2.2 REIMBURSABLE AND CONVERTIBLE SIINC

Brief Description

Much like the standard Social Impact Incentives (SIINC) model, Reimbursable/ Convertible SIINC also reward impact enterprises with time-limited premium payments for achieving social impact. By linking public or philanthropic funding to pre-defined and proven social outcomes, high-impact enterprises can earn extra revenue, and scale both in terms of income and impact. This in turn, helps them to attract additional repayable investment – a pre-condition for receiving any kind of SIINC payments.

The main difference to traditional SIINC is that if an impact enterprise proves to be (commercially) successful beyond a certain level, SIINC payments will be partially or fully reimbursed or converted (e.g. into debt). While conditions can be freely negotiated, the most obvious scenario is to tie reimbursement/conversion to the commercial success of the enterprise, e.g. using pre-defined profitability or revenue triggers. This allows outcomes funders to "recycle" their resources and to generate additional impact. Reimbursable or Convertible SIINC are best suited for impact enterprises that are expected to be commercially strong and profitable in the mid-/long term, e.g. tech-based companies. Reimbursable/ Convertible SIINC are less viable for impact enterprises tilting towards slower growth and/or scale, as the burden of repayment or conversion could undo the progress made.

Emergency-Proof: This instrument is particularly relevant in difficult historical moment such as the Covid-19 crisis, when flexibility in repayments is critical to overcoming the severe social, financial, and economic challenges faced by enterprises.

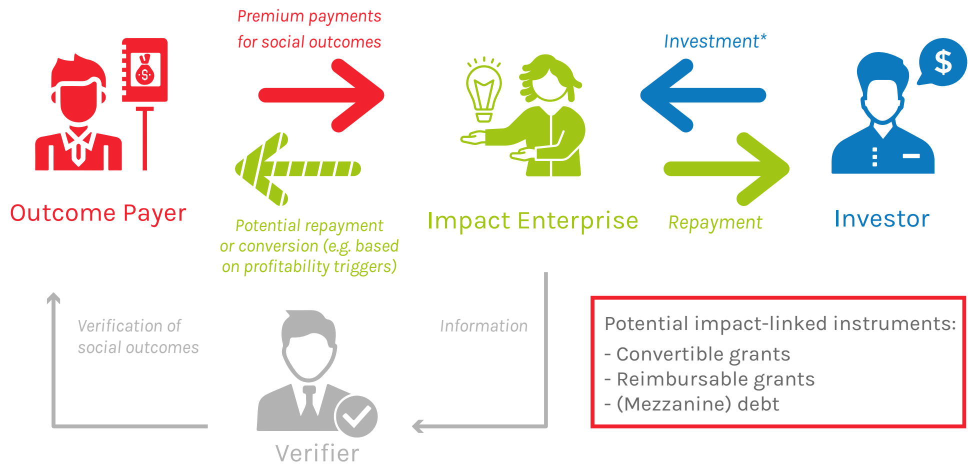

Figure 2.4 – "Reimbursable or Convertible SIINC", source: Roots of Impact.

Purpose/Fit	○ Enabling high-growth impact enterprises to attract investments and scale both in terms of income and impact (1). ○ Improving the risk/return profile for investor (2). ○ Allow outcome payer to "recycle" funding to generate additional impact (3).
Can replace	Patient equity, grants, catalytic capital, traditional SIINC, other blended finance instruments.
Risk/Return Profile	n/a
Enterprise Lifecyle	High-growth early and later stage companies.
Maturity	2-4 years + length of repayment / conversion process (TBD).

Defining Criteria

- **Reimbursability/Convertibility:** Funding provided by outcomes payer is partially or fully reimbursed/converted, e.g. based on pre-defined profitability or revenue triggers.
- **Financial reward for impact:** Ongoing payments to impact enterprises are linked to direct and measurable impact (aligns profitability with social impact).

- **Outcomes verification:** Independent verification of the results (outcomes).
- **Cap for financial reward:** Premiums are typically provided up to a capped amount.
- **Capital mobilisation:** Mobilisation of private investment (closing condition for any SIINC) creates leverage for provided catalytic funding.
- **Alignment of interests:** Impact enterprises and investors both carry the risk of underperformance for achieving outcomes, and both positively benefit from successful outcome achievements.

Example of Reimbursable/Convertible SIINC structures

- **Reimbursable SIINC:** The Company agrees to pay back the full amount of SIINC payments received in (3) annual instalments, once the annual profitability exceeds (USD 500,000).
- **Convertible SIINC:** Upon reaching (USD 2M) in revenue, (50%) of the SIINC payments are converted into debt. The Company agrees to repay the principal with an interest rate of (5%) p.a. within (3) years.
- Reimbursable or Convertible SIINC have not yet been implemented, however, recoverable grants are occasionally used to replace concessional debt.
- Structures should resemble the traditional SIINC model, with an additional agreement on the terms and conditions of the repayment / conversion of (part of) the catalytic funding, e.g. a pre-defined minimum commercial viability level, profitability trigger, timeline etc.

Examples of relevant terms (as formulated in a contract):	
Repayment	In the event the Company generates more than (USD 2,000,000) in Revenue, the Company shall be obligated to repay the full SIINC Obligation due under this financing in (3) equal instalments.
Conversion	The (50%) of SIINC payments shall be converted into debt in the event the Company generates more than (USD 1,000,000) in EBIT. The generated SIINC Loan shall accrue interest at a rate of (5%), compounding (quarterly), and the Company shall be obligated to (quarterly) repay principal and interest on a (fixed) schedule until the amounts paid have reached the Total SIINC Loan Obligation, in a period no longer than (3) years.

Main Advantages

- By tying reimbursement/conversion to the (commercial) success of the impact enterprise, the outcome payer receives (part of) its catalytic funding back and can "recycle" it to create additional impact.
- Eliminates potential frictions between impact and commercial concerns – particularly for tech-enabled enterprises in their early stages, when there is still a high level of flexibility about the strategy for scaling (e.g. can enable the enterprise to serve more rural, vulnerable, disadvantaged groups).
- Allows to target specific outcomes (e.g. women empowerment, rural area development, focus on BoP).
- The outcome payer only pays for results (outcomes) beyond the projected growth curve of the impact enterprise.
- No need to set up a special purpose vehicle or any other kind of overlay structure (the SIINC agreement is separate from the investment contract).
- Can be applied to different sectors, geographies and has no investment restrictions for the enterprise (i.e. there are no pre-defined investors, nor investment sizes or types - equity, debt, or mezzanine are all possible).

Main Challenges

- Reimbursement/conversion conditions need to be carefully selected, so as not to overburden the impact enterprise, risking undoing progress made or decreasing additionality.
- If not carefully structured, impact enterprises may end up having an incentive not to outperform so as not to trigger reimbursement/conversion of SIINC payments.
- Identifying suitable outcomes to link payments to is very important.
- Baseline assessment as a viable benchmark for incentives, appropriate data gathering/generation methodologies and independent verification are needed.
- Financial rewards have to be designed carefully on the basis of financial and impact modelling, in order to support the scaling strategy of the impact enterprise.
- The end of SIINC payment scheme (exit) and reimbursement/conversion has to be considered from the beginning so that the enterprise continues to generate the intended impact by realizing economies of scale (market-based exit) or by securing a public contract (public exit).

Case studies and additional resources about Reimbursable and Convertible SIINC can be found here.