SOCIAL IMPACT INCENTIVES (SIINC)

GOING LIVE IN LATIN AMERICA

EMPOWERING

CLÍNICAS DEL AZÚCAR

TO ATTRACT INVESTMENT AND CREATE IMPACT AT SCALE

CASE STUDY - MARCH 2017

Clínicas del Azúcar

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development and Cooperation SDC

IDB Inter-American Development Bank

FOMIN Multilateral Investment Fund Member of the IDB Group

ASHOKA

NEW VENTURES

Roots of Impact

CLÍNICAS DEL AZÚCAR (CDA)

MEXICO

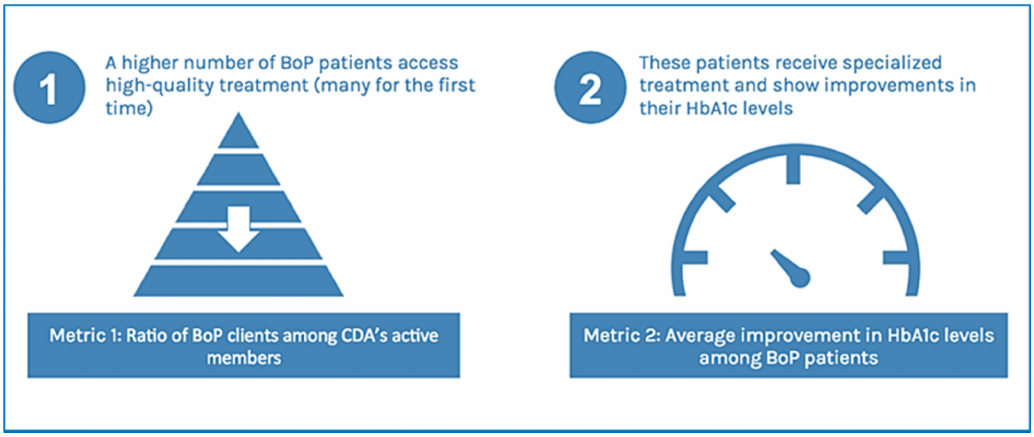
SUMMARY

The challenge of Clínicas del Azúcar is quite typical for social enterprises with market-based, highly scalable business models and a huge potential for impact: There is an almost constant challenge to balance financial and social performance.

> *"Every person with diabetes should be treated like my mom."*
>
> Javier Lozano, Founder, Clínicas del Azúcar

In Mexico, diabetes has become the leading cause of death, with more than 14 million people living with the disease[1]. CDA has the mission to give every person, regardless of his or her socio-economic background, access to specialized diabetes care in proprietary, retail-type clinics. What sounds like a huge vision, has already been a success with lower middle-income groups: After 6 years of operations, CDA is now the largest private provider of specialized diabetes care in Mexico with 9 clinics, reaching more than 50,000 patients, with 95 percent experiencing access to specialized treatment for the first time in their lives. In addition, CDA offers its services at approximately 40% of the average price for private treatment.

Given a short-term view to financial breakeven, CDA's challenge was not primarily to attract more investment to implement its aggressive scaling plan. The enterprise's most daring task is to fully embrace its mission and successfully reach patients at the bottom of the pyramid (BoP). This is the point when Social Impact Incentives (SIINC) comes into play: By providing payments for real impact achieved at the BoP, CDA is empowered to position itself as an innovator in diabetes care and a pioneer in prevention techniques. At the same time, CDA is able to achieve solid economic returns. But this is not the only benefit of SIINC: Tracking specifically designed impact metrics allows the social enterprise to stay true to its impact path while crowding in the right type of investors who will support the bold move into lower socioeconomic groups. In other words: Deeper impact at scale comes into reach.



