer or access to public markets. For impact enterprises, however, the private status of the firm and a careful selection of like-minded investors may help preserve the founder's original goal and mission. That usually comes with a price where not following the rules of the mainstream capital market may limit the range of possibilities available.

It is therefore important to select financing instruments that match an enterprise's business model, needs and stage of development. A thorough analysis of the realities impact entrepreneurs face is needed to provide educated advice on the most appropriate form of capital, and to fully capture the range of goals and interests of both entrepreneurs and the investors committed to supporting them.

What capital providers are missing

The gap is not only on the enterprise side. Many local investors, including business angels and funds, are interested in the compelling idea of creating social value while doing business, yet do not classify themselves as impact investors or explicitly define impact criteria in their investment strategy.

Among capital providers, intermediaries and other service providers there is also a lack of support around the structuring of innovative financing solutions. A strong differentiation between grant making on the one hand and investing on the other is a typical pitfall, and the concept of blended finance is still growing, with its opportunities yet to be explored. Without structuring capability on the capital side, the instruments in this toolkit remain unavailable to enterprises regardless of how well they fit. For capital providers, the aim of this toolkit is to make these structures usable by setting out how each one works, what it demands, and when it is the right choice.

HOW TO USE THIS TOOLKIT?

Some of the alternative financing structures are new to the market, and for this reason, they are not yet well understood by many practitioners, entailing less clarity about their tax, accounting, and legal merits as compared to those of traditional methods. This novelty could create complexity, or perceived complexity. But it's all worthwhile as it can lead to better financing options for the impact economy.

How each instrument is presented

Each instrument follows the same structure:[1]

1. **Brief Description:** what the instrument is and how it works.
2. **Snapshot:** purpose, what it can replace, risk and return profile, the stage it suits, and its terms.
3. **Defining Criteria:** the key features that make it this instrument rather than another.
4. **Variants and Optional features:** how the structure can be adapted depending on the needs.
5. **Practical Application:** benefits and considerations for capital providers and for enterprises, a selection criteria checklist to test the fit of a given deal, and the common pitfalls that recur in implementation.
6. **Examples and case studies:** how the instrument has been applied in practice.

The Practical Application section is new to this edition. The selection criteria checklists are designed to be worked through against a specific deal, by either party, before committing to a structure. Where a criterion does not hold, that is a signal to consider a different instrument rather than to proceed and adapt.

1 The toolkit kept this structure consistent across instruments. However, in a few cases it has been adjusted where the instrument genuinely differs, and those departures are noted where they occur

How each instrument is organised

The instruments highlighted in this toolkit are structured along seven chapters: **Chapter 1** covers the financing instruments which resemble equity-type instruments and convertibles; **Chapter 2** elaborates on Impact-Linked Finance instruments, which reward enterprises for achieving verified impact; **Chapter 3** focuses on other catalytic funding instruments at both the enterprise and fund level that help to attract additional investment; **Chapter 4** covers results-based finance instruments for non-profit organisations. While non-profit organisations are generally not in scope for this toolkit, we found it useful to present relevant financing innovations for them as the boundaries between for-profit and non-profit are blurring in the impact economy.

Chapter 5 covers innovative philanthropic funding, such as recoverable grants and forgivable loans, and **Chapter 6** covers innovative working capital finance, such as supply chain finance and receivables purchase. Finally, **Chapter 7** focuses on structuring impact from the start, with high-level considerations for capital providers to deploy impact capital efficiently, alongside the example of Impact-Linked Compensation among fund managers.

Additional information on the toolkit such as case studies, additional documents, and resources can be found on the **website.** We commit to providing consistency in the structure used to analyse each of the innovative financing instruments. However, from time to time the structure has been adjusted to improve clarity and understanding for the reader.



INNOVATIVE FINANCING INSTRUMENTS FOR EARLY-STAGE IMPACT ENTERPRISES AND CAPITAL PROVIDERS - OVERVIEW

1 Equity Alternatives and Convertibles

Instrument	Short Description	Typically provided by: Private Investor*	Institutional Investor**	DFI or Donor***
SAFE (Simple Agreement for Future Equity)	Simple option for discounted future equity, alternative for convertible note	✓		
Convertible Note	Loan converting in discounted future equity		✓	
Revenue Share Agreement (Equity-Based)	Equity redemption based on revenue share - replacing dividends and exit	✓	✓	
Revenue Share Agreement (Debt-Based)	Loan with participation on revenues replacing interest rates and repayment		✓	
Redeemable Equity	A hybrid instrument where investors buy equity that the company or its founders agree to repurchase over time, usually through dividend payments tied to a percentage of revenue or cash flow, up to an agreed return multiple. It gives founders growth capital without a forced exit, while giving investors a return path that isn't dependent on a secondary sale or IPO.	✓		





2 Impact-Linked Finance Instruments

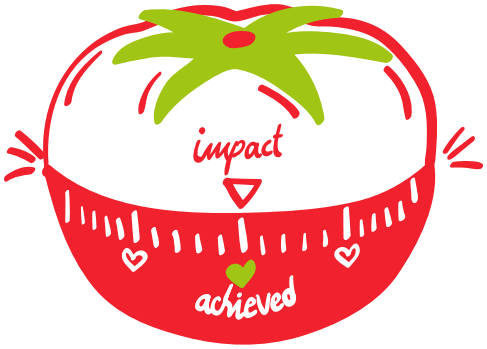
Instrument	Short Description	Typically provided by: Private Investor*	Institutional Investor**	DFI or Donor***
SIINC (Social Impact Incentives)	Premium payments to enterprises for achieving social impact - in combination with private investment			✓ (in combination with Impact Investment)
Reimbursable and convertible SIINC	Reimbursable or convertible premium payments to enterprises for achieving social impact - in combination with private investment			✓ (in combination with Impact Investment)
Impact-Ready Matching Funds (IRMF)	Matching funds for building up an impact management system - in combination with seed capital			✓ (in combination with Impact Investment)
Impact-Linked Loan	Loan with impact-linked interest rates and potentially loan forgiveness ("better terms for better impact")		✓	✓
Impact-Linked Convertible Note	Loan with impact-linked interest rates and option for discounted future equity ("better terms for better impact")		✓	
Simple Agreement for Future Impact (SAFI)	Highly flexible, non-dilutive growth capital repaid through a share of revenues, with the total repayment falling as verified impact increases ("more impact, less repayment")	✓	✓	✓

*Private Impact Investor, e.g. Business Angel | **Institutional Impact Investor, e.g. Impact Fund | ***Development Finance Institution or International Donor, e.g. Development Bank/Agency



3 Other catalytic funding instruments at both the enterprise and fund level - attracting additional investment (Blended Finance)

Instrument	Short Description	Typically provided by: Private Investor*	Institutional Investor**	DFI or Donor***
(Partial) Guarantee	(Partial) risk coverage in order to attract additional investment			✓ (in combination with Investment)
Subordinated loans as catalytic first-loss capital	Subordinated capital in order to attract additional investment			✓ (in combination with Senior Loan)



4 Results-based Finance instruments for non-profit organisations

Instrument	Short Description	Typically provided by: Private Investor*	Institutional Investor**	DFI or Donor***
Social/Development Impact Bond	Investors providing pre-financing for non-profit interventions and paid back with return when social impact targets are met		✓ Pre-financing	✓ outcome-based funding)
Performance-based Contract	Payments to non-profit organisations conditional on achieving social impact			✓

It is important to note that the current financial regulatory regime only allows licensed financial intermediaries (banks and financial institutions) to receive interest against debt investments through loans.

5 Innovative Philanthropic Funding

Instrument	Short Description	Typically provided by: Private Investor*	Institutional Investor**	DFI or Donor***
Recoverable Grants	Grant funding that becomes repayable to the funder if the grantee or project hits agreed financial or social milestones. Repayment terms are flexible and negotiated case by case, making this a patient, lower-cost capital option often used to help non-profits or early-stage social enterprises build a track record.	✓		✓
Forgivable Loans	The inverse of a recoverable grant: capital structured as a loan that converts into a grant if the borrower meets pre-agreed milestones. It can flow between non-profit and for-profit entities in either direction and is booked as a liability until forgiven, offering funders more structure and downside protection than an outright grant.			✓



*Private Impact Investor, e.g. Business Angel | **Institutional Impact Investor, e.g. Impact Fund | ***Development Finance Institution or International Donor, e.g. Development Bank/Agency

6 Innovative Working Capital Finance

Instrument	Short Description	Typically provided by: Private Investor*	Institutional Investor**	DFI or Donor***
Supply Chain Finance	A buyer-initiated prepayment programme that lets suppliers get paid early on an invoice or purchase order, typically at a discount. Also called reverse factoring, it sits off the buyer's balance sheet and is priced mainly on the buyer's creditworthiness rather than the supplier's, making it a fast way to ease short-term working capital gaps.	✓		✓
Receivables Purchase	Also known as invoice or receivables factoring, this involves a financier buying a business's invoices for goods already delivered, advancing cash at a discount instead of waiting for customer payment. It's initiated by the supplier, booked as debt on the supplier's side, and generally cheaper and lower-risk than financing against undelivered orders since the goods have already changed hands.	✓		✓





7 Fit-for-purpose capital

Instrument	Short Description	Typically applied by: Private Investor*	Institutional Investor**	DFI or Donor***
Impact-Linked Compensation	Fund manager remuneration, typically carried interest or bonuses, made partly conditional on the fund's impact performance ("better pay for better impact")		✓	✓

*Private Impact Investor, e.g. Business Angel | **Institutional Impact Investor, e.g. Impact Fund | ***Development Finance Institution or International Donor, e.g. Development Bank/Agency

Islamic Finance

Bangladesh is home to different religious groups, with Muslims making up the majority of the population, thus influencing how business is run in view of the tenets of Islam. Islamic religious law, known as “Shariah”, has an important implication on how the banking and investment landscape operates where Bangladeshis choose to partake or do banking through the Islamic banking system.

Islamic Finance is a set of financing activities within the framework governed by the principles of the Shariah that has been gaining momentum over the past years, and it represents a fast-growing segment of the financial market. Although some of the instruments listed in this toolkit could be already in compliance with Islamic Financing requirements, professional legal advice should be sought in order to successfully implement the instruments described.

Legal disclaimer

The content of this toolkit and the materials on the website have been prepared for informational and educational purposes only, and do not constitute legal advice or a substitute for legal counsel or any other professional advice. Readers should seek independent advice from financial, tax, and legal advisors in connection with, or independently research and verify, the information that they find on our website and/or in this toolkit and wish to rely upon it. Although best efforts are made to ensure the highest level of accuracy and that the information is up to date (September 2026), occasionally unintended errors and misprints may occur.

Furthermore, the site offers hyperlinks to other websites thereby enabling to access further information from internal and external sources. The authors are not responsible for the content of any linked site or any link in a linked site, which are not under their control but that can be modified by third parties.

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Legal information about the use of financing instruments described in this toolkit

The information contained herein should not be implemented without prior consultation of legal advice, and the instruments explained in this toolkit should never be used without first assessing their compliance with all the necessary laws and regulations applicable to the country. The regulatory environment could pose additional challenges to the application and execution of the instruments listed herein due to the intricacies of the legal processes.

For instance, the redemption of equity could be hindered by the regulations on the reduction of capital and share buybacks. According to the Companies Act 1994, under section 58, a company faces restrictions on the purchase by company or loans by company for the purchase of its own shares. Buybacks are subject to restrictive and detailed rules, and a company in Bangladesh may buy back its own shares only upon obtaining an order of the Company Court (High Court Division of the Supreme Court).

Repayments could also face restrictions based on the location of the provider. In fact, all proposals for borrowing from abroad and the respective repayment of interest and principal instalments shall require the prior authorisation of the Bangladesh Investment Development Authority (BIDA), and may also require the approval of the Bangladesh Securities and Exchange Commission (BSEC).

Furthermore, Bangladesh maintains significant control over the foreign exchange market, with comprehensive guidelines on the application and implementation of its foreign currency regime. Remittances to investors based outside Bangladesh are subject to regulatory approvals, and depending on the remittance amount, the structure of the investments as well as the industry of the investee, approvals from the BIDA, BSEC, and the Bangladesh Bank may also be required.

INNOVATIVE FINANCE OVERVIEW

Innovative Finance is a general term typically used for a set of non-traditional investment strategies and structuring approaches that focus on the creation of positive social and environmental impact with the means of finance. Here we provide an overview of the different approaches.

A. IMPACT INVESTMENT

Impact Investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. The impact investment market has grown considerably. The GIIN estimates that over 3,907 organisations now manage USD 1.571 trillion in impact investing assets under management worldwide, representing 21% compound annual growth since 2019, with an 11% increase in the past year alone.[2] This capital addresses pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education.[3]

The main defining criteria for Impact Investment are:

- **Intentionality:** Investors intentionally aim to achieve a positive social or environmental impact with their investments.
- **Financial Return:** Investors expect an impact investment to generate sufficient financial return on capital.
- **Asset class/return rate spectrum:** Impact investment targets a wide range of returns from concessionary[4] to market rate, and across different asset classes[5], depending on the investors' strategic goals.
- **Impact measurements:** Investors are actively engaged in measuring and reporting the social and environmental performance as well as the progress of the underlying financial investment, in order to guarantee accountability and transparency.
- **Contribution to the growth of the industry:** Investors share practice, data and learning so that the market develops with integrity and others can enter it with confidence.[6]

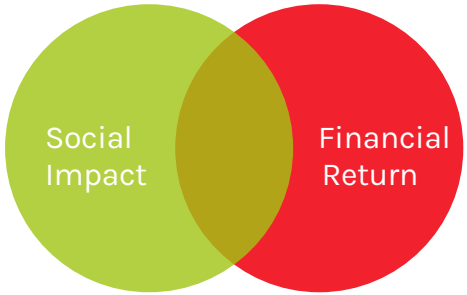


Figure A.1 – "Impact Investment", source: Roots of Impact.

It is interesting to note that the gathering of impact data helps the enterprise to better understand its customers and therefore create ad-hoc products and services. On the capital investor's side, impact measurement provides the impact investor with valuable insights to improve everything from deal sourcing to the selection and management of the investment. Reporting data, on the other hand, helps the enterprise and the investor to earn trust with key stakeholders. Thus, measuring impact not only boosts the company's economic results but it also indirectly influences the company's long-term viability.

While this toolkit focuses on innovative financing for early-stage impact enterprises, the definition of Impact Investment encompasses a whole range of financial transactions. Examples are equity investment in MFIs[7], debt investment to finance the construction of a wind farm, or a royalty-based loan to finance the expansion and working capital needs of an early-stage company providing affordable healthcare. The prevailing types of impact investors are HNWIs [8], institutional funds, DFIs[9], governments, foundations, banks, pension funds, insurance companies and other financial institutions, whereas the main recipients are startups, impact enterprises, mature companies and funds.

2 GIIN (2024), Sizing the Impact Investing Market 2024.

3 GIIN: Global Impact Investing Network

4 Concessionary: capital provided on more favourable terms than the market would normally offer, such as below-market interest rates, longer repayment periods or lower expected returns, typically to advance impact or development objectives.

5 Asset classes: including but not limited to cash equivalents, fixed income, venture capital, and private equity.

6 GIIN, Core Characteristics of Impact Investing.

7 MFIs: Micro Finance Institutions.

8 HNWI: High Net Worth Individuals

9 DFIs: Development Finance Institutions

B. BLENDED FINANCE

According to Convergence, Blended Finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development.[10]

It is a structuring approach that allows organisations with different objectives to invest alongside each other while achieving their own objectives, whether financial return, social impact, or a blend of both. The market is substantial and according to **Convergence's Historical Deals Database**, it comprises 6,800 blended finance transactions with a total investment of USD 296 billion as of 2026.

Despite its numerous combinations, Blended Finance should always have three distinctive characteristics:

- Catalytic nature
- Contribution towards achieving the SDGs
- Yield of positive financial returns[11]

Catalytic capital differs from commercial capital insofar as it typically bears higher risk and/or seeks lower returns. This "concessionality" is what makes it catalytic and allows for the mobilisation of additional investment.

How does Blended Finance work?

Private investors are generally looking for an appropriate return for the level of risk of an investment, i.e. a "risk-adjusted" return. The higher the (perceived) risk, the higher the expected return needs to be to compensate for that risk. Hence, for projects or enterprises that are not meeting the risk-return expectations of private investors, there are two basic ways for public funders to attract them, and the two can be combined:

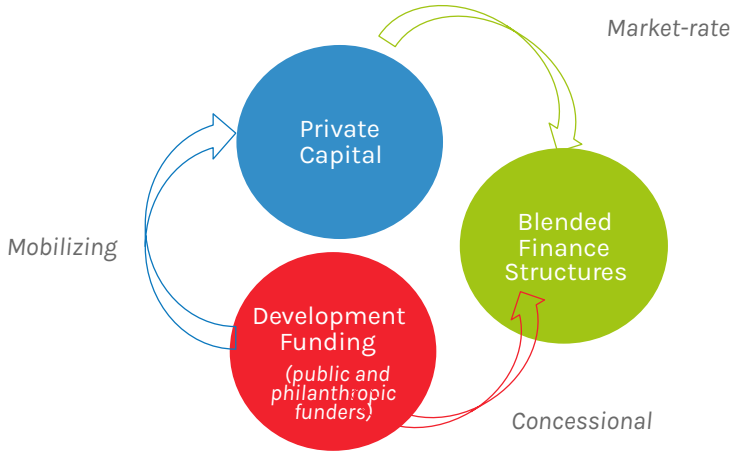


Figure B.1 – "Blended finance", source: Convergence, 2020.

- By de-risking the investment: reducing the risk for the private investor
- By return enhancement: increasing the return for the private investor

De-risking with instruments such as guarantees or first-loss capital is generally used for projects or enterprises that are sufficiently profitable but have a high (perceived) risk of default or write-off. On the other hand, with return enhancement (for example, via technical assistance or Social Impact Incentives), donor agencies and other catalytic funders can support earlier-stage projects and enterprises. They can also boost innovations that are not yet commercially viable enough to attract investors but are expected to generate significant positive development outcomes.

C. RESULTS-BASED FINANCE

Results-Based Finance is a broad term that refers to all the instruments that provide funding upon achievement of specific results. Given the expansiveness of the definition, Results-Based Finance entails a broad spectrum of interpretations and applications such as performance-based contracts, impact bonds, advance market commitments, and other financial rewards. The OECD has identified nearly 20 variations in terminology used to describe these mechanisms, including pay for

10 Convergence, Blended Finance Primer, convergence.finance/blended-finance

11 The financial returns are positive for all the players involved. However, based on the structure decided, some investors may have above market returns and some others may only have concessional returns.

results, pay for success, payment by results and outcomes-based contracts, many of which describe the same or similar tools.[12]

Whatever the label, these mechanisms share three features: results are defined upfront, payments are tied to their achievement, and achievement is independently verified. The essential aim is to encourage more efficient and effective use of public finance and implementation capacity towards the SDGs.[13]

D. IMPACT-LINKED FINANCE

Impact-Linked Finance, as a further development of Results-Based Finance, refers to linking financial rewards for market-based organisations to the achievements of positive social or environmental outcomes. It is an effective way of aligning positive impact with the economic viability of the investee enterprises. The practice lies at the intersection between Blended Finance, Impact Investing, and Results-Based Finance.

It bears many similarities to Results-Based Finance but differs in two key points: Firstly, it is used to catalyse private investment for businesses, as opposed to just providing payments for results. Secondly, it is rewarding the achievement of outcomes (e.g., decent jobs and increased income for target beneficiaries) as opposed to outputs (e.g., people trained). It thus represents financing for businesses that are willing and able to deliver positive impact beyond the usual scope.

How it works and optional design features

The practice of Impact-Linked Finance follows the concept that rewards for positive outcomes can be built into financing instruments across the board, from equity and debt to guarantees. For example, lenders can link the interest rates of loans to pre-defined impact performance metrics, decreasing the rate as this impact is achieved. Here, the 'Impact-Linked Loan' effectively lowers financing cost and creates a strong incentive for enterprises to outperform on positive impact.

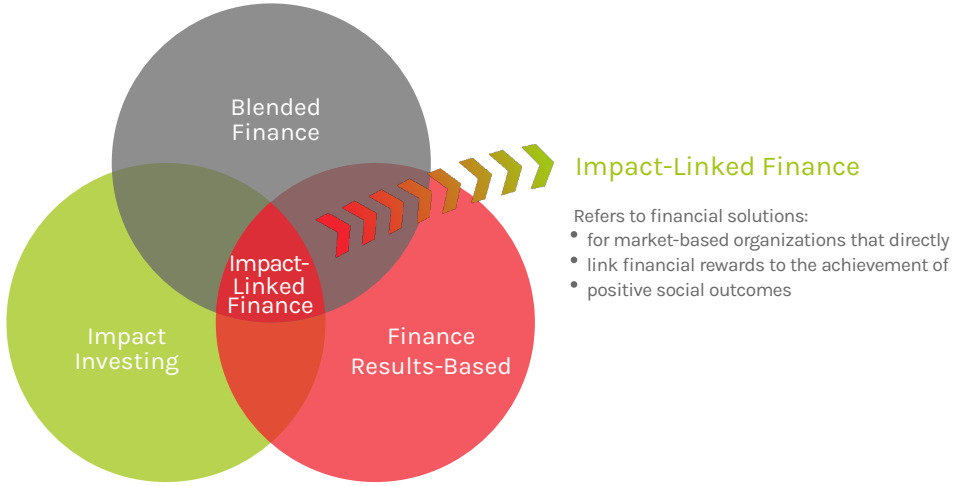


Figure D.1 – "Impact-Linked Finance", source: Boston Consulting Group and Roots of Impact.

Every transaction therefore involves the same core decisions: which outcomes to reward, how to price the outcomes to be rewarded, how the reward is delivered, and how and when impact achievement is verified. Around that core sits a set of optional features that can be combined to fit the enterprise and the transaction, shaping how the incentive is built up, adjusted over time and ultimately paid. Rather than repeating them in each instrument entry, they are summarised in the table below.

12 OECD (2025), Outcomes-Based Financing in the New Financing for Development Architecture, DCD(2025)9, OECD Development Co-operation Directorate.

13 SDGs: Sustainable Development Goals

Feature	What it does	Instruments that could include it
IMM build-up phase	Rewards the enterprise for establishing an impact measurement and management system and collecting baseline data before outcome-based rewards begin.	SAFI, SIINC, ILLs, Impact-Linked Convertible Note and SAFE Standard: IRMF
Evolving metrics	The required quality of impact metrics increases over the term, for example beginning with evidence-backed output indicators and moving to stronger proxies and ultimately outcome indicators as the system matures.	SIINC, SAFI, ILLs, Impact-Linked Convertible Note and SAFE
Adaptive performance targets	Targets are agreed upfront and reviewed periodically, so incentive schemes can be adjusted in response to new insights, market changes or verification findings. Now standard practice in all ILF transactions.	SIINC, SAFI, ILLs, Impact-Linked Convertible Note and SAFE
Golden Impact Target	A single headline outcome objective that triggers an additional reward when achieved.	SAFI, SIINC, ILLs, Impact-Linked Convertible Note and SAFE
Upfront payment with repayment option	The reward is paid at the outset, with repayment triggered if agreed outcomes are not achieved.	IRMF, SAFI, SIINC Standard: ILLs, Impact-Linked Convertible Note and SAFE
Incentive repayment option	Rewards are partially repaid when defined triggers are reached.	SIINC, SAFI, ILLs, Impact-Linked Convertible Note and SAFE
Conversion option	Rewards are converted into another form, for example equity, when defined triggers are reached.	SAFI, SIINC, ILLs Standard: Impact-Linked Convertible Note and SAFE

1

EQUITY ALTERNATIVES AND CONVERTIBLES



The following section examines five financing instruments for early-stage impact enterprises with self-liquidating mechanisms or convertible options.

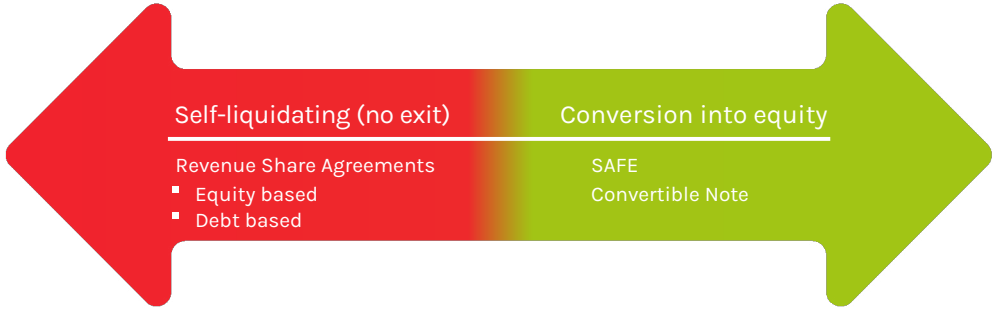


Figure 1.1 – "Equity Alternatives and Convertibles", source: Roots of Impact.

1.1 SAFE (SIMPLE AGREEMENT FOR FUTURE EQUITY)

Brief Description

The Simple Agreement for Future Equity ("SAFE") is a financing instrument used in early-stage funding and seed funding and resembles the dynamics of a convertible note without having the intricacies that a convertible debt instrument would entail. Via a SAFE the investor receives the right to purchase the shares of a company in a future round of equity, subject to pre-defined conditions set ex-ante in the agreement.

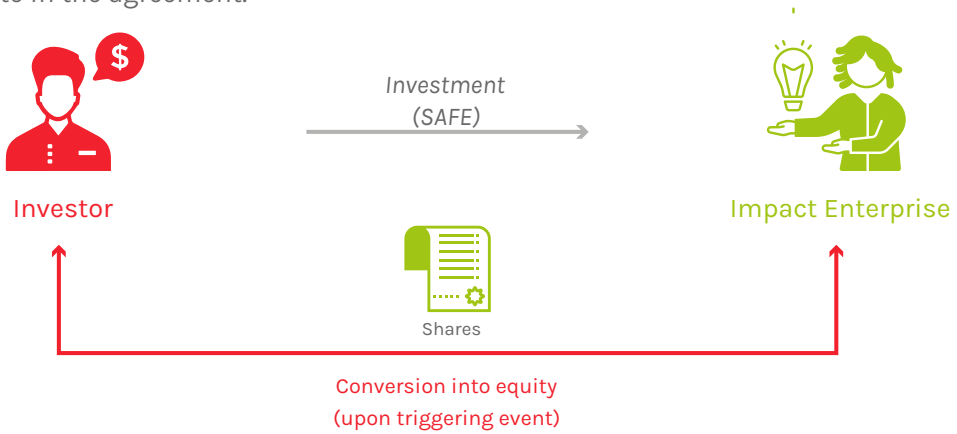


Figure 1.2 – "SAFE", source: Roots of Impact.

Purpose/Fit	Flexible, quick and simple source of funding in unpriced[14] seed rounds
Can replace	Debt – convertible notes
Risk/Return Profile	High Risk/High Return
Enterprise Lifecyle	Seed stage
Maturity	n/a – it is linked to the equity funding round (or dissolution event, or another triggering event)

14 Unpriced in this context means that there is no company valuation that would allow to calculate the company share investors would get for a certain amount of investment.

Defining Criteria

1. **Liquidity event or triggering event:** A specific event triggering conversion into equity. The most common event is an equity funding round (it is usually a Series A financing, i.e. when the company provides equity shares to the investors for the first time). Another triggering event could be a trade sale, which is the sale of the overall business, or a part of it, to another company.

2. **Dissolution event:** In the case of the company going out of business, the SAFE investor is entitled to receive its purchase amount or any other agreed amount back.

3. **Discount rate:** It allows the SAFE investor to convert to equity at a discounted price in the course of a subsequent round of financing. Discount rates typically range between 10% and 25%, and the discount factor is calculated as follows: [100 – discount rate]%.

4. **Valuation Cap:** Upon raising funds above a certain threshold, it allows the SAFE investor to convert at the cap share price. The valuation cap works as a ceiling on the valuation that will be used to calculate the conversion price for the SAFE investors, who are entitled to convert at the lower of the valuation cap or the price, in the subsequent financing.

5. **Pro-rata rights or participation rights:** They entitle the SAFE investors, during subsequent rounds of funding, to invest additional funds in order to maintain their ownership percentage and avoid dilution.

Variants and Optional features

- The triggering event can also be linked to a change of control, an M&A, or other predefined circumstances.

- The valuation cap can be applied to pre or post money valuation.

- Most favoured nation provision ("MFN"): in case of multiple issues of SAFE, the company has to inform all the SAFE investors about each new additional issuance and enable them to check whether the terms are preferable. For instance, if

a valuation cap or discount is introduced in the new round of SAFE, then the previous holders are entitled to amend their SAFE to reflect the new terms.

- Linking financial rewards to the achievement of impact, for example reducing the discount rate or increasing the valuation - see “Examples of relevant terms” below.
- Examples of SAFE structures:
  - SAFE with valuation cap but no discount (most common)
  - SAFE with no valuation cap but with discount
  - SAFE with both valuation cap and discount

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
Valuation cap sets a maximum conversion price, protecting the investor’s entry price if the company’s value rises before conversion	Unlike a convertible note, no interest accrues and there is no repayment before conversion, so the investor receives no interim return
Discount rate offers some compensation for early-stage risk	No control rights, board seat, or veto rights during a standard SAFE period
Fast and cheap to execute relative to a priced round or convertible note	No recovery priority in a bankruptcy scenario, however they are ranked before common shareholders
Pro-rata rights, if included, protect the investor’s stake in later rounds	If no triggering event occurs, conversion may never happen

Benefits and Considerations, Enterprises

Benefits	Considerations
Access to capital at a stage where a priced valuation would be premature or difficult to quantify	Final dilution is unknown until conversion, complicating cap table planning
Low legal cost and fast execution relative to convertible notes or priced equity	Stacking multiple SAFEs without careful tracking can create unexpected cumulative dilution
Unlike a convertible note, no repayment obligation or interest accrual, preserving cash during early growth	If no triggering event occurs, terms may need renegotiation
No fixed maturity date, removing repayment or conversion deadline pressure	

Selection Criteria Checklist

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

- ☐ **Pre-valuation stage** — company’s value is genuinely hard to price, a priced round would be premature.
- ☐ **Credible conversion trigger** — a near-term priced round or other trigger is realistically expected.
- ☐ **Investor accepts deferred return** — capital provider is comfortable with no maturity and no interim interest.
- ☐ **Local legal enforceability** — SAFE is recognised locally, or an adapted template exists.
- ☐ **Manageable cap table** — cumulative dilution from all SAFEs issued stays at a level the founders and existing shareholders can accept.

- **No control demands** — investor does not require voting or board rights in the interim. Information rights can be granted through a side letter.

Common Pitfalls

1. Stacking multiple SAFEs from different investors without tracking cumulative dilution.
2. Issuing SAFEs to multiple investors on different terms without properly settling the MFN provisions[15], causing disputes over conversion price later.
3. Assuming enforceability in a jurisdiction where SAFEs aren't legally tested, without adapting terms with local counsel.

Examples of Relevant Terms

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

Discount Factor/ Price	The Discount Factor is (80%). The Discount Price is the price per share of the Standard Preferred Stock sold in the Equity Financing multiplied by the Discount Factor.
Conversion Price	The Conversion Price means either (i) the SAFE Price or (ii) the Discount Price, whichever calculation results in a greater number of shares of SAFE Preferred Stock, where SAFE Preferred Stock means the shares of Preferred Stock issued to the SAFE investor in an Equity Financing, having identical rights, privileges, preferences and restrictions as the shares of Standard Preferred Stock, other than with respect to (i) the per share liquidation preference and the conversion price for purposes of price-based anti-dilution protection, which will be equal to the Conversion Price; and (ii) the basis for any dividend rights, which will be based on the Conversion Price.
SAFE Price	SAFE Price means the price per share equal to the Valuation Cap divided by the Company Capitalisation.
Valuation Cap	The (Post-Money) Valuation Cap is (USD 5,000,000)
MFN Amendment Provision	If the Company issues any Subsequent Convertible Securities prior to termination of this SAFE, the Company will promptly provide the Investor with written notice thereof. In the event the Investor determines that the terms of the Subsequent Convertible Securities are preferable to the terms of this instrument, the Investor will notify the Company in writing. Promptly after receipt of such written notice from the Investor, the Company agrees to amend and restate this instrument to be identical to the instrument(s) evidencing the Subsequent Convertible Securities.
Optional: Link to Impact Performance	The pre-agreed discount rate of (20%) is reduced by (1%) for every (1,000 units of social outcomes) achieved by the Company up to a discount rate of (0%). Alternatively: The pre-defined valuation cap of (USD 5,000,000) increases by (USD 10,000) for every (1,000 units of social outcomes) achieved by the company up to a valuation cap of (USD 8,000,000).

CASE STUDY: LEADING EDUCATION SERVICES ENTERPRISE, BANGLADESH

Instrument	Simple Agreement for Future Equity (SAFE), modified for Bangladesh
Company	Leading Education Services Enterprise
Sector	Education Services
Investor	LCMA Ventures
Deal Figures	Illustrative only; actual deal terms are not disclosed

The Challenge

The education services enterprise is one of Bangladesh's leading edtech platforms. Like most early-stage ventures, it needed growth capital before it had a solid

15 See Variants and Options section for definition

revenue history for founders and investors to agree on a valuation. A fully priced equity round would have taken months of negotiation and legal work.

How the Deal Works

The enterprise closed an investment from LCMA Ventures using a modified SAFE. Unlike a convertible note, a SAFE carries no interest and no maturity date. The investor provides cash today and receives shares upon a conversion event in the future, when the company raises a priced investment round. The founders can start using the provided investment immediately to scale the business.

