

SOCIAL IMPACT INCENTIVES (SIINC)



INVESTOR:
Swiss Agency for
Development and
Cooperation (SDC)



**SOCIAL PURPOSE
ORGANIZATION:**
Clínicas del Azúcar
(México)

BALANCING FINANCIAL AND SOCIAL PERFORMANCE IS AN ALMOST CONSTANT CHALLENGE for highly scalable social enterprises with a huge potential for impact. More often than not, attracting capital is an easy enough task for enterprises with highly scalable business models. The real challenge is balancing financial sustainability and social impact during the growth stage.

Social impact incentives (SIINC) allow impact enterprises to raise capital and grow sustainably while continuing to create positive social impact at scale. SIINC payments to impact enterprises are linked to direct and measurable impact, allowing them to earn extra revenue by monetizing positive outcomes achieved (or negative outcomes avoided).¹

SIINCs are a market-based solution: as the impact enterprise grows it reaches economies of scale that subsequently lower the cost of generating the intended impact. This increased profitability can then be used to attract impact investors capable of providing the funding necessary to continue to scale.



This case study is part of the Innovative Finance Toolkit. For more information, or to access more case studies, visit www.finanzasinnovadoras.org



¹ A complete description of this instrument is available at www.finanzasinnovadoras.org



Context

Roots of Impact and the Swiss Agency for Development and Cooperation (SDC) worked together to develop the SIINC structure as a new mixed financing model that allows high-impact social enterprises to increase their profitability and scale by providing payments based on proven social outcomes.

Clínicas del Azúcar (CDA) was the first social enterprise to benefit from the SIINC structure. CDA seeks to give every Mexican, regardless of his or her socio-economic status, access to specialized diabetes care using state-of-the-art technology to make diabetes care efficient, low-cost, and accessible for everyone.² The goal was to attract investment to expand services for patients at the bottom of the income pyramid and pioneer innovative prevention techniques.



Opportunity and Deal Terms

As the outcome payer³, SDC was interested in demonstrating how this financing structure could be used to create incentives to support CDA as it deepened its impact without sacrificing profitability, thus attracting new investors. When the SIINC program for Latin America and the Caribbean (SIINC LAC) was launched in 2016, CDA was quickly selected as a compelling case for implementation. The enterprise had a proven, highly scalable, and financially solid business model, combined with a huge potential to deepen its impact by expanding its offerings to lower-income beneficiaries⁴.



- 2** According to the International Diabetes Foundation, diabetes has become the leading cause of death in Mexico, with more than 14 million people living with the disease (see <https://idf.org/our-network/regions-members/north-america-and-caribbean/members/66-mexico.html>). The poorest populations of the country are the most underserved and have the least access to quality diabetes care (see Ramírez, José Carlos and Sota Riva, Marcela. El rostro pobre de la diabetes en México [The Poor Face of Diabetes in Mexico]. *Inv. Econ* [online]. 2018, vol. 77, n. 305, pp. 3-39. Retrieved from: http://www.scielo.org.mx/scielo.php?script=sci_arttext&pid=S0185-16672018000300003&lng=es&nrm=iso)
- 3** SIINC doesn't have a pre-defined investor. The enterprise is able to freely engage with investors that are best suited to meet its needs.
- 4** For more information about the selection criteria, see: <https://tinyurl.com/2mrodrp4>



TABLE 1 General Information - Clínicas del Azúcar

Year Founded:	> 2010 (first clinic opened in 2012).
Headquarters:	> Monterrey, Mexico.
Geographic Focus:	> Mexico.
Financing Sources:	> Primarily institutional investors.
Partners and Funders:	> MIT, Echoing Green, Ashoka, Endeavor, Global Social Benefit Institute at Santa Clara University. > Philanthropic funding: Clinton Foundation, Tec de Monterrey, Fundación Cinépolis, U-ERRE, Promotora Social México, Cáritas de Monterrey, Halloran Philanthropies.
Website:	https://www.clinicasdelazucar.com/

SDC and other stakeholders considered CDA's four years of successful operations when deciding whether SIINC was the right mechanism. With 18 clinics, CDA is the largest private provider of specialized diabetes care for lower middle-income groups in Mexico, reaching more than 100,000 patients, 95% of whom are able to access specialized treatment for the first time in their lives. Additionally, CDA offers its services at approximately 40% of the average price of private treatment⁵.



