SOCIAL IMPACT INCENTIVES (SIINC)

EMPOWERING

CLÍNICAS DEL AZÚCAR

TO ATTRACT INVESTMENT AND CREATE IMPACT AT SCALE

CASE STUDY AFTER FINAL RESULTS 2020

Roots of Impact

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A SIINC CASE STUDY AFTER FINAL RESULTS 2020

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SUMMARY

THE CHALLENGE & THE INNOVATIVE SOLUTION

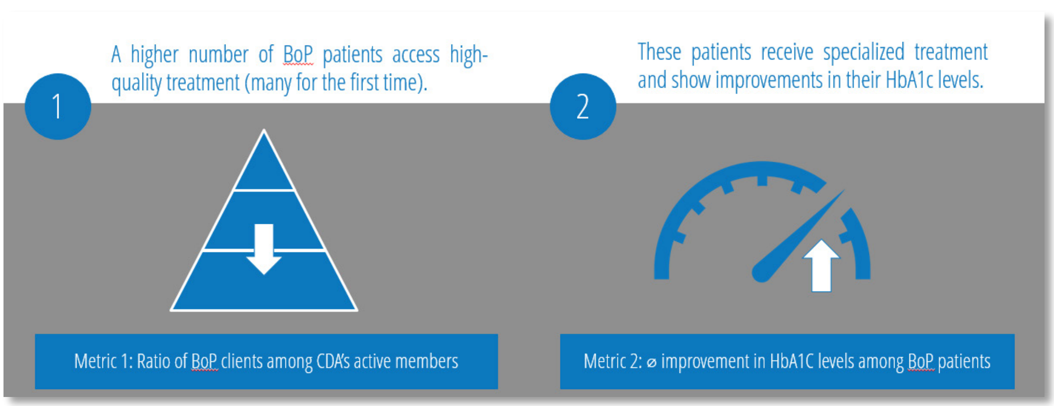
The challenge of CLÍNICAS DEL AZÚCAR (CDA) is quite typical for an impact enterprise with a market-based, highly scalable business model and a huge potential for impact: There is an almost constant challenge to balance financial and social performance.

> *"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's mission is to give every person, regardless of his or her socio-economic background, access to specialized diabetes care in proprietary, retail-type clinics. What sounded like a huge vision has already been a success with lower middle-income groups: After 9 years of operations, CDA, with 18 clinics, is the largest private provider of specialized diabetes care in Mexico today, reaching more than 100,000 patients, 95% of whom have 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 in 2016 was not primarily to attract more investment to implement its aggressive scaling plan. The enterprise's most daring task was to fully embrace its mission and successfully reach patients at the bottom of the pyramid (BoP). This is where SOCIAL IMPACT INCENTIVES (SIINC) came into play: By providing payments for real impact achieved at the BoP, CDA was able to position itself as an innovator in diabetes care and a pioneer in prevention techniques. At the same time, CDA would be able to achieve solid economic returns.

Yet this was not the only benefit of SIINC: Tracking specifically designed impact metrics allowed the impact 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 came into reach.



