

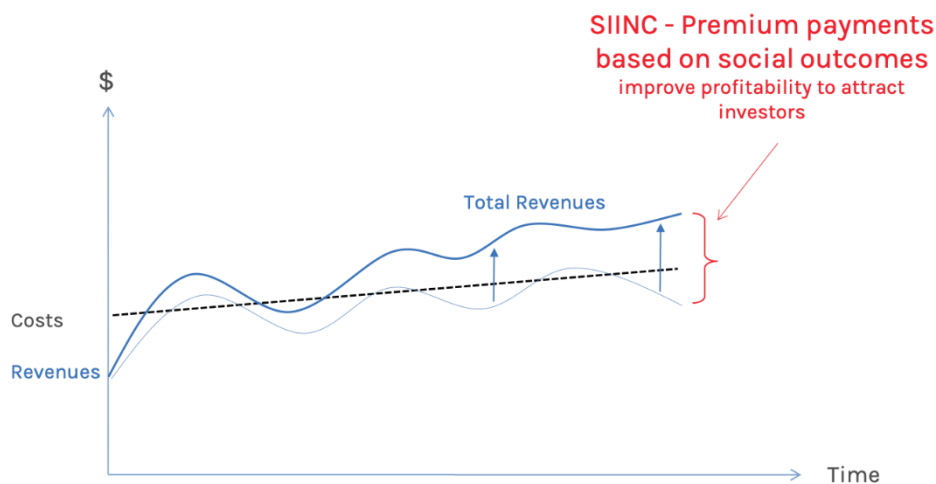
## EMERGENCY SIINC – PAY FOR IMPACT TO SUSTAIN FUTURE IMPACT

COVID-19 is a threat to high-impact enterprises that deliver critical products and services to the most marginalized populations. Many of them are highly vulnerable in their early growth phase even if their market-based approach has proven to work in “normal times”. Providing an emergency loan to these organizations can make sense in order to bridge their liquidity gap, but it might lead to unintended shifts in their business model and less focus on the poor and vulnerable. After all they would need to make enough money in times of crisis for being able to pay back the loan in the medium term.

In order to support them in continuing their operations, we created a variant of Social Impact Incentives (SIINC) tailored to this crisis: **Emergency SIINC** is a solution that can help these enterprises stay laser focused on customers and communities that need their solutions most. The Emergency SIINC will provide grants to impact enterprises that secure investment (e.g. emergency loans) from current or new investors. The Emergency SIINC funds would be tied to results of defensive **strategies developed by enterprises to maintain and protect their workforce, to continue delivering critical products and services to its customers, and to provide active support for their communities in facing the Covid-19 crisis**. The appeal for funders and investors is that any enterprises who survive will be excellently positioned for rapid growth after the crisis – thereby enabling even larger impact in the medium-term. Considering the urgency of the cash flow needs right now the outcomes metrics can be defined in a meaningful but pragmatic way. In case the funder knows the company already, a contract can be signed in a reasonable time.

### WHAT ARE SOCIAL IMPACT INCENTIVES (SIINC)

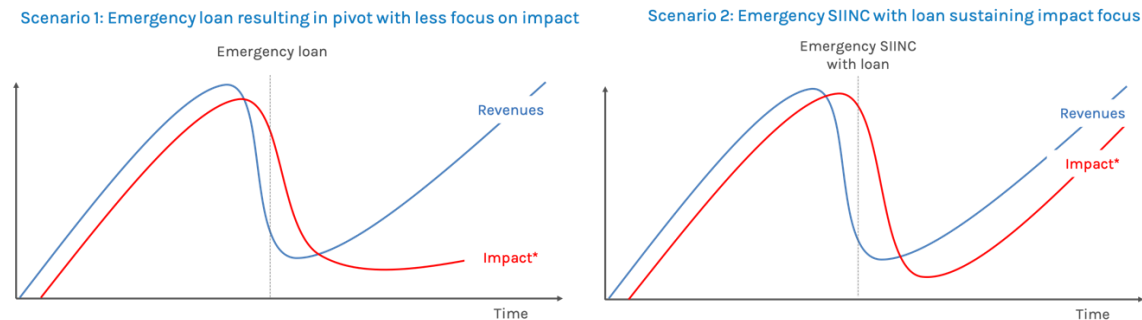
Social Impact Incentives (SIINC) is a funding instrument that rewards high-impact enterprises with time-limited premium payments for achieving social impact. The additional revenues enable them to improve profitability and attract investment to scale. Thus, SIINC can effectively leverage public or philanthropic funds to catalyze private investment in underserved markets with high potential for positive impact.



More information on Social Impact Incentives can be found [here](#).

## HOW THE EMERGENCY SIINC IS DIFFERENT

While SIINC usually addresses points of friction between the impact and profitability objectives of impact enterprises, the underlying thesis for the Emergency SIINC is that enterprises that do not receive additional emergency funding tied to impact will risk unintended shifts in their business model. For this reason, paying for the impact that an enterprise is generating in the short-, mid- and long-term for its most vulnerable customers will ensure its survival in this crisis period, its future existence and impact.