Two terms protect the early investor for taking the earliest risk:

- **Valuation Cap:** the maximum valuation at which the SAFE converts.
- **Discount:** a percentage discount on the share price of the next priced round.

At conversion, the SAFE investor gets whichever price is lower.

Illustrative Worked Results

The figures below are illustrative and do not reflect the enterprise's actual terms.

In this example, Leading Education Services Enterprise raised a USD 500,000 SAFE from LCMA Ventures, with a USD 3 million valuation cap and a 20% discount. At that point the enterprise had 4 million founder shares outstanding, held by the founders, and its cap table was as follows.

Shareholder	Shares	Ownership
Founders (Combined)	4,000,000	100%
SAFE Investor (LCMA Ventures)	No shares until conversion	0%

Sixteen months later, the enterprise raised its Series A, in which a new investor committed USD 1 million at a USD 4 million pre-money valuation.

With 4 million founder shares outstanding, the Series A price was calculated at USD 1.00 per share (USD 4 million / 4 million shares). The SAFE converts at the lowest of the three prices below.

Conversion Price Test	Calculation	Price per Share
Series A Price	USD 4m / 4m shares	USD 1.00
Discount Price	USD 1.00 x (1 - 20%)	USD 0.80
Cap Price	USD 3m / 4m shares	USD 0.75
SAFE Converts at (Lowest)		USD 0.75

The SAFE converts into 666,667 shares (USD 500,000 / USD 0.75). The Series A investor receives 1,000,000 shares (USD 1,000,000 / USD 1.00).

Cap Table After Series A: How SAFE Terms Shift Ownership

After the Series A, the enterprise's cap table reflected the SAFE terms as shown below. With both the USD 3 million cap and the 20% discount, the founders hold 70.6%, the SAFE investor 11.8% and the Series A investor 17.6%. The table compares this outcome with the same round under two alternative sets of terms.

Scenario	Founders (Combined)	SAFE Investor	Series A Investor
No Cap, No Discount	72.7%	9.1%	18.2%
20% Discount Only	71.1%	11.1%	17.8%
USD 3M Cap + 20% Discount	70.6%	11.8%	17.6%

Assumption: the USD 4 million pre-money valuation counts founder shares only, so SAFE conversion shares dilute the investor as well as the founders. Most investors will instead insist the pre-money includes SAFE conversion, which pushes all SAFE dilution onto the founders. This is the single most negotiated point at conversion.

Lessons Learned

- **Speed and Cost:** a SAFE allows a founder to close early-stage funding in weeks rather than months, which matters in markets with few active seed investors.
- **Dilution Is Deferred, Not Avoided:** the final extent of dilution is unknown until conversion. Founders should model the outcome under several valuation cap and discount rate scenarios before signing, particularly where more than one SAFE is outstanding.
- **Local Legal Fit:** SAFEs were designed under US company law, so their terms need to be checked against local rules before use. Conversion mechanics, share issuance approvals and foreign investment rules can differ between countries and may require local legal review, which is why SAFEs used outside the US are typically modified.

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



1.2 CONVERTIBLE NOTE

Brief Description

A Convertible Note is a short-term unsecured debt instrument that converts into equity upon the occurrence of a triggering event. For example, when the convertible note is used as seed financing, the triggering event is usually the closing of a Series A equity round of financing. The underlying idea is that the investor receives shares of the company and dividend payments in lieu of principal and interest payments. After the triggering event, the investor is entitled to convert at the lower of (i) the price of the financing round (after applying a discount rate, if any) and (ii) the valuation cap (if any).

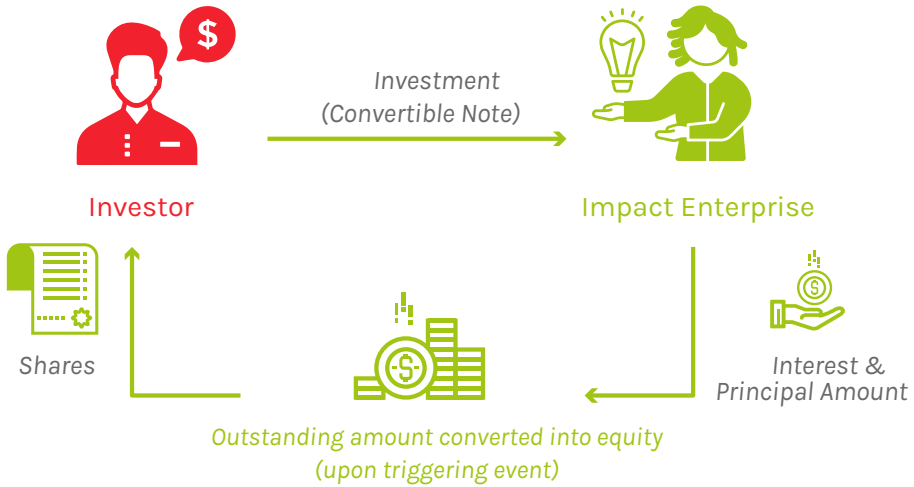


Figure 1.3 – "Convertible Note", source: Roots of Impact.

Purpose/Fit	Flexible, quick and simple source of funding in unpriced[16] seed rounds
Can replace	Equity, SAFE, debt – conventional loan
Risk/Return Profile	High Risk/High Return
Enterprise Lifecyle	Seed stage
Maturity	It depends on the maturity date defined ex ante

16 Unpriced in this context means that there is no company valuation that would allow to calculate the company share investors would get for a certain amount of investment

Defining Criteria

1. **Triggering event:** Usually an equity funding round.

2. **Discount rate:** Allows the investor to convert to equity at a discounted price during a later round of financing. Discount rates typically range between 10% and 25%, and the discount factor is calculated as follows: [100 – discount rate]%.

3. **Valuation cap:** Upon raising funds above a certain threshold, it allows the investor to convert at the cap share price. The valuation cap works as a ceiling on the valuation that will be used to calculate the conversion price for the convertible note investors, who are entitled to convert at the lower of the valuation cap or the price in the subsequent financing.

4. **Interest rate:** The convertible note is a hybrid debt instrument, and as such it has an interest rate. Unlike a traditional loan, however, the interest is typically not paid until the maturity date. In the majority of cases the interest converts into equity instead of being paid in cash.

5. **Maturity date:** Once the maturity date is reached and no conversion has happened, the company must pay back the principal and the interest accrued, or convert into equity.

Variants and Optional features

- The triggering event can also be linked to a change of control, an M&A, or other predefined circumstances.

- Convertible Note with Revenue Share Agreement: the scheduled payment of the interest can be linked to a revenue share agreement, so a share of revenues is paid periodically instead of interest accruing to maturity, providing the investor with a return before the maturity date.

- Linking financial rewards to the achievement of impact, for example reducing the discount rate or increasing the valuation cap – see "Examples of relevant terms" below.

- Examples of Convertible Note structures: Traditional Convertible Note[17]; Convertible Note with valuation cap but no discount[18]; Convertible Note with no valuation cap but with discount[19]; Convertible Note with both valuation cap and discount[20].

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
Debt claim until conversion ranks ahead of equity holders in a liquidation, offering limited downside protection	No control rights, board seat or veto rights before conversion (investors seeking these may prefer preferred stock). Although they will often have information rights
Interest accrues and typically converts, adding to the investor's stake at conversion	Repayment at maturity may not be practical where a seed-stage company does not hold sufficient cash, so extension or renegotiation is a common outcome
Discount rate and valuation cap offer some compensation for early-stage risk	Without a valuation cap, a high valuation penalises the investor and can misalign interests with the founders
Maturity date provides a negotiation lever if no priced round materialises	Return is only realised at or after conversion; until then the investor is not remunerated for early-stage risk (though it can be argued that the discount rate compensates for the additional risk borne)

17 the outstanding amount, composed of the amount initially provided by the investor and the accrued interest, converts into shares at the lower of the valuation cap price or the price of the next qualified financing

18 the outstanding amount converts into shares at the lower of the valuation cap price or the price of the next qualified financing, with no discount applied to that price

19 the outstanding amount converts into shares at the price of the next qualified financing reduced by the agreed discount rate, with no ceiling on the valuation used for conversion

20 the outstanding amount converts into shares at the lower of the valuation cap price or the discounted price of the next qualified financing

Benefits and Considerations, Enterprises

Benefits	Considerations
Valuation questions limited at the very early stage of financing, avoiding problems of ownership percentage, taxes and option pricing	It is debt. The note sits on the balance sheet and creates a repayment obligation if no triggering event occurs before maturity
Simple, fast and cost-effective way to raise funds relative to a priced round	Accrued interest increases the amount converting, adding dilution that is easy to underestimate
Founder control is not diluted before conversion	Considerable dilution of founders and early investors at conversion is possible if terms are not modelled carefully
Interest typically converts into equity rather than draining cash during early growth	Stacking notes with different caps and discounts complicates the cap table

Selection Criteria Checklist

Use to test whether a Convertible Note is a good fit for a given deal.

- **Pre-valuation stage**: the company's value is genuinely hard to price and a priced round would be premature.

- **Credible conversion trigger:** a priced round or other trigger is realistically expected before the maturity date.

- **Debt tolerance:** the enterprise can carry a debt obligation and the residual risk of repayment at maturity.
- **Investor accepts deferred payment:** the capital provider is comfortable with interest accruing from the outset but paid only at conversion or repayment.
- **Priced early-stage risk:** cap or discount are agreed so the investor is compensated for entering early.
- **Local legal enforceability:** convertible debt is recognised locally, or an adapted template exists.

Common Pitfalls

1. Setting the maturity date too early, so it arrives before a realistic Series A and forces renegotiation or default.
2. Ignoring accrued interest when modelling dilution, understating what converts at the triggering event.
3. Agreeing a note with no valuation cap, or with one drafted ambiguously, risking conversion-price disputes and a misalignment of interest in which investors are penalised by a high valuation and could be incentivised to refrain from helping the enterprise maximise its value.

Examples of Relevant Terms

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

Conversion	The outstanding balance of the Note's principal together with all accrued and unpaid interest under the Note shall be converted into shares of the company's capital stock pursuant to the Qualified Equity Financing at the lower of (i) a conversion price equal to (80%) (Discount Factor) of the price per share agreed to in the Qualified Equity Financing, and (ii) a conversion price equal to the Valuation Cap divided by the fully diluted capitalisation as of immediately prior to the initial closing of the Qualified Equity Financing.
Discount Factor	The Discount Factor is (80%).
Valuation Cap	The Valuation Cap is (USD 4,000,000).
Optional: Link to Impact Performance	The pre-agreed discount rate of (20%) is reduced by (1%) for every (1,000 units of social outcomes) achieved by the company up to a discount rate of (0%). Alternatively: The pre-defined valuation cap of (USD 4,000,000) increases by (USD 10,000) for every (1,000 units of social outcomes) achieved by the company up to a valuation cap of (USD 6,000,000).

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

1.3 REVENUE SHARE AGREEMENT (DEBT-BASED)

Brief Description

A Revenue Share Agreement ("RSA") is a quasi-equity financing instrument (also called a revenue-based loan) where periodic repayments are based on a percentage of revenues up to a predetermined return on the investment ("Cap" or "Multiple"). The RSA allows for a higher level of flexibility because repayments are not tied to a monthly amount or interest rate; they fluctuate with the company's revenues. When revenues are down due to seasonality or other unexpected factors, the repayment will be lower and represent a smaller burden on the company's cash flow. Conversely, when revenues are high, the repayment will scale with the increasing revenue base and allow the investment to be repaid faster. The debt-based RSA allows the enterprise to retain ownership and control of the company, avoiding equity dilution or interference in the management by external parties.

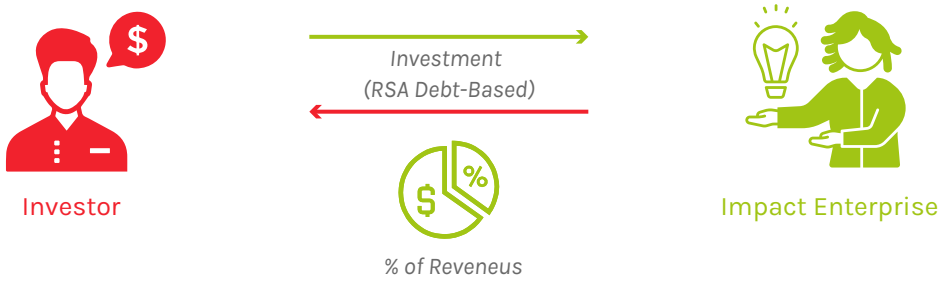


Figure 1.4 – "RSA Debt-Based", source: Roots of Impact.

Purpose/Fit	Enabling mission-aligned growth without equity dilution and requirement for exit
Can replace	Equity or debt (dependent on stage and purpose of investment)
Risk/Return Profile	Medium Risk/Moderate Return[21]
Enterprise Lifecyle	Early-growth stage (post-revenue)
Maturity	Agreed between investors and borrowers based on a pre-defined multiple

21 The return depends on the behaviour of the underlying financial metric and on the speed of which money is repaid back

Defining Criteria

1. **Interest rate:** Unlike a loan or a convertible note, a Revenue Share Agreement has no fixed interest rate.
2. **Periodic repayments:** Based on a fixed percentage of revenues, or alternatively profit, cash flow or other financial indicators. The frequency is usually annual or biannual.
3. **Revenue share:** The percentage of revenue agreed that the company shall pay to the investor.
4. **Revenues:** The definition of revenues agreed with the company. An example is the definition of net revenues according to common accounting standards.
5. **Multiple/Cap:** How many times the initial investment ("Multiple") or the total amount ("Cap") the enterprise shall repay.
6. **Flexibility:** A Revenue Share Agreement has a flexible repayment period, until reaching a pre-defined multiple (e.g. 1.5x the initial investment).
7. **Return on capital:** The investor's return on capital is dependent on the timing of the repayments. The faster the sales growth, the greater the return for the investor.
8. **No collateral requirement:** Typically there is no requirement for collateral but simply a convincing revenue history or high potential for future sales, given proof of concept or past traction.

Variants and Optional features

- Honeymoon, also known as grace period: the repayment is deferred by a predetermined duration, usually ranging from 10 to 24 months, to provide the enterprise with the time needed to reach efficient scale and generate revenues and profits.
- A final repayment date for the remainder can be agreed upon. In this case the

enterprise has to pay the investor the remainder (balloon payment) needed to reach a pre-defined multiple (e.g. 1.5x) on this final repayment date.

- Straight interest rate enhanced with a "royalty kicker", i.e. a percentage of revenues payable to the investor on top of the straight repayment (which dilutes some of the advantages for the enterprise mentioned above).

- Conversion to equity or participation rights in future rounds of funding (see Convertible Note).

- The loan can be combined with business development services to prepare the entrepreneur (the borrower) for loan monitoring, business growth and capital infusion, and to help reduce the risk of default.

- The investor can be given the option to convert the investment into a normal loan upon achievement of a specific revenue level. The enterprise then pays back on a traditional loan schedule, providing the creditor with interest and principal payments. This variant caps the amount the enterprise will have to pay and helps it make more accurate financial projections.

- The Revenue Share Agreement can be used in combination with subordination of the loan, allowing the impact enterprise to attract further funding and investors (in the event of liquidation or bankruptcy, subordinated debt ranks below other debt instruments).

- Linking financial rewards to the achievement of impact, for example reducing the multiple/cap or the revenue share – see "Examples of relevant terms" below.

- Examples of structures: Straight (or Open-Ended) Revenue Loans[22]; Convertible Revenue Loans[23]; Final Repayment Date Revenue Loans[24].

22 a percentage of revenues is periodically repaid until a certain multiple of investment is reached

23 a percentage of revenues is periodically repaid and the remainder can be converted to equity

24 the remainder has to be repaid by a final repayment date

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
Early, ongoing returns from the investment instead of waiting for an exit	Upper constraint on return in terms of multiple of investment, due to the nature of the structure
Enterprise and investor both benefit in case of strong revenue growth (alignment of interest)	Heavy reliance on the company's future revenue and on accurate revenue reporting
Pre-defined exit: self-liquidation through achieving the pre-defined repayment level, with no dependence on an exit event	Additional risk if revenue falls below expectations: repayment time extends (Straight Revenue Loans) or a high repayment obligation arises at maturity (Final Repayment Date Revenue Loans)
Straightforward implementation without major legal formalities, and no time wasted on valuation questions	Typically no collateral to fall back on in case of default

Benefits and Considerations, Enterprises

Benefits	Considerations
Repayments flex with revenues, avoiding the burden of fixed repayments during low-sales periods	Payments based on a revenue share reduce free cash flow during the scaling phase
No dilution of ownership and limited external involvement in day-to-day management	Effective cost of capital can be high if revenues grow quickly and the multiple is repaid early

No pre-defined payment amount and often no or reduced collateral requirement	A balloon payment at a final repayment date can create a heavy obligation if growth disappoints
No time spent on valuation questions	Requires reliable revenue accounting and reporting to the investor

Selection Criteria Checklist

Use to test whether a Revenue Share Agreement (Debt-based) is a good fit for a given deal.

- ☐ **Post-revenue:** the enterprise has a convincing revenue history or strong evidence of near-term sales.
- ☐ **Margin headroom:** margins can absorb the agreed revenue share without starving operations.
- ☐ **Investor accepts capped return:** the capital provider is comfortable with a multiple-based ceiling on returns.
- ☐ **Clean revenue definition:** a clear, auditable definition of revenues and reporting cadence is agreed.
- ☐ **No conflicting equity plans:** no near-term priced round that the Revenue Share Agreement would complicate.
- ☐ **Realistic sizing:** the multiple, revenue share and tenor make full repayment plausible under conservative forecasts.

Common Pitfalls

1. Setting the revenue share too high for the company's margin profile, draining the cash needed to scale.
2. Leaving the definition of revenues vague, causing disputes over what the share is calculated on.
3. Skipping the grace period, forcing repayments before the enterprise reaches efficient scale.

Examples of Relevant Terms

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

Revenue share	In exchange for the Financing Amount, the Company shall make (quarterly) payments equal to (5%) of Revenue to the Investor until the Repayment Amount is paid in full. The initial payment will begin at the earlier of (i) the end of the first quarter in which the Company generates (gross) revenues of (USD 80,000); or (ii) (12) months (grace period) from signing of the term sheet.
Multiple/Cap	The outstanding amount will be considered paid in full when the Company has paid the Investor the Repayment Amount, defined as the original investment amount multiplied by (2x) (Multiple). In the event the Revenue Share Agreement Debt-Based facility has been in effect for a period of (5) years without full repayment, the Company must repay (2x) the outstanding amount at the subsequent end of quarter.
Optional: Link to Impact Performance	The pre-defined multiple of (2x) is reduced by (0.1) for every (1,000 units of social outcomes) achieved by the company down to a threshold of minimum (1.2x). Alternatively: The pre-agreed revenue share of (3%) is reduced by (0.125%) for every (1,000 units of social outcomes) achieved by the company down to a revenue share of (2%).

Other external case studies and additional resources about Revenue Share Agreement (debt-based) can be found **here.**

1.4 REVENUE SHARE AGREEMENT (EQUITY-BASED)

Brief Description

A Revenue Share Agreement ("RSA") Equity-Based is an alternative equity financing model which incorporates a predetermined distribution structure to investors based on revenues, for a specified period or up to a predetermined return on the investment ("Cap" or "Multiple").

As with the debt-based RSA, it allows for greater flexibility because the repayments are not tied to a monthly amount or interest rate; they fluctuate with the company's revenues. When revenues are down due to seasonality or other unexpected factors, the repayment will be lower and represent a smaller burden on the company's cash flow. Conversely, when revenues are high, the repayment will scale with the increasing revenue base and allow the investment to be repaid faster.

Unlike debt-based RSA instruments, which treat the revenue share payments as a mix of interest and principal payments, equity-based RSA instruments include a predetermined liquidation mechanism in the form of an equity redemption-based exit. The self-liquidating structure allows investors to obtain a return on the investment without having to sell the shares to other investors or rely on subsequent rounds of financing to exit. At the same time, control of the company is maintained by the entrepreneur and enterprise performance is matched with the return needs of the investors.

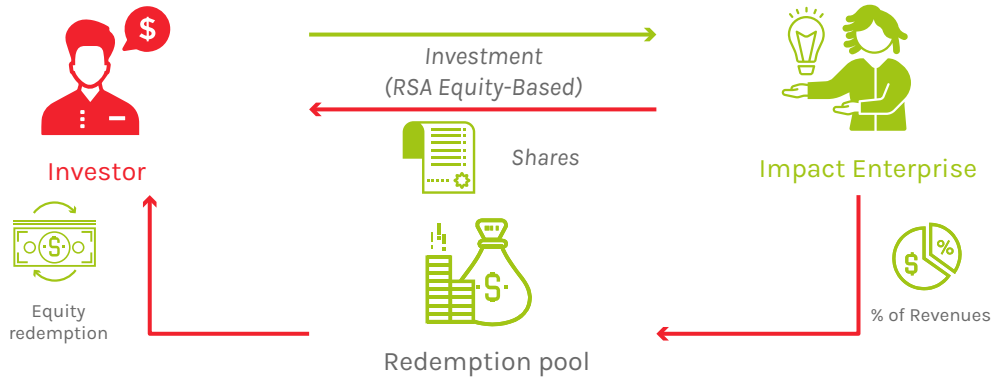


Figure 1.5 – "RSA Equity-Based", source: Roots of Impact.

Purpose/Fit	Enabling equity-like terms without the need for an exit[25]
Can replace	Equity
Risk/Return Profile	Medium Risk/Moderate Return[26]
Enterprise Lifecyle	Early-growth stage (post-revenue)
Maturity	Agreed between investors and borrowers, or upon achievement of a pre-defined milestone

Defining Criteria

1. **Revenue share:** The percentage of revenue agreed that the company shall pay to the investor.
2. **Revenues:** The definition of revenues agreed with the company. An example is the definition of net revenues according to common accounting standards.
3. **Payments:** The equity-based RSA requires ongoing payments (e.g. annual) based on a pre-determined percentage of revenues (or other financial metrics).
4. **Multiple/Cap:** How many times the initial investment ("Multiple") or the total amount ("Cap") the enterprise shall repay.
5. **Profit distribution:** Redemption of equity and/or revenue sharing often replaces the right to participate in profit distribution.
6. **Self-liquidating:** Higher potential upside return from an exit is traded for more certain repayment terms and less risk (risk-adjusted return shift).

Variants and Optional features

- The cap for redemptions can be predetermined at inception as a specific multiple of the original investment price (most common).

25 a share sale, i.e. the sale of parts of the firm or the firm as a whole to another investor

26 the return depends on the behaviour of the underlying financial metric and on the speed at which the money is repaid

- Instead of sharing revenues, it can be agreed to share positive cash flow or profits.[27]

- A redemption pool can be created by setting aside a percentage of revenue over time[28]. The redemption pool allows investors to receive a stable cash flow over the investment period and gives the enterprise even greater flexibility: when revenues are high, repayments scale with revenues and the pool is filled; when revenues are low, repayments come partially or fully from the money set aside.

- A redemption can also be carried out through recapitalisation: once the company is able to obtain traditional financing, conventional instruments (e.g. debt) can be used to buy back shares and reduce the company's outstanding position.

- As repayments are linked to the financial health of the company until a specified multiple is reached, the overall return is usually capped. Nevertheless, the investor can be given the possibility to participate in higher returns in the case of a successful traditional exit before maturity.

- A clause can be included in the term sheet to allow higher flexibility in the event that the enterprise does not have adequate cash at its disposal to satisfy the repayments.

- A straight equity conversion option can be included to allow participation in subsequent equity fundraisings (see Convertible Note or SAFE).

- Event of default clauses can be implemented if the enterprise does not reach predetermined levels of growth or impact metrics. To incentivise focus on the impact mission, a clause could state that failing to meet specific impact metrics constitutes a breach of contract and terminates the relationship, giving rise to a claim on the paid-in capital. Similarly, if the company fails to grow at a predefined rate, the clause could oblige the company to terminate the relationship and repay the invested capital. Since capital is constrained and the number of enterprises in need is high, this allows the investor to hedge against the risk that a company fails to perform adequately, both in terms of growth and impact generated.

- Examples of structures: End-of-period equity redemptions[29]; Gradual equity redemptions[30]; Percentage-based dividends[31].

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
Self-liquidating exit: a return is obtained without selling shares to other investors or relying on subsequent financing rounds	Return is usually capped: higher potential upside from an exit is traded for more certain repayment terms
Part of the invested capital is recouped during the investment lifetime instead of waiting for an exit	Similar to equity instruments, no recovery is provided in the case of bankruptcy (unless a reserve-pool clause is implemented)
Enterprise and investor both benefit, up to the redemption multiple, in case of strong revenue growth (alignment of interest)	Heavy reliance on the company's performance and reporting
A redemption pool variant provides a stable cash flow over the investment period	Lack of familiarity with the instrument and possible transaction costs from the legal work needed to structure the deal

27 a share sale, i.e. the sale of parts of the firm or the firm as a whole to another investor

28 similar to a sinking fund, i.e. a reserve set aside to soften the hardship of a large payment

29 shares are redeemed at the end of the investment period through a mandatory repurchase of the equity stake based on fair market value, calculated for instance via a third-party valuation

30 shares are gradually redeemed over the investment period at a predetermined price and recurrence, based on a pool of cash flows previously set aside

31 a dividend based on a specific percentage of profit, if the company is profitable, is paid until a target multiple is reached; after the investment period, outstanding shares are repurchased at their original price

Benefits and Considerations, Enterprises

Benefits	Considerations
Equity-like patient capital without the need for an exit, so the mission is not tied to a future trade sale or IPO	Payments based on a revenue share reduce free cash flow during the scaling phase
Control of the company is maintained by the entrepreneur	Lack of familiarity with the instrument can increase legal and structuring costs
Repayments are calculated on performance, avoiding the burden of fixed repayments during low-sales periods	Replacing profit-distribution rights with redemption mechanics requires careful design
Revenue sharing is simple in concept, e.g. (3%) of every revenue goes to the investor, with no financial pressure from debt servicing	Redemptions based on fair market value can be contentious if the valuation method is not fixed ex ante

Selection Criteria Checklist

Use to test whether a Revenue Share Agreement (Equity-based) is a good fit for a given deal.

- **Post-revenue:** the enterprise generates revenues that can support periodic redemption contributions.
- **No exit path required:** a trade sale or IPO is neither realistic nor desired, making a self-liquidating structure attractive.
- **Investor accepts capped return:** the capital provider trades exit upside for more predictable, cash-flow-based repayment.
- **Redemption mechanics fixed:** price, schedule and valuation method for redemptions are agreed at inception.
- **Legal and tax feasibility:** local corporate law permits share redemptions or buybacks in the intended form.
- **Reporting capacity:** the enterprise can produce reliable revenue and financial reporting for the investor.

Common Pitfalls

1. Leaving redemption pricing to future negotiation instead of fixing the mechanics ex ante, inviting valuation disputes.
2. Sizing the multiple or revenue share so high that redemption obligations create debt-like pressure on cash flow.
3. Overlooking local corporate-law limits on share buybacks and redemptions before structuring the deal.

Examples of Relevant Terms

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

Revenue share	In exchange for the Financing Amount, the Company shall make (quarterly) payment contributions equal to (5%) of Revenue to the Redemption Pool, which shall be utilised at termination of the contract to redeem the Redeemable Amount in full. The Revenue Share Agreement Equity-Based shall be gradually redeemed commencing at the earlier of (i) the end of the first quarter in which the Company generates (gross) revenues of (USD 50,000), or (ii) (12) months (Grace Period) from signing of the term sheet. The Revenue Share Agreement Equity-Based shall participate in distributions paid on Common Stock until the total amounts paid on the Revenue Share Agreement Equity-Based have reached the Redeemable Amount in full.

Multiple/Cap	The outstanding amount of the Revenue Share Agreement Equity-Based will be considered paid in full when the Company has redeemed 100% of the Redeemable Amount, defined as the original investment amount multiplied by (2x) (Multiple). Alternatively: defined as the original investment amount increased by a specified return on investment of (12%). (A multiple of the invested capital defines the overall expected return for the investor: in the case of a (3x) multiple, the enterprise provides the revenue share until reaching (3) times the paid-in capital.)
Optional: Link to Impact Performance	The pre-agreed redemption cap (multiple of 2x) can be reduced by (0.1x) for every (1,000 units of social outcomes) achieved by the company down to a multiple of (1x). Alternatively: The pre-agreed revenue share of (3%) is reduced by (0.125%) for every (1,000 units of social outcomes) achieved by the company down to a revenue share of (2%).

Other external case studies and additional resources about Revenue Share Agreement (equity-based) can be found **here.**



1.5 REDEEMABLE EQUITY[32]

Brief Description

Redeemable equity, sometimes called an equity buyback, is a revenue or dividend-based investment structured as a share purchase, where the investee company agrees to gradually repurchase, or redeem, a defined portion of the investor's shares over time.

Redeemable equity is typically used by early-stage-focused, revenue-linked funders to back companies that don't yet have steady revenue but are pointed at real growth. Because the investor is buying actual shares, it keeps exposure to the upside if the company does well, while the redemption schedule and return cap give it far more visibility into the timing and size of its eventual return than open-ended equity provides. For founders, the appeal runs the other way: redeemable equity creates a path to buy back some or all of the stake sold at the company's cheapest, earliest valuation, so future funding decisions aren't dictated by the need to keep raising larger, increasingly dilutive rounds.

The deal itself starts like a conventional equity round, an investor purchases shares at a mutually agreed price, but the company then commits to gradually redeeming a defined portion of that stake through regular dividend payments set at a fixed share of revenue (commonly 3–10%) or free cash flow, continuing until the investor has recovered an agreed multiple of its original investment (commonly 2–5x).

These payments behave like debt in their cadence, monthly, quarterly, or annual, but not in their legal footing: they are dividends the company must formally declare, which it can only do once it has enough retained earnings to afford them. That built-in flexibility means the pace of redemption tracks the business itself, slower in a soft year, faster in a strong one, and many investors deliberately hold back a residual slice of their original stake even after full redemption, preserving some claim on the upside if the company eventually has a larger exit.

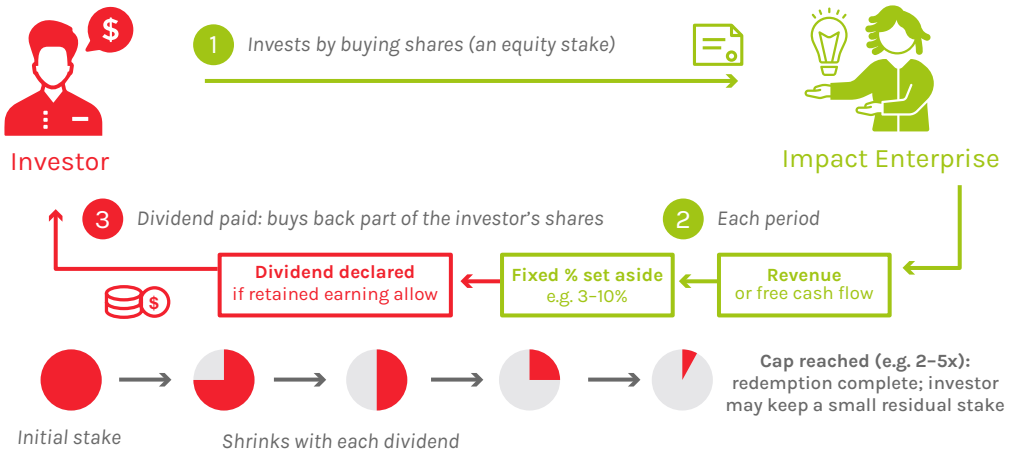


Figure 1.6 – "Redeemable equity".

Purpose/Fit	Growth or proof-of-concept capital structured as a purchase of shares with a contractual buyback, most often used by structured-exit funders for early-stage companies
Can replace	Traditional priced equity or early-stage SAFEs/convertible notes, for founders who want to avoid open-ended dilution and VC-style growth expectations
Risk/Return Profile	Investor return is capped at a pre-agreed multiple (commonly 2–5x); higher risk than debt since there is no collateral and repayment depends on revenue or dividends, but the cap limits upside relative to open equity
Enterprise Lifecycle	Pre-revenue / concept stage through early growth stage
Timing	Medium to long-term; redemption typically spans several years, often preceded by a grace period before payments begin

Defining Criteria

1. **Equity-first structure:** the investor purchases actual shares, or a contractual right to shares, at the outset, distinct from a loan, typically structured as preferred equity or a convertible note.

2. **Redemption through revenue-linked dividends:** the company buys back a defined share of the investor's stake through dividends calculated as a fixed

32 Sources: Adventure Finance (2021); Aunnie Patton Power; Innovative Finance Initiative; Innovative Finance Playbook (2022); Nowak Metro Finance Lab – Drexel University; University of Oxford, Blueprint Local, Capital Access Lab

percentage of revenue or free cash flow.

3. **Return cap:** dividends continue until a pre-agreed multiple of the original investment has been paid, at which point the redemption obligation is considered satisfied.

4. **Residual ownership:** investors sometimes retain a portion of the original stake after redemption, preserving optional upside if the company later grows substantially or is acquired.

5. **Grace period:** a defined period before redemption payments begin, sometimes fixed in months and sometimes triggered by a revenue or cash flow milestone instead.

6. **Solvency-contingent payments:** because redemption payments are legally structured as dividends, they can only be declared when the company has sufficient retained earnings to pay them, thus protecting the company from being forced into distress by the obligation.

Variants and Optional features

- **Convertible note structure:** the investor receives contractual rights to shares tied to defined conversion events, rather than shares outright at closing.

