Social Impact Incentives (SIINC): Rewarding for Social Outcomes and Mobilising Capital for Impact

Case study
Social Impact Incentives (SIINC thereafter) are an innovative finance tool that uses public and philanthropic finance to help Social and Impact Enterprises (SIEs) grow and scale their impact and make them more attractive for private providers of capital.

Background

It is often difficult for SIEs to fully cover their costs and become profitable and if so, it can take more time than for more commercially oriented enterprises. As a result, they find it much more difficult to attract finance, in particular during the early stages of their entrepreneurial lifecycle. Often, profitability and fundraising concerns also prevent them from exploring further opportunities for generating additional impact, for example by targeting even lower income segments or more disadvantaged geographical areas. SIINC have been created to address these challenges.

Format

A SIINC funder, such as a philanthropic organization, a development agency or public funder, rewards SIEs with time-limited payments for achieving impact that would otherwise not have happened (or to a lesser extent). In that way, SIINC payments not only help the enterprise to deepen and scale its impact, but also to increase the SIINC enterprise’s profitability and thus make SIEs more attractive to potential investors and lenders.

Benefit

SIINC aligns the interests of SIINC funders (who only pay for impact success and use their scarce funding catalytically to mobilise additional capital that would otherwise not have been invested), SIEs (who are enabled to produce additional outcomes), and investors (who indirectly benefit from investee’s improved profitability and scale). Compared to other outcome-based financing mechanisms such as development or social impact bonds, SIINC mechanism are suitable for income generating entrepreneurial organisations (as opposed to non-profit organisations), contractual relationships are often simpler, and costs are lower.

Results

While the concept is quite recent still, the results from the first pilot transactions implemented by Swiss Agency for Development and Cooperation (SDC) since 2016 are promising. For example, an independent verification of impact achieved by the first pilot SIINC with Clínicas del Azúcar, a health company focusing on diabetes treatment in Mexico, confirmed that the SIINC incentivised enterprise achieved both its low-income community outreach and quality targets and operated at lower costs compared to the public sector alternative. Furthermore, per 1 USD of SIINC funding, the four SIINC pilots raised on average 3 USD of private capital that would not have been invested without SIINC.

Outlook

SIINC has gained significant traction with major players in the field, and it is increasingly being recognized and adopted by important actors in the international impact eco-system. The SIINC concept of rewarding impact has evolved into a wider range of impact-linked finance instruments and led to the establishment of an Impact-Linked Finance Fund (see ILFF case study).
Social Impact Incentives (SIINC thereafter) reflects a paradigm shift where new approaches of fostering sustainable development and alleviating poverty complement existing development models in various ways:

▶ **Supporting impact oriented local enterprises**
  This is based on the recognition that public sector and civil society engagement alone is not sufficient to foster sustainable economic growth in developing countries and to reduce poverty. In some circumstances, Social and Impact Enterprises (SIEs) have shown the capacity to address societal challenges in more innovative, financially sustainable and scalable ways compared to traditional non-profit organisations or government agencies.

▶ **Field building**
  Development cooperation institutions can have a transformative impact if their capital, knowledge, reputation, and network is used to share learnings, create visibility, and build eco-systems around new approaches. SIINC pilot projects have been embedded in more comprehensive support programmes to raise awareness and influence the behaviour of critical eco-system players around the world.

▶ **Catalytic use of capital**
  It is evident that additional private capital will be required to close the financing gap of SIEs to grow and scale their impact. Mobilising additional private capital is a key feature of SIINC and thus provides one possible solution to reduce this important gap in the impact finance landscape.

▶ **Co-creating innovative solutions**
  Some developmental (financing) challenges call for innovative solutions as they have not been resolved using traditional development approaches and partners. SIINC is an example of a novel solution that has been co-created by SDC with a newly established innovative finance firm and a coalition of partners from the social, private, and public sector.
Social and Impact Enterprises (SIEs) apply entrepreneurial means to address the specific needs of underserved or disadvantaged communities in challenging contexts or to resolve a particular social or environmental challenge in innovative ways.