5 For more information about the progress made by CDA, see: <https://www.roots-of-impact.org/wp-content/uploads/2021/04/SIINC-Case-Studies-CDA-Final-Results-2021.pdf>





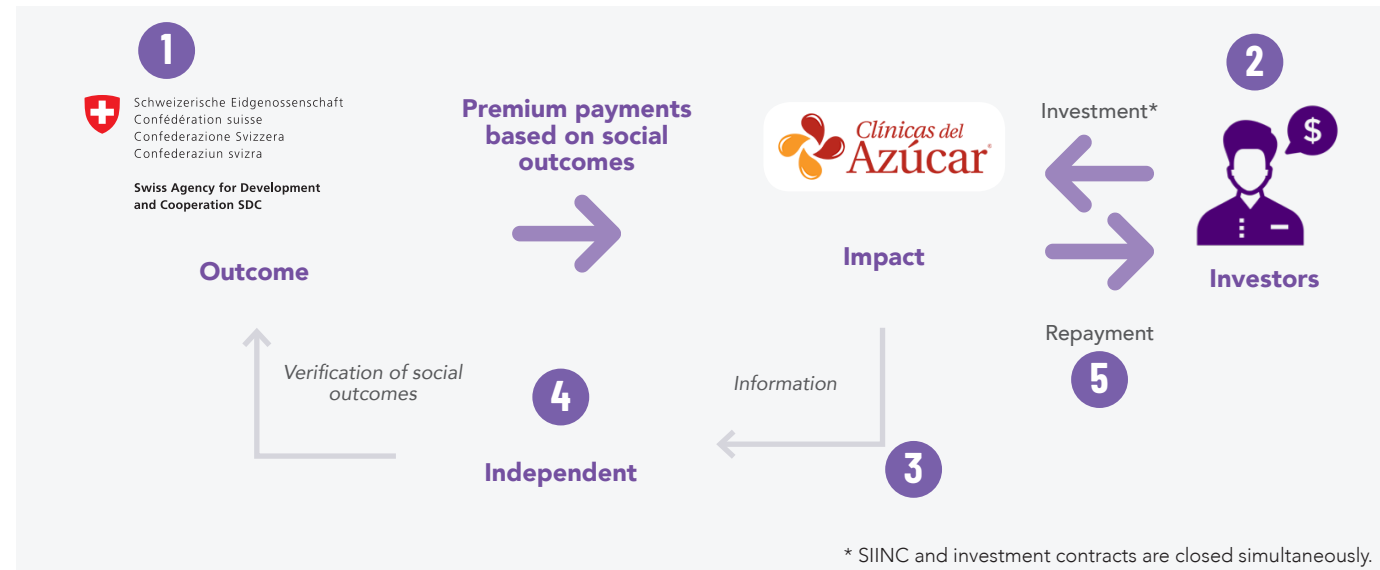
The flexibility of SIINC was what convinced CDA and the investors involved to move forward with the deal. This was primarily due to the combination of well-designed metrics focused on growth and impact, the parties' alignment with CDA's overall mission, and the agreement that premium payments would be based on relative impact performance. In addition, the contract between the outcome payer (SDC) and the impact enterprise (CDA) was very straightforward and did not represent significant additional structuring costs for the impact enterprise.

A core aspect of SIINC is that from the very beginning, this model sought to create a profound social impact even beyond the scope of the project.



SIINC Terms and Structure

FIGURE 1 How it Works



SOURCE: Created by authors



ASSUMPTIONS

- Improving growth rates and success rates in the treatment of patients at the bottom of the pyramid (BoP) will not only increase revenues, but also scale the enterprise's impact.
- The development of specialized prevention programs will increase impact.