- **Preferred equity structure:** the investor receives shares upfront at investment, a more conservative approach that often avoids making redemption payments mandatory before the company is profitable.

- **Hybrid SAFE plus revenue right:** some funders combine a SAFE's future right to equity with a separate right to a percentage of revenue, so what is being redeemed is a right to equity rather than equity itself.

- **Blended portfolio approach:** some funds pair redeemable equity with traditional priced equity in the same portfolio, reserving redeemable deals for companies unlikely to pursue a VC-style exit, and priced equity for high-growth candidates that could return the fund.

- **Scheduled, elective, and residual payment terms:** contracts can mix mandatory dividends once triggered, elective payments the company may choose to make to reduce shares outstanding faster, and a residual stake redeemable only on a change of control or liquidity event.

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
Return is contractually bounded by a fixed multiple, giving more visibility on eventual return than open-ended equity	No fixed payment schedule; dividends fluctuate with revenue and can only be declared when the company is solvent
Revenue or dividend-linked payments can begin well before a traditional exit, generating partial liquidity for the fund	Tax reclassification risk in some jurisdictions, where scheduled payments could be treated as debt-like interest rather than dividends
A residual ownership stake preserves some upside if the company scales significantly	Small, early-stage check sizes and bespoke terms raise transaction and negotiation costs relative to standardised instruments
Repeated deals build underwriting experience and data on revenue or dividend-based repayment behaviour across a portfolio	Achieving the target return depends on sustained revenue growth, which is inherently less certain at the pre-revenue or early stage

Benefits and Considerations, Enterprises

Benefits	Considerations
Preserves more ownership and control than a full VC round; investors typically do not take a board seat	Can be more expensive than bank debt over the life of the investment
Payments flex with actual revenue performance rather than a fixed monthly obligation	Requires sufficiently high gross margins to support giving up a share of revenue without curbing growth
No restrictive covenants of the kind typical in bank or venture debt, such as minimum liquidity or milestone requirements	Payment timing is less predictable than a fixed loan schedule, complicating financial planning
Preserves fundraising optionality instead of locking founders into a path of ever-larger dilutive rounds	An outstanding redemption obligation can complicate a future financing round if new investors are wary of it

Selection Criteria Checklist

Use to test whether redeemable equity is a good fit for a given deal.

- ☐ **Sufficient gross margins:** the business can sustain the revenue-share obligation without starving growth.
- ☐ **Credible path to profitability:** even if pre-revenue at investment, there is a reasonable route to positive cash flow within a few years.
- ☐ **Sustainable-growth mindset:** founders are focused on building a durable business rather than growth-at-all-costs.
- ☐ **Clean cap table:** no existing investors expecting a traditional VC follow-on round that would conflict with the structure.
- ☐ **Comfort with variable payment timing:** the founder can tolerate revenue-linked, rather than fixed, redemption payments.
- ☐ **Shared view on the residual stake:** investor and founder agree on what happens to any unredeemed shares and future financing plans.

Common Pitfalls

1. Underestimating the effective cost of capital: the flexible, revenue-linked structure can obscure an IRR of 15–30% or more, well above what it appears to cost on paper.
2. Setting the return cap or redemption rate without realistic revenue or cash flow projections, leaving the company unable to comfortably service the obligation.
3. Leaving the treatment of the residual stake and outstanding obligation undefined for a future financing round or change of control.
4. Structuring payments in a way that resembles a fixed debt obligation rather than a true dividend, increasing the risk of tax reclassification.

Examples of Relevant Terms

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

Purchase Price / Initial Ownership	Investor shall purchase [X] shares of the Company for an aggregate Purchase Price of USD [Amount], representing [5–15]% of the Company's fully diluted capitalisation as of the Purchase Date.
Redemption Rate	Beginning on the Redemption Start Date, the Company shall declare dividends, payable [monthly/quarterly], equal to [3–10]% of Gross Revenue (or Free Cash Flow), for the purpose of redeeming the Redeemable Shares.

Return Cap	Dividend payments under this Agreement shall continue until the Investor has received an aggregate amount equal to [2–5]x the Purchase Price, at which point the redemption obligation shall be deemed satisfied in full.
Grace Period	No redemption payment shall be due prior to the date that is [6–36] months following the Purchase Date, or such earlier date as the Company achieves USD [Amount] in trailing twelve-month revenue.
Residual Ownership	Following full redemption of the Redeemable Shares, Investor shall retain [X]% of its original ownership stake as a Residual Stake, which shall not be subject to further mandatory redemption.
Change of Control	Upon a Change of Control prior to full redemption, Investor shall be entitled to receive the greater of (i) the amount then due under the redemption schedule, or (ii) the fair market value of its remaining shares as if converted immediately prior to the transaction.

Worked Example of Redeemable Equity structures

A specialty coffee roaster with early revenue traction raises USD150,000 from a redeemable-equity investor in exchange for a 10% ownership stake. The company agrees to redeem 6 of the 10 percentage points (60% of the investor's stake) through quarterly dividends equal to 5% of gross revenue, up to a return cap of 3x the investment (USD 450,000), following a 12-month grace period.

In its first full year of payments, the roaster generates USD 800,000 in annual revenue and pays roughly USD 40,000 across four quarterly dividends towards the redemption. If growth accelerates in later years, the same 5%-of-revenue formula redeems the remaining shares faster — compressing the payback period, but also reaching the USD 450,000 cap sooner relative to the original USD 150,000 investment, which is exactly what raises the effective cost of capital as the business grows. The remaining 4 percentage points stay outstanding as a residual stake, preserving upside for the investor if the company is later acquired or raises a priced equity round.



2

IMPACT-LINKED FINANCE INSTRUMENTS



The following section examines six financing instruments for impact enterprises which resemble characteristics both of catalytic funding, and of rewards for impact. They link financial rewards to the achievement of positive social and environmental outcomes, effectively aligning positive impact with the commercial viability of the impact enterprise. The aim is to financially reward the impact created in order to help the company to attract more capital and boost its development.

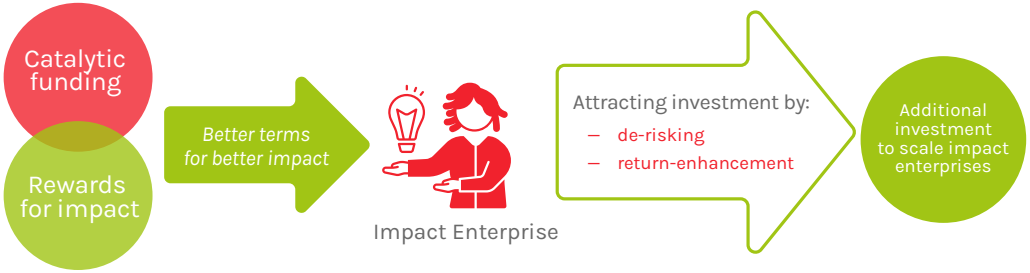


Figure 2.1 – "Impact-Linked Finance instruments", source: Roots of Impact.

2.1 SIINC (SOCIAL IMPACT INCENTIVES)

Brief Description

Social Impact Incentives (SIINC) is a funding instrument that rewards impact enterprises with time-limited premium payments for achieving social impact. By linking public or philanthropic funding to pre-defined and proven social outcomes, high-impact enterprises can earn extra revenue and improve their profitability, which in turn helps to attract additional investment to scale.

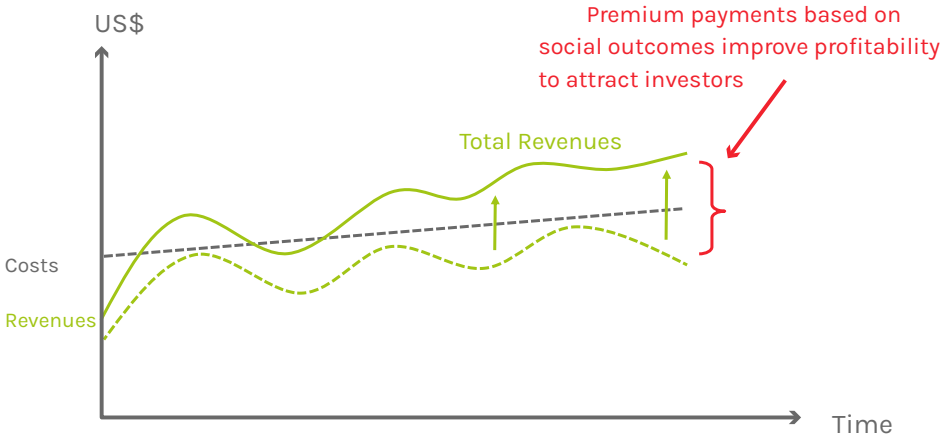


Figure 2.2 – "Business case with SIINC", source: Roots of Impact.

Given that raising repayable investment is a pre-condition for receiving SIINC payments, it can effectively be defined as a blended finance mechanism: catalytic funds are leveraged to mobilise private investment for impact enterprises.

Purpose/Fit	Enabling impact enterprises to attract investment and scale both in terms of income and impact Improving the risk/return profile for investors
Can replace	Grants, catalytic capital, and other blended finance instruments
Risk/Return Profile	Outcome payer seeks no financial return
Enterprise Lifecycle	Early and later growth-stage
Maturity	2-4 years

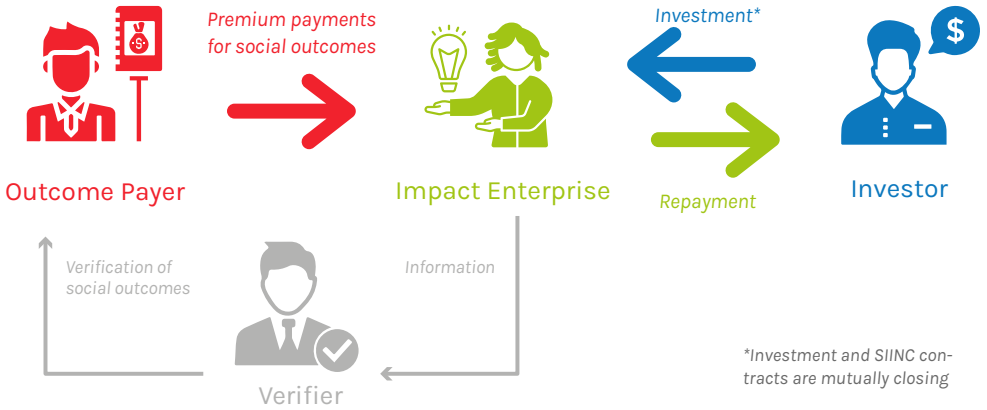


Figure 2.3 – "The Social Impact Incentives (SIINC)", source: Roots of Impact.

Defining Criteria

1. **Financial reward for impact:** Ongoing payments to impact enterprises are linked to direct and measurable impact (which aligns profitability with social impact).
2. **Outcome verification:** Independent verification of the results (outcomes).
3. **Cap for financial rewards:** Premiums are typically provided up to a capped amount.
4. **Capital mobilisation:** Mobilisation of private investment (closing condition for SIINC) creates leverage for the catalytic funding provided.
5. **Alignment of interests:** Impact enterprises and investors both carry the risk of underperformance in achieving outcomes, and both benefit from successful outcome achievements.

Variants and Optional features

- **Reimbursable SIINC:** similar to traditional SIINC, except that payments received from the outcome payer have to be reimbursed if pre-defined triggers are met. While conditions can be freely negotiated, the most obvious scenario is to tie reimbursement to the commercial success of the enterprise, e.g. using pre-defined profitability triggers.

- **Convertible SIINC:** along the lines of Reimbursable SIINC, Convertible SIINC can tie a partial or full conversion of SIINC payments (e.g. into debt) to the commercial success of the impact enterprise. Both variants are best suited for high-growth ventures expected to become commercially strong, and both allow outcome payers to "recycle" their resources to generate further impact (see the Reimbursable and Convertible SIINC factsheet).

- **Direct integration of SIINC in investment (e.g. Impact-Linked Loan):** social impact incentives can be directly integrated into loans, tying the interest rates (potentially even parts of the repayment obligations) to the borrower's impact – the higher the social outcomes achieved, the better the terms. Possible (re)payment adjustments range from discounted interest to partial or even complete forgiveness of interest and principal payments.

PRACTICAL APPLICATION

Benefits and Considerations, Outcome Payer

Benefits	Considerations
Outcome payers only pay for additional results, beyond the projected business as usual impact of the enterprise	No financial return to the outcome payer: funds are catalytic and are not recovered (unlike Reimbursable/Convertible SIINC)
Catalytic funding is leveraged: mobilisation of private investment is a closing condition, and it is tied to repayable capital in its design	Potential additional cost and effort for baseline assessment, appropriate data-gathering methodologies and independent verification
Investors indirectly benefit from the investee's improved revenue situation, improving the risk/return profile	Design principle: financial rewards are calibrated using financial and impact modelling to support the enterprise's scaling strategy. As a result, financial and impact strategy from the enterprise should be available
Allows targeting of specific outcomes (e.g. women's empowerment, rural area development, focus on the bottom of the pyramid), across sectors and geographies, with no restrictions on investor type, investment size or instrument (equity, debt or mezzanine are all possible)	Selecting enterprises with genuine potential for impact and scale requires upfront assessment on two dimensions

Benefits and Considerations, Enterprises

Benefits	Considerations
Premium payments provide extra revenue and improve profitability, helping to attract additional investment to scale	Raising repayable investment is a pre-condition for receiving SIINC payments, so investment readiness is required
Reduces potential frictions between impact and commercial concerns (can enable the enterprise to serve more rural, vulnerable or disadvantaged groups)	Payments are time-limited (typically 2–4 years); the end of the scheme (exit) has to be planned from the beginning so impact continues via economies of scale (market-based exit) or a public contract (public exit)
No dilution and no repayment obligation; the SIINC agreement is separate from the investment contract, with no need for a special purpose vehicle or overlay structure	The enterprise carries the risk of underperformance against the agreed outcome targets, which means lower or no premium payment (not a penalty)
Freedom in choice of investors and instruments for the accompanying investment round	
Ongoing impact measurement, reporting and independent verification allow the enterprise to maintain an impact management system	

Selection Criteria Checklist

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

- ☐ **Measurable outcomes:** suitable outcome metrics exist, with a credible baseline as a benchmark for incentives. Where they are not yet available, they can be built up or evolved over time (see "How it works and optional design features", e.g. IMM build-up phase and evolving metrics).
- ☐ **Investment readiness:** the enterprise can realistically raise repayable investment, the closing condition for SIINC.
- ☐ **Committed outcome payer:** a public or philanthropic funder is available for premium payments over 2–4 years.
- ☐ **Verification feasibility:** independent verification is practical and affordable relative to payment size.
- ☐ **Additionality:** payments reward outcomes beyond the enterprise's projected business as usual impact results.
- ☐ **Sustainability of impact:** the impact pathway is expected to continue or endure beyond the funding of the SIINC.

Common Pitfalls

1. Linking payments to outcomes the enterprise cannot directly influence, breaking the incentive logic.
2. Using an unreliable baseline assessment, leaving no credible benchmark against which to verify additional outcomes.
3. Designing rewards without financial and impact modelling, so payments fail to support the scaling strategy or end abruptly without a sustainable and durable impact pathway beyond the SIINC.

Examples of Relevant Terms

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

Raising repayable investment as closing condition	The contract enters into force after the Company submits evidence of having secured repayable external investments in an amount equating to a minimum of (3) times the amount of the SIINC funds eligible for disbursement.
SIINC Payments Example I (diabetes treatment for low-income groups) – Improvement in blood sugar values	Indicator: Average improvement in HbA1c values of people from low-income households. Payment system: every additional (0.2%) improvement in HbA1c values triggers a different payment between (USD 1,000) and (USD 12,500). Example: if in a given period the verified average improvement is (1.4%), the impact enterprise receives (USD 6,250) in SIINC payments. Total payments are capped at (USD 75,000).
SIINC Payments Example I – Reach	Indicator: Average growth rate in the number of fee-paying patients from Bottom of the Pyramid (BoP) households. Payment system: for every additional (2.5%) average growth rate of BoP patients, a SIINC payment between (USD 1,500) and (USD 12,500) is provided. Example: if within a six-month period BoP patients increase by (12%), the impact enterprise receives (USD 7,500). Total payments cannot exceed (USD 50,000).
SIINC Payments Example II (inclusive agricultural business) – Improvement in income	Indicator: Number of harvesters who move to a higher earnings bracket as a result of their moss-harvesting activities. Payment system: for every additional moss harvester entering a higher earnings bracket, the impact enterprise is eligible for a SIINC payment between (USD 40) and (USD 70), with increases in lower-income brackets providing higher payments. Example: if within a year a harvester moves from bracket 2 to bracket 3, the impact enterprise is eligible for a payment of (USD 70); if a harvester jumps two or more brackets (e.g. from 1 to 4) in one measurement period, the payment is doubled to (USD 140).

CASE STUDY: APON BAZAAR, BANGLADESH

Instrument	Social Impact Incentives (SIINC)
Enterprise	Apon Bazaar, founded 2017
Sector	Omnichannel marketplace for ready-made garment (RMG) factory workers
Outcome Funder	Embassy of Switzerland in Bangladesh through the Biniyog-Briddhi programme
SIINC Size	Up to USD 250,000 in premium payments
Signed	April 2021
Follow-On Investment	USD 938K raised in 2021-2022; USD 1.5 million raised in 2024

The Challenge

Bangladesh's RMG sector employs around four million people[33], many of them women earning roughly USD 100 a month. Workers lose up to 15% of income to healthcare costs and spend over half their income on groceries. Mainstream retailers target middle-income urban customers, leaving this segment underserved.

Apon Bazaar runs discount stores inside factories, selling groceries up to 10% below retail, offering interest-free credit, and unlocking free health insurance once a worker reaches a set level of monthly spending. Although the model delivers strong impact, it runs on tight margins that limit its ability to raise growth capital.

How the Deal Works

In April 2021, Roots of Impact signed a SIINC agreement with Apon Bazaar worth up to USD 250,000 in premium payments as a part of the catalytic funding initiative of Biniyog-Briddhi. The agreement was signed before Apon had closed any additional commercial capital investment, and its purpose was to help Apon attract that capital. Raising such additional investment was a precondition for any payment from the SIINC.

Payments were tied to three metrics: average monthly savings per customer, growth in the percentage of female customers, and percentage increase in the number of eligible clients with health insurance. These impact metrics not just allowed, but fostered the enterprise's commercial growth plans.

Apon reported on the metrics regularly, and the results were externally verified at least annually before each payment was released. The payments were premiums that Apon could use at its discretion.[34]

Results

SIINC Metric	Pre-SIINC Baseline	Post-SIINC Result	Change
Average Monthly Savings per Customer[35]	USD 1.26	USD 1.93	+53%
Share of Female Customers	39.0%	43.7%	+4.7 pts

When the SIINC concluded, the female customers share rose while the total customer base nearly doubled, so the absolute number of women served grew much faster than the percentage suggests.

What Changed Inside the Business

- Added dedicated 'women's corners' inside its stores, with a wider range of products for female workers.
- Covered rickshaw fares home for female workers who spent above a minimum threshold.
- Used impact data to show factories that Apon stores reduce employee churn, strengthening its sales pitch to new factories.

33 B-Briddhi, Apon Wellbeing: SIINC Case Study (2021)

34 B-Briddhi, Social Impact Incentives (SIINC): Supplementary Information (April 2024)

35 Ibid

- The additional revenue stream improved investability. Apon raised USD 1.5 million in a pre-seed round in February 2024, with Startup Bangladesh and Village Capital among the investors.[36]

A Closer Look: Apon Bazaar's SIINC

Apon's stores sit inside the factories where its customers work, so its sales depend on repeat purchases from the same workers. The SIINC metrics suited this model. Higher savings per customer and a larger share of women among customers were outcomes that also supported Apon's revenue and sales to factories, so impact and commercial goals pointed in the same direction.

Because each payment depended on externally verified results, Apon tracked its customer data closely. That data showed factories that Apon stores reduce employee churn, which strengthened its sales pitch to new factories and gave investors evidence of both impact and growth.

The premium payments covered the gap until Apon could attract investment on commercial terms, which was the purpose of the agreement. Apon raised USD 1.5 million in a pre-seed round in February 2024.

Lessons Learned

- **Choose metrics that align profitability with impact:** Apon's savings and gender metrics also drove revenue and factory sales. Impact achievement and commercial growth reinforced each other rather than competing for management attention.

- **SIINC improves the revenue of thin-margin impact models:** the time-limited premium payment budget bridges the gap until the business can attract investment on commercial terms.

- **Verified Impact Data Becomes a Sales Asset:** independently verified outcome data on churn and savings opened doors with factories and investors.

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



36 The Daily Star (Feb 2024)

2.2 REIMBURSABLE AND CONVERTIBLE SIINC

Brief Description

Much like the standard Social Impact Incentives (SIINC) model, Reimbursable/Convertible SIINC also reward impact enterprises with time-limited premium payments for achieving social impact. By linking public or philanthropic funding to pre-defined and proven social outcomes, high-impact enterprises can earn extra revenue and scale both in terms of income and impact. This in turn helps them to attract additional repayable investment – a pre-condition for receiving any kind of SIINC payments.

The main difference to traditional SIINC is that if an impact enterprise proves to be (commercially) successful beyond a certain level, SIINC payments are partially or fully reimbursed or converted (e.g. into debt). While conditions can be freely negotiated, the most obvious scenario is to tie reimbursement/conversion to the commercial success of the enterprise, e.g. using pre-defined profitability or revenue triggers. This allows outcome payers to "recycle" their resources and generate additional impact.

Reimbursable or Convertible SIINC are best suited for impact enterprises expected to be commercially strong and profitable in the mid to long term, e.g. tech-based companies. They are less viable for impact enterprises tilting towards slower growth and/or scale, as the burden of repayment or conversion could undo the progress made.

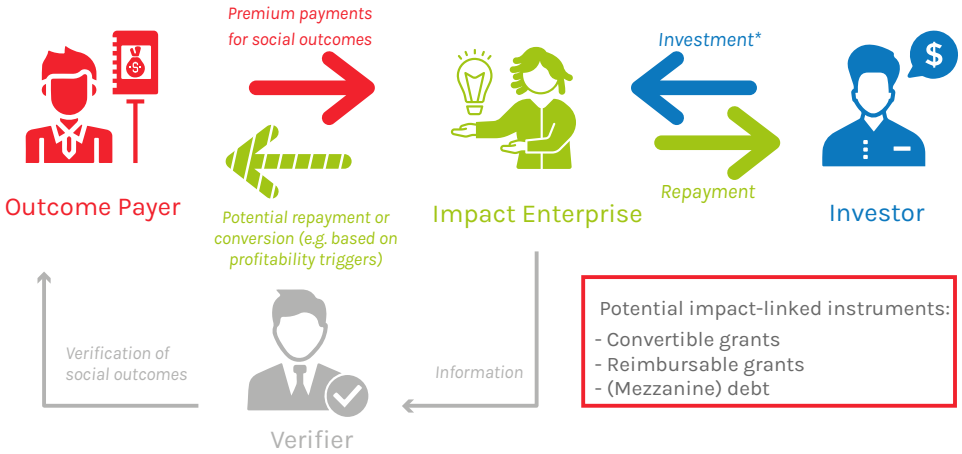


Figure 2.4 – "Reimbursable or Convertible SIINC", source: Roots of Impact.

Purpose/Fit	Enabling high-growth impact enterprises to attract investments and scale both in terms of income and impact (1); improving the risk/return profile for investors (2); allowing the outcome payer to "recycle" funding to generate additional impact (3)
Can replace	Patient equity, grants, catalytic capital, traditional SIINC, other blended finance instruments
Risk/Return Profile	Outcome payer seeks no financial profit, but may recover part or all of its capital if reimbursement or conversion triggers are met
Enterprise Lifecycle	High-growth early and later stage companies
Maturity	2–4 years + length of repayment/conversion process

Defining Criteria

1. **Reimbursability/Convertibility:** Funding provided by the outcome payer is partially or fully reimbursed/converted, e.g. based on pre-defined profitability or revenue triggers.

2. **Financial reward for impact:** Ongoing payments to impact enterprises are linked to direct and measurable impact (aligns profitability with social impact).

3. **Outcome verification:** Independent verification of the results (outcomes).

4. **Cap for financial rewards:** Premiums are typically provided up to a capped amount.

5. **Capital mobilisation:** Mobilisation of private investment (closing condition for any SIINC) creates leverage for the catalytic funding provided.

6. **Alignment of interests:** Impact enterprises and investors both carry the risk of underperformance in achieving outcomes, and both benefit from successful outcome achievements.

Variants and Optional features

- **Reimbursable SIINC:** the company agrees to pay back the full amount of SIINC payments received in (3) annual instalments once annual profitability exceeds (USD 500,000).

- **Convertible SIINC:** upon reaching (USD 2M) in revenue, (50%) of the SIINC payments are converted into debt. The company agrees to repay the principal with an interest rate of (5%) p.a. within (3) years.

- **Reimbursable and Convertible SIINC have not yet been implemented;** however, recoverable grants are occasionally used to replace concessional debt.

- **Structures should resemble the traditional SIINC model,** with an additional agreement on the terms and conditions of the repayment/conversion of (part of) the catalytic funding, e.g. a pre-defined minimum commercial viability level, profitability trigger, timeline, etc.

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
By tying reimbursement/conversion to the commercial success of the enterprise, the outcome payer receives (part of) its catalytic funding back and can "recycle" it to create additional impact	Reimbursement/conversion conditions must be carefully selected so as not to overburden the impact enterprise, risking undoing progress made or decreasing additionality
The outcome payer only pays for additional results (outcomes) beyond the projected business as usual impact created by the enterprise.	If not carefully structured, enterprises may end up with an incentive not to outperform, so as not to trigger reimbursement/ conversion
Allows targeting of specific outcomes (e.g. women's empowerment, rural area development, focus on BoP), applicable across sectors and geographies with no investment restrictions for the enterprise	Design principle: financial rewards are calibrated using financial and impact modelling to support the enterprise's scaling strategy. As a result, financial and impact strategy from the enterprise should be available
No need to set up a special purpose vehicle or any other kind of overlay structure (the SIINC agreement is separate from the investment contract)	The model has not yet been implemented in practice, so structuring requires extra care and there is no established precedent
	Selecting enterprises with genuine potential for impact and scale requires significant upfront assessment

Benefits and Considerations, Enterprises

Benefits	Considerations
Premium payments provide extra revenue, supporting scale in both income and impact, and help attract repayable investment	By design, reimbursement or debt servicing is due only if the agreed triggers are met, so the enterprise should plan for this contingent obligation from the outset
Reduces potential frictions between impact and commercial concerns, particularly for tech-enabled enterprises in their early stages when the scaling strategy is still flexible	Less viable for enterprises tilting towards slower growth and/or scale, as the burden of repayment or conversion could undo progress made
Reimbursement/conversion is only triggered by commercial success, so the obligation arises when the enterprise can best afford it	The end of the payment scheme and the reimbursement/conversion process must be carefully planned from the beginning
Freedom in choice of investors and instruments for the accompanying investment round	
Ongoing impact measurement, reporting and independent verification allow the enterprise to maintain an impact management system	

Selection Criteria Checklist

Use to test whether a Reimbursable and Convertible SIINC is a good fit for a given deal.

- ☐ **High-growth profile:** the enterprise is credibly expected to become commercially strong and profitable in the mid- to long-term.
- ☐ **Sensible triggers:** profitability or revenue triggers are set well above survival level, so success is not penalised too early.
- ☐ **Measurable outcomes:** suitable outcome metrics exist, with a credible baseline and feasible independent verification.
- ☐ **Absorbable obligation:** the enterprise could service reimbursement or converted debt without undoing its impact progress.
- ☐ **Recyclable funding:** the outcome payer is legally and operationally able to receive and redeploy repaid funds.
- ☐ **Investment readiness:** the closing condition of raising repayable investment is realistic.

Common Pitfalls

1. Setting reimbursement/conversion triggers too low, so early commercial success is penalised and additionality decreases.
2. Structuring the scheme so that the enterprise has an incentive not to outperform, to avoid triggering reimbursement.
3. Treating the model as proven: it has not yet been implemented, so terms need extra scrutiny and careful financial and impact modelling.

Examples of Relevant Terms

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

Repayment	In the event the Company generates more than (USD 2,000,000) in Revenue, the Company shall be obligated to repay the full SIINC Obligation due under this financing in (3) equal instalments.
Conversion	(50%) of SIINC payments shall be converted into debt in the event the Company generates more than (USD 1,000,000) in EBIT. The generated SIINC Loan shall accrue interest at a rate of (5%), compounding (quarterly), and the Company shall be obligated to (quarterly) repay principal and interest on a (fixed) schedule until the amounts paid have reached the Total SIINC Loan Obligation, in a period no longer than (3) years.



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.

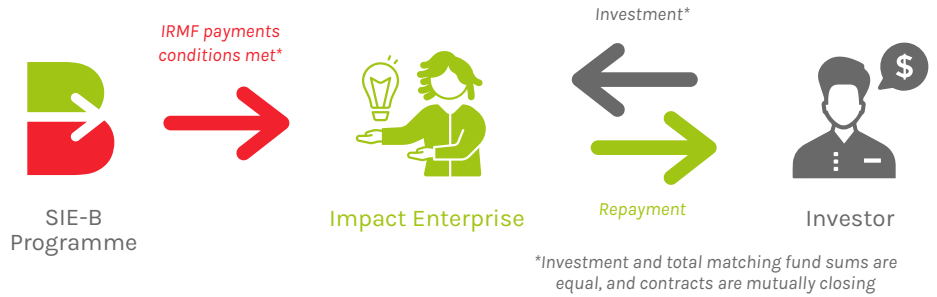


Figure 2.5 – "IRMF", source: Roots of Impact.

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.

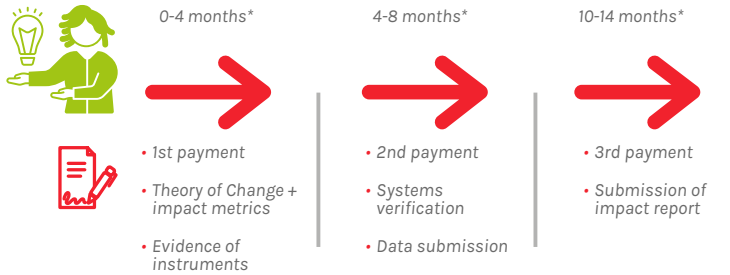
- ☐ **Credible investment round in prospect:** the enterprise has raised repayable investment recently or is actively raising.
- ☐ **Impact management gap worth closing:** the enterprise has a genuine impact proposition but lacks the systems to conceptualise, track and/or report it.
- ☐ **Not yet ready 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.**

2.4 IMPACT-LINKED LOAN

Brief Description

An Impact-Linked Loan is similar to a traditional loan, with the main exception that interest rates, and potentially repayment obligations, are tied to borrowers' achievement of pre-defined and independently verified social or environmental outcomes. The enterprise receives "better terms for better impact". The higher the impact achieved by the impact enterprise, the lower the cost of the loan. Rewards sit on a spectrum, ranging from discounted interest payments to partial or even complete forgiveness of the loan repayment, with the effective interest rate able to fall below zero at the highest levels of outcome achievement.

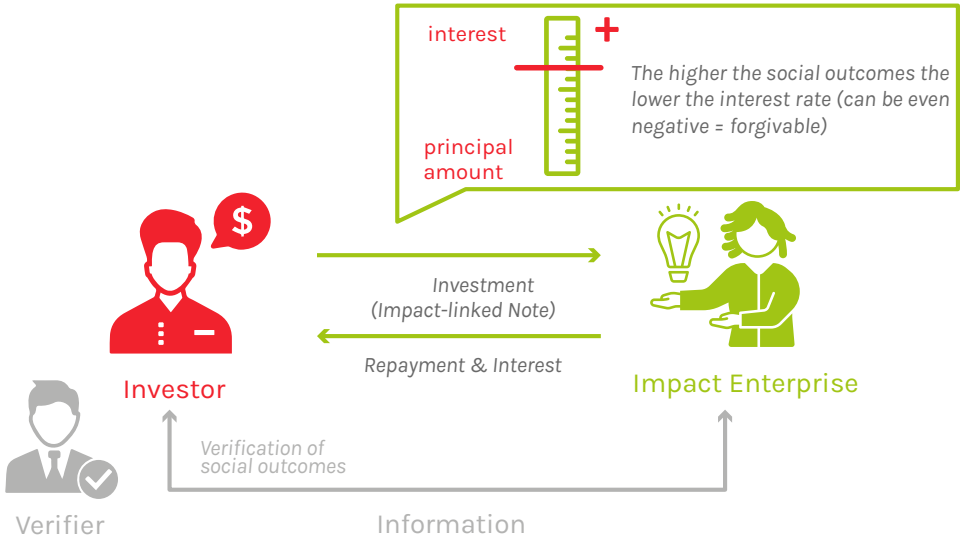


Figure 2.6 – "Impact-Linked Loan", source: Roots of Impact.

In other words, impact enterprises are encouraged to maximise their social or environmental outcomes.

Overall, providers of Impact-Linked Loans are primarily motivated by impact, whether catalytic funders or impact-first investors, as they are expected to accept lower returns in exchange for the more favourable terms offered to the enterprise. However, public or philanthropic funders can compensate investors for that shortfall, in which case the Impact-Linked Loan becomes a blended finance instrument (see "Variants and Optional features" below).

