Impact-Linked Finance Learning Journey

Summary of findings & learning workshop

April 2024

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## CONTEXT AND APPROACH

CONTEXT

In 2016, SDC and Roots of Impact pioneered the very first Social Impact Incentive, the first step in building and demonstrating the practice of Impact-Linked Finance (ILF). Since then, SDC has implemented a number of ILF transactions and funds, bringing other funders and implementers on board and creating demonstrable impact results and scalable successes.

Over the last seven years, SDC staff across regional, thematic, and country-level teams have been involved in designing and implementing ILF projects, programs, and funds. While ILF insights are shared internally, a comprehensive understanding of the key insights and takeaways has not yet been systematically undertaken to best recognize the opportunities and lessons.

To best draw out the lessons on implementing ILF to date, Roots of Impact conceptualized and delivered a Learning Journey to extract, synthesize, and package lessons learned from Project Officers across SDC's regional, thematic, and country-level teams. The Learning Journey aimed to interrogate the best internal practices in designing and roll-out of ILF programs within SDC, and outline key considerations relevant to SDC's systems and processes, supporting guidelines and tools, and optimal set up in terms of resourcing and support.

METHODOLOGY

The Learning Journey was implemented across multiple stages, to draw out insights:
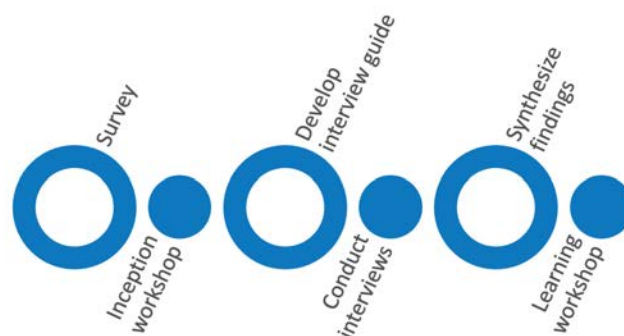
The process kicked off with a survey, designed to capture overarching perceptions, challenges, opportunities and lessons gathered.

24 Views of the survey

16 Started the survey

7 Completed the survey

Responses from:

o B-Briddhi

o ILF for Education

o ILF-ESA

o ILF for GIF

o ILFF Climate Change Tanzania
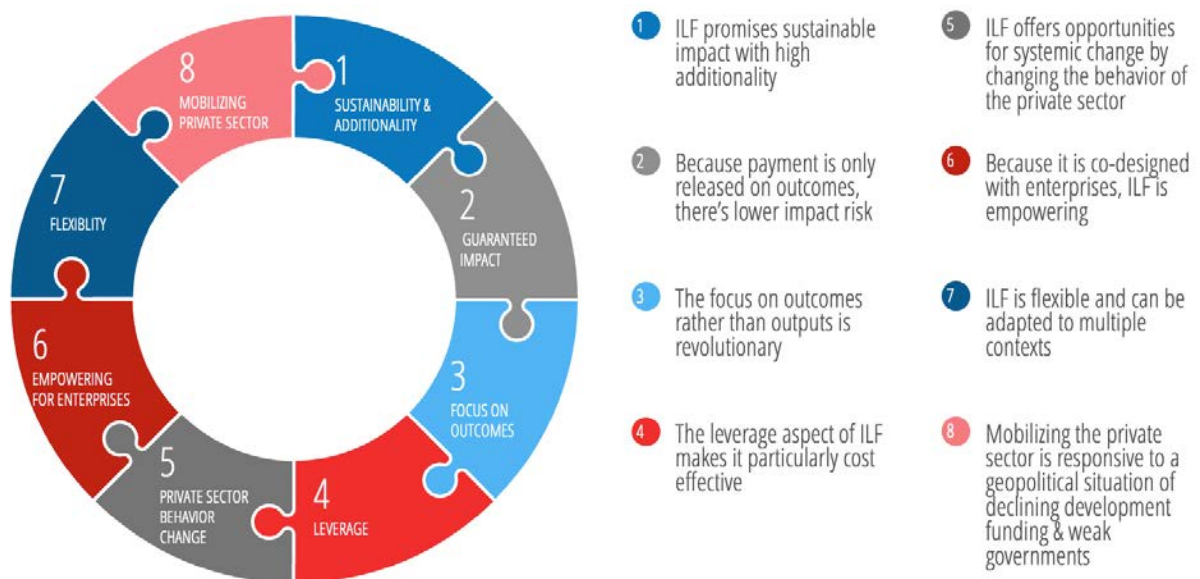
o Daraja Innovation Fund

The survey was followed by an inception workshop held with the core team, where key goals and recommendations for the remainder of the project were established. Based on this, an interview guide was developed, and interviews were held with 13 SDC staff members, spanning a range of experience with Impact-Linked Finance.

