

2.1 SIINC (SOCIAL IMPACT INCENTIVES)

Brief Description

Social Impact Incentives (SIINC) is a funding instrument that rewards 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 improve their profitability, which in turn helps to attract additional investment to scale.

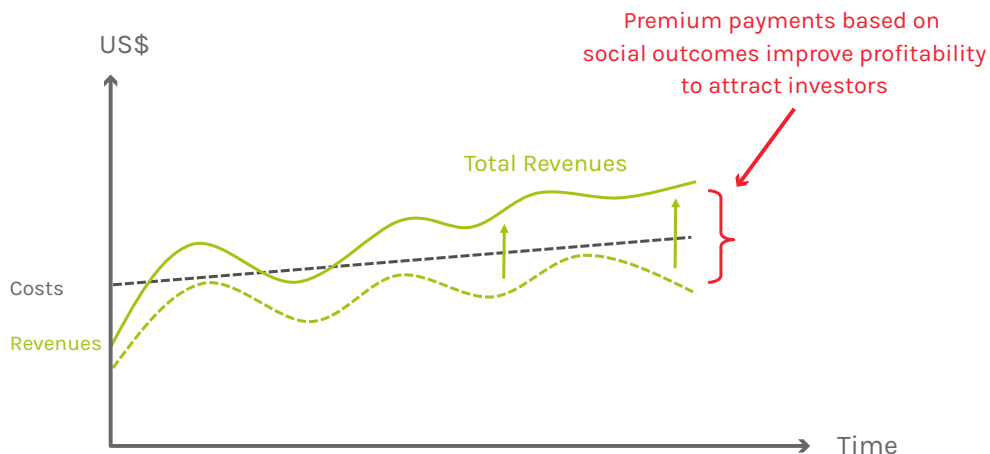


Figure 2.2 - "Business case with SIINC", source: Roots of Impact.

Given that raising repayable investment is a pre-condition for receiving SIINC payments, it can effectively be defined as a blended finance mechanism. In other words, catalytic funds are leveraged to mobilise private investment for impact enterprises.



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.

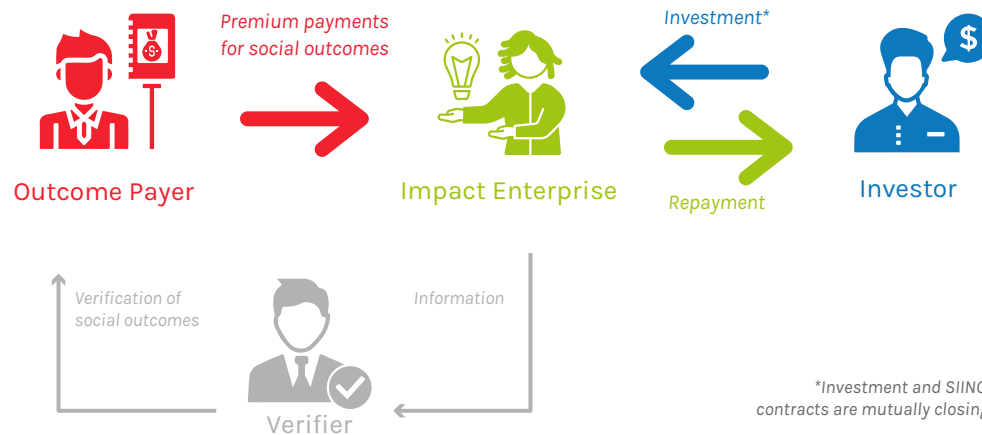


Figure 2.3 - "The Social Impact Incentives (SIINC)", source: Roots of Impact.

Purpose/Fit	<ul style="list-style-type: none"> Enabling impact enterprises to attract investment and scale both in terms of income and impact Improving the risk/return profile for investors
Can replace	Grants, catalytic capital, and other blended finance instruments
Risk/Return Profile	n/a
Enterprise Lifecycle	Early and later growth-stage
Maturity	2-4 years

Defining Criteria

- **Financial reward for impact:** Ongoing payments to impact enterprises are linked to direct and measurable impact (which aligns profitability with social impact).
- **Outcome verification:** Independent verification of the results (outcomes).
- **Cap for financial rewards:** Premiums are typically provided up to a capped amount.

- **Capital mobilisation:** Mobilisation of private investment (closing condition for SIINC) creates leverage for the catalytic funding provided.
- **Alignment of interests:** Impact enterprises and investors both carry the risk of underperformance for achieving outcomes, and both positively benefit from successful outcome achievements.

Interesting Variants and Options

- **Reimbursable SIINC**
 - Reimbursable SIINC are similar to traditional SIINC, except that the payments received from the outcome payer have to be reimbursed if pre-defined triggers are met.
 - While conditions can be freely negotiated, the most obvious scenario is to tie reimbursement to the commercial success of the enterprise, e.g. using pre-defined profitability triggers.
- **Convertible SIINC**
 - Along the lines of Reimbursable SIINC, Convertible SIINC can also tie a partial or full conversion (e.g. into debt) of SIINC payments to the commercial success of the impact enterprise.