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

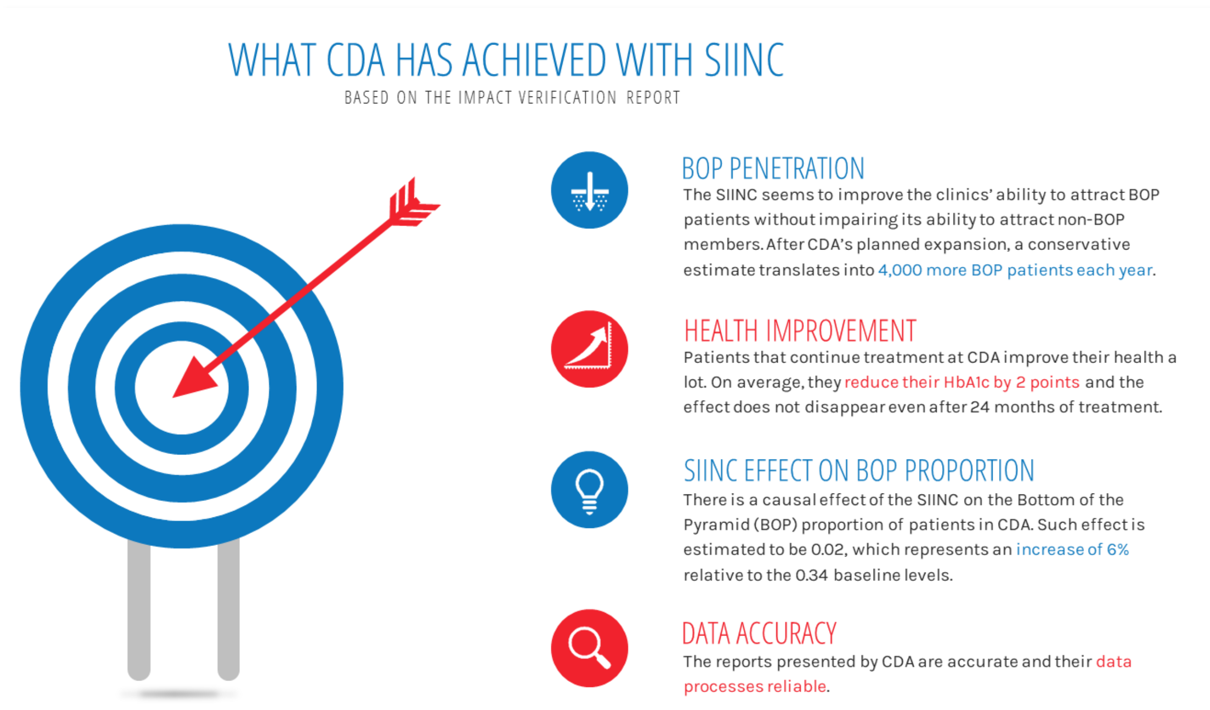
[1] https://www.idf.org/our-network/regions-members/north-america-and-caribbean/members/66-mexico.html

AT A GLANCE: THE RESULTS

CDA performed strongly in all aspects of the intended targets. From a fundraising perspective, the enterprise directly secured USD 1.5M in equity parallel to the closing of the SIINC transaction. Later in the SIINC period, CDA was able to attract an even larger amount with a debt round of USD 6M for expansion.

Looking at the BoP penetration, the results reported during the SIINC transaction period show an increase from 34% to 36%. When also including the period of developing SIINC – i.e. the anticipatory effect prior to the transaction start – as well as the effects after SIINC officially ended, CDA was able to report an even greater increase of BoP penetration from originally 32% to 37%.

Finally, the direct health outcomes for the BoP have been significant: Average improvements in HbA1c levels ranged between 2.18 and 2.8 per six-month period, meaning substantial reductions in the risk of diabetes complications.



The independent verification report brought an additional, interesting highlight:

- The research report emphasized the uniqueness of how CDA provides the quality of service at the given price for the type of clients that CDA reaches. This is an unprecedented achievement in Mexico and positions CDA far beyond any potential competitors.

WHAT WE LEARNED FROM THIS SIINC TRANSACTION

The SIINC transaction with CDA was Roots of Impact's first ever SIINC application in practice and the first transaction that completed the full SIINC payment cycle - with impressive results. A number of insights and learnings that we took from this first successful transaction are important to share:

> *""I was very excited by the results, and definitely by some unexpected outcomes because of SIINC, like the aligning of the executive team that produces results even beyond the scope of the project."*
>
> Javier Lozano, CEO Clínicas del Azúcar

- SIINC KEEPS THE ENTERPRISE ON THE IMPACT TRACK - ESPECIALLY IN DIFFICULT TIMES.

  The SIINC component created a financial flexibility for CDA to experiment with new business strategies without jeopardizing the existing ones, all while keeping up business expansion and driving growth. This was of particular significance during a phase of currency fluctuation, where CDA would normally have had to cut down on its BoP penetration to avoid losses. With the SIINC arrangement in place, CDA was able to maintain its high-impact focus despite adverse operating conditions.

- SIINC HELPS TO ALIGN THE ENTERPRISE'S TEAM TO EVEN EXCEED TARGET RESULTS.

