IMPACT-LINKED FINANCE

FROM INTENTION TO RESULTS: A PRACTICAL GUIDE TO INVEST WITH EXTRA INCLUSIVE IMPACT

SEPTEMBER 2025

lefil CONSULTING

In collaboration with

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development and Cooperation SDC

VIWALA

www.lefilconsulting.com
info@lefilconsulting.com

Photo credit: Rennueva

TABLE OF CONTENTS

INTRODUCTION 3

1. WHAT IS IMPACT-LINKED FINANCE? 4

1.1 Rewards/ incentives aimed at addressing investor-related barriers 6

1.2 Rewards/ incentives aiming at addressing venture-related barriers 8

2. BEST PRACTICES IN ACTION 10

2.1 Illustrative example: Viwala Gender Inclusion ILF Facility 10

2.2 "How to" best practices 13

2.2.1 How to solve for the investor's barriers 13

2.2.2 How to solve for the ventures' barriers 14

2.2.3 How to match investor requirements against a pipeline of ventures 15

2.2.4 How to structure the incentives 17

2.2.5 How to track progress 19

2.2.6 How to organize the payment flows and timing 20

CONCLUSION 22

ACKNOWLEDGEMENTS 23

ABOUT US 23

AUTHORS 23

CONTRIBUTORS 23

INTRODUCTION

Impact-Linked Finance (ILF) is fast emerging as one of the most promising set of financial tools to steer capital toward under-funded impact ventures. Yet, despite a growing interest in these innovative financial instruments, adoption remains limited as many ILF vehicles can be rather complex and costly. With this report, we hope to demystify somewhat the concepts behind ILF, and suggest a way forward that is more practical and scalable. This read is meant for investors, donors/ incentive-payers and ventures contemplating the idea of leveraging ILF, but not sure about where to start.

This document is divided into 2 sections: First, we aim to provide a practical and simple explanation of what ILF is, what it can help with, from the perspective of ventures, incentive payers (i.e. donors or development partners) and investors, and how it can be structured. Second, we present a best practice ILF vehicle set-up for a debt investor, which stands out for its simplicity, feasibility and effectiveness. This is meant for inspiration, but also illustration of how to design and set-up an ILF operation, step-by-step.

Ultimately, this relatively short document can demystify this space and present some pragmatic yet powerful ILF design innovations that will increase understanding and appetite for such vehicles.

1. WHAT IS IMPACT-LINKED FINANCE?

Impact-Linked Finance (ILF) is a financial structuring approach that incentivizes and/or rewards social ventures for achieving specific social impact goals. The principle is straightforward: ventures that go further in serving low-income, vulnerable, or hard-to-reach populations, or who operate in more inclusive ways, are given access to (more) capital or capital at better financial terms. This incentive/ reward can take many forms (e.g. lower interest rates or adjusted valuation terms), but it is typically funded (i.e. subsidized) through grants that are provided by incentive payers (i.e. donors or development players).

While ILF has gained traction in recent years, its meaning is often blurred by overlapping concepts and financial instruments. At its core, ILF is not a funding type (like equity or debt), it is a contractual mechanism. It links financing or financing conditions to the delivery of measurable impact, creating stronger alignment between social performance and venture financing. In this sense, despite sitting at the intersection of a) impact investing, b) blended finance and, c) results-based financing, it differs from these other financial tools as follows:

- In impact investing, impact typically serves as a prerequisite for funding – an important filter at the outset. In that sense, the investment per se serves as a "reward" for impact-focused ventures, and while the investment terms might be advantageous, no additional benefits are granted if the venture achieves even more impact. ILF goes further by tying the level of financial benefits/ financing amounts to the degree of impact achieved.
- Blended finance tends to focus on attracting private investment by reducing the risk or enhancing the expected returns for investors. ILF shifts the focus to the venture, tying more favorable financing terms to the ventures delivering more or better social outcomes.
- Lastly, results-based financing often ties (grant) payments to an organization performing pre-agreed activities or tangible targets. Ultimately, results-based finance merely ensures that payments are only effected if a project is (well) implemented. In contrast, ILF unlocks more or attractive capital to support the venture's growth, as it achieves more ambitious targets in terms of impact reach and depth.

In conclusion, we like to say that ILF is like a candy. It is meant as a sweetener for doing something that is hard to perform, a form of encouragement. The candy comes in different flavors and shapes, which can be confusing to most – which to choose and why? In our view, two basic questions underpin the design of any ILF vehicle: whose "motivational problem" are we solving for, and what is the barrier/ motivational gap we are seeking to address for that organization? When these two questions are clear, the nature of the incentive to be provided and how to link this incentive with impact targets (i.e. how to design the ILF operation itself) become more straightforward. At this point, depending on the various constraints faced by the investor, the venture and/or the incentive payer, more fine-tuning can be made regarding the timing and direction of the monetary flows between the various parties.

As detailed below, the starting point for an ILF operation can be an investor (or group thereof), which an incentive payer wants to "encourage" in a certain direction (e.g. to unlock more investment capital into a given sector for instance); or it can be a type or group of ventures, which an incentive payer wants to "encourage" in delivering more (inclusive) impact (e.g. with a given socio-economic segment of users).

Starting with a (group of) investor(s) can be easier, but might result in a smaller number of ILF deals (depending on their deal flow and investment requirements). Starting with investees can be tempting (as they can be more easily targeted), but finding investor(s) with the right fit might be challenging to realize over time. That said, whichever the starting point, a well-designed ILF aligns the interests and overcomes the hurdles of as many parties as possible.