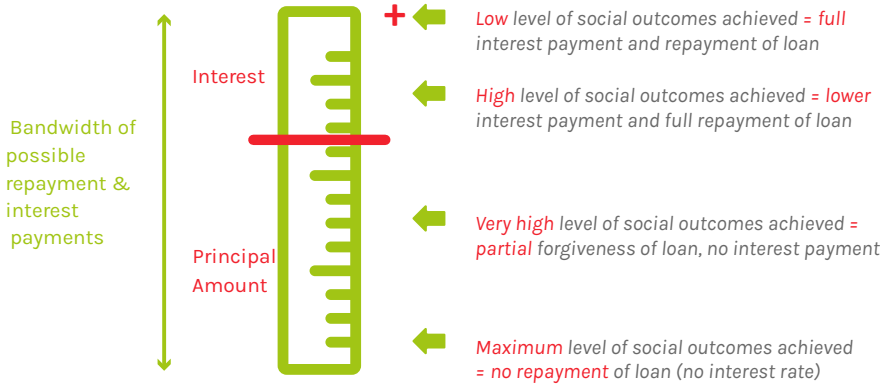


Figure 2.7 – "Interest, Principal and Impact created", source: Roots of Impact.

Purpose/Fit	High-impact enterprises gain access to loans with (highly) favourable terms and are incentivised to maximise their impact.
Can replace	Traditional debt, grants, and (other) blended finance instruments
Risk/Return Profile	Below-market return for the lender, who accepts lower returns in exchange for impact, unless compensated by an outcome payer. Credit risk on the enterprise remains as with a conventional loan.
Enterprise Lifecycle	All stages, provided the enterprise can service debt.
Maturity	Various, typically 2-5 years and can include a grace period. Needs enough time for outcomes to materialise.

Defining Criteria

1. **Loan terms linked to impact:** the interest rate, and potentially the repayment obligation, is linked to direct and measurable social or environmental outcomes, following the concept of better terms for better impact.

2. **Financial reward for impact:** rewards range from discounted interest payments to partial or even complete forgiveness of the loan repayment.

3. **Impact verification:** independent verification of the achievement of pre-defined outcomes.

4. **Adaptive performance targets:** targets are agreed upfront and reviewed periodically, so that incentive schemes can be adjusted in response to new insights, market changes or verification findings.

5. **Impact-Return trade-off:** investors are primarily motivated by impact, whether catalytic funders or impact-first investors, as they are expected to take lower returns unless compensated by an outcome payer.

Variants and Optional features

Impact-Linked Loans with a blended structure:

- Public or philanthropic funders can compensate investors for their lower returns resulting from more favourable terms for the enterprise (blended finance).
- In addition to compensating for lower returns, they can provide capital in the form of grants, which can be used to reduce investment risks for investors, e.g. by (partially) covering first losses.
- Parts of the grant funding can be used by the lender for zero-interest loans. Combining non-interest-bearing capital from donors with the impact investors' interest-bearing capital lowers the total interest rate to be paid by the impact enterprise.

Impact-Linked Convertible Loans:

- Once a pre-defined trigger (e.g. qualified equity round) is reached, the loan converts fully or partially into equity.
- The discount applied depends on the impact performance: the higher the impact, the lower the discount.

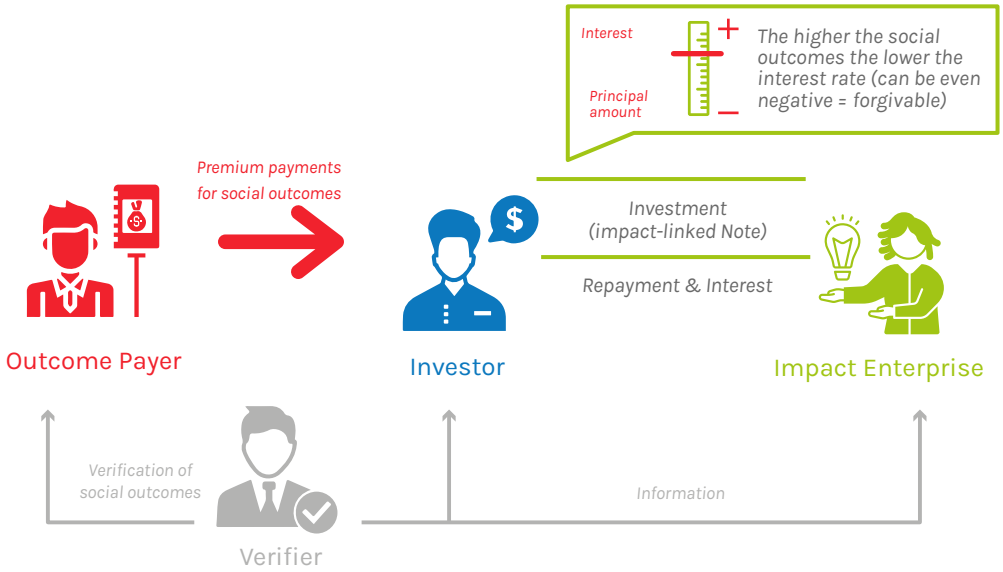


Figure 2.8 – "Impact-Linked Loan", source: Roots of Impact.

Zero-interest loan with sidecar

- A zero-interest loan is provided, with a separate payment plan agreed for the interest that is independent of the repayment of capital.
- This gives full flexibility over when and how much reward is granted during the loan term.

PRACTICAL APPLICATION

Benefits and Considerations, (Catalytic) Capital Providers

Benefits	Considerations
Interests of lender and enterprise are aligned around the same verified outcomes, rather than impact sitting outside the financing terms	Without catalytic funder support, few investors are willing, or able given fiduciary duties, to accept lower financial returns in exchange for higher impact

Impact performance is actively managed over the loan term rather than assumed constant after due diligence	Rewards must be carefully priced to balance genuine incentive against unnecessary subsidy, which requires data and experience
More favourable terms can unlock further resources and leverage private sector capital	Internal and external regulatory constraints can restrict the use of concessional or impact-linked terms
Helps prevent mission drift in the portfolio, so enterprises scale without compromising on outcomes	Credit systems are often not set up to process interest rate step-downs, creating operational friction
Blended structures allow a catalytic funder to absorb part of the risk or fund the impact rewards, widening the pool of investors able to participate	

Benefits and Considerations, Enterprises

Benefits	Considerations
Access to concessional debt, with part of the repayment burden lifted according to the impact created	Debt must still be serviced; the instrument suits enterprises whose growth stage and balance sheet can carry a loan
Non-dilutive, so founders retain ownership and control	The reward is only realised if outcomes are achieved and independently verified, so the benefit is not guaranteed at signing
Strong incentive to increase and outperform on impact, with the financial benefit accruing directly to the enterprise	Where the loan amortises regularly, the absolute value of an interest-linked reward declines over the term, often when the incentive is most needed
Rewards the enterprise for keeping priority outcomes central as it scales	Measurement, reporting and verification obligations are heavier than for conventional debt

Selection Criteria Checklist

Use to test whether an Impact-Linked Loan is a good fit for a given deal.

- ☐ **Debt capacity:** the enterprise is at a growth stage, showing that profitability and balance sheet can carry a loan without overburdening its cash flow.
- ☐ **Meaningful impact variance:** there is real scope for the enterprise to under- or outperform on impact, so an incentive can change behaviour rather than reward business as usual.
- ☐ **Measurable and verifiable outcomes:** the enterprise measures outcomes, or credible proxies for them, and these can be independently verified at reasonable cost.
- ☐ **Impact-first capital available:** a lender is willing and able to accept a below-market return, or an outcome payer is in place to compensate for the shortfall.
- ☐ **Time for outcomes to materialise:** the loan term, typically two to five years and potentially with a grace period, is long enough for the incentivised outcomes to be achieved.
- ☐ **Operational capacity to administer step-downs:** the lender's credit systems and internal policies can process impact-linked rate adjustments, or an alternative structure is used.

Common Pitfalls

1. Where incentivised metrics sit too far from business operations, results tend to disappoint and the impact rarely outlasts the payments. Align on the enterprise's own objectives upfront.
2. Where the loan amortises, the absolute interest amount falls over the term, and so does the reward, just as stronger incentives are usually needed. If the repayment schedule works against the incentive, restructure as a loan plus SIINC or a zero-interest loan with sidecar.

3. Incentives are time-limited but the impact should persist. Assess upfront how the enterprise will sustain the impact without further rewards, through economies of scale, technology or public contracts.

Examples of Relevant Terms

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

Loan amount	The Financing Amount is (USD 300,000) in aggregate principal amount of Impact-Linked Loan.
Impact performance index:	Pre-agreed weighting of up to (three) pre-defined impact KPIs forms an index for impact performance. Index ranges from (0) to (>=120) with reduction of interest rate (total reduction at maturity retrospectively) ranging from (0%) to (3.2%).
Interest rate	The Impact-Linked Loan will accrue interest at a rate (per annum) of maximum (6%). Maximum interest rate p.a.: (6%). Minimum interest rate p.a.: (-10%) (partly debt forgiveness). Example: if the impact performance equals (110) (indexed), the p.a. interest rate is reduced by (2.9%).

Example of Impact-Linked Loan structures:

- **Impact-Linked Loans:** The Impact Investment Group provided a USD 407,000 loan to the impact enterprise Xceptional, with the clause that the more social impact the job placement firm working with people with autism delivers, the more their overall repayment is reduced. As target outcomes they look at the number of people placed in high-quality roles, their job satisfaction and happiness. Other key terms included a grace period at the start of the loan period, when no cash repayments are due.

Other external case studies and additional resources about Impact-Linked Loans can be found **here.**

2.5 IMPACT-LINKED CONVERTIBLE NOTE

Brief Description

While largely in line with Impact-Linked Loans *(see page 51)*, the main distinguishing feature of the Impact-Linked Convertible Note is that upon reaching a pre-determined event, for example a qualified equity round, the loan (a.k.a. the note) is partially or fully converted into equity. Terms are similarly tied to the borrower's achievement of pre-defined and independently verified social or environmental outcomes, with the same concept of "better terms for better impact" applying. The discount rate, for instance, depends on the borrower's impact performance up until the triggering event. The higher the impact achieved by the impact enterprise, the lower the discount at conversion. The same can hold for the valuation cap and for the interest rate due upon conversion, and in specific scenarios and contexts, achieving very high outcomes can translate into a negative interest rate, meaning partial debt forgiveness.

As with Impact-Linked Loans, providers are primarily motivated by impact, whether catalytic funders or impact-first investors, and public or philanthropic funders can compensate them for the lower return, in which case the instrument becomes a blended finance instrument *(see page 16)*.

Enterprises seeking impact-linked terms without dilution should also consider the Simple Agreement for Future Impact (SAFI) *(see page 59)*, which links repayment to verified impact performance rather than converting into equity.

Purpose/Fit	High-impact enterprises gain access to convertible finance with favourable terms and are incentivised to maximise their impact, with conversion into equity at a pre-determined triggering event.
Can replace	Traditional loans, Impact-Linked Loans, convertible notes and (other) blended finance instruments
Risk/Return Profile	Below-market return for the investor, who accepts lower returns in exchange for impact, unless compensated by an outcome payer. Equity risk is assumed on conversion; until then, the investor holds debt with no control rights.
Enterprise Lifecycle	Seed and early stage, where a priced valuation would be premature but a future equity round is expected.
Maturity	Linked to the conversion trigger rather than a fixed date but needs enough time for outcomes to materialise before conversion.

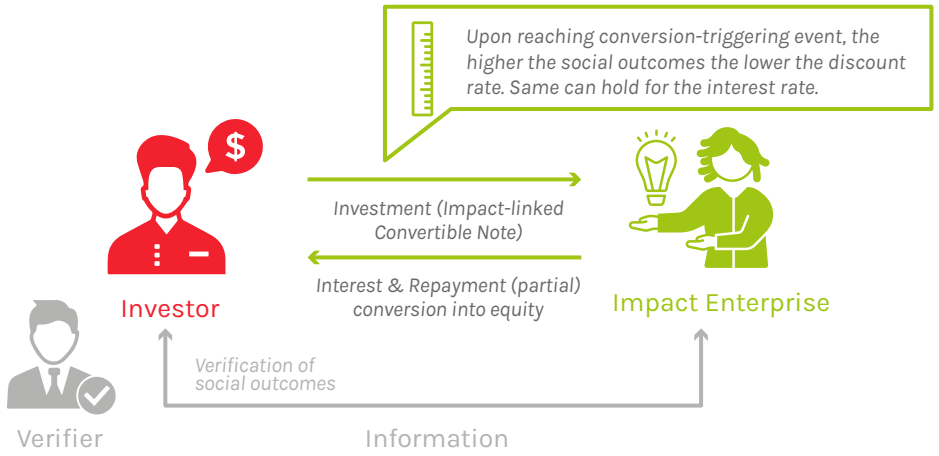


Figure 2.9 – "Impact-Linked Convertible Note", source: Roots of Impact.

Defining Criteria

1. **Convertibility:** a pre-defined triggering event, for example a qualified equity round, leads to full or partial conversion of the loan into equity.

2. **Discount rate:** allows the investor to convert to equity at a discounted price during a later round of financing. The discount factor is calculated as [100 – discount rate]%.

3. **Link to impact**: the discount rate, the valuation cap and/or the interest rate are linked to direct and measurable social or environmental performance, following the concept of "better terms for better impact". This creates strong incentives for the enterprise to outperform on impact.

4. **Impact verification:** independent verification of the achievement of pre-defined outcomes.

5. **Adaptive performance targets:** targets are agreed upfront and reviewed periodically, so incentive schemes can be adjusted in response to new insights, market changes or verification findings.

6. **Impact-return trade-off:** investors are primarily motivated by impact, whether catalytic funders or impact-first investors, as they are expected to take lower

returns unless compensated by an outcome payer.

Variants and Optional features

Impact-linked discount

- The discount applied at conversion is reduced as impact performance improves, for example a pre-agreed discount rate of 20% falling by 1% for every defined unit of social or environmental outcome achieved, down to a floor of 0%.
- Rewards the investor's capital less as the enterprise delivers more, so the founders retain more ownership at conversion.

Impact-linked valuation cap

- The pre-defined valuation cap increases as impact targets are met, raising the ceiling used to calculate the conversion price and reducing dilution for the enterprise.
- Can be used alone or alongside an impact-linked discount.

Impact-linked interest rate

- The interest accruing up to conversion is linked to impact performance, within a pre-agreed range. At the highest levels of outcome achievement the rate can fall below zero, amounting to partial debt forgiveness.
- Useful where the period before conversion is long enough for interest to be material.

Impact-Linked Convertible Note with a blended structure

- Public or philanthropic funders compensate investors for the lower returns resulting from more favourable terms for the enterprise.
- Grant funding can also be used to reduce investment risk for investors, for example by partially covering first losses.

Partial conversion

- Only part of the outstanding amount converts into equity at the trigger event, with the remainder repaid as debt.
- Allows the investor to take an equity position while the enterprise limits dilution.

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
Convertible structure can spur interest among a wider array of impact investors than a straight concessional loan	Without catalytic funder support, few investors are willing, or able given fiduciary duties, to accept lower financial returns in exchange for higher impact
Upside participation through conversion into equity, unavailable in an Impact-Linked Loan	Rewards must be carefully priced to balance genuine incentive against unnecessary subsidy
Interests of impact investor and enterprise are aligned around the same verified outcomes	Internal and external regulatory constraints can restrict the use of concessional or impact-linked terms
Depending on the capital provider, more favourable terms can unlock further resources and leverage private sector capital, mainly benefiting the enterprise and a catalytic funder rather than necessarily the investor	Without a catalytic funder in the transaction, strong impact performance reduces the investor's discount and therefore the equity stake received at conversion
Blended structures allow a funder to compensate for the return shortfall or cover first losses, widening the pool of investors able to participate	It is debt. The note sits on the balance sheet and creates a repayment obligation if no triggering event occurs before maturity

Benefits and Considerations, Enterprises

Benefits	Considerations
Access to concessional capital (if impact is achieved) without setting a valuation upfront, with quicker execution relative to a priced round	Dilution occurs at conversion, and the final extent is unknown at signing
Part of the dilution at conversion is avoided according to the impact created, as conversion terms improve with higher outcome levels	Debt must be carried until conversion, so the obligation is real if the trigger event is delayed
Strong impact performance reduces the investor's discount, raises the valuation cap, or both. As a result, the enterprise is diluted less at conversion	Measurement, reporting and verification obligations are heavier than for a conventional convertible note
Strong incentive to outperform on impact, with the financial benefit accruing directly to the enterprise	Rewards depend on outcomes being achieved and independently verified, so the benefit is not guaranteed at signing

Selection Criteria Checklist

Use to test whether an Impact-Linked Convertible Note is a good fit for a given deal.

- ☐ **Valuation genuinely uncertain:** the enterprise is at a stage where pricing an equity round would be premature or contentious, making conversion preferable to setting a valuation now.
- ☐ **Credible conversion trigger:** a qualified equity round or other capital-related trigger event is realistically expected within the intended term, not hypothetical.
- ☐ **Enterprise accepts dilution:** the founders are willing to convert the investment into equity, to give up ownership at the trigger event, and accept that the extent of dilution will vary with impact performance.
- ☐ **Measurable and verifiable outcomes:** the enterprise measures outcomes, or credible proxies for them, and these can be independently verified at reasonable cost before conversion.
- ☐ **Impact-first capital available:** an investor is willing and able to accept a below-market return, or an outcome payer is in place to compensate for the shortfall.
- ☐ **Time for outcomes to materialise before conversion:** enough time is expected to elapse between signing and the trigger event for the incentivised outcomes to be achieved and verified.

Common Pitfalls

1. Where incentivised metrics sit too far from business operations, results are likely to disappoint and the impact rarely outlasts the agreement. Align on the enterprise's own objectives upfront.
2. If no qualified equity round materialises, the instrument stays as debt in an early-stage enterprise and the impact-linked terms lose their purpose. Agree upfront what happens if the trigger is not reached, including any long-stop date or alternative treatment.
3. Discount, valuation cap and interest rate can each be linked to impact. Combined without modelling, strong performance can compress the investor's position further than either party intended, or weak performance can leave the enterprise heavily diluted. Model the outcome range before signing.

Examples of Relevant Terms

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

Loan amount	The Financing Amount is (USD 300,000) in aggregate principal amount of Impact-Linked Convertible Note.
Interest rate	The Impact-Linked Convertible Note will accrue interest at a rate (per annum) of maximum (6%). Maximum interest rate p.a.: (6%). Minimum interest rate p.a.: (-10%) (partly debt forgiveness). Example: if the impact performance equals (110) (indexed), interest rate p.a. is reduced by (2.9%).
Impact performance index	Pre-agreed weighting of up to (three) pre-defined impact KPIs forms an index for impact performance. Index ranges from (0) to (>=120) with reduction of interest rate (total reduction at maturity retrospectively) ranging from (0%) to (3.2%).
Discount	Actual discount at conversion linked to impact performance. Maximum discount rate: (20%). Minimum discount rate: (0%). Example: if indexed impact performance is (40), the discount rate reduction amounts to (1.2%).



Examples of Impact-Linked Convertible note structures:

- To date, this innovation has not been implemented yet.
- Structures of the Impact-Linked Loan *(page 51)* and the Convertible Note *(page 25)* can be used as a broad guideline.

2.6 SAFI (SIMPLE AGREEMENT FOR FUTURE IMPACT)

Brief Description

The Simple Agreement for Future Impact (SAFI) is a non-dilutive growth financing instrument in which capital is repaid through a periodic share of the enterprise's revenues, with the total repayment linked to verified impact performance. It takes its inspiration from the Simple Agreement for Future Equity (SAFE), but instead of granting the investor a stake in future equity, the enterprise commits to future impact, retaining full ownership.

Repayment is bounded by a cap expressed as a multiple of the original investment. The maximum cap applies if no impact targets are met, the minimum cap when all targets are fully achieved. The more impact the enterprise creates, the less it repays, and the spread between the two caps represents the total impact incentive available.

SAFI is designed to be highly flexible. The core structure stays simple, but its terms can be tailored to the enterprise and the transaction where the revenue share percentage, tenor, grace period and repayment caps can each be adjusted to preserve liquidity while the enterprise grows. Repayment can also be based on alternatives to gross revenues, such as EBIT, a specific revenue stream or free cash flow. Lastly, the instrument can be designed for different levels of concessionality by setting the repayment caps accordingly: for example, caps of 1.3x to 1.6x position SAFI as an impact investment on near-market terms, while caps ranging from 1.0x down to zero make it highly concessional catalytic capital, with full forgiveness possible on full target achievement. This adaptability is what makes SAFI particularly enterprise friendly.

Purpose/Fit	Growth capital for high-potential enterprises without dilution, with the cost of capital falling as verified impact increases.
Can replace	Equity, convertible instruments, traditional debt, conventional revenue share agreements, and grants where the funder is willing to take capital back.
Risk/Return Profile	Set by the repayment caps. It ranges from near-market returns to fully concessional, depending on revenue share, cap, tenor, and other terms. Returns depend on the enterprise's performance as well as impact, and catalytic structures are typically subordinated and without collateral.
Enterprise Lifecycle	Revenue-generating enterprises with growth potential. A grace period can accommodate early-stage enterprises that need time to generate revenue.
Maturity	Fixed term, typically two to four years for catalytic structures and four to six years for investment structures. A final bullet payment closes any gap to the repayment cap.



Figure 2.10 – "SAFI", source: Roots of Impact.

Defining Criteria

1. **Revenue-based repayment:** capital is repaid through an agreed annual share of the enterprise's revenues (or others such as EBIT, EBITDA, a specific revenue stream or free cash flow) calculated on its annual financial statements.

2. **Impact-linked repayment cap:** the total repayment is capped as a multiple of the original investment. The maximum cap applies if no impact targets are met, the minimum cap when all are fully achieved.

3. **Non-dilutive:** no equity is exchanged and the entrepreneur retains full ownership. SAFI agreements are by default structured as debt-based instruments, with recoverable grants or redeemable equity as alternatives.

4. **If impact targets are not available** at the beginning of the transaction, the agreement could be signed upfront, with concrete impact targets and the incentive scheme agreed later through a side letter, normally within twelve months.

5. **Impact verification:** independent verification is commissioned and paid for by the investor, usually at the end of the term, and determines the actual repayment cap.

Variants and Optional features

Impact Investment SAFI

- Positioned as an alternative to traditional impact investment, with terms set to meet investors' expectations for risk, return and impact.
- Repayment caps of roughly 1.3x to 1.6x, typically over four to six years.

Catalytic SAFI

- Highly concessional terms offered in exchange for ambitious impact objectives, up to full forgiveness on full target achievement, with the aim of catalysing co-investment.
- Repayment caps from 1.0x down to zero, typically over two to four years, usually with no collateral, subordination and a co-investment requirement, for example 1:4 matching.
- Capital is paid upfront and effectively "repaid" through the achievement of impact targets, giving the enterprise immediate liquidity.

Sidecar SAFI

- Attached to an existing equity investment or loan as a simple way to embed impact incentives, with a term equal to the underlying investment.
- The SAFI amount represents the maximum incentive the investor or a grant maker is willing to provide and can be structured to reflect actual impact performance rather than time-bound interest rate step-downs or equity ratchets.
- Particularly useful where linking incentives directly to a loan would be difficult (see Impact-Linked Loan, *page 51*).

IMM Build-up Reward

- A standard feature reducing the repayment cap once the enterprise has established a robust impact measurement and management system and collected baseline data to a minimum standard.

Alternative repayment bases and enterprise-friendly terms

- Repayment can be based on EBIT, a specific revenue stream or business line, or free cash flow rather than gross revenues.
- A grace period, a variable revenue share or a cap on the revenue share can each be used to ease the burden on the enterprise.
- Further options include an early rewards kicker locking in mid-term achievement, an equity kicker, virtual exit participation and FX hedging.

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
Self-liquidating. Philanthropic or catalytic capital can be recovered and redeployed rather than spent once	Returns depend on the enterprise's performance as well as its impact, so the repayment profile is less predictable than fixed-schedule debt

Concessionality is a design choice, with caps set anywhere from near-market to full forgiveness	Strong impact performance reduces the repayment multiple, so the better the outcome, the lower the financial return
Rewards depend on verified impact outcomes, rather than on time-bound adjustments such as interest rate step-downs or equity ratchets, which apply at pre-set points in the schedule	The capital provider commissions and pays for independent verification
Avoids structuring challenges related to amortising Impact-Linked Loans, where the size of the incentive decreases over the term	In cases where no IMM systems or baseline exist, targets are set after signing, so the investor commits capital before the concrete impact targets are agreed
Can be attached to an existing equity or loan investment as a sidecar, without altering the core transaction	Catalytic structures are typically subordinated and without collateral

Benefits and Considerations, Enterprises

Benefits	Considerations
Non-dilutive. Founders retain full ownership and control	Periodic repayment obligations continue whatever the impact performance, however, without the verified impact, the enterprise repays up to the maximum cap
Repayments track actual revenues (or EBIT/EBITDA), therefore obligations flex with cash flow rather than following a fixed schedule	A bullet payment falls due at the end of the term if the revenue share has not met the cap
Strong verified impact directly lowers the total amount repaid, up to full forgiveness in catalytic structures	If the IMM Build-up is delayed and targets cannot be set within the agreed window, the enterprise is by default not entitled to any rewards
Targets can be set up to twelve months after signing in cases where no IMM system or baseline exists, so capital is available before impact targets are fixed	Building the IMM system and collecting baseline data requires sustained management attention early in the instrument's time period
The enterprise leads on measurement, gaining customer data that supports business decisions as well as the transaction	Rewards depend on independent verification, so the benefit is not guaranteed at signing

Selection Criteria Checklist

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

- ☐ **Revenue generation:** the enterprise has predictable revenues, or will have them within the grace period, sufficient to support a periodic revenue share.
- ☐ **Dilution is not wanted:** the enterprise wants growth capital without giving up ownership, and the investor does not require an equity stake.
- ☐ **Meaningful impact potential:** there is real scope for the enterprise to increase its impact, so the spread between the caps can change behaviour rather than reward business as usual.
- ☐ **Willingness to build IMM:** if it is not already in place, the enterprise is prepared to develop its impact measurement and management system and collect baseline data, with the management bandwidth to do so early in the term.
- ☐ **Concessionality agreed:** the capital provider is clear on where it sits between near-market and fully catalytic, since that determines the repayment caps.

- **Time to grow and deliver:** the tenor allows the enterprise to grow, achieve impact and have it verified, bearing in mind targets are set up to twelve months after signing.

Common Pitfalls

1. If the system and baseline data are not in place in time, targets cannot be set within the agreed window and the enterprise is by default entitled to no rewards, leaving it with ordinary revenue-based debt. Recommended to monitor the intermediate milestones rather than waiting for the deadline.

2. A share sized against the minimum cap preserves liquidity, but if impact or revenue underperforms, the shortfall lands as a bullet payment at the end of the term. Recommend to model best, mid and low cases before agreeing the share.

3. Post-signing target setting defers the concrete targets, not the strategic conversation. Where overall ambition and focus are not agreed upfront, negotiations twelve months later start from scratch, with capital already deployed.

Examples of Relevant Terms

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

The Investment	The Investor provides non-dilutive investment capital in the amount of [EUR 500,000] to the Company (the "Investment Amount") to support the growth of the Company and the achievement of the Shared Mission. The Company shall repay the Investment Amount through a share [%] of its annual [revenue].
Term	Fixed Term: [5] years from signing. Alternatively a Variable Term, under which the Agreement remains in force until the Maximum Repayment Amount has been fully paid, optionally subject to a long-stop of [10] years.
Grace Period	No payments in the first [12 or 18] months. Grace covers the ramp-up period to allow mission and revenue to grow.
Impact-Linked Repayment Cap	The total repayment shall depend on verified impact performance and shall always fall within the following range: Minimum Repayment Amount [EUR 650,000], equal to [1.3x] the Investment Amount; Maximum Repayment Amount [EUR 800,000], equal to [1.6x] the Investment Amount. The difference between the two (the Incentive Pool) is allocated between completion of the agreed IMM Milestones and achievement of the agreed Core Impact Targets. Partial achievement results in a pro-rata reduction.
IMM Build-up Reward	The Investor will support development of impact measurement and management capacity through [amount], linked to achievement of the final implementation milestone. Achievement reduces the Total Repayment by a multiple of [X]. Milestones: Theory of Change, key impact indicators, system verification, impact report, baseline and projections.

CASE STUDY: ROOTS OF IMPACT FUNDING ROUND

Instrument	Simple Agreement for Future Impact (SAFI)
Issuer	Roots of Impact
Investors	Delta Fund, European Social Innovation and Impact Fund (ESIIF)
Size	Exact amount not disclosed
Closed	2024, the first SAFI transaction[37]

37 ImpactAlpha, "Forget SAFEs. Impact Investors Are Incentivizing Growth and Impact With SAFIs" (August 2025). impactalpha.com/forget-safes-impact-investors-are-incentivizing-growth-and-impact-with-safis

The Challenge

Roots of Impact wanted to raise growth capital that was non-dilutive and highly flexible in its repayment. As the pioneer of Impact-Linked Finance, the firm was committed to raising this type of capital for itself and to being rewarded for its impact.

However, the financing round was intended to establish a new business line, meaning there was no baseline or impact measurement framework in place for this business line yet. Negotiating impact targets upfront would have delayed the financing round and potentially locked the organisation into the wrong metrics before it had sufficient experience to determine what to measure and what realistic targets could be.

How the Deal Works

In 2024, Roots of Impact closed the first SAFI transaction, raising growth capital from Delta Fund and the European Social Innovation and Impact Fund (ESIIF) to establish a new business line.

Because the business line was new, there was no baseline or impact measurement framework in place, so the parties agreed not to fix detailed impact targets at closing. Like a SAFE, which defers the valuation, the SAFI defers the detailed impact targets, which are agreed up to 12 months after closing rather than upfront.

The capital is non-dilutive. Roots of Impact repays it from future revenues instead of converting it into equity, and the total amount to be repaid falls as verified impact targets are met.

Roots of Impact later published a freely available **SAFI Playbook** in 2025, and in 2026 Grant Thornton Netherlands and Roots of Impact released a **free SAFI model contract.**[38]

Results

The SAFI brought the speed and simplicity to Roots of Impact. The organisation was able to raise growth capital without giving up equity, and the investors received a built-in reason for the organisation to over-deliver on impact.

Related Instrument: Impact-Linked Loan

In 2023, SOS Children's Villages Ghana received a USD 400,000 Impact-Linked Loan from the Impact-Linked Finance Fund (ILFF) to build classrooms and improve teacher capacity. Interest ranges from 0% to 5% depending on two outcomes: a higher share of children from vulnerable households, and a smaller learning gap between high- and low-performing students. If all targets are met, SOS Ghana repays only the principal. [39]

Lessons Learned

- **Target Fit:** suited for revenue-generating enterprises that are not ready for equity rounds or do not want dilution, for example agri-tech and fintech businesses with regular but fluctuating revenue.
- **Catalytic Funder Needed:** where the repayment cap falls below a commercial level, a catalytic funder is needed to absorb the return the investor gives up.
- **Target Can Be Set After Signing:** SAFI allowed the agreement to close first, with concrete targets and the incentive scheme agreed later through a side letter, normally within twelve months. This avoided delaying the round or committing to the wrong metrics before the organisation had the experience to set them well.



Other SAFI resources can be found **here.**

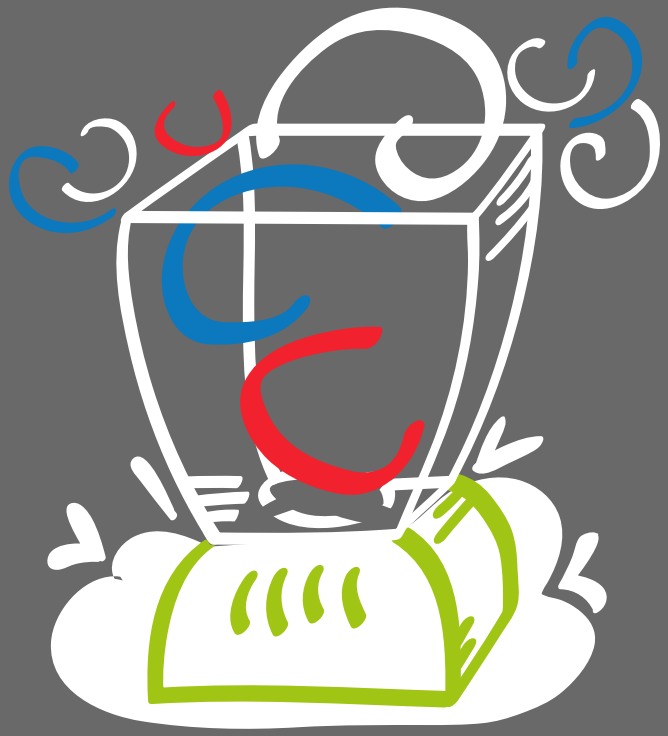
38 Grant Thornton Netherlands, "The Simple Agreement for Future Impact (SAFI)" (March 2026). grantthornton.nl/en/insights-en/legal-services/the-simple-agreement-for-future-impact

39 NORRAG, "New Case Briefs Explore the Impact-Linked Finance Fund's Use of Innovative Financing Mechanisms in Education" (September 2025). norrageducation.org

3

OTHER CATALYTIC FUNDING INSTRUMENTS

AT BOTH THE ENTERPRISE AND FUND LEVEL — ATTRACTING ADDITIONAL INVESTMENT



The following section examines financing instruments that improve the risk profile of an investment, helping to mobilise greater amounts of capital and encouraging the flow of additional funding (blended finance).

