



In collaboration with SK Group's Center for Social Value Enhancement Studies and Rockefeller Philanthropy Advisors

# Beyond Compliance: Embedding Impact through Innovative Finance

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# Foreword



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Today, more and more companies are actively engaging in social innovation, recognizing the opportunity to align their business goals with a meaningful commitment to sustainability. Since January 2024, two dozen companies, including the SK Group, have signed the Schwab Foundation's Rise Ahead Pledge, committing to increase investments in social innovation. In addition, more than 40 companies have joined the Corporate Leadership Council on Social Innovation. Through their commitment, these companies are taking on a pivotal role in shaping a fairer, more inclusive and equitable economy. They recognize that those who lead in sustainability contribute to economic equity and create a competitive advantage in a marketplace that increasingly values impact.

Yet, along with these opportunities come real challenges. Businesses now operate under the growing dual pressure of regulatory demands and the need to maintain financial performance. Companies face a choice: reactively meet compliance requirements or proactively pioneer innovative solutions that create a lasting impact and set them apart in a fast-evolving world. Navigating this path is not easy; however, companies that integrate impact into their core operations will benefit society and their bottom line, enabling partnerships with social innovators and paving the way for sustained success. To be sure, achieving this alignment requires a cultural shift that may take time to embed fully.

Throughout this report, we explore social innovations in financial markets, such as outcome-based funding (OBF), that directly tie financial rewards to measurable and verifiable social outcomes. These solutions have been applied in a number of fields, particularly in enabling social innovators to attract investment based on the tangible impact they create. These financial innovations have historically been applied in development contexts; yet they hold valuable

lessons for corporations looking to embed sustainable practices into their core business strategies. In a global economy threatened by low growth, these approaches hold the potential to unlock entirely new value, based on quantifying and financially rewarding social and environmental impact. In doing so, they hold the promise to create entirely new markets for aspects of our lives that we value but do not reward.

Organizations like SK Group's Center for Social Value Enhancement Studies (CSES) have already implemented such approaches, providing real-world evidence of the mutual value created for businesses and their communities. Social Progress Credits have distributed over \$50 million to social innovators in South Korea. Other social innovators recognized by the Schwab Foundation, such as the Tamarack Institute for Community Engagement or Education for Employment, have leveraged similar mechanisms to create novel approaches to addressing the most pressing societal and ecological challenges.

Developed collaboratively by the Schwab Foundation for Social Entrepreneurship, CSES and Rockefeller Philanthropy Advisors, this report offers practical guidance on deploying innovative financial solutions like OBF to integrate social impact into core business practices. Through real-world case studies, it shares actionable insights into how innovative finance can address corporate impact challenges and lays out practical steps for successful implementation. We hope this report serves as an inspiration to learn from social innovators and their approaches to recognizing and rewarding positive impact. We encourage companies to leverage these mechanisms and accelerate their own transformation to enable more positive and sustainable impact through their business operations. We are certain that, through these solutions, companies can help build a fairer, more inclusive economy grounded in business innovation and social responsibility.

# Executive summary

## Companies are pressured to balance profit and impact; innovative finance can help turn pressure into a competitive advantage

Companies face mounting pressure to deliver both financial returns and positive social and environmental impacts. 72% of CEOs report increased demands for transparency in sustainability, while 83% expect improved performance from sustainability investments. 70% of younger employees prioritize corporate values in their job decisions. Regulatory pressures on supply chain due diligence increasingly require companies to consider impact as an essential component of financial and risk management. Merely complying with these requirements will simply add costs without reaping any benefits of actively managing social and environmental impact.

Lessons from innovative finance – specifically the \$185 billion outcome-based funding (OBF) market – offer fresh inspiration for operationalizing non-financial objectives. These approaches link payments or investments to the achievement of specific, measurable, and hence auditable results, creating actionable insights for aligning business, finance, risk and impact.

### Leveraging innovative finance to tackle corporate challenges

Potential applications of innovative finance span various areas of corporate operations. They include:

- **Risk and compliance:** Global supply chains are under scrutiny, and an estimated \$970 billion is exposed to risks related to environmental and social issues. Through innovative finance, companies can align incentives with compliance, foster transparency, and build accountable, impact-focused partnerships with suppliers.
- **Product and service growth:** Addressing the Sustainable Development Goals (SDGs) could unlock a \$12 trillion market. By integrating financial incentives for impact, companies can support long-term growth and maintain mission alignment as their positive-impact products succeed in the marketplace.
- **Corporate and supply chain finance:** Sustainability-linked finance is already widely deployed by corporations. Innovative finance can help address significant issues in areas such as greenwashing and impact-washing by using credible, verifiable outcomes. Companies may also choose to link financing for suppliers to impact goals, improving marginalized

suppliers' access to capital and creating more sustainable supply chains.

- **Talent and skills:** As global transformations drive demand for new skills, especially in emerging markets, innovative finance can help companies meet critical talent needs. Aligning training with market demand and lowering barriers for marginalized groups are just a few ways to support skill-building.
- **Innovative corporate philanthropy:** More and more corporations aim to align philanthropic goals with their strategic objectives. Innovative finance mechanisms integrate these goals effectively, fostering social impact aligned with core business goals through streamlined measurement and financial rewards.

### A maturing market and ecosystem for impact finance:

Innovative finance has been developed for decades. The results-based funding market is now valued at around \$150 billion and private-sector impact-linked finance at \$35 billion. Sustainability-linked loans and bonds mobilize \$600 billion annually by connecting funding with environmental performance indicators. This momentum for innovative finance can contribute towards scaling successful solutions for societal issues. That being said, it is also important to note its limitations. These include a tendency to focus on impact “transactions” – an overly simplistic, linear approach to impact from input to output that, if not used carefully, risks only addressing symptoms while reinforcing inherently unjust structures. If innovative finance goes hand in hand with bold action to explore truly systemic solutions, it can help to scale these solutions once they are proven in principle. Following the path of carbon credits, it can enable verified impact to become tradeable in the future.

Existing projects, such as the SK Group's \$50 million efforts for social impact in South Korea, offer opportunities to learn from established expertise and tools, allowing them to address social issues without overhauling existing processes. These mechanisms can help companies operationalize sustainability by creating performance measurements and incentives, ultimately unlocking opportunities to create social and environmental impact across value chains.

# Introduction

## Integrating environmental and social impact with financial performance addresses external pressures and unlocks business benefits

In today's rapidly evolving business landscape, corporations are increasingly confronted with the dual pressure to deliver financial returns while demonstrating social and environmental impact. A staggering 72% of chief executive officers report heightened board and investor demands for transparency and accountability in these areas, underscoring the importance of integrating impact considerations into core business strategies. 83% of these corporate leaders expect improved business performance due to sustainability investments.<sup>1</sup> Pressure is also being applied from other stakeholders, including regulators,<sup>2</sup> customers<sup>3</sup> and employees.<sup>4</sup> These two considerations – financial and social – are, in fact, deeply connected. The risks associated with neglecting social dimensions are substantial, with estimates indicating up to \$970 billion in

potential value at risk due to environmental and social issues in global supply chains.<sup>5</sup> At the same time, leveraging sustainability and impact as a business opportunity may unlock up to \$12 trillion by addressing the Sustainable Development Goals (SDGs) through new business models.<sup>6</sup>

Despite mounting pressures and increasing opportunities, companies struggle to operationalize sustainability and social impact. A World Economic Forum survey highlights that only 12% of companies currently feature “resilient” value chains.<sup>7</sup> Similarly, a 2023 study by the Harvard Business Review highlights that only 26% of organizations have operationalized their sustainability strategy. Figure 1 outlines the most significant barriers to operationalizing sustainability and impact.<sup>8</sup>

### BOX 1 Terminologies of innovative finance and outcomes-based funding

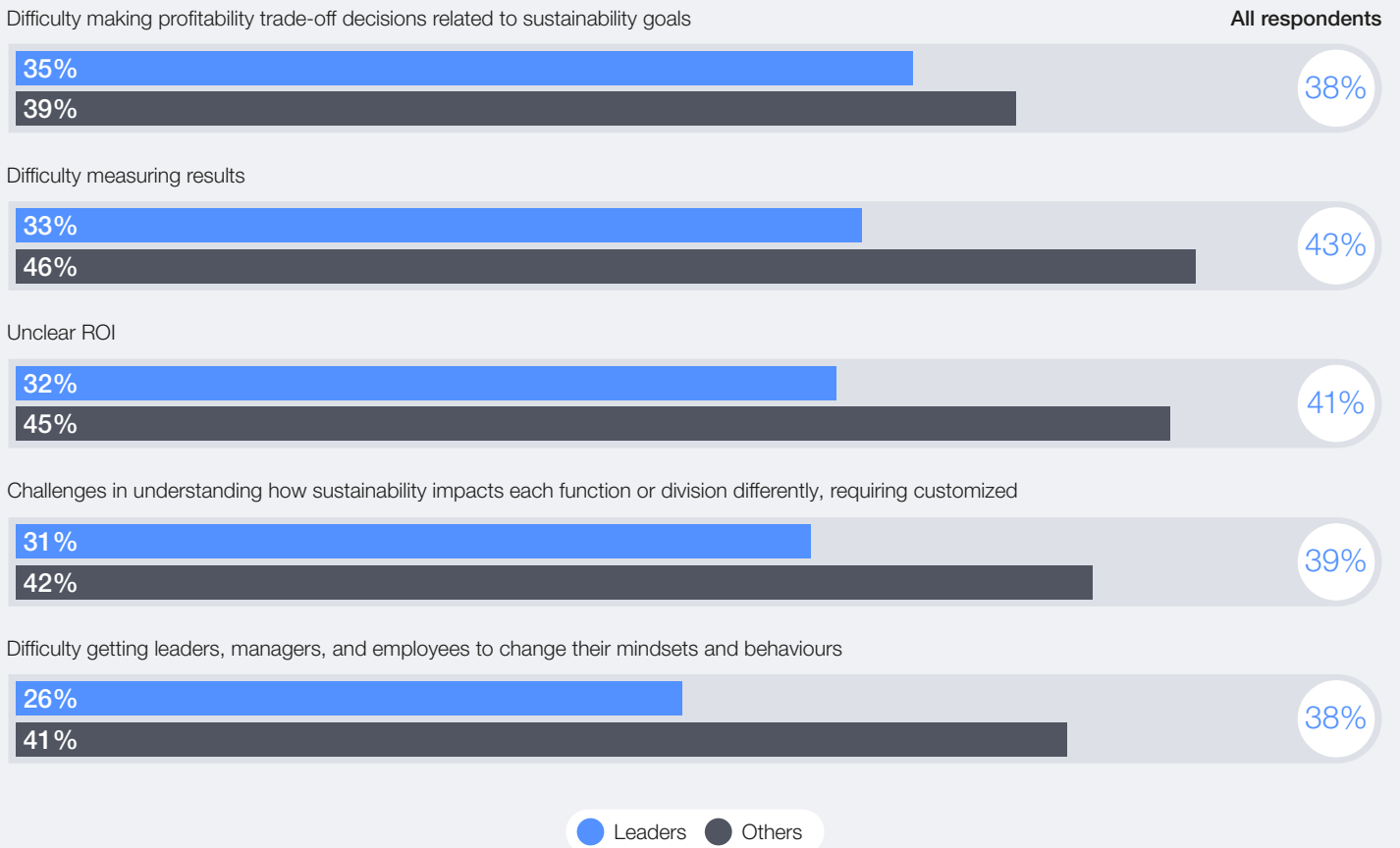
Outcomes-based funding (OBF) is an umbrella term describing approaches where payments or investment terms are linked to results. While OBF represents one type of innovative finance, these

terms are used interchangeably in the report to reflect the dynamic nature of the field. Further distinctions in current terminology are explained in the text.



