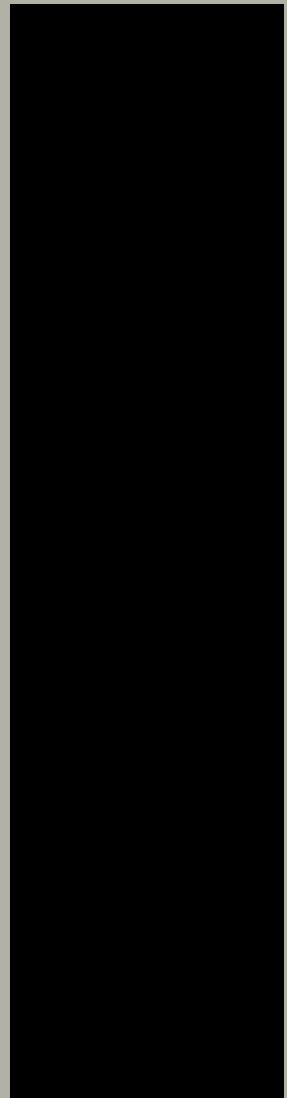




**SOCIAL
FINANCE**

PAST, PRESENT & FUTURE





**Rigour and passion.
Heart and head.
Circle and Square.**

**This combination, this
tension, is at the centre of
the Social Finance soul.**



SOCIAL FINANCE

PAST, PRESENT & FUTURE

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SEEKING TO TRANSFORM



THE PAST DECADE has been one of achievement and evolution for Social Finance. We have developed a compelling approach and a set of techniques and tools to help rethink the ways to tackle entrenched social problems. Our models of social change are based on developing deep partnerships across the voluntary, public and private sectors to address the underlying issues to help change people's lives for the better. We seek transformation that is sustainable, can scale and can harness investment. It is this approach that led to the pioneering Social Impact Bond in Peterborough. There is now a global market with 100+ Impact Bonds in 24 countries raising nearly \$400 million.

Social Finance has built a compelling team of senior leaders with a range of backgrounds representing the constituencies which need to collaborate in driving sustainable change. Our people give the organisation the skills and the confidence that we can shape change at a national

level. We are proud of the role we are playing developing the future leaders of social change. In return we benefit from their exceptional commitment. Social Finance alumni are proud ambassadors in the world of government, foundations, charity leadership and impact investment in the UK and beyond.

Despite exciting progress over the first ten years, our ambition is to show we have succeeded driving impact at scale in specific areas of challenge, such as mental health and employment, domestic abuse, vulnerable children and youth and international development. We are developing projects and partnerships to reach many more people and building new organisations to spur innovation and social change.

Social Finance is as committed as ever to building on the heritage of Social Impact Bonds. We are promoting the wider use of outcome funds and impact bonds as a means to driving effective, scalable and sustainable change in a range of important areas of need. We are also extending the approach taken in Social Impact Bonds – that of deep dive analysis, collaboration, data, measurement and adaptation – to more settings, such as the work of the Care and Wellbeing Fund and the partnerships formed in the Impact Incubator.

The level of international interest in the work of Social Finance suggests that the need for this approach is a global one. We remain at the heart of a vigorous international debate – and a thriving international network – committed to building partnerships and spreading learning and best practice.

This report highlights the breadth and depth of Social Finance's work over the past ten years. It shows that our distinct approach is having impact not only in the UK but across the world. It is an honour for me to chair this exceptional organisation led by David Hutchison and the non-executive board. At a time of strained resources, increasing political instability and growing popular disenchantment, the work of Social Finance is even more important. ●

CHALLENGING THE STATUS QUO

Social Finance exists to find fresh ways to improve the lives of vulnerable people and communities. **Louise Savell** explains.

OVER MANY DECADES, funding from government, social organisations and philanthropists have supported important innovation and progress in tackling social problems. Yet profound issues remain. Social Finance exists to challenge the status quo. It looks at where the system is failing, where costs of failure are high and where there is appetite for change. Its focus is to deliver change that improves people's lives.

Social Finance is a not-for-profit enterprise dedicated to investing time, expertise and resources to develop new models and tools to drive social change. Social Finance works with philanthropic foundations, local authorities national government and investors. It supports and relies on charities, social enterprises and community groups. The UK operation, incubated by Sir Ronald Cohen, David Blood and Bernard Horn, now numbers 70 people. There are sister organisations in the US and Israel, and partners across the world.

Borne out of the conviction that providing social organisations access to investment would spur their growth and increase their impact and sustainability, it became apparent that there were deeper systemic problems in the financing of solutions to social problems. The revenue models and management capacity of many social organisations were too frail to support repayable investment. The funding ▶



"Reconnections," says one Worcestershire beneficiary, "is the best thing that has happened to me socially in years. I have regained my confidence with people."

● CHALLENGING THE STATUS QUO

- model was broken and did not support the work necessary to improve lives and outcomes.

Social Finance has developed a distinctive method to help rethink how society tackles its challenges. It aligns funding with positive social impact. Funders receive assurance that their money is well spent. Above all, beneficiaries are supported in their pursuit of higher quality lives.

Social Finance collates information about the nature of social problems. It applies data-driven analysis to ensure that support reaches those who need it most, in the most effective way possible. It learns from its setbacks. It builds capacity and invests in leadership to ensure that change happens as a result of its work.

Measurement is the one thing that unites the many strands that combine to define a Social Finance approach. It usually uses base-data sources already in the public domain to first identify the nature of a problem. It analyses data to help design effective services. Metrics are used to manage projects effectively on a day to day basis; and then to demonstrate that a project is worthwhile.

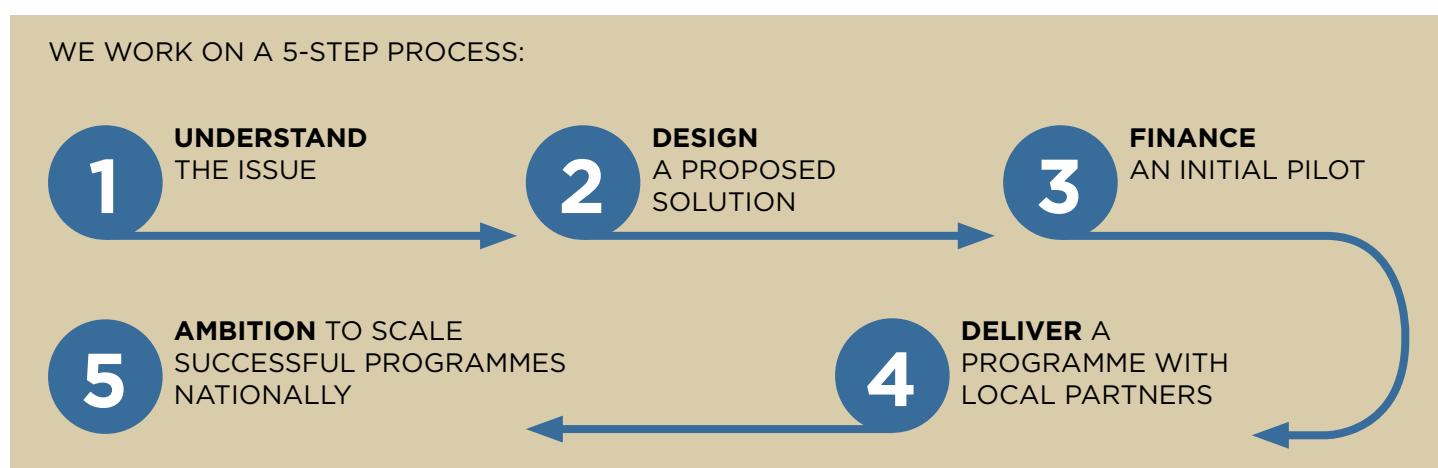
Take Reconnections for example. It helps older people in Worcestershire find activities and friendship, and overcome feelings of loneliness. Research indicates that chronic loneliness is as bad for health as smoking 15 cigarettes a day. Since it began two years ago, 850 people have taken part in the programme, run by Age UK Hereford and Worcestershire and partners. Nearly two-thirds of participants have reported feeling less lonely after six to nine months.



Reconnections is a partnership developed by Social Finance to tackle the growing problem of loneliness among senior citizens.

Across the board, accountability is critical. Users of social finance techniques need robust governance to facilitate the smooth and sustainable movement of capital around the social economy.