  By the end of the SIINC transaction, Javier Lozano expressed that he would have wished for the SIINC payments to have stretched over a longer time-frame, since having the incentive in place really drew the management team's attention to the BoP segment.

- THE EFFECTIVENESS OF SIINC RELIES ON A GOOD IMPACT MANAGEMENT AND MEASUREMENT PRACTICE.

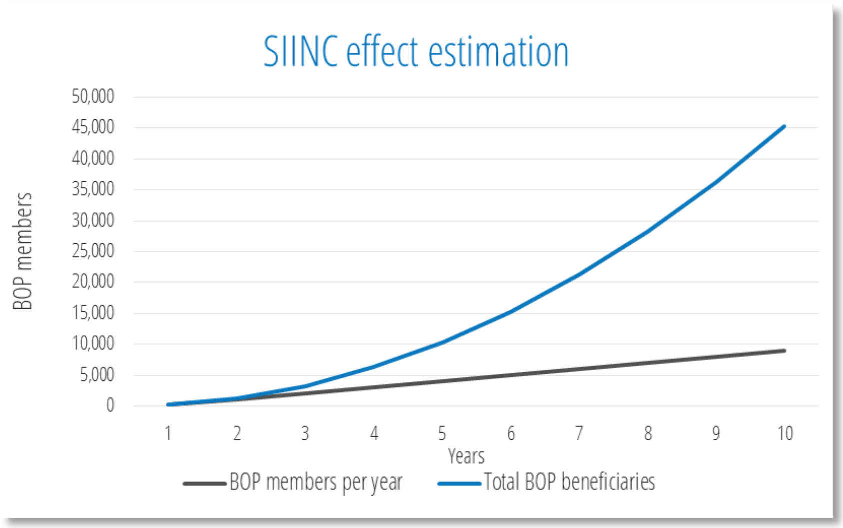
  What became even more obvious than expected is the importance of working with enterprises that already have in place robust systems to gather and report on the data that Roots of Impact needed, or that can be adapted to do so with relative ease.

- INCENTIVE CO-CREATION WITH THE ENTERPRISE IS KEY.

  Another important insight is that the co-creation of the incentive schemes and metrics together with the enterprise is a very powerful approach and strongly helps to align all stakeholders in the transaction for maximum impact.

- THE MORE DIRECT THE ENTERPRISE'S INFLUENCE ON THE OUTCOMES, THE MORE TARGETED THE RESULTS.

  Another aspect to highlight is the importance of working with enterprises that have a direct control over the outcome they are seeking to inculcate. With CDA, we could measure exactly what we meant to promote with SIINC: a positive change in the access and health status amongst a specific segment of the population.



The evaluation concluded with a conservative estimate that by year 5 there will be more than 4,000 additional BOP patients per annum. Cumulatively, this will result in 10,000 additional BOP patients in that year.

For more details, see the [SIINC Data Analysis Report] by Ari Bronsoler from MIT.

DETAILED SIINC CASE STUDY

CLÍNICAS DEL AZÚCAR

THE IMPACT ENTERPRISE: A STORY OF IMPACT

THE FOUNDER'S JOURNEY

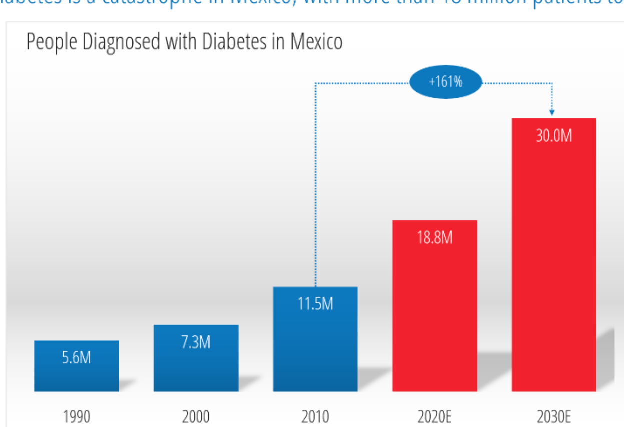
When Javier Lozano and Fernanda Zorrilla co-founded Clínicas del Azúcar (CDA) in 2010, they were driven by one idea: to create the first 'one-stop-shop' to transform the traditional, insufficient and unjust model for diabetes care in Mexico. Long before becoming an Ashoka Fellow, Javier had worked in 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 sparked the idea to founding CDA. 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, CDA was the largest private provider of specialized diabetes care in Mexico. With 18 clinics, it reaches more than 100,000 patients today, 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.