FIGURE 1 | Most significant barriers to operationalizing sustainability strategies

What obstacles has your organization encountered when operationalizing sustainability to achieve its goals? (Select all that apply)



Source: Harvard Business Review Analytic Services Survey. (2023).

These barriers illustrate the difficulty of steering organizations based on “soft” sustainability and impact targets as opposed to “hard” financial metrics. Some solutions have emerged to mimic financial metrics for sustainability, specifically in the emissions category. For instance, the Carbon Disclosure Project (CDP) helps companies to set internal carbon prices and thus include carbon emissions in decision-making processes. Cap-and-trade mechanisms or voluntary carbon credits offer similar approaches for operationalizing sustainability by pricing externalities. Yet these mechanisms remain nascent and limited to environmental issues.

More broadly, regulators around the world are increasing pressures on companies to improve supply chain due diligence. With each additional regulatory action, companies will face increasing

operational challenges in adhering to more demanding social compliance standards.

Given these complex challenges, this paper explores the growing field of innovative finance approaches that tie payments and returns to verified social and environmental outcomes. Just as businesses link management incentives to financial performance metrics, innovative finance has introduced impact-linked financial rewards to the development and social enterprise sectors. As businesses strive to meet sustainability goals, these approaches become central to their operations. This paper demonstrates how financial innovation can drive corporate sustainability transformation by embedding social impact into strategic decisions, while suggesting a future where impact becomes a tradeable asset.

1

# The influence of social impact on the corporate agenda

Companies face increasing pressures to integrate social and environmental considerations into business operations

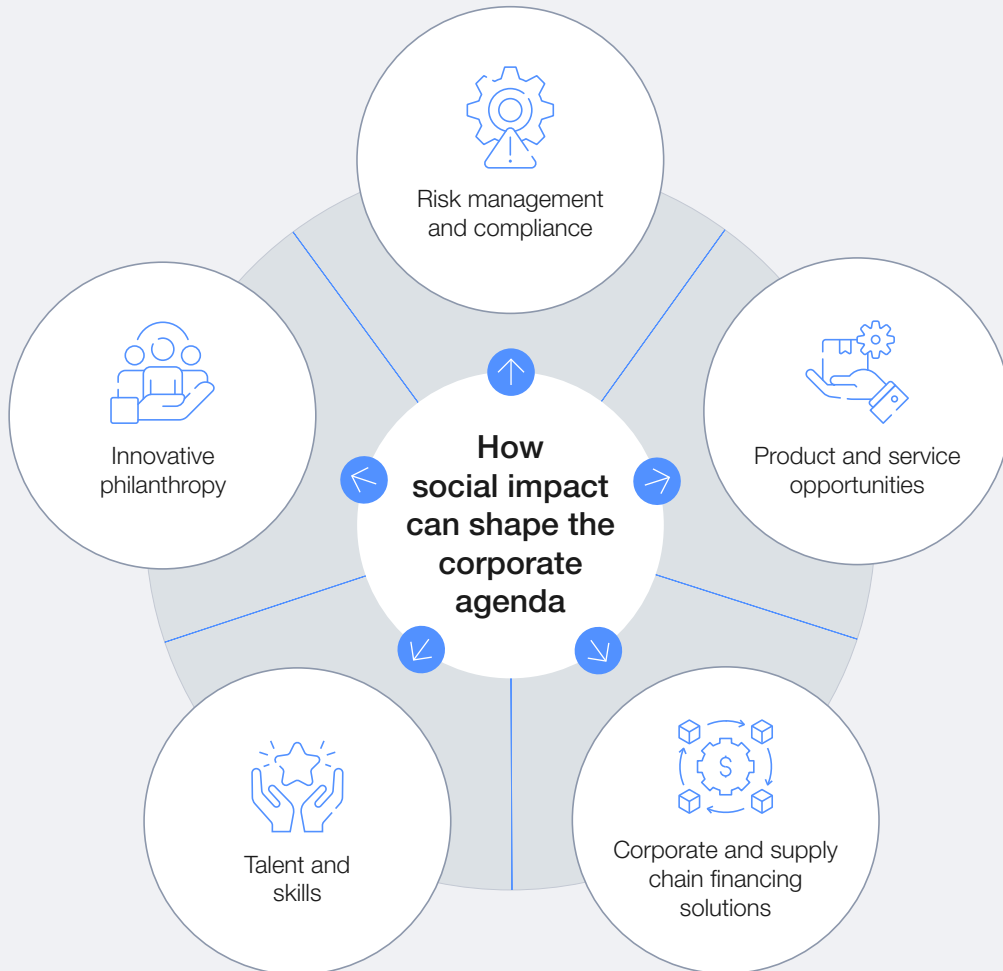


Photo credit: Eye Mitra/EssilorLuxottica

In today's business environment, corporations are increasingly confronted with a complex range of challenges, from driving growth in a constantly evolving business landscape to navigating a new set of regulations under heightened scrutiny related to sustainability and social issues. As a result, companies are compelled to rethink their roles

within society and how their business practices should be reshaped to reflect this. This chapter details emerging challenges for companies – from upcoming regulations or other pressure points – and how these can be turned into strategic opportunities to unlock value by engaging in social impact initiatives.

FIGURE 2 **How social impact can shape the corporate agenda**



## 1.1 Risk management and compliance

Corporations face increased scrutiny with new regulations that raise the standards on how companies address social issues. For example, the recent enactment of the CS3D in the EU represents a substantial step towards stricter oversight of human rights issues in supply chains. EU companies found to have human rights violations in their supply chains could face fines of up to 5% of their revenue.<sup>9</sup> Other, similar regulations include the Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains, the German Supply Chain Due Diligence Act, the Dutch HREDD Law, the

Mexican Forced Labor ban, the UK Modern Slavery Act, the Uyghur Forced Labor Prevention Act in the US or the Modern Slavery Act in Australia to name a few.

The exposure is significant: according to the International Labour Organization, an estimated 21.3 million people were living under forced labour conditions in 2021.<sup>10</sup> Research by Walk Free indicates that over \$460 billion worth of goods potentially linked to forced labour are imported annually into G20 nations.<sup>11</sup> Furthermore, according

to LRQA, social risks represent 30% of the environmental, social and governance (ESG) risks associated with responsible sourcing.<sup>12</sup>

In addressing these issues, companies struggle with compliance and concrete action, especially given the lack of supplier information and reduced transparency further along the supply chain. Indirect suppliers, especially those from developing markets, are at a higher risk of due diligence violations due to a lack of regulatory enforcement.<sup>13</sup>

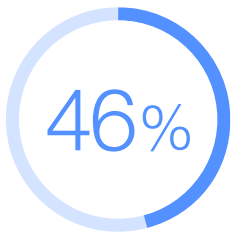
These regulatory developments present a risk; that companies will delegate responsibility to their suppliers, pushing smaller suppliers out of their value chains, rather than seeking collaborative solutions. Simply relying on individual engagements with civil society or non-governmental organizations (NGOs) will

also fall short given its lack of scalability. This trend exacerbates social inequities and hinders the potential for scalable impact, particularly in emerging markets. As a result, implementing regulations and standards will be challenging for large corporations with long and complex supply chains, due to potentially high associated costs and an increased administrative burden. Penalties and legal risks of non-compliance with supply chain human rights regulations can be significant. Given the dynamics and scale of change, the prevailing reactive approach to social and environmental impact through corporate social responsibility (CSR) or corporate philanthropy is insufficient to effectively mitigate material social risks in supply chains at scale. A more scalable and verifiable impact strategy is required to enhance accountability, drive meaningful change and address social risks across the entire supply chain ecosystem.



Photo credit: Lifebank

## 1.2 Product and service opportunities



46% of consumers are buying more sustainable products.

Companies that have aligned product branding with sustainability goals are generally able to improve consumer and employer brand equity. According to the PwC Voice of the Consumer 2024 survey, 46% of consumers are buying more sustainable products and are willing to pay 9.7% above average prices for sustainably produced or sourced goods.<sup>14</sup>

Even beyond the branding effects, however, societal trends linked to SDGs can create a \$12 trillion market for SDG-aligned products and services.<sup>15</sup> AXA's EssentiALL division, for example, covers 14 million customers in low- and middle-income markets with affordable insurance.<sup>16</sup> It is a strategic business unit that enables AXA's vision to support the equitable transition to a low-carbon economy.

Similar efforts are emerging across different industries – from fast-moving consumer goods (FMCG) to

mining. Many, however, struggle to showcase the hybrid business case – the more intangible business benefits they create in addition to their financial results. Often, they resort to tools such as the social return on investment (SROI) to translate social and environmental outcomes into economic terms, showcasing their social and environmental results. Without standardized metrics and independent verification, however, the complexity and subjectivity of some SROI approaches can undermine the ability of companies to demonstrate concrete links between financial return and impact outcomes. Companies are ultimately under pressure to establish a clear connection between their products and services, and their social and environmental objectives. As this paper explores, innovative approaches that explicitly link financial returns to social and environmental outcomes can be part of the solution by clearly establishing this connection..

## 1.3 Corporate and supply chain financing solutions

Today, regulatory frameworks on climate mitigation have established more of a level playing field for environmental sustainability performance. Before the adoption of regulations and standards, such as the Corporate Sustainability Reporting Directive (CSRD) or the International Financial Reporting Standards (IFRS) S1 and S2 standards, early adopters of sustainability strategies were able to capture some of the economic benefits, including higher stock performance and lower financing costs.<sup>17</sup>

Lowering the cost of capital is essential for corporations as it optimizes growth, strengthens competitive position and mitigates risks. Companies that exhibit strong sustainability and social performance and align with established standards often enjoy reduced borrowing costs. A 2024 report by MSCI ESG Research found that there is a strong

historical correlation between a company's MSCI ESG rating and its cost of capital, where companies with higher ESG ratings tend to have lower financing costs in both equity and debt markets.<sup>18</sup>

There are other challenges and opportunities relating to financial performance. Global supply chain finance volumes have risen by 26.9% compound annual growth rate (CAGR) in 2017-2023 to \$2,347 billion, and funds in use are up by 27.8% CAGR to \$916 billion in 2017-2023;<sup>19</sup> yet corporate buyers face challenges working with SME suppliers in supply chains as they often face liquidity issues. Therefore, novel financing approaches that can directly link sustainable and social impact metrics are required to strengthen and expand the participation of small- and medium-sized enterprises (SMEs) in global value chains.



