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or years, we have studied different fields of finance, a term that enclosed conventional ways of working with money and investments. But there is a new concept, completely unknown for many, that is out of all the traditional parameters.

This new concept is [Innovative Finance](http://www.gsb.uct.ac.za/Downloads/InnovativeFinanceAfrica_1.pdf), “*an approach to funding enterprises and interventions that optimizes positive social, environmental and financial impact*”. Even if this notion seems to be new, it has been mentioned in different scenarios for several years, due to the need to find other ways of financing (different form the traditional ones that we already now) that help close the gap between the investors that claim not to find enough deals, and the great number of projects that cannot find enough money in the market.

In fact, there are “[*four key issues*](http://www.gsb.uct.ac.za/Downloads/InnovativeFinanceAfrica_1.pdf) *in our current market that create the imperative for designing innovative financing mechanisms: impact measurement, mismatch, distribution and life cycle support*”. These obstacles and the need to reach the SDGs helped the convergence between ideas and professionals to evolve this new concept.

Consequently, in the market we find new players that go beyond banks and the government and include impact investors, social enterprises, corporates, non-profits, among others. Those funders have switched the traditional funding (debt, equity, and grants) to “[innovative funding mechanisms](https://www.roots-of-impact.org/wp-content/uploads/2019/01/Roots-of-Impact-BCG-Accelerating-Impact-Linked-Finance-2019.pdf) that create incentives for effective change”.

Those instruments include convertible agreements (recoverable grants, forgivable loans, and convertible grants), structured exits (revenue-based financing, dividend-based financing, equity redemption, venture debt), factoring, among others, and make it easier for projects to get funding and wait until the achievement of the expected outcomes to pay it back.

These mechanisms emerged to change the way we do business and give the chance to many entrepreneurs to develop their projects, and show that positive social and environmental outcomes are worth it and can be attractive for investors in the market.

In summary, innovative finance is a recent concept already used worldwide, created due to the need to close the gap between the investors and the projects and encourage the creation of positive impact in social, environmental and economic aspects for all countries. The concept of “Finance” has changed, and it is time to take advantage of the new mechanisms available in the market.

*Mónica Tatiana Ayala*