Diabetes is a catastrophe in Mexico, with more than 18 million patients today



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: Roots of Impact/CDA, with data from WHO, 2019)*. 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 USD 827B, 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 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 USD 911 per year[5], which can easily increase up to USD 3,000 if 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 often 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.

[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

BUILDING A BETTER FUTURE FOR THOSE IN NEED OF HEALTHCARE

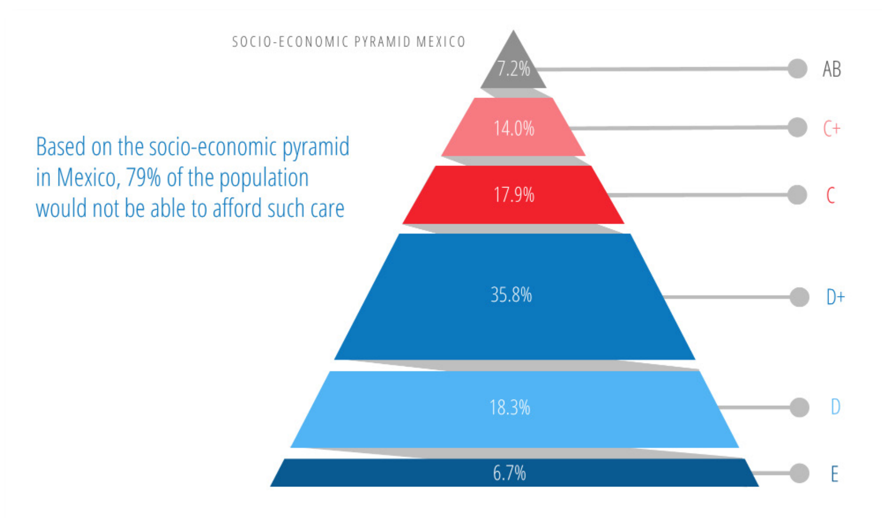
THE CDA EXPERIENCE

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:

- an efficient 'one-stop-shop',
- a fixed-fee annual membership for care, and
- 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' USD 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 an impact 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. Only after 5 years of operations, the effects of CDA's model were already 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 impact enterprise decided to go 'hybrid' and build a non-profit entity in addition to CDA's existing for-profit company (the non-profit entity, which was set up in 2014, is still operating today). This step involved 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.

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

But how to finance a big step towards much deeper impact? How to buy time to define an appropriate business model? And how to fully embrace the impact 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 in 2016, CDA quickly proved to be a compelling case for implementation:

- a proven, highly scalable and financially solid business model, combined with
- 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 enterprises in attracting investment and creating impact at scale. With CDA, SIINC would implement an important mechanism: incentivizing the 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)