Photo credit: Básicos de México

1.1 Rewards/ incentives aimed at addressing investor-related barriers

Investor-oriented incentives aim to address the specific challenges that investors face in financing impact ventures. These challenges include: perceived low(er) financial returns, high(er) risk profiles, or small(er) ticket sizes that make these investments less economically viable or attractive. In such cases, the role of the ILF incentives is to improve the risk-return equation for the investment deal and make impact ventures more attractive to investors overall. ILF is not about persuading reluctant capital – it is about adjusting the structure of the deal to solve the specific constraints that are preventing it.

Barriers to be addressed	Implications for ILF design and provision	Remarks
Low(er) returns. This is especially common for investee targets that serve lower-income customers or operate with thinner margins than their commercially-focused competitors.	To overcome this barrier, ILF tools typically introduce a complementary revenue stream for social ventures achieving (superior) impact. These payments effectively improve the financial fundamentals of the venture. The Social Impact Incentives (SIINC) model is an example: it increases the investee's profitability on paper, which enhances the overall return profile of the deal without requiring changes to the investor's expectations. Another example is paying carbon credits for e.g. producers of efficient cook stoves: such payments reward financially a venture for doing the right thing, and enhance its economics, facilitating fundraising from investors.	In this case, the incentive typically goes to the venture. It is effectively structured as a "reward" (i.e. it is available to ventures already demonstrating the required impact). The limitation with this type of ILF is that the subsidies fueling the rewards need to be systematic and sustained over time. This works (more or less) well in carbon markets, but less well in one-off, donor-funded ILF facilities. There may also be cases where government should and can take over, when subsidies are required on a permanent basis.
High(er) risk. This is common for ventures that operate in fragile markets, informal or volatile sectors, or serve emerging customer segments.	To overcome this barrier, ILF tools typically seek to reduce downside exposure for the investor. It could be guarantee mechanisms financed by grants – such as first-loss or cash-back mechanisms for debt investors – that help investors take on more risk or require less safeguards/ collateral from investees. With these in place, the investor is not necessarily expecting a higher upside, but is more willing to proceed because the risk is better contained.	In this case, the subsidized incentive typically goes to the investor. However, the investee also benefits: it gets access to capital it would not (easily) qualify for otherwise, and/or it does not need to offer collateral. This type of ILF can be structured as a "reward" (i.e. the guarantee financed by the incentive payer is only available for ventures already demonstrating superior impact performance);

		or as an “incentive” (i.e. the guarantee in case of default is only unlocked if the venture reached even higher social performance targets at a given point in time). The limitation with this type of ILF is that it works most evidently with investors offering debt or debt-like instruments.
Small(er) ticket sizes. This is common for small and growing businesses that seek smaller tickets. Such deals are not attractive to investors, as the investment costs disproportionately dampens the financial return.	To overcome this barrier, ILF structures can help by covering the costs that make these deals unviable (e.g. pipeline building and due diligence costs mainly). Here, grant capital pays for (part of) these costs, unlocking a segment of deals that would otherwise be ignored by the investor.	In this case, the subsidized incentive typically goes to the investor. However, the investee also benefits: it gets access to capital it would not (easily) qualify for otherwise. This type of ILF can be structured as a “reward” (i.e. the cost-sharing by the incentive payer is only available for ventures demonstrating superior impact performance); or as an “incentive” (i.e. the cost-sharing is only unlocked if the venture reaches even higher social performance targets at a given point in time). The limitation with this type of ILF is that it works better with funds with a more industrialized approach to investment (e.g. agriculture funds supporting dozens of cooperatives every year).

1.2 Rewards/ incentives aiming at addressing venture-related barriers

Venture-oriented incentives are designed to motivate impact ventures to deepen their impact by offering tangible financial benefits when specific impact objectives are achieved. While impact ventures are already mission-driven, reaching even more underserved populations or embedding inclusive practices into their own team and operations often involves higher costs, greater complexity, or slower/ little reward in doing so. The market does not reward these extra efforts; in fact, if anything, it often penalizes those ventures for it. In these cases, by linking financial upside to verified social outcomes, ILF makes deeper inclusion not only feasible but worthwhile. It gives ventures a reason to pursue what they otherwise might postpone or scale back.

Barriers to be addressed	Implications for ILF design and provision	Remarks
More costly. Serving low-income, difficult to reach customers often requires more time, resources, and effort from the venture.	To overcome this, there are many possible ILF structures (e.g. dedicated impact-focused investment window, cash payments, or better conditions of capital). The objective is however the same: the focused effort required from ventures should make more economic sense.	In this case, the subsidized incentive can go to the venture or the investor. If it goes to the investor, it is done through philanthropic capital subsidizing the cost of capital or the operations of the investor (e.g. as in the case of ACUMEN, as their investment capital comes from philanthropic sources, which allows them to provide impact-first capital for impact-first ventures). In this case, the venture benefits somewhat (i.e. is “rewarded”) by having access to otherwise difficult-to-raise capital, which is dedicated to/ attractive for impact-first ventures. If the incentive goes to the venture, it is typically structured as an “incentive”, i.e. the venture gets rewarded financially, if it reaches even higher verified social performance targets (such as expanding access, targeting lower-income populations, or driving more gender equity among suppliers). Here, the subsidy can be packaged as a cash payment to the venture, or as better capital terms (e.g. lower interest rate or lower principal repayment in case of debt, or better investment conditions in case of equity). The challenge with this type of ILF is that it requires finding with investors that target this type of impact-first ventures as part of their investment thesis, and matching them with a large enough pipeline of relevant deals.

