

SOCIAL IMPACT BONDS

The Early Years

July 2016



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A note on terminology

Social Impact Bonds are also known as Pay for Success projects in the US and Social Benefit Bonds in Australia.

For the purposes of this paper, we will be using Social Impact Bonds to cover all national variations.

SOCIAL IMPACT BONDS

The Early Years



It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena... who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming.”

THEODORE ROOSEVELT

FOREWORD

When Social Finance UK launched in 2007, our board members urged us to look at the role of early intervention and prevention in enabling social progress and to rethink the role of capital markets in funding social programs. One of our board members, David Robinson, used to say, “why put an ambulance at the bottom of a cliff when you can build a fence at the top?”

Yet we discovered very quickly that it is nearly impossible for governments, especially in the current fiscal environment, to allocate scarce resources to fund preventative programs or to encourage innovation in the social arena. We also discovered that most governments do not know if the services for the most vulnerable in society actually work.

In 2010, Social Finance UK launched the first Social Impact Bond in the United Kingdom—targeting reducing reoffending. By linking a social target to financial success, the Peterborough pilot generated worldwide interest in whether innovative finance can make an impact on the world’s most difficult challenges. Social Finance US was established in 2011—to support bringing

Social Impact Bonds to the US market. Social Finance Israel followed in 2013.

As the fifth year since Peterborough’s launch approached, we convened as a global network to discuss the opportunities and challenges we faced, intrigued by places where our experiences overlapped and where they diverged. We decided to write this paper to share our collective lessons from the first six years of the field.

As we pause and reflect on where we are, it is clear the idea has moved swiftly from concept to adoption in a number of different settings and in the context and variety of social problems. Globally, there have been 60 Social Impact Bonds (or Pay for Success projects as they are known in the US). In the UK, there are more than 30 active programs with government financial commitments to pay for outcomes delivered by Social Impact Bonds for the next 10 years. In the US, there are now 10+ active deals channeling over \$100 million of private capital to solve social challenges. More than 20 states—red and blue—have either introduced or passed Pay for Success legislation.

Social Impact Bonds span countries and populations and target social issues such as criminal justice, homelessness, child welfare, early childhood education, and youth development. As with many new markets, the going has been hard but it has also been ultimately rewarding. The sector should be very proud of what it has achieved since the Peterborough launch. Above all, we are excited by the impact we have had for the beneficiaries. We are also keenly aware that we are still at the beginning of a journey

and that we need to work even harder to simplify the model and amplify its results to a broader market.

Our work has created opportunities and risks. As in any new field, there are believers and detractors—from those who envision a billion dollar market for social outcomes to others who are wary of the injection of investment capital into social service provision. As practitioners, we are, at times, daunted by the challenge but believe more firmly than ever that experimenting with this model is a worthwhile endeavor. Social Impact Bonds are less complex and multi-dimensional than poverty and the social problems they are designed to tackle.

The roots of most social problems are structural, from economic forces and market failures, to political systems, to sociocultural factors. Better services are only one part of the response to these problems. But we believe Social Impact Bonds can improve the way government, the social sector, philanthropy and the investment community respond to social challenges—through partnership and collaboration, flexibility and responsiveness, investment, and a focus on data, outcomes, and measurement. By starting to design services which are responsive to need, however complex, we can constantly take what we learn and seek to do better tomorrow.

It is our hope that what we have learned over the last six years, as described in this paper, will inspire others to join our collective effort to measurably improve the lives of our most vulnerable communities.

July 2016



DAVID HUTCHISON
CEO, Social Finance UK



TRACY PALANDJIAN
CEO, Social Finance US



YARON NEUDORFER
CEO, Social Finance Israel



A multitude of actors—governments, social organizations, impact investment intermediaries, taskforces, opinion leaders and investors—have contributed to the development of the global Impact Bond market over the last six years. We would especially like to thank the original 17 investors, the Big Lottery Fund, and the UK Ministry of Justice for the support they gave in launching the first Social Impact Bond in Peterborough in 2010 and the risks they took in backing an untested model.

We are grateful for the support and commitment of our Boards of Directors, led and chaired over these early years by David Blood, Sir Ronald Cohen, Bernard Horn, and Bracebridge Young.

We must also recognize the effort and dedication of our present and former colleagues, who work hard every day to promote social change.

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EXECUTIVE SUMMARY

Social Impact Bonds might not be a proven model, but they are no longer untested. In the six years since the launch of the Peterborough Social Impact Bond:

60 projects have launched
in **15** countries*

22
projects have reported
performance data

21
projects indicate positive
social outcomes

12
projects have made
outcome payments,
either to investors or to
be recycled into service
delivery

4
projects have fully repaid
investor capital

*As of June 2016

It is exciting to see an idea move from conception, to exploration, to implementation so quickly and so broadly. Even more so when the pace of new projects increases each year.

Why do Social Impact Bonds resonate so widely? We think that it is the values of partnership and collaboration, flexibility and responsiveness, and a focus on data, outcomes, and measurement which all stand at the heart of the model.

Investors, whose interests are aligned with other partners to achieve outcomes, play a key role. These values have positioned Social Impact Bonds with other parallel global movements: evidence-based social programs, government accountability, and impact investing.

They also beg the question of whether there is a broad need for systemic change in the way we tackle social challenges. Do we need to challenge our existing models of support? The global reach of Social Impact Bonds suggests we do. From Australia to Peru, from Finland to India, Social Impact Bond early adopters have encouraged us to think about what outcomes we should aspire to for vulnerable individuals in our communities and how we should deliver support.

The take-up across so many different communities has underscored common characteristics required for Social Impact Bonds to take hold: a public sector committed to innovation, data and evidence; a developed social sector with proven or promising interventions for social issues; and enthusiasm and sufficient appetite for risk from funders and impact investors.

The field has also faced challenges. While 21 projects report positive performance, not every project has delivered positive impact or will in the future. In one instance—the first US Social Impact Bond at Rikers Island in New York City—the project was discontinued early due to unsuccessful results. However, even in this example, the mechanism worked as intended: when the project evaluation revealed the services were not leading to a reduction in recidivism, investors took a loss and government did not pay for unsuccessful services.

The most common complaint of Social Impact Bonds is that they are complex. By virtue of the social issues they address, it is hard to imagine they will ever be completely simple. But we recognize that the complexity of the development process will inhibit the growth of the market and we know that the model needs to simplify so it can reach the impact and scale we are looking for.

We are already seeing signs of standardization in the field, with programs being replicated and adapted to multiple geographies. This is important: it will accelerate the development of existing Social Impact Bond models, reduce the costs for government and allow for new social issues to come to the fore. Funders will gather data and be able to value specific outcomes with more confidence and new, non-governmental outcome payors will emerge.

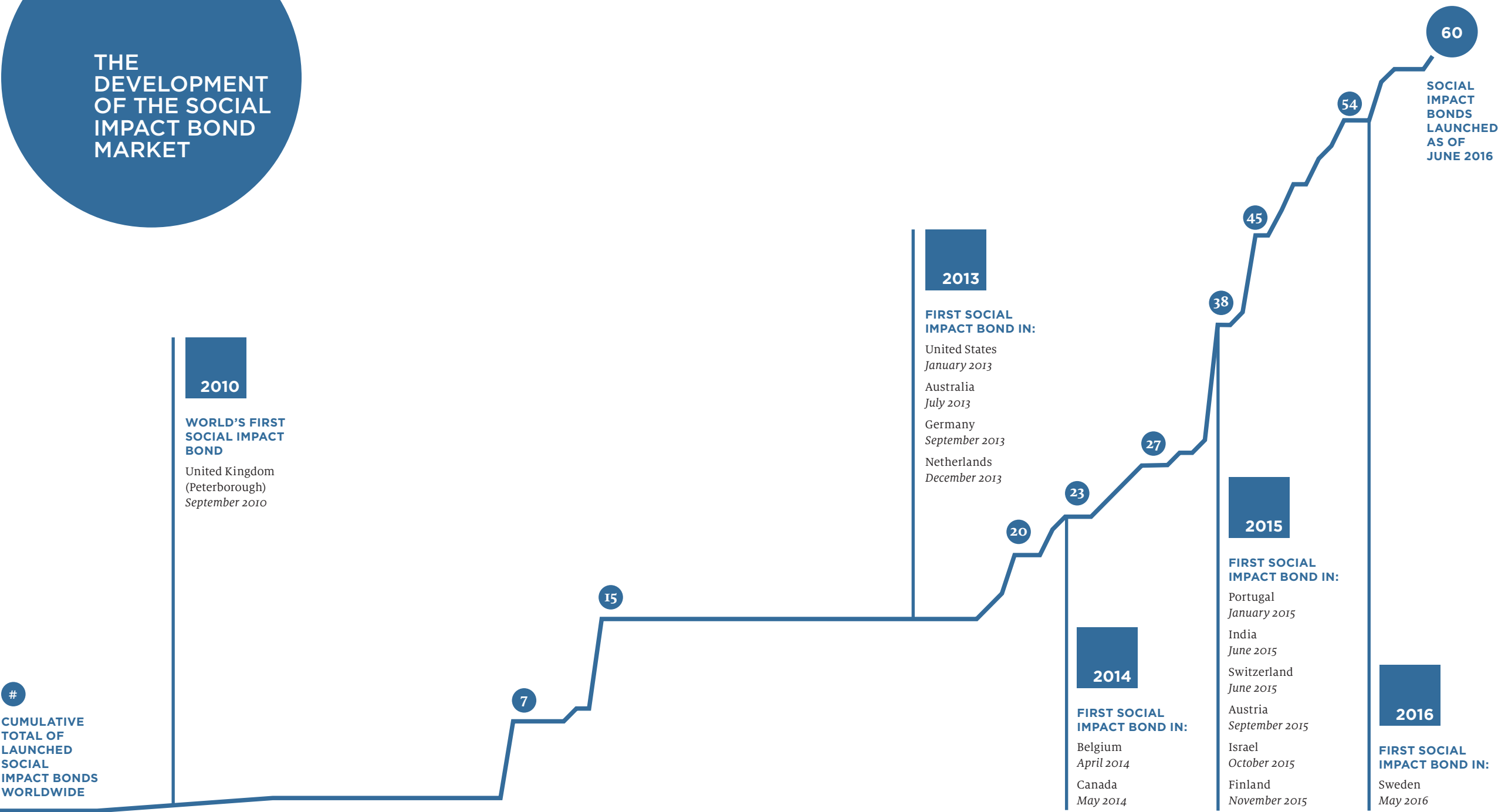
As more projects reach their conclusion, the question about what happens when a Social Impact Bond finishes will become routine. If a project successfully achieves positive outcomes, we see different options: it could be refinanced serving perhaps a larger population or an expanded geography; or the government could directly expand services, without private capital, with a focus on outcomes.

Considering the results so far, the ambition to scale, and the future of the market, we are energized by the progress made to date. One thing we know for sure, despite the growing set of results and the new projects launching across the world, is that [the field is still in the early years of appreciating the full potential of this new approach to the delivery of social outcomes](#). We have a grand vision that goes beyond Social Impact Bonds: moving the needle on some of society's toughest social issues. Social Impact Bonds are only one tool out of many that will help bring this vision to life. From impact investing, to government reform, to social sector capacity-building, social innovators and entrepreneurs across sectors and borders are committing their time and resources to achieve similar goals.

As a global network working across varying government, social sector, and financial contexts, this report is Social Finance's take on what has been achieved so far and what the future might look like. As the results demonstrate, [Social Impact Bonds have created partnerships that are delivering life improvements for people in need](#). With more projects underway, and many more in the pipeline, they will continue to do so. How our sector responds to some of the model's challenges will determine the reach of its impact.



THE DEVELOPMENT OF THE SOCIAL IMPACT BOND MARKET

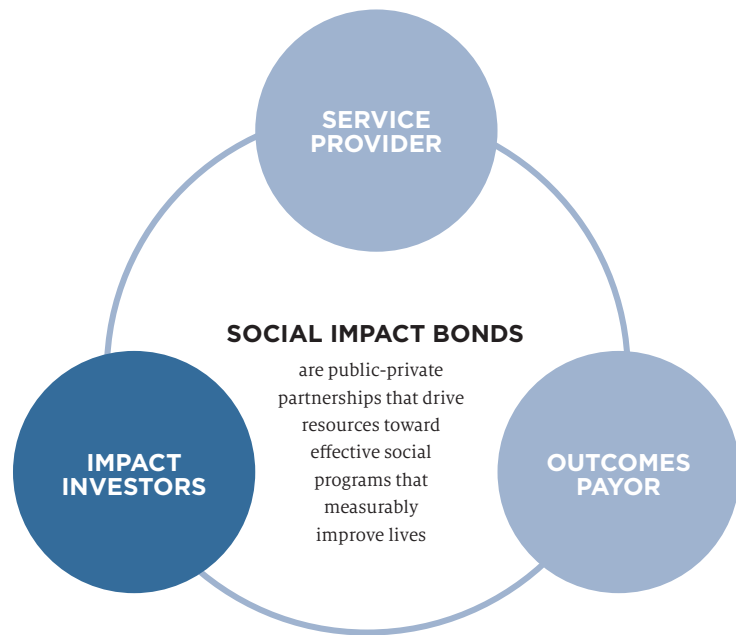


2007 SOCIAL FINANCE UK FOUNDED

2011 SOCIAL FINANCE US FOUNDED

2013 SOCIAL FINANCE ISRAEL FOUNDED

WHAT IS A SOCIAL IMPACT BOND?



The Social Impact Bond was developed to address systemic issues that led to poor and ineffective services for the most vulnerable and marginalized communities. Government struggled to support or encourage innovation in the social arena, contracts between government and delivery organizations stifled creativity and adaptation, and the social sector had no effective way of being rewarded for successful outcomes.

These were and still are huge problems. They mean that services for some of the most vulnerable in society are often bureaucratic, one size fits all solutions—despite this being a group that suffers the most difficulties, needs the most tailored solutions, and causes some of the highest costs to the state and therefore the tax payer. They mean that innovative, holistic services are occasional pinpoints of light, rather than being universally accessible. They mean that we are providing an array of services to some of the most vulnerable in society without actually knowing if they work and without gathering the knowledge to improve them or know whether they should be provided in the future.

At its core, a Social Impact Bond is a public-private partnership which funds effective social services through a performance-based contract. Social Impact Bonds enable federal, state, and local governments to partner with high-performing service providers by using private investment to develop, coordinate, or expand effective programs. If, following measurement and evaluation, the program achieves predetermined outcomes and performance metrics, then the outcomes payor repays the original investment. However, if the program does not achieve its expected results, the payor does not pay for unmet metrics and outcomes.

**WHAT TYPES OF
PROGRAMS DO
SOCIAL IMPACT
BONDS FUND?**

The core utility of Social Impact Bonds is to fund intensive services tailored to complex and individual needs. They are typically worth considering when:

- **Identifiable populations with complex, cross-agency needs, who require tailored interventions, are not being served**
- **Current spending has poor or undetermined outcomes**
- **There are high financial and political costs to society and government in not addressing the social issues**
- **There is a benefit to using external investment to provide risk capital and assume innovation and implementation risk for new or evidenced-based programs**
- **There are social sector partners who can deliver effective services, but there is an element of uncertainty about what outcomes can actually be achieved**



INTRODUCTION

The first title of this paper was “Social Impact Bonds: The First Five Years.” We convened a working group with representatives from each of our global offices in early 2015. As we neared the fifth anniversary of the launch of the first Social Impact Bond in Peterborough, it seemed like the right moment to gather our collective wisdom (or, at least, our collective experience and analysis) and share with the growing field Social Finance’s ideas about how Social Impact Bonds have developed so far and our speculation about what the future holds. We thought it would take a few months to pull together some material, compile it, and publish.

If you took the time to read the cover, you’ll notice that the title changed to “The Early Years” and that we are publishing this document about a year later than we originally planned. Why the delay? First, we were analyzing a field that was changing every week. It was difficult to reflect on the growth of the tool when new results, interim outcomes, and early performance payments were announced with each passing month.

Second, although we identified an overwhelming number of commonalities across our different geographic markets, from interest by governments to try paying for outcomes to challenges accessing high-quality data, we also began to better understand the characteristics that differed, from the provider ecosystem to questions of measurement and evaluation.

Ultimately, we realized that the real benefit of our global network and our work with other global Impact Bond practitioners is the insight we get from our differences.

In the end, the very process of writing a paper about the state of the market as global practitioners who are deeply entwined (and have been since the very beginning) surfaced several observations that are perhaps the most significant notes about the market so far.