Gordon Brown, the UK's former Prime Minister, was an early supporter of Social Finance's work. In August 2017, responding to the way Social Finance helped reduce prisoner reoffending rates in the English city of Peterborough, he wrote: "Big ideas are few and far between. Progress usually occurs incrementally, bit by bit. But sometimes a big idea – even one that starts modestly – can thoroughly transform our view of what is possible. [...] the Peterborough experiment has become the guiding light for hundreds of millions of dollars in investment in social reform." ●



- 2007** Social Finance founded
- 2008-2009** Testing proof of concept, £1m raised from five donors
- 2010** Launch of Peterborough Social Impact Bond
- 2010-2013** £5m support from Big Lottery Fund to build Impact Bond market
- 2011** Social Finance established in the US
- 2012** 10 Social Impact Bonds launched to tackle youth unemployment in UK, 2 to address homelessness in London and the first to support children on the edge of the care system in Essex
- 2013** Social Finance established in Israel. Bilateral and multi-lateral consortium recommend using Impact Bonds to support international development
- 2014** £10m loan note raised by Social Finance for Empower Community to provide solar energy to Sunderland's social housing. Support for Enfield Council to raise £75m to buy homes for local homeless families. Launch of the Impact Incubator
- 2015** £12m Care and Wellbeing Fund set up with Macmillan and Big Society Capital. Bright Futures Fund launched, using the new social investment tax relief. Social Finance Digital Labs starts work
- 2016** Impact Incubator with SafeLives and Respect announce national DRIVE pilot to disrupt domestic abuse
- 2017** Team of 70 people; mobilised over £100m of investment, earned annual income of c.£6 million

2017 Sources of Income



INVESTING IN ABILITY

The Bright Futures Fund uses the social investment tax relief to fund ambitious social entrepreneurs. **Charlie Pushman** reports.

SOCIAL ENTERPRISES are an increasingly important force supporting and delivering high quality public services and social change. They account for nearly 10 percent of all local authority contracting and provide over two million jobs. They need to access growth capital. The Bright Futures Fund is one option.

It adopts a diversified approach to social investment while making full use of substantial tax incentives under the UK Government's new Social Investment Tax Relief scheme. To date, the Bright Futures Fund has raised £1.5 million from more than 40 UK taxpayers. Its ambition is to lend £100,000 – £300,000 to a dozen firms. For investors in the Bright Futures Fund, capital put to work in qualifying enterprises attracts a 30 per cent tax relief under HM Government's Social Investment Tax Relief scheme.

The Bright Futures Fund supports growing social enterprises with low cost medium term finance supplied by UK individuals who can benefit from a tax credit. It made

its first investment in early 2017, into Ability Tec, a Bolton-based Community Interest Company.

Ability Tec has a mission to employ people with disabilities. It provides contract electrical manufacturing services to more than 15 clients. The end products are electrical components, such as taxi-fare meters and ipad chargers.

The refinancing from the Bright Futures Fund has enabled the company to invest in production lines, win new contracts and take on additional staff. Oli Randell, Ability Tec's founder and managing director, said: "With the interest cost savings and additional working capital from the Bright Futures Fund's investment, Ability Tec will be able to hire an Operations Director and additional production staff. This will allow me to focus on managing existing client relationships, finding new clients and building the structure of the business."

Ability Tec has created the equivalent of eight-full time jobs. Some of the employees are pictured below with some of the products in the Bolton-based factory where they work. ●





PAINTING HIS OWN FUTURE

Social Impact Bonds were born in Peterborough and are now growing across the world. **Alisa Helbitz** explains.

SOCIAL FINANCE PIONEERED the world's first Social Impact Bond in 2010. The objective was to reduce reoffending among short-sentenced offenders leaving Peterborough prison. It raised £5 million from trusts and foundations to fund and coordinate the One Service – an umbrella organisation designed to respond to the complex needs of former offenders.

In July 2017, the Ministry of Justice confirmed that, following an independent measurement of performance, the Social Impact Bond was successful. It reduced reoffending by 9 per cent. In the process the trusts and foundations

'Popeye' was one of the 2,000 ex-offenders from Peterborough Prison to benefit from the world's first Social Impact Bond

which invested the initial capital, got their money back and made a modest return on their investment.

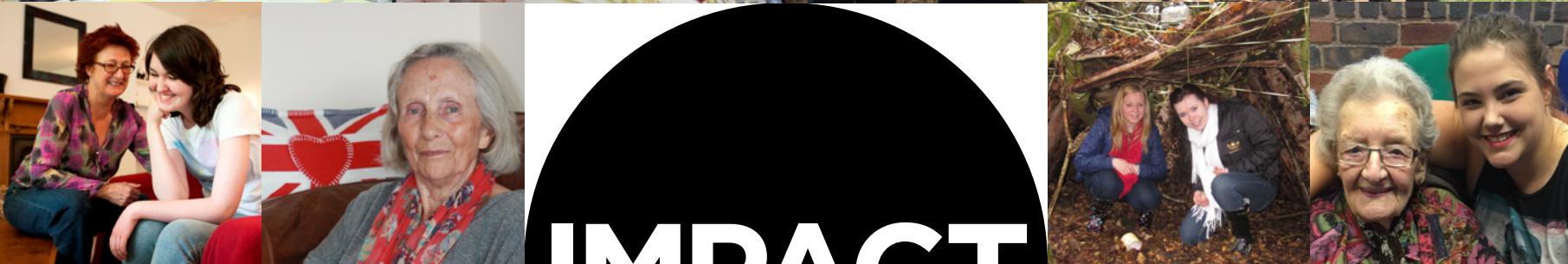
Most of the clients on the Peterborough One Service had reoffended before. For many, spells in custody did not act as a deterrent. Many had acute needs. A high proportion suffered from mental health and substance abuse challenges. Many had housing needs, didn't have access to regular incomes money and were in debt. Many more didn't have the right skills to find employment. In the wake of the Social Impact Bond, each problem was challenged.

The One Service was delivered by St Giles Trust, Ormiston Families, Sova, MIND, TTG Training, YMCA and John Laing Training. It was managed by Social Finance. Over the course of the programme, it became an integral part of the Safer Peterborough Partnership. Staff worked closely with the police, the probation service, the Integrated Offender Management Teams, the prison, the local authority, local statutory providers and the voluntary sector.

Janette Powell, who managed the One Service, said: "This project oozed innovation and it was so exciting to be part of it. The team of staff and volunteers were incredible, as were our local partners, so it is no surprise to find that we had a positive impact. You often hear people talk about multi-agency working but I'd never experienced it quite like this before. The fact that we had seven years, a flexible budget and one outcome, to reduce crime, resonated with agencies across the spectrum and their buy-in was fantastic."

The concept of Social Impact Bonds has captured widespread interest across the globe. There are currently more than 100 Social Impact Bonds across the globe. The bonds have tackled complex social issues such as refugee employment support, loneliness among the elderly, rehousing and reskilling homeless youth, and diabetes prevention.

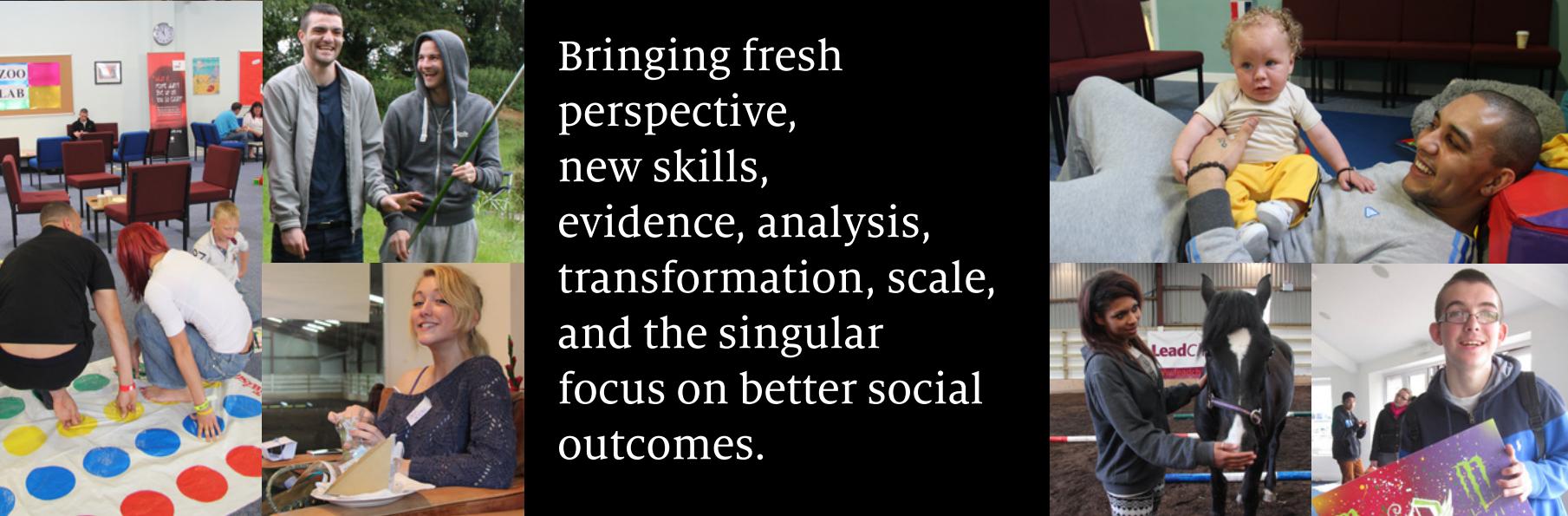
Sir Ronald Cohen, Chairman, Global Steering Group on Impact Investment, said: "It is very gratifying to see the world's first Social Impact Bond do good and do well, helping released prisoners lead better lives and, as a result, paying back investors' capital with a reasonable return and saving the government money. It is the way of the future." ●