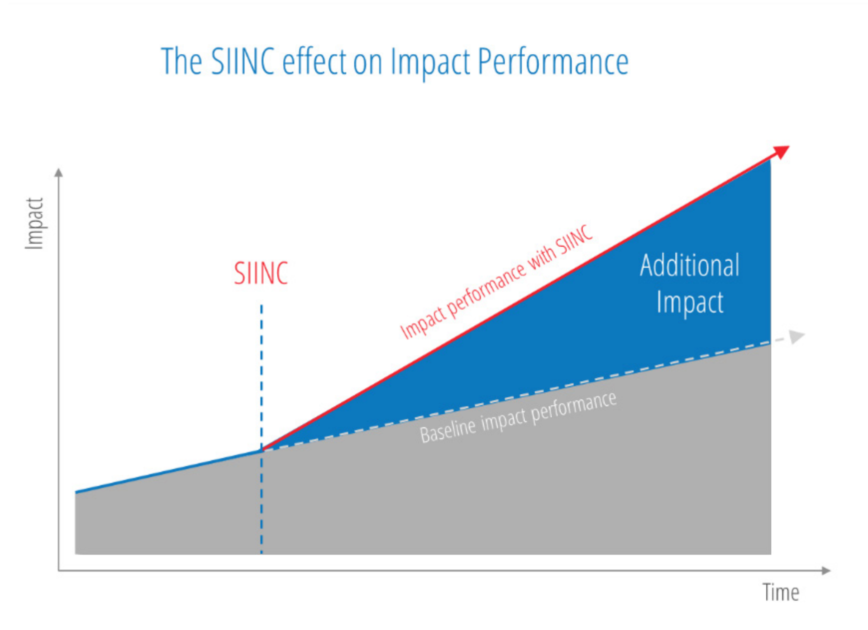
In the end, it was the flexibility of SIINC that convinced CDA and brought all parties together. The combination of well-designed metrics, aligned with the overall mission, and the agreement for premium payments based on relative impact performance made the deal come to life. In

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

addition, the contract between the outcome payer and the impact enterprise was very straightforward.

Last but not least, SIINC was able to win CDA's main existing impact investors to support the enterprise's move. Two of their current impact investors agreed to make fresh commitments in the amount of USD 1.5M 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 was catalyzed through the SIINC payments.

To sum up, the graph below illustrates the general effect of SIINC on the impact performance of a target impact enterprise *(graph: Roots of Impact)*:



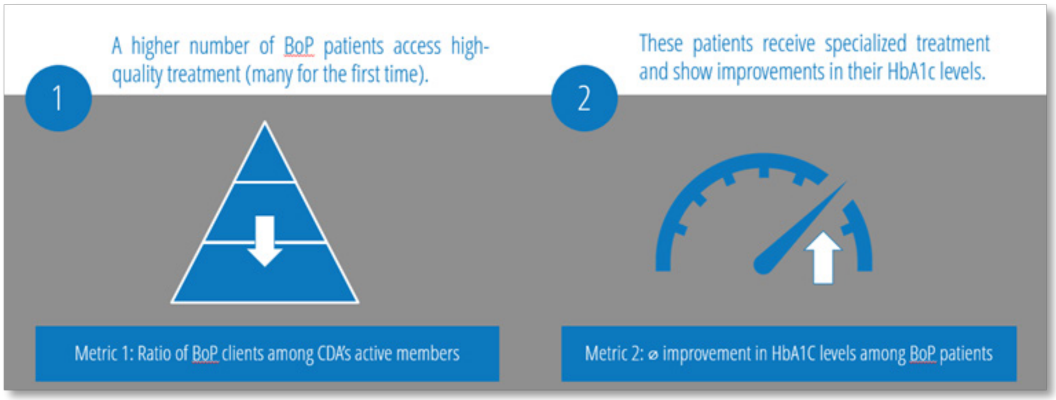
THE IMPACT METRICS: PAYING FOR REAL RESULTS

Through SIINC, CDA became empowered to position itself as an innovator in diabetes care and a pioneer in prevention techniques. Accordingly, the SIINC rationale focused on improving growth and success rates in the treatment of BoP patients. In addition, impact was supposed to grow through the development of targeted prevention programs.

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

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

(2) The second impact KPI referred to continuous improvements in blood sugar levels among the D+/D/E income population groups who became patients of CDA. The payments were triggered according to average improvements achieved by all, and were again relative to the size of the improvement rate. Nevertheless, the total size of these payments was capped and spread over a period of 2.5 years.



(Graph: Roots of Impact)

In essence, SIINC supported CDA's expansion plans while keeping and encouraging the focus on the BoP segment and on a high quality of treatment. This was expected to have positive side effects: encouraging new investment and putting the enterprise on the radar screen of the public sector. The latter aspect was – and still is - clearly intended and a realistic scenario following a successful SIINC intervention and scaling (though it hasn't become a reality yet).