A consistent set of core values underpin all Social Impact Bonds

It is premature to talk of Social Impact Bonds as an asset class—we continue to evolve the model, as do others who are now active in the field. As it has been taken up in different countries, for different issues and interventions, and with different models of financing, outcomes definition, and measurement, Social Impact Bonds have emerged as a ‘family’ of outcomes-based models, which share similar values and features:

- First and most important, Social Impact Bonds are funding mechanisms to deliver meaningful outcomes for vulnerable individuals and societies
- They establish a partnership between service providers, governments, investors and intermediaries. The pooling of resources, experience and insights should bring out the best in social service delivery
- Their design allows for greater flexibility and responsiveness to need. The focus is on how to drive greater impact by improving performance and adaptability
- Investment brings an additional layer of rigor and scrutiny to social programs
- With a focus on outcomes, Social Impact Bonds help establish what works through data collection and measurement

- Social Impact Bonds drive funding toward preventative programs and upstream interventions

This is a flexible tool—a range of Social Impact Bond approaches fit the core outcomes framework

Significant variability has emerged as the Social Impact Bond model has been adopted across social areas, economic contexts and countries. It begs the question, likely to become increasingly relevant as examples and designs multiply: What is and what is not a Social Impact Bond? What are the particular characteristics that should be present?

There is no better example of this versatility than the series of Social Impact Bonds in the Social Finance portfolio which provide individualized support for vulnerable populations that have spent time in prison, are unemployed, or are homeless. While each investment is designed around different outcomes, with different models of intervention and different objectives according to the priority of the contracting agency, the evidence from program delivery is that there is a great deal of overlap in the populations served. In the following examples, while the unifying features lie in the responsive services and funding model, the problems are tackled from different angles and are measured against different outcomes. Design is also influenced by program evidence, ranging from fidelity models, Randomized Controlled Trials, and quasi-experimental evaluations to untested interventions.



VOICES FROM THE FIELD:

TOBY ECCLES
FOUNDER
SOCIAL FINANCE UK

Why use Social Impact Bonds?

The versatility of Social Impact Bonds extends beyond form and structure to their core purpose. Why use Social Impact Bonds instead of other contracting models? To date they have enabled government innovation, encouraged cross-governmental funding and been used as a means to improve the rigor in spending decisions.

1) **Enabling government innovation**

The transfer of implementation risk away from government has acted as a highly effective catalyst and momentum builder for innovation. Often Social Impact Bonds provide politicians with a route to encouraging public servants into trying something new. But trying something new means that the intervention model is given a high bar to overcome to satisfy payment terms. Proof is needed of its efficacy. The baseline measurement needs to be rigorous, the change statistically significant. As the model has yet to reach scale, there is risk of statistical variation in the outcome as well as implementation risk, service intervention risk, and service provider risk. In short, this is not an investment for the faint hearted—a strong, impact first investment.

2) **Incentivizing other funders or departments**

Scattered through government are examples of social issues, such as mental health and employment, which do not fall under a single department's remit and therefore suffer. Our experience in the UK is that it is easier to get investment in these programs with contributions from a central pool of funding than it is

getting individual departments to agree on a case by case basis.

By prioritizing funding to represent value to wider government, central outcomes funds act as a catalyst for encouraging different departments to work together. A similar role is being played out in the international development context, with large scale funders interested in crowding in either partner governments or bilateral donors, by offering an Impact Bond to them on highly attractive terms. In one example, the funder is offering 30% of the outcome payments and the costs of the development to engage a partner government in the funding of services to a specific population on an outcomes basis.

3) **Improve the rigor of a present area of funding**

The key to improving services and outcomes is introducing data, rigor and feedback into delivery models. Impact Bonds are a tool for doing so. They can be introduced with payments for individual successes as baseline rigor is less important than cross service provider comparison. This simplification can be enhanced over time as wider data analysis results in more nuanced individual pricing—akin to car insurance in the private sector.

As the model travels, the reasons for using Impact Bonds will diversify and this has implications for the design choices that people should be making. We expect that in the future, adaptive program delivery—the value of which is beginning to hit the public sector consciousness—and new sources of funding will be particularly important. As governments embrace complexity theory and the need for adaptation, they will look for new contracting models and this is a big growth opportunity for Social Impact Bonds. Similarly, as large outcome funds come on to the scene and they are seen as reliable, long term sources of funding, Social Impact Bonds will be valued and used for their effectiveness in crowding in new innovation and investment.

A SELECTION OF SOCIAL IMPACT BONDS

PETERBOROUGH SOCIAL IMPACT BOND (UK)

was focused on reducing reoffending. It was designed as an adaptive and responsive service, following well-established paths to desistance. There was innovation in the multi-agency provision and flexibility of services, which facilitated deep understanding of the issues facing this group of ex-offenders.

NEW YORK STATE SOCIAL IMPACT BOND (US)

is focused on breaking the cycle of recidivism while obtaining gainful employment. It implements a robust, evidenced program with a well-established service provider, the Center for Employment Opportunities (CEO), and uses the Social Impact Bond as a model for scale—providing access to stable, flexible, and multi-year funding, necessary to build capacity and scale evidence-based interventions.

FAIR CHANCE FUND SOCIAL IMPACT BONDS (UK, seven in total)

are designed to provide tailored support for homeless young people to find accommodation and get them ready to undertake training courses, begin work or go back into education. In Social Finance Fair Chance Fund programs, around two-thirds of participants have had interactions with the criminal justice system. All the Social Impact Bonds use specialist charities that have the freedom to run innovative programs to deliver the target outcomes. None of the programs have a clear evidence base, but are able to foster innovation—to understand needs, test what works and build the evidence base.

SOCIAL IMPACT BOND TO REDUCE RECIDIVISM (Israel)

The project is still in the development stage. Pending final negotiations, the project is expected to provide reentry services to ex-offenders, with a goal of reducing recidivism over the course of 8 years.

	2010 Peterborough (UK)	2013 New York State (US)	2014 Fair Chance Fund (UK)	2017 (expected) Israel
BENEFICIARIES	2,000 ex-offenders ¹	2,000 ex-offenders	16,000 homeless youth*	500 ex-offenders
OUTCOMES	Reduction in reoffending	Recidivism (measured by number of days spent in jail after release), employment (measured by quarters with positive earnings), transitional job participation	Secure and sustained accommodation, employment, and training for clients	Recidivism, measured by incarceration
PROVIDERS	Multi-agency intervention to address a range of needs, including homelessness and unemployment	Single provider/ Evidence based intervention to provide employment for offenders to reduce recidivism	Single provider to provide housing for youths excluded from social housing support	A leading provider and a few sub-contractors
MEASUREMENT	Quasi-experimental design: Measured by cohort and compared to a national comparison group	Randomized Controlled Trial: Measured by cohort	Outcome validation: Measured by individuals in program, no comparison group	Single measurement, compared to rates for participants based on a predictive model
PAYMENT	Outcome payments per cohort	Outcome payments per cohort	Tariff-based and paid monthly. Includes attachment fees	Outcome payments per cohort
INVESTORS	Trusts and Foundations	Impact Investors and other entities through Bank of America, Merrill Lynch's wealth management platform	UK Impact Investment Funds and investors	TBD
LENGTH OF PROGRAM	5 years ²	5.5 years	3 years	8 years
CAPITAL RAISED	£5 million	\$13.5 million	£5–6 million	TBD

***In Social Finance Fair Chance Fund programs, around two-thirds of participants have had interactions with the criminal justice system.**

¹ The Peterborough Social Impact Bond was originally structured to serve 3,000 individuals. Due to early termination, it only served 2,000.

² Originally structured to be 8 years. Early termination and the elimination of the third cohort reduced the timeframe to 5 years.


Variation in the field—and the hype—has led to misconceptions

There has been extensive commentary about the early pilots with critics and supporters battling it out over social media and the written press. While we firmly believe in the value of the model when it is used in the right context, we feel that it would be remiss in this paper not to tackle some of the common misconceptions and concerns about Social Impact Bonds.

CRITICS CLAIM:

“Social Impact Bonds relieve government of its responsibility to solve social problems.”

This is simply a misinterpretation of government’s role in a Social Impact Bond. Let’s be clear: Social Impact Bonds are not a free ride for government. Governments need to pay for success where clear and measurable outcomes are delivered. They need to allocate budget to pay for outcomes in the event of attainment.



“The blurring of lines between charity and business does pose a tricky balancing act.”

THE GLOBE AND MAIL
(CANADA),
OCTOBER 2011

“[...] the Social Impact Bond, the hottest idea in social-service provision (an oxymoron if ever there was one) of the last few years.”

NEW YORK TIMES,
19 JUNE 2013

“Peterborough provides an example of how rehabilitation programmes can be designed and financed. But it is also a warning that translating a good idea into a national policy at speed is easier promised than done.”

THE ECONOMIST,
MAY 2013

“The failure of the Rikers experiment to achieve the project’s outcome raises more questions than answers, particularly with regard to the potential of SIBs to address complex social problems and serve vulnerable communities.”

NONPROFIT QUARTERLY,
AUGUST 2015



VOICES FROM THE FIELD:

LARA METCALF
MANAGING DIRECTOR
SOCIAL FINANCE US

CRITICS CLAIM:

“Investor returns have no place in the provision of social services.”

We live in a world where everything costs money, including the provision of social services. There is also a cost to using capital. Typically, when a nonprofit service provider gets a big new contract, it has to find capital to fund the work associated with the ramp-up to deliver services. That upfront capital might be provided by a bank via a loan with an interest rate, through a line of credit, by drawing down reserves, or through support from philanthropies—support cultivated through a process that requires additional time and money. In short, upfront capital has a cost for the service provider. Far too often, this cost is hard to manage, hidden from view, and never recovered.

Social Impact Bonds bring transparency to the cost of upfront capital. The tool shifts much of the responsibility of raising upfront capital away from the service provider. Most service providers are relieved to no longer bear this burden. Rather, investors bear this risk. But Social Impact Bonds require investors to face a significant asymmetric risk profile—where they have potential to earn a modest return, or a complete loss of funds. To date, most investors have been socially motivated and seek principal repayment. Like a bank making an unsecured loan, investors require an interest rate or return if the project achieves outcomes.

In a well-structured project the incentives of all parties—government, service providers, impact investors, intermediaries, and others—are aligned around the ultimate goal of improving lives of people in need. That is perhaps the most powerful feature of the model, and it builds a clear and important role for investors, because any returns are directly correlated with positive life outcomes. Social Finance has been lucky to find great investors who care deeply about the populations we seek to serve, and have been willing to participate in Social Impact Bonds for reasonable returns.

CRITICS CLAIM:

“We should address all social issues with Social Impact Bonds!”

It is widely acknowledged that Social Impact Bonds are not a suitable model for all social provision. They do not and are not intended to replace public services. The primary value of the model is in the provision of people-centered support to vulnerable groups where there are multiple, complex underlying factors which cause or influence the problem, and where investing in prevention is more efficient than remediation. For such problems, learning cycles and an adaptive approach to delivery is needed to improve the quality of services. Social Impact Bonds have limited relevance as a means of financing social infrastructure, such as low income housing, except perhaps where there is a need to provide people-centered support to a vulnerable group alongside the infrastructure—tackling the complex problems underlying homelessness, for example.

“Ultimately, the biggest promise of these Social Impact Bonds—also known as ‘pay for success’ programs—might lie more in their ability to impose discipline on government programs than in their promise to draw private money.”

EDUARDO PORTER,
NEW YORK TIMES,
29 JULY 2015

SOCIAL FINANCE ISRAEL

לאומית
לו זה אנפת

ליות 100 שנה
הכי טובה לשומחה



CRITICS CLAIM:

“This is just about saving money!”

In the early days, the idea that Social Impact Bonds might save money, or get the same—or better—results at less cost, was appealing to policy makers. Smart austerity was at a premium after the global financial crisis. It is still true that many governments are interested because of the potential for savings. They ask for a business case that shows why an intervention could lead to a better use of public resources—either because it delivers direct and immediate savings or because it will reduce future spending by intervening earlier with populations who are likely to incur high costs in the future. While we do not deny the attraction of cost savings to government and understand the need for accountability in spending public money, our firm conviction is that Social Impact Bonds offer so much more than savings. Value for money is not just about saving money in the short term. It is about spending money on better and more measurable outcomes that have a longer term benefit.

Based on the impact of early Social Impact Bonds, the future is bright

We believe that Social Impact Bonds have real potential to improve how governments worldwide deliver social services. As we will detail in the following section, early projects are successfully improving beneficiary outcomes. Particularly in the more developed Social Impact Bond markets in the UK and US, these projects have contributed to wider movement toward outcomes-based service provision. Perhaps the most powerful

result of the launch of Social Impact Bonds has been highlighting governments’ shift to outcomes—which service providers and programs can deliver the greatest impact? The fundamental question is not just how many individuals are being served but rather how well each individual is being served by a given program.

But that shift is ongoing. Social Impact Bonds do not mitigate all sources of risk for government and they cannot overcome the wider societal forces that influence social outcomes. Precisely because Social Impact Bonds require new ways of operating—for government and all stakeholders—the projects carry uncertainty and explicitly acknowledge that a program may fail—which is an aspect rarely acknowledged in public services. Even when a given department embraces a shift to outcomes, challenges associated with the complexity of Social Impact Bond deal development, collaboration among different stakeholders, and overcoming legal hurdles have contributed to slow development and small scale projects.

If we are to establish Social Impact Bonds as a legitimate policy tool, we need to ensure that we are clear what our impact has been and what the potential for the model is. The following chapters assess what has been achieved to date, what operating environment is needed for Social Impact Bonds to thrive, where the market can simplify and standardize the model, the challenges in scaling, and what the future might look like. Throughout, we will highlight examples from the field and the differences and similarities between markets.



60
impact bonds

\$200m+
capital raised

90,000+
lives touched

Implicit in the name, the most critical measure of success in a Social Impact Bond is social impact: did the project lead to better outcomes for participants? Did the intervention improve the lives of people in need?

If the Social Impact Bond is successful in achieving social impact, measured by delivering specified outcomes, it will almost certainly also be successful from an investor's perspective. Positive financial returns are led by positive social outcomes.

A good investment experience is plainly important if we are to attract investment and grow the market, and there is no doubt of the widespread appetite to hear how projects perform from a financial perspective. But to understand how the instrument can perform financially, we need to understand how to deliver impact.

Performance data has started to become available as early Social Impact Bonds have completed or interim data is reported. We can start to test our theory of change and see what outcomes are being achieved.

The early performance data also allow reflection on other aspects of the model: multi-sector partnerships, flexibility, rigor, and the focus on data and measurement. These lessons are already informing new models. At the same time, there is evidence of broader impact on social delivery organizations and on policy.

RESULTS TO DATE

Based on the reported performance of early Social Impact Bonds, developed by Social Finance and others, we know the model can be a successful way to improve services. Of those projects, most have delivered measurable improvements for participants on at least some of their target outcomes. To date, projects have mainly reported interim, not final, results and the extent to which they improve outcomes has varied. But taken together we believe that they offer a promising, if early, record of success.

The table on the following pages details the performance of the first 22 projects, based on public and private data. Of 22 projects that have shared performance data as of June 2016, 21 indicate positive outcomes for some participants. Depending on the measurement methodology, this data may indicate performance as measured by an experimental evaluation (compared to a counterfactual) or by the presence of positive changes for individual participants (e.g. a homeless person maintaining stable housing). Twelve

out of the 22 projects have made outcome payments, either to investors or to be recycled into service delivery, depending on the project's financial structure. Four of the 22 projects have fully repaid investor capital.

It shows that some of the outcomes we set out to achieve are occurring: students are more engaged at school and improving their academic achievement, children are staying at home with their families instead of entering the state care system, and people exiting prison are finding stable housing and employment. For all of these results and others, carefully constructed measures of the progress achieved have been recorded, which will inform how future services are delivered to repeat what works and to improve what doesn't.

Building a record across the many issue areas different Social Impact Bonds address also poses challenges. In some areas, such as early childhood development, there is robust evidence that certain programs and approaches improve short- and long-term health and wellness outcomes. Other sectors have been studied less rigorously, such as support for aging populations. In Social Impact Bonds, the measurement methodology may or may not include a counterfactual, which can limit the extent to which the results build a track record that can translate beyond the scope of the original project. The interaction between the existing evidence on social issues and the measurement methodology inform many elements of design. The challenge is to balance the complexity, rigor, and

transparency of an experimental approach with the desire for simplicity.