IMPACT



Bringing fresh perspective,
new skills,
evidence, analysis,
transformation, scale,
and the singular focus on better social outcomes.



GET IN THE LOOP FOR PROGRESS

The feedback mechanisms used in the social economy are broken, says **Toby Eccles**. Since feedback stimulates service improvements, it is an issue that must be addressed with urgency.

EVERY ECONOMY NEEDS a definition of success. In the private sector it is profit. In the academic economy it is publication in respected journals. Among vloggers it is YouTube views. Definitions are important because they facilitate feedback, and feedback is the one of the most powerful tools to use when searching for progress. Feedback from customers expressed through sales figure helps companies improve the quality or price of products. Feedback from peers helps academics improve their research papers prior to publication. There is feedback from the public who watch your YouTube clips. Or don't.

Each definition of success is an impetus for competition, collaboration, creativity and operational efficiency. Sadly, feedback mechanisms in the social economy are broken. One party pays for a service but another receives it. If the service is poor, or even harmful, how does the person or the institution writing the cheque get to know? They don't and poor services continue.

Many funders in the social economy try to create feedback loops by deploying anecdotal evidence. There are plenty of good stories to tell about how the social sector helps communities. And yes, one individual success is a success in its own right, while individual cases may well typify many others. The problem is that anecdotes may not be typical. Those that tell the great stories are usually great social leaders but they may spend

so much time on administration and fundraising that they are out of touch with the frontline of their organisations.

Procurement processes in the social economy constitute another imperfect form of feedback. Governments want to avoid the risk public money is spent in ways that are corrupt, and are proficient at tracking the use of cash. But are they doing much more than checking receipts? Are they learning?

Both methods – using anecdotes and, or, procurement – leave yawning gaps. They aren't connected to how well the programme is actually doing for the people receiving the support. Reliable evidence about the quality of social programmes is hard to find. The result is that many programmes are ineffective, particularly so if the recipients are voiceless, vulnerable or disconnected from society.

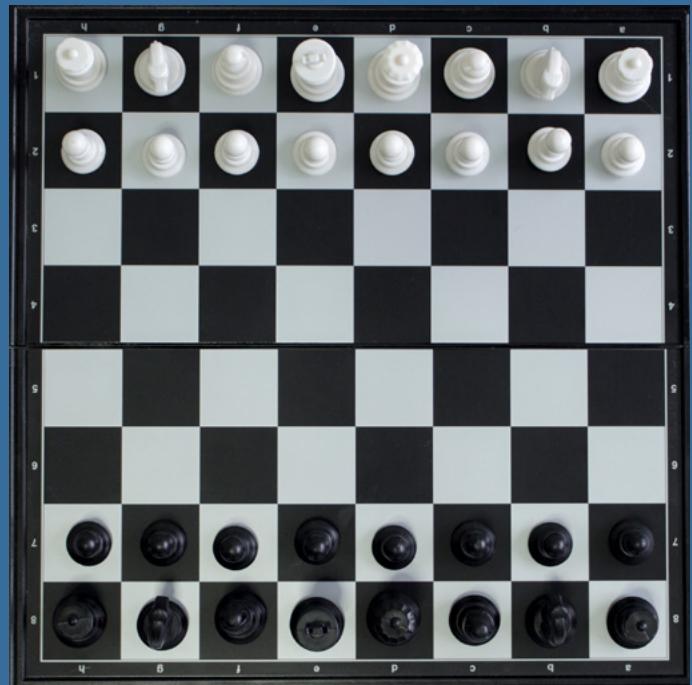
True, social sector participants are starting to tackle the evidence deficit and respond by using randomised control trials. This is a welcome improvement. But RCTs do no more than improve methods that are fundamentally unsatisfactory. Feedback techniques deployed in the social economy, even those accompanied by randomised control trials, work on the assumption that needs and services are fixed over time. But human interactions are very different from whether someone takes the placebo or the drug.

SADLY, FEEDBACK MECHANISMS IN THE SOCIAL ECONOMY ARE BROKEN. ONE PARTY PAYS FOR THE SERVICE BUT ANOTHER RECEIVES IT.



Social Finance is focused on impact.

Social Finance's ambition is to always deliver optimum outcomes when they are accurately directed. Similar to a game of darts, players adapt their approach depending the situations they face. Usually working with limited resources and in races against time, they endeavor to remain as sharp and as flexible as possible



It requires flexibility and deep thought.

Social Finance has clear goals but inevitably, there is complexity and risk in the execution. Chess players appreciate that the rules of the game are less than intuitive but by understanding the strengths and weaknesses of the individual pieces, they can align their actions in a way that will help achieve a better result

- ◀ Happily, there are other ways programmes can be made to create vital information feedback. In the beginning, Social Finance focused on the ‘plumbing’ – designing contracts based on outcomes, measuring results and raising investment to deliver the contracts. Putting outcomes, as opposed to activities, at the heart of the contracting structures allows for innovation and transformation. This remains a central activity. With the passage of time and the benefit of experience, it has become clear that changing contracts and measurement models is not enough. There has to be a new culture of learning and adaptation. As data becomes more readily available, it is possible to improve social provision in light of improved knowledge. It becomes possible to benefit from feedback loops.

Learning and adaptation should be at the centre of managing services. This is particularly true of services for vulnerable people whose needs may vary enormously and can be subject to abrupt changes. Social Finance is therefore combining its ‘plumbing’ expertise with adaptive methods of management and active deployment of data science. Adaptive management finds inspiration in the so-called ‘lean start-up’ movement in the United States. Lean start-up organisations are seen as learning engines, ones that improve and adapt as quickly as possible.

The data science element is more complicated but also more transformational. People are worried about what governments do with data records. They’ve watched Minority Report and a variety of films with men in dark suits knowing far too much about everyone, and they are understandably nervous.

Reality is rather different. Information governance and data protection initiatives mean that knowledge is buried when it can be safely shared. That puts lives at risk. It reduces the effectiveness of services. It leads to money being wasted. In addition, data is fragmented and held in proprietary computer systems that don’t allow comparison or analysis.

Data capture and feedback is becoming cheap and universal. It will become increasingly hard for the social economy to continue to ignore it.

Social Finance is helping to put this right through its Digital Labs arm. It is building analytical tools that synthesise different strands of data to draw an up-to-date picture of needs. It is creating protocols and standards to ensure that the data is being used to improve services. It is exciting

work which fits with its expertise, acting as a translator between complex social problems and the technical expertise needed to solve them.

Social Finance’s mission is to deliver change that is sustainable and scalable. To do so, it needs to change the measures of success in the social economy and thereby establish feedback connections that work to improve services. If successful, Social Finance will create social programmes focused on innovation, creativity and personalisation.

Analyse data. Talk to service users. Make changes. And do it again. Rigour and passion. Heart and head. Circle and Square. This combination, this tension, is at the centre of the Social Finance soul. ●

**FIVE MINUTES WITH...****TOBY ECCLES**

Hello. Hi. I'm Toby, born in Reading, but brought up in Dorset and Southampton.

What do you do at Social Finance? I focus on strategic initiatives. Most recently Development Impact Bonds and Digital Labs, as well as contributing to the senior team.