\* In particular depth of impact, i.e. focus on BoP customers, marginalized/disadvantaged target segments, last mile customers

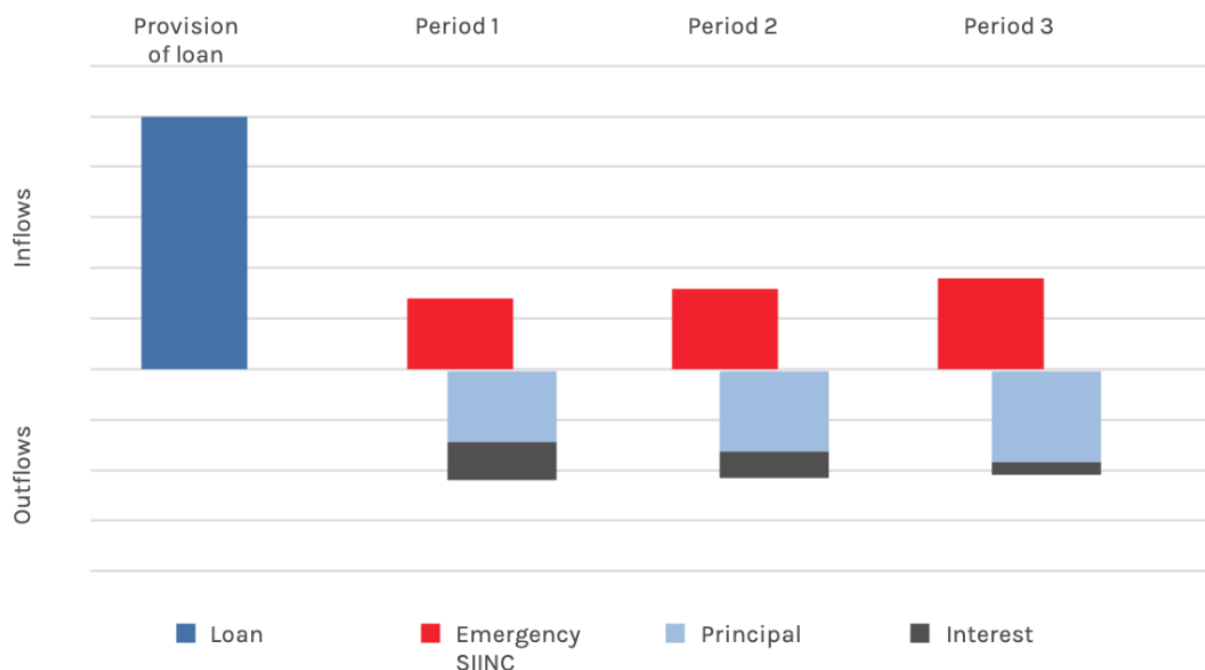
## EMERGENCY SIINC VS. LOAN VS. GRANT

Although grants can be an effective relief measures in terms of crisis, it is crucial to link these disbursements to results. The table below compares the Emergency SIINC coupled with a loan to an “traditional” emergency loan and a grant with no link to results.

Criterion	Emergency SIINC with loan	Emergency loan	Grant (without link to results)
Rationale	Sustain enterprise and impact traction, enable future impact	Sustain enterprise	Sustain enterprise
Incentive for enterprise	Impact and commercial performance	Commercial performance	n/a
Financial risk	Enterprise and investor	Enterprise and investor	n/a
Impact focus	Enterprise, investor and donor	n/a	Donor

## HOW EMERGENCY SIINC WORKS IN PRACTICE

The graph below is an illustrative example of the cash inflows and outflows that the impact enterprise will receive in the short-medium term. **There can be many different variations of this solution, i.e. the SIINC amount, the time of disbursement etc.** In this example, the Emergency SIINC payments enable the enterprise to pay back the loan principal in full.



From a cashflow perspective, the Emergency SIINC could be shown as in the table below:

	Period 0	Period 1	Period 2	Period 3
Loan	240,000			
Emergency SIINC		70,000	80,000	90,000
Interest (15%)		-36,000	-25,500	-13,500
Cashflow	240,000	34,000	54,500	76,500

The amount of Emergency SIINC should be adjusted/determined according to the reduction in revenues of the enterprise and its ability to continue delivering critical products or services to the most vulnerable populations.