With SIINC, a follow-on scenario is always an essential part of the concept. A study that CDA conducted on the impact of its services together with the Massachusetts Institute of Technology (MIT) did make a good case for reducing public spending. CDA's plan to service a greater number of BoP clients will thus either materialize through arranging a service contract from local authorities or health insurance providers. Alternatively, CDA will achieve this goal through economies of scale. A third scenario is the combination of both, public partnership and a proprietary, sustainable business model. One way or the other, the enterprise will be well positioned to generate long-term impact, with demonstrated strong growth of both impact and financial bottom lines.

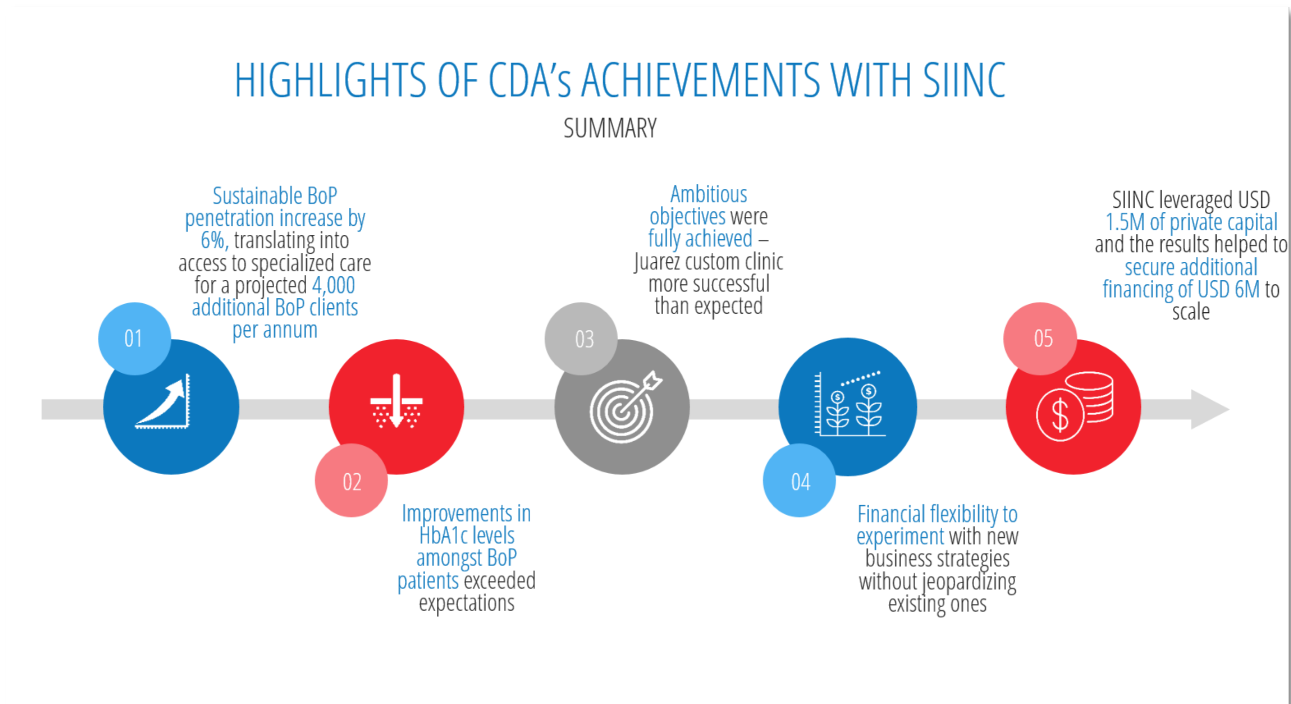
CDA'S FINAL RESULTS 2020

Already during the SIINC preparation and negotiation phase, the new market approach led to an increase in the average proportion of BoP members across CDA's 13 clinics – an anticipatory effect. This proportion increased further after the SIINC transaction was launched. At one custom clinic in Juarez - specifically established for targeting the BoP - more than half of all active members came - and still come - from the BoP (defined as segments D and E of the income pyramid).

Looking at the BoP penetration, the results reported during the SIINC transaction period show an increase from 34% to 36%. When also including the period of developing SIINC – i.e. the anticipatory effect prior to the transaction start – as well as the effects after SIINC officially ended, CDA was able to report an even greater increase of BoP penetration from 32% to 37%.