What about your background? Some corporate finance and some product management in software. Grant-making and working on the Commission on Unclaimed Assets brought me to the social sector. A degree in maths gives me a focus on problem solving and thinking about issues systemically.

What do you do in your free time? I need to remember what free time is! My two daughters take up most of my time and they are enormous fun.

What are you responding to by working at Social Finance? I am very aware of the fortunate start I had in life. I feel a strong sense of anger at the injustice and hardships that millions of people face.

Which word describes your biggest frustration?
Hiding behind process. Sorry not one word.

Define your ambition?
Making what Social Finance does normal.

What is your elevator pitch for Social Finance?
We are a diverse group determined to make life better for vulnerable people across the system. We use rigour and persistence to create change.

UNITED FOR IMPACT

If you want to redraw the social landscape you need to harness the power of partnership. **David Hutchison** reports.

STRONG PARTNERSHIPS unlock huge potential. All of Social Finance's work depends on partners. They are critical participants in the early stage rethinking the way to tackle a social problem. They are at the heart of building supply chains that bring new delivery models to life. They are central to securing investment and funding to sustain change.

Experience of the last decade tells that sustainable change comes with the harnessing of diverse experience and influence. It requires people and institutions with different perspectives to work in different ways and come together.

No single donor, investor or delivery organisation can single-handedly create change, certainly not on the scale needed. Strong partnerships are a hotbed for innovation and the challenge to work differently. They ensure that local experience is properly valued in larger scale movements for change. Transparency – learning from each other and holding each other to account – provides constant pressure to improve and a sustained commitment to mission. With the right governance, they provide a forum for open and honest debate when things aren't working or going to plan.

Partnerships can be challenging. Different parties come with discrete experience and from time to time in-built bi-



ases. Partnership may appear to put organisational identity at risk. Sometimes there are fears that expertise is undervalued. The Social Finance experience is that these uncertainties are best resolved if partners keep a clear and consistent focus on the needs and lives of the people in need of social change.

An example of the value of partnership comes to life in Lambeth. Black Caribbean people make up 7 per cent of the population registered with Lambeth GPs and yet account for 17 per cent of people recorded with serious mental illnesses.



This is not solely a Lambeth phenomenon. Across the UK, black men are 17 times more likely to be diagnosed with a serious mental health illness than their white counterparts. But in Lambeth, following the death of Sean Rigg, the Black Health and Wellbeing Commission was established, led by Lambeth Councillors Ed Davie and Jacqui Dyer. Among other things, it found there were high levels of distrust between the local community and the mental health professionals. There were too few black practitioners in the mental health service and there was a stigma attached to talking about problems and a fear of asking for

Black Thrive smiles: In the UK, black men are 17 times more likely to be diagnosed with a serious mental illness. Lambeth is fighting back.

help. The Social Finance Impact Incubator approached the Commission to help them turn a set of recommendations into something concrete.

Together with the local community and the mental health professionals in the area, it was agreed that the best way to overcome some of the issues driving mental health inequality was to set up a partnership-based, cross-sector approach that would lead to dialogue, engagement and agreed action across the system. Distinct from previous attempts, it recognised community groups and statutory service providers as integral and equal in development, governance and delivering change. Black Thrive was launched last year.

Social Finance was founded on the belief that social organisations would benefit from a partnership with mission aligned investment. It quickly learned that the opportunity lay in recognising that other partners including the public sector are important in this journey. It also recognised that funders, delivery organisations and government often spoke different languages and had different expectations. These, moreover, all too often lay at the root of these dysfunctional relationships.

Social Finance seeks to align interests by defining and delivering to sustainable outcomes in all its projects. While it has not always been easy, the results of the last ten years presents proof that exciting opportunities lie in bringing the best of these worlds together in partnership to tackle problems that have for generations confounded each of them individually.

As it seeks to up-scale its ambitions and impact, Social Finance is aware that it needs to work more closely with the public sector beyond the pilots launched to date. Only government has the resources to reach vulnerable populations across the country. Equally, it can only achieve the best outcomes by working with civil society who have first hand understanding of the challenges. The Social Finance call – as it enters its second decade – is for government to draw confidence from the success of partnership. Huge step changes will come by engaging freely in open working relationships. ●

FROM BARNESLEY TO BROMLEY VIA WEST MERCIA AND EAST LANCS

Charities and social enterprises are the lifeblood of the social economy. By supporting their growth and financial resilience, Social Finance helps to accelerate their impact. **Jonathan Flory** takes up the story.

THROUGH THE ENTERPRISE and investment team, Social Finance supports the growth of charities and social enterprises with over 40 projects to date.

In 2010, Social Finance helped **East Lancs Moneyline** expand lending to financially excluded individuals in Wales. The funding raised over 13,000 affordable loans to housing association residents in South Wales.

It raised £5 million to fund the **One Service** in Peterborough, designed to reduce reoffending. The project was successfully implemented by **St Giles Trust, Ormiston Families, SOVA, MIND, John Laing Training** and TTG.

Social Finance was able to step up its support for the voluntary and enterprise sector with the introduction of grant support from the **Investment and Contract Readiness Fund** in 2012. That was followed by the **Big Potential Fund** in 2014.

WITH A £5 MILLION CAPITAL RAISE,
FIVE LAMPS LOOKS FORWARD TO CONTINUED GROWTH IN SCALE AND IMPACT.
GRAEME ORAN, CEO FIVE LAMPS

In 2012, Social Finance gave support to **Bromley Healthcare** which was considering expansion. It helped the **Social Stock Exchange** structure its first round of funding. Its work helped to raise investment for **Action for Children, Teens & Toddlers** and **Adviza**. All three used Social Impact Bonds to support vulnerable children and youth in Essex, Manchester and Thames Valley.

In 2013, Social Finance helped **Age UK** in Cornwall develop an investment model for its integrated care project. In the following year, Social Finance worked with 16 social organisations including the **Essex Offenders Service, West Mercia Probation Trust, Westminster Drug Project** and **Trailblazers** to support their bids for the **Ministry of Justice's Transforming Rehabilitation programme**.



In 2014, it partnered with **Depaul**, **Local Solutions** and **St Basils** to finance, bid and win Social Impact Bond contracts for homeless 18–25 year olds as part of the **Fair Chance Fund**.

In 2015, Social Finance helped **Achievement for All**, a leading education charity, design sustainability plans, **Salford Health Care** to consolidate local GP practices and **Power to Change** to assess the community business market in the UK. In partnership with **Kin Capital** Social Finance established the **Bright Futures Fund**, the first national investment fund to make full use of newly introduced social investment tax relief. The £1.5 million pilot fund invests in social enterprises with a focus on children, youth and vulnerable communities, and has the ambition to grow the retail social investment market.

In 2016, building on the understanding of the credit union market with **Cornerstone**, **ABCUL** and **Big Society Capital**, Social Finance began working with **Five Lamps**, a community based financial association which is raising up to £5 million for lending to low-income families in the Sheffield region.

Social Finance supported the **Cambridgeshire County Council Multi-Systemic Therapy** team and **London Youth Talent Match** in Croydon. It helped **Generation Community** raise £10 million for solar energy projects in Barnsley. Social Finance partnered with the **National Trust** on sus-



Horse-ing about: Adviza helps young people find new skills (left) while Teens & Toddlers (right) gives teenagers responsibility for young children

tainability schemes for England's urban green spaces, with an ongoing engagement with **Newcastle City Council** to structure a new charitable enterprise for its parks .

Activity levels remained high in 2017 across a range of social enterprises. It explored funding options for **Sheffield City Trust's** sports and leisure facilities, **Bristol Credit Union** and **Leeds Credit Union**. It helped **Save the Children** measure the costs and benefits of its early learning programmes in the UK. It supported **Abbeyfield**, a group of independent care and nursing home providers, to consolidate its financial resources to support future growth. Social Finance assisted **Working Chance**, an employment specialist for female ex-offenders, secure a broader base of funding. It examined financing alternatives for **Impact Initiatives** to expand its housing service for vulnerable women. Social Finance promoted social investment for 20 of the **Porticus Trust** grantees and considered an outcomes based contract for **Teach First**.

Across all of its work, Social Finance seeks to align investment with impact so that social enterprises and charities can grow in a sustainable way. ●

DRIVEN BY RESULTS

Social Finance revolutionised the way money was raised for schemes that aligns social progress with financial gain. Seven years and \$400 million later, **Lisa Barclay** explains how Social Impact Bonds work.