More complex. Serving underserved segments requires discovering new/ rethinking operating models in terms of e.g. marketing, HR or supplier management. This in turn translates into more extensive trial-and-error in the trajectory of the venture, and competes with more immediate growth and profitability targets for ventures with limited staff, tight margins and limited external funding.	To overcome this, ILF structures ensure that the investment is paired with technical support (or a grant to pay for technical support and/or for the additional time and resources dedicated by the venture's team towards required solution development). With this additional support, ventures are more likely to follow through, as they are better resourced to go the extra mile.	In this case, the subsidized support (i.e. TA or funding for TA) can go to either the venture or the investor. If it goes to the venture, it is typically structured as an "incentive" (i.e. the TA is provided towards achieving new impact goals). It can also go to the investor, in the form of a TA facility for its portfolio, which ventures can draw from. In this case, the TA effectively turns into a reward for ventures which end up invested into. There is no real limitation here, as we recommend that TA (or the means to buy the TA) gets provided systematically in addition to the investment, whenever a venture is required to go the extra mile in terms of impact. In our experience, ventures often need help to achieve their impact targets within given time limits, and giving them the means to do so benefits everyone concerned.
Slower/ little reward. Even when social ventures outperform their peers on impact, they are rarely recognized or rewarded for it. They might in fact be penalized for it, if these efforts came at the expense of growth and profitability.	To overcome this, ILF structures dynamically link reward levels with the depth of impact achieved. When more ambitious impact-focused efforts yield proportionally greater social benefits and better access to capital (or capital at better terms), ventures have a reason to push further and further.	In this case, the subsidized incentive is typically directed towards the venture, as an "incentive" linked to access to more or less capital, or better terms of capital. Given that it results in dynamic adjustments in the level of subsidy provided (depending on which level of impact it managed to deliver), it typically also requires tighter impact measurement, and thought-through financial modelling (especially if the reward is correlated to terms of payment, e.g. a reduction in payment interests). Given that this feature creates extra incentives for the venture to stretch, and that it can be embedded into almost any ILF structure directed towards ventures, we recommend trying to build it in whenever practical

2. BEST PRACTICES IN ACTION

It may appear to some that ILF structures take a long time to set-up and prove hard/ costly to scale-up. Based on LeFil's experience, it does not need to be so. We managed to set-up ILF structures in a few weeks, and fully deploy them within a few months, with excellent results. In this chapter, we illustrate what we learned in the process, as well as "how-to-proceed" at each step of the process, taking the example of a successful ILF, namely the "Viwala Gender Inclusion ILF Facility".

2.1 Illustrative example: Viwala Gender Inclusion ILF Facility

In this illustrative example LeFil partnered with Viwala – a Mexican debt-investor using very streamlined (and therefore rather fast) diligence and deal closing processes to offer small to medium loan tickets in minimum time and requirements to women-led ventures, (social or environmental) impact ventures, and/or ventures committed to gender inclusion. The funding for the ILF set-up and subsidies came from the Swiss Agency for Development and Cooperation (SDC). The portfolio of eligible ventures for the ILF came from a portfolio of about 140 gender-inclusive ventures that had been previously supported through two large-scale regional programs (the GSFF and PES Latam), as well as Viwala's pipeline (first or follow-on investments). LeFil was in charge of the ILF design and set-up, overall coordination, venture assessment for the ILF Facility in terms of impact profile and performance, target setting, impact tracking, grant and TA deployment, as well as final incentives computation. On the other hand, Viwala was in charge of financial product design, standard due diligence and investment processes, loan disbursement, as well as principal/ interest recovery.

Three key principles guided the ILF design: a) incentivizing additional, verified social impact created by the venture on a proportional basis (i.e. the more impact drives more incentive payments), b) specifically encouraging deeper gender inclusion across team, operations, strategy, products and supply chain of invested ventures and giving them the means to succeed attaining their targets, and c) mitigating Viwala's investment risk through pipeline curation, interest rate subsidies and case-by-case guarantees for ventures lacking collateral.

To deliver on these principles, the SDC-funded subsidy (i.e. grant) was embedded at multiple levels:

1. A first part of SDC's grant was used to offer a blended loan: 50% of the loan provided to the venture came as credit from Viwala and 50% came as an SDC recoverable grant. This allowed to roughly cut the interest rate towards the entrepreneur by half (as the share of SDC effectively required 0% interest), from 28-32% standard interest rate to 14–16%. Hence, this part of the subsidy was structured as a "reward" for the ventures that would be eligible for the ILF Facility based on their impact profile and performance. While this part of the subsidy benefits directly the venture (lower interest rate, possibly larger loan), it also benefits Viwala (access to capital to offer larger loans, possibly lower credit risk given the lower interest rate, access to a broader pipeline of ventures with lower repayment capacity).

2. The second part of SDC's grant was used to offer progressive (i.e. proportional) incentives to the ventures for achieving more gender inclusive impact. Achievement of higher impact targets were translated into (even) more discounted interest rates. In fact, ventures setting and achieving ambitious impact targets could further reduce the interest rate to 0%. Hence, this part of the subsidy was structured as a direct "incentive" for the ventures.
3. The third part of SDC's grant was used to secure a first-loss guarantee (amounting to 5% of total deployed capital) for those investees lacking the required collateral (a pre-condition for all deals above USD50k). Many high-potential ventures – particularly those serving low-income or remote communities – lack traditional assets or are unwilling to pledge scarce resources as collateral. This benefited mostly the ventures [1] which would otherwise not have managed to land the deal for lack of collateral.
4. The fourth part of SDC's grant was used to provide training and technical assistance (TA), to support the ventures in achieving their impact objectives; while there was some flexibility offered on how the venture could choose to spend the TA, part of it needed to be spent to acquire expert services for activities where there was no/ not enough capacity within the venture's team (e.g. training of new women suppliers)[2].

