# THE IMPACT-LINKED FINANCE CALCULATOR

IMPACT-LINKED
FINANCE FUND

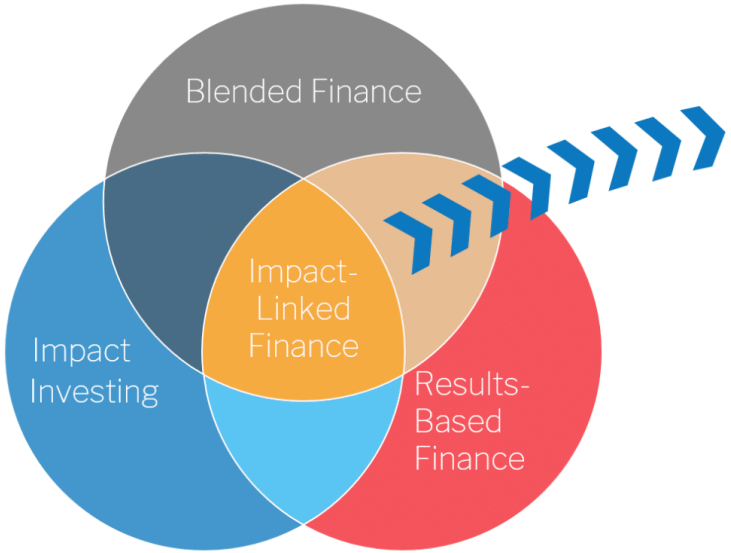
# USER GUIDE

- Who the Calculator is meant for
- What the Calculator can do for you
- How to enter your data
- Where to find other useful resources

# WHO THE CALCULATOR IS MEANT FOR

## IMPACT-LINKED FINANCE MEANS LINKING FINANCIAL REWARDS FOR MARKET-BASED ORGANIZATIONS TO THE ACHIEVEMENT OF POSITIVE SOCIAL OUTCOMES.

- If you are an entrepreneur, investor or funder who seeks a highly effective way of aligning positive impact with economic viability, the Calculator can help you identify a suitable financing solution.
- Impact-Linked Finance lies at the intersection between blended finance, impact investing, and results-based finance. Similar to blended finance, it uses catalytic capital provided by public or philanthropic funders to mobilize impact investments toward high-impact organizations. For these organizations, this results in "better terms for better impact".



# ARE YOU ONE OF THESE 3 MAIN STAKEHOLDERS?

## OUTCOME PAYER

Any Impact-Linked Finance instrument requires either an outcome funder or an investor who provides the capital. For blended finance instruments, were both public/philanthropic as well as private capital are required, both stakeholders will be present. Outcome funders generally exclusively provide concessional, catalytic capital. As such, they can play a role throughout all Impact-Linked Finance instruments.

## INVESTOR

Investors may also play a role, either indirectly, as is the case in SIINC, or directly e.g. in Impact-Linked Loans, where they may even be the primary capital provider. Private sector investors can also provide concessional capital or - as is the case in blended finance structures - receive a compensation from the outcome funders for the lower returns they get once the impact enterprises perform very well on the impact targets.

## IMPACT ENTERPRISE

Any impact enterprise meeting the minimum Impact-Linked Finance requirements can be eligible for receiving such an innovative financing mechanism. There are no sectoral limits, as long as the enterprise creates positive and measurable social and / or environmental impact. They will be required to closely engage with the transaction manager to ensure that the right impact metrics and incentives are chosen.

# OR A TRANSACTION MANAGER?

**TRANSACTION MANAGER**

To ensure a correct implementation of Impact-Linked Finance, it is recommended to have experts taking care of the selection and structuring on behalf of the outcome funder. The pool of Impact-Linked Finance practitioners is rising, and ideally should be increasing further and further to allow large-scale Impact-Linked Finance implementation.

## THEN THE CALCULATOR IS FOR YOU!

CHECK OUT THE PRIMER FOR MORE:

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# THE CALCULATOR GIVES ANSWERS...

