Monetizing Impact

Acumen

Building an economic system
for a sustainable future

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BURN, East Africa

Summary

Financial markets fail to reward solutions that create long-term social and environmental value, prioritizing short-term financial gains instead. Various mechanisms, such as impact-linked financing, carbon credits, and results-based financing, have emerged to tie financial value to positive impact, but challenges remain, including high entry costs for early-stage companies and insufficient demand from funders and corporations. To scale these solutions, funders and investors need to reduce participation barriers, build market infrastructure, and develop financial incentives that align economic success with sustainability goals.

What happens when we pay for progress

BURN/ECOA was founded in 2010 to save forests and households from the damage wrought by traditional wood and charcoal cookstoves. By 2016 the company had developed high-efficiency cookstoves that drastically reduced fuel consumption, saved families money and time, and reduced health risks. Yet BURN/ECOA faced a fundamental challenge: Company growth was slow given their target customer could not afford a $38 stove. That changed once BURN/ECOA saw a pathway to monetize their impact.

Enter carbon credits. By monetizing the emissions reduced by their cookstoves, BURN/ECOA could lower their prices to what the market could afford, while maintaining positive unit economics. Families could breathe cleaner air, and women and children spent less time gathering firewood. At the same time, affordability unlocked the company's growth. From 2018 to 2023, BURN/ECOA's carbon revenue more than doubled annually (140% CAGR). As a direct result, stove sales grew by an order of magnitude over the same period (from 145,000 in 2018 to over 1.7 million in 2023). Now, these carbon credits are funding the next wave of electric cooking, allowing people to move from biomass stoves to zero-emission stoves running on some of the cleanest grids in the world.

In light of the success of companies like BURN/ECOA, we at Acumen wondered how we could shape financial systems to reward solutions that are better for both people and the planet. We have seen powerful examples of how businesses can build a better world, but to scale those companies, we need to scale markets that reward their impact.

The power of connecting financial value to impact

Our current financial system views issues like global warming, the obesity epidemic, and air pollution as externalities for societies to bear and governments to solve. By focusing on short-term financial returns rather than long-term value creation, our market systems are failing us at multiple levels: environmental, social, and economic. We see this in conventional agriculture in the U.S., where decades of overuse of fertilizers and water maximized short-term crop yield but now cost $8 billion annually and will reduce future food production by 33.7 million metric tons due to soil erosion and land productivity loss.[1]

A long-term healthy financial system cannot exist without healthy humans and a healthy planet. Forty-four trillion dollars in economic value – more than half of global GDP – depends on natural capital.[2] As Mariana Mazzucato writes in Mission Economy, "Such goals cannot be tackled simply by changes to corporate governance – through metrics like ESG. They also require a fundamentally different way for business and the state to interact."

By monetizing impact – tying financial value to positive social and environmental outcomes – we have seen its transformational potential start to become reality. A wave of companies are taking on intractable problems with innovative solutions, fueled by increased affordability and access. For example, solar irrigation company SunCulture utilized carbon credits to subsidize the cost of their solar water pumps by 50% for smallholder farmers in Togo.[3] These pumps have allowed 50,000 farmers to increase their income up to five times, and 75% of farmers have greater productivity within the same amount of land.[4]

Choose the right tool to reward impact

Today there are a range of mechanisms that tie financial value to social and environmental outcomes. These include impact-linked financing, outcomes-based financing, development impact bonds, and a growing "credits" ecosystem that includes carbon, plastic, and biodiversity credits. The outcome-based funding market alone is currently estimated at around $185 billion.[5,6] There is major room for these markets to improve, but even in their imperfect states, these tools have unlocked value for businesses driving positive impact and serving people living in poverty.

These products range from more bespoke solutions, like development impact bonds, to tradeable tools like carbon credits. In the middle are instruments like biodiversity credits, which may have comparable metrics across different projects but are not yet fungible like carbon credits. With a range of solutions available, investors and companies need to determine which tool is most appropriate based on their resources, needs, and goals. Philanthropists and foundations need to know where their resources can be most catalytic.