The market is still young. Most investors in these early transactions are foundations and impact investors who have a higher tolerance for the risk associated with engaging early in this market, alongside a desire to see complex social problems addressed effectively. Also, the exact nature of the link between impact and returns is still in flux—the market will adjust as it grows. However, the collective track record of the Social Impact Bonds launched to date, based on this early performance data, suggests the model is achieving concrete improvements in the lives of many individuals with complex needs. Positive results have also driven modest to strong investor returns.

That said, Social Impact Bond projects do not guarantee better outcomes. There is inherent uncertainty—despite best efforts, better outcomes for beneficiaries may not materialize. The first US Social Impact Bond, aimed at reducing re-offending among 16-18 year olds at Rikers Island Prison in New York City, is a clear example. As announced in June 2015, the program failed to achieve the target 10 percent reduction in recidivism bed days. Rather, the participants demonstrated no significant difference in the number of days they returned to prison. As a result, the program was discontinued early, in August 2015, and the investors bore the costs of the intervention.

RESULTS VERSUS ATTRIBUTABLE IMPACT

What we can claim depending on measurement methodology

One facet of the variation among Social Impact Bonds worldwide is the measurement methodology: how does a given project measure success and determine success payments? We will discuss measurement and evaluation later in the paper. For this section, however, we want to acknowledge the difference between results—the reported outcomes of a program—and attributable impact—the outcomes that can be specifically tied to the social intervention.

Social Finance does not specialize in evaluation. In projects we develop, we typically contract with a third party organization to design the measurement methodology and track program outcomes. We select a measurement approach based on the goals of the project stakeholders.

INVESTOR RETURNS

Moving toward faster-turning capital

The financial structure of the Peterborough project required a four year waiting period before the first possible investor payment. Most of the subsequent UK Social Impact Bonds have built financial models that have allowed for early payments following early success. This is the case in nearly all of the youth unemployment and care Social Impact Bonds.

Payments have been made to a special purpose vehicle rather than to the investors in the first instance. In many cases, the SPV recycles the capital to pay for the ongoing intervention after the initial capital raise. Once the costs of the intervention have been covered, the outcomes payments are paid to investors. In the table, it is noted that a number of the UK Social Impact Bonds have been successful and have returned investor capital in full alongside positive returns. We should know more details about the successes of the programs in the course of 2016.

GLOBAL SOCIAL IMPACT BONDS WITH PERFORMANCE DATA

LAUNCH
YEAR

TARGET POPULATION/
OUTCOME SOUGHT

SOCIAL IMPACT

FINANCIAL
RETURNS

2010

Peterborough ex-offenders (UK)

Reducing recidivism rates amongst 3,000 ex-offenders

Results from an independent evaluator demonstrated an 8.4% reduction in reconviction rate for the first cohort. The Transforming Rehabilitation Initiative was rolled out nationwide.

No early payment for first cohort, but on track for payment in 2016 if 7.5% reduction achieved across the project.

2012

Department for Work and Pensions Innovation Fund Perth YMCA (UK)

Improving education/employment outcomes for 300 disadvantaged young people

In its first six months, this Social Impact Bond worked with 86 young people alongside 7 secondary schools, helping 68% of participants into employment with 100% job retention. 105 people were also on target to achieve educational qualifications.

Unknown

2012

**Department for
Work and Pensions
Innovation Fund
Nottinghamshire
Futures (UK)**

Improving education/
employment outcomes
for 3,000 disadvantaged
young people

Performed well in achiev-
ing behavioral, truancy,
educational and employ-
ment outcomes.

The Social Impact Bond
triggered £2.5 million in
outcomes payments.

**Department for
Work and Pensions
Innovation Fund
Career Connect (UK)**

Improving education/
employment outcomes
for 4,222 disadvantaged
young people, outcomes
measured against behav-
ior, attendance in school,
qualifications and entry
into work

Final outcomes: 42% had
improved behavior, 44%
had achieved NVQ Level 1,
and 31% had improved
attendance at school.

As of July 2015, investor
capital has been repaid
in full.

**Department for
Work and Pensions
Innovation Fund
Tomorrow's People
(UK)**

Improving education/
employment outcomes
for 1,050 disadvantaged
young people, outcomes
measured against behav-
ior, attendance in school,
qualifications and entry
into work

Final outcomes: 91%
of participants were in
employment, education
or training, 72% had
achieved 5 A*-C Grades,
and 85% had improved
behavior and attendance
at school.

Upon completion, the
Social Impact Bond
provided a full return of
capital plus a return to
social investors.

**Essex Edge of Care
(UK)**

Avoiding out-of-home
care for 380 at-risk chil-
dren, primary metric is
the reduction of care days

By February 2016, 208
adolescents had begun or
completed MST, with 82%
remaining out of care.
Progress is being tracked
over 30 months. Of those
who have finished MST,
87% remain at home 12
months post-completion.

Outcomes payments have
been made to the Social
Impact Bond holding
company and will be re-
cycled to pay for ongoing
service delivery.

**Department for
Work and Pensions
Innovation Fund
Teens and Toddlers
(UK)**

Improving education/
employment outcomes
for 1,317 at-risk teens.
Outcomes were measured
against improvements
in attitudes to school,
behavior and attendance,
and educational and
technical qualifications

Final outcomes: 59% had
improved their attitude
to school, 58% improved
behavior, 32% improved
school attendance, 73%
achieved an entry level
qualification (QCF) 32%
achieved a Level 1 quali-
fication and 18% achieved a
level two qualification.

The Social Impact Bond
was fully repaid to inves-
tors with final returns
anticipated in 2016.

2012

**Department for
Work and Pensions
Innovation Fund
Adviza (UK)**

Improving education/
employment outcomes
for 1,778 at-risk teens.
Outcomes were measured
against improvements
in attitudes to school,
behavior and attendance,
educational and technical
qualifications and entry
into employment

Final outcomes: 45% had
improved their attitude
to school, 41% improved
behavior, 21% improved
school attendance, 22%
achieved an entry level
qualification (QCF) 43%
achieved a Level 1 quali-
fication, 17% achieved a
level two qualification,
and 2% maintained em-
ployment for 26 weeks.

Investors have been fully
repaid with final returns
anticipated in 2016.

**Greater London
Authority Rough
Sleeping Thames
Reach (UK)**

Improving housing/
employment outcomes
for 415 “rough sleepers”

After two years: Thames
Reach successfully re-
duced rough sleeping to a
level just above the target
baseline and have moved
people into stable accom-
modation above target;
there have been increases
in reconnection, but
below target; increases in
13/26 week employment
outcomes, above target,
but below target increases
in volunteering/employ-
ment qualifications.

There has been mixed
performance across the
five outcomes, but pay-
ment against targets is
increasing consistently
by quarter. Outcome
payments are in line with
targets. Payments have
been made to inves-
tors, all of whom that
contributed to DCLG
research reported that
they were pleased with
the performance of the
Social Impact Bond.

**Greater London
Authority Rough
Sleeping St. Mungo’s
Broadway (UK)**

Improving housing/
employment outcomes
for 416 “rough sleepers”

After two years of delivery,
St. Mungo’s Broadway has
successfully provided
and maintained stable
accommodation for their
rough sleepers, above
target. There has been
mixed performance across
the other four outcomes
with reductions in rough
sleeping, but below target;
increases in reconnection,
but below target; increases
in 13/26 week employment
outcomes, above target, but
below target increases in
volunteering/employment
qualifications.

Payment against targets
is increasing consistently
by quarter and is in line
with targets. Payments
have been made to
investors, all of whom
that contributed to DCLG
research were pleased
with the performance of
the Social Impact Bond.

2013

**Rikers Island
Recidivism (US)**

Reduce recidivism bed days in 1,470 young men aged 16-18 with a length of stay of more than 4 days (estimated at 3,000 per year) at Rikers Island Jail

In year one, 87% of adolescents that entered jail attended at least one ABLE session. Participants did not return to prison at a rate significantly different than the rate of the matched historical comparison group.

Discontinued as of August 31, 2015, meaning no payments were made on Goldman Sachs' \$7.2 million investment, triggering Bloomberg Philanthropies' \$6 million guarantee.

**Unemployed Youth
(Netherlands)**

Helping 160 unemployed youth in Rotterdam without basic qualifications to get a job or go back to school, enabling them to move off state benefits

Initial results demonstrate that 59% of the first cohort (80 total participants) are no longer on benefits. This number could increase—some young people are still applying for jobs. The cohort is still in the process of completing the project—the results of which are projected to be positive.

Financial data is not available.

**New South Wales
Child and Family
Welfare (Benevolent
Society) (Australia)**

Avoiding out-of-home care for 400 families with at-risk children

Results from the first 21 months show that the principal metric, the numbers of entries into care, was 27% lower than the control group, with helpline and safety assessment metrics again showing an increase. The performance percentage was 12%.

Final investor returns will not be calculated until 2018.

**New South Wales
Child and Family
Welfare (UnitingCare
Burnside) (Australia)**

Avoiding out-of-home care for 700 families with at-risk children

As of June 2015, this Social Benefit Bond has restored a total of 66 children to their families. The program has also supported an additional 35 at-risk families in preventing their children entering out-of-home care.

As of June 2015, investors have received returns of 8.9% p.a. based on a cumulative Restoration Rate for the first two years of 61.6%.

LAUNCH
YEAR

TARGET POPULATION/
OUTCOME SOUGHT

SOCIAL IMPACT

FINANCIAL
RETURNS

2013

Utah High Quality Preschool Program (US)

Improving educational outcomes (reduction in special education utilization) for 2,600 three- to four-year-olds in Salt Lake County

For the first cohort of 595 four year olds, 110 tested as likely to need special education services. After the end of these students' kindergarten year, only one out of the 110 required special education.

Total savings calculated in Year 1 for Cohort 1 are \$281,550, based on a state resource special education add-on of \$2,607 per child. Investors received a payment equal to 95 percent of these savings.

2014

Manchester Children in Care (UK)

De-escalation from residential placements into family-based placements for 95 looked-after children. Improving educational, behavioral & mental health outcomes

A group of young people have begun the 28-week Multidimensional Treatment Foster Care program.

Early payments from Manchester City Council to the Social Impact Bond vehicle have been made and recycled into the cost of program delivery.

Chicago Child-Parent Center (CPC) Pay for Success Project (US)

Improving school readiness and third grade literacy and reducing special education utilization for 2,600 at-risk children and their families

April 2016 performance report indicates that 59 percent of the children who participated in CPC preschool during 2014-15 had kindergarten readiness ratings that met or exceeded national averages.

Investors received a success payment of \$500,000 based on the kindergarten readiness results for the first cohort.

2015

**Department for
Communities and
Local Government
Fair Chance Fund
St. Basils (UK)**

Improving housing/
education/employment
outcomes for 300 home-
less young people

St. Basils have moved
more than 100 young
people into stable accom-
modation, more than 50
have entered education
and more than 10 have
entered employment.

Financial data not due
until late 2016.

**Department for
Communities and
Local Government
Fair Chance Fund
Depaul (UK)**

Improving housing/
education/employment
outcomes for 180 home-
less young people

Depaul has moved more
than 70 young people
into stable accommoda-
tion, more than 20 have
entered education and
several have entered
employment.

Financial data not due
until late 2016.

**Department for
Communities and
Local Government
Fair Chance Fund
Local Solutions (UK)**

Improving housing/
education/employment
outcomes for 130 home-
less youths

Local Solutions have
moved more than 50
young people into stable
accommodation.

Financial data not due
until late 2016.

**Department for Work
and Pensions Youth
Engagement Fund
Teens and Toddlers
(UK)**

Improving education
outcomes for 1,600 at-risk
teens

Improved behavior and
attitude at school for the
first cohort of 161 at-risk
14-15 year olds.

Financial data not due
until late 2017.

**Ways to Wellness
(UK)**

Improve health outcomes
and secondary care use
for 11,000 chronically ill
people

Ways to Wellness worked
with 1,126 new patients,
3% above target in year
1. 83% of patients have
continued in year 2. On
average, wellbeing has
improved by four points
for 197 patients on the
Well-being Star™.

Financial data is not
available



BROADER IMPACT

To fully appreciate the impact of Social Impact Bonds, we need to look beyond program performance data. Clear evidence of broader impact is emerging outside the context of individual projects, including improving the capacity of social and public sector organizations and informing policy through the availability of measured outcomes and performance data. Such impact demonstrates the ripple effect of Social Impact Bonds—builds confidence in the values of specific outcomes for government, service providers, and investors, and in doing so, has an impact that extends far beyond the project's domain.

STRONGER CAPACITY IN DELIVERY PARTNERS

Social Impact Bonds provide a framework for improving lives by aligning payment and performance metrics around outcomes. But the structure itself does not determine whether a project achieves positive outcomes. What matters most is the rigor of service delivery.

Social Finance has developed an active performance management approach to delivery which supports and works alongside delivery organizations. We first identified the need for this role when we launched the Peterborough Social Impact Bond. We wanted to test how our theory of change—that the Social Impact Bond model would deliver better outcomes than the current service delivery system—stood up to the realities of frontline delivery, particularly when, as in that case, multiple delivery organizations were involved.



By its very nature, social investment is going to be disruptive in a good way...

We had to change our way of working internally to achieve the outcomes, behave differently and find different routes off the streets for homeless people.”

JEREMY SWAIN, CEO,
THAMES REACH, LONDON
ROUGH SLEEPING SOCIAL
IMPACT BOND

PIONEERS POST
APRIL 2015

Performance management can be one of the most challenging elements of Social Impact Bonds. It may not seem obvious why it is needed, especially for organizations that already collect programmatic/operational data, monitor performance, and make adjustments where necessary. However, our experience is that the model will invariably involve a new way of working which stretches the service provider beyond its normal field of view, and that most organizations need to accelerate their learning and review cycles to respond to incoming data and ensure the project is achieving the desired outcomes. As a result, Social Impact Bonds usually require a more focused approach to performance management, which may require more internal resources than other efforts of similar size and scope.

The performance manager brings a skillset grounded in governance oversight, progress monitoring, analytical support, and financial management to ensure a Social Impact Bond is focused on achieving target outcomes as soon as services launch. It is an inherently collaborative process. Course corrections or adaptation in service delivery require input and insight from the service provider and, in some circumstances, government or investor stakeholders. While it will typically take several iterations to embed the change in approach for the service provider, once it is in place and operating, the difference is usually profound.

While this transition is sometimes awkward, we have also seen first-hand how several of the organizations we work with have, even given previous

commitment to robust performance management, strengthened their data monitoring, analytics, and continuous improvement systems through their involvement with the Social Impact Bond delivery model.

CHANGES IN POLICY

The broader impact of Social Impact Bonds can also be seen in the way they have become the subject of policy initiatives, reflecting interest by governments at different levels and throughout the world to use Social Impact Bonds not only to deliver social outcomes, but also to influence policy in particular social issue areas.

Building data and evidence

Social Impact Bonds are prompting the development of data systems to help identify the most effective social interventions and to help make optimal public sector resource allocations in the future. Work related to the field has contributed to this development in three ways:

- Aggregating existing data and research: Social Impact Bonds are one way to bridge the gap between social sector research and social sector policy. Efforts to promote evidence-based policy have been collected in data clearinghouses which serve as a tool for policymakers when making funding decisions. In 2013, the UK government published a Unit Cost Database, a free online resource to facilitate Social Impact Bond development which provides detailed information on 600 different estimates of the costs of social issues. In early 2016, a similar cost analysis for teen motherhood and homelessness was published in Australia.

“THE PROJECT HAS TRANSFORMED HOW CEO WORKS WITH GOVERNMENT. WE HAVE WORKED WITH OUR GOVERNMENT PARTNERS TO IMPLEMENT A MORE EFFICIENT AND SCALABLE REFERRAL PIPELINE THAT DIRECTS THOSE WHO MOST NEED CEO SERVICES AT THE RIGHT TIME.”

SAM SCHAEFFER, CEO,
CENTER FOR EMPLOYMENT
OPPORTUNITIES

The New York State Social Impact Bond launched in 2013 to tackle recidivism has improved the way CEO, the service provider, works with government partners at the state Department of Labor and Department of Corrections and Community Supervision to implement a better referral pipeline for beneficiaries of CEO's services.





Peterborough

The Peterborough Social Impact Bond was one of the drivers for a new nationwide provision of statutory probation services to short-sentenced offenders in the UK where none previously existed. While the exact service model of the Peterborough Social Impact Bond has not been replicated, it has informed the new program and some of the elements of the program have been adopted including the “through the gate” support from prison to community.

