SOCIAL IMPACT INCENTIVES (SIINC)

ENABLING HIGH-IMPACT SOCIAL ENTERPRISES TO IMPROVE PROFITABILITY AND REACH SCALE

WHITE PAPER

Schweizerische Eidgenossenschaft
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Swiss Agency for Development and Cooperation SDC

Roots of Impact

Social Impact Incentives (SIINC) pay for proven results and attract investment for high-impact social enterprises.

OVERVIEW

"Social Impact Incentives are the logical next step after Social Impact Bonds"

Rodney Schwartz, CEO ClearlySo

"The Social Impact Incentives scheme boosts the viability of businesses serving the poor by aligning impact with profitability"

ImpactAlpha

PREFACE: WHY IT IS VITAL TO CREATE MORE EFFECTIVE SOLUTIONS

There is a fundamental mismatch between the hype around impact investing and the reality of double bottom line businesses. The challenge lies in overcoming the fact that too many high-impact social enterprises are struggling to improve their profitability and reach true scale.

At the moment, market-based approaches to development and social good create tremendous excitement. The promise is huge: to find effective models that generate social and ecological impact and at the same time achieve market-rate returns. However, it is still a long way to get there. Making markets work for social good requires more than traditional financing instruments.

For many years, the multilateral development banks have been investing with the goal to create a lasting positive impact on society. Meanwhile, private investors are increasingly intrigued by impact investing as well. The market is growing with double-digit rates and attracts more and more actors from the private and institutional realms. However, the amount of impact investment capital and international development funds is too small to meet the financing needs of developing and emerging countries. The main challenge is not about raising more funds. It is about lacking investment opportunities - or more precisely: the ability of targets, whether impact funds or social enterprises, to deliver risk and return in line with traditional capital markets. The 2016 annual survey by the Global Impact Investing Network (GIIN) and JP Morgan Chase highlights this long-term trend: For the fourth consecutive year, impact investors named “lack of high-quality investment opportunities with track record” as the second most critical challenge to the industry’s growth[1]. This turns the spotlight on the investees.

At the same time, private capital is of vital importance to address the development challenge. In 2015, the OECD and the World Economic Forum (WEF) cited an investment gap of around US$ 3.1 trillion per annum in sectors critical to the Sustainable Development Goals (SDGs)[2]. Such a profound abyss cannot be bridged with the help of public and philanthropic funding alone. The essential question is how to mobilize large enough amounts of private capital to create real impact at scale.

The vast majority of (impact or traditional) investors aim for market- or near-market rate returns[3]. But highly effective solutions to social problems often evolve at points along the risk/return spectrum which are not (yet) in line with the mainstream capital market. Thus, numerous high-impact social enterprises fail to improve profitability, reach scale and attract investment to grow. "Investable" targets are rare from the point of view of investors. As a result, a huge amount of capital is waiting to be deployed for social and environmental

[1] Global Impact Investing Network (GIIN), JP Morgan Chase & Co: “Annual Impact Investor Survey“, 2016.

[2] WEF, OECD “Blended Finance Vol.1 – A Primer for Development Finance and Philanthropic Funders“, 2015. The US$ 3.1 trillion gap originates from the UNCTAD report “World Investment Report 2014. Investing in the SDGs: An Action Plan“

[3] Global Impact Investing Network (GIIN), JP Morgan Chase & Co: “Annual Impact Investor Survey“, 2016.

impact, yet too little makes its way to social enterprises - especially to those with outstanding impact.

Public funders and philanthropists play a vital role in unlocking the potential of inclusive business models. And they can do this in ways that traditional investors cannot. But to unfold the catalytic power of their activities, the most effective use has to be made of the resources. More effective solutions are therefore key: They open the doors to exploit this promising path while at the same time acknowledging the realities of the market. This is the line of thought that led us to co-create **S**ocial **I**mpact **INC**entives (SIINC).

Dr. Peter Beez

Head of Focal Point Employment and Income
Swiss Agency for Development and Cooperation (SDC)

Bjoern Struewer

Founder & CEO
Roots of Impact

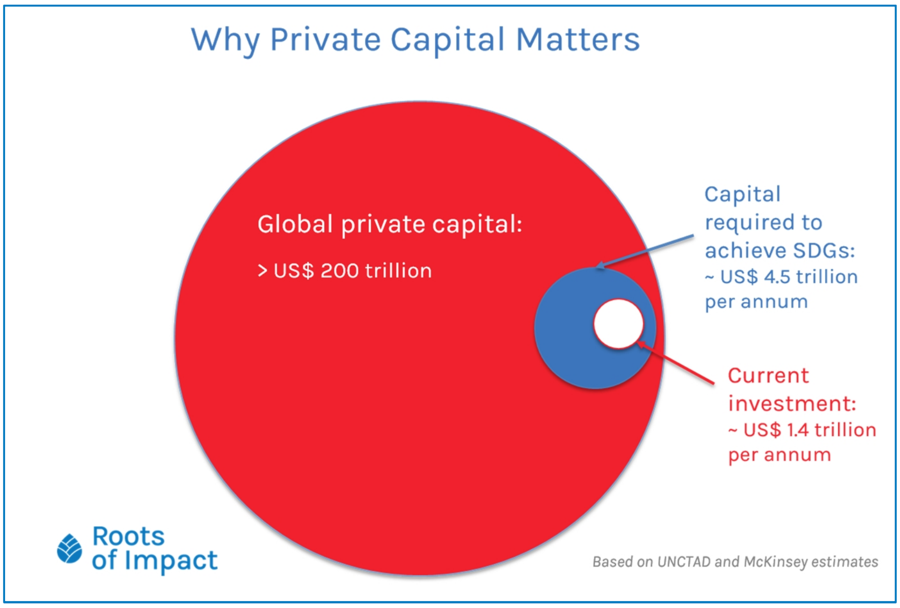

Figure 1: "Why private capital matters"
(source: Roots of Impact, based on UNCTAD and McKinsey estimates)