Compared to more commercially oriented traditional enterprises, it is often more difficult for SIEs to fully cover their costs and become profitable and if so, it can take more time. Longer break-even duration, lower profitability and higher (perceived and actual) risks associated with serving vulnerable communities negatively affect the ability of SIEs to attract the investment capital needed to grow their business and scale their impact. This is the reason why many SIEs remain small or do not make it through the “valley of death” – unless they have been fortunate enough to attract grants and support during the critical early stages of their entrepreneurial lifecycle (Figure 1).

Given that grants by public and philanthropic funders are scarce and limited, it is evident that additional investment by private providers of capital will be required to bridge the financing gap to reach the UN Sustainable Development Goals. Indeed, there is a growing community of investors interested in investing in impact-oriented enterprises – if the risk-return profile of these organizations was enhanced. Currently, however, there is still a mismatch between what SIEs need and what (impact) capital providers are ready to supply.

This case study is about SIINC, an innovative financing approach that the Swiss Agency for Development and Cooperation (SDC) co-created and piloted with impact finance pioneer Roots of Impact and other partners to respond to the above challenges.
3. Format

Objectives and set-up

The objective of SIINC is to overcome the financing gap that most Social and Impact Enterprises (SIEs) face during the critical stages of their entrepreneurial lifecycle and to encourage them to deepen and scale their impact.

A SIINC funder, such as a philanthropic organization, a development agency or public funder, rewards high-impact enterprises with time-limited SIINC payments for achieving social outcomes that would otherwise not have happened (or to a lesser extent). Examples of such additional impacts are the targeting of even lower income segments or of more disadvantaged and remote geographical areas (Figure 2).

SIINC payments constitute an additional revenue stream for the SIINC enterprise and in that way, increase its profitability. As a result, SIINC enterprises become more attractive to potential investors and lenders. The SIINC contracts only enter into force after the targeted enterprise submitted evidence of having secured minimum additional financing from lenders or investors. The additional amount to be raised by the SIINC investees depends on the business model, the sector, and the availability of capital providers in a given eco-system. However, the agreement between the investor and the SIINC enterprise is separate from the contract between the SIINC funder and the SIINC enterprise.

SIINC payments are only made for an agreed limited period – typically between 2 and 4 years – with the expectation that by then the organization has reached sufficient scale and/or the business has become financially sustainable to maintain and deepen its impact. SIINC payments typically reflect the additional risks, costs or lower income generating opportunities a SIE faces when serving a new low-income market segment, the size and maturity of the enterprise – as well as the total SIINC budget donors have available.

Verification

SIINC payments are only made to the SIE when outcomes have been achieved and verified in a standard process set out in the contract between the outcome funder and the SIE. The impact verification is typically performed by an external impact verifier who performs desk research, conducts interviews with the SIE, beneficiaries, and customers as well as other key stakeholders, and checks impact measurement and management (information) systems based on an adapted version of the Donor Committee of Enterprise Development (DCED)'s checklist.

Selection

The selection process is usually supported by local entrepreneurship intermediaries with a strong local or sector network of (potential) SIEs. SIINC entrepreneurs are typically identified and selected following an open call for applications based on a set of predefined selection criteria such as: strong track record of positive impact and potential for additional impact, proof of concept/track record of business model as well as potential for financial self-sustainability in the medium and long term.

Deal structuring and technical assistance

The SIINC deal is typically prepared and structured with the support of a professional SIINC intermediary. Selected SIINC entrepreneurs may benefit from donor funded targeted technical assistance on impact measurement and management systems that allows them to plan, assess and manage their impact. Additionally, they can receive other capacity building support provided by the SIINC intermediary or other service providers (Figure 3).

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1 This SIINC case study focuses on the basic SIINC model. Further SIINC variations include reimbursable SIINCs where SIINC grant payments received from the outcome payer have to be re-paid if pre-defined triggers are met (e.g. after reaching a certain profitability level).

2 A convertible SIINC can also tie a partial or full conversion of SIINC grants payments (e.g. into debt) to the commercial success of the SIE.