## 1.4 Talent and skills



25% of firms view workforce skills as a significant constraint on their operations

Skills development has become increasingly critical given significant changes driven by global megatrends such as automation, climate change, digitalization and a shrinking labour force, which are expected to transform over 1.1 billion jobs in the next decade, according to the World Bank.<sup>20</sup> Currently, 25% of firms view workforce skills as a significant constraint on their operations, a figure that rises to 60% in certain African and Latin American countries.<sup>21</sup> Additionally, 75% of employers report difficulties in filling open positions.<sup>22</sup> Six in 10 employees need retraining, yet only half of them have access to adequate training opportunities. As technology adoption continues to accelerate, 75% of companies anticipate the need to upskill their workforce and recruit for digital competencies over the next five years.<sup>23</sup> Only one-third of organizations, however, feel prepared for the impending workforce disruption.<sup>24</sup>

Additionally, a recent United Nations Industrial Development Organization (UNIDO) publication emphasizes the importance of skill development

with suppliers across the entire supply chain as companies adopt more sustainable practices.<sup>25</sup> There is a critical need for companies to address future skills requirements in their operations and supply chains, especially as companies engage emerging markets. By closing the skills gap, global GDP could increase by approximately 5%, amounting to an estimated \$6.5 to \$8.5 trillion in economic growth.<sup>26</sup>

Skilling often requires cross-sector collaboration efforts for long-term success, however. Companies may need to work with governments and NGOs to implement innovative skilling initiatives; they tend to struggle when incentive systems are not aligned, measures of success vary and horizons for decision-making differ. There is an opportunity for companies to link funding for recruitment to retention programmes, ensuring that skills are market-relevant, especially in emerging markets. This innovative approach fosters collaboration among stakeholders and enhances transparency of the return on investment of skills development initiatives.

## 1.5 Innovative corporate philanthropy

Where it is legally possible, companies are increasingly aligning their corporate philanthropy with strategic objectives, such as exploring emerging markets, supporting the talent pipeline or addressing accessibility of their products and services.<sup>27</sup> This approach not only aligns social and economic goals but also leverages companies' strengths for social impact and may indirectly benefit companies' long-term business prospects.<sup>28</sup>

Certain companies have aligned their corporate philanthropy directly with their core business. For example, Reckitt's Fight for Access Fund focuses on various thematic areas, including access to water, hygiene and sanitation, which ties directly back to key product categories of Reckitt's core business.<sup>29</sup>

Most companies however, still face challenges in aligning their philanthropy with corporate interests for a range of reasons, including difficulties in impact measurement, adopting suitable financing mechanisms and undergoing organizational change. Often there is also a genuine caution

about leveraging corporate philanthropy as a tool for business; however, there is an opportunity and mounting evidence for innovative financing models to be used to deepen the alignment of philanthropy with corporate objectives for societal good.

In sum, corporations are increasingly facing heightened regulatory scrutiny and societal expectations regarding social impact. Companies might opt to simply comply with new regulatory requirements, but this approach is likely to generate costs without unlocking the significant benefits that these developments hold. As companies navigate these complex issues, there is an opportunity to use best practices to integrate impact into their core operations and decision-making, and to truly initiate corporate transformation and drive meaningful change for long-term value creation. Decades of innovation in the development sector can be leveraged by the corporate sector to adopt and adapt financing approaches that consider societal impact to accomplish their business as well as social and environmental impact goals.

## ② Innovative finance for corporate impact

Innovative finance addresses business priorities across functions, including risk, compliance, product, supply chain and talent

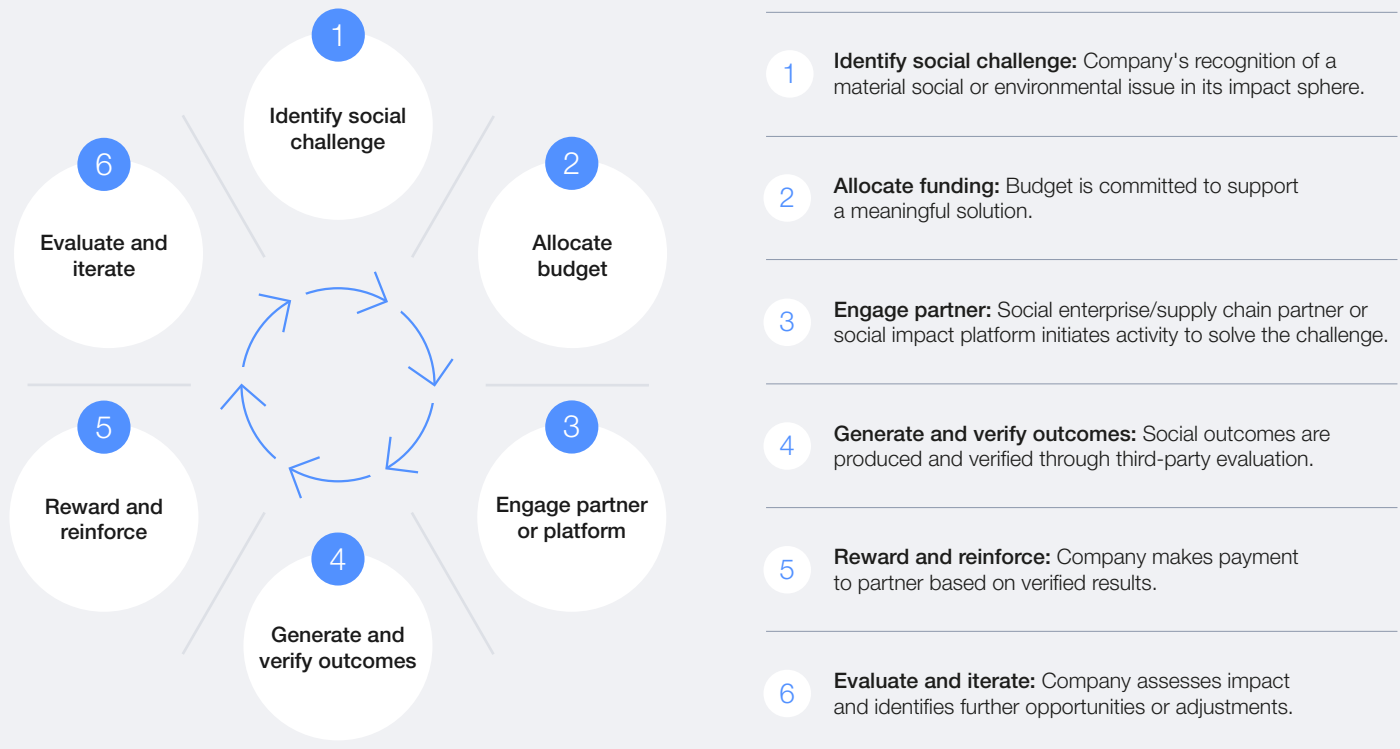


Photo credit: Rebond Insertion / SUEZ

This chapter explores specific examples of the application of innovative funding approaches that link payments or investment returns to the achievement of specific, measurable social and environmental results, in order to address the challenges outlined above. Known as outcomes-based funding (OBF), these approaches can be

applied to a transaction, programme or organization to support better decision-making for positive social and environmental impact. OBF is a structuring practice that guides the design and implementation of financial instruments or transactions to achieve social and environmental outcomes, as illustrated by the following exhibit.

FIGURE 3 How outcome-based funding approaches work



Outcome-based funding (OBF) includes a suite of instruments that range from those where payments are contingent on verified outcomes – like results-based finance (RBF), impact bonds (IB) or biodiversity credits – and those where investment terms are linked to achievement of outcomes – like impact-linked loans (ILL), social success notes (SSN) or social impact incentives (SIINCS). Definitions and examples can be found in the Annex and on the [accompanying website](#). These instruments have evolved differently in development and private sector contexts. In development, they typically focus on service delivery and public good creation, while in business settings, they increasingly reward companies for verified positive impact within their operations and supply chains. Impact-linked finance (ILF) represents one approach where market-based organizations are incentivized for creating additional social value.<sup>30</sup>

By embedding OBF transactions within core business models, companies can scale impact initiatives across operations and supply chains, creating a sustainable framework for addressing large-scale issues. Scalable OBF models streamline impact integration into core business operations and support long-term change

that aligns with broader industry goals for sustainable development and corporate accountability.

Due to their size, large companies can achieve substantive change, but incremental action is unlikely to address the multiple transformations of our time within the timescales needed. These require broader collaboration by companies with competitors, civil society and governments to create large-scale, step-change solutions that no single entity could achieve independently. So, while OBF can be applied to any single organization, project or portfolio of investments to support better decision-making, OBF can also be used to address a specific challenge within a wider collaborative process to unlock or accelerate change.

There is an abundance of use cases for the application in the core business operations and supply chains of companies. The use cases that follow give an indication of how OBF can be and has been applied to specific opportunities and challenges. The use cases bridge theory and practice, offering concrete insights into how OBF solutions deliver value in specific settings.

## 2.1 Risk management and compliance

The structured nature of OBF can encourage suppliers to innovate and optimize their operations, reducing sustainability and social impact risks. Through OBF, companies can motivate suppliers to meet sustainability standards by tying additional funding to compliance achievements, creating an effective carrot and stick approach. This method goes beyond conventional ESG risk management by fostering a transparent, accountable culture

within operations and supply chains. With OBF, companies can use third-party-validated metrics that are easily auditable, demonstrating progress to investors and consumers alike. Additionally, OBF builds impact-aligned partnerships with suppliers, promoting a mindset of continuous improvement that helps companies proactively address emerging regulatory risks as standards become more stringent.

### CASE STUDY 1

#### IFC and PepsiCo Mexico – supply chain finance

**OBF can be used to mitigate specific risks in supply chain companies by incentivizing social outcomes.** For example, the IFC Global Trade Supplier Finance (GTSF) set up a \$75 million facility with PepsiCo Mexico in 2024. This initiative offers affordable financing to PepsiCo's suppliers based on their progress towards sustainability targets, such as reducing carbon emissions and

addressing child labour and forced labour. The programme enables suppliers to access lower financing costs and improve working capital by leveraging PepsiCo Mexico's credit rating and commercial strength in return for improved supplier sustainability practices, creating stronger, more sustainable global supply chains.<sup>31</sup>

**OBF can be applied pre-emptively to address social risks where legislation is pending.**

For example, bonded labour persists due to interrelated supply and demand factors in the global recruitment market. Social Finance has proposed an Outcomes-based Smart Subsidy model to address the issue and support the market for ethical recruitment.<sup>32</sup> One solution posited lies in creating ethical recruitment firms

through a combination of outcomes-based smart subsidies for recruiters who do not charge workers, verified by worker feedback, and investment capital to support the transition. This approach benefits both workers and companies: workers avoid excessive debt and secure a job, and brands embed incentives for their suppliers to use ethical recruiters, and more easily verify their use in practice.