The findings were synthesized and presented in a Learning Workshop with the core team and a select sample of interviewees. These findings are presented in this document.

KEY FINDINGS

THE VALUE OF ILF FOR SDC

The survey and interviews interrogated the benefits that ILF offers for SDC. It was interesting to see how diverse the responses from staff members were, highlighting eight key ways that ILF contributes to SDC's goals:

1 ILF promises sustainable impact with high additionality

2 Because payment is only released on outcomes, there's lower impact risk

3 The focus on outcomes rather than outputs is revolutionary

4 The leverage aspect of ILF makes it particularly cost effective

5 ILF offers opportunities for systemic change by changing the behavior of the private sector

6 Because it is co-designed with enterprises, ILF is empowering

7 ILF is flexible and can be adapted to multiple contexts

8 Mobilizing the private sector is responsive to a geopolitical situation of declining development funding & weak governments

DRAWING OUT KEY INSIGHTS

The Learning Journey provided open opportunities for SDC staff to express their experiences with ILF. Many insights were expressed repeatedly, but from different starting points, emphasizing the interrelatedness of the most relevant topics. To demonstrate this, we have illustrated the most relevant feedback heard again and again:
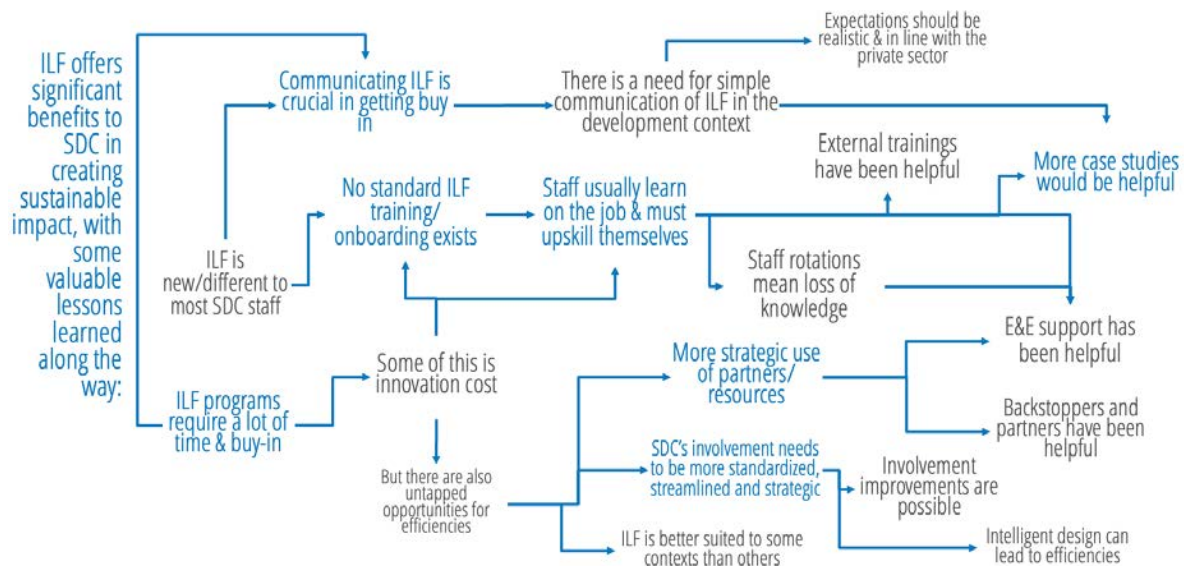
Within these key insights, the most common feedback was clustered around four major themes:
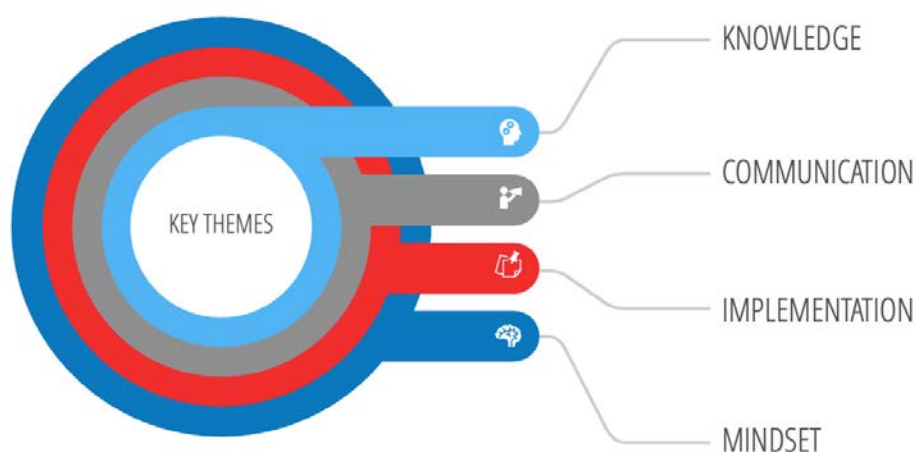
Within each of these themes, Roots of Impact utilized the following framework to extract the most relevant insights for SDC:

Roots
of Impact

01	02	03	04
INSIGHTS	KEY TAKEAWAYS	SOLUTIONS	RECOMMENDATIONS
• Observations • Perspectives • Challenges	• Main findings	• Suggestions • Recommendations • What's worked before	• Synthesized recommendations by ROI

From SDC	From Roots of Impact

MAJOR THEMES

I.   KNOWLEDGE

INSIGHTS HEARD

The topic of ILF knowledge was one of the most commonly raised themes by SDC staff members, highlighting both its importance and the opportunity for structural advancements. Interviewees highlighted that there is no structured onboarding or training for staff new to ILF. This is exacerbated by SDC's HR rotational structure, which makes it difficult to retain experience and capacity on ILF. To date, most ILF training or onboarding has been 'on the job', ad hoc, and unstructured.

Most staff familiar with ILF mentioned that they were intrinsically motivated to learn themselves, and needed to go the extra mile, be willing to try new things, and be willing to upskill themselves. However, the majority of staff found that internal ILF champions (usually from the E&E team) have been very valuable for staff new to ILF.

With clear acknowledgement that the breadth of ILF knowledge needs to grow, respondents highlighted that structured capacity building and onboarding on ILF is critical to achieve this.

SOLUTIONS HEARD

Respondents highlighted that trainings should be widely available to anyone working on or interested in ILF. Existing trainings (such as the Efiko Academy, Impact Investing & Blended Finance course, and Roots of Impact Bootcamp) were helpful to staff who attended these. Structured content should include case studies, implementation advice, and a mapping of different ILF partners and instruments (for example, aligned investors).

Internal learning opportunities, such as brown bag events to share lessons on ILF, have been appreciated. Building on this and the support offered by the E+E team, a mentorship or buddy program for ILF would be beneficial to offer ongoing support, advice, or sparring partners. The Learning Workshop highlighted that such interventions already exist, and should be better communicated across SDC.

Finally, respondents highlighted the value of case studies that could bring ILF to life.

Other than case studies, interviews demonstrated that there was not appetite for additional documents, policies, or tools. As one respondent put it: "There are enough of those already".

RECOMMENDATIONS

Based on this feedback, Roots of Impact recommends the following steps:

Recommendation	1. Develop an ILF training program	2. Continue fostering internal learning and sharing	3. Develop an ILF case library
Description	An online ILF training program should be offered to all staff new to ILF, whether they will be managing ILF programs or involved in an adjacent role. The training should consist of 2-3 hours of material and may be self-paced or facilitated.	1. The E+E team should continue to function as the knowledge center of ILF 2. A buddy/mentorship program, in which staff experienced in ILF are paired with staff new to ILF, would offer opportunities for support, advice, and sparring partners. 3. Brown bag events and other informal learning opportunities offer continuous value and opportunities for dialogue	A library of case studies, including data, details on structuring, outcomes, and budgets, are an excellent learning tool. These should be easy to digest, tell the story of the enterprise, and demonstrate the linkage to SDC's development goals.
Internal/ external	Internal or external	Internal	External
Level of effort for SDC	Internal: High External: Low	Low	Low
Time to complete	Mid-term	Short term	Mid-term

LEARNING WORKSHOP HIGHLIGHTS

The discussion during the Learning Workshop emphasized the need for better communication of existing ILF guidelines materials, tools, and mentorship opportunities across country offices, noting that an overhaul of the ShareWeb resources is currently underway. It also noted that financial controllers and other staff who are affected by the running of ILF program (even if they are not the program managers directly), would strongly benefit from participating in trainings and onboarding efforts.