The SIINC Impact Metrics – Paying for real results (Source: Roots of Impact)

[1] https://www.idf.org/our-network/regions-members/north-america-and-caribbean/members/66-mexico.html

THE SOCIAL ENTERPRISE: A STORY OF IMPACT

THE FOUNDER'S JOURNEY

When Javier Lozano and Fernanda Zorrilla co-founded CDA in 2010, they were driven by one idea: to create the first 'one-stop-shop' to transform the traditional, insufficient and unjust model for diabetes care in Mexico. Long before becoming an Ashoka fellow, Javier had worked in native communities for more than 8 years, focusing on education and nutrition projects and witnessing first-hand how people struggle to get access to the most basic services. This experience shaped his way of thinking and triggered his passion to solve these types of problems with the help of state-of-the-art technology.

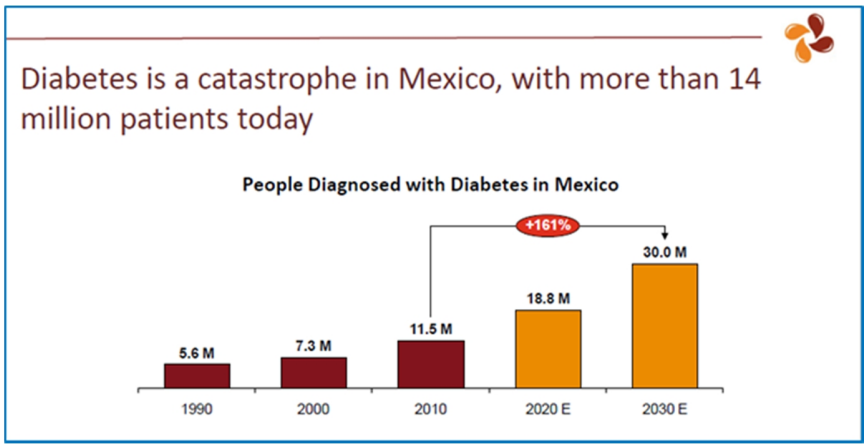
With a solid background in for-profit and non-profit organizations, it was his mother's diabetes that finally created the spark to founding Clínicas del Azúcar. Javier's thinking went: If she was struggling to manage her diabetes, even with private insurance, how difficult would it be for people without access to specialized care? And how more difficult would it be for very low-income patients? So why not have an entire chain of specialized diabetes clinics all over the country? Why not install retail 'one-stop shops' where patients can simply walk in, find what they need and pay an affordable price for services they can rely on?

During his MBA at MIT Sloan, Javier became a fellow of Iqbal Qadir the MIT Legatum Center and learned how businesses with market-based approach can create substantial value in emerging markets. Right after he had the MBA in his pocket, he forged ahead with his vision. The mission was no less than giving every Mexican, regardless of his or her socio-economic status, access to specialized diabetes care. After 6 years of operations, Clínicas del Azúcar is now the largest private provider of specialized diabetes care in Mexico. With 9 clinics, it reaches more than 50,000 patients, out of which 95 percent are experiencing access to specialized treatment for the first time in their lives.

Still, pursuing an ambitious scaling plan with up to 200 clinics over the next five years and securing sufficient financing while staying true to the mission proved to be an almost constant challenge to Javier and his team.

ACCESS TO DIABETES CARE FOR ALL

Diabetes is one of the largest global health emergencies in today's world, causing an estimated 5 million deaths annually worldwide, a rate larger than that caused by HIV/AIDS, malaria and tuberculosis combined *(graph: CDA, with data from WHO)*. It is estimated that 415 million adults currently live with diabetes and an additional 318 million have developed an impaired glucose tolerance, which



puts them at high risk of developing the disease in the future[2]. Diabetes, when untreated or poorly managed, can lead to severe complications such as heart disease, strokes, amputations, blindness, kidney failures or even depression and suicide.

In Mexico, diabetes has become the leading cause of death[3], with more than 14 million people living with the disease. Lifestyle and demographic changes have triggered a rise in risk factors lately, and cases among the younger generation are increasing at an alarming rate. This situation places an immense burden on the healthcare system. If current trends continue unabated, diabetes will cause a high level of morbidity and premature deaths, with projections that 30 million Mexicans will be affected by the condition by 2030. What makes the situation worse is that according to the Institute of Health, 75% of the population with type-2 diabetes have either no or very poor control over the disease, or do not even know that they have it.