These instruments work at two levels. At enterprise level, a capital provider takes a position that improves the capital structure of a single impact enterprise, enabling it to access senior debt or other funding it could not otherwise obtain, or to obtain it on better terms. At fund level, a provider takes the junior or first-loss tranche of a structured fund, absorbing initial losses so that the fund can mobilise larger volumes from more risk-averse investors.

The mechanics are shared across both levels: in each case, one party accepts a subordinate position and absorbs losses ahead of others, which is what improves the risk position of the capital being attracted. What differs is the scale, the parties involved, and the considerations that determine whether the structure is appropriate. Both are addressed here.



Figure 3.1 – "Other Catalytic Funding Instruments to Attract Additional Investment", source: Roots of Impact.

3.1 (PARTIAL) GUARANTEE

Brief Description

A (partial) guarantee[40] is the commitment of a guarantor to back up and provide repayment in case of default or non-performance of the enterprise. A (partial) guarantee can play an important role for impact enterprises as a mechanism to increase security and facilitate the mobilisation of private capital from investors, promoting financial access. The guarantee acts as a form of insurance, allowing the impact enterprise to lower the relative risk of the organisation, increase access to lending, and gain exposure to a wider source of funding with improved financial terms and conditions.

A partial guarantee covers only part of the risk (e.g. 80% of a loan) in order to ensure alignment of interest between the guarantor and the investor. A partial guarantee can also cover a portfolio of investments, providing partial repayment in case of default of any investment in the portfolio (e.g. 80% of any investment) up to a pre-defined cap on the portfolio (e.g. 30% of the portfolio).

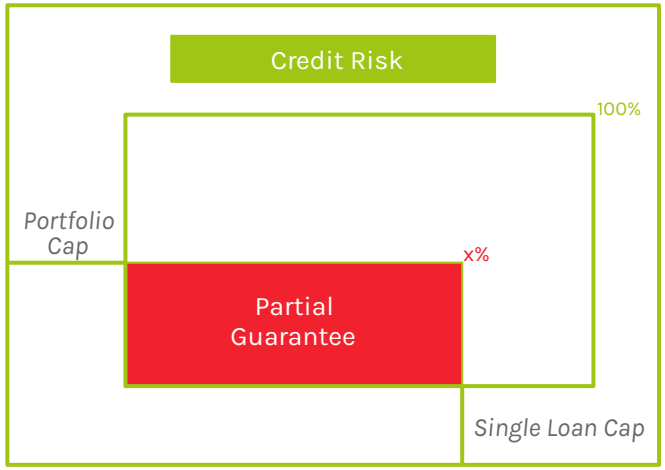


Figure 3.2 – "Partial Guarantees", source: Roots of Impact.

40 (A guarantee is considered partial if its value is less than 100%; it is usually structured to cover credit risk, but other risk categories, e.g. political risk, can be considered.)

Purpose/Fit	Enabling the impact enterprise to access private risk capital
Can replace	Grants, subordinated loans, and other blended finance instruments
Risk/Return Profile	n/a
Enterprise Lifecycle	All stages
Maturity	Linked to the maturity of an outstanding loan or other financial obligations

Defining Criteria

1. **Guarantee level:** The percentage that the guarantor commits to cover in case of default or non-performance.

2. **Guarantor:** The agent who agrees to be held responsible for the repayment of the guaranteed portion of the financial debt if the receiver defaults. The main providers of guarantees are multilateral agencies and development finance institutions.

3. **Front-end fee:** A one-time fee the borrower pays on the guaranteed amount, usually required to cover due diligence, processing of the guarantee and other potential up-front costs.

4. **Guarantee fee:** A per annum fee on the disbursed and/or outstanding guarantee exposure, required to cover the guarantor's exposure on the guaranteed amount.

5. **Commitment fee:** The fee payable on the amount requested but not yet disbursed.

Variants and Optional features

- The guarantee or partial guarantee may be structured to partially cover principal repayments and interest, or only part of the principal repayment, or only the interest payments.

- Guarantees are usually applied to infrastructure and financial services, but other sectors can be considered.

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Type	Benefits	Considerations
Guarantor	Requires no capital to be disbursed unless the guarantee is called, which is less capital-intensive than a funded instrument achieving a comparable effect	A contingent liability that materialises exactly when enterprises are under stress, and can be across several positions at once
	Under a portfolio guarantee with a cap on total payout, the capital mobilised can substantially exceed the guarantor's maximum exposure.	Can create moral hazard[41] and disincentivise proper due diligence; to be mitigated by providing only partial guarantees where the investor carries part of the risk
	Partial coverage keeps the investor's own capital at risk, preserving incentives for sound due diligence	Does not directly account for impact at the enterprise level unless linked to the achievement of impact
Investor	Downside protection improves the risk/return profile and enables entry into markets or segments otherwise perceived as too risky	Coverage is partial, so residual risk still has to be absorbed and priced into terms
	The instrument is familiar to investors and to the market, requiring little change to existing lending processes	Recovery depends on the guarantor's own creditworthiness and on the claims process working as intended
	Portfolio-level guarantees allow risk cover to be spread across many investments up to a pre-defined cap	The guarantee typically covers credit risk only, leaving currency, political and other risks with the investor unless expressly included

41 the tendency to deliberately adopt more risk-taking behaviour when only part of the cost of that risk is borne

Benefits and Considerations, Enterprises

Benefits	Considerations
Can improve the terms offered by the lender, for example a lower interest rate, a longer tenor or reduced collateral requirements	The improvement only reaches the enterprise if the lender passes it on, which is not automatic and depends on the lender's pricing practice and on competition in the market
Opens access to lenders who would not have lent at all, rather than only improving the terms offered by those who would	The guarantee itself provides no cash: a willing lender or investor is still required
Non-dilutive where it supports debt, which is the most common application	The enterprise must satisfy the guarantor's eligibility criteria and assessment process in addition to the lender's, and not all enterprises will qualify
Can support financing at several growth stages, as guarantees are not restricted to a particular point in an enterprise's development	Front-end, guarantee and commitment fees partly offset the benefit, and the enterprise may use part of the additional capital raised to pay them

Selection Criteria Checklist

Use to test whether a (Partial) Guarantee is a good fit for a given deal.

- ☐ **Risk-driven financing gap:** perceived credit risk exceeds the actual risk, and this is the barrier to financing, not the viability of the enterprise itself.
- ☐ **Credible guarantor:** the guarantor's creditworthiness and track record are recognised by the lenders or investors being targeted.
- ☐ **Partial coverage:** the guarantee rate leaves the investor with enough risk to maintain due diligence incentives.

- **Affordable fees:** front-end, guarantee and commitment fees are clearly outweighed by improved terms.
- **Matched maturity:** the guarantee tenor matches the underlying loan or obligation.
- **Impact linkage considered:** where impact targeting matters, guarantee rate or fees are tied to verified outcomes.

Common Pitfalls

1. Providing full (100%) coverage of individual loans (unlike a capped first-loss tranche at portfolio level, which may deliberately be covered in full), inviting moral hazard and weakening the investor's due diligence.
2. Letting the fee stack (front-end, guarantee and commitment fees) erode the benefit of the improved financing terms.
3. Mismatching the guarantee tenor with the maturity of the underlying loan, leaving defaults late in the loan term uncovered.

Examples of Relevant Terms

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

Loan Guarantee:	structured to cover the principal amortisation and/or interest payments over the lifetime of a loan. The guarantor may take on the credit risk of the borrower for both interest and principal repayments and, in case of a debt service default[42], repay the outstanding amount at the time of default based on the percentage of the guarantee.
Bullet Loan Guarantee:	for a loan with a bullet maturity[43], a partial guarantee can be structured to repay a predefined percentage of the debt amount at maturity.
Impact-Linked Guarantee:	the amount of investment covered by the guarantee is directly related to the expected impact performance of the enterprise and is adjusted at pre-defined future dates based on verified outcomes. The guarantee can thus be used to target and catalyse specific outcomes, with stronger impact performance translating into higher guarantee amounts. As the guarantee protects the lender, the enterprise benefits only indirectly, so the lender should commit upfront to pass the benefit on, for example by lowering the interest rate or increasing the facility size as the guarantee rate steps up.
Impact-Linked Guarantee on a fund level:	the amount of investment covered is directly related to the impact performance of a portfolio of companies rather than a single enterprise.
Guarantee level	The Guarantee issued by the Guarantor for the benefit of the Company has a Guarantee Rate of (60%) on the Borrowed Amount.
Guarantee fee	The Guarantee Fee is (130bps) per annum. The Company shall pay the Guarantee Fee Amount (quarterly) in (arrears) on the aggregated outstanding amount at the end of the calendar quarter. Alternatively: The Guarantee issued by the Guarantor is an unconditional and irrevocable financial guarantee in respect of each Eligible Transaction in a set Portfolio, up to a Guarantee Rate of (50%) per Eligible Transaction, subject to an aggregate cap of (30%) of the Total Invested Capital.
Optional: Link to Impact Performance	The partial guarantee of (50%) will be increased by (5%) for each (1,000 units of impact) achieved until reaching a full guarantee (80%), in order to facilitate further rounds of funding. The fee charged for the guarantee will be decreased by (0.15%) for each (1,000 units of impact) achieved until reaching (0.50%).

42 a borrower missing a scheduled payment

43 repayment of the whole amount borrowed at maturity, as opposed to an amortised schedule, sometimes including interest

3.2 SUBORDINATED LOANS (ACTING AS CATALYTIC FIRST-LOSS CAPITAL WITH EQUITY)

Brief Description

A subordinated loan[44] is a form of debt that ranks below senior[45] debt but above equity in the order of priority for repayment. That order determines who gets paid first if a borrower is bankrupted and follows a waterfall payment system, where senior lenders are repaid in full before subordinated lenders receive anything, and subordinated lenders are repaid before shareholders. Because the subordinated lender accepts being repaid last among creditors, it absorbs losses ahead of the senior lenders and so improves their risk position.

It is a rather simple catalytic instrument which, together with the enterprise's equity, forms part of what is known as catalytic first-loss capital. This is a layer of capital that improves the risk profile of the investment and encourages additional funding to flow in, particularly senior secured and unsecured lending that would otherwise be unavailable. Its purpose is financial additionality, bringing in investors who would not otherwise have participated and mobilising capital that would not otherwise have been obtained.

Subordinated loans can be applied at two levels. At enterprise level, where a subordinated lender improves the capital structure of a single impact enterprise so that it can access senior debt or other funding on better terms. Or at fund level, where a capital provider takes the junior or first-loss tranche of a structured fund, absorbing initial losses so that the fund can mobilise larger volumes from more risk-averse investors. Both are addressed in this section, as the mechanics are shared but the parties, scale and considerations differ.

Purpose/Fit	Improving the risk profile of an investment so that more risk-averse capital will participate, enabling an impact enterprise or fund to access financing it could not otherwise obtain.
Can replace	Grants, equity, guarantees
Risk/Return Profile	Higher risk than senior debt, lower than equity, and priced accordingly. The provider absorbs losses ahead of senior lenders but ranks ahead of shareholders. Often provided on concessional terms where the objective is catalytic.
Applies at	Enterprise level (subordinated position in a single enterprise's capital structure) or fund level (junior or first-loss tranche of a structured fund).
Lifecycle	**Enterprise:** All stages, provided the enterprise can service debt and has, or is seeking, senior lenders for the subordination to benefit. **Fund:** It is a fundraising instrument, committed at structuring and closed before the fund can attract its senior investors.
Maturity	Based on the funding need. Typically longer-dated than senior debt, as subordinated capital needs to remain in place for the senior lenders it is protecting.

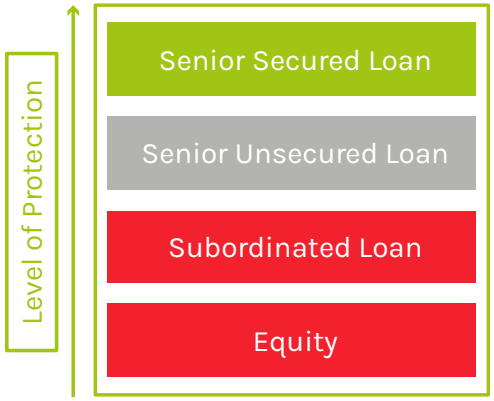


Figure 3.3 – "Subordinated Loan", source: Roots of Impact.

Defining Criteria

1. **Priority:** It states the position in the distribution of payments in the event of liquidation or winding up of the company. A subordinated loan entitles the holder to receive payment prior to the shareholders but subsequent to all the other more senior creditors. In case of insufficient funds to pay the amount owed to subordinated loan holders in full, a pro rata percentage of the remaining assets or proceeds should be distributed.

44 Usually also known as mezzanine financing in the venture capital sector

45 Senior debt is debt that ranks first for repayment if the borrower is bankrupted. It is ahead of subordinated debt and equity. It is typically provided by banks and other commercial lenders, often secured against the borrower's assets, and therefore carries the lowest risk and the lowest interest rate of the capital in the structure.

2. **Loss absorption:** the subordinated provider absorbs losses ahead of senior lenders. This is what improves the senior lenders' risk position and gives the instrument its catalytic effect.

3. **Catalytic effect:** The catalytic nature of the instrument is of utmost importance. In fact, the final goal of the instrument shall be to cause the participation of investors who would not have participated, and mobilise volume of capital that otherwise would not have been obtained ("financial additionality").

4. **Unsecured:** subordinated loans are typically unsecured, ranking behind secured indebtedness as well as behind senior creditors. Where security is taken, it weakens the protection offered to senior lenders and with it the catalytic effect.

Variants and Optional features

Subordinated loan with equity co-investment, enterprise level

- An equity co-investment could be incorporated with a subordinated debt to reduce even more of the risk associated with investing by other capital providers. In fact, equity is the most subordinate form of capital constituting the first layer to absorb losses.

- Deepens the protective layer without the enterprise taking on more debt service.

Subordinated equity, enterprise level

- Subordination is applied to the equity investment itself. By investing in the most junior form of equity, often known as class C shares, a capital provider can create a further layer to protect the other capital providers.

Mezzanine debt with an equity kicker, enterprise level

- A subordinated loan carrying the right to receive detachable and freely transferable warrants[46], or other securities giving the right to acquire a specified percentage of the fully diluted stock or company value at closing.

- Compensates the capital provider for the subordinated risk position through equity upside rather than through a higher interest rate.

Impact-Linked terms, enterprise level

- Linking financial rewards to the achievement of impact, for example reducing the interest rate – see "Examples of relevant terms" below and the SAFI entry on *page 59*.

Fund-level first-loss tranche, fund level

- Rather than subordinating within a single enterprise, the provider takes the junior or first-loss tranche of a structured fund, enabling the fund to mobilise larger investment volumes from more risk-averse investors.

- Development finance institutions deploy blended finance using instruments of this kind, alongside first-loss guarantees, junior equity and currency swaps.

46 A warrant is a financial security that gives the holder the right, but not the obligation, to buy shares in the company at a predefined price within a set period. Detachable warrants can be separated from the loan and transferred independently of it.

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Type	Benefits	Considerations
Providing capital to Enterprises	Achieves a catalytic effect by crowding in senior capital	Absorbing losses before the senior lenders means real exposure to partial or total loss
	A relatively simple structure compared with other blended finance instruments	Requires senior lenders to be present or in prospect, otherwise there is nothing to subordinate to and no catalytic effect
	Terms can be linked to impact performance, strengthening accountability for outcomes	Impact accountability is indirect where the capital provider enhances the enterprise's risk and credit profile rather than producing tangible impact directly
Providing capital to Funds	Can mobilise senior capital at portfolio scale	Concessional by design where returns are below market and capital may not be recovered in full
	Enables funds without a track record, or in new markets and strategies, to reach first close	Exposure is to portfolio-wide losses rather than a single credit
	Positions the provider as an anchor investor, able to shape the fund's terms and impact requirements	The market for first-loss and subordinated roles is still thin, so suitable co-providers of this capital can be hard to find: impact investors' participation in blended structures has so far been mostly on commercial terms

Benefits and Considerations, Enterprises

Benefits	Considerations
Improves the capital structure, making the enterprise more attractive to senior lenders on better terms	Debt must still be serviced, and subordinated capital is priced above senior debt to reflect the higher risk
A flexible form of long-term capital, typically longer-dated than senior debt	Where an equity kicker is attached, the enterprise gives up some ownership upside
Non-dilutive in its basic form, allowing founders to retain ownership	The benefit depends on senior lenders actually responding to the improved risk profile, which is not guaranteed
Access to additional funding when senior debt, such as bank loans, is unavailable or unwanted, including where lenders perceive the enterprise to be riskier than it actually is	Adds a further creditor and greater complexity to the capital structure and future fundraising

Selection Criteria Checklist, Enterprise level

Use to test whether a Subordinated Loan is a good fit for a given deal.

- ☐ **Senior lenders are present or in prospect:** there is identifiable senior debt for the subordination to protect.
- ☐ **Risk perception is the binding constraint:** the enterprise has viable fundamentals and proven demand, and what is blocking capital is risk rather than the underlying business case.

- **Cash flow supports subordinated debt:** the enterprise can service capital priced above senior debt without straining its operations.

- **The provider accepts loss exposure:** a capital provider is willing and able to absorb losses ahead of senior lenders, on concessional terms where the objective is catalytic.

Selection Criteria Checklist, Fund level

Use to test whether a Subordinated Loan is a good fit for a given fund.

- **Senior investors are identified:** there are prospective senior investors whose participation depends on a junior tranche being in place.

- **The fund cannot reach first close unaided:** the manager lacks the track record, or the strategy or market is new enough, that senior capital will not commit without protection.

- **The structure supports tranching:** the fund's size, return profile and governance allow a defined first-loss tranche with known maximum exposure, and a clearly defined waterfall setting out the order in which losses and returns are allocated across tranches.

- **A first-loss provider is available:** a provider is willing to accept the junior position on terms consistent with its objectives.

Common Pitfalls

1. A subordinated loan requires capital to be injected and tied up for the life of the transaction. A guarantee can achieve a similar catalytic effect without an upfront cash structure, leaving the provider's capital free for other uses, although the guarantor must still carry the exposure as a contingent liability and may need to provision or reserve against it. However, a subordinated loan also provides funding, whereas a guarantee only improves the risk position of senior lenders. Where the enterprise or fund needs capital as well as risk cover, the subordinated loan is the better fit; where the objective is purely to improve the risk position of senior lenders, the guarantee is often the more efficient tool.

2. Subordinated capital shifts risk between providers; it does not create demand, fix a weak model or make an unbankable enterprise bankable. Where the barrier is fundamentals rather than risk perception, the junior tranche is absorbed and no senior capital follows.

3. A fund or enterprise that could have raised senior capital unaided gains nothing from a junior tranche, and the provider has consumed scarce concessional capital without generating additionality. The test is whether the senior investors would have participated anyway, not whether they welcome the protection.

4. A capital provider improves the enterprise's or fund's risk and credit profile rather than producing outcomes directly, so the relationship between the investment and the impact is indirect. Capital providers who need to evidence impact should agree upfront how additionality and outcomes will be tracked, or consider linking terms to impact performance.

Examples of Relevant Terms

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

- Mezzanine Debt enhanced by an equity kicker usually in the form of a warrant[47], it is a subordinated loan with the right to receive detachable and freely transferable warrants or other securities which provide the right to acquire a specific percentage of the fully diluted stock or company value at closing.

47 It is a financial security that gives the right to the holder to buy an underlying stock at predefined terms. The equity kicker can also come in the form of a bonus payment or other equity participation instruments

Priority	In the event of liquidation or winding up of the company, the holder of the Subordinated Loan will be entitled to receive the outstanding amount prior to any payments or distribution to the equity holders of the company, but subordinate to other debt obligations. In the event the Company's assets or proceeds from the sale thereof do not fully repay the outstanding amount, each holder of the Subordinated Loan shall receive its pro rata percentage of such remaining assets or proceeds thereof. The Subordinated Loan is unsecured and subordinated to all indebtedness of (company name), other than indebtedness expressed to be pari passu with or subordinated to the Subordinated Loan. On a liquidation of (company name), the Subordinated Loan ranks equally with all the other unsecured, subordinated obligations of the company. The Subordinated Loan ranks behind the Company's bank debt, senior bonds, and any amounts owing to unsubordinated general and trade creditors, as well as indebtedness preferred by law and secured indebtedness.
Optional: Link to Impact Performance	If the impact performance equals (impact performance index), the interest rate is reduced by (2.0%). The pre-agreed interest rate of (8%) is reduced by (0.125%) for every (1,000 units of social outcomes) achieved by the company up to an interest rate of (2.0%).

CASE STUDY: SDG LOAN FUND (GLOBAL); IFC AND BANK ASIA (BANGLADESH)

Instrument	First-loss reserve plus philanthropic guarantee
Vehicle	SDG Loan Fund
Fund Size	USD 1.1 Billion[48]
Manager	Allianz Global Investors (Fund Manager); FMO Investment Management (Loan Origination and Portfolio Management)
Senior Investors	Allianz, Skandia
Catalytic Layers	FMO first-loss reserve (USD 111 million); MacArthur Foundation guarantee (USD 25 million)[49]
Reach	80+ emerging and frontier markets; agribusiness, financial institutions, renewable energy

The Challenge

Institutional investors such as insurers hold very large pools of capital but can only invest in assets whose risk can be measured and priced with confidence. Loans in frontier markets are often perceived as too risky, even where actual default rates are manageable, because the data needed to price that risk with confidence is often thin or absent. Capital therefore exists, but does not reach the enterprises that need it.

How the Deal Works

In 2023, Allianz Global Investors and FMO Investment Management launched the SDG Loan Fund, with Allianz Global Investors as fund manager and FMO responsible for loan origination and portfolio management. FMO committed a first-loss reserve of USD 111 million, about 10% of private capital, which absorbs losses before senior investors. The same year, the MacArthur Foundation provided an unfunded USD 25 million guarantee that protects FMO's first-loss position.

Allianz and Skandia invested as senior investors, committing a total of USD 1 billion to the fund's Class A senior shares, of which Skandia accounted for USD 100 million. Their capital is repaid first and carries the lowest risk. Together with FMO's USD 111 million first-loss investment, this brings the fund's total size to USD 1.1 billion. The table below sets out the three layers.

48 Allianz Global Investors, "SDG Loan Fund Mobilizes USD 1.1 Billion of Investor Capital" (press release). allianzgi.com

49 ImpactAlpha, "Allianz's SDG Loan Fund Leverages a USD 25 Million Guarantee to Catalyze USD 1.1 Billion." impactalpha.com/allianz-sdg-loan-fund-leverages-a-25-million-guarantee-to-catalyze-1-1-billion

Layer	Who	Role
Senior Capital	Allianz, Skandia	USD 1 billion in Class A senior shares; repaid first; lowest risk
First-Loss Reserve	FMO	About 10% of private capital; absorbs losses before senior investors
Guarantee	MacArthur Foundation	Unfunded USD 25m guarantee protecting FMO's first-loss position

FMO also keeps at least USD 10 million or 20% of each loan on its own books, so its incentives stay aligned with the senior investors.[50]

Results

The fund reached USD 1.1 billion in 2023. The USD 25 million guarantee helped mobilise this capital, a leverage ratio of roughly 40:1 as reported by ImpactAlpha. The fund projects up to 120 loans, around 60,000 jobs supported per year and around 450,000 tonnes of greenhouse gas emissions avoided annually. Structuring the fund took more than three years, which shows the upfront cost of first-of-its-kind blended funds.

50 Ibid.

Bangladesh Reference: IFC and Bank Asia (2024)

In December 2024 IFC approved a senior loan of up to USD 50 million to Bank Asia, with USD 35 million committed from IFC's own account, for on-lending to export and import-oriented SMEs including in RMG, cement and agriculture. The transaction forms part of a USD 160 million country envelope supported by a pooled first-loss guarantee of up to USD 40 million from the IDA Private Sector Window Blended Finance Facility. IFC estimates the concessionality provided to the envelope at approximately 3.5% of its total size. This shows first-loss structures are already used in Bangladesh's banking sector, though not yet at impact fund level.[51]

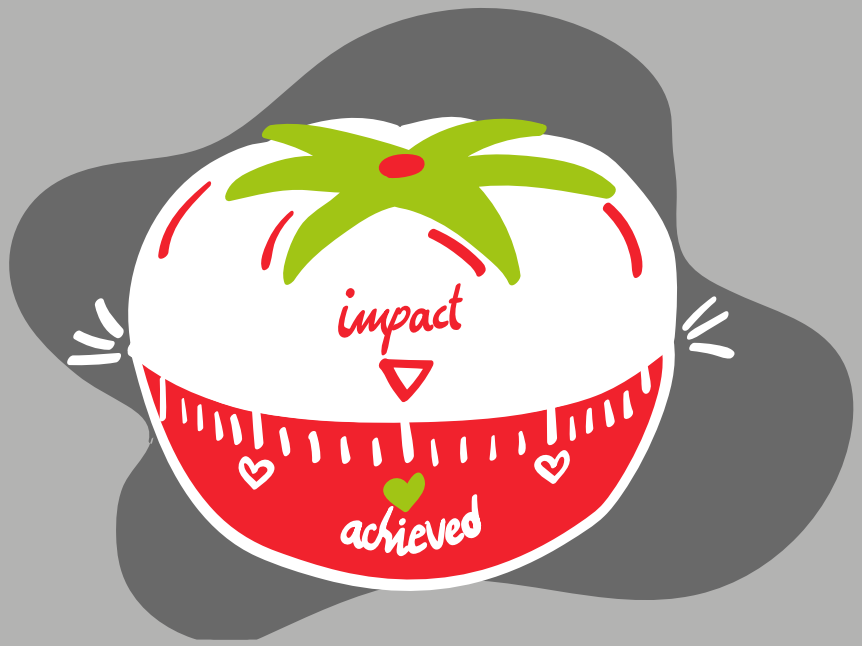
Lessons Learned

- **Leverage:** a small junior tranche can mobilise substantially larger volumes of senior capital, which matters for funds seeking institutional investors.
- **Layered Protection:** a guarantee can protect the first-loss provider as well as the senior investors, allowing development finance institutions and philanthropic funders to participate in the same structure at different levels of risk.
- **Moral Hazard Is Manageable:** the risk that protection weakens due diligence is reduced where the manager retains meaningful exposure, which is why coverage is normally partial.

51 IFC Project Disclosures, Bank Asia MSME, Project No. 50237 (approved December 2024). disclosures.ifc.org/project-detail/SII/50237/bank-asia-msme

4

RESULTS-BASED FINANCE INSTRUMENTS FOR NON-PROFIT ORGANISATIONS



The following section examines two financing instruments which link financial rewards to the achievement of specific results for non-profit organisations – thus providing and encouraging a more efficient and effective use of public or philanthropic finance.

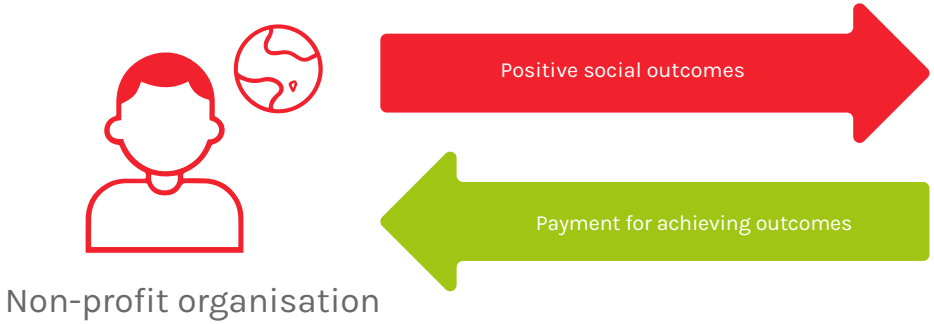


Figure 4.1 – "Result-Based Finance", source: Roots of Impact.

4.1 SOCIAL/DEVELOPMENT IMPACT BOND

Brief Description

A Social or Development Impact Bond (SIB or DIB) is a pay-for-results funding model involving multiple parties. It is designed to enable non-profit interventions (typically encouraged by public actors) to attract private investment in order to pre-finance the activities needed to generate a defined set of impact outcomes (outcome targets). The service provider is often a non-profit or NGO, though private companies also deliver impact bond interventions.

An impact bond is not a bond in the traditional sense of the word, since the repayment and the return are dependent on the achievement of agreed outcomes. In case the outcome target is not met, the investors typically receive neither a return nor the (full) repayment of the principal. The term should also not be confused with labelled green, social and sustainability bonds, which are conventional debt instruments and an entirely separate market.

There are multiple parties usually involved in a SIB or DIB:

- **Outcome payer:** the entity which places the "pre-order" on the outcomes to be generated. Usually a local government entity (SIB) or an international development funder (DIB). Philanthropic foundations can also act as outcome payers, though they have typically engaged as investors to date.
- **Investors:** provide the private capital used to pre-finance the activities of the service providers, and are repaid with a return in the case of success.
- **Service providers:** generally NGOs, who enter into a contractual agreement with the impact bond and agree to deliver certain outcomes against pre-financing.
- **Fund manager or transaction manager:** a central intermediary who brokers and manages the impact bond transaction. Where a Special Purpose Vehicle (SPV)[52] is used, the fund manager is the one to manage it.
- **Impact verifier:** the independent organisation in charge of evaluating the level of achievement of the outcome targets.
- **Performance manager or advisor:** where involved, supports the service provider to achieve the outcomes and provides a source of information and scrutiny to investors and outcome payers.

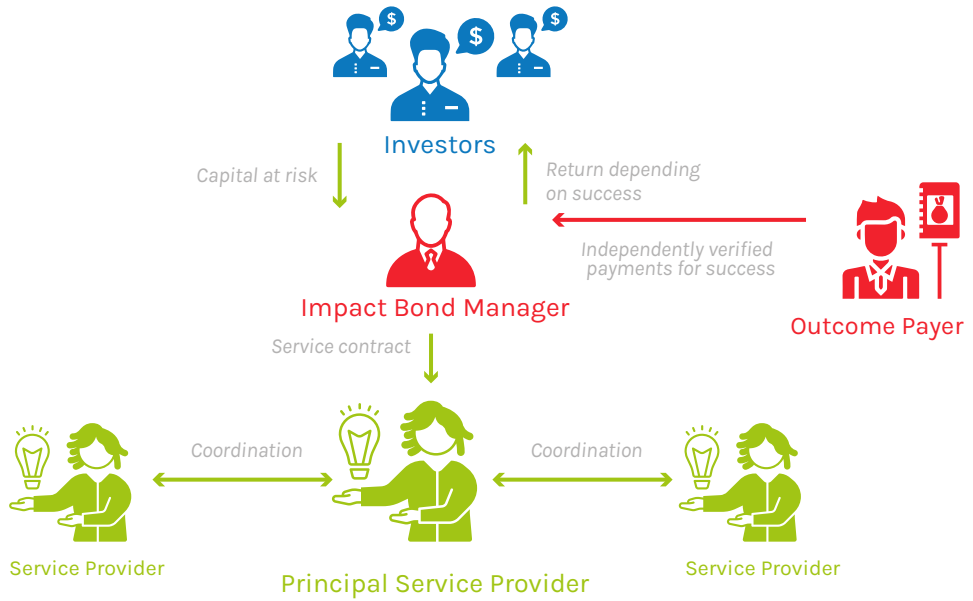


Figure 4.2 – "Understanding Social Impact Bonds", source: OECD.

Purpose/Fit	De-risk the testing and roll-out of innovative service delivery models, attracting private investment to pre-finance programmes that are paid for only once outcomes are achieved.
Can replace	Grants, public contracts, fee-for-service and other input-based funding
Risk/Return Profile	Dependent on the risk of achieving the pre-defined outcome target. The investor bears full delivery risk: where targets are not met, neither the return nor the full principal is repaid. Returns are capped by the outcome payment schedule, so upside is limited while downside is not.

52 A Special Purpose Vehicle (SPV) is a legal entity created for a single, defined purpose, here to hold the contracts and capital for the transaction, keeping it separate from the balance sheets of the organisations involved.

Outcome payer	Domestic government representing the target group (SIB), or an external donor such as a bilateral or multilateral aid agency or philanthropic organisation (DIB).[53]
Delivery organisation	Typically an established non-profit or NGO with a track record of achieving impact outcomes.
Maturity	Linked to the length of the intervention, usually around three years.

Defining Criteria

1. **Outcomes-based:** Repayment and return for the investor are tied to the achievement of outcomes (as opposed to activities or outputs).
2. **Third-party investment:** one or more independent investors provide the up-front capital needed to pre-finance delivery. This is what differentiates an impact bond from other forms of outcomes-based contracting.[54]
3. **Shift of risk to investors:** Investors, but not the service providers, carry the risk of non-achievement of outcome targets.
4. **Defined cohort and priced outcomes:** the eligible cohort is tightly specified and each payable outcome is defined and priced in advance, therefore the achievement can be determined unambiguously.[55]
5. **Specific scope:** Often focused on prevention measures and public cost savings.
6. **Impact verification:** Independent verification of the outcomes.

Variants and Optional features

No pre-financing needed: direct performance-based contract

- In case of no need for pre-financing: a direct performance-based contract with ongoing results-based payments for outcomes achieved between the outcome payer and the service provider can replace the impact bond structure, thereby removing the SPV and reducing the complexity of the transaction (no need for raising private investment).

Limited pre-financing needed: direct contract with an up-front payment

- As above, but with an up-front payment, for example 30% of total funding, alongside ongoing results-based payments. Suits providers with some working capital but not enough to carry the full delivery period.

Risk mitigation for the investor

- The risk for the investor can be partly reduced by a guarantee or first-loss capital provided by another public or philanthropic funder (see Subordinated Loans, *page 68*).