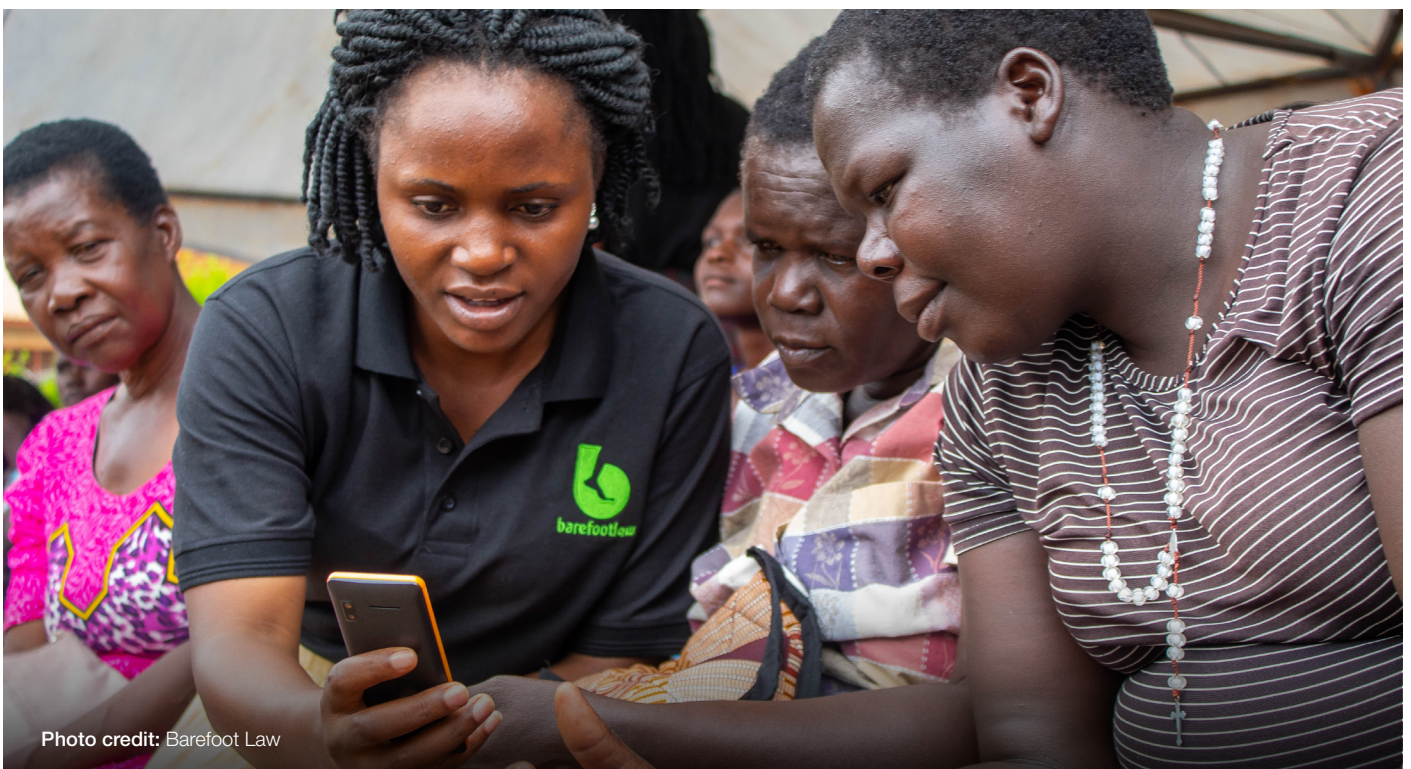


Photo credit: Barefoot Law

## SK Group – social progress credits

Social progress credits (SPC) are an initiative by SK Group, launched in 2015 under an OBF framework, supported by the [Centre for Social Value Enhancement Studies \(CSES\)](#). It aims to incentivize social enterprises by monetizing their social impact. Proposed by SK Group Chairman Chey Tae-won at the 2013 World Economic Forum Annual Meeting, the aim was to improve the company's philanthropic practice by incentivizing deeper impact and sustainability in market-based organizations. The company also recognized that its core business value and future growth depended on the resilience and well-being of the society in which it operates.

The ultimate goal of SPCs is to enable the market to identify, measure and trade social impact as a recognized asset, in a similar way to that in which environmental credit markets have developed. The valuation methodology used supports the standardization, systematization and quantification of impact that would be required to achieve this across diverse sectors. The approach is rooted in SROI converting the value of service performance, employment inclusivity, environmental protection and ecosystem effects into monetary value.<sup>33</sup> The pricing mechanism compensates enterprises for 25% of the social value that has yet to be incorporated into the market price of goods and services, which tends to bring profitability in line with similarly sized SMEs. SK Group had intended for the initiative to be adopted by fellow companies, which has yet to happen; but six local governments are using this methodology to advance the regulatory context for social enterprises in South Korea.<sup>34</sup>

The SK Group have paid out \$52 million in cash incentives, with each participating social enterprise receiving an average

of \$50,000 annually. Since its inception, SPC has engaged 448 social enterprises, generating \$363 million in social performance value.<sup>35</sup> The multiple analyses undertaken on SPC data have shown that incentive payments improve the enterprise's financial and impact performance over and above the incentive payment itself,<sup>36</sup> and there is considerable evidence that participating enterprises are much more successful in securing additional funding, mostly from government and impact investors. Moreover, the initiative has advanced the impact ecosystem within the country by entrenching impact measurement, which has led to better impact management, communication and transparency. It has also shown that social enterprises are best placed to allocate unrestricted funding to drive results.

Currently, SPCs reward enterprises that are external to the supply chains of SK Group's 175 operating companies. Steps are being taken, however, towards integration as supply chain companies are obliged to demonstrate social performance across their core business, according to the article of association. Furthermore, SK Group has incorporated the expertise accumulated from the social performance measurement of SPCs into the social performance measurement of the company and its supply chains. This was intended to proactively manage risks by utilizing SPCs to learn impact measurement methodologies in preparation for a future market where demonstrating social impact will be required, much like the current environmental credit market. The company is using this double-bottom-line accounting to align internal operations with the commitment to social outcomes, with the intention of demonstrating the link to overall corporate value.

## 2.2 Product and service opportunities

Social and environmental business models offer significant growth potential, with research indicating that addressing SDGs could unlock new market value and create jobs. By developing new products, reaching underserved markets and enhancing operational efficiencies, companies can increase profits while generating positive social and environmental outcomes. OBF can shift the incentives structures and measurement systems that drive current corporate behaviour. Investment time horizons for profitability, profitability thresholds and mission drift at break-even can be addressed through supplementation of revenue streams with impact-linked incentives and country-level impact bonuses, which align profit with social value.

**For instance, OBF can support the development and manufacture of goods and services**

**that have yet to reach a sustainable market size.** For example, pharmaceutical companies have participated as product developers and manufacturers in partnership with [Gavi](#), [The Vaccine Alliance](#) using advanced market commitments (AMCs) for vaccines. AMCs are mechanisms designed to incentivize the development and production of products or services by guaranteeing a future market at a set price, typically in sectors where market failures, like high costs or uncertain demand, discourage innovation. Gavi is raising \$12 billion over the next five years to expand coverage and introduce new vaccines. Corporate foundations also make direct contributions, most notably to the [COVAX Facility](#). Companies have also used sustainability-linked loans to broaden access to medication in low- and middle-income countries.<sup>37</sup>

## CASE STUDY 3

### Unilever and Wecyclers – circular products

OBF can be used to drive innovation in supply chains. For example, companies work closely with suppliers to source sustainable materials, implement circular economy strategies, and redesign logistics to minimize plastic packaging. To date, OBF has been used predominantly in the plastics collection and recycling parts of the value chain. Unilever Nigeria implemented a \$2 million development impact bond where investment returns are tied to the volume of plastic collected, the number of new jobs created, and sustainable wages in Nigeria. Through this bond, Wecyclers has expanded its plastic waste management franchise and collection model

nationwide with Unilever paying for outcomes.<sup>38</sup> This example highlights the importance of considering truly systemic solutions to an issue in addition to immediate solutions that address a severe symptom. While it is currently necessary to incentivize waste management at a local level (often through small business), a long-term solution to plastic pollution will ultimately need to complement upstream collaboration to reduce waste at source. Once developed, such solutions might then be supported by OBF mechanisms by, e.g. linking payments to waste reduction through improved product design, packaging optimization and circular production processes.

## 2.3 Corporate and supply chain financing solutions

Companies raise capital or issue debt to support business objectives. At the same time, they support their suppliers to raise capital. These business functions can be aligned with the company's social impact goals.

Sustainability-linked finance, which is well understood and utilized in medium- to large-sized companies, can be repurposed to achieve social outcomes. There is opportunity to capitalize on emerging trends, including stricter verification

requirements, increased regulatory oversight, a shift towards sector-specific and social key performance indicators (KPIs), and adoption by smaller companies.<sup>39</sup> OBF contributes to preventing greenwashing and supports the selection of meaningful KPIs, credible baselines and ambitious targets.<sup>40, 41</sup> Considering the limited inclination of sustainable investors to forgo returns, there is also the opportunity for third party donor capital to step in to support the achievement of material, additional outcomes.

## CASE STUDY 4

### BNP Paribas – sustainability-linked loans for social housing

**OBF can be applied to corporate financing structures, which allow companies to raise debt or issue bonds in line with their strategic impact goals.** For example, BNP Paribas has developed a sustainability-linked loan (SLL) product for social housing associations in the UK that offers these borrowers better interest rates when they meet specific environmental and social targets.

L&Q, Optivo, Clarion Housing Group and Peabody Trust have raised a combined £325 million in debt where investment terms are linked to emissions reduction alongside social goals such as resident employment and training opportunities.<sup>42</sup> Early results are promising – for example, L&Q exceeded its employment targets by securing jobs for over 600 residents, earning reduced borrowing costs.

Supply chain finance programmes represent a strategic financial solution where companies use stronger credit ratings to help suppliers access working capital at preferential rates. Companies offer direct financing (e.g. reverse factoring, purchase order financing, etc.), partner with financial institutions (e.g.

working capital facilities, trade finance solutions etc.), provide technical assistance, and make structural commitments where required to enhance investability (e.g. volume commitments, long term contracts). Companies have used these financing solutions to incentivize sustainable practices in their supply chains.

## CASE STUDY 5

### Aceli Africa – financing for smallholder farmers

**OBF can be used in supply chain finance to support localized, inclusive supply chain development.** OBF enables companies and third-party lenders to extend financing to less established suppliers by linking investment terms to performance rather than typical due diligence parameters. Aceli Africa is a donor-funded market incentive facility with the aim of increasing lending to smallholder farmers in East Africa. Incentives include first loss cover and origination

incentives to defray the high cost of making small loans. Cumulative Agri-SME lending across the 35 lenders involved has tripled in value since 2019, growing from \$154 million to \$497 million. Commercial banks account for 90% of the loans, with lending growing at a compounded annual rate of 50%. Agri-SME lending remains a small part of banks' overall portfolios (rising from 2.0% in 2019 to 4.1% in 2022); however, it is increasing in significance.<sup>43</sup>

## 2.4 Talent and skills

Access to skills is a key corporate issue, especially in low- and middle-income countries. OBF has been used in development and commercial contexts to align skills training with market needs and improve employability. It can help create inclusive workforces by sharing risks and lowering barriers for marginalized groups. Additionally, OBF increases transparency by showing which programmes are effective in delivering a real return on investment. Companies can look to the development sector to see how these issues have been addressed through OBF, for example, through roughly [85 impact bonds tackling employment and training](#). The sustainable finance market has also scaled OBF mechanisms addressing workforce diversity, including, for

example, \$120 billion in gender-linked loans launched in the last two years.<sup>44</sup>

**OBF shares the financial risk of scarce skills development between companies, training programmes and trainees.** For example, the American Diesel Training Centres launched a \$4.7 million career impact bond to address the diesel technician shortage and remove financial barriers to training. The innovative income-sharing agreement allows students to enrol without upfront costs and ties repayments to post-graduation income.<sup>45</sup> Employers co-sponsor tuition for many graduates, with over 1,000 technicians trained and graduates seeing a 62% median income increase. The initiative is part of [an outcomes fund that supports multiple projects](#).