Both of the above mentioned SIINC variants are best suited for high growth ventures that are expected to get commercially strong and both allow outcome payers to "recycle" their resources to generate further impact.²⁶

- **Direct integration of SIINC in investment (e.g. Impact-linked Loan)²⁷**
 - Social impact incentives can be directly integrated into loans, tying the interest rates (potentially even parts of the repayment obligations) to borrowers' impact – the higher the social outcomes achieved, the better the terms.
 - Possible (re)payments range from discounted interest to partial or even complete forgiveness of interest and principal payments.

²⁶ Further details for Reimbursable and Convertible SIINC can be found in a separate factsheet in the next chapter.

²⁷ See Impact-linked Loan factsheet on page 41 for more information.

- **Emergency SIINC**
 - Conceptualised in response to the Covid-19 crisis, Emergency SIINC build on the idea that if enterprises do not receive additional emergency funding tied to impact, they risk unintended shifts in their business models.
 - Payments can for instance, be tied to the results of an impact enterprise's defensive strategies (e.g. efforts to maintain and protect workforce), or be linked to providing supportive products and services for their most vulnerable customers.

Example of SIINC structures implemented in Latin America

Company description and challenge	SIINC approach
Clinicas del Azúcar (CdA) is a one-stop-shop chain of diabetes clinics serving low income populations in Mexico. As the company is raising investment to scale, it faces the risk of moving towards a middle-income population segment and of compromising on the quality of its service.	SIINC pays CdA for increases of its BoP patients and it ensures that they receive high quality treatment by monitoring their health improvements (HbA1c levels).
Inka Moss works with native high Andean communities in Peru to harvest, process and sell white moss. Although there is high demand for the product, it is difficult to reach and train new communities to increase production.	SIINC payments are disbursed if the company reaches more communities of harvesters and helps them to move to a higher income bracket.
Root Capital is an agricultural lender operating in Latin America for small agricultural cooperatives. Due to the high cost related to lending to smaller and first-time clients, Root Capital struggles to disburse credit to organisations that need it the most.	SIINC rewards Root Capital for disbursing "high additionality loans", meaning loans that the lender would not consider profitable enough. A bonus is granted for gender inclusive businesses.

Examples of relevant terms (as formulated in a contract):

Raising repayable investment as closing condition	The contract enters into force after the Company submitted evidence of having secured repayable external investments in an amount equating to a minimum of (3.5) times the amount of the SIINC funds eligible for disbursement.
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SIINC Payments Example I (diabetes treatment for low income groups):

Improvement in blood sugar values	<ul style="list-style-type: none"> ○ Indicator: Average improvement in HbA1c values of people from low income households. ○ Payment system: every additional (0.2%) improvement in HbA1c values triggers a different payment between (USD 1,000) and (USD 12,500). ○ Example: If in a given period, the verified average improvement is of (1.4%), the impact enterprise receives (USD 6,250) in SIINC payments. ○ Total payments are capped to (USD 75,000).
Reach	<ul style="list-style-type: none"> ○ Indicator: Average growth rate in number of fee-paying patients stemming from Bottom of the Pyramid (BoP) households. ○ Payment system: for every additional (2.5%) average growth rate of BoP patients, a SIINC payment between (USD 1,500) and (USD 12,500) is provided. ○ Example: if within a six-month period, BoP patients increased by (12%), the impact enterprise receives (USD 7,500) ○ Total payments cannot exceed (USD 50,000)

SIINC Payments Example II (inclusive agricultural business):

Improvement in income	<ul style="list-style-type: none"> ○ Indicator: Number of harvesters who move to a higher earnings bracket as a result of their moss harvesting activities. ○ Payment system: For every additional moss harvester entering a higher earning bracket, the impact enterprise is eligible to a SIINC payment between (USD 40) and (USD 70), with increases in lower-income brackets providing higher payments. ○ Example: If within a year a harvester moves from bracket 2 to bracket 3, the impact enterprise is eligible for a payment of (USD 70) – if a harvester jumps two or more brackets (e.g. from 1 to 4) in one measurement period, the payment is doubled to (USD 140).
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Main Advantages

- Aligns the interests of outcome payers (who pay for impact success), enterprises (who get paid premiums for additional outcomes) and investors (who indirectly benefit from investee's improved income situation).
- 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).
- The outcome payer only pays for results (outcomes) beyond the projected growth curve of the impact enterprise.
- Eliminates potential frictions between impact and commercial concerns (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 bottom of the pyramid).
- Can be applied to different sectors, geographies and has no investment restrictions (i.e. there are no pre-defined investors, nor investment sizes or types – equity, debt, or mezzanine are all possible).

Main Challenges

- It is important to identify suitable outcomes to link payments to.
- Need for baseline assessment as a viable benchmark for incentives, for appropriate data gathering/generation methodologies and independent verification.
- 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) 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 SIINC can be found [here](#).