II.   COMMUNICATION

INSIGHTS HEARD

The theme of communication was one that many interviewees were interested in discussing. There was consensus that effectively communicating ILF internally and externally would assist with buy-in and understanding, which would also help with internal efficiencies. Respondents also noted that communication efforts need to be simple and clear, and focus on how ILF is relevant for the development agenda.

SOLUTIONS HEARD

Interviewees highlighted the communication materials should be simple and easy to understand. Materials should highlight why ILF is relevant for SDC, how it fits into SDC's overall strategy and goals, and how it fits into mainstream development understanding. This collateral should also showcase what has already been done at SDC, as well as the opportunities for future work. Case studies were mentioned as being particularly useful, especially where these can be combined with details and results.

RECOMMENDATIONS

Based on the feedback and insights from SDC, Roots of Impact recommends the following:

Recommendation	1. Revamp/create ILF-specific communication materials	2. Develop an ILF case library
Description	A set of ILF communication materials should be created, that are simple, easy to understand, and focus on the relevance of ILF for SDC and the development agenda. The communication pack should include: 1. A 2-pager introduction to ILF 2. A short pitch deck introduction to ILF 3. A set of boilerplates which can be used in emails, articles, social media, partner communication, and external communications	A library of case studies, including data, details on structuring, outcomes, and budgets and results should be used alongside communication efforts. These should be easy to digest, tell the story of the enterprise, and demonstrate the linkage to SDC's development goals.
Internal/ external	Internal or external	External
Level of effort for SDC	Internal: High External: Low	Low
Time to complete	Mid-term	Mid-term

LEARNING WORKSHOP HIGHLIGHTS

The Learning Workshop discussion suggested the idea of having three versions of each case study: one detailed version for internal use, including all the nuts and bolts relevant from program owners; a concise version for internal use, which is more streamlined and less detailed; and finally, a concise version for external use. All case studies should highlight the additionality.

III. IMPLEMENTATION

INSIGHTS HEARD

The topic of implementation provided the largest set of opinions. Firstly, interviewees noted that aligning with the internal SDC processes and getting approvals for ILF was initially challenging because they were new and different. This can be considered an 'innovation cost'. Fortunately, follow up programs did not have the same issues, demonstrating the learning potential that comes with replication. This could be expedited through better focus on communications, training, and onboarding.

At the same time, respondents noted that, as ILF program size and complexity increases, the time required from SDC staff has also increased. ILF programs now require more time and capacity from SDC staff than for other programs. There are concerns around analyzing and approving individual transactions at the SDC level, especially as ILF scales.

There are opportunities and ideas for efficiencies, for example by having more flexibility in funding allocations upfront. One credit proposal spanning multiple regions, themes, and sectors would maximize efficiency.

The interviews also highlighted the value of technical backstoppers who have been shown to be useful resources for SDC program managers, not only from a capacity perspective, but also from a risk mitigation perspective. These relationships have provided new insights, security, and comfort.

As in under the Knowledge theme, the E&E team were mentioned as being a useful resource for non-ILF-expert staff.

SOLUTIONS HEARD

Building on the key insights, interviewees recommended that SDC's involvement in ILF implementation be more strategic. For example, respondents suggested that SDC's involvement be heaviest at the beginning of the prep work, that is, during feasibility and setting the impact thesis, to ensure that realistic expectations are set. They emphasized that SDC should apply the same partnership guidelines to ILF as other partnerships, that is, taking an advisory or steering role rather than an individual transaction-level role.

In addition, interviewees recommended seeking efficiencies in ILF programs, such as setting up larger, cross thematic, cross geography funds that can be tapped into by different units effectively.

In terms of resources, respondents recommended that the E&E team remain the detailed knowledge hub, with program managers not needing the same level of expertise.