Photo credit: Altitud

[1] Given the first-loss guarantee covered 5% of the total capital deployed by Viwala, it offered only limited protection to Viwala in case of default.
[2] In terms of how the subsidy elements (i.e. grant) were disbursed, about USD16.9k per venture was directed towards the blended financing tranche and impact incentives (57% and 43% of total respectively), and 6k per venture was directed towards TA/training provision. Lastly, about USD4.6k per venture was allocated to pay for the ILF design and set-up, coordination, target setting and impact tracking, as well as reporting.

In terms of results, within a period of three months, the ILF was designed, set-up, 7 ventures were short-listed for the facility, one failed the due diligence process, and the remaining 6 successfully proceeded with obtaining ILF-bound loans ranging from USD25k to 58k, at starting[3] interest rates ranging from 16.9% to 17.1%, and maturities of 2 or 3 years. Progress was monitored on a quarterly basis for the first year of the loan term, at the end of which final progress towards achieving pre-agreed impact targets was measured and translated into a given amount of discount on repayment obligations. Three ventures fully met their impact targets and received the maximum interest discount, while the other three achieved between 76% and 89% of their targets and were therefore only partially rewarded. While not all loans have fully matured yet, to this date no venture defaulted on its obligations. Finally, a more illustrative example of venture's success is described below.

Altitud is a microfinance provider based in Mexico. It supports garment producers and workers (i.e. micro-entrepreneurs) to launch small-scale textile businesses from their homes by offering credit, equipment procurement, free training, and industry connections. The model is grounded in the belief that home-based work can improve work-life balance and reduce exposure to unlawful activities in crime-prone areas. Altitud's clients are traditionally women (often mothers) with only 14% of its 350 micro-entrepreneurs being men. The company identified two potential sources of bias contributing to the predominance of women suppliers: its outreach and marketing content, which primarily featured female tailors, and the composition of its sales team, which was 75% female. While prioritizing women suppliers creates vital earning opportunities for a group that often lacks financial independence, the company realized that focusing too narrowly on that segment reinforced gender stereotypes which associate textile work with a "women's job". This also risked alienating potential male suppliers, leading to missed opportunities both for men micro-entrepreneurs and for the business. To remedy this, and achieve a better gender balance among its micro-entrepreneurs' pool, Altitud worked with a gender consultant to develop 3 new gender-inclusive outreach campaigns, depicting both male and female textile entrepreneurs. In parallel, it revamped its recruitment policies and processes, and managed to achieve a 50-50% gender balance among its sales agents. These efforts successfully attracted new men micro-entrepreneurs, raising their proportion from 14 to 29%. By recognizing the critical role of diversity and gender-sensitive communication, Altitud managed to build interest and trust across a broader audience, grow its suppliers' pool, leading to both more inclusive impact and better business performance, as evidenced by a 10-15% attributable increase in sales.

More generally, for every USD1 of SDC funding channeled through this ILF, the ventures achieved USD0.6 in additional earned revenue, USD1.14 in additional financing obtained as a direct result of their gender-focused efforts and reached 0.03 new beneficiaries. For investors, the facility enabled six additional deals, whereby it deployed capital into ventures with higher impact (potential) while maintaining possibly lower risk. For the incentive payer, this ILF was an attractive way to leverage grants for more targeted and attributable impact, instead of deploying them as more or less restricted funding. It also allowed to unlock additional capital for impact ventures.

[3] Meaning, these were the interest rate levels required from ventures before impact target setting. Ventures actually had the opportunity to set impact targets to a level that would allow them to discount this initial level of interest rate all the way down to 0%, would they manage to reach said targets.

2.2 "How to" best practices

2.2.1 How to solve for the investor's barriers

ILF structures aim not only to unlock (more) capital on better terms for impact ventures, but also to sharpen their focus on driving more/ more inclusive, measurable impact. To set up an ILF, one of the hardest conditions to be met is the "investor fit": For an ILF to work, one needs to match a pool of ventures with one or more investors whose investment thesis (in terms of deal flow per year, ticket size, sector, geography, risk profiles, portfolio composition, etc.) would allow a solid proportion of ventures to be eligible for investment. This is why, in our experience, ILF structures work best with investors with large portfolios and deal flows, as well as relatively broad and standardized investment criteria and processes. Investors that do only a few niche and large tickets a year, requiring long, extensive and tailored due diligence will see an ILF as yet another hurdle, and the ILF facility risks remaining under-utilized. On the contrary, an investor that employs more "factory-like" processes will see an ILF as an opportunity to invest into pipeline at the fringes of its investment thesis, which it would otherwise struggle to prioritize. To solve this hurdle, some ILF facilities advertise the ILF to a large number of investors or ventures that are far advanced in investment negotiations (henceforth avoiding the complicated matching phase). This, however, does not come without complications, as the financial additionality of the ILF gets diminished (i.e. the ILF is not at the core of facilitating access to capital), and the actual closing of individualized ILF deals for each venture-investor pair is less efficient.

More broadly, an important consideration in the ILF design is to ensure that the investor also benefits – directly and/ or indirectly – from the ILF. That means that, even if the grant subsidy is not targeted towards the investor, the ILF can and should still be structured in a way that solves for tangible and material investors' barriers and problems.