SUMMARY: REWARDING IMPACT FOR PROFITABILITY AND SCALE

Premium payments for real impact achieved can systematically close the gap between demand and supply. With Social Impact Incentives (SIINC), social enterprises are empowered to raise large amounts of investment and to grow sustainably while creating positive social impact at scale.

KEY TERMS

Blended Finance:

Blended Finance is „the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets."

World Economic Forum

Pay-for-Success (PFS):

"PFS is an innovative contracting and financing model that leverages philanthropic and private dollars to fund (social) services up front, with the government, or other entity, paying after they generate results."

Corporation for National and Community Service

"What makes recent PFS initiatives distinctive is that they are focused not simply on creating additional financial incentives for contractors to produce better outcomes, but more broadly on overcoming the wide set of barriers that are hindering the pace of social innovation."

H. Azemati, M. Belinsky, R. Gillette, J. Liebman, A. Sellman, A. Wyse / John F. Kennedy School of Government, Harvard University

Roots of Impact and the Swiss Agency for Development and Cooperation co-developed Social Impact Incentives (SIINC) - a new Blended Finance model enabling high-impact social enterprises to improve profitability and reach scale by paying for proven results. With SIINC, social enterprises are rewarded for real impact achieved. They earn additional revenues by monetizing positive externalities. Thus, social enterprises enjoy a boost in their profitability once the impact performance is achieved. This profitability boost, in turn, attracts investors to provide the necessary capital for scaling.

SIINC IS SIMPLE, FLEXIBLE AND ENTREPRENEURIAL

SIINC builds strongly on the entrepreneurial drive that social enterprises demonstrate when addressing the world's most pressing social and environmental challenges. The basic mechanism is very straight forward: An outcome payer - usually a public funder or philanthropic organization – agrees to act as a key customer to the enterprise, paying premiums for its social contribution. These premiums are then disbursed in addition to the enterprise's regular revenues. Thus, impact is incentivized very directly: It becomes linked to the social enterprise's levels of profitability and automatically raises its attractiveness for investors.

The temporary payments have a catalytic effect on all parties involved: they accelerate the social enterprise's process of achieving long-term financial viability while offering the outcome funder and the impact investor strong, ongoing social returns on the resources they invest.

In addition, there is no need to set up a special purpose vehicle or any other kind of dedicated structure. SIINC simply requires a contractual agreement between two parties that will be tailored around their needs. For long-term impact, the key to success is developing the business while ensuring that the organization is optimized for social performance. With SIINC, the final goal is to get both bottom lines fully "synched". The basic SIINC effect can be illustrated as follows:

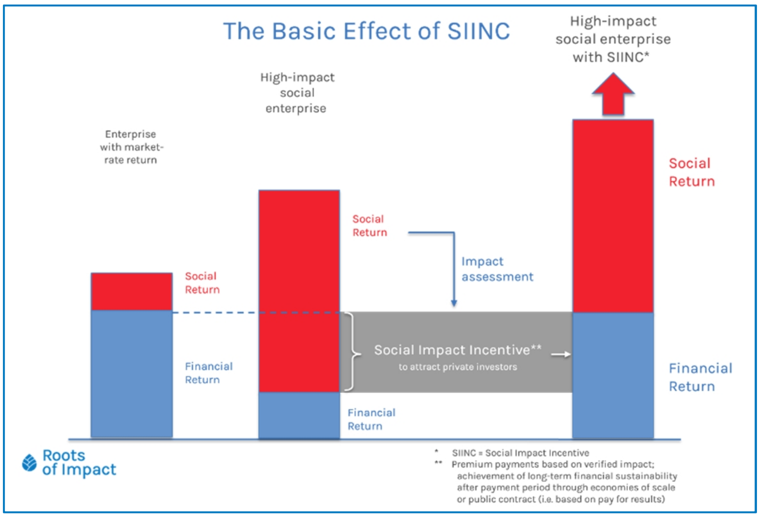

Figure 2: "The basic effect of SIINC" (source: Roots of Impact)

PILOT IN LATIN AMERICA

After careful preparation, SIINC went live in December 2015 with a pilot project in Latin America and the Caribbean. The project is led by Roots of Impact and implemented in partnership with the Swiss Agency for Development & Cooperation (SDC), the Inter-American Development Bank, New Ventures and support from Ashoka.

PART 1: SHIFTING THE FOCUS FROM DEMAND TO SUPPLY

SIINC creates leverage by modifying and integrating three proven concepts: Venture Capital, Social Impact Bonds (SIBs) and Results-Based Financing.