Table 1: The range of monetized impact instruments

	Bespoke → Tradeable		
Examples	• Impact-linked finance • Development-impact bonds	• Biodiversity credits • Plastic credits	• Carbon credits
Features	• Both smaller, early-stage companies and large governmental projects can apply these. • Projects are more time bound. • Buyers and prices for the impact are narrow and clearly defined.	• Demand is driven by government policy. • Tools are nascent with many companies in a heavy experimentation phase. • Buyers and prices are evolving and iterative.	• Demand shifts from compliance to voluntary. • Industries require shared standards and definitions. • Potential buyers and prices cover a wide range.
Company type	• Companies with clear impact targets and measurable outcomes.	• Companies with multiple sources of revenue.	• Companies with significant size and scale. • Companies with sufficient time and resources to implement.

BURN/ECOA and SunCulture show what this looks like in practice. So does Green Worms, a waste management company in India that can pay its workers a fair wage via plastic credits that international companies buy to offset their waste. Or Acumen's Hardest-to-Reach initiative, which deploys catalytic capital to enable energy access in some of the world's most underserved markets. For example, it incentivizes companies to serve poorer, more rural communities by offering them impact-linked loans, which reduces the cost of capital as companies move into more remote areas.

Pricing impact and mitigating volatility

One of the most important features across these tools is how the price of impact is determined. For the more bespoke instruments, impact pricing is typically based on the cost of delivering the product or service to customers, with rewards and incentives built in for investors or implementing organizations. The benefit of these approaches is that the price of impact is typically set at a level that makes unit economics sustainable for the firm to operate.

But as a market grows, like the tradeable side of the impact market, buyers and sellers have less pricing power. The voluntary carbon market, for example, still fundamentally relies on supply and demand to set pricing. When demand is low, and therefore prices do not accurately reflect the value of a given product (as we've seen in the carbon markets), the market fails to send strong signals to firms, and its usefulness in achieving critical goals — like decarbonization — starts to wane. Unstable and unpredictable prices also make it harder for project developers to plan for the future. Approaches such as stricter standards, blended finance, or price floors that account for the full environmental, social, and economic impacts of a specific project, are helping developers mitigate pricing volatility and build demand from corporate buyers.

Challenges to monetizing impact

Innovative financing models help value positive societal outcomes like reduced deforestation, healthier quality of life, and more freedom of time. However, we see two major and interconnected challenges that need to be addressed, one each on the supply and demand sides of the impact market.

First, **the barrier to entry is extremely high.** Developing, proposing, registering, managing, and monitoring positive change is prohibitively expensive.

Despite the high costs, there are plenty of companies that would be ready to pay it, if they could overcome the second major challenge: **The current supply of impact vastly outweighs the demand.** The "market" for this value is still limited. Without steady and sufficient demand, positive externalities will remain external.

Unlocking impact revenue for companies

To better understand the value in models that monetize impact, we conducted a survey of Acumen's portfolio and Fellows community. Of the companies surveyed, 43% were pursuing at least one tool of monetized impact, with a majority of them exploring impact-linked finance and carbon credits. Companies stated that these instruments unlocked opportunities, such as being able to decrease the price of the product for end-users, expand into new markets, conduct more research and development, and become financially sustainable.

"We'd love to explore alternatives beyond carbon, like biodiversity credits. The issue is, where does the demand come from? If we do something at scale, it will take millions of dollars in investment, so we'd need a solid revenue source to make that justification."

- Acumen Fellow, Agro-forestry enterprise

The top challenges cited by active or interested companies were:

- The time and costs required to set up monitoring and evaluation processes.
- A lack of expertise in following standards.
- Limited access to partnerships and connections.

Too much impact reporting and scrutiny can prevent companies from monetizing impact.[7] For example, Amazonía Emprende is a Colombian company exploring an offer of biodiversity credits. They need to set a baseline for the habitat they intend to restore, which can include the location and diameter of specific trees within a habitat, or granular fauna data for monkeys or birds, among other information. The company's Restoration Director, Julio Andrés Rozo, was candid. "Setting the baseline is not an investable activity," he said. Philanthropy is critical to jumpstart activities that unlock massive opportunities for companies like Amazonía Emprende.

Monetizing impact requires a huge investment of company time and resources. At present, the return on that investment is uncertain. **Many respondents were unclear whether or not someone would be willing to pay for their impact.** While companies and social enterprises build the engines, they need government, funders, and investors to build the rails.

Examining the funding ecosystem

On the demand side of the impact market, buyers vary significantly by instrument, and the challenges and opportunities vary as well. We have divided those buyers into two groups: public and philanthropic funders in one bucket and corporations in the other.