## ...TO THESE KINDS OF QUESTIONS:

*"I have heard people talk about Impact-Linked Finance and it sounds interesting. How can I quickly learn how it works by playing with some numbers?"*

*"I'm thinking about raising a round and want to know about alternatives to classic equity and debt. How can I find out what's the best instrument for my impact enterprise at this stage?"*

*"I need to analyze an investment opportunity and would love to know if the target company would be a good fit for an Impact-Linked Finance instrument. How can I quickly analyze this?"*

*"My peers in the development space have talked about using grants more effectively. Is there a way for me to see the benefits of becoming a catalytic outcome funder?"*

*"I'm a finance pro and understand Impact-Linked Finance. Is there an easy tool for me to do the initial math?"*

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***Let's get started:*** *This is where you enter the fundamental financial and impact assumptions about the enterprise.* ***Don't worry if you don't have exact 5-year projections****. Enjoy to play with different assumptions to witness the effects!*

Current Cash Balance Help $50,000

## Financial Projections

*In the following fields, please enter your financial projections for the next 5 years.*

| Revenues Help | | Operational Expenses Help | | Capital Expenditures Help | |
|---|---|---|---|---|---|
| Year 1 | $100,000 | Year 1 | $60,000 | Year 1 | $25,000 |
| Year 2 | $180,000 | Year 2 | $75,000 | Year 2 | $50,000 |
| Year 3 | $200,000 | Year 3 | $90,000 | Year 3 | $0 |
| Year 4 | $230,000 | Year 4 | $110,000 | Year 4 | $50,000 |
| Year 5 | $250,000 | Year 5 | $125,000 | Year 5 | $0 |

Cost of Goods Sold (COGS, as a % of revenues) Help 40%

Use our help and tip functions within the tool!

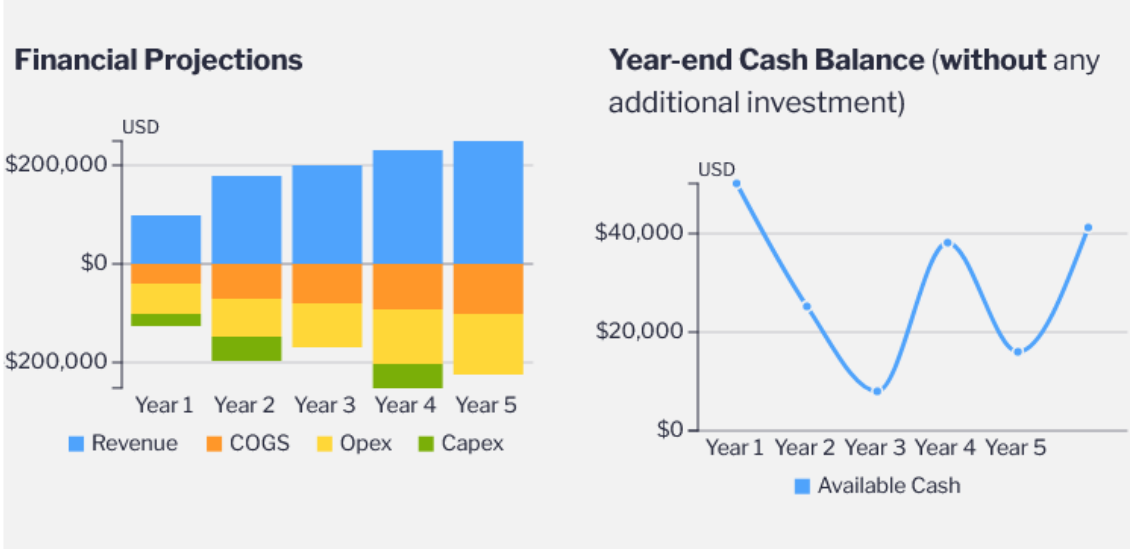
# HOW TO ENTER FINANCIAL DATA

The Calculator starts with the basic financial assumptions of the enterprise into which the Impact-Linked investment will be made. These assumptions will be used to calculate future cash flows and cash available before and after any investment. You should enter the enterprise's financial projections for the next five years:

| | |
|---|---|
| Current Cash Balance: | The available cash of the enterprise just before the investment is made. This will help you understand the cash situation with and without investment over the 5-year period. |
| Revenues: | Expected income from sales per year |
| Operational Expenses (OpEx): | Operational expenses related to the enterprise (excluding Costs of Goods Sold) |
| Capital Expenditures (CapEx): | Investments to grow the business. Ideally, the investment amount you want to raise should at least be equal to the total CapEx you entered for the 5 years. |
| Costs of Goods Sold (COGS): | Costs directly related to the enterprise's product(s), given as a percentage |

# FINANCIAL PROJECTIONS

These are the first outputs of your data: In the first chart on the left, you'll see the cash flow including revenue, costs of goods sold, operational expenses, and capital expenditures. The chart on the right tells you the available cash at the end of each year without any additional investment (*example below*).




## NEW TO FINANCIAL PLANNING?

## THEN YOU MAY LIKE TO CHECK OUT THESE TOOLS AND RESOURCES:

HTTPS://WWW.SCORE.ORG/RESOURCE/FINANCIAL-PROJECTIONS-TEMPLATE

HTTPS://WWW.EY.COM/EN_NL/FINANCE-NAVIGATOR/THE-ULTIMATE-GUIDE-TO-FINANCIAL-MODELING-FOR-STARTUPS

HTTPS://WWW.FUTURPRENEUR.CA/EN/RESOURCES/OPERATIONAL-AND-FINANCIAL-PLANNING/FINANCIAL-TEMPLATES/THE-CASH-FLOW-BASICS/

## Impact Projections

*Now we're looking at the impact: Please define* ***realistic and prudent impact targets*** *if you would like to consider receiving or providing Impact-Linked Finance.*

***Important advice:*** *As a rule, you should define* ***two Impact Metrics****, because this is standard practice in Impact-Linked Finance. If you just want to use ONE metric, please don't forget to set the projections for metric 2 at zero for each year! In this Calculator, we generally want to keep it as simple as possible, so both metrics are pre-set to be equally important (50:50 weighting). This can be shaped differently in real-life transactions.*

### Impact Metric #1

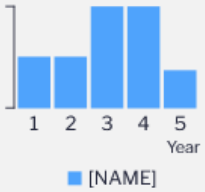
Type of Metric: Examples

(●) Percentage ( ) Number

Input name of Metric #1: [NAME]

Enter your projections for how much of [NAME] you aim to achieve each year

| | |
|---|---|
| Year 1 | 100.0% |
| Year 2 | 100.0% |
| Year 3 | 200.0% |
| Year 4 | 200.0% |
| Year 5 | 75.0% |




### Impact Metric #2

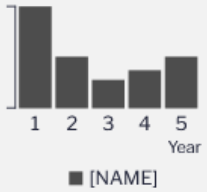
Type of Metric:

(●) Percentage ( ) Number

Input name of Metric #2: [NAME]

Enter your projections for how much of [NAME] you aim to achieve each year

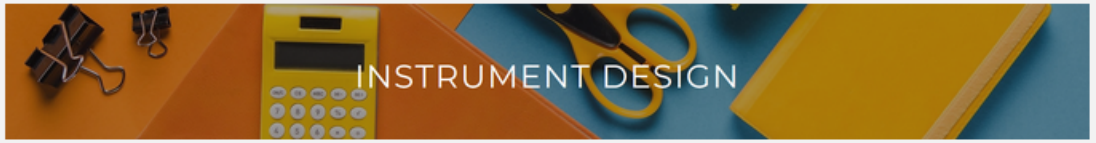
| | |
|---|---|
| Year 1 | 200.0% |
| Year 2 | 100.0% |
| Year 3 | 55.0% |
| Year 4 | 75.0% |
| Year 5 | 100.0% |