## CASE STUDY 6

### Yellowwoods Holdings – supporting skilling initiatives

OBF can be used for pre-commercial collaboration with competitors, civil society and governments to create large-scale, transformative solutions that no single entity could achieve independently. Yellowwoods Holdings (YW) has led efforts to tackle social issues like youth unemployment in South Africa over the last decade. YW co-developed [Harambee Youth Employment Accelerator](#), supporting marginalized young people into jobs. One of the issues that they are tackling is youth unemployment which stands at around 45% in South Africa. In partnership with the government, Harambee has supported 4 million people and placed 1.4 million youth in jobs to date.<sup>46</sup>

In 2018, YW launched Bonds4Jobs, a pay-for-performance initiative aimed at testing quicker, demand-led training. This programme achieved a return for investors (up to 11% annual interest rate for commercial investors), met 90% of its targeted outcomes and placed 1,800 previously disadvantaged young people in jobs. Its success inspired larger public-private projects like the government's [Jobs Boost Fund](#) and companies' collaborations such as [Collective X](#), focused on scaling digital jobs. These efforts have showcased how companies can coordinate skills development and funding, reducing inefficiencies and wage competition.

## CASE STUDY 7

### IDB Invest and Elcatex – workforce inclusion

OBF supports the inclusion of underrepresented groups in workforces and leadership of both companies and their supply chains. There is significant direct finance institution (DFI) activity supporting gender-linked blended finance, and whilst gender KPIs are the most commonly used social metrics in sustainability-linked bonds, there is anticipation that the gender climate nexus will feature prominently in impact-linked finance going forward.<sup>47</sup> For example, IDB Invest provided a \$64 million loan and \$130,000 in technical assistance to Grupo Elcatex, a major

Honduran textile manufacturer, in 2020. The seven-year loan included a performance-based incentive through the Women Entrepreneurs Initiative (We-Fi), offering up to \$210,000 for increasing women-led or owned SME participation and percentage purchases in their supply chain. Early results show that Elcatex has hit the first target, but – more importantly – the programme has catalysed significant organizational changes, including establishing a gender division, implementing a women-led audit programme, and creating a gender committee.<sup>48</sup>

## 2.5 Innovative corporate philanthropy

Corporate foundations are using OBF to scale the impact of their philanthropy and align with government and the social sector shared goals. Aside from participating as investors and outcomes funders in the existing OBF market opportunities, corporate foundations are thinking creatively about how to incubate programmes that can be scaled through core business operations or supply chains. Companies are using CSR budgets alongside ESG and operational budgets to support social impact in line with core business objectives.

For instance, companies have been reasonably active in the impact bond market, where 25 commercial banks and 10 corporate foundations have participated as either investor or outcomes payor. Companies have used these outcomes partnerships

with governments and NGOs to build quasi-markets for social outcomes such as digital skills.

### **OBF can be used to integrate philanthropic funding within commercial financing structures.**

For example, the Wildlife Conservation Bond is one of a suite of outcome bonds issued by the World Bank.<sup>49</sup> Proceeds are used to finance the bank's sustainable development projects, and so the principal is protected. The coupon payments, funded by the Global Environment Facility, are linked to successful outcomes, which in this case is the preservation of black rhinos. In other bonds the interest rate has been tied to the generation of carbon or plastic credits. There are commercial banks actively exploring the use of this structure in other sectors.

## CASE STUDY 8

### UBS Optimus Foundation – building OBF markets

As a client-facing foundation, UBS Optimus Foundation (UBS OF) leverages its position to offer advisory services to high-net-worth individuals and corporations engaged in philanthropy. Building on successes like the Educate Girls Development Impact Bond, UBS OF has launched two major initiatives. Firstly, the [Outcomes Accelerator](#), with UK and Swiss government as partners, will accelerate more effective testing, scaling and mainstreaming of OBF approaches. Secondly, the SDG Outcomes Initiative, a \$100 million blended finance fund

partnering with Bridges Outcomes Partnerships to invest in SDG-aligned outcomes in developing countries.<sup>50</sup> The foundation is working to integrate impact into corporate decision-making beyond traditional philanthropy, collaborating across UBS divisions, including wealth management and asset management. To facilitate this, UBS has developed a rating tool that assesses the foundation's programmes based on intentionality, additionality and measurability, with the aim of expanding this to support UBS teams in aligning impact with existing portfolios.

3

# The innovative finance sector

There is a growing market and ecosystem to drive social impact across sectors and scale through tradeable outcomes



Photo credit: SELFINA

“ Tradeable impact refers to a financial mechanism or market-based solution where specific social or environmental outcomes are quantified, allowing them to be bought and sold.

The significant momentum in the innovative finance segment suggests several scenarios for further market growth. OBF has evolved from development finance into a flexible tool that drives positive social impact across various sectors. Originally developed by multilateral development banks and governments to improve the effectiveness of aid, OBF now helps social enterprises and businesses achieve sustainable goals.

The application of this type of innovative finance in the development and public sectors has reached a level of maturity over several decades, offering an evidence base and an established set of tools to facilitate efficient implementation. Over the past 20 years, over \$100 billion in finance has been linked to these results, with the World Bank channelling over \$58 billion through its Program for Results.<sup>51</sup> More recent variations like impact bonds have placed greater emphasis on quality outcomes of services rather than access to services, bringing the private sector on board as investors.<sup>52</sup>

Impact-linked financing approaches that provide incentives directly to the value creators to reward additional impact have also been used widely to support social enterprises, compensating these market-based organizations for value that has yet to be priced into the traditional market. This experience provides insights as to how social enterprises can be supported to achieve financial sustainability and how commercial companies can be nudged to create deeper social or environmental impact. Although the market is fragmented, \$35 billion has already been deployed through various instruments in impact-linked finance.

Building on this market experience, some stakeholders are testing the idea of tradeable impact, where social impact credits are valued and traded, thereby democratizing market access. The environmental credit markets, such as the carbon market, exemplify the potential of OBF to standardize and scale. Payment models such as SPCs or exchange platforms like Common Good Market are facilitating the emergence of the social impact market equivalent. In addition to this, companies are adopting advanced accounting methodologies such as Impact Weighted Accounts, supported by business coalitions like the [Value Balancing Alliance](#), to value the impact they are creating. At scale, these efforts can lead to a scenario where impact becomes tradeable and fungible.

Despite progress, there have been challenges in OBF market development, including limited outcomes funding availability; difficulty in standardizing how outcomes are defined, measured and valued; problems attributing outcomes to OBF approaches; risks of adverse incentives; inadequate

risk-sharing with the private sector; complex stakeholder coordination; and the bespoke nature of deal design.

As stakeholders have moved from sustainability to impact-focused transactions, they have found there to be fewer standardized market definitions and benchmarks, a scarcity of historical data on company social performance and inconsistency associated with the context-specific nature of social KPIs. Indeed, the SLL market has been troubled by claims of greenwashing and the cost of verification outweighing the interest rate savings.

Looking ahead, the success of OBF will therefore likely depend on the standardization and credibility of existing approaches, alongside continued innovation maintaining flexibility to address diverse social challenges. Some notable learning points from existing practice that can be applied to the corporate application include:

- The move to simplification in the OBF design process as transactions are replicated and impact metrics are standardized and shared across stakeholders and actors, creating a common language. The private sector can use experience from the development finance or social innovation field and seek expertise and experience within existing markets to prevent duplication of effort.
- The proliferation of outcomes funds supporting multiple contracts simultaneously, accelerating collective learning and impact.<sup>53</sup> The UK has led this innovation, hosting half of the world's existing outcomes funds, with 42 in development globally. The private sector can apply these learning points to develop a programmatic or sectoral approach to cross-cutting and/or shared challenges.
- The strengthening of cross-sectoral partnerships, which have emerged as effective vehicles for addressing complex social challenges, with OBF providing both the framework for the compensation of coordination and the governance mechanisms required to scale these collaborations.<sup>54</sup> The private sector can apply this learning to inform collaboration with competitors, governments and NGOs to support large-scale social change.
- The institutionalization of OBF practices at an organizational level, embedding outcome-focused decision-making into operational DNA.<sup>55</sup> The private sector can apply these learning points to inform how companies make better decisions over time to align profit with sustainability and social goals, and scale their impact.

“ The market volume for outcome-based funding is estimated at \$185 billion.

## Market sizing and trajectory

There is a wealth of knowledge that the corporate sector can draw from the ecosystem, many parts of which have scaled over the last decades into a robust market. Current estimates size the OBF market including RBF and ILF, at \$185 billion.

Credit instruments linked to sustainability that focus on avoiding harm, mitigating risk or benefiting stakeholders mobilize about \$1.3 trillion. The following infographic highlights market statistics, recent trends and growth projections for each segment, reflecting how these financial tools are being used to drive measurable social and environmental impact.

FIGURE 4 Current OBF market size estimates

Approach	Targeted outcome	Impact area
<p><b>Results based finance and outcomes partnerships</b></p> <ul style="list-style-type: none"> <li>– <b>Market size:</b> Estimated \$150 billion.</li> <li>– <b>Primary sectors:</b> Public health, education, workforce development.</li> <li>– <b>Major contributors:</b> Multilateral development banks (MDBs), DFIs and bilateral agencies; domestic governments, philanthropic donors. World Bank constitutes 80% of donor-based RBF.</li> <li>– <b>Growth trend:</b> World Bank increased RBF lending portfolio cap from 5% to 15%.</li> <li>– <b>Additional insights:</b> \$763 million in impact bond investment to date; downward trend in some areas, but new pipeline projects remain active.</li> </ul>	<p>Support solutions for material issues</p> <p>Integrate impact considerations in decision-making</p>	<p>Social</p>
<p><b>Impact-linked finance</b></p> <ul style="list-style-type: none"> <li>– <b>Market estimate:</b> \$35 billion, with \$1.24 billion raised through specific ILF facilities, based on estimates provided by Roots of Impact.</li> <li>– <b>Notable tool:</b> Social Impact Incentives (SIINCs), leveraging up to 10 times additional investment, focusing on sectors like off-grid energy, agriculture, and water and sanitation.</li> <li>– <b>Trend:</b> Proliferation of structures suitable for a variety of corporate use case ranging from impact linked debt to equity, convertible notes and revenue sharing agreements.</li> </ul>	<p>Support solutions for material issues</p> <p>Integrate impact considerations in decision-making</p>	<p>Social</p>
<p><b>Sustainability-linked finance</b></p> <ul style="list-style-type: none"> <li>– <b>SLL market size:</b> \$1.3 trillion in total with \$548 billion invested in 2023, for general corporate financing needs.</li> <li>– <b>SLB market size:</b> \$240 billion in total with \$68 billion in 2023, for specific project financing needs.</li> <li>– <b>Social KPIs:</b> Growing integration of social KPIs within these instruments.</li> <li>– <b>Potential growth areas:</b> Greenwashing, measurement costs and high-interest rate environments have dampened growth in short term. Although expected increase in SLLs and SLBs as companies adapt to broader ESG and regulatory standards.</li> </ul>	<p>Mitigate sustainability risks</p> <p>Optimize operations for sustainability</p>	<p>Mostly environmental</p>
<p><b>Carbon, biodiversity, plastic credits</b></p> <ul style="list-style-type: none"> <li>– <b>Carbon credits market:</b> Current voluntary market \$723 million in 2023 down from \$2 billion in 2020 due to increased market scrutiny.</li> <li>– <b>Biodiversity credits:</b> Expected growth from \$10 million to \$2 billion in 2030 and \$69 billion in 2050.</li> <li>– <b>Plastic credits:</b> Currently under \$10 million, with projections indicating growth to \$30 million annually within the next 5 years, depending on standardization efforts.</li> </ul>	<p>Offset negative footprint</p> <p>Integrate impact considerations in decision-making</p>	<p>Mostly environmental</p>

**Sources:** Instiglio & SECO. (2024). RBF Experience Review; Global Partnership for Results-Based Approaches (GPRBA). (n.d.). Results-based finance database; Kenyon, T. (2022). Embedding long-term sustainability in the World Bank’s Program-for-Results instrument. Government Outcomes Lab, Blavatnik School of Government, University of Oxford; INDIGO. Government Outcomes Lab, Blavatnik School of Government, University of Oxford; Investing for Good & Esmée Fairbairn Foundation. (2021). A review of impact-linked finance: Does incentivizing impact work?; Roots of Impact. (2024). Impact-linked finance: Learnings from eight years and ideas for the future; International Finance Corporation (IFC). (2023). SOCIAL KPIs MATTER: Setting robust indicators for sustainability-linked finance; BloombergNEF. (2024). Carbon credits face biggest test yet, could reach \$238/ton in 2050, according to BloombergNEF report; World Economic Forum & McKinsey & Company. (2023). Biodiversity credits: Demand analysis and market outlook; The World Bank. (2024). Unlocking financing to combat the plastics crisis; L, J. (2024). Why the voluntary carbon market took a hit in 2023. Carbon Credits.