The economic dimension of diabetes is equally disastrous. Globally, costs from direct medical expenses related to diabetes are estimated at US$ 827 billion, which includes for example outpatient and emergency care, drugs, medical supplies and long-term treatments[4]. In addition, people with diabetes and their families often have to face high out-of-pocket healthcare expenses and frequently a loss of family income caused by disability. In Mexico, the cost per patient is estimated at US$ 911 per year[5], which can easily increase up to US$ 3,000 once there are complications. If treated privately, 79% of the population in the base of the pyramid (BoP) cannot afford to pay these out-of-pocket expenses, and public centers are mostly overcrowded and unable to offer specialized services to every patient. Before CDA went live, private-sector alternatives were very limited as well as highly expensive and fragmented.

Given this situation, affordable access to specialized care for diabetes patients of all socio-economic backgrounds offers huge potential for improving the lives of the poor population. In addition, it holds the promise to lead to substantial savings for the country's healthcare system as well as for patients, their families and society as a whole.

BUILDING A BETTER FUTURE FOR THOSE IN NEED OF HEALTHCARE

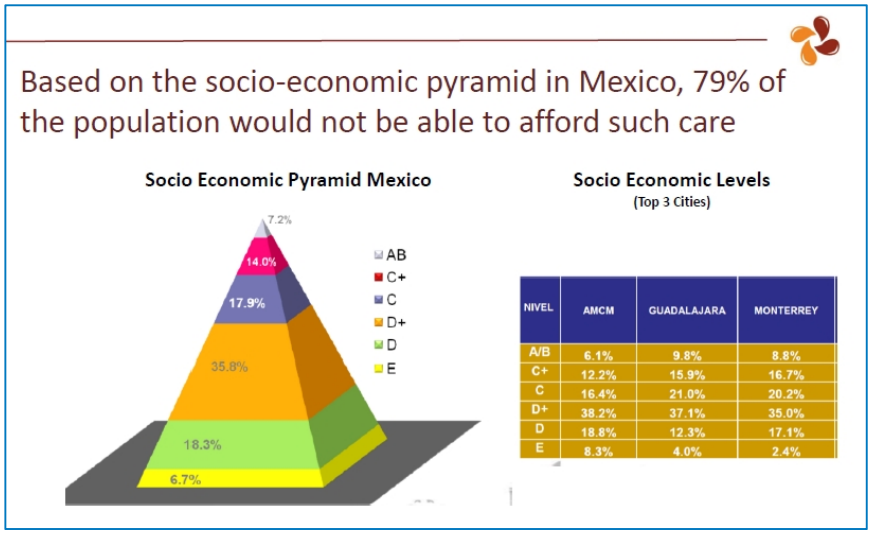
[2] http://www.diabetesatlas.org/resources/2015-atlas.html
[3] http://www.who.int/gho/countries/mex.pdf?ua=1
[4] World Health Organization, Diabetes report: http://bit.ly/1REa7Gv
[5] http://www.diabetesatlas.org/resources/2015-atlas.html

THE CDA EXPERIENCE

CDA's innovative model was designed to use state-of-the-art technology to make diabetes care efficient, low-cost and accessible for everyone. The model is based on three main pillars: (1) an efficient 'one-stop-shop', (2) a fixed-fee annual membership for care, and (3) the use of data and algorithms to personalize and improve processes. At the beginning, it took the team some time to explain to target customers that a yearly membership fee of 'just' US$ 250 (i.e. approximately 40% of the average price for private treatment) will give them superior value and the chance to substantially improve their health. One challenge was to come up with alternative financing options, which provide more flexibility to customers at the lower end of the income pyramid. For example, CDA started offering weekly or monthly payments instead of yearly sums. In general, charging and collecting money in a sophisticated way that is considerate of the patients' tight budgets while staying financially viable as a social enterprise was – and still is - a balancing act.