- Improving our understanding of the status quo during baseline project research: Developing a Social Impact Bond requires an analysis period in which the project partners assess the current state of the issue at hand. Invariably, this process leads to a more detailed understanding of the issue and the way the current system handles it, providing insight into how such systems could be improved beyond the context of one Social Impact Bond.
- Project data collection and evaluation, which contribute to the body of research on interventions: Because Social Impact Bonds must evaluate outcomes to determine payments, the model is increasing the number of evaluations on social sector programs delivered in diverse policy contexts. As more projects reach completion in the coming years, Social Impact Bonds will deepen the well of programmatic evaluations, in some cases, providing the first insight on the effectiveness of a new intervention model.

Influencing social policy

Social Impact Bonds have created an opportunity to influence policy by shifting government funding to programs and services that have demonstrated success through the model. Policy changes of this nature take time, so it is still relatively early to assess the influence and reach of the model. However, even at this early stage it is possible to point to examples that have made the case for government investment in issues or populations that were previously underserved, and to policy changes

that have the potential to drive better outcomes for broader populations.

Stimulus and facilitating initiatives

In this early stage of the market, most of the policy activity has concerned government efforts to facilitate or incentivize experimentation with Social Impact Bonds. Such efforts fall into several categories:

- Establishing outcome funds and other outcome payment coordination
- Encouraging social investment
- Supporting exploration, feasibility, and project development
- National-level pilots
- State/provincial-level pilots
- Municipal-level pilots
- Quasi-governmental funding

We often hear that we shouldn't get too excited about Social Impact Bonds because they haven't yet proved their value. But by that logic we would never try anything new and innovative. You cannot fast-forward time to create a multi-year track record. Without initiating multiple programs, we will never know if this is a model worth promoting.

Even with initial performance data, it is hard to compare the social and financial performance of programs that work with different populations in different jurisdictions with different outcomes. But the interim data published in the table is promising. It suggests that the model is delivering improved outcomes for beneficiaries

and improving our understanding about which interventions are effective. As more Social Impact Bonds publish performance data, it will become clearer if and how we can improve the effectiveness of a range of interventions and outcomes. The Social Impact Bonds that do not achieve their intended impact will be just as important. We will be able to learn why the intervention did not succeed and whether the outcomes intended were the right ones to pursue. As with all new ideas, it takes time to establish the long-term benefits of this model. But our theory that investing in prevention and early intervention and measuring results is a worthwhile endeavor and is beginning to bear fruit.



**VOICES FROM
THE FIELD:**

**SHLOMI ZIDKY
DIRECTOR
SOCIAL FINANCE
ISRAEL**

**Performance Management:
Israel Higher Education Social
Impact Bond**

As in many other countries, universities and colleges in Israel have a dropout problem. Dropping out of higher education adversely affects employment opportunities and the individual's career trajectory, and is more prevalent among students from marginalized groups.

Among certain student groups studying engineering, computer sciences and exact sciences, the dropout rate is as high as 40 percent. Social Finance approached a number of universities to explore with them the potential for a Social Impact Bond to tackle this issue. Higher education institutions were aware that students were struggling to finish their degrees, but they did not understand fully the severity of the problem (including the impact on their own revenue), the root causes or the means for addressing them.

In the case of computer science, the challenge was more acute. The tech sector is considered a driving force of the Israeli economy. As a result, the Social Impact Bond looked to not only improve outcomes for participants from marginalized groups and assist them on the path to professional employment, but meet a national need in the labor market—more quality programmers to fuel the growth of the tech sector.

Student support is tailored to individual needs. But the challenge is finding real time data to optimize performance. Test scores, while strong indicators of performance, come too late. There are however early warning signs and the role of the performance manager is to identify them. Indicators include student data from acceptance forms (e.g. matriculation grades, previous academic achievements, demographic data), class participation and attendance, submission of exercises, and perseverance in the program funded by the Social Impact Bond. We also analyze qualitative reports on the student's motivation and resilience from case managers and program teachers. Data analysis allows us to help the service provider to make decisions about customizing the intervention, better managing resources and reporting on expected outcomes sooner than the official measurement point. It allows us to pivot the program when needed.

The target cohort encompasses students with very different needs. Operating with limited resources makes us think carefully about program efficiency and how we allocate resources. We often face difficult issues; experience shows us that, perversely, stronger participants tend to seek out more support, at the expense of weaker participants. This is particularly so with the education component, where we see the dominance of stronger students crowd out the weaker students. The data allows us to identify where weaker students are being marginalized, and ensure the service provider can respond. But this is challenging for case managers: it does not come naturally to reduce the intensity of work with engaged participants in favor of less engaged participants.

As the project evolves, the data collected will start to build evidence in a field not yet explored and measured—increasing the potential for successful throughput in academic institutions generally, and in computer science in particular—an academic field in high demand.

GLOBAL GOVERNMENT INITIATIVES

LAUNCHED SOCIAL IMPACT BONDS PER COUNTRY



CANADA

Provincial-level support in Ontario for a Social Impact Bond pilot to address homelessness, at-risk youth, and/or employment for persons facing barriers.

A municipal-led Social Impact Bond is helping pave the way for additional activity.

UNITED STATES

Federal participation in Social Impact Bonds could play a catalytic role in expanding use of the model

Social Innovation Fund Pay for Success Initiative. Over \$20 million awarded to support feasibility and technical assistance for Social Impact Bonds. More than 40 service providers, cities, counties, and states are currently using federal funds to explore feasibility or support project development.

Social Impact Partnerships to Pay for Results Act. This bill would establish a \$300 million Outcomes Fund, housed in the Treasury. At the time of this writing, the legislation has been unanimously approved by the House.

Every Student Succeeds Act. The first major legislative update to US education policy in nearly 15 years, signed into law in December 2015, included specific provisions that enable the use of Social Impact Bond initiatives to advance evidence-based solutions for at-risk students and to support collaboration among schools.

Other federal policy changes. Workforce Innovation and Opportunity Act; US FAST Act

LATIN AMERICA

The Inter-American Development Bank has allocated \$5.3 million to explore Social Impact Bonds across Latin America, with a focus on Brazil, Chile and Mexico.

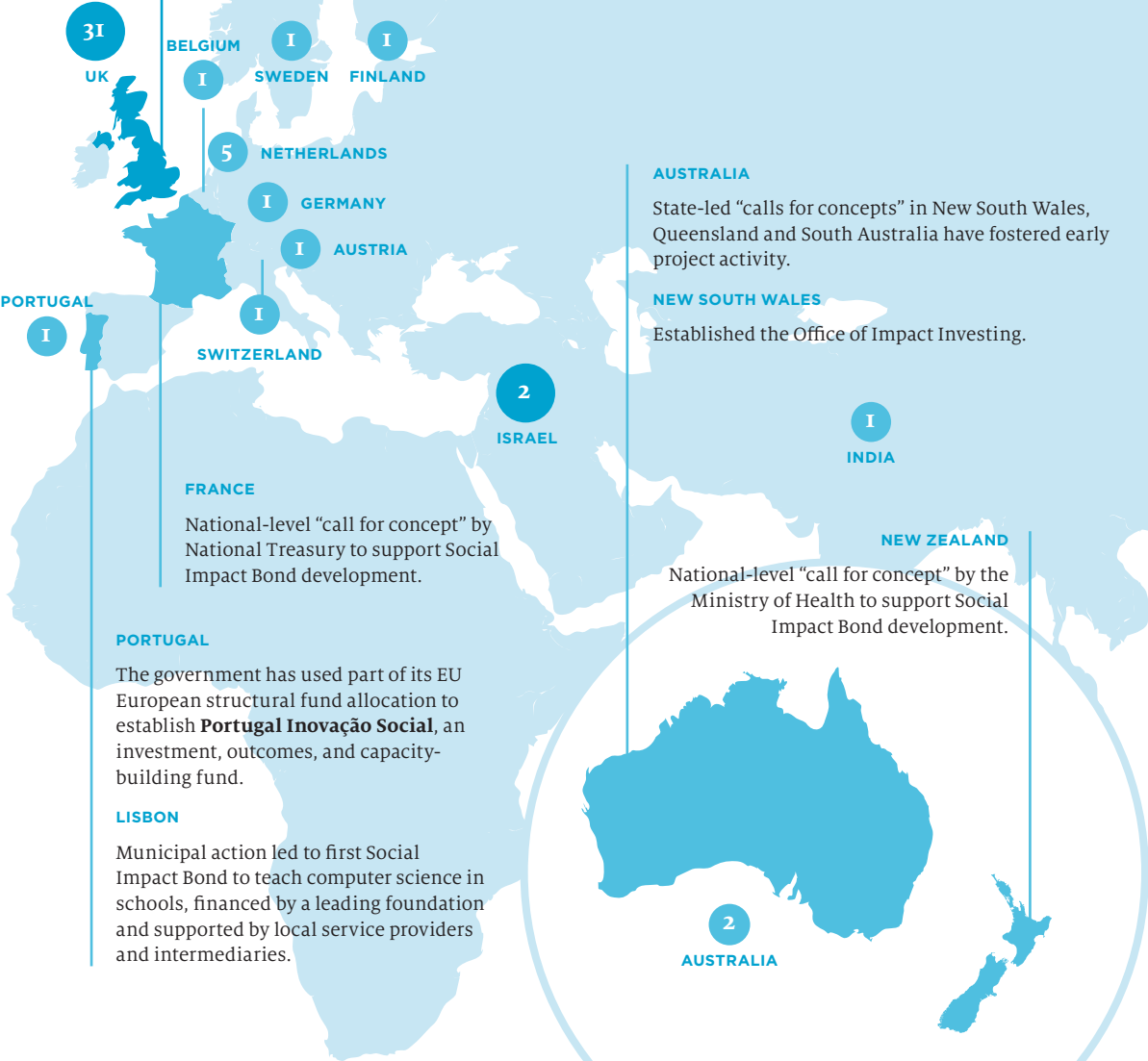
UNITED KINGDOM

In 2012, the **Cabinet Office** launched the **Centre for Social Impact Bonds** as a central resource for knowledge and best practice for central and local government, delivery partners, investors and intermediaries. At the same time, they launched the first outcomes fund (£20m) in 2012 to overcome cross-departmental budgeting barriers.

In 2013, the **Big Lottery Fund** (a quasi-governmental organization), that pioneered Social Impact Bonds as the first co-funder of outcomes for the Peterborough Social Impact Bond and supported Social Finance from 2010-2013 to develop the model, launched its own £40m outcomes fund.

In 2013, **Big Society Capital**, an independent wholesale institution set up by government, invested £10m as a cornerstone investor into the Bridges Social Impact Bond fund, alongside other investors and a co-investment agreement with Bridges Social Entrepreneurs Fund (total £25m)

In 2015, the UK government allocated an additional £105m of outcomes funding for new Social Impact Bonds. In 2016, it announced the launch of the **Government Outcomes Lab** in partnership with the Blavatnik School of Government.



AUSTRALIA

State-led “calls for concepts” in New South Wales, Queensland and South Australia have fostered early project activity.

NEW SOUTH WALES

Established the Office of Impact Investing.

National-level “call for concept” by the Ministry of Health to support Social Impact Bond development.

3I
UK

BELGIUM

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I

I

5 NETHERLANDS

I GERMANY

I

AUSTRIA

PORTUGAL

I

SWITZERLAND

2

ISRAEL

FRANCE

National-level “call for concept” by National Treasury to support Social Impact Bond development.

PORTUGAL

The government has used part of its EU European structural fund allocation to establish **Portugal Inovação Social**, an investment, outcomes, and capacity-building fund.

LISBON

Municipal action led to first Social Impact Bond to teach computer science in schools, financed by a leading foundation and supported by local service providers and intermediaries.

I

INDIA

NEW ZEALAND

2

AUSTRALIA



REFLECTIONS

When we step back from our day to day work developing Social Impact Bonds, or take the time to consider the longer-term strategic initiatives we hope to pursue in the coming years, it almost always leads us to a discussion about scale. Can Social Impact Bonds reach a level that delivers impact at scale? Can they be part of community-wide solutions that really put a dent in challenging social issues through better programs? We believe they can, but that reaching a future where they do depends first on the presence of strong markets around the world that encourage outcomes-based financing and second, on the ability to take on the challenge of complexity in Social Impact Bonds.

Social Finance has been lucky to work with many jurisdictions and organizations around the world interested in Social Impact Bonds, including, of course, our home markets in the UK, US, and Israel. Through these experiences, we have had the opportunity to reflect on the ingredients which need to be present in order for the model to take root in a market and some of the common barriers.

“If you want to go fast, go alone; if you want to go far, go together.”

AFRICAN PROVERB

Working across different markets has also brought perspective to the challenge of complexity and to the importance of ensuring that the desire to simplify and standardize is balanced with the robust analysis and structuring that are core to the model. This section will also take on the strategic question that looms large: How will Social Impact Bonds scale? Innovative approaches that harness the strengths of a strong Social Impact Bond market and improve coordination among government, service providers, and investors offer a window into the kind of strategies that will help this tool live up to the hype.



VOICES FROM THE FIELD:

JANE NEWMAN
INTERNATIONAL DIRECTOR
SOCIAL FINANCE UK

An unfolding picture of a global market

At the outset, there was skepticism that Social Impact Bonds were an (other) exotic idea of Anglo-American financial markets that had no place in, for example, a European social economy. With the first wave of early adopters from the UK, US and Australia, perhaps that was to be expected.

But the second wave of early adopters has helped break down this early misconception. There are now eight³ mainland European countries that have launched Social Impact Bonds, and three countries—Netherlands, Finland, and Portugal—that have launched, or are on track for, multiple examples. It's true that most are subscale, commissioned at municipal level and serving small populations, some as pilot projects. But look more closely and we see common threads: absolute clarity about an identified problem (e.g. young migrant unemployment in Brussels); a recognition that innovation is needed, challenging the efficacy of old models; and determined public sector actors who are bold enough to see it through. Looking forward, these markets will need to develop models of scale—such as regional-level commissioning or a platform approach (already reflected in the first Finland example)—so that investment can be mobilized efficiently. But the real source of optimism in these examples is the desire to innovate in service delivery and the focus on outcomes.

The third wave of early adopters have not yet arrived. We expect they will come from middle income countries—work has already begun in South Africa and Latin America. Here, the potential to test and innovate is even greater, but so are the challenges. The magnitude of some challenges—whether it is a weak public education system in Brazil or what to do where data is patchy and the culture of delivering to outcomes is unknown—is daunting. Nonetheless, this third wave will offer a real opportunity to further develop the Impact Bond model and its utility in those markets.

³ Austria, Belgium, Finland, Germany, Netherlands, Portugal, Sweden, Switzerland



WHAT MAKES A SUCCESSFUL SOCIAL IMPACT BOND MARKET?

For Social Impact Bonds to successfully take hold, or at least to be tested in a new market, the government, social sector, and funding community must be open to the concept of taking and sharing risk, paying for outcomes, working together and playing new roles. Some countries were quick to embrace the model. In others, notably certain European countries, developers encountered resistance, finding the sentiment that the type of social issues targeted should be the domain of the state and that a private investment model has no role to play, or that it is inappropriate for investors to receive a return on investment from financing the delivery of social outcomes. Where such attitudes are present, Social Impact Bonds have been slow to gain traction and, where they have, any return to investors has generally been limited to a nominal amount. It is clear that the model needs to be aligned to the national culture and the social economy of a country.

The challenge for these markets as the model evolves is to demonstrate, but not overstate, the value in bringing socially motivated private capital to support public sector investment in tackling prevention. If the case is not made convincingly and sensitively, these markets will find it difficult to develop larger scale Social Impact Bonds supported by a broader range of capital and investor support is likely to be limited to quasi-philanthropic funders.

In some countries, public sector unions have been a source of entrenched criticism of Social Impact Bonds, which some see as a form of ‘privatization’ of public services. Of course, if Social Impact Bonds were funding private sector organizations

to provide services which were previously provided by public sector employees, this concern would be valid. But in practice, early programs have mainly been additive, not a replacement for existing services, or have changed the contracting framework of services which were already delivered by outside service providers.

We believe Social Impact Bonds could apply to any delivery context, public, social, or private. However, our work both directly and in support of different jurisdictions grappling with the practical challenges of Social Impact Bonds has enabled us to define conditions that must be in place for Impact Bonds to have a realistic chance of developing into a contracting tool (in any particular environment).

Factors that create a conducive environment for Social Impact Bonds:

- the readiness of the public sector
- the readiness of the social sector/delivery providers
- the depth of investor/donor interest
- the availability of capable delivery partners and skilled intermediation
- the availability of funding to support concept development, which has allowed developers and other stakeholders to build momentum and engage the public sector and other key actors

- the availability of data: in many markets, availability and access to robust data to define eligible cohorts and measurable outcomes is a challenge. This means that, as we see the model taken up more widely, in middle income countries and elsewhere, we will see further evolution of the model in ways which mitigate these data challenges.