Illustrative example: Viwala Gender Inclusion ILF Facility

In this ILF, the investor was Viwala, an ideal fit, as it focuses on small and growing businesses too large for microfinance and too small for more mainstream investors. Typical loan sizes range between USD35k-500k and the fund realizes an annual volume of about 20 deals. The investment thesis of Viwala is rather broad, as it considers ventures that generate social, environmental or gender-inclusion impact across Mexico. Viwala's due diligence process can take as little as a few weeks, and crucially, the team is open and keen to drive more impact via gender-inclusion across its portfolio.

Viwala benefited from the ILF in two main ways: First, the ILF made their investment product more (widely) attractive/ relevant for a broader pipeline of ventures. Second, with a relatively compact portfolio team and no TA facility[4], it could leverage the resources of LeFil to do impact target setting and tracking, as well as the provision of TA to the ventures for achieving those targets.

[4] Viwala currently counts one team member dedicated to impact measurement. If required, it partners with experts to design impact measurement and management frameworks.

Photo credit: Rennueva

2.2.2 How to solve for the ventures' barriers

Raising capital is hard in general, but harder for impact venture: business fundamentals are often less attractive than more commercial competitors, impact is hard to achieve, prove and scale, and the impact finance ecosystem is rather fragmented. When an investor is potentially interested, there is often one condition or the other that is hard to fulfill (e.g. a bit more revenues, more proven impact, presence in a larger market, etc.), and some investment conditions are also unattractive (e.g. high interest rates, sanctions in case of not reaching milestones, etc.). For lean venture teams, access to capital is not enough if the terms of the deal are unaffordable, or if the deal requires significant in-house investments and risk-taking. This is where an ILF operation can help. The subsidy can bridge some of those gaps, e.g. by subsidizing the interest rate, remunerating inclusive outreach growth, providing support to set-up more robust impact measurement and management systems. By linking the provision of this subsidy to the achievement of pre-defined, measurable impact targets, while narrowing the gap to land an investment, an ILF helps reconcile the objectives of growth sought by many investors with the realities of entrepreneurs striving for more impact. In conclusion, while ILF structures can be made available to ventures which already secured capital, they can be even more impactful if they help unlock capital that would otherwise be hard to unlock.

Another important reality to take into account is that, without support, even the best incentives may fall short, especially if the venture lacks the expertise and/or resources to try new approaches, deepen its presence in hard-to-reach markets, or invest into new team capabilities. This is why, ensuring that the venture has access to the right expertise and resources to succeed in achieving the given targets can be paramount. This support can be provided in many ways: arranged TA from pre-identified experts, grants to allow the ventures to buy the services it needs and doesn't have in-house, or ear-marking of a portion of the investment to do the same. We recommend to offer this support upfront, at the time of investment, and before the impact targets are achieved (or not), as the ventures will typically not divert other (scarce) resources to do so in the interval. Whether this grant/ TA needs to be reimbursed in case the venture fails to reach its impact targets is at the discretion of the incentive payer.

Illustrative example: Viwala Gender Inclusion ILF Facility

In this ILF, a hurdle was the relatively high interest rate normally charged by Viwala (typically ranging around 36% per annum[5]), which not only limited the universe of eligible ventures for investment at Viwala's end, but also made many impact-first ventures reluctant to apply for such funding. This is why the ILF specifically focused on lowering the interest rate: thanks to a transparent, performance-linked reward mechanism, ventures had the possibility to further reduce the interest rate down to 0%. Not to create big variations in the repayment schedule for the ventures, we also reworked the loan amortization schedule to smoothen the repayment flows, whether the venture reaches its targets or not. For this, we assumed an average completion of the targets at the onset (so as not to forfeit all the interest payments at the beginning, with the risk that the venture would have a much heavier hurdle later if impact performance was not as high as expected; but also not assuming that all ventures would fail and require them to pay back full interest until they reach their targets).

Also, to give the ventures the means to succeed, the ILF directly and systematically embedded capacity support across three complementary levers: i) each participating venture was required to complete a series of workshops and trainings on the topic of gender inclusion and mainstreaming, to ensure they had a minimum level of capabilities on this topic from the start; ii) small grants of USD6k helped cover implementation costs for target improvements and the purchase of external services; iii) in case tailored TA on a gender-related topic was needed, local gender experts were identified to support the ventures in practical and meaningful ways. These grants and TA were delivered alongside the loans, not as a separate, delayed or optional step, but rather with the intention to systematically increase the chances of sustainable and meaningful target completion.

2.2.3 How to match investor requirements against a pipeline of ventures

ILFs rely on the coordinated engagement of three parties: the venture, the investor, and the incentive payer, whose objectives also need to be aligned (i.e. impact goals for incentive payers, investment thesis and targets for investors, and funding needs/ impact potential for the ventures). Once the investor(s) is identified, one needs to provide relevant pipeline for consideration by the investor and align the due diligence and deal-making processes both on the ILF and the investment sides.

[5] This level of interest rate needs to be taken in the context of Mexico, where credit for SMEs is often available at even less favorable terms. In this light, Viwala's interest rate is driven by the conditions it gets from its own investors and is close to market rate.