There are plausible scenarios towards a robust and scalable ecosystem for tradeable social impact in the coming 10 years. These scenarios will evolve differently, experience varying degrees of scale and could be adopted regionally or globally. Regardless, the social impact certification standards would likely mirror the Verified Carbon Standard – applied across platforms and financial mechanisms. These developments will ensure that social impact metrics are integrated into reporting frameworks, allowing companies to accurately value and trade their social outcomes alongside environmental and governance factors. A Social Impact Market Taskforce, modelled after the Taskforce on Scaling Voluntary Carbon Markets, will drive the standardization, best practices and integrity of these markets, ensuring transparency and scalability.

On the supply side, multistakeholder partnerships will emerge, involving governments, companies, NGOs and investors to create investable projects addressing critical social issues such as education, healthcare and poverty reduction. Development funders will commit a percentage of their portfolios to catalysing commercial and institutional investment in these initiatives, leveraging technical expertise from existing markets.

The demand side will be stimulated by international agreements that set global social targets, much like the Paris Agreement did for climate action. Companies will commit voluntarily to social impact, driven by investor and consumer pressure, alongside government mandates for social procurement. This surge in demand, combined with OBF models, will push companies and governments to procure services that deliver tangible social outcomes, enhancing societal well-being and contributing to a more equitable global economy.

In this vision, the integration of impact trading into corporate strategies, public policies and financial markets will transform social outcomes into valuable, tradeable assets, unlocking new financing streams for sustainable and inclusive growth.

Given the momentum in the OBF market and increasing recognition by companies of the value of social impact, OBF approaches are likely to be increasingly adopted in different settings and geographies. A robust and precise estimate of market growth is not possible at this stage, but the following selected data points illustrate the potential public and private drivers of increased adoption of OBF:

FIGURE 5 Public and private drivers of growth and OBF deployment

Public sector activities that can drive further market growth

<b>Public procurement</b>	<ul style="list-style-type: none"> <li>– Total public procurement at \$13 trillion annually</li> <li>– Significant portions of public procurement can be channeled towards social impact</li> <li>– e.g. Indigenous procurement policy in Australia.</li> </ul>
<b>Public subsidies</b>	<ul style="list-style-type: none"> <li>– Globally at \$1.8 trillion per annum, with agricultural subsidies alone at \$520 billion</li> <li>– Governments can allocate part of such subsidies to OBF approaches to unlock verifiable social impact.</li> </ul>
<b>Official development assistance (ODA)</b>	<ul style="list-style-type: none"> <li>– \$220 billion per annum</li> <li>– ODA community increasingly needing to crowd in private investors – OBF a key tool to do so.</li> </ul>
<b>Concessionary finance</b>	<ul style="list-style-type: none"> <li>– Development banks and agencies increasingly using and promoting OBF:</li> <li>– e.g. World Bank Program for Results increased RBF cap from 5% to 15%.</li> </ul>

Private sector activities that can drive further market growth

<b>Corporate procurement</b>	<ul style="list-style-type: none"> <li>– 70% international trade through supply chains. Companies increasingly focused on social impact in their supply chains.</li> <li>– Social procurement projected to reach \$500 billion with the likes of Unilever and SAP committing to 5% of it.</li> </ul>
<b>Corporate compliance spend</b>	<ul style="list-style-type: none"> <li>– Estimated average corporate spend per annum: <ul style="list-style-type: none"> <li>– Ratings: \$220,000 – \$480,000</li> <li>– Climate disclosure \$667K</li> <li>– CSRD compliance \$350k</li> </ul> </li> </ul>
<b>Corporate philanthropy</b>	<ul style="list-style-type: none"> <li>– \$150 billion in global philanthropy</li> <li>– Median CSR allocation per company \$28.4 million per annum.</li> <li>– Trend towards increasing alignment of corporate philanthropy with the business - increased use as catalyst tool - OBF suitable for this purpose.</li> </ul>
<b>Impact investments</b>	<ul style="list-style-type: none"> <li>– \$1.5 trillion globally, with \$375 billion in concessionary capital.</li> <li>– Investor interest in embedding social KPIs in portfolios.</li> <li>– Emerging trend of carving out percentage of portfolios for impact-linked financing structures.</li> </ul>

Sources: Open Contracting Partnership and Spend Network. (2020). How governments spend: Opening up the value of global public procurement; D. Koplow and R. Steenblik. (2022). Financing Our Survival: Building a Nature Positive Economy through Subsidy Reform; OECD. (2023). International aid rises in 2023 with increased support to Ukraine and humanitarian needs; World Bank. (2019). Program-for-Results: Proposal to remove the cap on commitment authority; OECD. (2024). Global value and supply chains; Yunus Social Business and Boston Consulting Group. (2022). A \$500 Billion Market Opportunity for Real Impact; Reuters. (2023). Companies pay up to \$500,000 for sustainability ratings – report; J. Tyson. (2022). Climate-related disclosure annually costs companies \$677,000 on average. CFO Dive; P. Johnson (2018). Global philanthropy report. The Hauser Institute for Civil Society, Harvard Kennedy School; Chief Executives for Corporate Purpose. (2023). Giving in numbers 2023 Edition; D. Hand, M. Ulanow, H. Pan, and K. Xiao. (2024). Sizing the impact investing market 2024. The Global Impact Investing Network (GIIN), New York.

4

## Pathways to innovative finance

Companies can build on existing expertise, join established projects, and pilot targeted solutions

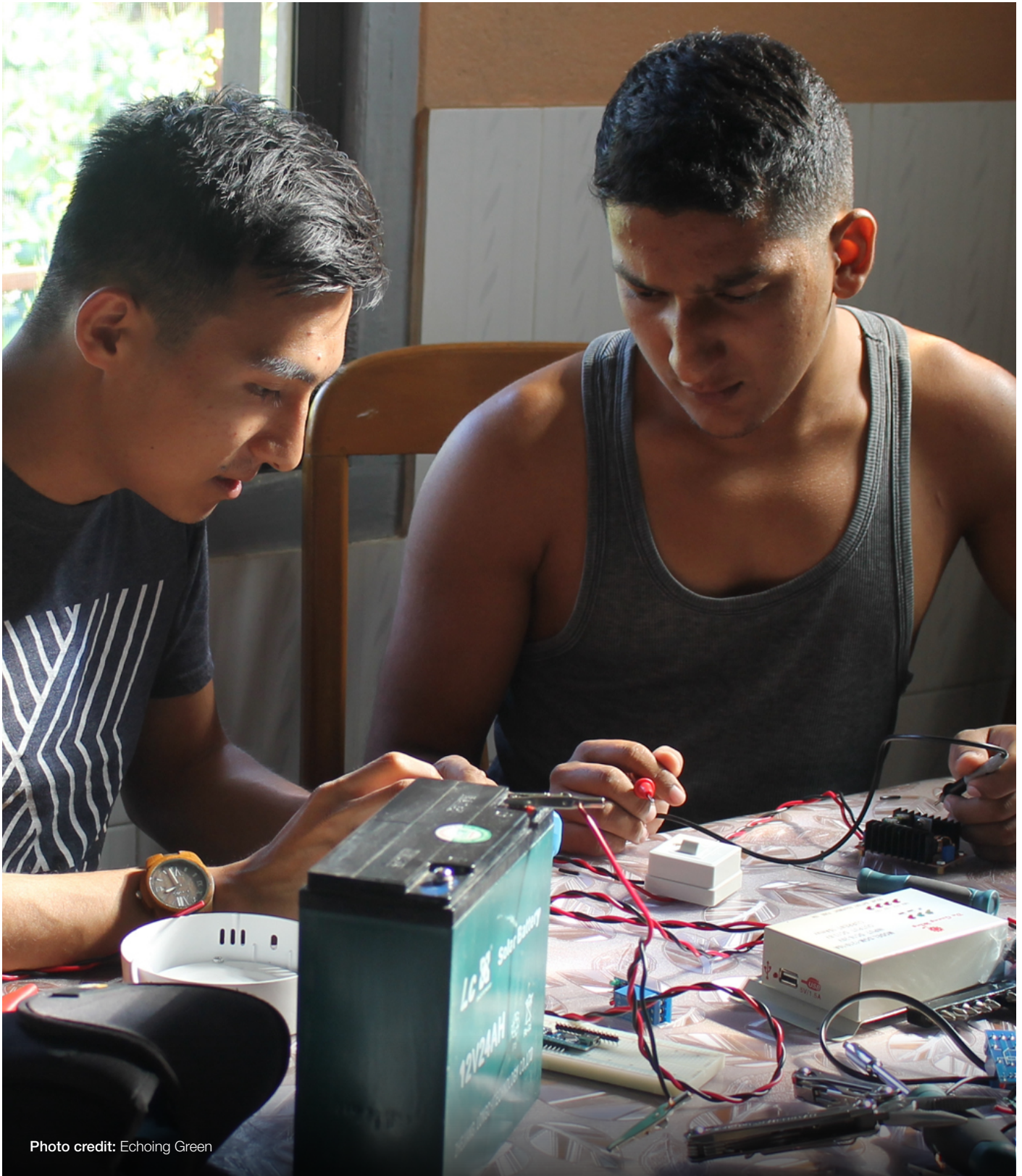


Photo credit: Echoing Green

This chapter offers a roadmap for companies to start their journey in adopting OBF approaches to integrate social impact into their core businesses.

## Tapping into the existing experience of OBF practitioners

There is a wealth of information, experience and learning to be gleaned from organizations and

practitioners that are already deploying OBF tools. By tapping into the collective resources of the members of the Schwab Foundation's Global Alliance for Social Entrepreneurship, companies get access to many such organizations that have successfully applied OBF tools. The following table provides an overview of information sources and organizations who have significant experience in deploying OBF tools, and advisors who are specialists in structuring such tools.

