Impact Ready Matching Funds: Detailed Information

Programme Timeline and Content

The core objective of this Programme is to institutionalise impact management within early-stage enterprises that are actively seeking to take on repayable investment. Many impact enterprises – and especially young ones – struggle in this regard. Over the duration of this programme, therefore, selected impact enterprises will receive three instalments of payments as they progress on their journey from designing an impact management system to implementing it and, finally, to reporting on this impact. The Programme focuses on incentivising impact enterprises to think carefully about how to look at the impact their enterprise has on people and the planet and, from there, begin implementing systems that measure, manage, and report this impact.

Once accepted into the programme, we will work collaboratively with impact enterprises to come up with a set of individualised impact management-related milestones and a timeline of implementation. Based on these pre-agreed milestones, impact enterprises will receive three payments as follows:

- Pre-condition for payment of any matching funds is that the enterprise successfully raises investment. An agreement for IRMF is signed before closing an investment contract and helps the enterprise to attract this seed (angel) investment. An initial 30% of the matching funding will be authorised up to four months after the milestones have been finalised and preparatory work is completed. At this stage, impact enterprises will have developed a theory of change (TOC) and a plan to track a set of impact indicators that address a key element of the organisation's impact. The enterprises must also submit evidence that investment has been secured. Matching funds will only be disbursed up to the amount of secured investment.
- A further 30% of the payment will be disbursed four to eight months after the milestones have been finalised, upon submission of data and after verification that the agreed-upon metrics have been established and operationalised;
- The final 40% of the agreed-upon sum will be disbursed between 10 and 14 months after the milestones have been finalised. At this stage, impact enterprises will submit an impact report in a standardised format (will be available to selected impact enterprises at a later stage). This report will be validated before the release of the final payment.

Hypothetical B-Briddhi case study

Shamin is a mechanical engineer returning to Bangladesh after several years working abroad for a multinational company. Shamin's family has an energy business across the

Rajshahi region supplying fuel, generators, and related goods. Shamin has now introduced a model of improved/clean cookstove from an international supplier. The cookstoves have sold extremely well, and Shamin has launched his own social enterprise – Rajshahi Stoves – as a joint venture with his family's business.

The cookstoves marketed by Rajshahi stoves offer significant benefits for his target customers, people living on less than USD 1.90 a day. The stoves are much more fuel-efficient than comparable products. For an average household of 4.7 people cooking two meals a day, the savings in fuel costs are significant, which means that the stoves pay for themselves. At a price point of USD 20 per stove, it takes two months for the average household to recoup the purchasing price, after which the cost savings worth USD 10 per month for every customer household over 10 years, the average lifespan of the cooking stove. In addition, if properly used, also result in significant improvements in the indoor air quality of his customer households, generating health benefits as well.

Of course, his customers cannot afford a down payment of USD 20, so Shamin has a distribution model that allows his customers to pay off the cookstoves in weekly instalments. This makes his product accessible for his customers, but adds a lot to his costs. Overall, including all of Rajshahi's operating and distribution costs and his bulk-purchasing price of USD 18 per stove, his costs amount to USD 23 per stove. At a sales price of USD 20, Shamin is still losing USD 3 per stove sold. Shamin cannot raise his price, as his customers are extremely price-sensitive, but he has ambitious plans.

Shamin intends to produce the stove locally under license agreement, which would bring down his costs to USD 16 per stove. This would make Rajshahi stoves a profitable venture, earning USD 4 on every stove sold for Rajshahi stoves. In order to implement this plan, however, Rajshahi Stoves needs investment to set up the local production. It is clearly not ready to take it on. There is no impact management system in place to track the organisation's inputs, outputs, outcomes, and impacts and communicate these to the wider world.

Shamin hears of an incubation program, whereby he gains access to a co-working space that Rajshahi Stoves can use during visits to Dhaka. The incubator connects Rajshahi Stoves with mentors and provides support developing leadership skills, business planning, marketing, and attending pitch events. Rajshahi Stoves gains access to a network of investors and other actors involved in the social entrepreneurship and impact investment spheres. These are just some of the resources that the enterprise now has access to. All of this adds up to targeted support specifically to allow it to better prepare for investment and impact management.

Shamin, through participation in this program, also benefits from an online platform that guides him through the whole incubation process. The platform even connects him to another entrepreneur in India who markets a similar product and gives him valuable advice on how to improve his marketing strategy. Through the online platform, Shamin also participates in an investment readiness online course free of cost from the comfort of his home in Rajshahi.

At the end of this whole process, the Rajshahi Stoves receive an invitation to an angel investment pitch event. The pitch is successful and an investor comes on board. The investor is an experienced business angel that invests with a revenue sharing model inspired by the innovative finance toolbox. The advantage of the revenue-sharing model chosen by Shamin and the investor lies in eliminating the necessity for pre-defined exit dates, leaving room for Rajshahi stoves to develop organically. The investor is willing to take an early-stage risk considering the large potential market and strong impact results. But he can invest only 100,000 USD at first. A further 100,000 USD is provided by the impact-ready matching fund from the Biniyog Briddhi: SIE-B financing vehicle.

With this, Rajshahi Stoves can set-up the local production and begin to scale. The next round of financing is now being planned. The investor and Rajshahi Stoves are in agreement that they would like to incorporate a SIINC component, ensuring that Rajshahi Stoves will secure further finance based on impact performance. Rajshahi stoves negotiates a three-year contract with the Biniyog Briddhi: SIE-B financing vehicle in which the reduction of fuel used by Shamin's customers living on less than USD 1.90 a day using the cook stoves is measured and verified by a third party. Based on this data the increased disposable household income of BoP customers is calculated. This additional disposable income of the households serves as the main indicator for premium payments to the Rajshahi stoves. For every USD 10 saved by Rajshshi stoves' poor customers, the enterprise receives USD 1 from Biniyog Briddhi: SIE-B. The more additional income generated by properly using the cook stoves the more premiums the enterprise can earn. This is very different from subsidizing sales of these products where the proper usage and maintenance of the products would not be considered.

With the SIINC payments, Rajshahi stoves is now a profitable business. With his new balance sheet and his SIINC contract, Rajshahi stoves manages to find another investor, who this time invests USD 1 million into the business in exchange for a 20% stake in the company. This allows Rajshahi stoves to scale even further. It now sells 20,000 stoves a month. This justifies an investment in a bigger production plant, which allows to bring down the production unit cost for every stove to USD 10, making Rajshahi stoves profitable without the SIINC payments.

With only USD 100,000 of matching funds and USD 200,000 of SIINC payments, Biniyog Briddhi: SIE-B has leveraged investments worth USD 1.1 million while Rajshahi Stoves continues to sell 20'000 stoves every month, without any external support, generating significant income increases for its customers. Because Shamin received support and was incentivised to introduce proper impact management practices in order to participate in the incubation process and be eligible for the impact ready matching funds and SIINC payments, Rajshahi Stoves now continues to apply the same practices, as it has understood that the provision of embedded messages on the proper use and maintenance of its stoves not only increases its impact on the customers but brand-value and sales as well.