SOCIAL IMPACT BONDS are partnerships that fund and empower social organisations to work with vulnerable groups to deliver defined social outcomes. Investors fund their activities and are rewarded by a public sector entity if, and only if, the outcomes are delivered. It offers a radically new way for the public sector to harness the strength of the social sector and tackle complex social problems.

Social Impact Bonds overcome an aversion to risk that many governments around the world think comes with funding preventative and/or innovative services. By bringing in external investors who are willing to shoulder the risk, Social Impact Bonds give governments license to experiment.

Governments identify the people who need assistance. Governments also define the objectives and how much is paid out if the desired outcomes are achieved. Prescribing outcomes rather than activities, Social Impact Bonds allow social sector organisations to respond and tailor support to individuals in need.

The people benefitting from Social Impact Bond funded interventions have complex needs which often fall into the responsibilities of different agencies. There are high political and financial costs if the challenges are not met.

Established spending practices often have repeated poor or undetermined outcomes. Social Impact Bonds try new approaches, or adapt evidence based programmes in new settings to deliver better results.

Once described by the New York Times as “the hottest new idea in social-service provision (an oxymoron if ever there was one) of the last few years”, the Social Impact Bond model has been used all over the world to fund programmes and social sector organisations tackling homelessness, reoffending, drug recovery, domestic violence, unemployment, loneliness and family breakdown.

Some of the early programmes have already delivered results. Social Impact Bonds have improved children’s attendance and performance at school, children are staying safely at home with their families instead of entering the





Action for Children counsellors provide Multi-Systemic Therapy to adolescents on the Edge of Care in Essex

care system, homeless youth are finding long-term accommodation and employment or training and fewer offenders are going back into prison. Social Impact Bonds don't always work. The Rikers Island Jail programme in the United States, for example, was discontinued in 2015. Yet that serves also to illustrate the inherent uncertainty in meeting the challenges of working with complex needs. The structure ensures that governments do not pay if results are not achieved.

Opinions divide between those who believe in the power of outcome focused schemes and those who wish government would simply do a better job of designing, adapting and delivering support for people with complex needs. What matters is that the social and public sectors continue to strive to find the best way to harness scarce resources to tackle increasing challenges.

While that debate rages, however, countries continue to launch new Social Impact Bonds. Social Impact Bonds and other outcomes based contracts could well become a permanent feature on the social services scene. They are no panacea, but governments and delivery organisations may well benefit from the principles of partnership, flexibility and measurement of social service delivery. ●

CASE STUDY

TAKING GREAT CARE IN ESSEX

There are over 72,000 looked-after children in England. The cost is an estimated £2.5 billion each year. The established care system works for many children but for many more the experience leads to severe difficulties in adult life.

In 2010, Social Finance started working with Essex County Council to look at its growing population of looked-after children. There were 1,600 children in the system – an increase of 28 percent over the previous five years. The 11-16 age group was particularly challenging. Often triggered at adolescence, there was aggression, antisocial behaviour and family breakdown. Once in care, they were likely to spend more than 80 percent of the remaining childhoods in care. Education and offending outcomes were usually poor.

Social Finance designed a Social Impact Bond to provide intensive family support. Eight investors provided £3.1 million over five and a half years. Action for Children deliver a series of five-month family interventions called Multi-Systemic Therapy. Counsellors deliver family therapy to the homes of 380 children. They equip families to manage future crisis situations, improve parenting skills and build positive relationships within the family and in the wider community.

The Essex Social Impact Bond began operations in 2013. By October 2017, 330 adolescents had begun or completed Multi-Systemic Therapy with 88 percent avoiding care and remaining with their families. Progress is being tracked over 30 months. Outcomes payments have been made to the Social Impact Bond holding company and are being recycled to pay for ongoing service delivery.

If you *really*
want to change
the world, don't
expect it to be
straightforward.





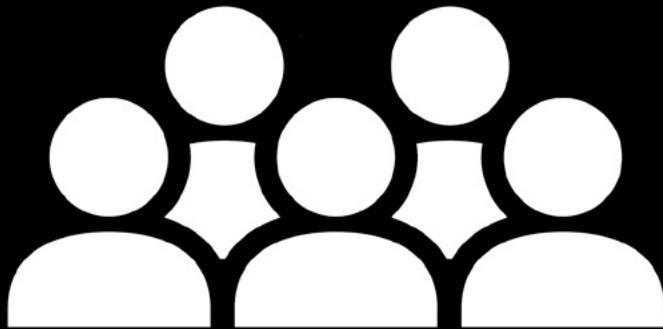


'safer, stronger, families'

'better outcomes for youth'

THERE ARE NO SHORT CUTS TO SOCIAL CHANGE

Social Finance has plans to scale its impact in a way that is integrated into efforts to address the wider determinants of social and economic wellbeing, says **Ben Jupp**.



'cohesive communities'



SOCIAL CHALLENGES seem as engrained as ever. The opportunities available to those born into poverty still lag far behind those inheriting privilege. Labour markets remain divided. Health and care services are almost certainly more stretched. Housing insecurity is up.

While Social Finance concentrates its efforts on better services for vulnerable groups, it must reflect that service redesign cannot tackle social challenges alone. There are broader forces reshaping the UK and international economies and societies.

The question is how to integrate better services into efforts to address the wider determinants of social and economic wellbeing. Solutions to social challenges require a tricky combination of creativity and practical delivery, local action and wider changes to reshape the economy and society.

There is no short cut to achieving this combination. Anyone offering a simple so-

'Improved population health and wellbeing'

lution has not been living and breathing the difficult path of social change.

There are, however, grounds for hope. There is scope to better bring together the skills and experience of people from a range of backgrounds to understand, redevelop and scale responses to social needs; and scope to establish alliances between users, practitioners, campaigners and policy makers to address the structural causes of so many specific problems. There are particular grounds for hope if change is embedded in the communities and individual lives which most need support.

The integration of health and employment support is a good example. A combination of a long-term health condition or disability and being out of the labour market is often incredibly damaging for individuals and society as a whole. It affects 3.7 million people. The costs to government alone exceed £50 billion a year. Yet it has become clear that inspired clinicians, community-based organisations and patients themselves have already developed responses which are far more effective than traditional employment programmes. Likewise, it is social entrepreneurs who are de-

**THERE ARE BROADER
FORCES RESHAPING
THE UK AND
INTERNATIONAL
ECONOMIES AND
SOCIETIES**

TRUST IN BETTER PUBLIC SERVICES

The UK has been on a slow path to recovery since 2008, burdened by high debt, rising inequality and an ageing population. It is no surprise that public trust is at an all time low. Given this state of affairs, there is growing public support for decisions affecting local services to be taken at local level.

Local government has responded relatively well to austerity. Spurred on by deep cuts, many have sought to transform the way they work, becoming more entrepreneurial and inclusive. Reforms introduced by the 2011 Localism Act have given that process oxygen. Some authorities now have much greater confidence to step into the vacuum and lead where central government has rolled back its influence.

Plymouth is a great example. Through collaborative local leadership and shared accountability the NHS, several local authorities and the police have pooled their budgets. They now jointly plan how to prioritise spending to meet local needs most effectively, and align what they do with local voluntary organisations and charities.

This vision of bottom-up, self-empowered and outcome focused partnerships built on shared evidence and social values offers a remedy for the lack of trust in top-down, impersonal bureaucracy and national politics. Ultimately it is trust which is key to successful impact partnerships. How to build and nurture trust and support more collaborative forms of leadership will be the biggest challenge over the next decade if the country wants to address complex needs and rising demands.

Robert Pollock

- developing better approaches to addressing loneliness – one of the greatest influences on people's health and wellbeing – blending formal and informal sources of care.

Given the scale of the challenges facing society today, Social Finance's first task is to understand better how these models can be replicated far more widely. It is incredibly hard. Much social innovation fails to spread. Or is lost in translation.

Access to investment is part of the response to the need to replicate and scale - but only part. New combinations of skills and insight are needed alongside any investment.

Where there are early indications of success at replication, it is because the services have kept very close to the needs and experience of those using them whilst also drawing in new combinations of practitioners. Social Finance's work around health and employment, for example, is steered by a small group of clinicians, investors, analysts and operational managers, including those who have experienced mental ill-health themselves. It is starting to have national reach.

But even the largest service operates in a wider environment. Better integrated health and employment support services, for instance, will never be sufficient if labour market inequality means that once in work many people remain in poverty. Specific support to help the chronically lonely reconnect will never be able to compensate for the thinning of the threads of the UK's social fabric around which mutual support and friendships are woven.