Incentives and challenges for philanthropic and government funders

Public and philanthropic funders, including governments, foundations, or NGOs, typically finance more bespoke instruments, like results-based or impact-linked finance. These organizations have clear mandates; for example, to protect and regenerate the environment or improve the lives of children and families through better health outcomes. For them, monetizing impact is a way to incentivize the private sector to deliver public goods.

The challenge for bespoke tools is scalability. Results-based finance programs and impact-linked instruments are designed to achieve a specific set of outcomes within a given time frame and budget. Governments have infinite demands and finite resources, while philanthropically backed initiatives can rarely scale to the size of a national or global problem. Ideally this financing serves as a catalyst, allowing firms to lower prices sustainably through economies of scale. But they do not structurally shift the way we apportion value.

Incentives and challenges for corporations

On the other hand, for tools like carbon credits and plastic credits, large corporations such as Shell and PepsiCo tend to be the targeted buyers. Corporations are incentivized to buy these products for two reasons: Either they are complying with regulations or they see economic value in demonstrating a commitment to environmental and sustainability efforts. **Greater demand from corporations will require more regulation, more consumer pressure to act sustainably, or, ideally, both.**

Unfortunately, there are challenges on both sides of that equation. We have recently seen too many multinational corporations walk back sustainability commitments.[8] Meanwhile, international agreements and initiatives like Article 6 of the Paris Agreement, the Integrity Council for the Voluntary Carbon Markets, and the Science Based Targets Initiative, have few legal teeth.[9] There are no penalties if the terms are violated, and there is no court or body to enforce compliance.

In order to build a financial system linked to social and environmental outcomes, both sticks (e.g. taxes and opprobrium) and carrots (e.g. incentives and acclaim) are necessary. Sticks offer accountability measures, while carrots can breed innovation. Investors and funders are best positioned to build the carrots of the system. But responsible and ethical innovation also needs guardrails. Impact markets will need to replicate the work done in industries such as international shipping and accounting and create an entity with regulatory power to navigate the differences in national policies and measurement standards. Balancing the need for compliance with the potential of innovation is an important but difficult task.

The importance of centering people and planet

Assigning a dollar value to impact is a fraught exercise. As noted by Impact Frontiers, there is no generally accepted methodology to value positive social and environmental outcomes.[10] Impact markets need transparent and evidenced impact, and that impact ought to be rooted in local communities.

Over the past few years, the carbon markets have faced scandals of issuing “worthless” credits, where emission claims had little to no impact.[11] The lesson is clear: Impact that is paid for needs to be transparent and evidenced. Transparency, both in the methods used and the data proving impact, is what ensures that buyers can trust the product.

We further risk perpetuating a harmful commoditization of impact unless communities can be stewards of social and environmental value. Access to capital, decision-making power, and ownership is what ensures that value is stored where it is created. But involving them in complex financial transactions can also place the burden of risk on these groups.[12] Funders, investors, and social enterprises must explore different ways to bear the risk, while also ensuring that local communities reap the benefits.

SunCulture, East Africa

How investors and funders can support companies

The mandate for funders and investors is clear: scale what we know works and put grant money into things that need to work but don't yet.

Deploy catalytic capital to increase funding

- Integrate more outcomes-based instruments into existing vehicles.
- Provide the critical financing through equity or debt to scale models or build distribution pathways and connect outcomes financing to accelerate the results.
- Use blended finance structures to mitigate risks for private sector participants and attract commercial investors.

Lower barriers to entry for impact-generating organizations

- Use technical assistance grants to fund impact verification and monitoring processes to make participation in impact markets more accessible.
- Create shared infrastructure for impact measurement (e.g., open-source impact databases).

Develop the ecosystem

- Engage with governments and multilateral organizations to shape incentive structures such as tax benefits for impact investments.
- Build coalitions of corporate buyers to set industry-wide impact purchasing standards.
- Invest in platforms and exchanges that help to create or improve standardized methodologies for pricing and impact verification.

Funders and investors have a unique opportunity to accelerate the growth of impact markets by building the infrastructure, partnerships, and financial mechanisms necessary to align economic incentives with social and environmental progress. By reducing risks, lowering barriers to entry, and fostering demand, they can help create a financial system that values long-term, sustainable impact. To truly unlock the potential of monetized impact, we must move beyond narrow, short-term models of doing business and work collaboratively to create a thriving ecosystem that rewards companies for solving the world's most pressing challenges.

Endnotes

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