The pipeline can of course come from the investor itself, but it may lack the impact-focus required by the incentive payer; it can come from open calls, but will likely result in a lot of resources spent on outreach without necessarily creating a sufficient pipeline well fitted with the investor's investment thesis; or the pipeline can come from the incentive payer (via e.g. separate programs, etc.), again with the risk that there will be limited overlap between this group of ventures and the investor's requirements. In practice, finding the right pipeline often requires a mix of sources and some degree of flexibility.[6]

Similarly, the due diligence and deal-making processes with an ILF structure are somewhat more complex, as the parties involved must assess and align/ agree on more dimensions in parallel: financial/ business potential for the investor, and impact potential for the incentive payer. On the former, the venture undergoes the standard due diligence process, and on the latter, it needs to provide information (e.g. additional assessments, data provision) related to its track record, ability and motivation to deliver on measurable impact outcomes that tie directly to financial terms.

At the stage of the deal making, close coordination between parties is essential, as the structure and quantification of the impact-linked incentives need to be integrated into e.g. the term sheet, financial modelling and investment agreement.

While these steps can be conducted sequentially, we recommend to do so in parallel, to avoid lengthening unnecessarily the process for all sides concerned, but also to avoid proceeding too far in the process with the risk of having the ILF or actual investment falling through at the end. Being structured and intentional about the integration of these processes from the start ensures that resources are focused only on viable candidates, avoiding superfluous due diligence costs and reducing friction for all parties.

Illustrative example: Viwala Gender Inclusion ILF Facility

For this ILF step, LeFil consolidated a "high-likelihood-fit" pipeline, drawing from three sources: a) former Viwala investees considered for top-up investments, which were reviewed by LeFil to gauge impact fundamentals; b) Viwala pipeline ventures which already passed the first selection step and were slotted for detailed due diligence, also reviewed by LeFil on the impact side; and c) portfolio coming from various support programs targeting impact ventures, vetted by the incentive payer, and which had applied and went through the first selection step of Viwala. Ticking basic boxes for both the investor and the incentive payer from the pipeline building stage ensured that the ILF structure enhanced Viwala's investment approach rather than complicated it–and also made the opportunity clearer and more streamlined for ventures from day one.

For the due diligence phase, the ventures had to go through two tracks in parallel: Viwala led the financial and legal due diligence, while LeFil was in charge of determining the impact targets and impact-linked incentives.

[6] This also leads to the question: who should perform this matchmaking work, not only between the investors and ventures, but also overall alignment, coordination and process management with the incentive payer. In most cases, this runs through an intermediary (in this case LeFil), which performs the legwork at different steps of the process.

2.2.4 How to structure the incentives

IILFs essentially link a financial reward (of a certain size and type) to achieving specific, measurable impact. This process can be lengthy, custom-designed, and therefore complex and expensive, complicating the scale-up process. Instead, we recommend to try and avoid these high transaction costs of custom deal-making, as – in our experience – the extra effort involved in the tailoring doesn't necessarily yield more impact, or better "guaranteed" impact.

To structure the ILF, essentially, one needs to decide: a) what counts as impact (i.e. what should be the metrics); b) how to set targets, and c) how to fairly remunerate reaching those targets (i.e. what is the value of those targets):

Photo credit: Rennueva

- a) In many ILF structures, metrics are either borrowed from external benchmarks applied uniformly across ventures, or negotiated on a case-by-case basis. Both these approaches create limitations: metrics either lack meaning, as they do not reflect a venture's actual context, ambition or baseline; or they lack usability and replicability, as the metrics are unavailable, difficult to verify, inconsistently applied. Using calibrated, context-aware metrics not only increases fairness but also makes impact more relevant and meaningful to the venture – but the costs and complexity associated with such tailoring shoot up.
- b) Regarding target setting, fixed thresholds often backfire as they either disqualify high-potential ventures that start from a very low baseline, or reward minimal change from ventures already performing well. This is why we think it is also important to consider the level of effort or difficulty in reaching a target, not just the final results in absolute terms.
- c) Lastly, incentives should be meaningful enough to offset the efforts required from the venture, acknowledging that achieving impact targets not only requires extra work and resources, but also may come at the expense of other priorities for the team. Ideally, the reward should allow to invest into external or hired capacity to drive the (renewed) impact ambitions, on top of other important priorities for the team.

Illustrative example: Viwala Gender Inclusion ILF Facility

For this ILF Facility, LeFil transformed the impact deal structuring into a streamlined, easy to understand and replicate process, while still being flexible and tailored to the investee's context and priorities. The process took place in parallel to the due diligence of Viwala.

Also, instead of asking "Did the venture reach a fixed target?", we asked "Did the venture move forward meaningfully ahead from where it started and was that effort real, documented, and valuable?" As a result, baseline, effort and ambition were also taken into account into the impact deal structuring, not just end-line results.

- *a) Metrics selection: Each venture completed a structured, self-assessment tool developed by LeFil[7], which identified key opportunities for gender-related impact improvements. The tool maps current practices as well as performance levels of the venture against a selection of benchmarks and best practices. Using such a tool allowed to make this process venture-specific and relevant, rather than impose fixed metrics upfront, or identify possible metrics from scratch.*