Even if Social Finance meets all its ambitions for 2020, the lives of vulnerable individuals and communities will only markedly improve if the wider tide of social, economic and environment change is flowing in a way which helps them thrive.

Social Finance's second task is to ensure its work informs broader policy developments. Whilst the skills redesigning or running a specific service, even at scale, can be quite different from policy development, there are still contributions to be made.

Good government policy at local and national level must always start with a clear articulation and understanding of the problems which people face. The barriers to individuals and communities thriving. The potential stifled. Whether it is helping young people leaving care in the UK or employment in developing countries, there must be room to appreciate and express the wider challenges they face, give



Mental Health and Employment strategic seminar in November 2016 supporting the growth of Individual Placement and Support services in the UK

them a voice and make a common cause with those leading campaigns for fairness and justice. Social Finance and its partners can play an important role in building this appreciation.

Further, as specific services are incubated, they could become exemplars of a new relationship between individuals and communities. Woven through specific services should be a recognition of the interdependencies between people's different needs and their environments. This doesn't mean that schools should become experts in healthcare, or the criminal justice system in employment. But it does mean that services and support understand the connections between the lives of individuals and local places. People should not get a great specific education, employment or care service, without gaining a greater sense of confidence, belonging and worth. Service providers should be given incentives to not only deliver better outcomes, but to become better organisational citizens – in the way they employ people, work with others and contribute to the common good.

One of the joys of working at Social Finance is to engage with such a wide variety of partners. As it seeks to have impact at a greater scale these partnerships need to become even broader, but hopefully even more fulfilling. ●

TOWARDS 2020

Social Finance has developed a series of initiatives it wishes to scale over the next decade:

- 1. Drive** addressing the behaviour of perpetrators to help victims of domestic violence.
- 2. Leaving Well Hub** creating a digital tool for young people to leave care successfully.
- 3. Reset** coordinating community action to assist refugee integration.
- 4. Black Thrive** supporting mental health equality.
- 5. Place-Based Transformations programmes** such as the Newcastle Strategic Partnership.
- 6. Youth Outcomes Fund** partnering with government to help young people not in education, employment or training.
- 7. Skills Training Development Impact Bond** equipping young people with skills in developing countries.
- 8. Edge of Care** creating regional clusters to scale support for young people on the edge of care.
- 9. Parks Enterprise** working with National Trust and stewards of public parks to develop sustainable management programmes.
- 19. Affordable Credit** supporting community development institutions to extend responsible credit to households.
- 11. Kangaroo Mother Care Development Impact Bond** improving outcomes for low birthweight babies and their mothers in sub-Saharan Africa.
- 12. Local Health Integrator** advising Accountable Care Organisations.
- 13. Health and Employment Partnerships** expanding Individual Placement Support schemes.
- 14. End of Life Care Incubator** supporting people who'd prefer to die at home.
- 15. Outcomes Funds** pooling thematic funds to accelerate innovation and meet sustainable development goals in employment, education, nutrition, health and sanitation.
- 16. Social Finance Global Network** amplifying impact with partners across the world.

A RADICAL AGENDA



win-win outcomes – where owners of capital get a reasonable return, and developing countries maximise sustainable investments. There's never been a better time to find those win-win solutions".

Social Finance sits at the heart of this search for win-win solutions. This is no starry eyed endeavour but a mission built on the rigorous analysis of data, on fresh insight, on building innovative partnerships and a commitment to 'doing delivery differently' as a way to drive better social outcomes.

That huge social progress has been made in recent decades across the developing world is not in doubt. Huge social challenges remain, however. There are still too many people whose life chances remain stalled or, even worse, in reverse. For these groups, the barriers to progress are complex and multifaceted.

Understanding these barriers and finding new ways to overcome them is at the core of what Social Finance does. With the evidence at hand, the approach relies on bringing new and old partners together to create new coalitions to make change happen on the ground, and – where relevant – bring in long term social investment to maximise innovation and impact.

This is not business as usual in the aid industry. It is a radical agenda to change the way service delivery, particularly for the most vulnerable, is designed, delivered and sustained.

Usefully, much of what Social Finance has learned through its work in the UK has resonance. A challenge in the international development sphere is, paradoxically, not

THE NEED TO TRANSFORM how we invest in and achieve social outcomes has come of age in international development. As Jim Kim, President of the World Bank said recently in a speech at LSE in London, "We believe that everyone in the development community should be an honest broker who helps find win-

resource constraints, but how to programme very large aid budgets using limited administrative resources. Getting money 'out of the door' becomes a priority for staff – and leads to too much aid being allocated against activities and inputs. This makes the accounting and reporting easier, but makes it harder to link funding to actual results. Social Finance's emphasis on outcomes -- realisable in practice through instruments such as impact bonds – is highly relevant here.

Social Finance should be tremendously proud for having pioneered 'Development Impact Bonds' in the aid sector. As a tool to orient everyone's efforts on improving outcomes – not least through allocating risk to those parties who wish to take it, and through creating room to learn, adapt and iterate during programme implementation – the impact bond approach retains its power.

Notwithstanding Jim Kim's optimism about 'this being the time for win-win solutions', taking Social Finance's mission to the international development community has had its challenges. Aid bureaucracies are complex and local political dynamics can be challenging to navigate. Data is often scarce and the market for investible capital remains fragmented. At the same time it is an incredibly fertile environment for innovation and informed risk taking. The learning curve may be steep but the rewards are clear and evident.

As a Board member I am endlessly impressed with the quality and tenacity of the Social Finance team. Their capacity for original thinking is exceptional as is their ambition to find delivery solutions that can be sustained and work at scale. All of this is mixed with huge doses of realism and humility, fuelled by a clear sense that Social Finance can be a powerful catalyst for change, but not ultimately the producer of that change – the very definition of an honest broker. ●

FAR AND WIDE

Jane Newman discovered a global network of partners making impact investment a reality.

IT'S BEEN SAID THAT to grow an impact investment market, you shouldn't start with an unknown instrument: start with what people know. But the opposite has proven to be true with Social Impact Bonds. It was evident as soon as the first impact bond launched that the ideas behind it resonated well beyond the UK. Now, there is a global movement.

Social Finance's international market development work remains anchored in what it is best known for, outcomes based social investment, such as impact bonds, and the market infrastructure that sits alongside, such as outcomes funds, knowledge sharing and community building.

Its aim is to broaden and amplify impact by working with, and through, intermediary and government partners. This work focuses on developed and middle income countries, supporting partners' endeavours to develop and launch impact bonds and condition the local market to be ready for them. The intensive, capacity building work sows the seeds of an approach to impact that our partners will nurture and grow.

Portugal is a good example of this approach. Social Finance is working in close partnership with the Calouste Gulbenkian Foundation and the Laboratório de Investimento Social. Starting with support to launch the Lab, then moving on to building together the market infrastructure through the Portuguese Social Investment Taskforce. More recently, Social Finance helped the Lab put transactions together, such as the first Impact Bond pilot in Lisbon.

Portugal is but one example. 24 countries have now adopted the techniques of Impact Bonds. While each country has its own priorities and tapestry of social problems and challenges, there are social issues which are common to many economies. Youth unem-

ployment and skills development is one of the most prevalent. Increasingly pressing are health-related issues, such as type 2 diabetes, and in many developed countries, the demographic challenge of an aging population.

In a world of such challenges, the approach of aligning investment with social outcomes continues to resonate. This makes instruments like Social Impact Bonds potentially very powerful indeed.

Developing an impact bond involves an intensive dialogue – between intermediaries, the public sector, social delivery organisations, investors and others. Along the way, all involved find themselves challenged, sometimes uncomfortably, to throw away preconceptions and look differently at how problems can be tackled. The collaboration involves thinking deeply – about the problem, how to intervene, and what good, measureable outcomes look like – building strong bonds and a sense of community among those involved.

Through this collaboration, a global network of experts has emerged: all have followed similar processes and struggled with similar problems – quality of data, how to procure, how to balance risk and impact. Sharing solutions now becomes the norm.

THERE IS A GROWING NETWORK THAT HAS PUT IN THE HARD YARDS TO MAKE IMPACT INVESTMENT A REALITY

There is a growing network of intermediaries and partners who have put in the hard yards to make impact investment a reality. As the movement looks to the next decade, with tools that are in place and increasingly understood, attention and effort must turn to how they can be brought to scale. Social problems are too pressing and global challenges such as climate change and migration too great, for the network not to use all the resource and impact tools at its disposal. ●

MAKING AID WORK HARDER

Rob Mills looks at how results based financing can effectively tackle social challenges in international development.