How did SIINC evolve? Quite naturally, SIINC wasn't born in a vacuum. It emerged from a modification of three well-known concepts: Venture Capital, Social Impact Bonds (SIBs) and other Results-Based Financing models. With SIBs (sometimes known as "Pay-for-Success"), the real innovation was combining the Pay-for-Results logic with pre-financed activities. This created an unseen investability of impact interventions, mostly in the field of preventive measures. Roots of Impact and the SDC took this idea one step further: What if we melded it with the attitude of a venture capitalist, more precisely with a market-based mechanism? The revenue streams of a social business, social enterprise or impact-oriented business – however the target may be labeled – would then be generated in conjunction with impact. This important switch harnesses the fact that business is not only a significant driver of economic development, but also an efficient channel for entrepreneurial creativity and innovative impact solutions. As a result, SIINC became a truly entrepreneurial model: When a social enterprise grows strongly, it will enjoy economies of scale. This, in turn, will reduce the overall cost for the desired impact, which

KEY TERMS

Social Impact Bond

"A Social Impact Bond is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of social and/or financial interest to a government commissioner. If the social outcome improves, the government repays the investors for their initial investment plus a return for the financial risks they took. If the social outcomes are not achieved, the investors stand to lose their investment. SIBs provide investment to address social problems and look to fund preventative interventions."

Social Finance UK

"Social impact bonds are a form of 'pay for results' funding because the repayment of the original investment and/or payment of financial return is dependent on the achievement of measurable social outcomes."

European Parliament

represents a compelling argument for any market player interested in real, long-term system change.

SIBs and most Results-Based Financing models basically have one thing in common: They are driven by demand. The outcome payer makes the promise to render a project financially worthwhile by rewarding effective solutions to a given problem. One important consequence is that a market for a pre-defined set of results comes into existence. This fits particularly well with cases which don't have much potential for business activity and where cost-savings can be tracked through strong evidence base-lines of costs versus results. In the classic SIB model, for example, the outcome payer only has to pay when results are achieved in full. More recently, SIBs have also evolved and are becoming more flexible. Partial payments[4] for partial impact delivery as well as other more flexible elements are now part of the game.

What is really new in the SIINC mindset is that the focus switches from demand to supply. Highly effective social enterprises are selected to have their impact incentivized. With stronger financial projections, they immediately become more "investable" and able to attract the necessary capital for scale. Thus, the outcome payer does not agree to pay for a given set of outcomes. Instead, he or she agrees to directly support an increase of the impact supplied by the social enterprise. Also, there is no pre-defined investor in the model any more: The enterprise is able to freely engage with financiers that are best suited to meet its needs - a significant and welcome side effect of the newly-gained sustainability. At the same time, this marks the switch from demand to supply. Impact will be generated long after the original outcome funder has ceased to provide payments. As a result, the social entrepreneur enjoys more freedom and society benefits from ongoing positive impact.

In essence, SIINC transforms the role of the outcome payer to that of an "impact venture capitalist". Similar to the traditional finance world, the VC supports the investee in improving performance and maximizing scale, which leads to greater business efficiency. With SIINC, this effect is simply transferred to another dimension: to social impact.

[4] http://govlab.hks.harvard.edu/files/siblab/files/social-impact-bonds-a-guide-for-state-and-local-governments.pdf?m=1419347623

PART 2: HOW TO CREATE A SIINC INTERVENTION

SIINC is a powerful tool to align the interests of investors, investees and outcome payers and to catalyze much more capital into solutions that work effectively.

There are three distinct actor groups involved in a typical SIINC transaction:

(1) Social enterprises: they seek investments in order to scale operations and generate more positive social impact;

(2) Public and philanthropic funders: they are driven by the motivation to maximize the positive impact generated by their funds;

(3) Impact investors: they target reasonable social and financial returns on their investments.

The SIINC approach is able to align the interests of each of these three groups. The outcome funder agrees to pay premiums not to the investor but directly to the social enterprise based on its social performance. This, in turn, makes the enterprise attractive enough to catalyze investment from impact investors. Such an arrangement is truly entrepreneurial: What kind of investment will be taken from whom is completely open. The following graph outlines the basic SIINC model as well as the roles of each of the three groups involved:

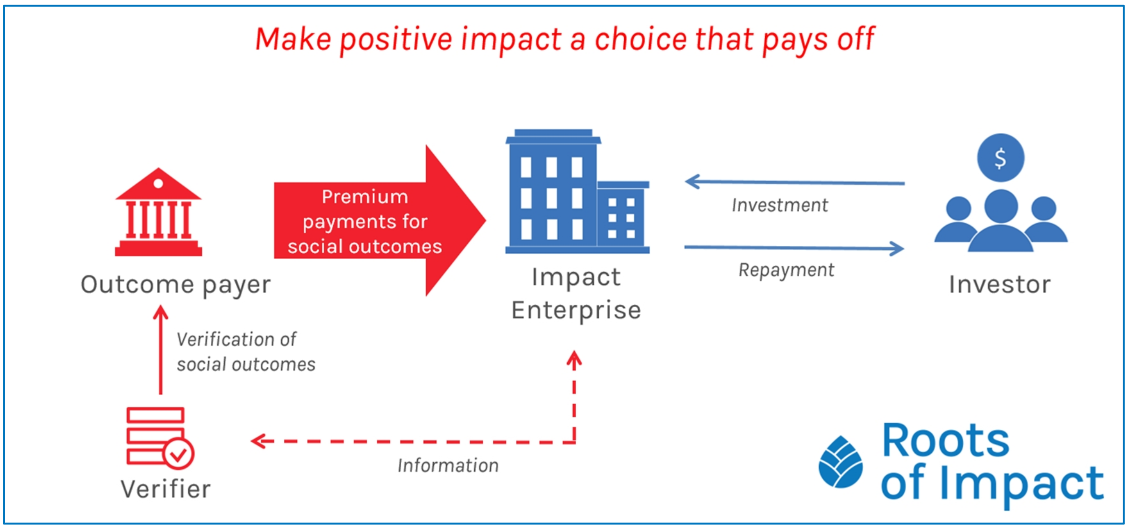

Figure 3: "The SIINC model" (source: Roots of Impact)

In general, SIINC is structured as straight-forward as possible. A Special Purpose Vehicle or other kinds of overlay structures are not required. In the basic model, there is a payment agreement between the outcome payer and the social enterprise along with pre-defined social performance indicators. The investment contract between the social enterprise and the investor is structured individually to meet the specific needs of both. There can be additional arrangements between the investors and the impact payers, but this is not a must. In the second step, an impact base-line is established, with payments triggered by organizational metrics directly related to the impact performance. Finally, the ongoing payments are structured and linked to impact, while an independent verification of the impact assessment system ensures that the results are as reliable as possible.

Through incentivizing the social impact of the operation, outcome payors assist the social enterprises in expanding their operations with full mission-alignment. If the conditions of the SIINC agreement are ambitious and fair, social enterprises should be able to perform strongly from an impact perspective while posting solid financial results. Thus, the SIINC model strengthens highly effective solutions. Yet to exploit the full potential of SIINC requires excellence and experience in implementation. This is one of the most important insights that we gained from the pilot program in Latin America and the Caribbean so far.

HOW TO ADDRESS LONG-TERM SUSTAINABILITY

A natural question is what the end game of a SIINC intervention may look like: how about the "exit"? Basically, when a SIINC intervention comes to an end (this may be after two to five years), the social enterprise should have reached financial sustainability through market activity and/or public contracts. Either scale plus paying end-users have made it economically viable or public bodies have been convinced of the solution's effectiveness and will pay for the good or service - or even better: for the results. Yet one aspect is essential: Whatever the exit path may be, SIINC will ensure that deep social impact is delivered beyond the end of the intervention period.

PART 3: SELECTING THE RIGHT TARGETS

SIINC is an effective mechanism to align both bottom lines of an enterprise - income and impact - while scaling.

High-impact social enterprises often struggle to secure growth capital for one reason or another. Frequently, they operate in difficult, unproven markets. On top of that, they are serving customers with minimal and inconsistent livelihoods. The SIINC scheme successfully boosts the viability of such growth-stage enterprises. Once an enterprise attracts capital, it is able to build capacity, increase revenues and achieve lower per-unit costs. This effect is irrespective of whether the unit in question is a product or an instance of a service provided. In an ideal-case scenario, impact investors would like to see an increase in marginal impact in relation to the increase in net income per unit. This "ideal double bottom line business" can be visualized as follows:

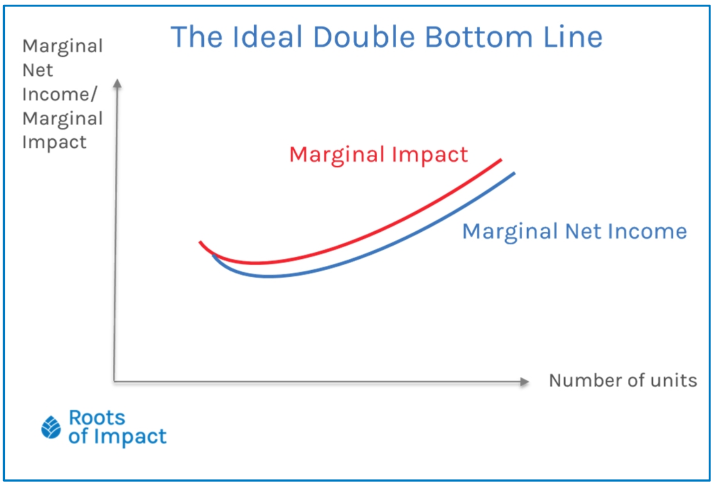

Figure 4: "The ideal double bottom line"
(source: Roots of Impact)

SCENARIO ONE

The original idea for SIINC was to deal with cases where the marginal net income did not increase at the same rate as the marginal impact. This happens for instance when high initial costs are associated with expansion and margins are simply too low to pay the cost of scaling. In other words: The enterprise remains a high-impact operation but its investability is limited. SIINC helps to bridge this very gap:

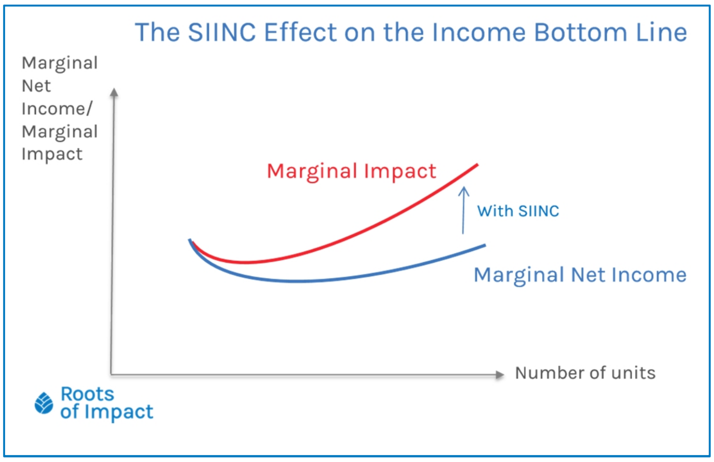

Figure 5: "The SIINC effect on the income bottom line"
(source: Roots of Impact)

We refer to this as scenario one. Here, a SIINC deal is designed to increase marginal net income to levels that are attractive to investors and therefore catalyzes a round of investment. In practice, there was no shortage of scenario one applicants during the SIINC pilot program, on the contrary: The idea of rewarding a social enterprise for its impact was apparently a feast for hungry mouths, but also attracted other types of candidates for a second scenario:

SCENARIO TWO:

There is one characteristic that raised the second wave of interest during the pilot: SIINC is not a traditional grant or subsidy, nor is it milestone-based. Instead, it is a bilateral deal that rewards impact performance. The social enterprise must agree upon a set of enterprise-internal metrics which will be used to trigger payments. These metrics are designed to capture aspects of its impact. At the same time, they should be useful for the business operations as well. So when the metrics get rewarded, the incentive is to focus on improving them.

Right from the beginning, the idea was born that SIINC could be adapted for large corporates. It could be a tool to leverage their platform for social impact at a massive scale. But there are further interesting applications for SIINC between the two extremes of the spectrum – between the relatively small but highly effective social enterprises and the large corporates. What if impact-conscious organizations would use the SIINC model as a means of ensuring that their impact increases disproportionate to their income while scaling significantly? This would mean that their operation's marginal impact increases at least in parallel with their marginal net income per unit - an effective method of preventing mission drift or even of generating a further deepening of impact.

Such a scenario is particularly valid when a model has achieved - or has the potential for - strong financial performance. These enterprises often receive much interest from investors. But they can come under strong pressure to focus on more lucrative markets or segments. The result would be an erosion of the marginal impact as the operation scales – a threat that SIINC is able to address. Of course, one could be cynical and say that social enterprises are just looking for more funds. But the consequence of a SIINC deal on the social enterprise's strategy shouldn't be overlooked. The enterprise has to (re-)focus its business model on maintaining and deepening its levels of impact. The following graph illustrates this scenario two:

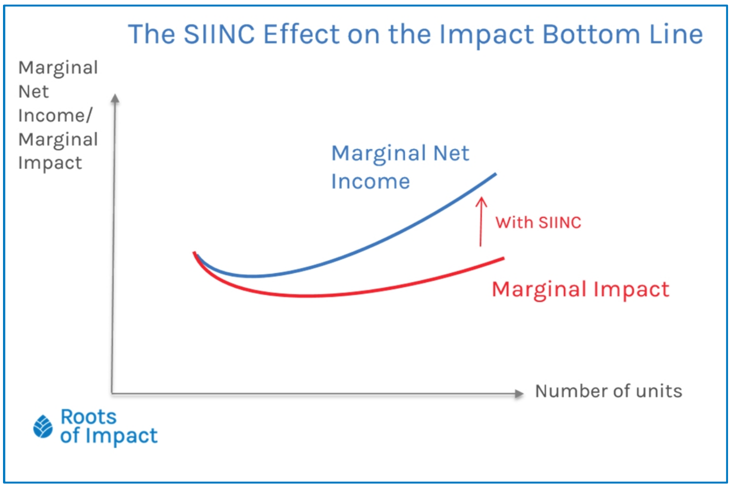

Figure 6: "The SIINC effect on the impact bottom line"
(source: Roots of Impact)

In reality, the two scenarios are not far removed from each other. It is simply a question of perspective and the related development stage. SIINC supports either highly mission-driven entrepreneurs who are struggling with their commercial business model. Or it addresses commercially viable businesses with impact-conscious leaders who are looking for ways to deepen their social contribution. One way or the other, society wins with more impact and a harmonious alignment of both bottom lines.

One of the key success factors of a SIINC transaction is selecting the right targets. Our scorecards are designed to guide the assessment of potential candidates and highlight the two main aspects of a target's suitability: (a) the general assessment that addresses the (potential) investment readiness, and (b) the SIINC suitability assessment that focuses on features such as additionality, impact scalability and transferability. The following graph gives an example of how these scorecards support the process:

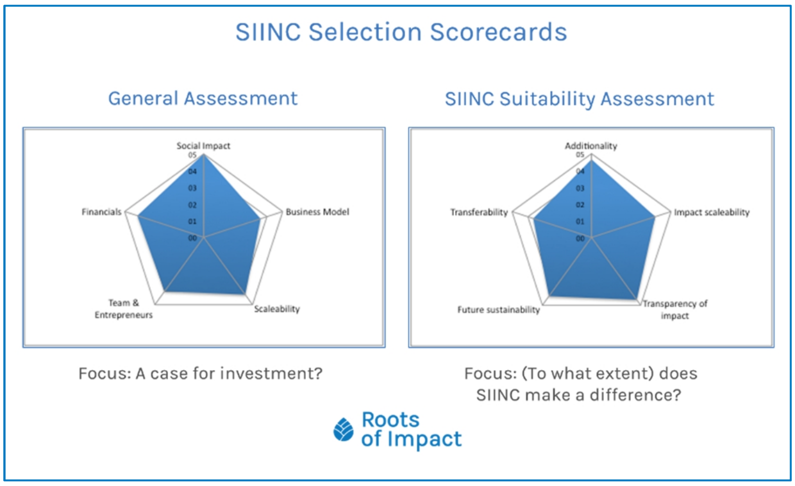

Figure 7: "SIINC selection scorecards" (*source: Roots of Impact*)

PART 4: ON PRICING THE IMPACT

Combined with other relevant sources of data, a larger pool of SIINC interventions offers the opportunity of an "impact benchmark".

One of the major issues when designing a Pay-for-Results intervention is how to tackle the issue of pricing. How much should a given unit of impact actually cost? How do you value the impact generated? And how do you compare impact in one sector against the impact in another?

The reality is that the entire sector is decades away from having a truly reliable impact pricing mechanism. For example, looking at the implementation issues surrounding carbon credits, even a good that can be quantified with relative accuracy offers a difficult basis for a market. Despite abundant data, prices have tended to heavy fluctuations, leading to the carbon market having a reputation as being an unreliable source of income.

In the SIINC model, the issue of valuing impact does not get solved either. There is no "cap-and-trade" element where the wished-for results are priced and offered to tender. Instead, the outcome payer compares the cost for the expected results with other interventions. There are also open databases and other initiatives trying to support decision makers in this regard. Based on comparable interventions, the outcome payer then decides on whether the potential impact generated through the intervention offers good value for money and fits within his remit. In general, the SIINC payments should be lower than the outcome payer's costs in other models. The reason for this is in the incorporated revenue streams that the target social enterprise creates.

The level of SIINC payments will vary in different settings. How much cash flow a social enterprise will require in order to attract investment for scaling (in a scenario one case) or to establish a deepening of the enterprise impact while scaling (in a scenario two case) will depend on its sector, region and business model. In essence, this is outcome payer's potential "cost" of the intervention. The payments are tied to impact performance only and can be capped at a given amount and over a given time. In this sense, the payer acts as an additional customer for the social enterprise: Price and conditions are negotiated individually.

Yet the real potential unfolds when we imagine a larger pool of these types of SIINC interventions. They would offer the opportunity of an "impact benchmark". In combination with other sources of relevant data, this would represent enough base-line information to develop some form of standardization. Of course, these are ideas for the future, but they are no science fiction since efforts in this direction are currently gathering momentum.

To summarize, the SIINC payment mechanism differs a lot from that of carbon credits, but from the social enterprise's perspective they serve a similar purpose:

- The SIINC payments monetize a positive externality.
- The resources brought in act as supplementary revenue, not tied to any given project or approach.
- The enterprise is free to decide on how to generate the impact, and what matters are real results.

PART 5: DESIGNING THE IMPACT ROADMAP

SIINC is based on an individual impact roadmap with tailored, enterprise-specific metrics.

When designing productive outcome metrics, flexibility is key. As the SIINC intervention is based on a deal negotiated and agreed upon by the involved parties, measuring and tracking the impact follows no fixed pattern. In the end, the social enterprises selected are all looking to scale significantly, which involves that they have a heavy workload to deal with. Deciding unilaterally on a set of metrics that they all should deliver is therefore asking for trouble: such a restrictive approach would risk to create friction between the parties involved.

Instead, the SIINC solution builds on an individually developed impact roadmap: it lays out a detailed plan for the evolution of the impact metrics to be tracked. These are used as payment triggers over the course of the SIINC deal. The goal is to bring the social enterprise from its starting point right through to a mutually agreed upon finishing line. The premise underpinning the roadmap is that there must be a commitment from the enterprise to an increasing level of sophistication in the metrics and processes over the course of the entire intervention.

STRATEGIES FOR IMPACT ROADMAPS

The process begins with an evaluation of the metrics: which metrics are currently tracked by the enterprise and what are the processes behind? If they are sufficient to act as a strong proxy for the impact which the outcome payer wishes to promote, then they are selected for the opening-phase payment triggers. A base-line is used to assess performance up to now, and the agreed-upon base-line payment amount is linked to them. If the enterprise ends up underperforming, then the payments will be below the base-line payment. If the enterprise outperforms, then they can get premiums beyond the base-line, up to a capped amount.

The direction that the impact roadmap takes is dependent to a large extent on the strategy that the enterprise envisages regarding scaling and financing: what are its medium-term plans for servicing the most impactful segments of the market at scale? To date, we have identified two broad strategy types: (1) market-based strategies and (2) public-body strategies.