  Then, for each underperforming area (or area with improvement potential), the tool generates a list of recommended, prioritized output-level impact metrics (e.g., new/better new HR policies) and outcome-level impact metrics (e.g., more balanced end users composition). These are presented to the venture in the form of a tailored "menu" of "impact items" to choose from. The menu items are organized in output-level improvement areas (i.e. "appetizers") and outcome-level improvement areas (i.e. "main courses"). Ventures can then select those improvement areas (i.e. menu items) that they can and want to prioritize (i.e. most relevant and feasible). Finally, they write a short justification for their choice and refine their selection in consultation with LeFil[8].
- *b) Target setting: After selecting their "impact items" on their "menu", ventures set their own targets for each improvement area, against the recommended benchmarks in the tool[9], depending on their context, priorities, ambition level, capabilities, bandwidth, etc. Each recommended benchmark carries a certain number of "impact points", depending on both level of difficulty and the impact potential expected. While some lower-value menu items are structured as "achieved"/ "not achieved" propositions (i.e. the venture gets the points allocated for reaching this objective or not); most higher-value menu items are set in relative terms (e.g. relative percentage improvements towards benchmark). Output-level impact targets typically yielded 1 impact point, while outcome-level impact targets typically yielded 2-4 points. Importantly, each target comes with predefined evidence requirements (i.e. the venture knows upfront how it will need to "prove" achieving this target), and the full impact deal–including current venture's baseline, targets, anticipated resources required to achieve target, timeline and verification plans – was documented in a standardized implementation template. This ensures that incentives are also anchored in a credible delivery and tracking framework. Most ventures selected 3-5 improvement areas, against a total target of "winning" between 9 and 18 total impact points (average of 15).*

[7] This proprietary Gender Performance Assessment Tool draws on a comprehensive framework of gender-sensitive business areas, such as inclusive HR, product and market, supply chain, etc. Data is collected via a digital diagnostic form and processed through an Excel-based scoring system. The tool compares current performance against predefined thresholds and automatically flags areas with improvement potential. This tool, including the assessment questions, mapping of improvement areas, benchmarks, etc. is based on a dataset built thanks to LeFil accompanying over 140 ventures on their gender-inclusive impact journey and systematically tracking their trajectory over two years, across 37 metrics. This tool is available open-source, meaning that theoretically anyone could use it to follow this approach.

[8] While theoretically, ventures could follow the whole process alone, we recommend that there is a third-party discussing their selection and priorities, in order to make sure they calibrate and adapt their choices to their specific contexts.

[9] The benchmarks are based on previous research showing the typical value attained by high-performing ventures on that given improvement area/ dimension (averaged across a group of over 140 ventures).

- *c) Remuneration through incentives: In this ILF, impact points would translate one-on-one to percentage points of interest rate discount (i.e. 1 impact point realized and verified translates into 1 percentage point less in interest rate). That way, the venture would know and decide upfront what would be the maximum reduction in interest rate they would aim for, provided they delivered on all targets. This made the incentive structure more equitable, more motivating, and more reflective of real progress. And as they knew that financial rewards were tied directly to performance, ventures were encouraged to aim high while staying grounded in operational reality. Ultimately, this approach allowed LeFil to not only assess whether a venture created additional impact, but to fairly determine whether it had earned the impact incentive, in a way that would be scalable and effective across dozens of ventures with rather diverse profiles.*

Photo credit: Cova

2.2.5 How to track progress

In most ILFs launched so far, monitoring and verification can be a significant challenge, often involving extensive efforts and reporting. Ventures may be required to report on metrics that they are either poorly tracking or not tracking at all, the verification process may involve third-party service providers conducting on-the-ground verification, adding complexity, cost, and delays to the implementation and hindering scaling or replicating the ILF. In contrast, we believe that progress tracking and verification can be done in a practical and effective way. With clearly pre-defined benchmarks and timeline, investors/ subsidy payers can track progress and better understand which targets are being met, when, and with how much effort.

TA providers can support ventures in collecting and submitting the required evidence, and data tracking can often be integrated into existing investor workflows or lighter-touch monitoring tools. And even if intermediaries might be leveraged to monitor and second-proof the verification process (or conduct spot checks on randomly selected ventures), it is still much faster and cheaper than approaches involving field visits, etc. The result is a tracking and verification process that is rigorous, reliable and usable, making it easier to scale, replicate, and learn from.

Illustrative example: Viwala Gender Inclusion ILF Facility

In terms of verification, means of verification were defined at the outset (at the time of sealing the investment deal), including required documentation and baseline, making verification more manageable. The latter was handled through a simple documentation protocol of required evidence–e.g. submission and review of HR policies, sales data, or customer records. Of course, there is a risk that the venture misrepresents the facts, given this data is self-reported. We however believe this risk is limited: the TA support during implementation, the nature of the evidence required, and the relationship with the investor are solid safeguards. Taking this risk also means less costly and cumbersome verification, as well as scaling incentives to a larger number of ventures.

More specifically, LeFil led the monitoring and verification process with quarterly check-ins throughout the implementation period, which ran roughly over the first year of the loan term. The aim was not only to track progress, but also to support mid-course adjustments and maintain momentum. At year's end, LeFil conducted the final assessment of impact points achieved and shared results with Viwala, which then updated each venture's amortization schedule accordingly. Ventures that did not fully meet their impact targets retained access to grant and TA support but did not benefit from the full reduction they aimed for.

This balanced approach maintained accountability without being punitive. Moreover, by knowing the required reporting documentation upfront and being offered TA support to help fulfill it, ventures were equipped to report meaningfully without disproportionate burden.

2.2.6 How to organize the payment flows and timing

IPayment flows in ILFs are fundamentally shaped by one key distinction: is the ILF structured as an incentive (i.e. offered ex-post, after achieving some target), or as a reward (i.e. offered ex-ante, for already doing the right thing). Many traditional ILFs focus heavily on incentives, postponing the payment to post-verification. While this approach protects the subsidies from the incentive provider, it can be punitive and counter-productive for ventures. Waiting years for a payoff strains financials and reduces the resources available to actually deliver on targets. In short, ventures typically need to have some cash upfront, even if it means having to possibly reimburse some if they do not fully meet all their targets later. In some cases, investors face similar challenges. Asking them to wait for an incentive payment until impact is fully verified can be impractical. Hence, we believe it is necessary to strike a balance: payment flows should provide ventures with sufficient upfront resources to operate and pursue targets effectively, while still keeping the risk of having non-performing ventures not paying back (some of) these upfront payments under control.