# IMPACT PROJECTIONS

Since the payments for every instrument in this Calculator are linked to the impact performance of the enterprise, it is essential to enter realistic and prudent impact projections. This allows you to calculate the discount or savings created by the Impact-Linked Finance instruments as compared to a traditional financing option. We are using two impact metrics since enterprises often have more than one impact KPI and Impact-Linked Finance transactions typically use two metrics, too. This is how you ideally insert the impact metrics:

| | |
|---|---|
| Type of Metric: | Depending on your metric, you can choose between a number type or a percentage type of metric for each one of them |
| Input Name (optional): | For transparency and convenience, you can add a name to each metric, for example “number of households served” or “tons of CO2 saved” or “farmers’ income increase” |
| Metric per Year: | Enter how much of each metric is supposed to be achieved in each of the 5 years. These numbers should reflect what you believe can be achieved with the Impact-Linked Finance amount secured. |




***Now it's time for you to start designing the instrument.*** *If you want to see the concrete benefits of each Impact-Linked Finance instrument, it's wise to choose a* ***very realistic*** *Impact Achievement level each year. Alternatively, you can play around with these levels a bit to observe the elasticity of the impact-linked benefits in various scenarios.*

**Impact Achievement**
How much of the impact targets do you expect to be achieved in each year?

*None= 0%*
*Low= 25%*
*Med= 50%*
*High= 75%*
*Target= 100%*

Metric #1 [NAME]

Year 1
High
Year 2
Med
Year 3
Med
Year 4
High
Year 5
High

Percentage of [NAME]


Metric #2 [NAME]

Year 1
Low
Year 2
High
Year 3
High
Year 4
None
Year 5
High

Percentage of [NAME]

# HOW TO DESIGN THE INSTRUMENT

This section is used to calculate the estimated impact achievement for each one of the metrics mentioned above. It also allows you to play with various scenarios. The results from this section will clearly show the benefits of the different Impact-Linked Finance instruments. Here is how you ideally insert the data:

**Weight per Metric:**

We have pre-set the weight per metric to 50:50. This allows us to keep the Calculator as simple as possible. In practice, the metrics can be weighted differently.

**Impact Achievement:**

Enter how much of the impact metric you expect to be achieved per each of the 5 years by inserting one of the following parameters (for clarity and simplicity, the Calculator limits the number of choices to the following 5)

None= 0%
Low= 25%
Med= 50%
High= 75%
Target= 100%.


## Social Impact Incentives (SIINC)

*Social Impact Incentives (SIINC) 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, impact enterprises can earn an extra revenue stream and improve their profitability, which in turn can support them in attracting investment to scale.*

*A SIINC contract **always involves an investment amount that the enterprise needs raise alongside** within a pre-defined time frame. This investment can be equity or any other repayable instrument.*

***Note:** In practice, the SIINC's duration is typically three years. Yet we are using five years in this Calculator so every instrument is compared equally.*

**Assumptions**

SIINC Amount Help $150,000

> ***Hint:** In this Calculator, we assume for simplicity that the SIINC payments are divided equally over the tenure of the instrument. In practice, this can be structured differently.*

Equity/investment raised alongside Tip $750,000

**Total SIINC payments received by the enterprise: $86,250**

# SOCIAL IMPACT INCENTIVES (SIINC)

The Calculator uses the SIINC Amount to define the SIINC payments per year depending on the impact achieved: The higher the impact, the higher the yearly SIINC payments will be.