RECOMMENDATIONS

Based on the feedback and insights from SDC, Roots of Impact recommends the following:

Recommendation	1. Reconsideration on SDC's involvement in ILF programs	2. Better use of partners	3. Intelligent program design to harness efficiencies
Description	SDC's should reconsider the level of involvement in individual transactions. This may vary from program to program, depending on the capacity and experience from SDC staff and the implementing partner.	Partners hold potential to increase capacity, decrease risk, and streamline programs: • Implementation partners can be provided autonomy in small decision-making e.g. TA approvals. • Backstoppers can provide expertise and sit on the TIC in place of SDC staff. • The E+E team can hold detailed expertise within SDC.	SDC should design programs to be as broad as possible in terms of regions and sectors, while being specific about the type of impact achieved. For example, a global, cross-sector fund with priority on certain impact objectives (e.g. pro poor)aligned with SDC's goals would maximize internal efficiencies and allow multiple parts of SDC to participate.
Internal/ external	Internal	Internal	Internal + External
Level of effort for SDC to implement change	Low	Low	Medium
Time to complete	Short- to mid-term	Short-term	Mid- to long-term

LEARNING WORKSHOP HIGHLIGHTS

The Learning Workshop discussed potentially including two types of program management: one for programs with less than, for example, 15 transactions, which allows a higher level of involvement by SDC, and another for larger programs with more transactions, with more emphasis on steering at a high level only. The value of involvement for learning purposes was highlighted, and it was emphasized that a distinction should be made between involvement as a learning opportunity vs involvement for decision-making purposes.

IV.   MINDSET

INSIGHTS HEARD

In addition to the concrete feedback from the interviewees, there were a number of discussions around more the philosophical questions around ILF. Three major themes emerged in the discussion.

Firstly, overlapping with the PSE work, was the mention that private sector concepts are often not expected by staff who are primarily development specialists. For example (a) fundraising and investment cycles may take longer than expected, and this is not indicative of failure; (b) ILF and investments should be seen as a flexible and moving target; (c) if funds aren't disbursed, this is also not an indication of failure.

Secondly, interviewees highlighted that SDC's role as a catalytic funder (being the first mover) should be emphasized internally.

Finally, respondents noted that ILF should not be considered a panacea for everything, but should be used where it is likely to achieve the best results.

SOLUTIONS HEARD

Interviewees suggested that internal communications set realistic expectations for SDC staff of what can be expected from impact enterprises.

RECOMMENDATIONS

Based on the feedback and insights from SDC, Roots of Impact recommends the following:

| Recommendation	1. Private sector considerations should be kept in mind when communicating to internal SDC staff	2. Develop an ILF relevance decision-tree
Description	Private sector nuances should be incorporated into the narrative around ILF. This could be achieved through closely tying ILF to the rest of PSE work, or having colleagues with experience in private sector investment be Champions/Experts for ILF transactions.	Recognizing that ILF is not suitable for all circumstances and contexts, a decision-tree could be developed to help SDC staff assess whether ILF is a useful toolbox to apply to a specific program.
Internal/ external	Internal	External
Level of effort for SDC	Low to medium	Low
Time to complete	Short- to mid-term	Mid-term

LEARNING WORKSHOP HIGHLIGHTS

The learning workshop highlighted that there are potentially two levels for a decision tree: one at a program level (designing the overall program), and the other at a transactional level (selecting an enterprise). The first level is very specific to SDC. It will look at benchmarks that SDC uses internally and will tie into SDC's goals. For the second level of the decision tree, Roots of Impact could be helpful.