Staggered outcome targets

- Staggered outcome targets can be defined so that repayment and return for investors are not “all or nothing”. This reduces the risk of total loss for investors and recognises partial achievement.

Bonus payments for the service provider

- Bonus payments for the service provider can be agreed upon to increase the performance orientation (and return participation) of the service provider.

53 Source: Government Outcomes Lab, University of Oxford (2026), “Impact bonds”, golab.bsg.ox.ac.uk/the-basics/social-impact-bonds/

54 Idem

55 Idem

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Actor	Benefits[56]	Considerations[57]
Outcome payer	Pays only for results, therefore ineffective services are not funded	Complex and costly to develop, with high fixed transaction costs that many contracts are too small to justify
	Transfers financial delivery risk to third-party investors	Outcomes are hard to define well, and there is a persistent risk of measuring outputs rather than genuine outcomes
	Embeds ongoing evaluation into programme operations, accelerating learning about what works and what does not	There is no conclusive evidence that impact bonds outperform grants or fee-for-service contracts; as a result, the case must be made deal by deal[58]
Investors	Direct, contractually defined link between capital and verified social outcomes	Investors bear delivery risk: where targets are missed, returns and some or all of the principal are lost, unless mitigated.
	Staggered targets, guarantees or first-loss capital can be used to mitigate downside	Returns are capped by the outcome payment schedule; upside is limited while downside is not (unless mitigated)
	Active role in performance management, with visibility on delivery throughout	Bespoke structures are difficult to scale or replicate across a portfolio

56 Source: "Building the tools for public services to secure better outcomes: Collaboration, Prevention, Innovation", Carter, E., Fitzgerald, C., Dixon, R., Hameed, T., Airoldi, M., The Government Outcomes Lab (2018);"Putting the front line first: smarter government", Cabinet Office (2009): "Towards a New Social Economy: Blended value creation through Social Impact Bonds", Social Finance (2010)

57 Source: "Understanding Social Impact Bonds", OECD (2016)

58 Source: Government Outcomes Lab, University of Oxford (2026), "Impact bonds", golab.bsg.ox.ac.uk/the-basics/social-impact-bonds/

Benefits and Considerations, Service Providers

Benefits	Considerations
Access to up-front working capital that a direct payment-by-results contract would not provide	Subject to outcome measurement and scrutiny beyond what conventional contracts require. However, the resulting data can strengthen the provider's evidence base for future contracts
Protected from all or part of the financial risk of non-achievement, which sits with investors	Freedom to adapt delivery is real but bounded by tightly specified cohorts and metrics
Freedom to adjust delivery methods, since the contract specifies outcomes rather than activities	Some providers view payment-by-results as inconsistent with their ethos or mission
Investor capital lets smaller voluntary sector and NGO providers compete for outcomes contracts they could not otherwise finance or risk[59]	Bonus arrangements, where used, reward outperformance but can steer delivery towards the incentivised metrics, so targets should be set with care

Selection Criteria Checklist

Use to test whether a SIB/DIB is a good fit for a given intervention.

- ☐ **Outcomes are measurable and meaningful:** they are genuine outcomes rather than outputs and can be defined quantitatively and objectively and at a reasonable cost
- ☐ **The cohort is tightly defined:** the eligible group is specified unambiguously; as a result, achievement can be determined and cherry-picking is limited.
- ☐ **Pre-financing is genuinely needed:** the service provider cannot carry the cost of delivery, otherwise a direct outcomes contract without investors is the simpler structure.

59 Idem

- **Contract size justifies the set-up costs:** the value and length of the contract are sufficient to offset the development and transaction costs.

- **The outcomes would not have occurred anyway:** there is a credible counterfactual and the outcome payer is not paying for results that would have happened without the intervention.[60]

- **Time and capacity to develop it:** there is sufficient lead time, normally multiple years, and the internal capacity and senior commitment to see the development through.

Common Pitfalls

1. The structure carries high fixed development costs and long lead times. Where the provider can carry delivery costs, or where the intervention is small, a direct outcomes contract or a grant will often deliver the same result at lower cost. This is not a better instrument by default.

2. Quantitative, objective outcome metrics are difficult to define for complex social problems. Attendance at a programme is an output; a measurable improvement in a person's circumstances is an outcome. Contracts that blur the two pay for activities under a results-based label.

3. Investors carrying full downside risk tend to favour models with an established evidence base. The innovation rationale is one of the main arguments for impact bonds; however, it sits in tension with how investors actually behave, and it should be tested rather than assumed.[61]

4. The contract may end, underperform or be terminated. Vulnerable service users depend on the intervention regardless. Arrangements for continuity of provision need to be settled at design stage rather than left to the point of failure.

60 Idem

61 Idem

Examples of Relevant Terms

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

Priority	Definition: Student enrolment defined by the number of out-of-school girls (between age 7 and 14) enrolled in school by the end of the third year. Outcome target: 79% of all eligible out-of-school girls.
Learning outcome improvement	Definition: Learning outcome improvement: standard deviation as a difference from the comparison group performance. Maximum Payment: (USD 71) Outcome target: (0.4)
Investor Return	Repayment of investment plus (15%) p.a. in case of full target achievement (outcomes). Repayment of investment plus (10%) p.a. in case of target achievement (outcomes) of minimum 90%.

CASE STUDY: EDUCATE GIRLS, INDIA

Instrument	Development Impact Bond (DIB)
Service Provider	Educate Girls (Indian non-profit)
Risk Investor	UBS Optimus Foundation (USD 270,000 upfront working capital)
Outcome Payer	Children's Investment Fund Foundation (CIFF)
Design and Management	Instiglio
Independent Evaluator	IDinsight
Period and Reach	2015 to 2018, Rajasthan; 166 schools, 140 villages, about 7,300 children[62]

62 UBS, "Educate Girls Development Impact Bond Delivers Impressive Results, Surpassing Both Target Outcomes" (July 2018). ubs.com

The Challenge

In rural Rajasthan, many girls did not attend school, and children who were enrolled in school were learning far below grade level. Grant funding paid for activities, rather than results, leaving the non-profit little flexibility over how it worked and its actual impact achieved and funders little certainty about what their money achieved.

How the Deal Works

In 2015, Educate Girls, an Indian non-profit, signed a Development Impact Bond to improve enrolment and learning in rural Rajasthan. UBS Optimus Foundation provided USD 270,000 in upfront working capital as the risk investor, and Instiglio designed and managed the contract.

Educate Girls delivered the programme and adapted its approach as data came in. IDinsight, the independent evaluator, measured enrolment and learning against a control group. The Children's Investment Fund Foundation (CIFF), as outcome payer, agreed to repay UBS Optimus Foundation, with a return, only if the targets were met.

Results

By 2018, Educate Girls had enrolled 768 out-of-school girls, 92% of those eligible and 116% of the target. Children in the programme schools learned 79% more in English, Hindi and mathematics than their control-group peers, 160% of the target.

Outcome	Result	Share of Target
Out-Of-School Girls Enrolled	768 girls (92% of eligible)	116%
Learning Gains (English, Hindi, Maths)	79% more than control-group peers[63]	160%

63 ImpactAlpha, "Small Bet, Big Outcome for UBS' Girls Education Development Impact Bond." impactalpha.com

The programme was behind target after year two. It exceeded the target in year three, after shifting to competency-based group teaching and tracking each child's progress.[64] CIFF then repaid UBS Optimus Foundation its capital plus a 15% internal rate of return.[65] Educate Girls received part of the return as a performance bonus.

Lessons Learned

- **The Outcome Payer Is the Binding Constraint:** an impact bond cannot proceed without a committed outcome payer. Development partners or the government would need to take that role.
- **Transaction Costs Are High Relative to a Small Programme:** programme development, evaluation and legal costs are largely fixed and do not scale down with contract size. This is why the value and length of the contract must be sufficient to offset the costs.
- **Performance-Based Contract Is a Lighter Entry Point:** paying a service provider directly on independently verified results, without a third-party investor, builds the measurement capability and the trust between parties that a full impact bond requires.



64 Devex, "The Educate Girls DIB Exceeded Its Goals: How Did They Do It and What Does It Mean?" (July 2018). devex.com

65 UBS, "Educate Girls Development Impact Bond Delivers Impressive Results, Surpassing Both Target Outcomes" (July 2018). ubs.com

4.2 PERFORMANCE-BASED CONTRACT

Brief Description

A Performance-Based Contract (PBC) is a pay-for-results funding model between public or philanthropic donor(s) and one or more service provider(s)/ implementer(s). With the objective to enhance the targeting and effectiveness of interventions, payments are partly or wholly linked to the achievement of pre-defined and independently verified targets – historically mostly outputs (e.g. medical treatments performed), but increasingly also outcomes (e.g. treatment results). A shift from outputs to outcomes is particularly valuable to ensure that funding is used effectively, and that service providers are incentivised to create the desired effects for the end beneficiaries.

While a "pure" PBC is possible, for instance where implementers have sufficient own funds to pre-finance the programme (figure 4.3), most PBCs feature a hybrid structure (figure 4.4), with part of the funding paid upfront (e.g. on an input/ activities-basis) and the rest based on results. Providing implementers, often NGOs with a limited budget, with an upfront payment allows them to increase their resources and have greater flexibility on how to reach the pre-defined targets. The proportion of upfront and performance-based payments is variable.

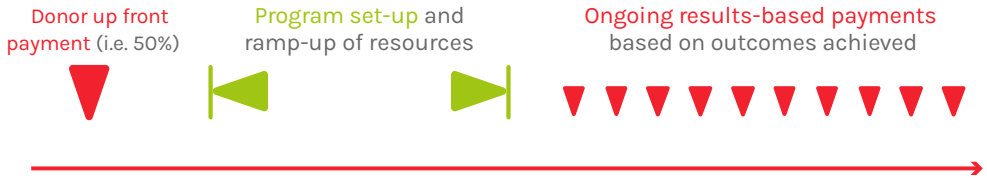


Figure 4.3 – "Pure PBC", source: Roots of Impact.



** with or without external funding*

Figure 4.4 – "Hybrid PBC", source: Roots of Impact.

The underlying aim for PBCs is to empower innovative service provision and trigger higher performance. Strong probability of success (e.g. proven track record, credible data, clear and common objectives, solid monitoring system etc.) is needed to provide the necessary confidence for all stakeholders to implement a Performance-Based Contract. Especially when outcome-focused, PBCs represent a valid alternative to social/development impact bonds (*see page 75*). Given no private investment is involved, PBCs do not require a special purpose vehicle (SPV), thus decreasing the costliness and complexity of transactions. A PBC can also be used by the service provider to raise external, repayable finance in order to pre-finance the activities. By doing this, the structure becomes quite similar to an impact bond with the exception that the risk of underperformance lies with the service provider.

Purpose/Fit	Enable and incentivise service providers to implement effective solutions and outperform on impact, ensuring successful deployment of donors' funds.
Can replace	Social/Development Impact Bonds, grants, public contracts, fee-for-service arrangements
Risk/Return Profile	No investor involved. The service provider carries the performance risk: where targets are not met, the results-based portion of the funding is not paid. Exposure is limited to that portion, which in a hybrid structure is less than the full contract value.
Delivery organisation	Typically a non-profit organisation or NGO, at any stage, with the capacity to pre-finance at least part of the delivery period or access to an upfront payment.
Maturity	Linked to the length of the intervention

Defining Criteria[66]

1. **Output or outcome-based:** Ongoing results-based payments tied to the achievement of results (outputs or outcomes).

2. **Bilateral structure:** an agreement between the funder and the service provider, with no third-party investor involved.

66 Source: OECD (2025), Outcomes-Based Financing in the New Financing for Development Architecture, DCD(2025)9.

3. **Direct incentivisation:** Incentivisation of the value creator/outperformance trigger.

4. **Flexibility:** Pre-defined metrics and verification methods, but flexibility on approach. By focusing on which results are achieved rather than how, implementers are able to make course corrections and adjustments during delivery.

5. **Optional upfront funding:** Potential upfront funding to service providers so as to increase their resources and flexibility.

6. **Risk transfer to implementer:** transfer of risk to the implementing organisation, depending on the proportion of upfront and performance-based payments.

7. **Output or outcome verification:** Outputs or outcomes are independently verified by a party that is impartial and free from conflicts of interest.

Variants and Optional features

Output-Based Aid (OBA):

- A PBC between donors and public/private providers, with the latter being provided with subsidies dependent on the achievement of certain pre-agreed results. OBAs complement or replace users' contributions. They are used to improve access to and delivery of basic infrastructure and social services (e.g. water and sanitation services) to the poor.

Performance-Based Financing (PBF)

- A PBC typically used to fund health providers on a fee-for-service basis, with payments being conditional on the achievement of pre-defined targets that assure the quality of the service.

Prize-Based Challenge

- This is a form of PBC where an open-bid competition rewards (financially) those providing the best (i.e. most cost-effective and innovative) solution to a specific issue.

Conditional Cash Transfers (CCTs)

- Upon achievement of pre-agreed results (e.g. regular health care checks, increased school attendance) payments are made to disadvantaged households to stimulate investment in human capital.

- Here the recipient is the household rather than a service provider, which distinguishes CCTs from the other variants.

Performance-based grants and transfers

- The same logic applied between levels of government, for instance from national to local administrations, with disbursement conditional on agreed results.[67]

- Used to drive institutional and service delivery improvements within public systems rather than through external providers.

67 Idem

Benefits and Considerations, Capital Providers

Benefits	Considerations
Contract is between two parties only, and thus not overly complex or costly relative to structures involving investors	An appropriate measurement framework and payment metrics are critical for success, but require time and resources to develop
No investor needed and no financial returns to be paid	Payments fluctuate with results achieved, which complicates annual budget planning against fixed ceilings[68]
Encourages outcomes-focused innovation and performance management in development	Risk of unintended effects such as market distortion and cherry-picking, if the targets and payment metrics are not carefully designed
Pre-defined targets align expectations between funder and implementer	The pool of eligible implementers narrows where no upfront payment is offered, since only providers with cash reserves can participate[69]
Potential introduction of regular outcomes-based commissioning for governments	Isolating the effect of the contracting mechanism from that of the intervention itself remains difficult, which complicates evaluation[70]

68 Source: OECD (2025), Outcomes-Based Financing in the New Financing for Development Architecture, DCD(2025)9.

69 Idem

70 Idem

Benefits and Considerations, Service Providers

Benefits	Considerations
Greater flexibility on approach, since the contract specifies results rather than activities	Must have the capacity to absorb some of the financial risk, in proportion to the results-based share of the contract
Ability to make course corrections and adjustments during delivery, focusing on which results are achieved rather than how[71]	Where no upfront payment is provided, the provider must pre-finance delivery from its own resources
An upfront payment, where provided, increases resources and flexibility during the delivery period	Measurement and verification obligations could potentially be heavier than under grant or fee-for-service funding, although not necessarily
Outperformance is directly rewarded where payments continue above target, unlike under input-based funding	Exposure to targets that may prove unrealistic where the measurement framework was poorly designed

Selection Criteria Checklist

Use to test whether a PBC is a good fit for a given intervention.

- ☐ **Results are clear, measurable, and verifiable:** the outputs or outcomes to be paid for are clear and can be defined objectively and verified independently at reasonable cost.

- ☐ **A credible measurement framework can be built:** the time and resources exist to develop appropriate metrics, baselines and payment triggers before the contract starts.

71 Idem

- **The implementer can carry the risk:** the service provider has the financial capacity to absorb the results-based portion, or an upfront payment is offered to bring that portion within reach.

- **Targets are ambitious but achievable:** the implementer's track record, credible data and a solid monitoring system give all parties confidence that they can be reached.

- **Budget flexibility exists:** the funder can accommodate payments that fluctuate with results rather than following a fixed annual disbursement profile.

Common Pitfalls

1. Rushing the measurement framework. Metrics, baselines and payment triggers determine whether the contract rewards the right behaviour. Where they are developed under time pressure, the contract can incentivise the wrong results or set targets that prove unrealistic in delivery. This work belongs before signing, not alongside implementation.

2. Cherry-picking and creaming. Where payment depends on results, implementers face an incentive to select the participants easiest to help and to neglect those harder to reach. Defining the eligible group tightly, and pricing outcomes to reflect differing degrees of difficulty, reduces the risk.

3. Setting the results-based share too high. The proportion tied to results determines how much risk the implementer carries. Set too high, it excludes smaller providers and pushes those that do participate towards conservative delivery. A modest share at the outset, increased as experience and data quality improve, manages this better.

4. Assuming the contract will produce innovation. Outcomes-based mechanisms generally do not generate entirely new interventions, since funders tend to support organisations with an existing track record. Innovation occurs where results are set and implementers have genuine flexibility over how to deliver them, which makes that flexibility something to protect in contract design rather than to assume.[72]

Examples of Relevant Terms

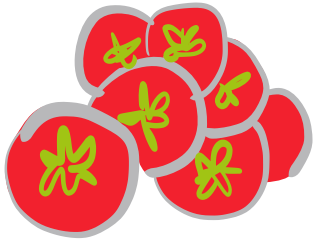
As formulated in a contract; bracketed values are illustrative and negotiable.

Funding structure	Payments are made in proportion to achievements, and results are reported and verified (annually). Baseline for the disbursement linked indicators is in both cases (zero).
People provided with access to an improved water source under the programme:	A total of up to (USD 9,000,000) is allocated to this indicator, of which (USD 2,000,000) are available as an upfront payment. Example for output indicator: For each person served by an improved water source built under the programme, a payment of (USD 77.70) is provided. Example for outcome indicator: For each percentage of reduced diarrhoea morbidity in the defined communities a payment of (USD 350,000) is provided.
Number of new sanitation cabins equipped with handwashing facilities in schools built under the programme:	A total of up to (USD 2,500,000) is allocated to this indicator, of which (USD 500,000) are available as an upfront payment. Example for output indicator: For each new sanitation cabin equipped with handwashing facility in rural schools built under the programme, a payment of (USD 1,689) is provided. In the event the number of sanitation cabins that are verified to be operational and properly maintained reaches at least (70%) of the number of sanitation cabins built in the previous year, an additional payment of (USD 150,000) will be provided. Example for outcome indicator: For each percentage of reduced student absence in the defined communities a payment of (USD 50,000) is provided.

72 Idem

Example of Performance-Based Contract structures

- Trickle UP Foundation and three NGOs (Association Monde Rural, Alliance Internationale pour le Développement et la Solidarité en Afrique, Aid Aux Enfants) signed a PBC in 2015, which focused on implementing coaching services to support poor families in Burkina Faso to secure paths out of poverty. Payments were made contingent upon families living under USD 1.25 a day reaching specific economic stability targets. Outcome targets included levels of savings and confidence.



INNOVATIVE PHILANTHROPIC FUNDING



5

The following section examines financing instruments that combine features of grants and loans, Recoverable Grants and Forgivable Loans, for impact enterprises and the philanthropic funders that support them. Traditional grants and conventional loans sit at opposite ends of the capital spectrum. Grants are given with no expectation of repayment, while loans must be repaid regardless of outcomes. The instruments in this section occupy the space between, letting funders write repayment, forgiveness, or both into the terms based on how an enterprise performs, financially or in terms of impact. They are often used by philanthropic and catalytic funders who care more about impact than financial return, and who want their capital to be recycled where possible.

The two sections are close mirror images. A Recoverable Grant starts as a grant and becomes repayable only if pre-agreed financial or impact milestones are met. A Forgivable Loan starts as a loan and can be converted into a grant when milestones are reached or at the funder's discretion. The choice between them depends on which outcome is the default, who holds the decision, whether the funder and recipient are non-profit or for-profit, and how each structure is treated for accounting and tax purposes.

By linking repayment or forgiveness to agreed milestones, these structures align funder and enterprise around the same outcomes, rewarding impact delivered rather than capital spent.

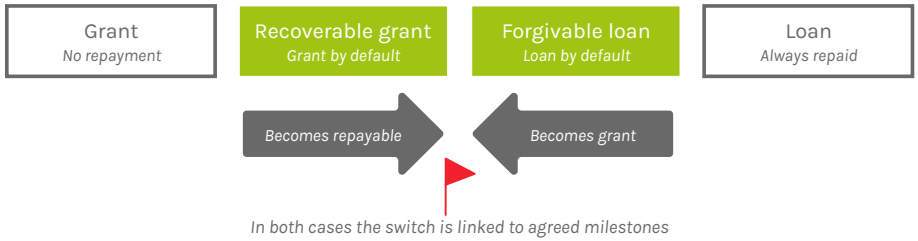


Figure 5.1 – "Innovative Philanthropic Funding".

5.1 RECOVERABLE GRANTS[73]

Brief Description

A recoverable grant is grant capital that a funder agrees to provide with the expectation of repayment only if the recipient achieves specific, pre-agreed financial or social outcomes, most often the successful exit of an investment or the completion of a project. Unlike a loan, repayment is not owed unconditionally; unlike a traditional grant, there is a genuine, negotiated possibility that some or all of the capital will come back. The size, trigger, timing, and any return are customised between funder and recipient and are typically set out either in the grant agreement itself or in a side letter attached to it.

Recoverable grants sit alongside guarantees, forgivable loans, and convertible grants as one of a handful of ways to put a repayable twist on traditional, non-repayable grant capital. They are most straightforward, from a tax and accounting standpoint, when made from one non-profit entity to another; extending them to for-profit recipients is possible, but brings additional reporting and tax complexity that funders and founders should work through with counsel before agreeing to terms.

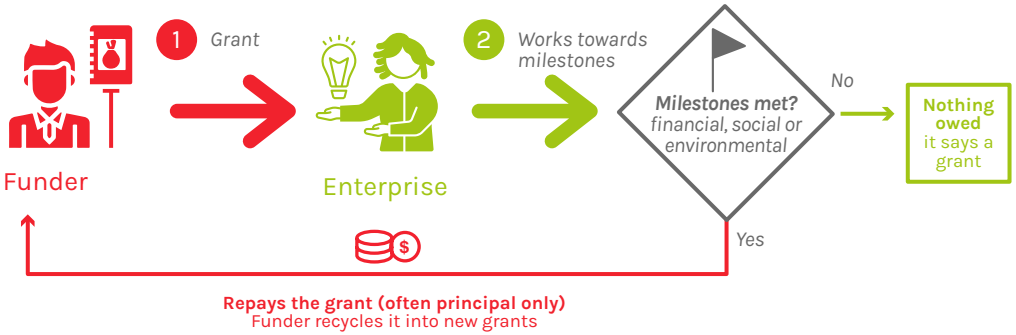


Figure 5.2 – "Recoverable grants", source: Innovative Finance Initiative.

Purpose/Fit	Flexible, contingent-repayment capital used by non-profits and social enterprises for bridging capital, proof-of-concept activity, or to capitalise their own lending or investment activity
Can replace	A traditional, non-repayable grant, where the funder wants some prospect of recycling capital, or a loan, where the recipient's ability to repay is too uncertain to responsibly carry as debt
Risk/Return Profile	High risk for funders: repayment is genuinely contingent and may not materialise; any return is deliberately below market rate (commonly 0–5% per annum, occasionally higher to reflect the underlying risk). Many funders using this instrument are optimising for impact rather than financial return, treating any capital recovered as a bonus that lets them recycle philanthropic dollars rather than as the primary goal of the investment.
Enterprise Lifecycle	Early-stage and proof-of-concept non-profits and social enterprises, and non-profit intermediaries capitalising their own investment or lending funds
Timing	Flexible and often long-dated: repayment can track a specific milestone, an investment exit, or a multi-year fund horizon rather than a fixed schedule. That milestone can be financial or impact-related, either social or environmentally focused, for example, a target number of jobs created, beneficiaries reached or reduced greenhouse gas emissions, not just a revenue or exit trigger.

Defining Criteria

1. **Contingent repayment:** repayment is owed only if the recipient achieves a pre-agreed financial, social or environmental outcome, rather than being due unconditionally.

2. **Customisable terms:** the amount, repayment trigger, timing, and any return are negotiated case by case between funder and grantee, rather than following a standardised loan structure.

3. **Documented in the grant agreement or a side letter:** repayment terms can be built directly into the grant contract or captured separately in a side letter, giving both parties flexibility in how formally the arrangement is documented.

4. **Below-market or capped return:** when a return is expected at all, it is deliberately below market rate, often just principal, sometimes capped in the low single digits, occasionally higher for genuinely high-risk activity.

73 Sources: Adventure Finance (2021); Aunnie Patton Power; Innovative Finance Initiative

5. **Best suited to non-profit-to-non-profit structures:** recoverable grants are simplest, from a tax and accounting perspective, between two non-profit entities; grants to for-profit recipients are generally treated more like a forgivable loan.

6. **Can be pooled into a fund:** rather than tying each grant to one project, funders can pool recoverable grants from multiple donors into a single vehicle, spreading repayment risk and improving the odds of a portfolio-level return.

Variants and Optional features

- Deal-by-deal recoverable grants: each grant is tied to a specific investment or project, with repayment linked directly to that project's outcome.
- Pooled recoverable grant fund: multiple funders' recoverable grants are pooled into one vehicle, drawn down over time as the recipient approves new investments, with repayment and returns, if any, distributed pro rata as capital is recovered.
- Recoverable grants used to on-lend or co-invest: a non-profit intermediary could use the recoverable grant as capital to make its own equity investments or below-market loans further downstream, rather than spending it directly.
- Structured for partial repayment: some recoverable grants are deliberately designed so that only a portion of the principal is expected back, targeting a risk level between a traditional grant and a typical loan.
- Component of a blended, multi-instrument fund: larger catalytic funds combine recoverable grants alongside traditional grants, programme-related investments, and mission-related investments, using recoverable grants for the portion of risk capital they want a chance to recycle

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
Creates the possibility of recycling philanthropic capital instead of treating every dollar as a one-time gift	Should be underwritten as high-risk: repayment is genuinely contingent and may not materialise
Can be a relatively simple entry point into impact investing, especially when working with an existing non-profit partner	Lack of standardised legal templates and accounting guidance has slowed some funders and their counsel
Flexible design lets funders target any point between a traditional grant and a market-rate investment	Grants to for-profit recipients add complexity: expenditure-responsibility tracking and treatment are closer to a forgivable loan
Pooling several funders' recoverable grants into one fund spreads repayment risk and improves the odds of a portfolio-level return	Return expectations must stay modest; funders expecting market-rate performance are not a fit for this instrument

Benefits and Considerations, Enterprises

Benefits	Considerations
Only requires repayment if the funded activity succeeds, unlike a fixed loan repayment schedule	Terms can be ambiguous if not clearly documented, so funder and founder must agree upfront on what triggers repayment
Can provide timely bridging capital between large projects or while a bigger funding commitment is finalised	Still requires balancing financial return expectations, even modest ones, against the organisation's impact priorities
A track record of repaying a recoverable grant can help build credibility ahead of taking on more traditional debt	Raising a recoverable grant can involve lengthy paperwork and approval timelines
Well suited to proof-of-concept or early-market activity where risk capital is scarce, but the potential impact is high	For-profit recipients face added expenditure-responsibility tracking and tax obligations

Selection Criteria Checklist

Use to test whether a recoverable grant is a good fit for a given deal.

- ☐ **Funder is genuinely comfortable with high risk:** repayment is treated as uncertain, not assumed.
- ☐ **Clear repayment trigger:** the financial, social or environmental milestone that triggers repayment can be defined precisely enough to avoid future disputes.
- ☐ **Right entity type, or the tax treatment is confirmed:** the recipient is a non-profit, or the funder has confirmed the accounting and tax treatment needed for a for-profit recipient.
- ☐ **Below-market return, clearly documented:** any expected return stays well below market rate and is written into the contract or side letter.
- ☐ **Recipient can track and report against milestones:** the internal systems needed to demonstrate the repayment trigger are in place or being built.
- ☐ **Structure aligns with mission, not just returns:** both parties are balancing impact priorities alongside any financial expectations.

Common Pitfalls

1. Treating a recoverable grant as a disguised loan, without genuinely accounting for the possibility that repayment never happens.
2. Leaving the repayment trigger vague or undocumented, creating disagreement later over whether the milestone was actually met.
3. Underestimating the paperwork and internal approval time required, thus undermining the goal of timely bridging capital.
4. Overlooking the added tax and accounting complexity that comes with making a recoverable grant to a for-profit recipient.

Examples of Relevant Terms

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

Recoverable Amount	Funder shall make a Recoverable Grant to Grantee in the amount of USD [Amount], repayable only upon the occurrence of a Repayment Trigger as defined below.
Repayment Trigger	Repayment shall become due only if and when Grantee [successfully exits its investment in Portfolio Company / secures follow-on funding of at least USD [Amount] / achieves the impact milestone of [e.g., X jobs created, X beneficiaries reached, or X hectares under sustainable management]], as evidenced by [supporting documentation]

Return Cap	In the event of repayment, Grantee shall pay Funder an amount not to exceed [1–5]% per annum on the Recoverable Grant amount, calculated from the date of disbursement to the date of repayment.
Documentation	The repayment terms set forth in this Section shall be deemed incorporated into the grant agreement between the parties dated [Date], whether by direct reference or by side letter.
Use of Proceeds	Grantee shall apply the Recoverable Grant solely to [permitted use, e.g., making equity investments in or loans to Portfolio Companies], and shall provide Funder with [periodic] reporting on its use.
Non-Recourse	This Recoverable Grant is made on a non-recourse basis; Grantee shall have no obligation to repay any amount beyond what is actually recovered from the underlying [investments/loans], up to the amounts set forth above.

Worked Example of Recoverable Grant structures

A non-profit agricultural incubator raises a USD 50,000 recoverable grant from a family foundation to make its first seed investment in a smallholder-farmer cooperative. The grant agreement specifies that repayment is due only if the incubator successfully exits its investment, at which point it will return the original USD 50,000 plus a return capped at 3% per annum. Three years later, the incubator exits its stake at a gain, triggering the repayment clause: it returns the foundation's USD 50,000 plus roughly USD 4,500 in accrued return, and reinvests the same USD 50,000 into its next portfolio company, recycling the same capital into a second cycle of impact without the foundation having to write a fresh check.



5.2 FORGIVABLE LOANS[74]

Brief Description

A forgivable loan is a loan that a funder can convert into a grant: the mirror image of a recoverable grant, which is a grant that can convert into a loan. The funder extends debt on favourable terms, often at a reduced or zero interest rate, and can then forgive some or all of the outstanding principal, either at its own discretion or once the recipient meets pre-agreed financial or social milestones. Until any forgiveness decision, the recipient carries the funding as an ordinary liability on its books, which can instil useful financial discipline and build a repayment track record, even if the funder never intends to collect.

Unlike a recoverable grant, which works most cleanly between two non-profit entities, a forgivable loan can be made by either a non-profit or a for-profit funder into either a non-profit or a for-profit recipient, making it a more flexible tool across entity types. The decision to forgive typically sits with the funder rather than the recipient, which lets funders reward outcomes, such as maintaining employment, hitting a social or environmental target, or putting a strategic asset to good use, without pre-committing that reward as a grant from day one.

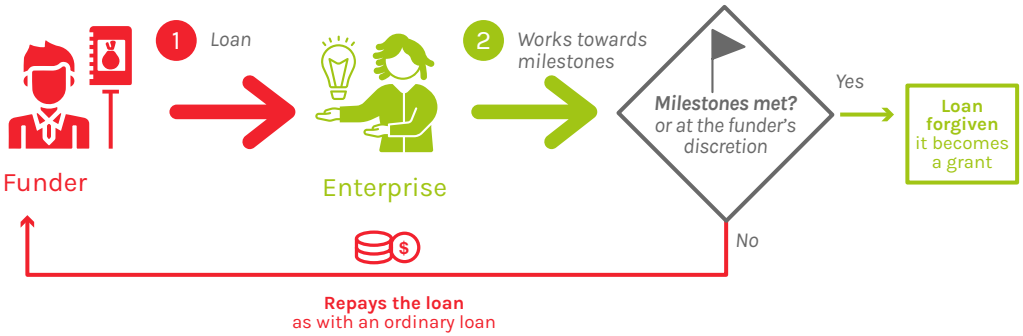


Figure 5.3 – "Forgivable Loans", source: Innovative Finance Initiative.

Purpose/Fit	Debt-structured capital, often at reduced or zero interest, extended with the possibility, but not the certainty, that some or all of it will be forgiven and converted into a grant
Can replace	A traditional grant, where the funder wants to build in financial discipline and a repayment track record, or conventional debt, where the recipient cannot qualify for a bank loan on ordinary commercial terms
Risk/Return Profile	High risk / low expected return for the funder, actual return depends entirely on how much is forgiven; many funders are deliberately trading financial return for the flexibility to reward mission-aligned or impact outcomes
Enterprise Lifecycle	Non-profits and for-profit social enterprises of any stage, particularly those financing a specific, well-defined investment that a bank would not finance given their credit profile
Timing	Flexible: typically structured over a defined loan term (commonly 1–3 years), with the forgiveness decision made at or before the end of that term, either at the funder's discretion or tied to milestones, financial or impact-related

Defining Criteria

1. **Structured and booked as debt:** the recipient records the funding as a liability, and the funder as a receivable, just like an ordinary loan, unlike a recoverable grant, which both sides book as a grant.

2. **Forgiveness at the funder's discretion, or on milestones:** whether the loan converts to a grant can be left entirely to the funder's judgment, or tied to pre-agreed financial or social/environmental milestones defined in the loan agreement.

3. **Open to both non-profit and for-profit parties:** forgivable loans are more flexible on entity type than recoverable grants, and can be made by a non-profit or for-profit funder into a non-profit or for-profit recipient.

4. **Favourable loan terms:** even before any forgiveness, the loan itself is typically offered at below-market or zero interest, and sometimes without the collateral a commercial lender would require.