Another challenge was the design of a suitable and aggressive scaling plan. Finding the right locations for the clinics to give customers easy access without having to commute over long distances was a key to success. A focus on standardization to maintain a very high quality, as well as developing software to monitor locations remotely proved to be right approach. Now, after more than 5 years of operations, the effects of CDA's model are encouraging: From originally 20 percent of diabetes patients having access to specialized care, CDA was able to increase the outreach to a very high percentage of the population in the clinics' neighborhoods.

Yet Javier and his team felt that important groups are still left out, even at the relatively low price of their care service. So how to expand from a mix of patients with a high proportion of lower middle socioeconomic levels (C+/C) to low and very low income groups (D+/D/E) - segments that are very hard to reach and typically suffer the most? The social enterprise decided to go 'hybrid' and build a non-profit entity in addition to CDA's existing for-profit company. This step, which took place in 2014, is still ongoing today. It involves gathering sufficient data as well as testing different ideas about how to effectively address the needs of the BoP and come up with a suitable and sustainable business model.



NIVEL	AMCM	GUADALAJARA	MONTERREY
A/B	6.1%	9.8%	8.8%
C+	12.2%	15.9%	16.7%
C	16.4%	21.0%	20.2%
D+	38.2%	37.1%	35.0%
D	18.8%	12.3%	17.1%
E	8.3%	4.0%	2.4%

(Graph: CDA, with public data sources, e.g. Perspectives on healthcare in Latin America. McKinsey & Company, 2011).

But how to finance this step towards much deeper impact? How to buy time to define an appropriate business model? And how to fully embrace the social enterprise's mission to reach each and every one in need of specialized diabetes care? This was the point in time when SIINC came into play.

THE FINANCING: HOW SIINC ENABLES SCALE

Once the SIINC program for Latin America and the Caribbean ('SIINC LAC') was launched, CDA quickly proved to be a compelling case for implementation: (1) a proven, highly scalable and financially solid business model, combined with (2) a huge potential for deeper impact by expanding the offering to lower-income beneficiaries.

This was a great opportunity to demonstrate what SIINC is able to achieve: supporting high-impact social enterprises in attracting investment and creating impact at scale. With CDA, SIINC would implement an important mechanism: incentivizing the social enterprise to deepen impact without sacrificing profitability and thus attractiveness for investors. Ongoing SIINC premiums would be based on proven social outcomes, which are then disbursed in addition to CDA's regular revenues.[6]

> *"Co-designing the metrics together with Roots of Impact was a vital experience for us."*
>
> Javier Lozano, Founder, Clínicas del Azúcar

With a massive scaling plan in place and a short-term view to financial breakeven, CDA's main challenge was not necessarily to attract more capital. The enterprise's most daunting task would be to fully embrace its mission and reach patients at the bottom of the income pyramid struggling with diabetes. Quite consequently, Javier's predominant concern was to understand how the SIINC design would support this exact step. Another factor he and his team had to wrap their minds around first was how the SIINC metrics would align with CDA's other impact targets. Would there be potential for conflicts? Would SIINC allow bridging the phase until CDA has gathered enough data about the BoP, reach economies of scale and convince the government to become engaged in their solution? And would SIINC crowd in investors who support this strategic move and not shy away from the increased risk of CDA's venture into lower-income segments?

> *"The increased BoP focus is very much what we want to see as an impact investor."*
>
> Peter Bladin, Chief Impact and Research Officer, Global Partnerships (existing investor and Board member in CDA)

In the end, it was the flexibility of SIINC that convinced CDA and brought all parties together. The combination of well-designed metrics, aligned with the overall mission, and the agreement for premium payments based on relative impact performance made the deal come to life. In addition, the contract between the outcome payer and the social enterprise was very straightforward.

Last but not least, SIINC was able to win CDA's main existing impact investors to support the company's move. Two of their current impact investors agreed to make fresh commitments in the amount of USD 1.5 million and the Board members gave the green light to the deal. The SIINC commitment was defined with up to USD 275,000 in total, which represents a leverage ratio of 1:5.5 on the investment. Much more relevant, however, is CDA's future 'additional' impact that will be catalyzed through the SIINC payments.