- 1 A payment agreement is established between the outcome payer (SDC) and the impact enterprise (CDA) and formalized via a SIINC contract, along with predefined social impact metrics and a baseline⁶.
- 2 The investment contract created between the impact enterprise and other investors is structured in parallel and separately from the closing of the SIINC transaction in order to meet the needs of all parties.
- 3 Payments are structured and tied to impact metrics directly related to the impact performance of the enterprise (see the metrics below).
- 4 Payments are disbursed when the pre-defined impacts are reached, while an independent verification of the impact assessment system ensures that the results are as reliable as possible.
- 5 SIINC impact payments increase the impact enterprise's income, and the impact enterprise makes the corresponding payments to the investor.



6 The Inter-American Development Bank, through its IDB Lab, was the contract partner and facilitator in the SIINC transaction. It was responsible for managing the funds on behalf of SDC and performing due diligence on the transaction. The IDB also contributed expertise via its Social Entrepreneurship Program.



TABLE 2 Terms of the CDA SIINC

Can Replace:	>	Grants, catalytic capital, and other blended finance instruments.
Enterprise Lifecycle:	>	Growth stage.
Risk/Return Profile:	>	N/A.
Maturity:	>	2.5 years.

Financial Reward for Impact

Outcomes are evaluated based on two metrics designed to measure impact (impact KPIs).

Capital Mobilization

The enterprise directly secured USD 1.5M in equity parallel to the closing of the SIINC transaction. The outcome payments were capped at USD 275,000 in total, representing a leverage ratio of 1:5.5 on the

TABLE 3 Impact KPIs

Outcome 1: A higher number of BoP patients access high-quality treatment (many for the first-time).



Metric 1: Penetration of patients served by CDA in lower income segments D+/D/E⁷.

Payment System: Relative to specific growth rates achieved over a period of 2.5 years.

Outcome 2: These patients receive specialized treatment and show improvements in their HbA1c levels⁸.



Metric 2: Continuous improvements in blood sugar levels among the D+/D/E income population groups who become patients of CDA.

Payment System: Triggered according to average improvements achieved by the group; the total size of these payments was capped and spread over a period of 2 years.



7 Low socioeconomic status - low household income See: <https://www.amai.org/NSE/index.php?queVe0=preguntas>

8 Glycosylated hemoglobin (HbA1c) is used to determine blood glucose concentrations over a period of time.



investment. During the SIINC implementation period, CDA was able to attract an even larger amount of capital via a debt round of USD 6M for expansion⁹.

Outcome Verification

SIINC payments were paid out based on proven impact outcomes and were disbursed as additional income to enable scale. An independent verification of the results was conducted during each verification period, and SIINC premiums were paid out following the receipt and review of the verified results and the impact reached¹⁰.



When to Use this Instrument

- ▶ SIINCs are effective for business models with consistent cash flows that are ready to grow or scale.
- ▶ To achieve one of the main objectives of the SIINC transaction, it is important to work with enterprises that already have robust systems in place to gather, measure, and report on the data necessary to verify the impact metrics. This also means that measuring and reporting systems can be adapted relatively easily if necessary.
- ▶ A close relationship between the outcome payer and the impact enterprise is also important in order to co-create the incentive schemes and metrics and help to align all stakeholders in the transaction with the structuring organization¹¹.



- ⁹ SIINC is meant to be leveraged to mobilize impact or private investment. SIINC investments are similar to results-based financing with no financial returns to be paid. Upon achieving the pre-agreed outcomes, SIINC is paid out as additional income for the social enterprise, helping to attract additional capital.
- ¹⁰ More information on the impact analysis conducted by CDA is available via this report published by MIT doctoral researcher Ari Bronsoler: <https://www.roots-of-impact.org/wp-content/uploads/2021/01/200224-CDA-SIINC-Data-Analysis-Report.pdf>
- ¹¹ Roots of Impact was critical to the success of the SIINC both in terms of designing the instrument, but also in terms of structuring and operating it. SDC delegated the majority of the transactions during the SIINC implementation period to Roots of Impact.



- › It is important to work with impact enterprises that have direct control over the outcome they are seeking to achieve.
- › The simplified structure of this instrument and the alignment of the enterprise's mission and the distribution of risk makes this an attractive solution for various impact stakeholders.