Of these factors, the two most challenging tend to be public sector and social sector readiness, which we will discuss in detail.

GOVERNMENT IS READY

The first, the last, and the most important factor in determining whether there is a role for Impact Bonds in any market is the readiness of government agencies to adopt the tool or to explore different ways of commissioning or contracting for social services. The need to engage with government is self-evident, as it is the party that pays for outcomes achieved. Yet the experience from many markets is that government engagement is one of the most challenging aspects of the development process.

Governments, understandably, have proceeded with caution, and more so in those markets where there has been vociferous opposition from social or public sector organizations. Yet where government has been ready to embrace the idea of a different way of contracting, the development process has moved forward decisively. This is true of the UK and the US, the largest markets by volume and size of transaction, but

FAVORABLE MARKET PRE-CONDITIONS

Presence of solid players and data

Public sector government payouts are effective, stable, and reliable

Investors/donors are strategic, professional, and socially minded

Local sources of funding to support feasibility work exist

Service providers show proven impact at scale and are financially stable

Intermediaries are skilled, credible, and financially robust

Reliable detailed data is available for most social issues and programs

Awareness and interest

Potential players are aware of, and understand, the model

Potential players want to engage in the collaborative process

Intermediaries wish to “lead” and collaborate as needed

ACTIVE AND CAPABLE MARKET PARTICIPANTS

Capable, proactive demand

Public sector is capable of Social Impact Bond procurement—they can identify a pressing issue of socioeconomic value, design the project and pay for outcomes

Public sector is legally able to proceed

Capable, proactive supply

Service providers are able to deliver the intervention with reasonable expectation of success

Investors are willing and able to invest and provide oversight to the project

Intermediaries are able to build the market and support other players

Other stakeholders are available (e.g. evaluators)

also of Australia⁴, Canada⁵, Mexico⁶, the Netherlands⁷, and Portugal⁸, which all also demonstrate the decisive importance of committed engagement within government at an early stage, with one or more champions making a determined commitment to drive the process forward.

Identifying and navigating key stakeholders within government is essential. In a number of cases, proposals have struggled to get traction, even where they are a priority initiative of a frontline department and viable projects have been developed. Issues which commonly arise and must be overcome include:

- ensuring finance, budget, or treasury departments are on board, in addition to the frontline contracting department, particularly where outcomes will be spread across multiple budget periods when consideration will need to be given to restrictions on committing expenditure which falls in future budget periods; and

- ensuring the concept is a priority for the department which is to fund outcomes—where Impact Bond concepts have been developed in one part of government without the full commitment and involvement of the department which is expected to fund outcomes, there is a risk that the process will stall.

Navigating the Halls of Government: Who to Talk With and When?

Determining which tiers of government to work with can be perplexing. In federal jurisdictions such as the US, Mexico, and Australia, the decision to purchase Social Impact Bonds has largely been taken at state level, with city- and county-level contracting also taking place in the US. In smaller or more centralized jurisdictions, the engagement is at either national or local/municipal level. The key point is to identify the tier(s) of government or departments that have responsibility for a particular social issue, as well as to understand who will realize the benefit of positive outcomes. Where the same department both has responsibility for an issue and will experience a positive fiscal impact by improving outcomes in that issue, the position is clear. Where the benefit of positive outcomes is more diffuse, or spread beyond the contracting department, it has generally been difficult to develop individual Social Impact Bonds.

Regardless, it is clear that building government capacity is an important step to ensuring the long-term sustainability and success of Social Impact Bonds. This is true of nationally

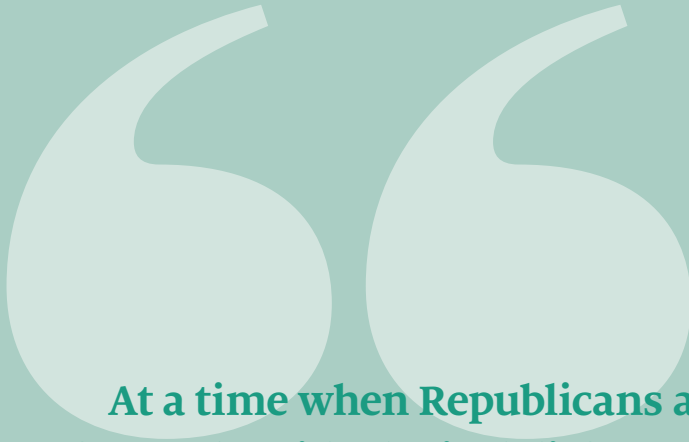
⁴ http://www.dpc.nsw.gov.au/programs_and_services/social_impact_investment/social_benefit_bonds

⁵ <https://www.ontario.ca/page/social-impact-bonds>

⁶ <http://www.informador.com.mx/jalisco/2015/625766/6/jalisco-consigue-bono-de-impacto-social-en-epicentro.htm>

⁷ <http://www.socialimpactfinance.nl/en/eerste-social-impact-bond-in-nederland-van-start/>

⁸ <http://inovacaosocial.portugal2020.pt/index.php/2015/09/22/portugal-inovacao-social-abre-manifestacao-de-interesse-para-titulos-de-impacto-social-tis/>



At a time when Republicans and Democrats are focused on ideological differences to a paralyzing effect, we need to reorient our policymaking toward innovative ideas that create common ground. [Social Impact Bonds] rally uncommon allies across sector lines and political boundaries around a common purpose. It is a tool for building smarter, more effective government. Just ask Governors Haley (R) and Malloy (D).

TRACY PALANDJIAN AND DAVID GERGEN
TIME MAGAZINE
FEBRUARY 16, 2016

contracted Social Impact Bonds and especially of local or municipal initiatives where capacity is needed but resources are more limited. Factors that need to be considered include:

1) Dedicated, Empowered, Staffing

Sustained government focus and empowered decision-making affects the speed and quality of Social Impact Bond development. The daily rhythm of government is typically to triage the crisis of the day, sometimes causing new, untested projects to fall to the bottom of the to-do list. Dedicated, empowered staffing to champion each Social Impact Bond is critical to keeping the attention of government required to move a project forward. In the US, the Government Performance Lab at the Harvard Kennedy School⁹ has been instrumental in keeping governments on track with their Social Impact Bonds by providing in-house support to manage the projects. The UK is following this example and has appointed the Blavatnik School of Government in Oxford to build similar links.

2) Surviving Political Administration Change

It is no secret that with each new political administration comes new political players, new priorities, and changes to executive staff. Promising initiatives that began with great fanfare during a prior administration may fall out of favor, or are simply seen as hold-over projects that don't warrant significant attention. Political leaders are focused on their own initiatives and



Outcome Funds in the UK

The idea behind an outcomes fund is to set aside a dedicated central pool of funding as a resource to pay for outcomes. The outcomes fund could either pay for outcomes in full, in effect as the contractor of the Social Impact Bond, or more likely be a co-funder alongside a frontline contracting agency. To date, the UK has allocated nearly £200m for Outcomes Funds.

The presence in the UK of outcomes funding together with sources of funding to facilitate concept development has led to a pipeline of over 60 potential future transactions, many of which we expect to come to fruition and which will demonstrate continued innovation and evolution of the model.

⁹ Previously named the Harvard Social Impact Bond Lab

on the issues that they campaigned on. Understandably, they will want their own “wins.” As a result, Social Impact Bonds need support across the political spectrum to survive each administration change and the inevitable shift in political focus.

Building broad-based political support will always require market- and project-specific efforts. However, as the Social Impact Bond model continues to establish a global track record and succeeds in diverse political and geographic contexts, it will become better understood how the model can be employed as an effective tool by all government innovators—not a politicized or ideological model.

3) Merging Funding Sources

The problem of mismatch, where the benefit of positive outcomes is spread more widely than the contracting department, is common.¹⁰ As noted, it has been a real barrier to contracting Social Impact Bonds, even where there is a compelling intervention for a complex issue and case for funding on an outcomes basis.

One potential solution, pioneered in the United Kingdom, is to establish outcomes funds.¹¹

We believe that outcomes funds have a significant role to play in the future development of the market, both as a pool of capital which will attract interest and stimulate innovation,

¹⁰ In this US, this has been referred to as the “wrong pockets” problem. <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000427-Solving-the-Wrong-Pockets-Problem.pdf>

¹¹ <https://www.biglotteryfund.org.uk/global-content/programs/england/commissioning-better-outcomes-and-social-outcomes-fund>

and as a place where expertise can be concentrated to overcome some of the inefficiencies of a fragmented market.

Why would an outcomes fund be set aside for this purpose? There are several reasons. First, outcomes funds can operate as a policy driver, stimulating appetite among central and local government to commission programs on an outcomes basis. They can be designed to incentivize local and central government departments to work together, fostering collaboration to solve complex issues. Second, they can help overcome barriers to developing Social Impact Bonds which target complex social problems where cost and responsibility is spread across multiple departments or tiers of government. While experience shows it is very difficult to bring all the affected government stakeholders together around a single program, the availability of co-funding is a real incentive for a government department to innovate.

We anticipate increasing attention on tools such as outcomes funds as a catalyst for innovation by government. Apart from the UK, Portugal has already taken the first step by the creation in 2015 of Portugal Inovação Social,¹² including a five year €30 million outcomes fund.

The Social Sector is ready

The size, role, and structure of the social sector and the delivery organizations within it are another key consideration.

¹² <http://inovacaosocial.portugal2020.pt/> and <http://investimentosocial.pt/notas-e-publicacoes/portuguese-social-investment-taskforces-final-report/?lang=en>

DIFFERENT SOCIAL SECTOR DELIVERY CONTEXTS

UNITED STATES

The US social sector relies heavily on private organizations, particularly human service nonprofits. There are about 350,000 human service nonprofits in the US. Federal, state, and local governments contract directly with these organizations for many services—it is estimated government agencies hold formal agreements (contracts and grants) worth about \$81 billion with nearly 30,000 organizations. Government provides some direct services, including veterans benefits, public health and medical programs, child welfare services, school lunches, food stamps, and public housing.¹³

LATIN AMERICA

Corporate foundations have a significant presence, and often deliver their own programs (as opposed to funding independent charities/nonprofits).

UNITED KINGDOM

The UK social sector is large but fragmented. There are 163,800 charities in the UK with a total income of £36.7 billion. There are 70,000 social enterprises. Together the sector received £13.3 billion from government bodies in 2013, 83% of which was earned through contracts or fees. The sector represents an increasingly important force in supporting and delivering high quality services.¹⁴

ISRAEL

The Government provides direct service provision in many fields. Most delivery organizations are not large and are supported by the state through fee-for-service contracts. A few large organizations operate in tandem with government, which are typically big multi-national organizations that act as incubators for new services and have a strong impact on the sector.

GERMANY

Service provision is dominated by six large social welfare organizations, which receive block grants from government to provide services.

¹³ <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/413189-Contracts-and-Grants-between-Human-Service-Nonprofits-and-Government-Comparative-Analysis.PDF>

¹⁴ <https://www.ncvo.org.uk/about-us/media-centre/briefings/431-uk-charity-sector-briefing>; <http://www.socialenterprise.org.uk/about/about-social-enterprise/FAQs>

Our observation is that very few jurisdictions have large, professionalized service providers with the depth and experience to deliver at scale as well as being able to handle the contracting aspects of a Social Impact Bond and work to outcomes in the way required. The US is one jurisdiction that stands apart, and is likely one reason why it has seen the largest Social Impact Bonds emerge. The picture elsewhere is rather different.

Typically, service providers will need to reflect on some of the challenges they may need to embrace, as well as the opportunity to build their own capacity through delivery under a Social Impact Bond. Questions include:

Does the service provider measure its impact and how accustomed is it to measuring outcomes, rather than outputs or inputs?

How well will an organization whose traditional funding is grant-based adapt to the disciplines of a Social Impact Bond? How flexible is the organization to adjust to learning on a constant basis?

Does the organization have the internal capacity to engage with the Social Impact Bond contracting and delivery process? What additional resources might be needed?

There have been a number of initiatives to develop capacity building funds for social organizations so that they can take on the delivery of Social Impact Bonds. Australia, Portugal, and the UK have led the way in allocating funding for this. There is also a role for smaller service providers in Social Impact Bonds, but we will need to work on models such as consortia or prime/sub-contractor structures to bring them to the fore.

SPOTLIGHT

Using Social Impact Bonds to scale evidence-based, professionalized service providers

Social Finance UK is working with Grand Challenges Canada and MaRS Centre for Impact Investing to roll out Kangaroo Mother Care (KMC) across Cameroon. KMC is a well-evidenced alternative to traditional neonatal care for pre-term and low-birth-weight infants particularly suited to low-resource settings. KMC involves continuous skin-to-skin contact between caregivers and infants, exclusive or near-exclusive breastfeeding, early discharge from hospital, and close follow-up. In the first phase of this project, the Kangaroo Foundation Cameroon was established to work with one centre of excellence (La

Quintinie Hospital in Douala) and five regional hospitals (in Douala, Yaoundé, Bafoussam, Bamenda, and Garoua) to roll out KMC through a train-the-trainer model.

In May 2016, Grand Challenges Canada announced plans to launch a CAD\$6-9 million Development Impact Bond to scale KMC to more regional hospitals and local clinics around the country and would link funding to the achievement of outcomes, such as KMC performance indicators, as well as infant health and mortality outcomes.



VOICES FROM THE FIELD:

**LISA BARCLAY
CHIEF OPERATING OFFICER
SOCIAL FINANCE UK**

The need for committed and capable intermediation

I have seen first-hand the value of intermediation. It brings together the component parts of a Social Impact Bond. Starting with deep analysis and feasibility, it engages governments, investors, and delivery stakeholders around the business and financial case, establishes the value of social outcomes and their measurement, and agrees delivery and operational models.

As pioneer of this model, Social Finance has played all of these roles and its value, particularly in building a market, is significant. In some cases, when new ground is broken involving new partners or new interventions, such as the Essex Social Impact Bond, the program would never have launched without intermediation.

We recognize that intermediation has a cost, and that as markets mature, we expect that the intermediary role will change. In some markets, the most robust service providers will start to develop the capacity to work directly with investors and government officials on outcomes-based delivery, particularly where they are replicating and building upon earlier Social Impact Bond development and feasibility analysis.

But that is not where things stand currently. Intermediation has taken different forms in different jurisdictions, but in all cases someone needs to do the hard yards—to engage and build consensus among stakeholders, to understand the issue in depth, including drivers and system cost implications. Crucially, the intermediary drives momentum.

Social Finance has had exposure to development activity in nearly 20 jurisdictions, ranging from our work in the UK and the US, and more recently Israel, and through our involvement in concept development in a range of other markets, including mainland Europe, Canada, Latin America, South Africa, sub-Saharan Africa, and others. In almost all markets where Social Impact Bonds have been launched, intermediaries or developers have played an essential role as market builders, as well as market participants. Without the efforts of MCII in Canada, Sitra in Finland, Laboratório de Investimento Social in Portugal, The Bertha Centre in South Africa, SITAWI in Brazil—and many more—we have little doubt that these markets would not have made the progress they have.

**ARE SOCIAL IMPACT
BONDS REALLY SO
COMPLEX?**



Complexity is a charge leveled at Social Impact Bonds and many see this as the primary barrier to growth. But we think this merits discussion—‘complexity’ has become catch-all for the things that can be difficult, new, or confusing.

As a field, we don’t necessarily make it easy for ourselves, starting with the very name of our tool. Alternately known as Social Impact Bonds (SIBs), Pay for Success (PFS), Social Benefit Bonds (SBBs), and other names (and languages) without actually being a bond in the financial sense, the field is complicated in terms of terminology alone.

Depending on who you ask, some will say that the benefits of Social Impact Bonds—the partnerships, the deep dive into the data, the setting of metrics, the payment mechanism, and the delivery oversight—do not justify the costs and time involved to set up and run a project.

On the other hand, investors often say that Social Impact Bonds are not complex at all—they follow a simple project finance model and are managed and governed in a standard and familiar manner. It is what you would expect of any investment with a similar risk profile.

Unsurprisingly, we sit somewhere in-between. Certainly, in some cases the work has been complicated and resource intensive. But this has generally been in cases where we are breaking new ground, where we are working in an untried social issue area where there are stakeholders to engage, where data may be scarce, and there are no examples which

would help with development of an outcomes measurement framework. In these cases, risk can be high and success unclear—analytical rigor is paramount. Without the backing of philanthropy or the benefit of quasi-governmental funding such as the Big Lottery Fund in the UK to support the feasibility and development costs, it would have been impossible to stay the course to get these pioneering projects off the ground.