Yet the quality and results of the treatment are just as important as the increased ratio of BoP members. CDA also managed to maintain and improve the HbA1c level improvements of its members and thus exceeded expectations. For the BoP customers, the direct health outcomes have been particularly significant: Average HbA1c levels improvements ranged between 2.18 and 2.8 per six-month period, meaning substantial reductions in the risk of diabetes complications.

Altogether, the consolidated achievements of the pre-agreed outcomes (increased ratio of BoP members and improved HbA1c levels) led to premium payments of USD 275,000 over a period of 2.5 years. The ambitious objectives were fully achieved and seem to be well balanced. USD 1.5M of private capital was leveraged to sustainably increase BoP penetration by 6%, translating into access to specialized care for a projected 4,000 additional BoP clients per annum. In particular, targeted BoP approaches meant that the quality of treatment across all clinics has proven more successful than for other income groups. This enables CDA to establish a benchmark for low-cost, high-quality diabetes care for lower socioeconomic segments in Mexico.



The SIINC component also created a financial flexibility for CDA to experiment with new business strategies without jeopardizing the existing ones, all while keeping up business expansion and driving growth. This was particularly significant during a phase of currency fluctuation, where CDA would normally have had to cut down on their BoP penetration to avoid losses. With the SIINC arrangement in place, CDA was able to maintain its high-impact focus. The results also proved to be highly beneficial in another aspect: CDA secured an additional financing round of USD 6M.

This provided the impact enterprise with sufficient resources to achieve the next step of impact at scale.

THE FUTURE: HOW CDA WILL FULFILL ITS PROMISE

Within the coming 3 to 5 years, CDA plans to massively scale across Mexico and to replicate the model in other countries. Behavioral patterns around diabetes and ways to improve them are 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 teamed up with the Massachusetts Institute of Technology (MIT) to evaluate the impact and efficiency of its service. This step demonstrated CDA's partnering potential to the public sector. The study scrutinized the social impact and the economic savings by measuring treatment costs and results of two groups of 2,000 patients: one receiving the specialized service of CDA and the other the non-specialized service used by public providers. Results have shown the massive potential savings and strong health results from CDA's model. This is one route that CDA will continue to explore.

Since wrapping up the SIINC transaction, CDA's management only had one regret: Having the SIINC incentives in place for longer would have been better, even if the sums had been lower in each individual payment period. The reason behind this was the fact that having a financial incentive in place enabled and motivated the team to maintain their focus on the most impactful target segment: the BoP. Without the incentive, the CDA management feels it will be more difficult to maintain this focus in the daily operations of a rapidly growing enterprise.

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 Lozano shared. His credo:

"We want to be reach all Rauls in Mexico and beyond as soon as possible".

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 free A1C test 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 team: He had been so desperate that without finding the clinic that day, he would have planned to commit suicide.

MORE ABOUT CDA, SIINC AND THE SIINC PROJECT PARTNERS

IN THE PRESS & OTHER RESOURCES

- About SIINC and the concrete SIINC transactions and programs: www.roots-of-impact.org/siinc and www.roots-of-impact.org/siinc-programs
- "Mexican Clinic Boosts Low-Income Patients by Monetising Quality" on Healthcare Business International
- "Social Impact Incentives? A New Tool for Supporting Impact" on Devex
- "Early Data Signals Success of Social Impact Incentives" on ImpactAlpha

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 100,000 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:	https://www.clinicasdelazucar.com/

THE SIINC PARTNERS AND THEIR ROLES

The SIINC LAC project is powered by:

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra
Swiss Agency for Development and Cooperation SDC

IDB LAB

ASHOKA

NEW VENTURES

Roots of Impact

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 impact enterprises in the LAC region. It also acts as the outcome payer.

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 IDB Lab, 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 Lab provided a technical cooperation component in the case of CDA that was 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 would 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, would look to increase awareness and education about diabetes problems, improve patients satisfaction levels, and increase retention and market penetration.

Roots of Impact

www.roots-of-impact.org

2021