74 Sources: Adventure Finance (2021); Aunnie Patton Power; Innovative Finance Initiative

5. **Tax consequences on forgiveness:** when a loan is forgiven, a non-profit recipient generally books the forgiven amount as a grant, while a for-profit recipient typically books it as ordinary income and may owe tax on it.

6. **Builds a credit and impact track record:** because the recipient plans and reports as though repayment is required, a forgivable loan can build the financial discipline and track record needed to access more traditional debt later, whether or not it is ultimately forgiven.

Variants and Optional features

- **Discretionary forgiveness:** the funder retains full discretion over whether, and how much, to forgive: used to reward the recipient's overall performance and impact rather than a single defined metric.

- **Milestone-linked forgiveness:** forgiveness is tied to pre-agreed financial or social/environmental metrics set out in the agreement, giving the recipient clarity on exactly what triggers conversion.

- **Asset-backed forgivable loans:** the loan finances a specific, often income-generating asset, such as a building, that the funder can treat as informal security and that helps the recipient prepare to repay if the loan is not forgiven.

- **Interest-rate-linked variants:** instead of forgiving principal outright, some funders offer a variable or rebated interest rate that steps down as the recipient hits impact milestones, a lighter-touch cousin of full forgiveness.

- **Crisis-response loans with embedded social metrics:** used at scale during crisis events where forgiveness is tied to metrics such as maintaining employment levels, with climate-related metrics increasingly discussed for larger borrowers.

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
Preserves the option to reward strong performance or impact with forgiveness, without pre-committing the capital as a grant upfront	If forgiveness is fully discretionary, the recipient may face genuine uncertainty about its future obligation, complicating its own planning
Booking the funding as a loan encourages the recipient to plan and report as though repayment is required, often producing better discipline than a straight grant	Requires the funder to actively monitor and evaluate whether milestones, or overall performance, justify forgiveness
Flexible enough to fund either non-profit or for-profit recipients, widening the funder's reach relative to a recoverable grant	Booking, and potentially writing off, the loan requires more active balance-sheet management than issuing a straightforward grant
Can be a meaningful, differentiated form of support, such as interest-free capital for a strategic purchase, that few other funders are positioned to offer	Legal and tax treatment can be unclear in some jurisdictions, particularly for loans to for-profit recipients

Benefits and Considerations, Enterprises

Benefits	Considerations
Access to capital, often at zero or below-market interest, that a bank would not extend given the organisation's credit profile or non-profit status	Taking on a forgivable loan may signal to future lenders that the organisation needed below-market financing, complicating a later move to conventional debt
A successfully repaid or forgiven loan builds a track record that can support future, more traditional financing	If forgiveness is discretionary rather than milestone-based, the organisation cannot be certain the obligation will ever be waived
Can fund large, strategic investments, like acquiring a building, that would otherwise be out of reach	For-profit recipients face real tax exposure on any amount forgiven, since it is typically treated as ordinary income
Even if not forgiven, the loan terms are still meaningfully cheaper than commercial debt	Still carries all the reporting and financial-planning obligations of ordinary debt until, and unless, it is forgiven

Selection Criteria Checklist

Use to test whether a forgivable loan is a good fit for a given deal.

- ☐ **Can service the loan as ordinary debt:** the organisation could repay it in full if forgiveness does not ultimately occur.
- ☐ **Forgiveness mechanism is clearly agreed:** funder and recipient have documented whether forgiveness is discretionary or milestone-based.
- ☐ **Use of funds is well defined and trackable:** the intended use, such as a specific asset purchase, can be monitored and reported on.
- ☐ **Entity type and tax treatment are understood:** both sides know how a forgiveness event will be booked and taxed for a non-profit or for-profit recipient.
- ☐ **Recipient is prepared for the signalling effect:** the organisation has thought through how below-market financing may read to future commercial lenders.
- ☐ **Relationship supports ongoing oversight:** funder and recipient are both comfortable with the monitoring a forgivable loan requires.

Common Pitfalls

1. Leaving the forgiveness decision entirely undefined, creating uncertainty for the recipient's financial planning and straining the funder relationship.
2. Failing to anticipate the tax consequences for a for-profit recipient when a loan is forgiven and must be booked as ordinary income.
3. Underestimating the ongoing monitoring a forgivable loan requires compared with issuing a straightforward grant.
4. Not preparing the recipient for how taking on below-market financing may be read by future commercial lenders.

Examples of Relevant Terms

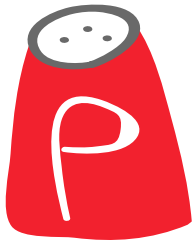
As formulated in a contract; bracketed values are illustrative and negotiable

Loan Amount and Rate	Funder shall extend a loan to Borrower in the principal amount of USD [Amount], at an interest rate of [0–X]% per annum, for a term of [1–3] years.
Use of Proceeds	Borrower shall apply the loan proceeds solely to [permitted use, e.g., the acquisition of [Property/Asset]], and shall provide Funder with documentation evidencing such use.

Forgiveness Determination	At the end of or during the Loan Term, Funder may, in its sole discretion [or: upon Borrower's achievement of the milestones set forth in Exhibit A], forgive all or a portion of the outstanding principal and accrued interest.
Repayment if Not Forgiven	Any portion of the loan not forgiven shall be repaid by Borrower in accordance with the repayment schedule set forth in Exhibit B.
Reporting	Borrower shall provide Funder with [periodic] financial and, where applicable, impact reporting sufficient to evaluate Borrower's progress towards the milestones set forth in Exhibit A.
Tax Treatment	Borrower acknowledges that, upon forgiveness, the forgiven amount may be treated as [a grant / ordinary taxable income] under applicable law, and agrees to obtain its own tax advice regarding the consequences of forgiveness.

Worked example of Forgivable Loan structures

A regional non-profit health clinic network borrows USD 200,000 from a mission-aligned family office to renovate a rural clinic, at 0% interest over three years. The loan agreement sets an impact milestone: if the clinic serves at least 10,000 patients within its first two years of operation, the family office will forgive 100% of the outstanding principal; short of that target, forgiveness scales down to a floor of 50%. The clinic tracks and reports patient visits quarterly, budgeting throughout as though the loan will need to be repaid in full. At the two-year mark, having served just over 11,000 patients, the loan is forgiven in full, and the clinic books the USD 200,000 as a grant, while the family office benefited, in the interim, from the same financial discipline the clinic would have applied to a loan it genuinely expected to repay.



INNOVATIVE WORKING CAPITAL FINANCE



6

The following section examines financing instruments that unlock short-term working capital for impact enterprises, Supply Chain Finance and Receivables Purchase, by drawing on the value of their commercial transactions. Many growing enterprises are profitable on paper but short of cash in practice. Money is tied up in confirmed orders, goods in transit, and invoices that customers may not pay for 30, 60, or 90 days.

The instruments in this section address that gap by drawing on the value of individual transactions rather than on the enterprise's own balance sheet or credit history. Because repayment is usually anchored to a creditworthy buyer, both instruments can offer short-term, self-liquidating capital at a lower cost than the enterprise could secure on its own. The two sections differ based on who drives the arrangement. Supply Chain Finance covers buyer-led structures, in which a large buyer uses its own creditworthiness to give its suppliers early payment. Receivables Purchase covers financier-led structures, in which a third-party financier buys a supplier's purchase orders or invoices at a discount. Read together, they show how cost and risk decrease as a transaction moves from order to delivery to invoice, and how the choice between buyer-led and financier-led models shapes pricing, recourse, and fit.

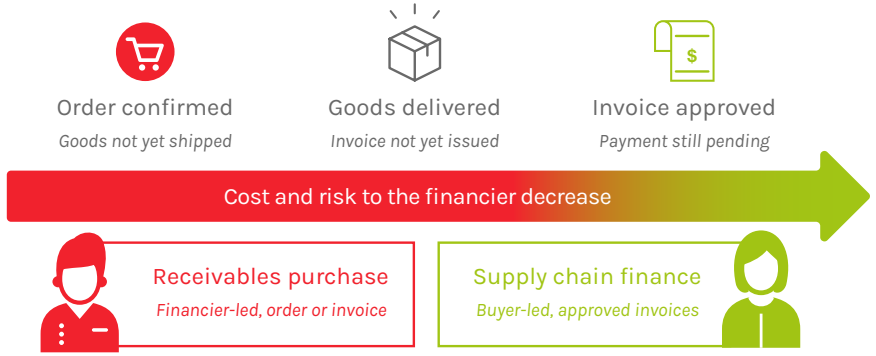


Figure 6.1 – "Innovative working capital".

6.1 SUPPLY CHAIN FINANCE[75]

Brief Description

Supply chain finance (SCF) is a family of short-term financing techniques that let a business convert confirmed customer orders, shipped goods, or unpaid invoices into working capital, rather than relying solely on its own balance sheet or credit history. Instead of waiting out a customer's payment terms, which can run 30, 60, or even 90 days after delivery, a supplier can draw on the value of a specific transaction, priced according to how creditworthy the paying party is and how close the underlying goods are to being delivered and paid for.

SCF can be initiated by a large buyer on behalf of its supplier base (a "buyer-led" programme) or arranged directly between a supplier and a third-party financier (a "financier-led" programme). Though its use has been traced back to ancient trading economies, SCF has become a core working-capital tool for small and growing enterprises worldwide, and is used especially heavily for cross-border trade, where it is often referred to as trade finance.

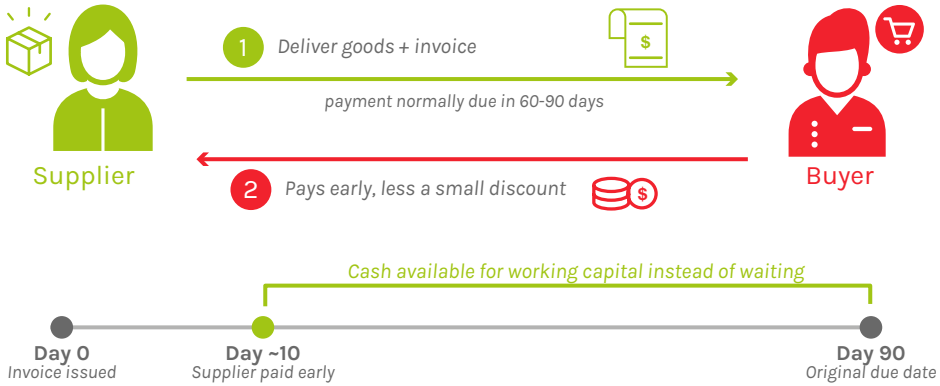


Figure 6.2 – "Supply Chain Finance", source: Innovative Finance Initiative.



Cost of financing to the enterprise, decreasing as the underlying transaction moves from purchase order – shipment – delivered invoice.

Figure 6.3 – "Financing cost by transaction stage", source: Innovative Finance Initiative.

Purpose/Fit	Short-term working capital financing that unlocks cash tied up in confirmed orders, invoices, or payables within the trade cycle
Can replace	Bank overdrafts, short-term credit lines, invoice factoring, and in some cases early-stage equity raised to fund working capital
Risk/Return Profile	Low risk / low-to-moderate return for financiers – payment risk sits mainly with a creditworthy buyer, not the supplier being financed
Enterprise Lifecycle	Growth to mature stage – enterprises with an established buyer relationship, delivery track record, and predictable order flow
Timing	Short-term, typically 30–180 days, tied to the underlying invoice or purchase-order payment terms

Defining Criteria

1. **Initiation and direction:** buyer-led programmes are initiated by the purchasing company, which offers its suppliers early payment in exchange for a discount; financier-led programmes are initiated by the supplier or a third-party financier, who purchases or lends against the supplier's receivables or orders.

2. **Underlying credit basis:** in a buyer-led structure, pricing reflects the buyer's own cost of capital, since its payment obligation is effectively certain; in a financier-led structure, the financier prices and underwrites the deal on the buyer's ability and willingness to pay, not the supplier's.

75 Sources: Adventure Finance (2021); Aunnie Patton Power; Innovative Finance Initiative; Innovative Finance Playbook (2022); Nowak Metro Finance Lab – Drexel University; University of Oxford, Blueprint Local, Capital Access Lab

3. **Point in the trade cycle:** financing can be advanced against a purchase order (before goods are produced or shipped), a shipping document (once goods are in transit), or an invoice (once goods have been delivered). Risk, and therefore cost, falls the closer the transaction is to delivery.

4. **Advance rate and fee:** the financier advances a percentage of the face value of the order or invoice (commonly 70–95%), releasing the balance, less a discount or factoring fee, once the buyer pays.

5. **Recourse:** under a recourse arrangement, the supplier remains liable if the buyer fails to pay; under non-recourse financing, the financier absorbs that credit risk.

6. **Settlement mechanism:** the buyer may pay the financier directly (an assignment of payment), or the supplier may collect from the buyer and then repay the financier.

Variants and Optional features

- **Advanced Payable (buyer-led):** the buyer offers its suppliers an early payment option against an invoice or purchase order, typically through dynamic discounting (a sliding discount tied to how early payment is made) or a formal payment undertaking. Because the buyer's payment is effectively guaranteed, this is usually the lowest-cost variant. The two mechanics below are the most common:

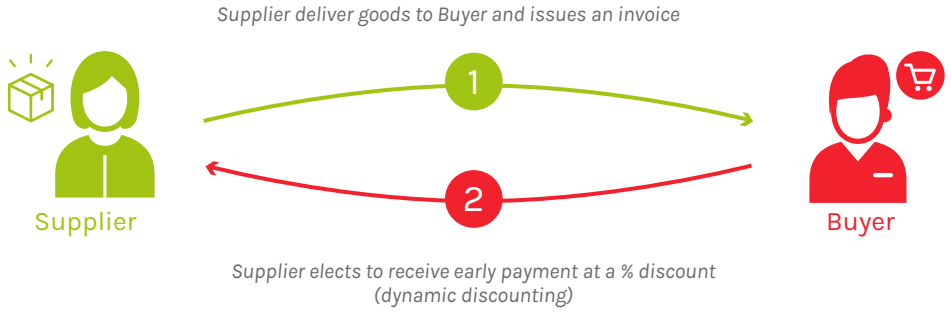


Figure 6.4 – SCF - Advanced Payable - Invoice: early payment is requested against goods already delivered. Source: Innovative Finance Initiative.

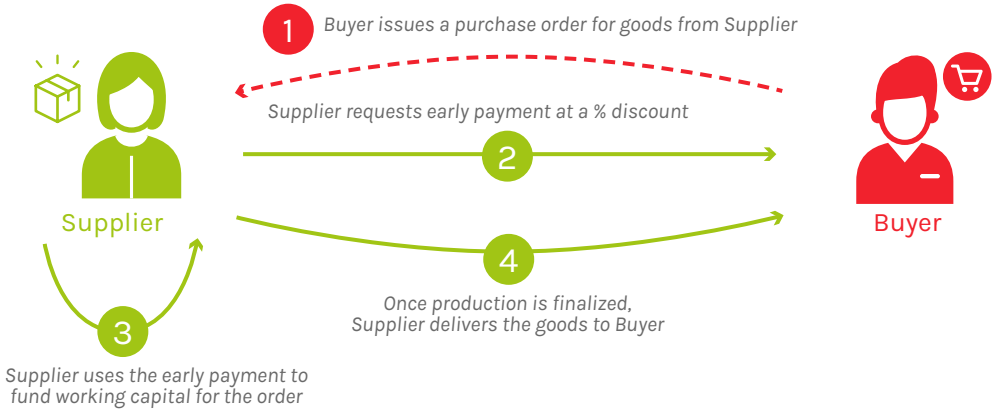


Figure 6.5 – SCF - Advanced Payable - Purchase Order: early payment is requested against a confirmed order, before goods are delivered. Source: Innovative Finance Initiative.

- **Receivables Purchase (financier-led):** a third-party financier buys an individual receivable or a portfolio of them outright, financing suppliers against invoices (receivables/invoice factoring) or purchase orders (purchase order financing). This family includes factoring, forfaiting, receivables discounting, and payable finance, and can be structured with or without recourse to the supplier. Another chapter would address this variant in depth.

- **Loans against trade assets:** rather than purchasing the receivable, a financier extends a loan secured against receivables, inventory, or an upcoming shipment (pre-shipment finance), or against a distributor's stock (distributor finance). Pricing here often reflects the supplier's own credit profile as much as the buyer's.

- **Securitised or syndicated structures:** some financiers pool receivables from multiple suppliers or buyers into a special-purpose vehicle and syndicate the funding to outside investors, widening the pool of capital available for a programme.

- **Impact-linked pricing:** an emerging variant ties pricing to supplier impact performance, for example, lowering fees or extending advance rates for suppliers that meet agreed social or environmental milestones, such as living-wage or fair-trade certification, or verified smallholder sourcing.

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
Financing is typically short-duration and self-liquidating, limiting how long capital is at risk on any single transaction	Requires robust verification of underlying trade documents to guard against duplicate or fraudulent invoices and orders
Credit risk is generally anchored to the paying buyer, who is often larger and better-rated than the supplier being financed	Pre-delivery (purchase order) financing carries meaningful execution risk if goods are never produced or shipped
Recurring, transaction-based deal flow can generate a steady, short-cycle income stream	Margins on lower-risk, post-delivery invoice financing can be thin and competitive
Repeated transactions build a track record of delivery and payment performance that can support alternative, data-driven underwriting	Programmes depend on reliable, often manual, documentation and monitoring, particularly where e-invoicing is not standardised

Benefits and Considerations, Enterprises

Benefits	Considerations
Provides working capital without pledging company-wide collateral, taking on restrictive covenants, or diluting ownership	A short-term tool that does not address structural balance sheet, profitability, or long-term capital needs
Financing can be priced off the buyer's creditworthiness rather than the supplier's own balance sheet, widening access for smaller or younger suppliers	Can be costly on an annualised basis, particularly for pre-delivery or purchase-order-stage financing where execution risk is priced in
Bridges the cash-conversion gap between paying for production and receiving customer payment, supporting larger or more frequent orders	Shifts the timing of cash inflows, requiring more sophisticated forecasting so the business can still cover its other near-term obligations
Used transaction by transaction, without a long-term commitment beyond the deal at hand	Some financiers request personal guarantees, particularly for invoice factoring, shifting counterparty risk back onto the founder

Selection Criteria Checklist

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

- ☐ **Creditworthy buyer or trade counterparty:** the paying party has a credit profile and payment record strong enough to support affordable pricing.
- ☐ **Verifiable, recurring order flow:** a documented history of delivered orders or invoices, ideally with repeat buyers.
- ☐ **Genuine short-term cash gap:** the need is tied to bridging a specific working-capital cycle, not a structural funding shortfall.
- ☐ **Standardised trade documentation:** purchase orders, invoices, or e-invoicing infrastructure a financier can verify.
- ☐ **Cost of capital below the underlying margin:** the discount or fee charged is lower than the profit the financing unlocks.
- ☐ **Finance function ready for accelerated cash flow:** accounting and forecasting capacity to manage the shift in payment timing.

Common Pitfalls

1. Treating SCF as a substitute for long-term capital, rather than a short-term bridge, and becoming reliant on progressively more expensive rounds of financing.

2. Under-pricing purchase-order-stage risk, leaving financiers exposed when an order is cancelled or the underlying goods are never delivered.

3. Failing to update cash-flow forecasts for the shift in payment timing, leaving the enterprise short of funds for other near-term obligations.

4. Financing the same invoice or order through more than one provider, or accepting personal guarantees, without verification systems robust enough to catch duplication or fraud.

Examples of Relevant Terms

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

Advance Rate	Financial Provider shall advance an amount equal to eighty percent (80%) of the face value of each Eligible Receivable upon acceptance, with the balance, less the Discount Fee, remitted upon collection from the Buyer.
Discount Fee	The Discount Fee payable by Supplier shall be one and one-half percent (1.5%) of the invoice value for each thirty (30)-day period, or part thereof, that the Eligible Receivable remains outstanding.
Recourse	This Agreement is entered into on a [with/without] recourse basis. If the Buyer fails to pay an Eligible Receivable within [X] days of its Due Date, Supplier shall [repurchase such Receivable from / have no further obligation to] Financial Provider.
Eligible Receivable	An Eligible Receivable means an invoice or purchase order that is undisputed, free of liens or prior assignment, and owed by an Approved Buyer within its assigned Credit Limit.
Assignment of Payment	Supplier hereby irrevocably assigns to Financial Provider all right, title, and interest in each Eligible Receivable, and instructs the Buyer to remit payment directly to Financial Provider's designated account.
Optional: Link to Impact Performance	The Discount Fee of (2.0%) is reduced by (0.25%) for every verified Supplier Impact Milestone achieved (e.g., living-wage or fair-trade certification), down to a floor Discount Fee of (1.0%).

Worked example of Supply Chain Finance structures

A regional garment exporter receives a confirmed purchase order worth USD 50,000 from an established overseas retailer, payable 60 days after delivery. To cover fabric, labour, and logistics costs before payment arrives, the exporter sells 60% of the order — USD 30,000 — to a purchase-order financier. The financier advances USD 28,500, a 5% discount that reflects the two months of execution and delivery risk before the goods ship. Once the retailer confirms and pays the invoice in full, the financier deducts its advance and fee and remits the remaining balance to the exporter. Expressed as an annualised rate, the 5% two-month discount works out to roughly 30% — illustrating why purchase-order-stage financing, priced for execution risk, costs meaningfully more than financing arranged once goods have shipped or been delivered.



6.2 RECEIVABLES PURCHASE[76]

Brief Description

Receivables purchase is a financier-led supply chain finance technique in which a third-party financial provider buys an individual receivable, a purchase order or an invoice, from a supplier at a discount, advancing cash well before the underlying buyer actually settles the bill. It differs from a buyer-led advanced payable arrangement in one key respect: here, a financier steps in between supplier and buyer, funding the supplier against the buyer's credit strength and taking on responsibility for collecting payment once it falls due.

Financing can be arranged against a confirmed purchase order, before goods are produced or shipped, or against an invoice for goods already delivered, with pricing set to reflect the execution risk of each stage. This family of instruments includes factoring, invoice discounting, forfaiting, and payable finance, and is used heavily for cross-border transactions, where it is generally referred to as trade finance.

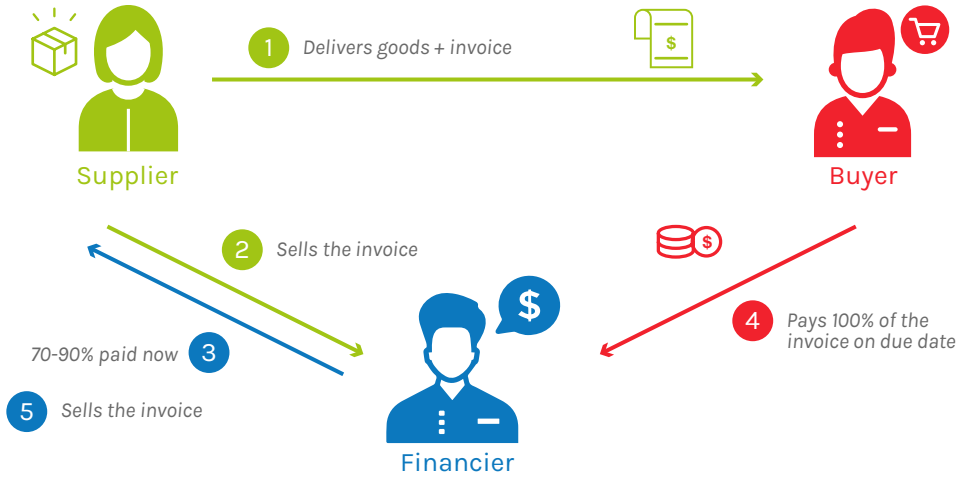


Figure 6.6 – "Receivables purchase", source: Innovative Finance Initiative.

Purpose/Fit	Short-term working capital financing that unlocks cash tied up in confirmed orders, invoices, or payables within the trade cycle
Can replace	Bank overdrafts, short-term credit lines, invoice factoring, and in some cases early-stage equity raised to fund working capital
Risk/Return Profile	Low risk / low-to-moderate return for financiers as payment risk sits mainly with a creditworthy buyer, not the supplier being financed
Enterprise Lifecycle	Growth to mature stage: enterprises with an established buyer relationship, delivery track record, and predictable order flow
Timing	Short-term, typically 30–180 days, tied to the underlying invoice or purchase-order payment terms

Defining Criteria

1. **Financier-led structure:** unlike an advanced payable, the arrangement is initiated by the supplier or the financier rather than the buyer, and the financier is a distinct third party to the underlying commercial relationship.

2. **Underwriting basis:** the financier assesses the buyer's payment capability and credit track record — not primarily the supplier's — to structure and price the advance.

3. **Point in the trade cycle:** financing can be advanced against a purchase order (before delivery) or an invoice (after delivery); purchase-order-stage deals carry meaningfully higher execution risk, and cost, than invoice-stage deals.

4. **Advance rate:** the financier typically advances a percentage of the face value upfront (commonly 70–90%), releasing the balance, less its fee, once the buyer pays in full.

5. **Fee structure:** the financier's fee is generally charged as a percentage of the invoice or purchase order value, often structured as a rate that compounds for each period the receivable remains outstanding.

6. **Recourse:** financing can be arranged with recourse (the supplier remains liable if the buyer fails to pay) or without recourse (the financier absorbs that credit risk).

76 Sources: Adventure Finance (2021); Aunnie Patton Power; Innovative Finance Initiative; Innovative Finance Playbook (2022); Nowak Metro Finance Lab – Drexel University; University of Oxford, Blueprint Local, Capital Access Lab

Variants and Optional features

- **Purchase-order-based (higher risk/cost):** the financier advances against a confirmed order before goods are delivered, taking on the execution risk that the order is cancelled or the supplier is unable to deliver.

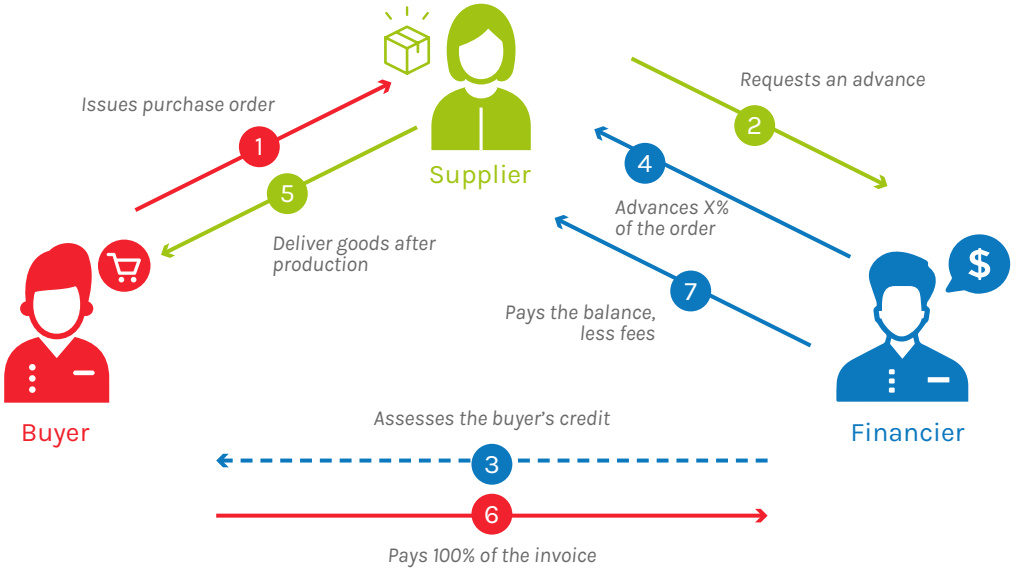


Figure 6.7 – SCF - Receivables Purchase - Purchase Order: the Financial Provider advances against a confirmed order before the goods are delivered. Source: Innovative Finance Initiative.

- **Invoice-based / invoice factoring (lower risk/cost):** the financier advances against an invoice for goods already delivered, leaving only the risk that the buyer fails to pay (see figure 6.8)

- **Forfaiting:** typically used for larger, longer-dated export receivables, often structured without recourse and evidenced by a bill of exchange or promissory note.

- **Receivables discounting:** the supplier sells receivables at a discount but retains responsibility for collecting from the buyer, rather than handing collection to the financier.

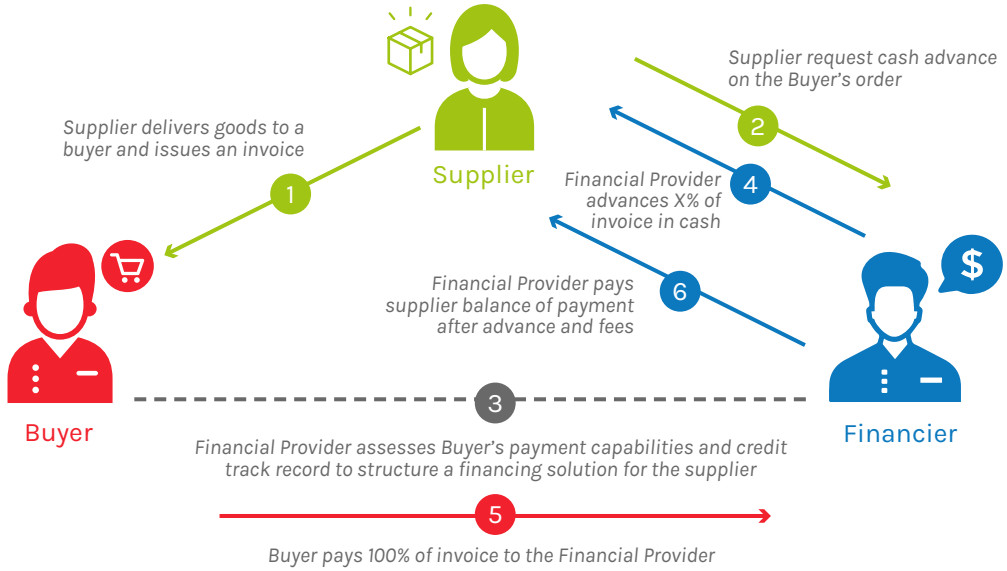


Figure 6.8 – SCF - Receivables Purchase - Invoice: the Financial Provider advances against an invoice for goods already delivered. Source: Innovative Finance Initiative.

- **Payable finance:** the financier structures the purchase around the buyer's broader payables ledger rather than a single invoice or order, often as part of a formal programme.

- **Securitised or syndicated structures:** some financiers pool receivables from multiple suppliers into a special-purpose vehicle and syndicate the funding to outside investors, widening the pool of capital available for a programme.

- **Cross-border trade finance:** receivables purchase transactions that cross borders are commonly referred to as trade finance, and typically layer in documentary or credit-insurance protections on top of the structures above.

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
Underwriting is anchored to the buyer's credit quality, widening the pool of financeable suppliers beyond those with a strong credit history of their own	Requires robust verification of the underlying invoice or purchase order to prevent duplicate financing or fraud
Recurring, short-cycle transactions can generate a steady stream of fee income	Purchase-order-stage deals carry meaningful execution risk if the supplier is unable to deliver
Owning the receivable outright, rather than merely lending against it, can simplify recovery if the buyer defaults	Collecting from a buyer with no direct relationship to the financier can be more difficult than under a buyer-led programme
Repeated transactions build a growing data set on buyer payment behaviour, useful for underwriting future deals	Margins can compress in competitive markets, particularly on lower-risk, invoice-stage deals with strong buyers

Benefits and Considerations, Enterprises

Benefits	Considerations
Unlocks working capital based on a buyer's creditworthiness rather than the supplier's own balance sheet or track record	Typically costs more than a buyer-led advanced payable, since the buyer's payment is not already guaranteed
Does not require the buyer's cooperation or participation, unlike an advanced payable arrangement	Purchase-order-stage financing is priced for execution risk and can be materially more expensive than invoice-stage financing
Can be arranged deal by deal, without pledging company-wide collateral	Under a recourse arrangement, the supplier remains liable if the buyer fails to pay
Can provide financing earlier in the trade cycle, at the purchase-order stage, than most buyer-led programmes allow	Selling receivables to an unfamiliar third party can complicate the buyer relationship if not handled transparently

Selection Criteria Checklist

Use to test whether receivables purchase is a good fit for a given deal.

- ☐ **Creditworthy, verifiable buyer:** the financier can assess and price the buyer's payment capability with confidence.
- ☐ **Clean, assignable receivable:** the invoice or purchase order is undisputed, free of liens, and legally assignable to a third party.
- ☐ **Acceptable cost for the deal stage**: the discount for purchase-order- or invoice-stage financing is lower than the margin the transaction unlocks.
- ☐ **Manageable concentration:** no single buyer or receivable represents an outsized share of the financing relationship.
- ☐ **Comfort with the recourse terms:** the enterprise understands and accepts its exposure if the buyer fails to pay.
- ☐ **Buyer relationship can absorb third-party involvement:** the supplier is comfortable that the buyer will be paying a financier rather than the supplier directly.

Common Pitfalls

1. Selling or financing the same receivable through more than one provider, creating disputes over who has first claim to the buyer's payment.
2. Under-pricing purchase-order-stage deals, leaving the financier exposed if the supplier is unable to deliver.
3. Over-concentrating financing in a small number of buyers, so that one buyer's non-payment jeopardises the whole facility.
4. Failing to properly notify or assign payment rights to the buyer, creating collection disputes once the invoice falls due.