THE SCOPE OF SOCIAL FINANCE stretches across sub-Saharan Africa, South and South-East Asia, Latin America, North Africa and the Middle East. Clients include the largest donors – the World Bank, DFID, USAID, Grand Challenges Canada and the Global Fund among them – as well as international NGOs, smaller foundations and investors.

Working in international development is quite a different undertaking from work in the UK. There are the obvious differences: significant disparities in resilience, wealth, governance, and social, economic and physical infrastructure. There is a big difference between developed and developing countries in terms of the role of government. A more subtle variable, but a critical one, is the role of the international development agencies.

Despite the differences, the ideas that underpin the approach in the UK resonate in the international development arena. Many of the insights that Social Finance introduced in the UK and the US, such as 'pay for success', have been used for many years in international development. So its work is not a simple "drag and drop". It is a more nuanced engagement that builds on many years of insights in the international aid community about how to improve the efficiency and efficacy of aid.

In the context of the global Sustainable Development Goals, it is vital that aid, which is mostly taxpayer's money, delivers real and enduring results on the ground. ▶





Low birth weight and prematurity are the leading causes of infant mortality globally. The challenge is particularly severe in Cameroon. Almost 50,000 babies die each year. Over half die in the first month of their life. Social Finance is working with Cameroonian and Canadian partners to increase access to Kangaroo Mother Care – an effective neonatal intervention – using a Development Impact Bond. The intervention uses the mother as a source of warmth and nutrition for the child.

● ■ MAKING AID WORK HARDER

- Not just schools built and teachers paid, but tangible and measurable improvements for pupils that will transform their life chances. Not just the construction of expensive water and sanitation projects, but facilities that are used and valued by local communities leading to lasting improvements in health and wellbeing. For Social Finance, it is important that this is done well: maximising bang for the aid buck, shifting risk to those who are keen to take it, reducing the bureaucratic focus on inputs and processes.

The Development Impact Bond for maternal and new born health in Cameroon vividly illustrates this approach and potential impact. Out of every 1,000 babies that are born in Cameroon, 60 will die before reaching the age of one. Cameroon registers over 800,000 deliveries yearly. So almost 50,000 babies are lost every year. That's a lot. That's unacceptable.

Of all the babies that die before the age of one, half die in the first month of life. The leading cause of neonatal death is low birth weight and prematurity. This means that an intervention must take place within the first 28 days. The focus needs to be on the most vulnerable infants – preterm and low birth weight babies.

There is a way to help low birth weight and premature babies survive and thrive in their first month of life. It is a method that is both affordable and cost-effective. The method is Kangaroo Mother Care. Here the mother becomes the source of warmth, nutrition and stimulation for the child. Exclusive breastfeeding is another important component of the care the baby receives during this period. The funds for the programme come with accountability. Investors, providers and outcomes funders must invest in providing the right infrastructure, equipment and health staff training to deliver high quality KMC and improved health outcomes for newborns.

The world is complex and the needs in development economies run deep. There is youth unemployment, ill-health, under-education and the demographic opportunity of young populations. Vital infrastructure in water, sanitation and energy is often lacking. Private sector activity is often limited, informal and low-productivity.

Social Finance cannot possibly hope to tackle all these issues at once. But it makes a convincing case that it can make a contribution to these challenges by pioneering new ways to engage and new approaches to funding. ●



The Partnership Schools for Liberia programme aims to improve educational attainment in Liberian schools. Social Finance is supporting the Liberian government to bring free, quality education to Liberian children through a ‘marketplace’ of government regulated, high-performing school operators.



A LETTER FROM AMERICA

Happy birthday big sister! You have inspired us across the pond with work that has become a global movement. **Tracy Palandjian**, CEO of Social Finance US, writes a letter from America.

Dear Social Finance UK,

Congratulations on turning 10! This milestone is, for any organization, no small feat. We must say you've grown with grace and purpose, evolving from a handful of dreamers with a hunch that the capital markets could help solve some of society's most pressing challenges into one of the world's leading agents of social change.





► In 2010, you put Social Impact Bonds on the map with the Peterborough experiment. You inspired us across the pond to put the vision – of linking mainstream capital markets to solutions for our most critical social issues – to work.

We launched Social Finance US in 2011. Since then, 20 Pay for Success projects (as we call them in the US) have launched across America. Collectively, they mobilize more than \$200 million to address issues like recidivism, maternal-child health, education and job readiness. As it has in the UK, the Pay for Success tool receives support in the US from across the ideological spectrum – a truly extraordinary accomplishment in an acutely divided political atmosphere.

Like any family, the US and UK siblings have our differences. Unique social, economic and political contexts in our countries require adaptation as we seek to put this model into action. Philanthropic capital plays a bigger role in the US market, for example. We also take different approaches to evidence

WE LAUNCHED SOCIAL FINANCE US IN 2011. SINCE THEN, 20 PAY FOR SUCCESS PROJECTS WITH \$200 MILLION OF INVESTMENT, HAVE LAUNCHED ACROSS AMERICA.



Massachusetts Pathways: A next generation Pay for Success Project that aims to improve the lives of 2,000 immigrants and refugees in Greater Boston represents an evolving approach

and evaluation methodologies. And in the US, we have just begun to explore the potential of outcomes rate cards.

At the end of the day, though, we're more alike than we are different. Here and in the UK, the tool is linking mainstream capital markets to solutions for critical social and environmental challenges. In each of our countries it is addressing both the fiscal austerity that causes our respective governments to spend less on preventative solutions and the inefficiency that can emerge when governments rely on gut instinct rather than data and evidence.

This tool sits at the center of our core values – both American and British – of opportunity, hard work, and innovation as we each work to further blur the lines between the public, private, and social sectors.

It is more than just one tool. It is an approach that embodies the principle that economic value and financial returns can be created in a way that also generates value for society.



Insights from Pay for Success inform all of our work. We recognize the value of focusing on and managing to outcomes, of measuring impact, and of collaborating across sectors. We are now engaging providers, philanthropy, civic leaders, government and communities to drive evidence-based, outcomes-oriented, data-driven initiatives at scale.

On this, your 10th birthday, we salute you, for introducing an approach that holds the potential to help alleviate human suffering. What was once a simple, elegant idea is now a vital global movement that is growing against a backdrop of rising social inequality and government fiscal austerity. The work we do – that you've been doing for a decade now – is hard but crucial. Our core principles are gaining traction among governments and social leaders because they work.

We have made much progress together, but we remain restless. Our work is only just beginning. We see a future in which: governments base funding decisions on—and pay for—positive social outcomes; impact investors look to social outcomes as the main determinant of where to put their money; mainstream public finance markets increasingly reward non-financial performance; high-performing nonprofits access sustainable funding that rewards performance.

We may have an ocean between us, but these aspirations are part of a shared future -- a future in which all sectors work together to measurably improve the lives of those in need. Together, we've absolutely built something special. Here's to a future that is bigger, bolder, and exponentially more impactful.

Happy birthday, big sister!

CASE STUDY

MASSACHUSETTS PATHWAYS TO ECONOMIC ADVANCEMENT

In June 2017, Jewish Vocational Service (JVS) and Social Finance launched the Massachusetts Pathways to Economic Advancement Pay for Success project. The \$12.43 million initiative seeks to help 2,000 immigrants and refugees in Greater Boston move up the economic ladder through vocational English classes, integrated with job search assistance and coaching.

This initiative is the first globally to focus exclusively on workforce development for immigrants and refugees. It is also the 17th PFS project in the US.

Uniquely, it focuses on increased earnings for the Commonwealth of Massachusetts, and the associated social value from employing adult learners and helping them transition into higher education. It shows that projects can capture the value of future revenue generation.

JVS programs are customized to client needs, to ensure that those who seek services are able to fully engage in a program.

This project is the second time in the US that a PFS project was structured as an equity offering, providing broad distribution through existing mainstream capital markets. This allowed individuals to invest directly in the project, alongside institutional investors new to Pay for Success like Prudential Financial and Maycomb Capital.

START ME UP

Social Finance Israel is the country's most prominent socio-financial intermediary, says **Yaron Neudorfer**.



establish best practices in the day-to-day management of impact investments

So what does Social Finance Israel do?