2 The adjusted DCED checklist is not publicly available and is adapted on a case-by-case basis. The original DCED checklist on measuring results in private sector development can be found here.
Figure 2. The SIINC mechanism
Source: Based on Roots of Impact

Figure 3. Exemplary SIINC format
Source: Based on Roots of Impact
Zooming in: SDC and SIINC

**Clínicas del Azúcar (CdA)**

CdA was part of the first 4 pilot transactions made by SDCs pioneering programme SIINC for scaling high-impact Social Enterprises in Latin America and the Caribbean.¹

Clínicas del Azúcar (CdA) is the largest private provider of specialised diabetes care in Mexico serving mostly lower middle-income groups at 40 percent of the fees of alternative providers. Its major challenge back in 2016 was to bring in the right type of investors that would support the company’s ambitious scaling plans while allowing it to move to even lower income segments and ensuring high quality treatments to all of its patients.

SIINC incentivized CdA to increase the percentage of lower income patients (first SIINC metric) while ensuring high quality treatment resulting in measurable health improvements (second SIINC metric) by linking SIINC payments to the achievement of both SIINC metrics. The total size of payments has been capped and spread over a predetermined period (2.5 years for metric 1 and 2 years for metric 2).

**SDC SIINC programs**

After the first SIINC pilots in Latin America, SIINC programmes have been successfully introduced to other regions and sectors (see Figure 4).

As of March 2022, 30 SIINC⁴ and other impact-linked finance deals have been closed, 15 were in preparation and 7 in the pipeline covering a range of sector and countries in the realm of the above programs.⁵

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² The 35 transactions include a few transactions from the recently launched Impact-Linked Finance Fund (more details in Koenig, A.-N. (2022b)).

³ Another facility inspired by SIINC pilots includes a catalytic agri-finance platform (see Koenig, A.-N. (2022c)).

⁴ The sectors in which SIINC’s have been implemented or are under way are: health, energy, agriculture, employment and education, water and sanitation, and circular economy.

⁵ The countries are: Mexico, Honduras, Peru, Ecuador, Guatemala, Malawi, Kenya, Tanzania, Jordan, Bangladesh, Cambodia.
SIINC in agriculture SME lending in Latin America and the Caribbean (LAC)
A SIINC programme designed to reward a reputable agricultural impact lender (Root Capital) for disbursing “high additionality loans”, meaning loans to very small, least profitable and most risky agriculture organisations. An additional bonus was paid for disbursing loans to women borrowers. More details here.

SIINC in vocational skill development (VSD) in LAC
This SIINC programme has been developed to show the potential of a sectoral approach for SIINC operations that, if successful, could be consequently rolled-out on a global scale via a VSD outcomes fund.

SIINC for impact enterprises in Bangladesh
The SIINC model rewards SIEs in Bangladesh that raise investment with premium payments of between USD 150,000 and USD 250,000 over up to 3 years, based on the social outcomes generated by their operations. SIINC has been accompanied by the Impact Readiness Matching Fund (IRMF), a non-repayable funding (up to USD 100,000) that rewards early stage SIEs for building their capacities in impact management and measurement (IMM) by matching a seed investment with non-repayable funding. More details here.

SIINC in off-grid energy in Kenya
In cooperation with the multi-donor partnership programme led by German International Development Agency (GIZ), the Energising Development (EnDev) SIINC pilot project incentivises off-grid energy enterprises to reach next- and last mile customers. More details here. This pilot also aims at informing the planned set-up of an outcomes fund for off-grid clean energy.

Impact-linked emergency loans in LAC
The emergency loans provide interest rate discounts for impact created. The funds are tied to results of defensive strategies developed by enterprises to maintain and protect their workforce, to continue delivering critical products and services to its low-income customers, and to provide active support for their communities in facing the Covid-19 crisis.

Further programs that include SIINC
4. Benefits, Insights and Results

Benefits of SIINC

- **Interest alignment**
  SIINC aligns the interests of SIINC funders (who only pay for impact success), Social and Impact Enterprises (who are enabled to produce additional outcomes), and investors (who indirectly benefit from investee’s improved profitability and scale).