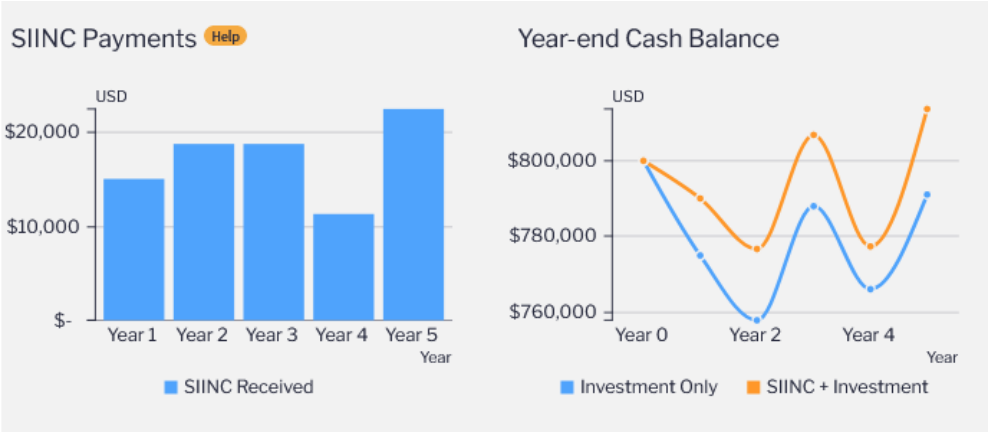
## SIINC Amount:

The maximum total SIINC amount over the entire SIINC period. To calculate the maximum SIINC amount per year, divide this total SIINC amount by 5.

## Equity/investment raised alongside:

You need to enter an investment amount since a SIINC contract is always contingent on the enterprise raising an investment round alongside. This investment can be equity or any other repayable instrument.

The Year-end Cash Balance chart (see example right) will include this investment amount.




## Impact Linked Loan

An Impact-Linked Loan is similar to a traditional loan, with the important difference that **interest rates** (and potentially even repayment obligation**s) are tied to the borrower's achievement of pre-defined and independently verified social outcomes**. The enterprise receives "better terms for better impact": The higher the impact achieved by the enterprise, the lower the interest rate to be paid.

**Note:** What changes in this amortization schedule is only the interest. The principal of the loan stays the same and the yearly interest changes depending on the impact achieved.

**Assumptions**

Loan Amount Tip $250,000

Max Interest Rate Help 9.50%

Min Interest Rate Help 2.00%

Traditional Loan Interest: $75,546

Impact- Linked Loan Interest: $41,206

**Total impact-linked savings for the enterprise:** $34,340

# IMPACT-LINKED LOAN

The Impact Linked Loan uses a discounted interest rate that depends on the impact achieved: The higher the impact, the lower the interest rate. In the Calculator, the interest rate has a minimum and it can be as low as 0% (no interest rate).

## Loan Amount:

The total loan amount.

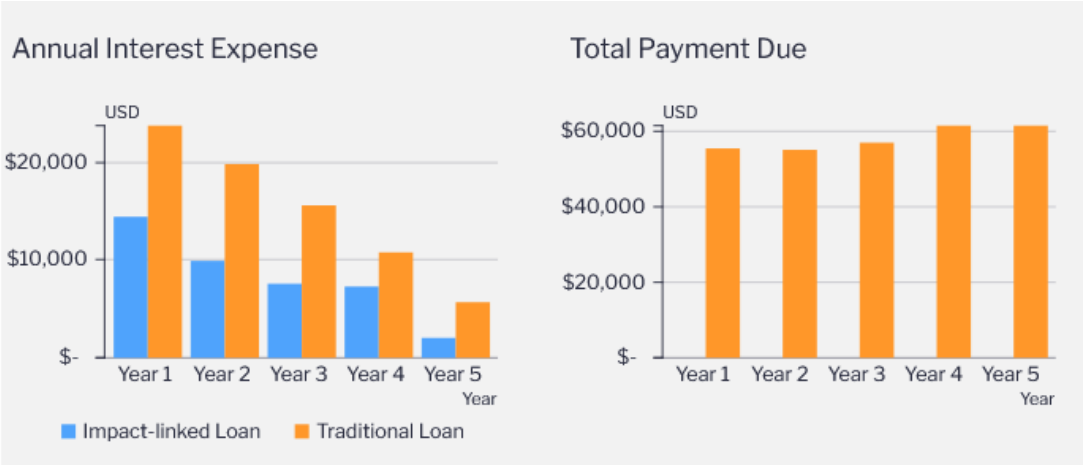
## Max Interest Rate:

Maximum interest rate if no impact is achieved

## Min Interest Rate:

Minimum interest rate if expected impact is achieved.