Illustrative example: Viwala Gender Inclusion ILF Facility

In the Viwala ILF, the payment flows and timing were carefully structured to balance early liquidity with performance accountability. Ventures received their loan capital alongside the grant and TA upfront to ensure they had the resources needed to begin working on their impact targets immediately. This early support was designed to enable performance, not to reward it. Loan repayment schedules were structured assuming an average achievement of impact targets, offering ventures favorable terms from the start. At the 12-month mark, the final verification led to adjusting the repayment schedule based on actual performance–ventures that underperformed forfeited part or all of their discount in the following years of their loan term, while ventures that over-performed got an even lighter repayment burden in the following years.

To fund the impact rewards, SDC pre-committed capital, enabling Viwala (and its own investors) to meet return expectations even as ventures accessed concessional rates[10].

[10] Viwala designs all its portfolios with blended capital to be able to provide lower-than-market interest rate, while unlocking private refinancing capital, which has market-return expectations.

CONCLUSION

In conclusion, the approach adopted for this ILF Facility has the benefit of being tailored, flexible, yet streamlined and replicable, rigorous but not burdensome, and above all, fair, transparent and fast, as well as easier to implement and scale. That said, could things be streamlined further, to eliminate the need for an intermediate like LeFil? Perhaps, with iterations and scale.

Importantly, this ILF was positively received across participating ventures, with broad appreciation for its incentive structure, focus on gender inclusion, and hands-on accompaniment. Ventures recognized the model as innovative and results-oriented, with many noting that the prospect of lowering their cost of capital through gender action was both motivating and aligned with their values.

In this ILF Facility, the areas of intervention chosen by the ventures varied a lot, but end results were consistently high. This reflects a strong level of follow-through and alignment between the incentive structure and the ventures' capacity to implement meaningful gender strategies within the loan term. Ultimately, the facility generated tangible results for ventures, Viwala and SDC. An example of venture engagement is described below

Básicos de Mexico designs, produces, and sells good-quality clothing, using fabrics with a lower environmental impact and guaranteeing fair wages and dignified treatment for its garment producers. The team performed a thorough self-assessment (as part of the gender training offered with the ILF) and discovered several gaps in its internal policies that limited the company's ability to provide an inclusive and supporting environment for all employees. In particular, it lacked a policy on staff and producers' safety and protection from harassment, as well as comprehensive support measures for employees who are parents and/or caregivers. To address these shortcomings, Básicos de Mexico started by organizing participatory workshops to assess needs and co-generate solutions. Building on these inputs, the company worked with a gender consultant to design and formalize the missing policies. In the area of safety, it introduced measures such as self-defense courses, security cameras, emergency communication channels, and the creation of a conflict resolution committee. With regards to caregiver support, Básicos de Mexico extended its parental leave to 90 days for both mothers and fathers (compared to the legal minimum of 84 and 20 days, respectively). Additionally, it introduced flexible return-to-work arrangements, subsidies for daycare, dedicated time and space for breastfeeding, additional sick leave and flexible working hours, with benefits extended to caregivers and those experiencing a miscarriage. Beyond the direct benefits for employees affected by these measures, these policies, and the participatory process that led to them, strengthened staff cohesion, satisfaction, retention and overall engagement.

Last but not least, the gender angle for this ILF. Readers may think – what an odd one. We would like to argue: "Not really". Think of it. Inclusion is one of the biggest drivers of social impact, and gender is probably the most under-exploited angle to bring more inclusion into social ventures' work. Gender is also sector-, geography-, or type of fund-agnostic. Hence, instead of being the oddball topic, shouldn't it be the baseline requirement, if not one of the core focus of any ILF design?

ACKNOWLEDGEMENTS

This report was authored by LeFil Consulting under the umbrella of the Gender Scaling Financing Facility (GSFF).

About us

LeFil Consulting is a mission-driven consultancy specializing in the identification, design, growth, and replication of innovations that create social and economic value sustainably and at scale. Founded in 2010 and based in Zurich, Switzerland, LeFil works globally with start-ups, large corporations, donors, NGOs, and governments. Leveraging rigorous business methodologies and extensive first-hand data collection, LeFil aims to solve social problems in cost-effective, innovative, and focused ways. Its projects span diverse sectors, including housing, energy, water, sanitation, financial services, health, and agriculture, making substantial impacts in communities worldwide.

The GSFF is an ambitious initiative to power the growth of gender-mainstreamed social enterprises across Central and Latin America, designed and driven by LeFil Consulting, with the support of Pro Mujer, and the financial backing of the Swiss Development and Cooperation agency (SDC). It targets 140 impact-driven, market-based ventures operating in the region, ranging from small to large size, with no restrictions on sector. GSSF's approach goes beyond traditional gender-lens investing. It aims at demonstrating that gender can and should be mainstreamed: it is a dimension that is important across HR, leadership, governance, product, marketing, sales, or supply chain, with any venture, independently from the gender of its founder(s).

Authors

Cynthia Tjin, Junior Consultant, LeFil Consulting
Jessica Graf, Managing Director, LeFil Consulting

Contributors

Peter Beez, Program Manager and Senior Policy Advisor, Swiss Agency for Development and Cooperation
Carolina Lobo-Guerrero, Chief Financial Officer, Viwala