- **Increased value for money**
  Scarce outcome funding is not paid for the entire organisation but only to incentivise results (outcomes) that are additional to the original growth and impact pathway of the Social and Impact Enterprise (SIE).

- **Mobilisation of additional capital**
  As SIINC contracts are often tied to the enterprise’s ability to attract external (repayable) investment capital, scarce grant funding is used catalytically to mobilise additional capital that would not have been invested otherwise, thus increasing the total amount of funding made available for impact.

- **Market led**
  The task of choosing the right organisation is shifted from the (public or philanthropic) SIINC payer to the private sector investor, who should be better positioned to carry out a due diligence and make an investment decision into a market-based organisation.

- **Simpler set up**
  As the SIINC agreement between the outcome funder and the SIE is separated from the investment contract, contractual relationships are simpler (and costs are lower) compared to other outcome-based financing mechanisms such as development or social impact bonds.

Insights

- **Impact measurement and management**
  SIINC metrics negotiated between the outcome payer and the SIE need to be straightforward and easy to measure yet demanding enough to demonstrate real social outcomes and additionality to what would have happened without SIINC rewards. SIINC entrepreneurs need to be incentivized and enabled to effectively plan for, measure and manage their impact – not only for the time period of SIINC support but also after the expiry of the SIINC contract.

- **Holistic interventions**
  Ideally, SIINC interventions need to combine SIINC payments with capacity building and awareness raising support to entrepreneurs and other stakeholders involved in a SIINC transaction. This should be complemented by eco-system building activities and promotions to support and enable that SIINC incentive schemes are adopted by other funders and decision makers in the eco-system.

- **Early engagement with investors**
  Where SIINC contracts require the entrepreneur to secure additional external investment, it is important to involve potential investors as early as possible to avoid delay in SIINC payment.

- **Sectoral focus**
  The pooling of SIINC resources into a specific sector has proved to greatly reduce costs and improve the effectiveness and synergies of SIINC support interventions.

- **Sourcing SIINC candidates**
  Efforts to find suitable SIINC candidates should not be underestimated. It is therefore important to expand the network of contacts and tools and to consider unusual pathways such as referrals from investors, incubators, and accelerators to reach out to promising SIINC entrepreneurs.
Collaboration
SDC co-created the SIINC model with the external partner Roots of Impact, an innovative finance firm that grew into a critical intermediary and pioneer in this space. None of the above mentioned SIINC pilots would have been possible without involvement of other public and private partners such as, IDB, Ashoka, New Ventures, Lightcastle Partners, VIWALA, Open Road, Kaya Impacto, Aqua for All or GIZ, in which each partner played out their respective strengths.

Results

1. Clínicas del Azúcar (CdA)
An independent review of the SIINC pilot with CdA found the following results:

SIINC metrics & costs
CdA achieved both its low income community outreach and its quality targets. The results on penetration rates to low income patients show a clear increase (from originally 32 percent to 37 percent of total patients). Finally, the outcomes on the quality of services for both low income and existing patients have been significant.

Furthermore, research found that in comparison with the public system, the CdA model was able to provide better results at lower costs to all patients.6

Organisational changes
In addition to incentive payments, CdA benefited from technical assistance leading to long term organisational and strategic changes, the exploration of different ideas about how to effectively address Base of the Pyramid (BoP) needs within a sustainable business model, and the setting up of a non-profit entity in addition to CdA’s existing for-profit company to better serve this market segment and facilitate fundraising. CdA also benefited from support in developing an internal information system that will allow the company to conduct systematic data analysis on the BoP target groups and to effectively measure and manage its impact performance even after the end of the SIINC support.