PRIORITIZATION OF NEXT STEPS

SUMMARY OF RECOMMENDATIONS

Based on the learnings from the survey and interviews, the Recommendations by Roots of Impact can be summarized as follows:
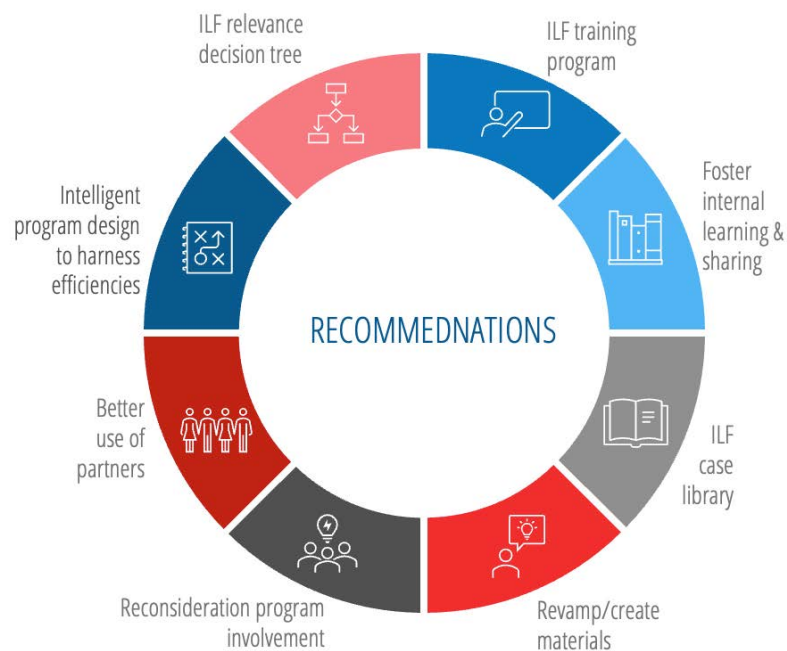
PRIORITIZATION

The Learning Workshop interrogated the relevance of these recommendations for SDC, with a view of prioritizing action. The topics that resonated most with the Learning Workshop team were the ILF training program and ILF relevance decision tree, followed by fostering internal knowledge and sharing.

It should be noted that there was some confusion around the "revamp/create materials", which should relate to communications materials, and as such, this result is not representative of the importance the group assigned to it.

In terms of prioritization, the most urgent items were considered to be revamping or creating communications materials, followed by the ILF relevance decision tree and the ILF case library.
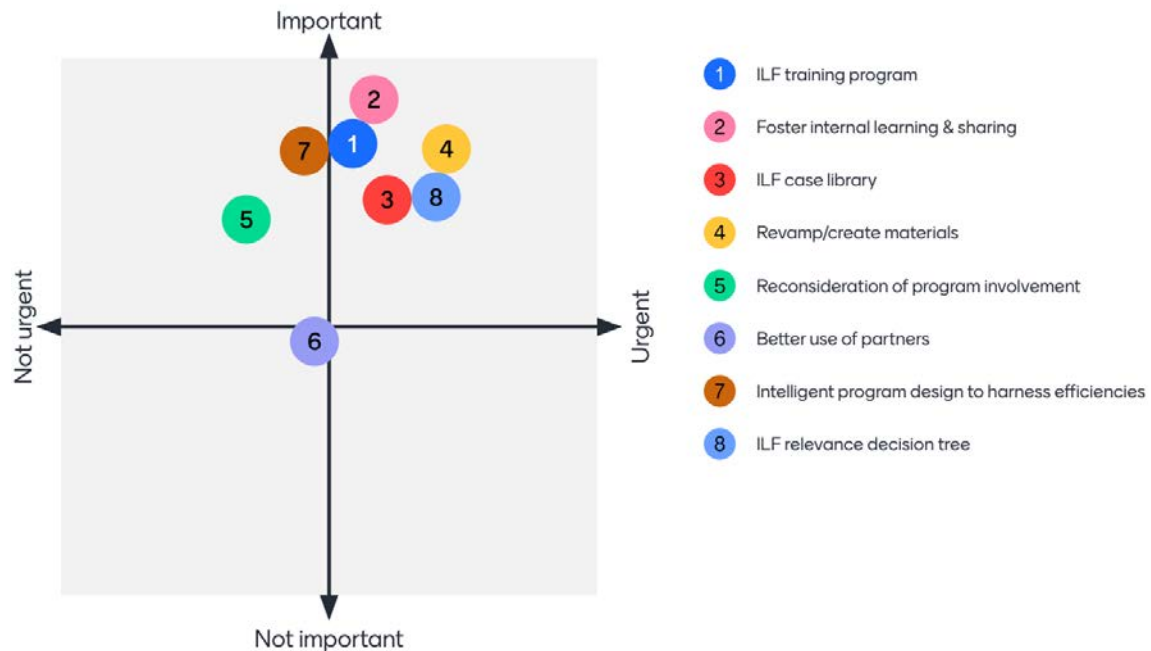
Fostering internal learning and sharing, the ILF training program, and intelligent program design were also seen to be important, but not immediately urgent.

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