(1) In the case of a market-based strategy, the impact plan centers on combining business with impact metrics. In other words: the focus is placed on developing business-based impact metrics. Why? Ensuring that the enterprise can continue to service this market segment depends on how much they know about those customers and how best to serve them from a business perspective. In this way, the business opportunity represented by this segment becomes more appealing and the probability that investors will buy into the strategy is maximized.

(2) With a public-body strategy, the target market segment usually cannot afford whatever good or service the social enterprise is offering. But it may well require it. The idea is to use the SIINC intervention as a basis for generating a strong enough argument that a public body (e.g. regional government or social insurance agency) will agree to contract the social enterprise to facilitate a continued provision to that market segment moving forward. How is this achieved? The public body in question is invited to be an observer in the development process of the SIINC intervention and asked for its thoughts on what metrics would most likely provide a solid basis for a decision-making process on continued support after the intervention has ended. Such a "soft-touch" approach avoids having to agree on any terms with public bodies in advance, but engages them in the process nevertheless. As a result, timelines and complexity levels involved in getting things off the ground are minimized. At the same time, two further issues are circumvented: (1) most social enterprises are not at a stage where they enter into a standard Pay-for-Results arrangement with a public body as they simply do not have the necessary scale; and (2) their solutions are often not established or proven enough to convince a public body to enter into such an arrangement.

As mentioned above, both strategies require a commitment on the part of the enterprise: It has to improve the sophistication of the metrics and processes involved. The roadmap should lead, for example, from a focus on output metrics to including outcome metrics. Nevertheless, the impact measurement doesn't have to be very complex or expensive. This mindset has much in common with Acumen's "Lean Data"[5] as it seeks to hit the sweet spot at the intersection of useful business and impact metrics. Of course, such a transition does not happen overnight. Much consideration must be given to which metrics to track and how, as resources are going to be very stretched at that stage of organizational development.

In general, the entire process of implementing SIINC can be sliced down in three major phases: (1) identification, assessment and preparation, (2) investment readiness and transaction management, and (3) impact measurement and monitoring. The following graph details the individual tasks that typically need to be performed in each phase of the SIINC process:

[5] http://ssir.org/articles/entry/the_power_of_lean_data

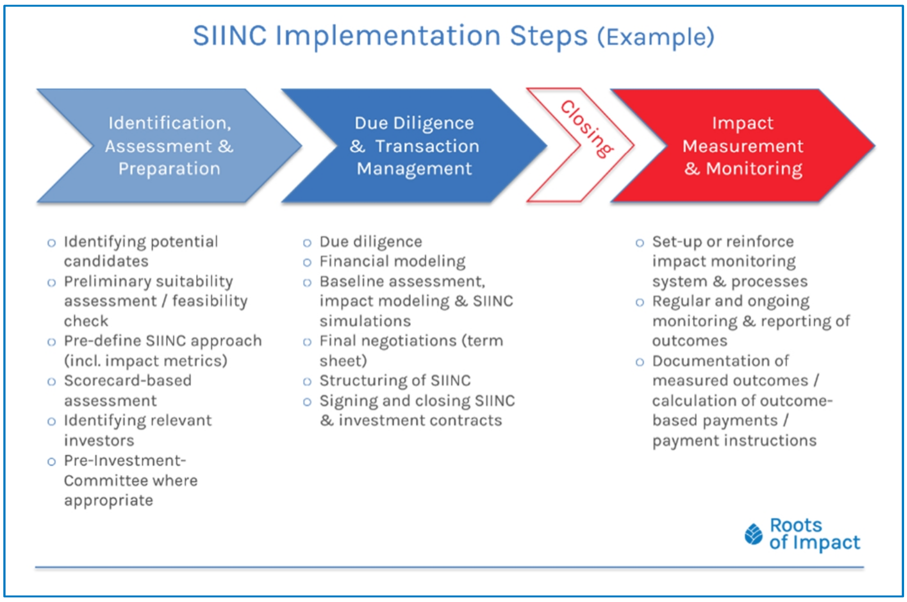

Figure 8: "SIINC implementation steps (example)" *(source: Roots of Impact)*

PART 6: SPOTLIGHT ON REAL ADDITIONALITY

Increasing the effectiveness of impact investing is key to unlocking the full potential of market-based solutions. To do so, it is vital to focus on real additionality.

As an organization, Roots of Impact is committed to increasing the effectiveness of impact investing. It never ceases to amaze us how large the gap is between available and invested capital. This is symptomatic of the significant mismatch between investors' expectations and the actual needs of social entrepreneurs. Consequently, the current practice of impact investing and social entrepreneurship is not fulfilling its potential.

Blended Finance is one solution to this dilemma and an approach that the Swiss Agency for Development and Cooperation is committed to pursue. There is a growing desire in development finance to use public, development and philanthropic funds in ways which are able to "crowd in" private investment. The key in making blended finance successful is to develop mechanisms that combine different sources of capital in a mission-aligned manner. Yet the characteristics and effectiveness of incentive mechanisms are different. The Center for Global Development, for example, concludes that "Pay-for-Success instruments are less distortionary and produce better results for a lower expected cost than other incentive programmes"[6].