Figure 5. Effect of additional private capital mobilised
Source: Roots of Impact

<table>
<thead>
<tr>
<th>With private investment</th>
<th>Without private investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>e.g. from 6.400 low-income patients to 64.000 low-income patients</td>
<td></td>
</tr>
<tr>
<td>e.g. from total 20.000 patients to total 200.000 patients</td>
<td></td>
</tr>
</tbody>
</table>

5 years

Total patients

Low-income patients

Relevant target group for SDC

Financial additionality
By leveraging a total of USD 275,000 in SIINC payments, CdA was able to raise a further USD 1.5 million in equity from impact investors in 2017. A year later, the company managed to raise an additional USD 6 million in funding from the International Finance Corporation (IFC), the Inter-American Development Bank (IDB) and other investors, which will help the company scale to 100 clinics in the next few years.

2. Results of other SDC SIINC programmes

Outcomes for beneficiaries / developmental additionality
Other SIINC enterprises also managed to scale their operations and impact despite the challenging situation of the Covid-19 pandemic. Note-worthy results include for example:7

▶ Inka Moss (Peru), dedicated to the sustainable and environmentally clean production of sphagnum moss in the high Andean areas for export purposes, reached more than 500 new harvesters, whose median annual income increased by USD 170 each between 2018 and 2021.

▶ Novulis (Ecuador), a social dental health enterprise that provides on-the-job-site health solutions to the working poor, served 550 clients from disadvantaged backgrounds in 2019 and has expanded to nearly 2,500 BoP clients in the first months of 2022.

▶ Root Capital, a pioneering impact lender to agricultural businesses in the developing world, made in its first three lending periods 39 high-impact loans to 32 small, early-stage agri-enterprises that would be extremely unlikely to find loans on similar terms from existing financial institutions.8

Figure 6. Comparison of cost and quality of treatment between CdA and public system

<table>
<thead>
<tr>
<th>Cost of treatment per patient</th>
<th>Results of treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public system</td>
<td>Clínicas del Azúcar one-year subscription costs</td>
</tr>
<tr>
<td>413 USD</td>
<td>250 USD</td>
</tr>
<tr>
<td>1.39 pts</td>
<td>1.39 pts</td>
</tr>
</tbody>
</table>

7 Roots of Impact internal reporting to SDC, April 2022.
8 More data and learnings on Root Capital’s use of impact-linked finance have been documented in Root Capital (2022).
Financial additionality

The first four SIINC pilots in SDC’s programme SIINC for scaling Social and Impact Enterprises in Latin America and the Caribbean have leveraged a total additional private investment capital of around three times the SIINC amount provided in grants. Those investments would not have happened without the SIINC program or the enterprises would not have been able to scale up while maintaining their focus of impact.

Eco-system level impact

SIINC has been well received in the international impact finance community and gained a lot of early traction: For example, SIINC has been included in the latest OECD report on impact investing,9 in the KfW Toolbox on Innovative Development Finance10 and in a recent publication on innovative finance.11 SIINC is being taught as part of the curriculum in courses at Oxford, Kellogg Business School, University of Zurich, North-Eastern University and INCAE Business School as well as by the Training Academy of the European impact finance network EVPA.

The Esmée Fairbairn Foundation commissioned a report on impact-linked finance globally in order to explore its implementation in the UK.12 Earlier, SIINC had received coverage as one of the four core instruments for outcomes-based financing by the Global Impact Bonds Working Group, which also featured six SIINC transactions in a deal book of a total 36 transactions.13 Since 2021, SIINC has its own Wikipedia entry.14

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12 Investing for good (2021).
SIINC have proved to be successful in encouraging impact entrepreneurs to deepen their impact and in helping attract additional private capital providers that would otherwise not have invested. Trends and opportunities that have been explored to take SIINC to the next level include:

- The application of the SIINC model not only to individual transactions but to thematic SIINC funds where likeminded outcome payers pool their resources to address a specific societal challenge more holistically.

- The application of SIINC to incentivize traditional start-ups and enterprises to shift their business model towards additional impact.

- The increased use of technology to reduce the cost of impact measurement and management and automatically trigger SIINC payments.

- SIINC rewards for positive outcomes to become tradeable on secondary markets similar to the mechanism of carbon emissions trading on negative outcomes.
6. Additional Resources

All accessed May 2022

Download here (accessed 24 March 2022).

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