We think this perception of complexity can be attributed to three elements:

- **defining outcome metrics and attribution;**
- **agreeing on measurement; and**
- **establishing a new type of partnership between government, the social sector, and the investors.**

Each element carries its own challenges, but isn’t necessarily complex. Engaging government, social sector actors, and investors in a new form of partnership takes time and effort, but the issues are familiar. Defining outcomes and a measurement framework introduces complexity because we must uphold analytical rigor in designing projects with sustainable, people-centered outcomes in an investable framework. Bringing these elements together in the design and implementation of the Social Impact Bond compounds the challenge. But we also think the entrenched nature of the social issues and the systems in which we work necessitate a collaborative approach.



WHY SOCIAL IMPACT BONDS NEED ACCESS TO DATA

Data is integral to the Social Impact Bond model. It is helpful to explain why. Access to data is needed for three purposes:

- 1) to establish baseline rates for an outcome (such as employment, earnings, preterm birth, or emergency room visits);
- 2) to establish or predict the expected effects of the intervention (this also relies heavily on the existing evidence base for the service provider and/or intervention); and
- 3) to understand costs and benefits.

As most Social Impact Bonds work with highly vulnerable and very specific populations, data that describe outcomes for a broad population will likely state better outcomes than it would if it focused on a narrower, less advantaged population. Targeted data is needed. Generic, population level data is insufficient.

As the market goes forward, it will be important to be able to justify a process which takes longer than the usual government contracting or philanthropic grant making and to standardize elements where possible. We need to establish that Social Impact Bonds are a better mode of delivery and investment than “business as usual” which, when ineffective, carries hidden costs—continued spending for poor outcomes.

OUTCOME METRICS AND ATTRIBUTION

Social Impact Bonds focus on measurable outcomes and introduce the discipline of private capital. One challenge of these projects is quantifying issues that have a human dimension. This practice is imperfect—how do we really determine the value of a positive social outcome, such as increased high school graduation or reduced social isolation among the elderly?

The first stage in developing outcome metrics is gathering data. This is often one of the most time consuming stages in the development process. In many of the early Social Impact Bonds, it has taken one to two years to move projects from development to launch. Data availability is one (but not the only) factor in the development timeline. The process could be accelerated if intermediaries and other project partners could more efficiently access high-quality data from government.

For most issues Social Impact Bonds address, administrative data contains sensitive, confidential information. In one project, Social Finance required access to wage data to establish the historical impact of an intervention. But wage data is carefully protected, and without the proper consent, Social Finance and other external organizations cannot access individual-level data. Together, the project partners settled on a solution of breaking up the data into unidentifiable groups so it could be analyzed without violating individuals’ privacy. After additional work and a year of discussions, the project partners worked together to assist with data aggregation and the project moved forward.

Data access, quality, and analysis is a challenging aspect of the model, but we have seen the benefits of learning and repetition: working with service providers and/or with government on similar issues in successive transactions has improved some of the challenges of data access and quality.

As Social Impact Bonds expand to new jurisdictions and providers, addressing the capacity constraints in government and streamlining the process of accessing data will be important.

MEASUREMENT

A genuinely complex element of the Social Impact Bond model is determining how to measure outcomes and how to address the issue of baselines and counterfactuals. What are we measuring success against? How do we clearly attribute success to the Social Impact Bond intervention alone? What would have happened anyway?

There are well-established approaches to measurement and evaluation of social programs and these will often be the basis of evidence behind an intervention. That may include evidence from one or more randomized controlled trials or quasi-experimental approaches or, often, less formal or lighter touch approaches.

Measurement under a Social Impact Bond has a different dimension: first, it needs to be sufficiently robust and calibrated to determine whether outcomes have been achieved and should be paid for. This in turn affects whether investors will receive a return on their investment, and how much. Second, measurement of a social program's effectiveness is typically retrospective, post-program evaluation. Social Impact Bonds by contrast focus on delivering outcomes and embed the flexibility to learn and improve during the life of the program to deliver the aimed for outcomes.

Last, measurement needs to be practical. It needs to be robust enough to give the parties confidence that it can underpin whether (or not) outcome payments and investment returns can be based upon it, and simple enough to be cost effective.

Measurement is based either on the performance of a cohort or on individual outcomes. We have used both cohort-based approaches (control group, historic baseline, or a pre-post self-reporting test) and individual-based approaches (individual baselines, bio-medical tests such as those in the Diabetes Social Impact Bond) in our projects. Choosing the appropriate evaluation methodology depends on the goals of the project partners and on the existing evidence for the intervention.

There is a distinction to be made on measurement: it is used to identify whether outcomes payments can be made and not always to evaluate the impact. This is particularly evident in the emergence of rate cards in the UK, which are a procurement and payment tool. Rate cards based on tariff models apply when the government identifies a set of social outcomes it is interested in purchasing and a price it is willing to pay for these outcomes. Progress can be measured and paid for on an individual or a cohort basis and not against a control group or historic baseline.

In the case of the Social Impact Bonds for disconnected youth, the Department of Work and Pensions devised three versions of the rate cards which included implicit assumptions of “dead weight” (i.e. what would have happened in the absence of an intervention). This reflected three rounds of procurement in 2011, 2012 and 2015. Changes in the rate card reflected learnings, informed by the ease or difficulties in achieving the outcomes on previous rounds of procurement as well as the policy objective of each round. For example,



VOICES FROM THE FIELD:

JAKE SEGAL
DIRECTOR
SOCIAL FINANCE US

Measurement and Evaluation

Lives—particularly those of the most vulnerable—are incredibly complex. It's no surprise, then, that measuring the impact of social programs is a tricky business.

Most programs measure the quantity of services delivered. Strong providers may track outcomes that occur during a program. These kinds of measurement help nonprofits focus on what's important, and improve. But they are too often bedeviled by external variables and bias, systematically making programs appear more or less effective than they really are. To overcome these challenges, we can carefully compare individuals who receive an intervention with others who don't—attempting to isolate the intervention's impact.

No matter how careful we are, though, our understanding of lives and their complexity is imperfect. Tightly controlled experiments can be weak predictors of impact on different people, places, and times. Despite that, evaluations for Social Impact Bonds are important: they define payment and lay the groundwork for future policymaking. But the right choices are often not obvious.

The debate typically centers on study design: should we measure the project's results against a historical baseline, a matched set of participants, or against a randomized control group? Randomized controlled trials (RCTs) are great for countering biases, but might not make sense for technical reasons (e.g., small sample size), ethical reasons (e.g., proven efficacy beyond a reasonable doubt), or programmatic reasons (e.g., significant

programmatic changes during the study). Quasi-experimental studies are cheaper, faster, and more versatile, but might not make sense if relevant administrative data aren't available, or if we don't have enough information (covariates) to match the comparison and intervention groups well.

But choosing the right measurement methodology isn't just about filtering out the wrong ones. It's about pragmatically weighing the priorities and tradeoffs of the project partners.

We consider operational complexity: is it practical and reasonable to conduct a given study for this intervention and in this geography? Will decision makers consent to and follow protocols? Project economics are important: are payors willing to pay for expensive evaluation methods? Are funders willing to invest despite real and perceived risks (e.g., operational challenges, delayed payments)? And then there is the relevance and quality of current evidence: do past evaluations lessen the necessity for further experiments?

In the U.S., six out of ten launched Social Impact Bond projects include an RCT to trigger outcome payments. Of the 40+ projects in the rest of the world, only one (in India) uses an RCT.

All else equal, more rigorous methodologies are often better. Sometimes, though, simpler measurement may make more sense. Comparing against historical averages, or against individuals' own histories, may be practical when baseline outcomes are static. But simpler measurement requires greater safeguards—carefully defining the target population to defend against 'creaming,' measuring longer-term outcomes to prevent gaming, and designing backup methodologies for unforeseen changes.

As we navigate the tradeoffs underlying different measurement approaches, we must balance fairness and rigor with pragmatism and humility. Measurement choices are rarely straightforward. Ongoing debate is not only healthy—it's the only way to ensure the right choice is being made for each project.

the second round recognized it was appropriate to add outcomes such as improved attitudes and behavior and the third round then adjusted the weighting given to these outcomes.

While a rate card signals that this is a set of outcomes worth pursuing and paying for, without an explicit counterfactual, it is more difficult to establish the impact of the intervention. However, there are advantages: the measurement process is simpler, less expensive, and quicker. But in the absence of a control group or even a historical baseline, there is a challenge in establishing the impact attributable to the Social Impact Bond, even ones targeting extremely marginalized groups. There is a superficial simplicity about the idea of contracting on the basis of rate cards. Most importantly, rate cards must be tied to tightly segmented cohorts to avoid cherry-picking. In practice, the same rigor in underlying design is needed, as we have seen in our work with The Bertha Centre in South Africa, supporting a project focused on early childhood outcomes.

For the moment, rate cards based on individual tariffs have been an effective tool to procure multiple Social Impact Bonds in relatively well understood areas such as employability. We would like to see it tested further and call on government to be more transparent about what baseline assumptions on outcomes they use and how they calculate the pricing mechanisms. Without knowing how to effectively price the outcomes and shifting the focus to tariffs, there is a danger that there is a “race to the bottom” to be the cheapest provider. The

challenge is how to remain focused on the social value and not on the discount you are able to offer through a centralized rate card procurement.

Measurement is what differentiates Social Impact Bonds from other contracting structures and grounds the results. In our pursuit of delivering tangible measurable results, we need to be careful not to turn “perfect into the enemy of the good.”

PARTNERSHIPS

While Social Impact Bonds offer an opportunity to co-design new approaches to social services and scale existing evidence-based practices, collaboration does not necessarily come naturally. To design, purchase, and deliver social outcomes, aligning impact with financial returns, a partnership between the public, private, and social sectors is needed, which lasts throughout the development and implementation periods.

The most challenging aspect of partnership is the new role Social Impact Bonds create for government, where they define, contract, and pay for outcomes but do not prescribe the manner in which those outcomes are achieved. In some social areas, such as health and social care systems, the need for fundamental transformation is apparent and government officials are willing to take on this role. Many government officials would like to introduce new bold models in a way that is financially rigorous, evidence-based, and committed to improving care.

Observers have asked whether Social Impact Bonds are a way of overcoming the problem that the siloed behavior of government departments can hinder the uptake or growth of programs to address social issues that reach across agency structures. To an extent, they are right. Social Impact Bonds do align partners around a set of specific social outcomes, which moves agencies away from a traditional, prescriptive, fee-for-service approach. If governments were more joined-up in the way they approached social issues and were flexible in delivering more responsive programs, then maybe Social Impact Bonds might be redundant. But the reality is that governments across the world do not work in this way.

The partnership aspect of Social Impact Bonds has the potential for transformative change, as it offers governments a tool that cuts across traditional boundaries. The partnerships they create benefit from diversity of thought and experience. The expertise of different stakeholders, and the check and challenge that each party (investors, service providers, government and intermediaries) brings to the table, should, in theory, lead to a more robust delivery model and better outcomes for beneficiaries. These are gains worth reaching for. And while, at present, partnerships demand a tangible commitment of time, staff, resources and expertise, the opportunity to replicate successful models will in turn simplify the development process and set new norms for collaboration across sectors.

A photograph of a smiling Black man standing in a warehouse aisle. He is wearing a dark blue and red jacket over a maroon hoodie. The aisle is lined with tall shelves of cardboard boxes, and the lighting is bright and industrial. A teal rectangular box is overlaid on the left side of the image, containing white text.

**HOW DO
SOCIAL IMPACT
BONDS SCALE?**

From the start, we believed that Social Impact Bonds would foster testing grounds for innovative social programs and establish an evidence base which would lead government to adopt and scale these proven solutions. While some of this initial hypothesis has proven to be true, we have discovered that the pathway to scale is considerably more nuanced.

What do we mean by scale, and what barriers do we face? Scale means Social Impact Bonds that go beyond a single pilot and are able to deliver large-scale system change. Scale means greater impact in supporting individuals with highly complex needs and greater efficiency. And it is true that for the instrument to take root permanently, scale means transactions which are large enough to justify the development and governance costs.

The different examples of Social Impact Bonds launched worldwide have begun to reveal a variation on the **innovation-replication-scale theme**. In some cases, we are at the beginning of a journey, where we are testing a completely new intervention and making the case for investing in innovation to tackle particular social issues. Once the case has been made, we can advocate for more investment. In other cases, we are building a replication strategy at the outset, anticipating an expansion of the model in a number of localities, which will lead to more, but not necessarily larger scale opportunities. The Worcester Social Impact Bond in the UK, focused on loneliness among older people, is one such example and was developed explicitly with replication in mind, if

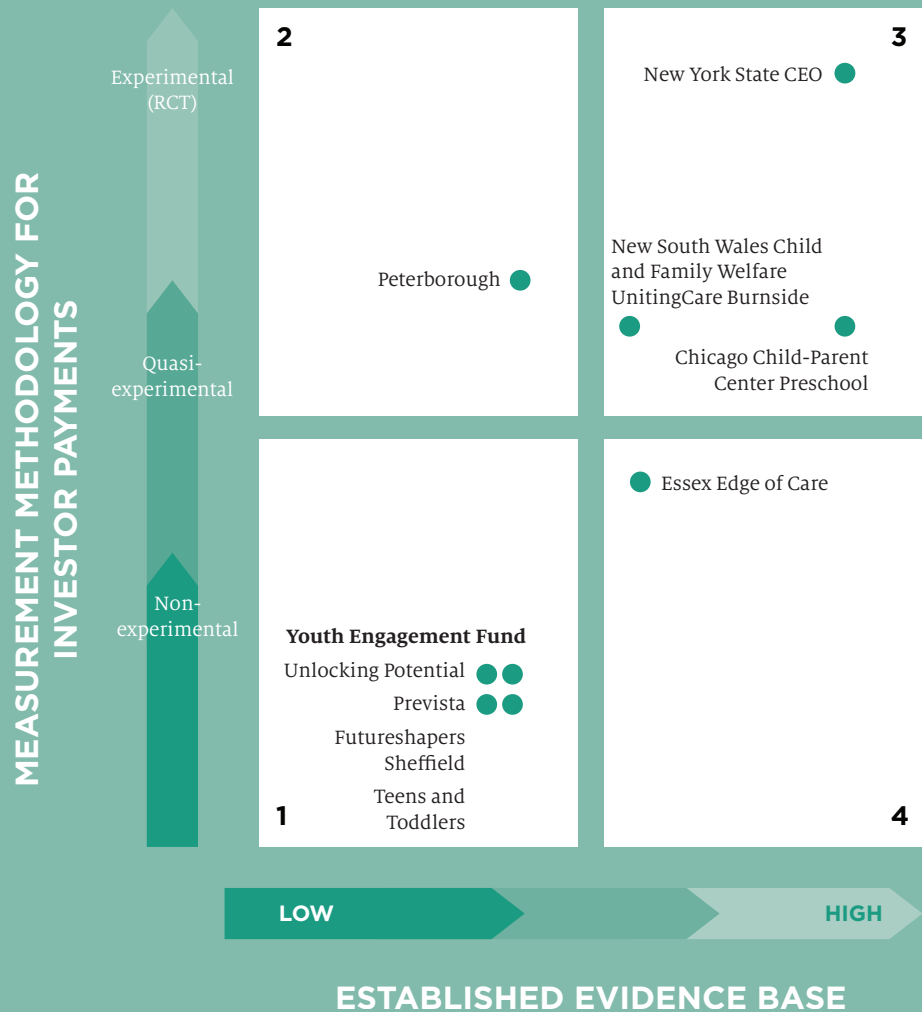
the initial program had demonstrated its capabilities.

Some Social Impact Bonds start farther along the spectrum and, from the outset, use interventions which are tried and tested with evidence of outcomes. This is particularly evident in the US where intermediaries have sought strong interventions and delivery organizations can deliver larger Social Impact Bonds from the start.

It is increasingly possible to differentiate between the different stages and we have found value in identifying the goals, structure, and mode of implementation of the different models within a framework that differentiates which projects are focused on innovating and building the evidence base and which are positioned for replication and/or scaling. It helps with our understanding and ability to evaluate the different examples, learn from them, and compare like with like.

A FRAMEWORK FOR DIFFERENT TYPES OF SOCIAL IMPACT BONDS

Below we have plotted a number of examples to illustrate how different Social Impact Bonds address goals including advancing innovative service delivery, building evidence, replicating programs, and scaling programs. Some projects include a hybrid of metrics that include both engagement and outcomes. Some include hybrid forms of measurement that measure against a counterfactual for some metrics and not for others.