Min Interest Rate= The Max Interest Rate - Impact Discount (%)




# Impact-Linked Revenue Share Agreement

A Revenue Share Agreement ('RSA") is a quasi-equity financing instrument (also called "revenue-based loan") where periodic repayments are based on a percentage of the enterprise's revenues, up to a predetermined return on the investment (called "cap" or "multiple"). The RSA gives the enterprise **a higher level of flexibility because the repayments** are not tied to a fixed monthly amount or interest rate but **fluctuate with the enterprise's revenue situation**. Enter your data to compare a traditional RSA with an Impact-Linked RSA.

The impact-linked discount for this instrument is applied to the total repayment cap (investment multiplied by the repayment multiple), therefore **the higher the impact, the lower the repayment cap.**

**Assumptions**

Investment amount Tip $150,000

Revenue share percentage Help 10.0%

Repayment multiple Help 1.25x

# IMPACT-LINKED REVENUE SHARE AGREEMENT

The Impact-Linked Revenue Share Agreement uses a discounted Repayment Multiple that depends on the impact achieved: The higher the impact, the lower the multiple will be.

## Investment Amount:

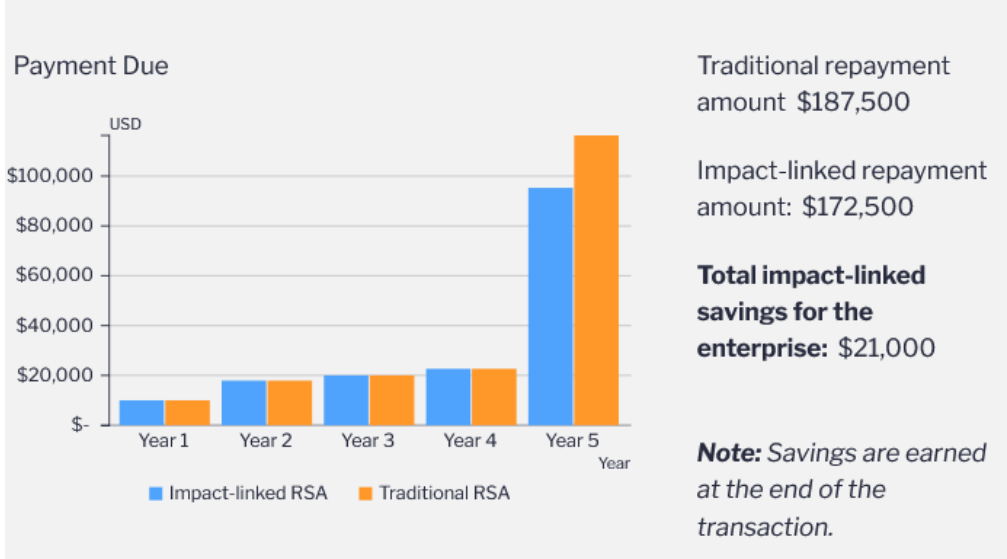
The total investment amount

## Revenue Share Percentage:

The percentage of the enterprise's revenues that it will pay to the investors

## Repayment Multiple:

This multiple defines the maximum repayment amount to the investors ("cap"). Without any impact-linked discount, the maximum repayment is the Investment Amount multiplied by the Repayment Multiple. Example: US$100,000 investment x 1.5 multiple will be a maximum repayment amount of US$150,000.



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# WOULD YOU LIKE TO DIG DEEPER INTO IMPACT-LINKED FINANCE?

## ...THEN CHECK OUT THESE HIGHLY USEFUL RESOURCES:


https://ilf-fund.org/open-platform-impact-linked-finance/


https://www.roots-of-impact.org/siinc-programs/

Thank you!

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www.ilf-fund.org