TABLE 1 OBF resources and active market participants

Resources and networks: Data and collaboratives that support problem solving	OBF adopters: Organizations with OBF transaction experience	Advisors and intermediaries: Market facilitators with technical expertise
Brookings Institute	Acumen	60 Decibels
Impact Linked Finance Collaborative	Bertelsmann Foundation	Acruz Partners
GSG Impact	BNP Paribas	Bridges Outcomes Partnerships
Government Outcomes Lab, University of Oxford	Citi	Common Good Marketplace
Miller Center for Social Entrepreneurship	Center for Social Value-Enhancement Studies (CSES)/SK Group	Dalberg
Outcome Finance Alliance (OFA)	Education for Employment	Global Carbon Rewards
Outcomes Accelerator (OA)	Education Outcomes Fund	Impact Europe (EVPA)
	European Bank for Reconstruction and Development (EBRD)	Impact Genome
	European Commission (via the European Investment Advisory Hub)	Instiglio
	Foreign and Commonwealth Development Office (FCDO)	KOIS Invest
	Goldman Sachs Foundation	Levoca
	Impact-Linked Finance Fund	Marlow Global
	LGT Venture Philanthropy	MAZE
	Non-Profit Finance Fund	Miller Center for Social Entrepreneurship
	Proparco	Roots of Impact
	State Secretariat for Economic Affairs (SECO)	Social Finance UK
	SK Group – SPC	Sorenson Impact Group
	Societe Generale	Tamarack Institute
	StriveTogether	The Bridgespan Group
	Swiss Agency for Development and Cooperation (SDC)	The Palladium Group
	Technoserve	
	UBS Optimus Foundation	
	Yellowwoods – impact bond	
	Yunus Social Business	

## Partnering with existing projects

A simple way to start the OBF journey is by partnering with experienced organizations and participating in existing projects that are already structured around specific outcomes. This allows companies to learn how the OBF model works, without having to develop new systems.

### For example:

- Corporate foundations can participate in the pipeline of existing outcome-based partnerships, outcomes funds or impact-linked finance transactions.
- Multinational companies can partner with DFI-led initiatives in the countries in which they are operating.
- Learning can be expedited by joining market-building initiatives such as the Outcomes Finance Alliance or the Impact-Linked Finance Collaborative.

## Integrating innovative finance within existing functions and instruments

Companies do not need to build entirely new teams or practices to explore OBF. In fact, many

companies already have the infrastructure in place to start experimenting with OBF through their sustainability, finance, CSR or supply chain teams. Many of the relevant core competencies to design and implement these initiatives already exist, including sophisticated measurement frameworks, performance-based incentive structures, and the ability to manage complex cross border operations. Building on these standards, companies can leverage innovative finance approaches to add monetary value to sustainability and social indicators, align incentives with partners, and ensure that outcomes are verifiable.

Furthermore, companies can begin to apply OBF tools within specific functions by using well-established instruments and adhering to established guidelines and principles.<sup>56, 57</sup>

### For example:

- Companies can adopt simple pre-tested mechanisms like SPCs and SIINCs to support supply chain companies and social enterprises.
- Companies can add social outcome metrics to sustainability-linked loans or bonds that are aligned with their strategic impact goals.
- Corporate foundations can pilot transactions with a view to a broader application to company supply chains.



Photo credit: Financing Alliance for Health

## Creating bespoke solutions for corporate issues

Some companies may, however, choose to apply OBF on a discrete issue that is specific to their requirements – for example a material social issue that is hard to address due to the depth of the supply chain.



### Step 1: Determine general feasibility

Before engaging in OBF, companies should consider that OBF is only relevant if the outcomes linked to the social issue are measurable (the social issue must have clearly defined, measurable outcomes that can be tracked over time, allowing for transparent and objective assessment), and verifiable (the impact achieved should be verifiable by third parties), as well as being achievable within a reasonable timeframe. Other elements, such as alignment with core business goals and potential for scale, are just as important when considering criteria for OBF implementations.

For many companies, however, it will be difficult to make an educated determination of whether a social issue is truly measurable or verifiable. In such cases, it is recommended that companies engage experienced OBF actors to advise on the feasibility, structure and financing of such instruments.



### Step 2: Establish buy-in

For OBF to succeed, even in its pilot stage, key stakeholders need to be aligned internally. Typically, this includes:

- **Finance:** Many OBF solutions are multi-year engagements and therefore likely to require signoff from the finance function.
- **Sustainability:** A key aspect of the OBF solutions is their direct link to sustainability metrics.
- **Functional department:** Depending on the focus of the OBF solution, a functional department needs to be involved (e.g. HR for skilling initiatives, procurement for supply chain initiatives, etc.).

Ideally, senior executive support for the pilot project should be secured as well, given its potential long-term implications and transformative potential.



### Step 3: Design a pilot

The implementation of pilots can be helpful to identify suitable OBF models and collect evidence about the mechanics, but also with regards to the impact generated, how impact is measured and how these models contribute to the company's goals. Companies may want to start with a small-scale pilot project within departments that can support its incubation.

When doing so, companies should design the pilot based on best practices. This includes principles such as the ones developed by Roots of Impact,<sup>58</sup> which focus on key elements such as providing incentives to the creators of social or environmental value, ensuring impact additionality, setting context specific prices, stakeholder engagement etc. If possible, responsibilities should be assigned to a small, cross-functional core team, to manage and oversee the various aspects of OBF.



### Step 4: Evaluate and measure

Impact measurement should be embedded in the pilot as one of the core components. Success should be measured continuously; this includes outcomes achievement rates as well as acceptance among key stakeholders.



### Step 5: Scale OBF engagements

Once a pilot has achieved success, the core team can assess the readiness of corporate structures, systems, culture and personnel to implement and sustain OBF adoption at scale, and address gaps with capacity building.

#### When designing solutions, reference illustrative use cases

The following potential use cases address some of the key corporate challenges mentioned throughout this report and are suitable for OBF applications.

TABLE 2 | Application of OBF to corporate-specific uses cases

Hypothetical use case examples	How OBFs can address the challenges	Recommended OBF tool	Pilot to scale process
Compliance and risk management: comply with new regulations focusing on human rights in supply chains (e.g. CS3D)	Enable companies to exceed standard ESG risk management and reporting in operations and supply chains by providing verifiable and auditable outcomes	<ul style="list-style-type: none"> <li>– SPC</li> <li>– SIINCs</li> <li>– Outcomes-based smart subsidy model</li> </ul>	<ul style="list-style-type: none"> <li>– Test in regional supply chains then scale to global supply chains</li> <li>– Stakeholder engagement: supply chain department, CSR, compliance</li> </ul>
Product and services opportunities: strengthen revenue streams in new and emerging markets or client segments	Create a strong link between products and services with social and environmental goals to amplify growth potential	<ul style="list-style-type: none"> <li>– Impact bond</li> <li>– SLL</li> <li>– ILF</li> <li>– Challenge Fund</li> </ul>	<ul style="list-style-type: none"> <li>– Identify revenue streams that align with impact-linked incentives and develop pilot</li> <li>– Scale OBF across core revenue streams to unlock greater value</li> <li>– Stakeholder engagement: corporate foundation, CSR business development, finance, treasury</li> </ul>
Financial performance: Raise lower cost of capital to support business needs	Potential for reducing cost of capital by aligning financing needs with impact goals	<ul style="list-style-type: none"> <li>– ILL</li> <li>– SLL</li> <li>– SLB</li> </ul>	<ul style="list-style-type: none"> <li>– Test pilot with projects or business needs that require financing at a smaller scale</li> <li>– Scale OBF model to address larger financing needs of the business.</li> <li>– Stakeholder engagement: finance, treasury, corporate development, corporate foundation and accounting</li> </ul>
Create inclusive and localized supply chains	Provide additional financial support to suppliers to meet sustainability and impact goals	<ul style="list-style-type: none"> <li>– SLL</li> <li>– SPC</li> <li>– SIINCs</li> </ul>	<ul style="list-style-type: none"> <li>– Provide ILF/OBF to existing suppliers who have a strong impact/sustainability track record</li> <li>– Stakeholders: procurement, buying centres, CSR</li> </ul>
Skills development: Tackle skills gap at national market level in pre-competitive space	Where market failures exist in terms of scale or inclusivity in skills gaps, OBF can be applied to accelerate skills development	<ul style="list-style-type: none"> <li>– Impact bond</li> <li>– Outcomes fund</li> <li>– ILF</li> </ul>	<ul style="list-style-type: none"> <li>– Test pilot with foundation or CSR</li> <li>– Scale according to the skills development needs of regional supply chains</li> <li>– Stakeholder engagement: HR, CSR, corporate foundation</li> </ul>
Innovative philanthropy: Align corporate philanthropy with strategic objectives to create greater value	Enhance corporate philanthropy and corporate goals by driving financial returns and impact outcomes	<ul style="list-style-type: none"> <li>– Impact bond</li> <li>– Outcomes fund</li> <li>– ILF</li> <li>– Impact credits</li> </ul>	<ul style="list-style-type: none"> <li>– Test pilot with corporate foundation</li> <li>– Crowd in capital from commercial arms to scale OBF by adopting a portfolio approach and leveraging philanthropic capital to de-risk</li> <li>– Commit to fund specific outcomes at a fixed price that is contingent upon verification of results</li> <li>– Stakeholder engagement: corporate foundation, wealth management, asset management, finance, treasury</li> </ul>

More details about the different OBF mechanisms can be found in the Appendix and on this [website](#).

Under any of the above scenarios, companies can participate in collaborative processes and leverage them to test approaches in a way that maximizes collective learning while minimizing risks. By partnering, companies can co-develop and fund large-scale pre-competitive initiatives that address critical shared social and environmental challenges and risks. Industry coalitions and partnerships are gaining momentum, as companies work together to set and disseminate new norms, standards and best practices for their industries. In these processes, OBF approaches can be used as an organizing principle to clarify goals and align incentives, and as a tool to unlock or accelerate specific outcomes in multistakeholder processes.

Issues such as human rights in supply chains, circularity in product development, access to healthcare for employees or scarce skills development in the broader market are among the most likely to be addressed in the coming

years through mechanisms like those outlined above. These are areas in which joint solutions can address issues faster and more cost-effectively than companies acting on their own. Innovative finance solutions like OBF provide a framework that supports cross-sectoral cooperation and aligns priorities.

### Scaling innovative finance as an integral part of corporate strategy

As companies gain experience with OBF, they can move towards integrating the approach into broader corporate decision-making processes and developing market-building efforts across industries and sectors. This would, over time, result in the integration of an OBF approach across business functions such as supply chain management, sustainability risk management and governance.

TABLE 3 Stages of institutionalization of OBF within an organization

	<b>Initial stage:</b> Piloting and experimentation	<b>Intermediate stage:</b> Building capacity and scaling	<b>Advanced stage:</b> Integration and institutionalization	<b>Mature stage:</b> Sustained impact and continuous learning
<b>Key focus</b>	Test OBF models, collect evidence, develop clear narrative and build internal knowledge	Increase awareness, build demand and support wider adoption of OBF practices	Achieve a systematic, high-quality OBF practice with OBF embedded into core business strategies and internal processes	Maintain maturity through continuous improvement and advocacy for OBF as a standard mechanism in core corporate business
<b>Activity</b>	Participate in a pre-existing project or design pilot	Replicate pilot to drive cost effectiveness and sustainability	Adoption across different business functions and teams	Impact is integrated into corporate decision-making
<b>Team</b>	Small core team from existing functions, and executive sponsorship	Formal engagement of relevant teams such as finance, sustainability and implementing divisions	A dedicated OBF function or OBF shared resources across functions	A community of practice to share knowledge and continue refining the approach
<b>Corporate decision-making</b>	None, this is meant to be a source of learning	Informs sustainability strategy	An integral part of the company's sustainability strategy	An integral part of the company's overall strategy

# Conclusion

As this report demonstrates, corporations face mounting systemic challenges in addressing social and environmental issues that cannot be solved through traditional compliance or philanthropic approaches alone. The complexity of modern supply chains, combined with tightening regulations and increasingly competitive markets, creates significant operational and financial risks that are difficult to address through conventional corporate structures. Companies who attempt to integrate social impact into their core operations often face persistent obstacles in balancing commercial viability with social outcomes. These challenges suggest the need for alternative approaches that can effectively bridge the gap between corporate capabilities and social impact requirements.