1 PROJECTS FOCUSED ON INNOVATION, MEASUREMENT METHODOLOGY IS NON-EXPERIMENTAL.

Example: The Youth Engagement Fund was commissioned with local authorities in the UK for innovative, small-scale projects, and uses tariff-based, non-experimental outcome measurement.

2 PROJECTS FOCUSED ON BUILDING EVIDENCE, MEASUREMENT METHODOLOGY IS QUASI-EXPERIMENTAL OR EXPERIMENTAL.

Example: Peterborough followed an evidence-based path to desistance but used a range of programs. For measurement, a quasi-experimental design was used to test the efficacy of this approach.

3 PROJECTS FOCUSED ON REPLICATION, DRAWING ON AN ESTABLISHED EVIDENCE BASE AND MEASUREMENT AGAINST A COUNTERFACTUAL TO FURTHER BUILD EVIDENCE.

Example: The Child-Parent Center model has been rigorously evaluated in a quasi-experimental longitudinal study in Chicago, and the project seeks to replicate positive results by measuring outcomes using propensity score matching.

4 PROJECTS FOCUSED ON SCALING, USING ESTABLISHED, HIGHLY EVIDENCED-BASED INTERVENTIONS AND SIMPLER MEASUREMENT METHODOLOGY.

Example: The Essex Social Impact Bond uses Multi-Systemic Therapy—a highly evidence-based intervention—in a new setting, measured against a historical baseline.

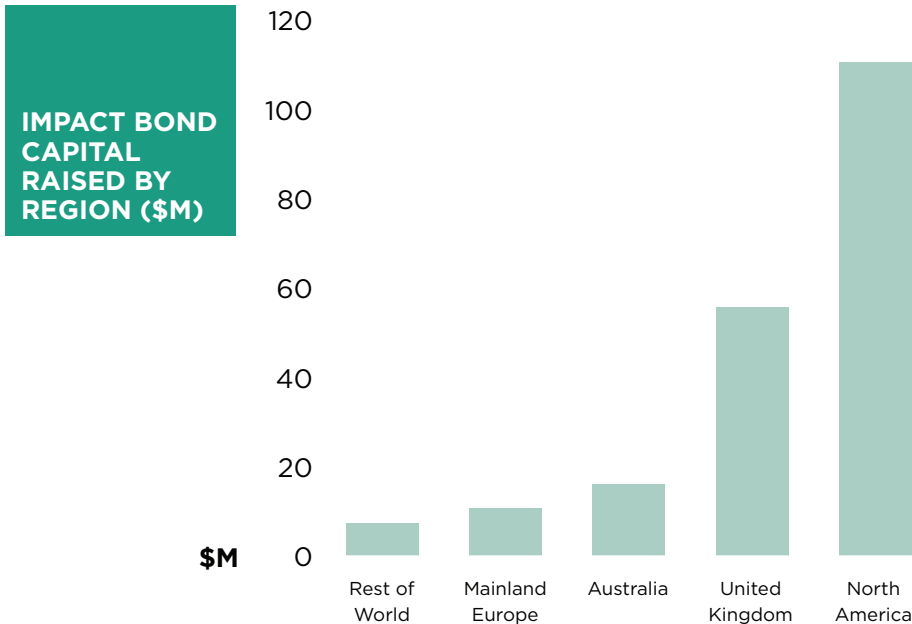
BARRIER: THE SIZE OF GOVERNMENT CONTRACTS

A key barrier to scale lies in the ability and appetite of government to contract bigger programs, whether for a single issue at scale, for multiple programs through a single Social Impact Bond structure, or through scale and replication platforms. Smaller transactions will always play an important role in the market, particularly as the first step on a road to scale. However, to greatly increase the number of people served by Social Impact Bonds, government entities will eventually need to enter into larger contracts.

Social Finance and other Social Impact Bond practitioners routinely face what feels like a paradox: at the outset, there is demand among government/outcomes funders and investors for larger scale projects, but when we embark on the development process, at present, conditions continue to lead to projects that are modest in scale. To date, while the largest Social Impact Bonds have been in the US (the largest private capital raise has been \$21m),¹⁵ it is still taking time to take evidenced-based interventions and scale their delivery across the country.

Elsewhere the capital requirement has been smaller. As the UK market has evolved post-Peterborough, multiple, smaller, single issue Social Impact Bonds have dominated the scene, with the UK's DWP using the Social Impact Bond as a purchasing tool for youth engagement programs. The average capital raise in the UK is between £1-2m. By contrast, the small transac-

¹⁵ The Massachusetts Roca Social Impact Bond, launched in January 2014.



tion size of Social Impact Bonds in mainland Europe—most in the order of €100,000-1.2m—illustrate the limitations of contracting at the level of a single municipality. Municipal budgets typically have frontline responsibility for many social issues, but necessarily involve smaller target intervention groups compared to the regional or state level.

Similarly, while the drive to launch Social Impact Bonds has been through central government in the UK, the implementation resides primarily in local municipalities where population sizes are limited. Recent announcements from the UK government suggest that this trend will continue, but as the UK moves away from smaller entities to larger devolved authorities, such as the Greater Manchester region, we hope that it will be easier to scale the programs.

SOLUTIONS: A PATHWAY TO LARGER PROJECTS

If we are to achieve scale in these local level transactions, the market needs to innovate and develop new approaches. But first, we need to understand that different locations face different challenges and their routes to scale will vary.

The primary challenge in the UK is procurement and contracting. At present, Social Impact Bonds are being purchased through a fragmented local government network. Not only does this mean that each Social Impact Bond needs to be negotiated and procured with individual local authorities, there is no one at the local government level who is considering the regional or national delivery of quality interventions. While central government is obviously more focused on national reach, their preferred route of expanding Social

Impact Bonds remains through local government. Another pressing issue is the cross-departmental nature of Social Impact Bonds. The outcomes often cover overlapping social issues and to date we have struggled to overcome the division of responsibilities in government without pooled outcomes funds.

Recognizing this, Social Finance has increasingly looked to launch scale and replication platforms in the UK for multiple programs through a single structure for each social issue. We are currently developing Social Impact Bond platforms for children's services, end of life care, health and employment, and social isolation. This approach is designed to overcome the need for each local authority or separate government department to commission single, small scale Social Impact Bonds. The structures have the potential for a more rapid launch of small scale pilots while also building the infrastructure to scale up with multiple localities and programs. Interestingly, this route to scale has been built into the first Social Impact bond in Finland, focused on occupational wellness.

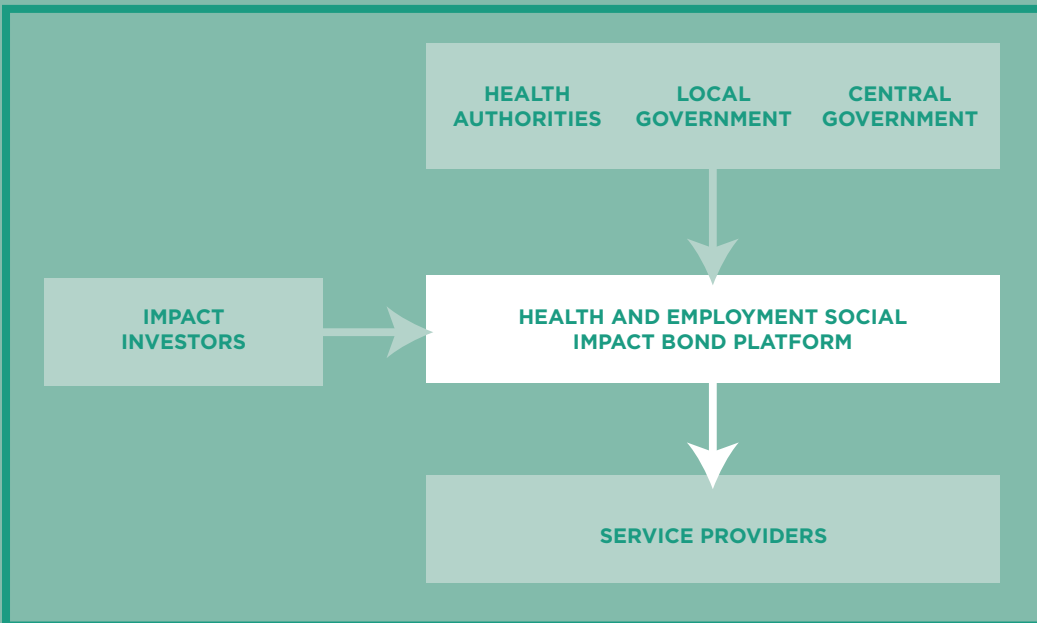
Another way to enable larger scale projects is to target social issues that have high potential for replication, both within a given country and beyond it. This can be achieved by targeting mainstream social issues that concern large population groups. Social Finance has employed this strategy in Israel in its Social Impact Bond targeting diabetes. The project addresses a global social issue: 415 million people, or between 7-10 percent of the world's population, live with diabetes or pre-diabetes. Type 2 diabetes is the leading cause of limb

amputation, blindness, and dialysis. The World Health Organization projects that diabetes will be the 7th leading cause of death in 2030.

Global public health spending on diabetes is expected to rise to over \$800 billion a year by 2040. Yet the overwhelming clinical evidence and staggering economic costs, scant resources, if any at all, are allocated to the prevention of diabetes. This is partly due to the fact that the costs associated with non-communicable disease, such as diabetes, are spread out over multiple stakeholders with no one single entity being sufficiently incentivized to decisively address the issue. At present, global health systems are not designed to invest in the early prevention programs needed to reduce the spread of conditions such as diabetes. They struggle to deliver tailored programs for patients to delay the onset of the disease, and investment into preventative interventions is needed to establish the evidence base.

In the Israeli Diabetes Social Impact Bond, the government contract specifies the objective of integrating the program into the health system to replicate and scale the service if it works. The intervention results will not only be monitored to determine outcome payments, but also to evaluate the model for future use by the state. The target participants in the intervention are demographically similar to the Israeli population, so replication will be more feasible. The contract also includes an obligation to fully report activity costs paid to the service providers to give the state the tools to operate the program in the future.

THE MENTAL HEALTH AND EMPLOYMENT PLATFORM IN THE UK



Health and Employment Partnerships is one example of how a platform has been used. Health and Employment Partnerships, established in 2015, launched its first Social Impact Bond using the evidence based program, IPS (Individual Placement Support), for people suffering from mental health issues who would like to be in employment. Despite the extensive evidence behind the intervention, IPS is still not widely available in the UK. The Health and Employment Partnerships platform brought together government departments to work together alongside local health authorities and mental health specialists to build a scalable model for replicating IPS across the health service.



Using Social Impact Bonds to scale evidence-based, professionalized service providers

In South Carolina, Social Finance worked closely with local and national foundations, the South Carolina Department of Health and Human Services, and the Harvard Government Performance Lab to develop a \$30 million Social Impact Bond to expand Nurse-Family Partnership (NFP) to 3,200 low-income, first-time mothers in South Carolina. Nurse-Family Partnership is an evidence-based home-visiting program that pairs vulnerable first-time mothers with specially trained nurses to support healthy pregnancies and positive child development.

During project development, we worked to design a project to meet South Carolina's goal of delivering a statewide program and the shared goal of the funders' and of NFP to create a path to sustainable funding if the project succeeds. This led to several innovative project features, all of which were critical to signing the contract, raising capital, and launching services. First, we helped the Department of Health and Human Services secure a Federal 1915(b) waiver to reimburse \$13 mil-

lion of NFP's service delivery costs. This is the first Social Impact Bond in the US to access this type of federal Medicaid waiver, and the first time NFP will receive this level of Medicaid reimbursement for its services.

Second, Social Finance identified and coordinated the \$17 million philanthropic capital raise. We worked with funders to structure success payments that recycle back to NFP for additional service delivery, which addresses the issue of post-project sustainability. Finally, Social Finance helped advance the state's learning agenda by working with the Harvard Government Performance Lab and Massachusetts Institute of Technology's J-PAL North America to develop and test a lower-cost NFP service delivery model. The project's RCT evaluation will help NFP and South Carolina determine if this model can improve outcomes at similar rates as NFP's traditional model. The evidence from this project may therefore help NFP with future efforts to scale.



In the United States, the potential to contract larger projects has grown as the field increases opportunities to coordinate funding from different levels of government. Action at the federal level, both in Congress and at the executive level, could enable jurisdictions to supplement outcomes funding, which could support larger projects. Our project in New York State to reduce recidivism (which will serve 2,000 formerly incarcerated individuals) benefited from a federal Department of Labor grant to support outcomes payments. However, executing larger contracts depends not only on the ability to coordinate funding across levels of government, but also to standardize the development process so it is easier for government stakeholders across agencies to participate.

CONCLUSION

These reflections have been gathered from our experience across the world and while there are obvious differences between countries and contexts, there are common themes running throughout. There are certain conditions that are needed in order for the model to launch, not least that governments and the social sector are keen to invest in Social Impact Bonds and to work to outcomes. Developing Social Impact Bonds has often been harder than we anticipated. It has been a (sometimes lengthy) process of discovery to establish the right partnerships, identify the outcomes worth pursuing, and agree on the right way to measure impact. As more products come to market, not only will the design and launch process simplify, we will be able to reach the scale of impact we are ultimately seeking.

Six years in, the market is changing quite rapidly. We are excited by the growing enthusiasm for Social Impact Bonds across the world, particularly in low to middle income countries. We feel that the value of outcomes-based contracting is beginning to embed itself in policy and we see a shift in the way governments are open to private-public partnerships, such as the Social Impact Bond model.



THE FUTURE OF SOCIAL IMPACT BONDS

Social Impact Bonds have come of age in a period of heightened interest in impact investing as new countries, organizations, service providers, investors, and governments get involved. As the impact investing movement becomes mainstream, so the Social Impact Bond market will continue to evolve.

The first six years have set the stage. We do not doubt that there will be continued growth and innovation in the future—indeed, discovering the full potential of the model is still ahead of us. So, what do we expect?



STANDARDIZATION

Standardization will occur as markets mature. In some cases, it is already happening. When governments, service providers, intermediaries, and investors approach the model for a second, third, and fourth time, lessons and data from early projects will be reflected in new projects. The development and contracting processes will accelerate and be streamlined. As results from the first generation of Social Impact Bonds come in, there will be an interest to replicate successful projects. Replication and repetition will allow practitioners to standardize materials and develop templates and toolkits—covering social issue analysis, financial modeling, pricing, and other elements. No longer will structures and contracts need to be built from scratch. There will be a rich reservoir of experiences and templates from the various deal structures to draw on.

One important area where we have already begun to see the benefits of standardization is in the tariff model in the UK. By setting outcomes and a value for them upfront, the government has shown that this can lead to the contracting of multiple projects in parallel, and a simpler environment for investors and delivery.

And, although we hope Social Impact Bonds will continue to innovate and tackle complex social issues in new and challenging ways, for other interventions that are already using the model, the body of evidence which emerges will enable us to understand more clearly what works. This will

open the door to the development of platforms and models of replication that enable new target populations to be reached more efficiently and quickly than for early projects.

SOCIAL ISSUES

In the years to come, we will continue to see both breadth and focus in the type of social issues as the market gains a better understanding of how and for what the model is best deployed and tests the boundaries of its use.

Health-focused projects will attract particular attention. The South Carolina Nurse-Family Partnership Pay for Success Project, funded in part by a Medicaid waiver, and the Israel Diabetes Social Impact Bond are two examples. Social Finance Israel has also begun to explore the potential for a Social Impact Bond to improve early diagnosis of colorectal cancer. And this is just the start: public and private health systems have an enormous incentive to support preventative programs which are effective in delivering health outcomes, especially programs targeting chronic health conditions. The imperative of tackling these challenges is not hard to identify—but we do not underestimate the difficulty. A significant hurdle will be to shape an outcomes-based instrument to fit with complex health insurance reimbursement systems, whether public or private. If these barriers can be overcome there will be significant opportunities, potentially at larger scale than those we have seen to date.

BROADER REACH

The field will continue to expand geographically. South Africa and France have announced they will join the growing number of countries adopting Social Impact Bonds in 2016. Within those countries that have already launched Social Impact Bonds, the model will spread to new states, counties, and cities. We will also see Social Impact Bonds at a regional level with groups of municipalities coming together. Not only will this facilitate scale and produce efficiencies, it should also provide opportunities for small municipalities for whom the current single issue/single contracting model is beyond reach.

Policy will play a key role in geographic expansion. In the US, for example, if Congress established a federal Social Impact Bond Outcomes Fund, the number of states and localities testing the model would increase at a faster rate. If such a fund were established at an EU level, we would see accelerated engagement in Europe.