## ELIGIBILITY CRITERIA FOR IMPACT ENTERPRISES

In order to benefit from the Emergency SIINC, **impact enterprises** need to demonstrate:

- Strong evidence for positive impact on disadvantaged target groups
- High scalability after crisis and mid-term potential for commercial self-sustainability or public contracting – high probability for “surviving” the crisis by providing short term liquidity
- Direct and measurable results (trackable and attributable to solutions)
- Market failure: Targeting highest impact areas - e.g. serving very low-income groups or more rural areas leading to higher risk and lower profitability
- Lack of access to government subsidies to overcome the crisis
- Experiencing a reduction in revenues because of Covid-19 crisis

## ELIGIBILITY CRITERIA FOR IMPLEMENTING ORGANIZATIONS

We recommend that **implementers** who are willing to structure SIINC and other Impact-Linked Finance Solutions on behalf of donor organizations need to meet the following requirements:

Experience and track record in:

- Innovative finance for impact enterprises and/or small & growing businesses in developing countries
- Impact measurement and management
- Structuring of financial instruments, in particular alternative financing models for market-based organizations
- Effective use of public funds and catalytic capital for blended finance

Commitment to apply and support:

- The [Design Principles for Impact Linked Finance](#)
- Other relevant principles such as the [IFC Operating Principles for Impact Management](#) and the [OECD DAC Blended Finance Principles](#) for Unlocking Commercial Finance for the SDGs

Favorable additional criteria:

- Demonstrated experience in working with impact entrepreneurs
- Experience and track record in results-based finance
- Capabilities for fund/grant management and administration
- Ability to attract additional funding

## WHAT RESULTS CAN BE REWARDED

Results	Rationale	Examples
Continued delivery of essential products and services to the most vulnerable populations	Such solutions may need to be temporarily subsidized	<ul style="list-style-type: none"> <li>• Rewarding off-grid energy companies to continue delivering their solutions to low income rural households (despite higher cost of delivery)</li> <li>• Rewarding providers for vocational skills training to continue placing the most disadvantaged students into jobs</li> <li>• Rewarding an agricultural SME lender to continue disbursing “high additionality loans”, meaning loans that the lender would not consider profitable enough</li> </ul>

Results	Rationale	Examples
Counter actions to fight Covid-19	If the enterprise can't continue its normal operations, it can be rewarded for engaging in other actions to help the local communities fight the virus	<ul style="list-style-type: none"> <li>• % production shifted from 'normal' activity (e.g. clothing) to health gear (e.g. masks)</li> <li>• % of existing customers/community members reached through awareness-raising campaigns</li> <li>• % of customers reached through the distribution of essential products such as cleaners and disinfectants</li> </ul>

## ADVANCED OPTIONS AND VARIATIONS

The Emergency SIINC was developed based on the fact that many public and philanthropic funders face formal challenges when it comes to “potentially repayable” instruments or repayments in general. Most of them are set up as grant makers and cannot engage in more sophisticated instruments (at least not in a reasonable time). Nevertheless, an impact-linked loan would probably be the simplest solution from the enterprise perspective. Here is an overview of different options for catalytic funders that are not so restricted. They all serve a similar purpose: to bridge the liquidity gap of high-impact enterprises and help them to survive and stay focused on creating deep impact:

- **Guarantees to be combined with Emergency SIINC.** It might be hard to secure an emergency loan or any other capital injection right now. Funders can consider providing a guarantee for an emergency loan on top of the Emergency SIINC (guarantee amount decreasing according to SIINC payments). Rationale: We are committed to provide funding up to a certain amount. In case of success we pay for achieving positive impact. Otherwise the amount is used for paying back the loan of the enterprise.
- **Pay-Back-With-Your-Impact Loan.** A Pay-Back-With-Your-Impact Loan is quite a radical version of impact-linked loans involving debt forgiveness as a reward for achievement of pre-defined impact performance. Considering the urgency of the cash flow needs right now the outcomes metrics can be defined in a meaningful but pragmatic way. In case the funder knows the company already a contract can be signed in just a few days if needed.
- **Pay-Back-With-Your-Impact Reimbursable Grant.** Similar to Pay-Back-With-Your-Impact Loan but instead a loan a reimbursable grant is provided. Makes it easier for enterprises to raise additional debt. Also, it can be agreed upon that possible repayments go to another, pre-defined impact organization to avoid repayments to the original funder.
- **Redeem-With-Your-Impact Equity.** A funder provides redeemable equity. The enterprise can redeem the shares with achieving pre-defined levels of impact performance. The funder can keep a “golden share” to stay involved in future decision making (i.e. avoid mission drift).

## CALL TO ACTION

**For public and catalytic funders** – This is the time to use your resources to support impact enterprises and ensure that they continue generating impact in the future! Consider using instruments such as Emergency SIINC or any other ways of ensuring their survival and their future impact.

**For impact entrepreneurs** – Reach out to your donors and investors and make the case for impact-linked financial instruments that can preserve your impact mission and will allow you to continue your activities.

**For investors** – Help your portfolio companies position themselves for future growth, by injection of capital to bridge their liquidity gap. If possible, adapt your financing instruments to these times, by extending the grace period of your loans or reducing the interest rates. Considering partnering up with donors and philanthropic organizations to provide concessionary forms of capital.

## NEXT STEPS

In the next weeks we will produce open source guideline for implementers to be able to set up an Emergency SIINC. If you want to be informed on the guide or if you want to contribute sign up [here](#).