[6] Center for Global Development: "Working Paper 402. Guarantees, Subsidies, or Paying for Success? Choosing the Right Instrument to Catalyze Private Investment in Developing Countries", 2015

Comparison of Blended Finance Instruments

	Guarantees	Subsidies	Pay for success
Avoid moral hazard in project selection	✗	✓	✓
Better performance management	✗	✓	✓
Improve targeting	✗	✗	✓
Promote contestability	✗	✗	✓
Avoid the costs of optimism bias	✗	✗	✓
Build public support	✗	✗	✓
Reduce monitoring and evaluation costs	✗	✗	✓

Source: Center for Global Development working paper 402, May 2015

Figure 9: "Comparison of blended finance instruments"
(source: Center for Global Development)

Why is it necessary to take action here? According to the Global Impact Investing Network (GIIN)[7], over 80% of impact investors aim for market- or near-market returns. At the same time, there are constant complaints about a lack of suitable investees. Many advocates for impact investing get nervous when confronted with potential lack of correlation between social impact and financial performance. The same can be said when dealing with the question of the real impact of impact investing: the "additionality"[8]. Any kind of "trade-off" rarely gets mentioned. It tends to dampen the mood in the impact investing world. Of course, there are sectors, business models and activities where social impact readily joins profitability. But many highly effective and efficient solutions evolve at points along the risk/return spectrum which are not (yet) in line with the mainstream capital market. This is where the spotlight should go if we really care about effectively solving large-scale social issues.

KEY TERMS

Additionality:

"Having impact implies causation, and therefore depends on the idea of the counterfactual—on what would have happened if a particular investment or activity had not occurred. The enterprise itself has impact only if it produces social outcomes that would not otherwise have occurred. And for an investment or nonmonetary activity to have impact, it must increase the quantity or quality of the enterprise's social outcomes beyond what would otherwise have occurred. "

P. Brest, K. Born / William and Flora Hewlett Foundation

Another stumbling block is the lack of commitment to a rigorous measurement and monitoring of impact. Certainly, there have been steps taken by the sector as a whole in the right direction, but mostly by a handful of committed and progressive players. For the majority, investing in "impactful" sectors is sufficient to proudly wear the impact investor badge. There is little effort nor resources allocated to track, manage, report or optimize the impact generated through the investor's activity.

[7] https://thegiin.org/knowledge/publication/eyes-on-the-horizon
[8] http://ssir.org/up_for_debate/article/impact_investing

Only a tiny number of funds have some form of impact-related incentives – to complement the financially-based ones such as the ever-popular carried interest.

The SIINC model does not need a paradigm shift to work. It acknowledges the realities of the market while offering a means of spurring an evolution: managing, deepening and reporting real impact - and of course: consistently channeling capital toward solutions with proven impact. Producing impact roadmaps in collaboration with impact investors and philanthropic funders allows them to engage with investees to devise impact-evolving strategies. Developing outcome metrics prepares the basis for funds to begin drawing up their own impact reporting processes. Hopefully, the SIINC interventions themselves will show that strategies for deepening impact can lead to an opening up of further markets. The vision is clear: stronger long-term commercial performance, fully in-line with impact.

PART 7: HOW TO FULLY EXPLOIT THE POTENTIAL

SIINC offers a wealth of variations at different levels of the ecosystem: from individual enterprises to theme-specific “SIINC Tanks” to entire impact (fund) portfolios. It can also include a wide range of financial instruments.

We are still in the early days of the SIINC model, but the efforts will continue. Replication and further roll-out are able to contribute to the scaling of innumerable social enterprises and organizations beyond the social sector. Of course, the model is no panacea. It is tailored specifically to organizational models which have revenue streams and are ready to scale significantly. This doesn’t cover every organization striving for impact, though the streamlined, mission-aligned and risk-spreading structure does make it an appealing solution for various actor groups in the social enterprise sector. The model can even spread beyond, e.g. to corporates willing to do more than having isolated Corporate Social Responsibility activities.

We have begun to design several variations. Some of the adaptations for the SIINC model are for example:

- a full integration in the investment process of impact investment funds;
- variations with other forms of financial instruments such as convertible instruments or equity-like patient capital (instead of performance-based grants);
- a plug-in to support impact-oriented strategies at corporates such as social corporate venturing.

The list of possibilities goes on. But as with any new solution, realization counts. We have taken the firsts steps in incentivizing positive externalities for the purpose of scaling effective, market-based solutions to pressing social issues. With Social Impact Incentives, social enterprises are empowered to raise large amounts of investment and to grow sustainably while creating positive impact at scale.

Let’s SIINC BIG.

ABOUT SDC

The Swiss Agency for Development and Cooperation (SDC) is Switzerland's international cooperation agency within the Federal Department of Foreign Affairs (FDFA). In operating with other federal offices concerned, SDC is responsible for the overall coordination of development activities and cooperation with Eastern Europe, as well as for the humanitarian aid delivered by the Swiss Confederation.

For more information, please feel free to visit our website https://www.eda.admin.ch/sdc

ABOUT ROOTS OF IMPACT

"Building the market for more effective impact investing"

Roots of Impact is a specialized advisory firm and market builder for impact investing and development finance. We believe in the power of entrepreneurship for social good and create innovative financing solutions for scaling social enterprises. We advise impact investors, public funders and strategic philanthropists around the globe in implementing high-impact strategies. Our aim is to make impact investing and development finance more effective.

For more information, please feel free to contact us at info@roots-of-impact.org *or read more on* www.roots-of-impact.org

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