[6] For more information on the SIINC mechanism, see „SIINC White Paper" at www.roots-of-impact.org/siinc/

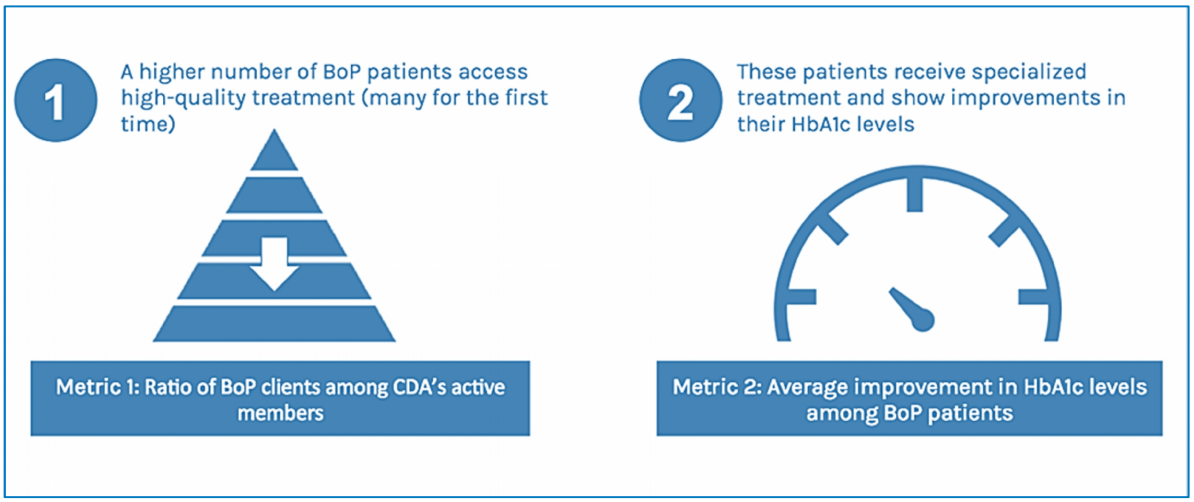
THE IMPACT METRICS: PAYING FOR REAL RESULTS

Through SIINC, Clínicas del Azúcar is empowered to position itself as an innovator in diabetes care and a pioneer in prevention techniques. The SIINC rationale focuses on improving growth and success rates in the treatment of BoP patients, accordingly. In addition, impact is supposed to grow through the development of targeted prevention programs.

The design of the SIINC metrics comprises two major impact key performance indicators ("impact KPI"), addressing the BoP focus of the operation and the outcomes of treatments for BoP patients:

(1) The first metric is based on the penetration of patients served by CDA in lower income segments D+/D/E. Payment sizes are relative to specific growth rates achieved, and are capped to a maximum size to be received within 2.5 years.

(2) The second impact KPI refers to continuous improvements in blood sugar levels among the D+/D/E income population groups who become patients of CDA. The payments are triggered according to average improvements achieved by all, and are again relative to the size of the improvement rate. Nevertheless, the total size of these payments is capped and spread over a period of 2 years. *(Graph: Roots of Impact)*



In essence, SIINC will support CDA's expansion plans while keeping and encouraging the focus on the BoP segment and on a high quality of treatment. This will very likely have positive side effects: encouraging new investment and putting the enterprise on the radar screen of the public sector. The latter aspect is the clearly intended and realistic scenario following a successful SIINC intervention and scaling. With SIINC, a follow-on scenario is always an essential part of the concept. A study that CDA is currently conducting on the impact of its services with the Massachusetts Institute of Technology (MIT) will certainly make a good case for reducing public spending. Thus, CDA's plan to service a greater number of BoP clients will either materialize through arrangements for a service contract from local authorities or health insurance providers. Alternatively, they will achieve this goal through economies of scale or with a combination of both, public partnership and a proprietary, sustainable business model. One way or the other, CDA will be well positioned to reach its goals, once it has demonstrated strong growth of both, impact and financial bottom lines.