Innovative finance approaches such as OBF offer companies a powerful way to create long-term value, strengthen alignment between financial and impact goals, and showcase connections between business, finance, risk and impact. At the same time, OBF supports multistakeholder collaboration to address shared risks and create new social impact markets. Companies are not only buyers of social impact in these markets, they are also integral to pipeline development and market integrity. That way, companies can harness innovative finance to contribute significantly towards scaling successful societal solutions. This is especially true if significant limitations of OBF are taken into account, such as a tendency to focus on impact “transactions” – an overly simplistic, linear approach to impact from input to output that risks only addressing symptoms while reinforcing inherently unjust structures. Therefore, innovative finance needs to go hand in hand with bold action to explore truly systemic solutions that address issues at their core. Once proven in principle, OBF can help scale these solutions with the support of companies.

2,000 of the most influential companies across 86 countries account for \$45 trillion in annual revenue and 92 million jobs. Multinational corporations in particular are responsible for 80% of global

trade and one in five jobs across global supply chains. Almost a fifth of those companies are headquartered in developing countries.<sup>59</sup> There is a significant opportunity to act on issues that affect both the bottom line of the company and the economies and communities in which they operate.

Building an inclusive and sustainable economy requires systemic, long-term strategies, cross-sector collaboration, and bold, risk-tolerant investments. The business case for environmental impacts, particularly climate and increasingly nature, is reasonably well established and has been integrated into corporate core business operations and budgets. The business case for social impact is less advanced but the effects of poverty and inequality on companies in a globalized world is increasingly evident. This is especially relevant in developing economies where economic exclusion is widespread and transformational change is required. Within this context, companies are uniquely equipped to build new markets within and beyond their immediate value chains, which requires complex management skills, access to extensive resources, and the ability to influence markets and regulatory environments.

Companies can explore and use these tools to accomplish business objectives as well as social and environmental goals. Strategies to link impact to financial rewards align directly with corporate needs, building on a wealth of knowledge, proven practices and use cases. Corporate leaders can lean on and join a community of seasoned practitioners to map specific approaches to their specific corporate needs – from addressing material social issues in supply chains to unlocking new markets for impact-first products. The pressing nature of the challenges related to the UN SDGs and climate change requires actionable, practical solutions that lend themselves well to corporate needs and their ways of operating. As this paper showcases, innovative finance approaches can be one very important part of the corporate sustainability journey.

# Appendix

TABLE 4 List of mechanisms

Name	Description
<b>Advanced market commitments</b>	A funding commitment from a donor or government to purchase a specified quantity of a good or service at a pre-agreed price to ensure market stability and incentivize production.
<b>Carbon credit</b>	A tradeable instrument representing one metric ton of carbon dioxide equivalent, allowing owners to use, sell, or retire credits to fulfil emission reduction obligations or voluntary targets.
<b>Conditional cash transfer</b>	A financial assistance model where cash payments are provided to individuals or households if they meet predefined conditions, typically associated with education, health, or other social outcomes.
<b>Debt swap</b>	A financial arrangement in which a creditor (often a country) provides debt relief to a government based on the government's progress towardS agreed-upon social or environmental goals.
<b>Development impact bond</b>	A contractual arrangement involving upfront funding from a third party to achieve social or environmental outcomes, with repayment from donor organization contingent on meeting those outcomes.
<b>Environmental credits</b>	A payment structure that compensates landowners, communities, or project developers for achieving outcomes that quantify specific ecosystem services.
<b>Impact-linked carry</b>	Impact-linked carry integrates impact targets into the calculation of carried interest. In private equity and venture capital, carried interest (carry) is usually part of the fund management fee structure and represents a share of the profits of the fund that a fund manager receives after certain financial targets (also called hurdles) are met.
<b>Impact-linked challenge funds</b>	A challenge fund where the funder pays a premium or bonus dependent on the achievement of predefined impact outcomes.
<b>Impact-linked compensation</b>	A reward mechanism where a fund manager receives a premium for meeting predefined impact targets in an investment portfolio.
<b>Impact-linked convertible notes</b>	A convertible note where the discount or cap on conversion depends on the achievement of predefined impact outcomes.
<b>Impact-linked finance</b>	A financial model where monetary rewards are directly tied to achieving positive social outcomes, rewarding the value creator in market-based organizations, with impact that goes beyond baseline expectations. Financial rewards can range from incentive payments to preferential financing terms. Rewards facilitate the enterprise in delivering additional outcomes.

Name	Description
<b>Impact-linked guarantee</b>	A risk-mitigation instrument where the guarantee's terms are adjusted based on the performance against predefined impact targets, offering varied levels of protection based on the impact outcome.
<b>Impact-linked loans</b>	A debt instrument that incorporates rewards in the form of reduced interest rates or reduced repayments depending on the achievement of predefined impact outcomes.
<b>Impact-Linked Long-term Incentive Plan</b>	A company policy that rewards the management team or employees for achieving certain long-term goals. It can be linked to impact by incorporating impact objectives. In a typical LTIP, the employee, usually an executive, participates in dividends or an increasing company valuation through (virtual) shares.
<b>Impact-linked matching fund</b>	Repayable funding made available to an enterprise that is (partially) forgivable depending on the level of achievement of predefined impact outcomes, i.e. partial repayment is required only if the impact outcomes are not achieved. The enterprise is required to match the funding amount with a repayable investment.
<b>Impact-linked redeemable equity</b>	Redeemable shares where a portion of the shares can be redeemed at a predefined or discounted price dependent on the achievement of predefined impact outcomes.
<b>Impact-linked reimbursable equity</b>	A financial instrument where an investor provides equity financing with a reimbursement mechanism linked to the achievement of predefined social or environmental impact targets.
<b>Impact-linked revenue share agreement</b>	A financing instrument (also called revenue-based loan) where periodic repayments are based on a percentage of the revenues up to a predetermined return on the investment ("Cap" or "multiple"). Impact-linked rewards are provided by reducing the Multiple/cap or the revenue share dependent on the achievement of predefined impact outcomes.
<b>Impact-linked short-term incentive plan</b>	A company policy that rewards the management team or employees for achieving certain short-term goals. It can be linked to impact by incorporating impact objectives.
<b>Impact-linked simple agreement for future equity (SAFE)</b>	Similar to an impact-linked convertible note, the discount or cap on conversion of an Impact-linked SAFE depends on the achievement of predetermined impact outcomes. A SAFE is a simplified form of a convertible note and typically does not include regular interest payments.
<b>Impact-ready matching funds</b>	Non-repayable funding that rewards enterprises for building a robust impact measurement and management (IMM) system and elevating their IMM capacity. An Impact-Linked Matching Fund (IRMF) is a hybrid financial instrument with elements of impact-linked finance and capacity building, where the enterprise is required to match the maximum amount of funding with a repayable investment.
<b>International impact bond</b>	A type of impact bond where at least one of the outcome funders is based in a different country than the service delivery location, facilitating cross-border investment for social impact.
<b>Loan with impact-linked sidecar</b>	A zero-interest loan with a separate repayment agreement for the interest, offering flexibility on timing and amount of reward based on social outcomes achieved during the loan term.

Name	Description
<b>Outcomes fund</b>	A funding mechanism that enables multiple outcome-based contracts to operate in a portfolio, developed and supported concurrently or in succession for cohesive impact.
<b>Output-based aid</b>	A mechanism where subsidies are provided to service providers or recipients only after achieving specific, measurable outputs or outcomes. Typically used in development projects with the aim of increasing access to essential services.
<b>Pay for Success</b>	A group of outcome-based financing tools that allocate resources toward measurable outcomes, focusing on funding that works to improve lives and drive social impact.
<b>Payment by results</b>	A payment structure where financial disbursements are made only after the achievement of predefined results, rather than providing upfront funding for activities.
<b>Performance debt buy-down</b>	A model where a third party reduces or buys down part of a loan between a government and a lender, contingent on achieving predefined social or environmental outcomes.
<b>Performance-based contract</b>	A contractual relationship where a public service provider (e.g. school) receives payment only if specific performance outcomes are achieved.
<b>Performance-based grant</b>	A funding model where non-state service providers are paid upon achieving predefined results, encouraging measurable impact in service delivery.
<b>Performance-based loan</b>	A loan model typically provided by a development bank, where loan disbursements are contingent on meeting specified results, creating accountability for social or environmental impacts.
<b>Performance-based transfer/grant</b>	An intragovernmental fiscal transfer or grant where funding is tied to achieving specific, measurable outcomes, promoting accountability within government bodies.
<b>Prize-based challenge</b>	A competitive funding mechanism that awards a prize to the best innovation or solution developed within a specified timeframe to solve a social or environmental challenge.
<b>Public-private partnership</b>	A collaborative arrangement between a government entity and a private sector organization to provide public services or infrastructure. The partnership typically involves sharing risks and rewards between the public and private sectors.
<b>Results-based aid</b>	A funding model where resources from a multilateral agency or foreign government are allocated to a government based on the achievement of predefined results.
<b>Results-based finance</b>	A broad term covering any programme that provides rewards upon credible, independent verification of achieved results, commonly used in development finance.
<b>Social impact bond</b>	A contractual arrangement involving upfront funding from a third party to achieve social or environmental outcomes, with repayment contingent on meeting those outcomes. Known as Pay for Success in the USA and Social Benefit Bond in Australia. Also commonly shortened to impact bond.

Name	Description
<b>Social impact incentives</b>	An instrument that rewards enterprises that are raising investment with premium payments for achieving predefined social outcomes. These premium payments typically come from public or philanthropic funders (outcome payers) and provide the enterprise with an extra revenue stream during the tenure of the SIINCs.
<b>Social outcomes contract</b>	A contractual arrangement where public service provision by non-governmental organizations is contingent on achieving specific, measurable outcomes, typically commissioned by a government entity.
<b>Social outcomes partnership</b>	A partnership between an outcomes funder and a service provider to achieve specific, measurable social outcomes, with payments tied to the realization of those outcomes. This partnership may also involve impact investors, additional service providers, intermediaries, evaluators, or a combination of these entities.
<b>Social progress credit</b>	An incentive mechanism that measures the degree of social performance of social enterprises in monetary value and provides cash incentives in proportion.
<b>Social success note</b>	A financing structure where a philanthropic outcome funder makes a success-based payment to private investors and the implementing organization if predefined social outcomes are achieved.
<b>Sustainability-linked bond</b>	A performance-based debt instrument where financial or structural terms, such as interest rates or redemption premiums, are contingent on the issuer achieving specific sustainability or ESG goals.
<b>Sustainability-linked loan</b>	A loan structure where financial terms, such as interest rates, are linked to the borrower's performance against predefined sustainability targets, typically used for general corporate purposes.

Case studies and more details about these instruments can be found on the [accompanying website](#).

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