Examples of Relevant Terms

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

Purchase Price / Advance Rate	Financial Provider shall purchase each Eligible Receivable from Supplier for a Purchase Price equal to eighty-five percent (85%) of its face value, payable upon acceptance.
Factoring Fee	The Factoring Fee shall accrue at a rate of one and one-quarter percent (1.25%) of the face value of the Eligible Receivable for each thirty (30)-day period, or part thereof, prior to collection.
Recourse	This purchase is made on a [with/without] recourse basis. If the Buyer fails to pay an Eligible Receivable in full within [X] days of its due date, Supplier shall [repurchase the Receivable from / have no further obligation to] Financial Provider.
True Sale	The parties intend this Agreement to effect a true sale of each Eligible Receivable, and not a loan secured by the Receivable, and shall treat it as such for accounting and legal purposes.
Notice of Assignment	Supplier shall provide Buyer with written notice that each Eligible Receivable has been assigned to Financial Provider, and shall instruct Buyer to remit payment directly to Financial Provider's designated account.
Concentration Limit	At no time shall Eligible Receivables owed by a single Buyer exceed twenty-five percent (25%) of the total outstanding Purchase Price under this facility.

Worked example of Receivables Purchase structures

A speciality furniture workshop receives a confirmed purchase order worth USD 80,000 from a national retail chain, with production expected to take ten weeks before the goods can ship. To cover materials and labour upfront, the workshop sells the order to a receivables purchase financier, who first assesses the retailer's payment history and credit standing. Because the goods have not yet been produced, the financier advances a more conservative 65% of the order value (USD 52,000), reflecting the execution risk that the workshop might not complete or deliver on time. Once the goods ship and the retailer pays the invoice in full, the financier deducts its advance plus a fee equal to 6% of the order value (pricing in both the ten-week wait and the delivery risk) and remits the remaining balance to the workshop. Had the same workshop instead sold an already-delivered invoice on 60-day terms, the fee would typically run closer to 2–3%, underscoring how much of the cost in receivables purchase is tied to how early in the trade cycle the financing is advanced.

7

STRUCTURING IMPACT FROM THE START



The following section examines financing instruments that embed impact into the design and governance of the capital vehicle itself, such as Impact-Linked Compensation, which ties part of a fund manager's remuneration to verified impact performance.

The instruments covered in the previous chapter shape what capital can do for impact enterprises, but not whether a fund or portfolio is structured to deliver impact. How the capital vehicle itself is designed and governed is key for setting up the capital to successfully achieve its intended impact.

In practice, fund design choices are often inherited rather than chosen: standard fund structures carry assumptions about return expectations, time horizons and exit routes that were developed for a different purpose. The type of capital, the returns expected and the timeline for repayment all affect how ambitious impact enterprises can be with their business model, their approach to suppliers and their relationship with employees. A structure built for rapid exits will push its portfolio towards rapid exits, whatever the investment thesis states. Capital is therefore a design question, and impact needs to be built into the vehicle from the outset rather than pursued through instrument selection alone.

Intentional design is the primary defence against impact washing, but intentions alone only go so far. What makes impact verifiable is the combination of two things: embedding impact objectives contractually within the legal and governance structure of the fund, and building the impact measurement and management (IMM) capability to track whether those objectives are met. Together, these make impact creation intentional, transparent, and auditable rather than simply asserted.

Designing fit-for-purpose capital vehicles

How a fund is designed determines which enterprises receive funding, what kind, and how the capital is used to create impact. The type of capital, the return expectations and the timeline for repayment all affect how ambitious an entrepreneur can be with their business model, their approach to suppliers, their relationship with employees and focus on generating impact. The impact investing field has largely tried to fit impact into traditional financial architecture rather than change it, that is why there is a call for investors to embrace active fund design, "from the ground up, to fit the purpose of what they are trying to achieve".[77]

Building on that work, the Innovative Finance Initiative (IFI) and its members are currently developing the Fit-for-Purpose Capital Framework. Its starting point is that capital is a design problem. Rather than proposing a new standard, the framework offers a menu of design choices across three layers of a capital vehicle. For each choice it sets out the conventional default, the alternatives available, and the trade-offs involved:

- **Fund setup:** who owns and governs the vehicle. This covers the legal structure, ownership of the management company, the type of investor and how they take part in governance, fund size, currency, and the capital stack. Alternatives to the conventional limited partnership include permanent capital vehicles, holding companies, cooperatives and non-profit structures. A central governance question is how to give those most affected by the fund's investments, who often have the least power, a voice in decision-making and priority-setting.

- **Capital deployment:** how money actually reaches enterprises. This covers the investment instruments used, the logic of portfolio construction (whether a few outliers must return the whole fund, or many enterprises succeed at moderate returns), who makes investment decisions, and ticket size. Together, these shape which enterprises the fund can see and serve.

- **Liquidity and returns:** how and when value comes back, and to whom. This covers the fund's term, its liquidity and exit strategy, how the manager is compensated, and how profits are distributed. The speed and size of a desired exit affect how aggressively a portfolio company chases short-term profits, how much debt it takes on, who its subsequent owners are, and whether it stays committed to impact afterwards. Alternatives include longer-term or evergreen structures, exits through employee or community ownership, compensation tied to what the fund is trying to achieve, and capped returns that redirect surplus value to the enterprise, its employees or its community.

In addition to the layers of the capital vehicle, it is also important to consider the following levers for embedding impact into the structure from the start:

- **Aligned incentives:** how the stakeholders involved are motivated towards the same impact result. This covers a shared definition of success across key stakeholders, and how each is rewarded for working towards it. Rewards should be tied to outcomes achieved rather than to activities completed.

- **Targeted support:** what enterprises can receive alongside the capital. This covers the expertise and networks enterprises often need to become resilient and sustainable, and to have influence beyond their own operations. Capital that funds technical assistance or capacity building plays an important role here, helping enterprises build resilience, sustainability and systemic leverage.

These layers and levers reinforce one another. Impact-Linked Compensation, set out in the following section, sits within the liquidity and returns layer and aligned incentives. It is an example of structurally embedding impact: it takes an existing mechanism, fund manager remuneration, and makes part of it conditional on verified impact performance. It illustrates the wider principle that impact is more reliably achieved when it is written into the structure than when it is left to intent.

77 Patton Power, A. and Sahan, E. (2025), "Innovative Finance Initiative's fund designs for radical impact", ImpactAlpha, 15 May 2025.

7.1 IMPACT-LINKED COMPENSATION

Brief Description

Impact-Linked Compensation (ILC) is an approach to structuring fund manager remuneration that ties part of a fund manager's compensation to the fund's impact performance rather than to financial performance alone. It is designed to align incentives by linking managers' financial rewards to achievement of the fund's impact goals. Unlike the other instruments in this toolkit, ILC does not provide capital to an enterprise. Instead, it operates at the investment vehicle level and changes how the general partner (GP[78]) is compensated by the limited partners (LPs)[79] in order to create impact by its investments.

GPs are typically compensated in two ways. First, an annual management fee, usually a fixed percentage of committed or invested capital, which covers operating costs regardless of performance; and secondly, carried interest, a share of the fund's profits, conventionally around 20%, paid only after LPs have received their capital back and, in most cases, an agreed minimum return known as the hurdle or preferred return. Salaries and bonuses are paid out of these revenues. Where profit maximisation is the sole goal, this structure works well. However, in a fund pursuing both financial returns and social or environmental outcomes, compensating managers solely on financial performance fails to capture the full set of objectives investors care about. Designing an ILC structure involves two choices: which part of the manager's compensation is linked to impact, and how that link is shaped.

Embedding ILC into a fund's compensation structure is designed to align GP and LP incentives around shared impact goals. It also encourages funds to develop aligned impact measurement and management (IMM) practices in order to implement and oversee the mechanism.

The choice of how compensation is linked to impact takes three common forms (each is set out in more detail in Variants and Optional features below):

78 In a private fund, the general partner (GP) is the fund manager: the entity that raises the fund, selects and manages the investments, and is responsible for its performance.

79 The limited partners (LPs) are the investors who commit capital to the fund but take no part in its management.

1. **Incentive-led:** the manager keeps its conventional compensation and earns an additional amount for achieving impact targets. There is upside but nothing at risk.

2. **Penalty-led:** the manager starts from its conventional compensation and forfeits part of it where impact targets are not met. There is downside but no additional reward.

3. **Sliding scale:** compensation rises progressively with impact performance rather than switching at a single threshold, resulting in partial achievement being recognised.

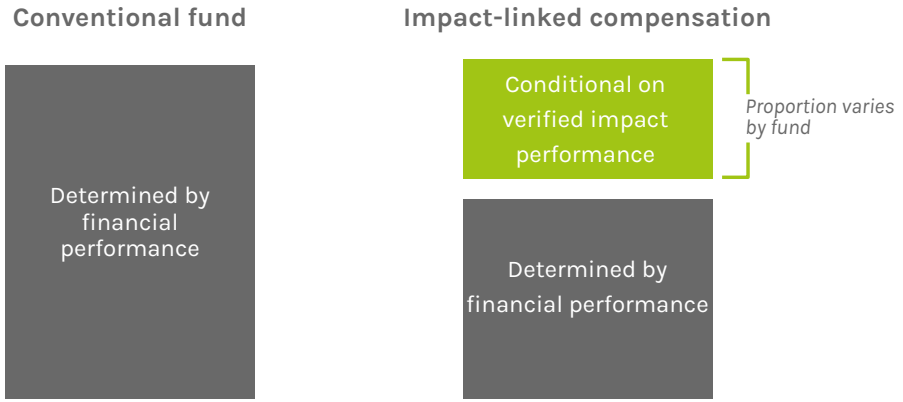


Figure 7.1 – "Impact-linked compensation", source: Roots of Impact.

Purpose/Fit	Aligning fund manager incentives with the fund's stated impact objectives, and guarding against mission drift and impact washing.
Can replace	Modifies conventional financial-only carried interest and bonus structures
Risk/Return Profile	Redistributes return between LPs and the GP rather than changing the fund's risk profile. Achievement of financial targets is normally still a prerequisite for any carry entitlement.
Applies at	Primarily at fund level. It can also extend to the investment teams of LPs' own organisations and, in some cases, to portfolio companies. Applicable across fund types, though adoption to date is concentrated in private equity and venture capital.
Timing	Follows the fund's existing compensation cycle: carried interest at exit or distribution, bonuses annually, and management fees as charged.

Defining Criteria

1. **Applies to compensation, not capital:** the mechanism applies to the remuneration of those managing capital, most commonly the fund manager, rather than to the capital provided to an enterprise. Depending on the structure, the GP forfeits part of its compensation if impact targets are missed, or the LP gives up part of its return to reward the GP for exceeding them.

2. **Compensation at stake:** a defined portion of the GP's compensation, most commonly carried interest, is made conditional on impact performance.

3. **Impact yardstick:** a set of agreed metrics and targets determines whether the impact condition is met. Metrics may be standardised across the portfolio (top-down), set for each portfolio company (bottom-up), or a combination of the two.

4. **Financial performance as a precondition:** in most carry structures, achievement of financial targets remains a prerequisite for any carry entitlement; as a result, impact adjusts the manager's share of profits rather than creating a claim where none exists.

5. **Governance and verification arrangements vary:** some funds assign this to a defined body such as an advisory committee, while in others the manager determines achievement itself. Independent verification may be used to reduce the conflict of interest inherent in a manager assessing its own performance.

Variants and Optional features

Incentive-led: additional compensation for impact achieved

- A baseline level of carried interest is tied to financial performance, with an additional percentage unlocked when impact targets are met.

- Rewards outperformance rather than penalising failure, which can be a stronger motivator where the manager would otherwise see nothing for exceeding its impact targets.

Penalty-led: forfeiture of compensation where impact is not achieved

- The fund starts from the conventional carried interest, typically 20%, and ratchets downwards where impact targets are not met.

- Unearned carry either returns to the LPs or is redirected to another organisation (such as a charity or foundation working in the same field) able to achieve related impact outcomes.

- It is the most common approach in practice, though a stick without a carrot may not provide a meaningful incentive, particularly where the manager expects little carry in any case.

Sliding scale

- Compensation increases progressively with impact performance rather than switching on at a single threshold. For example, no carry below a minimum threshold, incremental increases as impact improves, and full carry only once the target is achieved.

- Avoids the cliff edge of an all-or-nothing test and allows partial achievement to be recognised.

Impact-linked bonuses

- Impact performance is built into annual team or individual bonus structures instead of, or alongside, carried interest.

- Suited to funds where carry is distant or uncertain, and to institutions such as development finance institutions that already run structured performance review processes.

PRACTICAL APPLICATION

Benefits and Considerations, Limited Partners

Benefits	Considerations
Is designed to align the manager's financial incentives with the impact objectives the fund was raised to pursue	Requires agreement among LPs on what impact means and how it is measured, which is harder where the LP base is not aligned
When designed well, it acts as a hedge against mission drift, where financial returns are prioritised at the expense of stated outcomes	Poorly chosen metrics can skew the manager towards investments that do not reflect real impact, or run counter to the fund's goals
Provides a credibility signal in a market where impact washing is a leading concern	Adds complexity and cost to fund documentation, with negotiation of interconnected provisions in the LPA[80]
Drives the fund to build stronger IMM practices in order to operate the mechanism	Raises the question of who pays for impact measurement, whether as a fund expense or out of the management fee
The structure can be tailored to the fund's circumstances, since any of the compensation components can carry the impact link	Impact may take longer to materialise than the compensation timeline allows, risking overpayment where the fund later falls short. Although mechanisms such as escrow or deferred payment can mitigate this.

80 Limited Partnership Agreement: the fund's main constitutional document, signed between the GP and the LPs. It sets out how the fund operates, including the investment strategy and restrictions, the management fee, the distribution waterfall and carried interest, governance arrangements, and which costs are borne by the fund rather than the manager.

Benefits and Considerations, General Partners

Benefits	Considerations
Differentiates the fund in a market where the large majority of impact funds still use financial-only compensation	Under penalty-led designs, places part of compensation at risk, in a context where carry may be distant or uncertain in any case
Focuses the investment team on realised impact, which GPs cite as a leading motivation alongside internal alignment	A penalty without an incentive may not motivate a manager who expects little carry in any case
The IMM capability built to operate the mechanism has value beyond the compensation structure	Where the manager assesses its own performance, the appearance of a conflict of interest grows with the subjectivity of the metrics
Impact-linked bonuses offer a route where carried interest is unlikely to materialise	May create accounting and tax complications, since profits must be allocated annually even while impact outcomes remain undetermined

Selection Criteria Checklist

Use to test whether ILC is a good fit for a given fund.

- ☐ **LP alignment on impact**: the LP base broadly agrees on what impact the fund is pursuing.
- ☐ **Measurable and credible outcomes:** the fund's impact can be captured in metrics that reflect real outcomes.
- ☐ **IMM capability in place or funded:** the fund can operate the measurement and verification the mechanism depends on, with the cost allocated explicitly rather than left to the management fee by default.

- **Meaningful compensation at stake:** the portion of compensation linked to impact is large enough to influence behaviour, and realistic enough to be earned.

- **Credible governance:** a body is identified to approve metrics and targets, agree adjustments, and determine achievement, with independent input where the metrics are subjective.

- **Timelines that match:** impact can be measured within the period over which compensation is determined, or a mechanism exists to reconcile the two.

Common Pitfalls

1. Suboptimal metrics can skew the manager towards investments that do not reflect real impact, or that run counter to the fund's stated goals. The wrong incentive, a poorly designed mechanism or weak governance can each create perverse incentives or reinforce mission drift rather than guard against it. ILC can push managers towards investments with easily achieved or measurable goals, at the expense of those with greater potential for change. Many funds have no formal measure to catch this.

2. Unbalanced penalty-led designs. Starting from the conventional carry and ratcheting downwards is the most common approach, but forfeiture alone may not motivate a manager who expects little carry in any case, so it is worth also rewarding achievement. The agreement should also set out what happens to carry the manager does not earn: if it returns to the LPs, they stand to gain financially when the manager misses its impact targets, which works against the alignment the mechanism is meant to create. Redirecting forfeited carry to an organisation working towards the same outcomes removes that tension, though it requires agreement upfront on the recipient.

3. Treating ILC as a fixed, stand-alone add-on. ILC works best when it is built into the fund's strategy, governance and reporting. Once a target is met, there may be little incentive to keep improving, so sliding scales and periodic review of targets help keep motivation going. Getting it right first time is difficult, so take a test-and-learn approach and involve affected stakeholders in the design.

4. ILC depends on IMM, and the cost of measurement and verification has to be borne somewhere. Treating it as a fund expense affects LP returns; leaving it to the management fee affects the manager's operating budget. Agree the allocation openly, quantify the likely cost and consider capping it.

Examples of relevant funds with ILC structures[81]

Fund	Approach
Gawa Capital	10% of carried interest linked to impact performance, assessed on a ten-point scale. Investors guaranteed a minimum of 80% of total carried interest. Where the impact score falls below a threshold, more carry is allocated to investors.
New Forests	20% of the manager's carry pegged to impact outcomes.
Impact Partners	100% of carry linked to impact performance: greater impact means greater profits for the manager, lesser impact means less.
British International Investment	Impact performance built into investment teams' bonus structures rather than carry.

This section draws on The ImPact and Tipping Point Fund's 2024 study of Impact-Linked Compensation, alongside legal and practitioner material on fund compensation structures. More information can be found on the **website.**

81 Source: Patton Power, A. et al. (2024), Impact Linked Compensation: Considerations, Design Options and Frameworks, The ImPact / Tipping Point Fund on Impact Investing



OPPORTUNITIES IN ASIA



BOOSTING FINANCING FOR EARLY-STAGE IMPACT ENTERPRISES

Impact investing in Asia has gathered real momentum. More than 67% of the cumulative capital committed over the past fifteen years was committed in just three of them, between 2020 and 2022.[82] The region is home to over 60% of the world's population and fuelled 57% of global GDP growth between 2015 and 2021.[83]

Yet allocation has not kept pace. In a 2025 survey of nearly 400 investors worldwide, 70% of impact investment was allocated to high-income regions and only 12% to South and Southeast Asia.[84] Against an estimated USD 2.5 trillion annual financing gap for the Sustainable Development Goals in the region,[85] the gap between where capital is needed and where it goes remains wide.

There is great potential for creating an enabling environment across Asia that supports impact enterprises on their journey to create much-needed impact at scale. A concerted effort by a multitude of stakeholders is needed, including investors, intermediaries, professional service providers and policy makers. Considering the societal benefits created by impact enterprises, public authorities are instrumental in catalysing and supporting this movement.

What to check before choosing an instrument

Before an instrument can be selected on its merits, it has to be legally available. Regulatory fragmentation across Asia creates uncertainty, with governments moving at different speeds[86], and the legal definition of impact investment in a given market can quietly exclude most of what this toolkit describes.

Bangladesh illustrates the point. The Government of Bangladesh defines an "impact fund" for alternative investment funds under the Alternative Investment Rules 2015 as follows:

82 AVPN, Southeast Asia Summit 2025.

83 FP Analytics (2025), Impact Investing as a Driver for Sustainable Development in the Asia-Pacific.

84 Idem

85 AVPN (2025), ASPIRE to Scale: Reimagining Development Finance Using Blended and Innovative Finance Tools for Asia's Economic Growth.

86 The Asset, Rise of Asia impact investing: Challenges, trends and innovations.

"Impact fund means an alternative investment fund, which invests in equity and equity linked instruments of such companies, organisations, and funds, which are engaged in activities with the intention to generate a measurable and beneficial social or environmental impact in addition to financial returns, as justified with internationally recognised criteria"[87]

This has two crucial consequences. First, the definition applies to impact funds registered as alternative investment funds rather than to impact investment in general, and it covers only equity and equity-linked instruments. It does not prohibit grant-based or outcome-payer instruments such as SIINC, IRMF or performance-based contracts. Second, lending is restricted to licensed financial institutions (with microfinance institutions licensed by the Microcredit Regulatory Authority as an exception), and foreign-currency borrowing is regulated, creating a high entry barrier for debt-based instruments. Debt-based instruments suited to early-stage impact enterprises are therefore harder to deploy and are rarely used.

Similar constraints exist elsewhere in different forms. As a result, we recommend asking two key questions in any market before structuring a transaction:

1. **Is the instrument legally available?** How does local regulation define impact investment, and does that definition accommodate debt, revenue-based and results-based structures?

2. **Who is permitted to provide it?** Do licensing requirements restrict who can lend, and does that exclude the funders best placed to take a concessional or catalytic position?

What capital providers and enterprises can do now

It is implied that regulatory reform takes time and innovative finance transactions do not have the time to wait for it. As a result, we suggest three practical routes, none of which is a simple workaround:

1. **Work within the existing framework.** Where debt structures are constrained, equity-linked instruments with impact-linked terms, such as the Impact-Linked Convertible Note, may achieve a similar alignment of incentives within what local rules permit. Convertible notes into Bangladesh, however, generally need Bangladesh Bank or BIDA approval and are subject to foreign-exchange rules.

2. **Use cross-border structures where appropriate.** Where a domestic funder cannot take the position required, an international catalytic funder or DFI may be able to, with the local investor participating in a senior position. Cross-border loans into Bangladesh likewise generally need Bangladesh Bank or BIDA approval and are subject to foreign-exchange rules, so approval timelines should be built into the structure.

3. **Build structuring capacity on the capital side.** The binding constraint is often not regulation but familiarity. Instruments go unused because no one in the transaction knows how to structure them. Domestic development banks have a vital role in structuring long-term, locally hedged products, and national institutions can bundle fragmented projects into larger, diversified portfolios, creating the scale that blended finance needs.[88]

For enterprises, the practical implication is to understand which instruments are realistically available in their market before entering a funding conversation, and to use the selection criteria checklists in this toolkit to test the fit of those that are.

What public authorities can enable

To fully tap into the potential of impact enterprises across the region, legal and regulatory reforms are needed to enable the deployment of a wider spectrum of capital and financial innovations. Regional initiatives show what is possible. As an example, the Monetary Authority of Singapore's Financing Asia's Transition Partnership (FAST-P) is a blended finance initiative seeking to leverage public funds to mobilise up to USD 5 billion for decarbonisation and climate resilience across Asia.[89]

Initiatives of this kind depend on more than capital. They require a legal framework that permits the structures involved, institutions with the capacity to design them,

87 Bangladesh Securities and Exchange Commission Notification dated 22 June 2015.

88 AVPN (2025), ASPIRE to Scale: Reimagining Development Finance Using Blended and Innovative Finance Tools for Asia's Economic Growth.

89 FP Analytics (2025), Impact Investing as a Driver for Sustainable Development in the Asia-Pacific.

and an enterprise pipeline ready to receive the investment. Public authorities are positioned to address all three. The following provides a brief overview of potential actions that could be taken by regulators, policy makers and other relevant actors:

- Enabling regulations for innovative financing instruments and models that meet the needs of high-impact enterprises and their investors
- Introduction of impact measurement standards and certification approaches (leading to specific benefits for certified enterprises, e.g. preference in public tenders, tax breaks)
- Support programmes for incubation of startups in general and for social and impact enterprises in particular
- Simplified procedures for founding impact enterprises
- Support programmes for impact investment intermediaries bridging demand and supply as well as professional service providers focusing on enabling impact investment transactions
- Set-up of catalytic funding vehicles by the government in order to mobilise private investment in priority sectors (using blended finance instruments, e.g. de-risking instruments like guarantees, matching funds or Impact-Linked Finance models)
- Tax incentives for investments in impact enterprises; this could include tax breaks for investors in (certified) impact enterprises and simplified procedures for tax declaration

We think the time has come for taking bold, collaborative actions to support a new type of enterprise to scale its positive impact across Asia.



ACRONYMS & KEY TERMS

B-BRIDDHI	Biniyog Briddhi
BIDA	Bangladesh Investment Development Authority
BSEC	Bangladesh Securities and Exchange Commission
BoP	Bottom of the Pyramid
CCTs	Conditional Cash Transfers
CdA	Clínicas del Azúcar
DFIs	Development Finance Institutions
DIB	Development Impact Bond
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EUR	Euro currency
FAST-P	Financing Asia's Transition Partnership
FX	Foreign Exchange
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GP	General Partner
HNWI	High Net Worth Individuals
IFC	International Finance Corporation
IFI	Innovative Finance Initiative
ILC	Impact-Linked Compensation
ILF	Impact-Linked Finance
ILL	Impact-Linked Loan
IMM	Impact Measurement and Management
IPO	Initial Public Offering
IRMF	Impact-Ready Matching Fund
IRR	Internal Rate of Return
KPIs	Key Performance Indicators
LCP	LightCastle Partners
LP	Limited Partner
LPA	Limited Partnership Agreement
M&A	Mergers and Acquisitions
MFIs	Micro Finance Institutions
MFN	Most Favoured Nation
NAB	National Advisory Board
NGOs	Non-Governmental Organisations
OBA	Output-Based Aid
OECD	Organisation for Economic Co-operation and Development
PBC	Performance-Based Contract

PBF	Performance-Based Financing
PoC	Proof of Concept
ROI	Roots of Impact
RSA	Revenue Share Agreement
SAFE	Simple Agreement for Future Equity
SAFI	Simple Agreement for Future Impact
SCF	Supply Chain Finance
SDC	Swiss Agency for Development and Cooperation
SDGs	Sustainable Development Goals
SIB	Social Impact Bond
SIINC	Social Impact Incentives
SMEs	Small and Medium Enterprises
SPV	Special Purpose Vehicle
TOC	Theory of Change
USD	United States Dollar currency
VC	Venture Capital



DEFINITIONS

Additionality,	the extent to which an outcome would not have occurred without a given investment or incentive, i.e. results beyond what would have happened under business as usual.
Amortisation,	the repayment of a loan's principal in instalments over its term.
Anti-dilution,	a contractual protection that adjusts an investor's conversion price or ownership if new shares are later issued at a lower price.
Baseline,	the starting value of an impact or performance metric, measured before an intervention, against which progress towards targets is assessed.
Blended Finance,	it is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development.
Bottom of the Pyramid,	(BoP) it refers to the poorest of the socio-economic group, at the base of the wealth pyramid.
Bullet Payment,	a single payment at the end of a term settling any outstanding balance.
Business Angels,	they are also known as "Angel Investors", "Informal Investors", "Angel Funders", "Private Investors", or "Seed Investors". They are wealthy individuals who provide capital for a business startup, usually in exchange for convertible debt or equity of the company.
Carried Interest,	the share of a fund's profits paid to the fund manager, conventionally around 20%, once investors have received their capital back and any agreed minimum return.
Catalytic Capital,	it is a form of funding that enables to improve the risk-return profile of an enterprise, thus mobilising greater capital and encouraging the flow of additional funding.
Change of Control,	an event in which ownership or control of a company passes to a new party, typically through a sale or merger, often triggering repayment, conversion or other contractual rights.
Cherry-picking and creaming,	selecting participants most likely to achieve payable outcomes, and concentrating effort on those easiest to help.
Collateral,	an asset pledged by a borrower to secure a loan, which the lender may claim if the borrower fails to repay.
Counterfactual,	what would have happened without the intervention, used to assess additionality.
Concessionary Capital,	it refers to a type of funding characterised by below-market return/rate.
Conversion,	the exchange of a convertible instrument, such as a convertible note or SAFE, into equity shares, usually triggered by a qualifying financing round or other predefined event.
Dilution,	the reduction in existing shareholders' percentage ownership of a company when new shares are issued.
Discount Rate,	in convertible instruments, the percentage reduction on the share price paid by new investors that early investors receive when their instrument converts into equity.
Due Diligence,	the investigation and assessment of an enterprise's business, financial, legal and impact position carried out by a capital provider before committing funds.

Dynamic Discounting,	a supply chain finance technique in which a buyer pays a supplier's invoice early in exchange for a discount that varies with how early payment is made.
Equity Kicker,	it is a feature that is added usually to a debt instrument to make it more appealing and desirable to potential investors.
Event of Default,	a breach of the terms of a financing agreement, such as missed payments or covenant violations, that entitles the lender to demand early repayment or enforce other remedies.
Exit,	it refers to the moment and the methodology used by the investor to sell their stake in the company to realise positive financial gains.
Factoring,	a form of financing in which an enterprise sells its receivables to a third party (the factor) at a discount in exchange for immediate cash.
First-Loss Capital,	it is defined as the capital which bears the losses prior to all the other sources of capital. It is usually used in order to catalyse the participation of other investors that would not have entered the deal otherwise, thus mobilising greater volume of capital that would not have been obtained otherwise. It is also known as "C-Shares", or "First-Loss Tranche".
Fund Manager,	the entity or team responsible for raising, investing and managing a fund's capital on behalf of its investors.
Grace Period,	a period at the start of a financing during which no repayments fall due.
Hurdle Rate (or Preferred Return),	the minimum return limited partners receive before the general partner participates in profits.
Impact Enterprises,	it refers to a spectrum of enterprises that deliver social and/or environmental impact in a financially self-sustainable manner.
Impact Investment,	it refers to an investment which is intended to generate positive and measurable social and environmental impact alongside a financial return.
Impact Management,	it is a systematic process that helps to manage, measure, monitor and improve the impact of a business on its customers, suppliers, employees or society as a whole, and/or the environment.
Impact-Linked Finance,	it refers to linking financial rewards for market-based organisations to the achievement of positive social or environmental outcomes.
Incubator,	for the scope of this toolkit they also refer to "Accelerators" and "Service Providers", and they are organisations delivering programmes for entrepreneurs that may include seed investment connections, mentorship, educational components, and that may culminate in a pitch event to investors or a limited in time, and recruit cohorts of entrepreneurs at regular intervals. Accelerators and Incubators are essentially similar, the difference being that incubators specifically cater to early-stage enterprises that have been established recently (startups), while accelerators are targeting enterprises which are already more mature to help them accelerate their growth.
Innovative Finance,	it is a broad term referring to non-traditional financing mechanisms that match an enterprise's business model, needs and stage of development, enabling the enterprise to raise capital to foster its development and ensure its success.
Liquidation Preference,	the right of certain investors to be repaid a defined amount ahead of other shareholders when a company is sold, wound up or liquidated.
Liquidity Event,	an event that allows investors to realise the value of their holding, such as a sale, merger, IPO or qualifying financing round, and that may trigger conversion of a convertible instrument.

Loan Forgiveness,	it refers to the full cancellation of the outstanding loan amount owed.
Management Fee,	the periodic fee paid by a fund's investors to the fund manager to cover the costs of operating the fund, usually set as a percentage of committed or invested capital.
Maturity,	the date on which a loan or debt instrument falls due for final repayment, or by which a convertible instrument must convert or be repaid.
Mezzanine,	a layer of financing that ranks below senior debt but above equity, often combining debt features with an equity component.
Mission-Drift,	it refers to the circumstance when an enterprise has to compromise the initial organisational objectives and mission due to subsequent external events.
Operational Risk,	it refers to the internal risk an enterprise faces when running its day-to-day operations, which is usually caused by malfunctioning or unexpected as well as expected breakdowns in internal procedures, people, and systems.
Outcome Payer,	the party that specifies and pays for outcomes achieved.
Pari passu,	a Latin term meaning "on equal footing", used where creditors or investors rank equally and share payments proportionally.
Pro-rata Rights,	they are rights entitling the holder to participate in subsequent rounds of funding, and to invest additional funds in order to preserve his or her ownership percentage and avoid dilution.
Quasi-equity,	a financing instrument that combines features of debt and equity, typically with returns linked to an enterprise's performance, such as revenues or cash flows.
Receivables,	amounts owed to an enterprise by its customers for goods or services already delivered but not yet paid for.
Redemption,	the repurchase by a company of shares or other instruments from investors, usually according to a predefined schedule or formula.
Repayment Cap,	the maximum total repayment in a SAFI, expressed as a multiple of the original investment.
Results-Based Finance,	it is a broad term that refers to all instruments that provide funding upon the achievement of specific results.
Return Cap,	the maximum total return an investor can receive under an instrument, typically expressed as a multiple of the original investment.
Reverse Factoring,	a buyer-led form of supply chain finance in which a financier pays a supplier's approved invoices early, relying on the creditworthiness of the buyer.
Risk-Adjusted Return,	it is a return that is appropriate for the level of risk of an investment. The higher the perceived risk, the higher the expected return needed to compensate for that risk.
Senior Debt,	debt ranking first for repayment on winding up.
Series A,	it refers to the moment when an enterprise typically provides equity shares to investors for the first time in its history.
Shariah,	Islamic religious law, which in finance prohibits the charging of interest (riba) and excessive uncertainty and requires transactions to be linked to real economic activity.
Side Letter,	a supplementary agreement between a company or fund and a specific investor that grants rights or terms in addition to the main investment agreement.
Stakeholders,	it refers to all parties that have an interest in a company and that could affect or be affected by the company’s actions and business.

Subordinated Capital,	it refers to a type of capital which is subordinate to other forms of capital in the distribution of payments in the event of a bankruptcy or winding up of a company.
Term Sheet,	a non-binding document setting out the main terms and conditions of a proposed investment, used as the basis for drafting the final legal agreements.
Theory of Change,	it is generally defined as an extensive description of how and why a specific desired change is expected to happen.
Tranche,	a defined layer of capital in a structured transaction, with its own risk and return position.
Valley of Death,	it refers to the phase past the seed stages of financing, when an enterprise can unlikely meet the return requirements demanded by traditional private equity investors and venture capital funds, or provide for the adequate risk mitigation in order to have access to traditional debt providers such as banks. And as a consequence, the enterprise risks to fail due to lack of funding.
Valuation Cap,	the maximum company valuation at which a convertible instrument, such as a SAFE or convertible note, converts into equity, protecting early investors if the valuation at conversion is higher.
Verification,	the independent or agreed process of confirming that reported impact or performance results have actually been achieved, typically before outcome payments are made.
Waterfall,	the order in which cash flows or proceeds are distributed among different classes of investors or creditors, with each tier paid in full before the next receives anything.
Working Capital,	the funds an enterprise needs to finance its day-to-day operations, calculated as current assets minus current liabilities.



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