THE FUTURE: HOW CDA WILL FULFILL ITS PROMISE

Within the coming 3 to 5 years, CDA plans to massively scale across Mexico and to determine how to replicate the model in other countries. Behavioral patterns around diabetes and ways to improve them are basically similar in various geographic regions, while payment models and their acceptance among patients will have to be tailored to other countries to some extent.

As mentioned before, CDA has teamed up with the Massachusetts Institute of Technology (MIT) to evaluate the impact and efficiency of its service. This step is meant to demonstrate CDA's partnering potential to the public sector. The study will scrutinize the social impact and the economic savings by measuring treatment costs and results of two groups of 2000 patients: one receiving the specialized service of CDA and the other the non-specialized service used by public providers. Results are expected by 2018 with mid-terms reviews.

REAL LIFE IMPACT: A PATIENT'S STORY

One illustration of the impact that CDA can have on the lives of patients is a real-life story that Javier likes to share:

One afternoon, Raul, a man suffering from diabetes, passed by one of the CDA clinics by chance and dropped in, since he had never seen something similar before. The clinic performed a A1C test for free and the doctor realized that Raul's insulin dosage was largely insufficient. After checking the prices, Raul decided to become a member, received the correct treatment and gained control over his condition. Two months later, he made a confession to the CDA clinic team: He had been so desperate that without finding and entering the clinic that day, he would have planned to commit suicide.

So how many people will commit suicide because they do not have CDA clinics in their neighborhoods? "We want to be there as soon as possible to reach all Raul's in Mexico and beyond", is Javier Lozano's summary of his vision.

COMPANY FACTS

Company Name:	Clínicas del Azucár
Founded:	2010 (first clinic launched in 2012)
Headquartered:	Monterrey, Mexico
Regional Focus:	Mexico (at this stage)
Major achievements:	Access to specialized diabetes care for more than 50,000 patients
Financing sources:	Mainly institutional impact investors
Partners and supporters:	MIT, Echoing Green, Ashoka, Endeavor, Santa Clara University GSBI center. CDA is also an active participant in the Global Health Track of the Clinton Global Initiative.
Website:	http://www.clinicasdelazucar.com/about-us-2/

THE SIINC PARTNERS AND THEIR ROLES

The SIINC LAC project is powered by:

SDC	The Swiss Agency for Development and Cooperation (SDC) is the co-creator of SIINC and made available the SIINC funds to support and scale high-impact social enterprises in the LAC region. It also acts as the outcome payor.
Roots of Impact	Roots of Impact is the overall project manager of the Public Private Development Partnership, responsible for the SIINC suitability assessment, the structuring of the SIINC transaction and the independent verification of the impact measurement (transaction manager).
IDB	The Inter-American Development Bank, through its Multilateral Investment Fund (MIF), is the contract partner and facilitator in the SIINC transaction. It takes charge of managing the funds on behalf of SDC and performs due diligence on the transaction. In addition, the IDB contributes expertise via its Social Entrepreneurship Program (SEP).
Ashoka	The Latin America office of Ashoka adds valuable local knowledge and network and takes responsibility for identifying potential investees.
New Ventures	New Ventures provides extensive on-the-ground expertise as well as support in finding suitable SIINC candidates.

In addition to these roles, the IDB provides a technical cooperation component in the case of CDA that is meant to further support (1) the company's increased penetration of the BoP market and (2) an effective diabetes prevention. With IDB and local resources, CDA will work in increasing its knowledge about consumer behavior at the BoP, with the goal to define specific and adapted education, communication and marketing plans which, among others, will look to increase awareness and education about diabetes problems, improve patients satisfaction levels, and increase retention and market penetration.

LINKS AND RESOURCES

Social Impact Incentives (SIINC) White Paper:
http://www.roots-of-impact.org/wp-content/uploads/2017/05/Social-Impact-Incentives-SIINC-White-Paper-2016.pdf

Social Impact Incentives Explain Video and Graphs:
http://www.roots-of-impact.org/siinc/