Development Impact Bonds will facilitate the global expansion of results-based financing approaches in the international development field. Following on from work that Social Finance and the Center for Global Development carried out in 2013¹⁶, international aid agencies and development foundations have engaged in the design of Impact Bonds across sub-Saharan Africa, Asia, and the Middle East. Pilots have launched

in India to improve girls' education and in Cameroon to tackle eye health, and the World Bank announced in January 2016 that it will launch a Development Impact Bond to improve employment chances in the West Bank and Gaza.

FINANCIAL INNOVATION

We will continue to see new ways of financing Social Impact Bonds. There is already a spectrum of investment capital—from philanthropic and high net worth—including mission-related investment through impact funds and capital allocated to impact investment by financial investors, to some early examples of pension fund investment. Layered structures, with more and less risk-accepting tiers, have already emerged, particularly in the US—reflecting both larger transaction sizes to justify the additional complexity, and the unique position which the deep pool of US philanthropic capital has been willing to play in some projects, as a first loss layer which then draws in financial capital. We expect more projects to follow the strategy used in New York State, where Bank of America Merrill Lynch served as placement agent, and distributed the opportunity to invest in the project on its wealth management platform. In the UK, private individuals have already invested in Social Impact Bonds that benefit from the Social Investment Tax Relief which was enacted in the UK in 2015 and has the effect, for such investors, of mitigating risk.

Capital structures and investment instruments will evolve and become

¹⁶ http://www.socialfinance.org.uk/wp-content/uploads/2014/03/cgd-sf-dibreport_online.pdf

more calibrated, reflecting the outcomes aimed for and the needs of different categories of investor. As a track record emerges, we will start to gain a better understanding of what it takes to deliver certain types of outcome and risks. Investment instruments will reflect this, including instruments designed for institutional impact capital. When scale transactions emerge, we will see accelerated demand from institutions.

We also expect the market to continue to attract other classes of investors and different instruments. There is already a Social Impact Bond Fund in the UK, in which investors can diversify risk through their exposure to multiple transactions; we will see more of these funds, and funds which are focused on specific issue areas, such as education, or health. Retail investment instruments will be explored, some tax-advantaged (as in the UK), others through new approaches, such as the Calvert Foundation's Community Investment Note, which enables individuals to invest in impact investments for as little as \$20. The market will seek new pools of capital, including Donor Advised Funds. We expect that, quite soon, we will see a Social Impact Bond that has a strong community or local connection set aside a tranche of investment for crowdfunded capital.

THE ROLE OF GOVERNMENT

The growth of the market will hinge on government involvement and the broader policy environment. While standardization, new social issues, new geographies, and innovative

SUSTAINABILITY

Sustainability has been a key concern for Impact Bonds. Ensuring the long-term impact of successful programs requires that both funding and implementation capacity continue beyond the conclusion of the Impact Bonds. Given the focus on public goods, this typically means ensuring strong government ownership and mainstreaming the program into the public sector.

For example, in the planned Development Impact Bond for scaling-up Kangaroo Mother Care in Cameroon, the Ministry of Public Health has identified KMC as one of its priority health interventions for scale-up. The ministry has agreed to be a partner in the Development Impact Bond, including offering technical advice; and the scaled-up KMC will be provided through government hospitals and clinics by public sector nurses, maximizing the chances of a smooth integration into regular government programs once the Development Impact Bond completes.

financing all offer potential for the field, the most significant lever in how the Social Impact Bond market evolves is the role of government. Ultimately, if Social Impact Bonds deliver the impact they promise, then government pays for the outcomes it wants to see.

Those governments who are most committed to driving the market forward will adopt policy levers to stimulate and support their markets. Markets will learn from each other and a number of the tools which have proved effective to date are likely to be replicated—for example, investment readiness, capacity building, and outcomes funds.

Government holds the key to addressing any social issue at scale. Our aspiration for the years to come is that the market will embrace larger scale projects and that impact can be delivered at scale. Only then can we really move the needle in delivering better programs to tackle some of the most pressing and chronic social issues of our age. That cannot be done without continued interest and commitment from governments at all levels and all around the world.

NON-GOVERNMENTAL OUTCOME PAYORS

Non-governmental outcome payors are not new—this feature has been there from the start, when the UK's Big Lottery Fund agreed to co-fund outcomes alongside the Ministry of Justice in the first Peterborough Social Impact Bond. However, we expect to see more and more varied examples of projects which attract private outcome payors, including capital that complements public sector outcome funders.

Why would private capital be willing to pay for outcomes, rather than invest? There may be philanthropic reasons or the motivation might have an economic dimension—where a large institution bears the cost of human outcomes and a preventative approach could reduce costs, there is potential to explore the model. In most cases, the large institution is government. But in the healthcare sector, managed-care organizations (MCOs) and other large, private insurance companies play a similar role to that of government in a public-funded health system. Better health outcomes that reduce expensive remedial procedures over time create significant value for MCOs.

Work is being done in other areas: in road safety, there is an economic interest case for insurance and health companies to fund interventions which reduce casualties and injuries; also in higher education systems where universities and colleges bear the cost of students dropping out, such as the Higher Education Social Impact Bond launched in 2015 in Haifa University and Tel Aviv-Jaffa Academic College in Israel. This is an interesting example—a university and a college are outcome payors, but the institutions themselves are funded partially by the public sector and partially by tuition from students.

As the model becomes more understood and a track record emerges, we expect to see more and varied projects with private outcome payors instead of or alongside government. This is an evolution we look forward to—but with caution. Such models might incorporate the principles behind an Impact Bond, but how will we ensure they stay true to our mission, and be 'social'?



WHAT FOLLOWS A SOCIAL IMPACT BOND?

In the next five years, many of the projects underway today will complete. The field will have a wealth of data on the achievements of these “first generation” efforts—including, no doubt, both successes and failures. As more Social Impact Bonds report on their outcomes, make outcomes payments, and eventually come to an end, all parties—governments, providers, intermediaries, and investors, face the question: what happens next? What if a project is successful and improves the lives of participants? What if it repays investors and fosters productive collaboration among project partners? Will the service continue? How should it be funded? We believe policymakers have two options to finance a continuation of the service:

- re-contract on a risk-share basis with external finance and with the benefit of experience and data using another Social Impact Bond or outcomes-based instrument; or
- fund it directly

There is reason to consider each approach. Some of the structural features of delivery under a Social Impact Bond—in particular the active performance monitoring and management—harness the discipline of the private sector and add rigor. If the alternative is to contract the service directly, the question is: how important is the role of private capital in the Social Impact Bond model to achieving that rigor? Would a program funded directly by government without the active engagement and alignment of an external party, an investor, achieve the same results? How well placed is government to implement the kind of active performance management used in a Social Impact Bond, and which we believe is an important component to achieving positive results? Will the budget include a line for performance management, or will it be seen as an area to economize?

These are important but not easy questions to answer. In a Social Impact Bond, the public sector pays a premium to have private investors share the risk by funding upfront program costs and take responsibility for delivery. If a Social Impact Bond has been successful, and the government involved is confident in a program's impact and in its ability to deliver it again with similar results, it could be more efficient to fund the program directly.

Direct funding by government can mean different things. It could mean the most common form of government funding: fee-for-service contracts. But we believe there is a real challenge for a fee-for-service model to be able to

deliver the flexible, performance-based, outcomes-focused elements of the Social Impact Bond model, particularly where governments feel greater responsibility for how money is spent on services. Therefore, we hope the transition from Social Impact Bond to direct funding of continued services will retain its core features, whether through a performance-based contract or another mechanism.

As is the case with most elements of Social Impact Bonds, the best approach depends on the situation at hand. The field will grapple with this question over the next five years. If the experience to date is any indication, a variety of approaches will emerge.



A more fundamental question for the field is: what is the end game for Social Impact Bonds?

Among those actively involved in the field, there are different opinions about the answer to this question. There are also many perspectives

from commentators and others outside the field. Will Social Impact Bonds be a permanent tool in the contracting landscape, used to finance social provision on a routine basis? Or will they evolve as a tool primarily used to help government transition towards administration of outcomes-based social services directly, without the involvement of private investors?

We see room in the future for both. In fact, it matters less to us whether Social Impact Bonds persist than if the values the model promotes become permanent features in our approach to social challenges. We want social programs to improve the lives of people in need, driving real progress on complex social issues by changing life outcomes. We want high-impact service providers to have access to flexible funding, enabling these organizations to innovate, scale, and adapt as they go. We want social programs to be rigorously analyzed to ensure they are creating a positive impact. We want the social and public sectors to focus on outcomes and to build the capacity to use data and analysis to improve performance.

If the Social Impact Bond model is still here in several decades fostering social service innovation, mobilizing private capital for social progress, and improving lives by expanding effective programs, then we will have done our job well. And if the values of model have become infused into the way government works across the board, then we would have done even better.

ANNEX

LIST OF
SOCIAL
IMPACT
BONDS

LOCATION	LAUNCH DATE	CAPITAL RAISED (\$M)	TARGET POPULATION	GOAL
Peterborough (UK)	September 2010	7.7	3,000 (expected), 2,000 (actual) short-sentenced offenders	Break the cycle of offending by offering ex-offenders personal support, so that they can reintegrate into society
UK (6 projects nationwide, Innovation Fund Round 1)	April 2012	11+	Over 10,000 disadvantaged young people	Increase future employment prospects for teenagers at risk of becoming NEET (Not in Employment, Education or Training) (Age 14+)
UK (4 projects nationwide, Innovation Fund Round 2)	November 2012	4+	Over 4,000 disadvantaged young people	Increase future employment prospects for teenagers at risk of becoming NEET (Age 14+)
London Thames Reach (UK)	November 2012	1.8	415 rough sleepers	Support vulnerable young people to get their lives back on track by helping them find accommodation, gain qualifications, and move into employment
London St. Mungo's Broadway (UK)	November 2012	1.8	416 rough sleepers	Support the most vulnerable young people in society to get their lives back on track by helping them find accommodation, gain qualifications, and move into employment

LOCATION	LAUNCH DATE	CAPITAL RAISED (\$M)	TARGET POPULATION	GOAL
Essex (UK)	November 2012	5	380 adolescents at risk of entering care	Foster more stable and supportive family environments to prevent children from entering care where possible
New York City, NY (US)	January 2013	9.6	11,000 (projected), 4,458 (actual) juvenile ex-offenders	Break the cycle of offending by offering ex-offenders personal support so that they can reintegrate into society
New South Wales (Australia)	July 2013	9.3	400 families with children at risk of entering care	Foster more stable and supportive family environments to prevent children from entering care where possible
New South Wales (Australia)	August 2013	6.7	700 families with children at risk of entering care	Improve the lives of children and families in need by reconnecting foster children with their families
UK (nationwide)	September 2013	3.6	650 children in care	Find stable, lasting placements for harder-to-place children in the adoption system, supporting both families and children in order to reduce the risk of breakdown
Salt Lake County, UT (US)	September 2013	7	3,500 preschool children from low-income families	Improve the quality of preschools, leading to a number of positive individual and social outcomes, including success in school and reduced special education utilization
Augsburg (Germany)	September 2013	0.3	100 unemployed young people	Help young people from disadvantaged backgrounds to find sustained employment
Rotterdam (Netherlands)	December 2013	0.9	160 unemployed young people	Reduce unemployment by supporting young people to start their own businesses

LOCATION	LAUNCH DATE	CAPITAL RAISED (\$M)	TARGET POPULATION	GOAL
New York State (US)	December 2013	13.5	2,000 ex-offenders	Break the cycle of recidivism by offering ex-offenders training, transitional jobs, and job placement (by the Center for Employment Opportunities) so that they can obtain employment and avoid re-incarceration
Massachusetts (US)	January 2014	21.3	929 juvenile ex-offenders	Break the cycle of reoffending by supporting youth involved with the justice system so they can obtain employment and avoid going back to prison
Brussels (Belgium)	April 2014	0.3	180 unemployed migrants aged 18–30	Support unemployed young migrants to integrate better into society and boost their employability
Saskatoon (Canada)	May 2014	0.9	22 single mothers with children at risk of entering care	Create a new supportive living home for at-risk single mothers
Manchester (UK)	June 2014	2	95 young people in care	Provide a new supportive living arrangement for at-risk single mothers
Birmingham (UK)	July 2014	1.7	138 children in care	Find stable foster family placements for adolescents looked after in residential care
Chicago, IL (US)	October 2014	16.9	2,600 families with young children	Improve kindergarten readiness, third grade reading, and reduce special education utilization by expanding high-quality preschool
Massachusetts (US)	December 2014	3.5	800 chronically homeless individuals	Provide stable housing units to chronically homeless individuals

LOCATION	LAUNCH DATE	CAPITAL RAISED (\$M)	TARGET POPULATION	GOAL
England (7 projects nationwide, Fair Chance Fund)	January 2015	7	1,600 homeless young people	Support very vulnerable young people to find and sustain stable accommodation, gain qualifications, and move into employment
Cuyahoga County, Ohio (US)	January 2015	4	135 homeless families	Improve the lives of children and families in need by reconnecting foster children with their families
Lisbon (Portugal)	January 2015	0.1	65 primary school students	Improve cognitive skills and school performance in primary school students through computer classes
Amazonian Peru	January 2015	0.1	100 indigenous Ashaninka people	Strengthen and make sustainable Ashaninka livelihoods, namely cocoa production, and support them to continue living in harmony with their rainforest environment
Newcastle (England)	March 2015	2.5	11,000 people with long term health conditions such as lung disease, diabetes, and asthma	Help people with long-term health conditions achieve sustained lifestyle changes, improved self-care, and well-being
England (4 projects nationwide, Youth Engagement Fund)	April 2015	7.4	7,900 disadvantaged young people	Increase future employment prospects for teenagers at risk of becoming NEET
Utrecht (Netherlands)	April 2015	0.8	252 unemployed young people	Provide young people with the skills, qualifications, and motivation needed to successfully find and sustain long-term employment
Rajasthan (India)	June 2015	0.3	15,000 school-age girls	Enroll girls currently excluded from government primary school education and improve literacy and numeracy

LOCATION	LAUNCH DATE	CAPITAL RAISED (\$M)	TARGET POPULATION	GOAL
Bern (Switzerland)	June 2015	0.3	120 refugees with temporary work permits	Provide marginalized job-seekers with better access to the job market through work placements and on-the-job training
Worcestershire (England)	July 2015	1.3	3,000 isolated older people	Improve the health of lonely older people by supporting them to become more involved in their communities
Rotterdam (Netherlands)	September 2015	3.3	750 unemployed job-seekers	Provide job-seekers with employment opportunities and the on-the-job training needed to sustain long-term employment
Upper Austria (Austria)	September 2015	1.1	75 women affected by domestic violence	Help women make a lasting break from structures of violence and achieve financial independence
Santa Clara County, CA (US)	September 2015	6.9	200 chronically homeless individuals	Support the most vulnerable young people in society to get their lives back on track by helping them find accommodation, gain qualifications, and move into employment
Haifa and Tel Aviv (Israel)	October 2015	2.1	600 higher education students at high risk of dropping out	Prevent students from less wealthy and/or minority backgrounds from dropping out of university
Utrecht (Netherlands)	November 2015	2.3	540 unemployed young people	Support young people to set up their own enterprises, or where this is not appropriate, enter education or employment
Helsinki (Finland)	November 2015	0.7	1,300 public sector employees	Make material improvements in the occupational well-being and health of public sector employees

LOCATION	LAUNCH DATE	CAPITAL RAISED (\$M)	TARGET POPULATION	GOAL
Haringey, Staffordshire & Tower Hamlets (England)	January 2016	0.6	2,500 job-seekers with severe mental illness (SMI)	Help people with SMI to enter the job market and sustain paid, competitive employment
South Carolina (US)	February 2016	30	3,200 low-income, first-time mothers	Expand the evidence-based Nurse-Family Partnership service to support first-time mothers to have healthy pregnancies and give their babies the best start in life
Denver, CO (US)	February 2016	8.7	250 highly vulnerable homeless individuals	Provide housing and supportive case management to chronically homeless individuals, supporting them to live more stable and fulfilling lives
Israel (nationwide)	March 2016	5.5	2,250 people at risk of developing Type-2 Diabetes	Provide intensive lifestyle interventions to prevent the onset of Type 2 diabetes for pre-diabetics in Israel
Norrköping (Sweden)	May 2016	1.2	60 young people in out of home care	Support young people who have been in care to improve school performance and reduce the risk of further care placements
Netherlands (nationwide)	June 2016	1.4	150 adult short-sentence offenders	Provide holistic support to offenders, who often have multiple complex needs, enabling them to break cycles of reoffending

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