Social Finance Israel is the first and the most prominent social-financial intermediary in Israel. It is a leader developing the sector of impact investment at the intermediary, product and investor levels. We are structured to operate along three avenues. First, Social Impact Bonds. We conduct feasibility studies that push policy changes and work with non-governmental organisations on achieving investment readiness. Second, advocacy. We are working with regulators to develop the sector. We are helping to establish wholesalers for impact investment, tax incentives and general market education. Third, advisory. We help new actors that want to enter the field such as private equity funds, philanthropic foundations, NGOs and others.

What about 'social finance' as a wider movement?

The primary goal is impact investing, aiming to mobilize private capital to achieve social objectives. Social finance is a movement towards social innovation. It develops financial tools while designing interventions that effectively tackle the world's most pressing social issues. Social finance represents a paradigm shift that is currently taking place. Investors are increasingly seeking investment

Hi. What is your definition of Social Finance?

Social Finance is a creator of investment markets that serve society while satisfying the principles of private capital. It is a global leader in designing and launching impact investment opportunities and aims to

opportunities that have a social purpose and positive benefits, while governments seek to develop partnerships that promote innovation and efficacy of social services.

Can you give an outline description of the economic, social and political backdrop?

The Israeli economy is considered to be strong with relatively high growth, low unemployment rates and the highest number of engineers per capita anywhere in the world. Yet also Israel faces mounting challenges, such as increasing socioeconomic disparities and low rates of labour force participation among minority populations, groups that account for nearly 35 percent of the country's population such as Ultra-Orthodox Jews and Israeli Arabs. There is an understanding that the social services delivered by the public sector (either directly or by funding) struggle to yield the desired results. Unfortunately, this has often resulted in more rigid supervision rather than a shift to outcomes-driven programs. There is also an understanding that philanthropy is limited in its ability to combat growing social challenges. An increase in demand for social services has led to public pressure for the government to be more active on social issues.

What are the strengths in the Israel team?

The big secret to our success is the amazing team of professionals that come every morning energized to deliver more high quality interventions in their respective fields. Our team comes from the worlds of social organisations, consulting and investment banking. The interpersonal skills are great, allowing them to develop innovative approaches and communicate effectively with people that are used to the traditions of both the social and financial sectors.

What are the most pressing social challenges that the Social Finance Israel wants to address?

The primary social challenges we are currently addressing are: providing accessibility to education for underprivileged populations; healthcare issues with a focus on prevention; and encouraging labour force integration as a means of lifting underprivileged populations out of poverty. We see ourselves as the leader of an emerging impact investing sector in Israel, and as such, we are placing great emphasis on establishing the supporting ecosystem.

What are the key frustrations?

One of our main challenges is to improve the development process and make it more efficient. Like other places around the world, the public sector in Israel is considered to be rather conservative and bureaucracy takes its time. Data collection can also be a source of frustration. Often we find ourselves struggling for data either because data infrastructures are inadequate or due to bureaucratic obstacles.

Are there things that make operating in Israel markedly different to say, the US or Europe?

Israel is the start up economy. The market is relatively small and the local impact investment sector is very young. But Israel is a great opportunity. We work to create best practices, financial tools and approaches that can serve other markets. The potential to scale, in our eyes, is not just local but also global. Furthermore, we aim to bring in investors not only from Israel but from other markets as well, so we can expose them to what we do.

And finally, how about you? Your background?

I was born in Tel Aviv, Israel, I earned my BA in accounting and economics at Hebrew University in Jerusalem, and my MPA at the Harvard Kennedy School of Government. I served for 12 years in the Israeli Ministry of Finance, and my last position was in New York City, where I administered the borrowing program of the Government of Israel. After my time with the Ministry of Finance, I served as CFO of the Jewish Agency, the largest non-profit in the country. ●

CASE STUDY

DIABETES SOCIAL IMPACT BOND BUILDS ON TECHNOLOGY

SOCIAL FINANCE ISRAEL issued the world's first Social Impact Bond to tackle type 2 diabetes. It coordinated, launched and operates a disease prevention program serving individuals at high risk. In the early stages of designing the intervention program, it became clear that technology would play an important role in ensuring success.

SFI is using technology to measure outcomes and monitor operations. It also acts as an integral tool of the intervention - to increase participant compliance and provide motivation for effective behavioral change.

The program's custom made mobile app serves two main purposes. First, it aids in the transfer of information (e.g. session participation), and recording of patient data (physical activity, weight etc.). Second, the app provides a means of communication between the participants and case managers. Furthermore, a fitness tracker is being incorporated in the intervention plan to log participants' physical activity according to their tailored plan. Case managers and personal trainers review the data to monitor participant progress and make the necessary adjustments.

Although technology is important, it is no substitute for interpersonal interactions, such as meetings with nutritionists, personal trainers and group sessions. By integrating the technological and interactive components, SFI can enhance participation and maximize the efficacy of the diabetes prevention program.

WE'RE ALL PART OF THE ANSWER

Emily Bolton set up the Impact Incubator, the Social Finance collaboration that looks for new ways of tackling entrenched problems.

THE IMPACT INCUBATOR is an ambitious partnership between Social Finance and leading philanthropic foundations. It works to develop systemic responses to difficult issues that so often elude tried and tested methods. To date, its partners have included the Big Lottery Fund, City Bridge Trust, Comic Relief, Esmée Fairbairn Foundation, LankellyChase, Paul Hamlyn Foundation, the Treebeard Trust and the Tudor Trust.

The Impact Incubator was set up in 2014. Unlike a commercial incubator model, it is not about creating and nurturing new organisations. Instead, the Impact Incubator is about driving transformative social change that is beyond any one organisation. Over the last three years, the Impact Incubator has worked with a diverse range of partners to explore new ways of tackling difficult social challenges. It starts with no agenda and looks to understand the problem. It is open to any models that could affect change and seeks long term approaches with the potential to be effective at a national scale.

The first four issues it has worked on are perpetrators of domestic abuse; black mental health inequalities; refugee integration; and young people leaving care. These are diverse issues with different underlying causes. With each issue the Impact Incubator has built strong partnerships with experts to develop, launch and mobilise fresh responses. The Drive pilot tackles domestic abuse. Black Thrive is responding to black mental health issues. Reset is a collaboration mobilising to support communities to resettle refugees. Leaving Well is dedicated to supporting young people leaving care.

The team has learnt a lot over the past three years and has been lucky to work with some inspiring partners. Working

to address social challenges is often overwhelming. It can be tempting to seek out simplicity. Instinctively, society looks for a single leader or organisation as the route to change and creates a linear relationship between issue and solution. In Social Finance's experience, there is rarely an easy fix. Addressing social problems is not straightforward and imagining that there is a silver bullet in the form of an individual, organisation or intervention creates fault lines in how society tackles social problems. If an issue has existed for decades it is rarely within the province of one organisation to fix it and often the answer lies beyond any one sector.





The Drive pilot is an illustration of the collaborative approach taken by the Impact Incubator. It shows how different systems can work together to tackle the root causes of domestic abuse. In order to stop the abuse, it is essential to address the behaviour of the perpetrator alongside ensuring the victim is supported. The public narrative must shift from “why doesn’t she leave?”” to “why doesn’t he stop?””

The Impact Incubator brought together the leading experts tackling domestic violence to create a shared ambition and identify barriers to change. It formed a partnership with Respect and SafeLives to develop Drive. Alongside this, Drive’s development partners included the Police and Crime Commissioners, local authorities, leading foundations, support services, the voluntary sector, the police, the local prisons and children’s services.

Community Sponsorship schemes provide the opportunity for communities to play an active role in helping refugees settle in the UK

This approach has led to a model which is based on the knowledge and expertise in each sector. Drive is now operating in three areas, Essex, South Wales and Sussex. It is supported by a blend of philanthropic, local and central government funding. Drive works closely with support services to ensure that the victims are safe. It engages with agencies such as the police or children services to gather information and understand the levers that can be used to change behaviours. It liaises with services such as drug and alcohol charities to ensure that positive outcomes are supported ►

- during the intervention and afterwards. As such, it is a broad local response to tackle domestic abuse.

Drive only came into being due to the commitment, vision and expertise of a diverse group of people. This was not collaboration for collaboration's sake. It was about building relationships around an agreed understanding of the issue and using all the resources within the system to develop the most effective response.

Through the process of developing models like Drive, the Impact Incubator has learned that collaboration is a powerful route to change. Tackling complex issues is usually beyond the ability of any single stakeholder. The solution relies on bringing people together but that does not mean parties need to compromise on the outcomes.

As long as there is a clear shared ambition and vision, bringing partners together who would never normally consider working together becomes easier and very productive.

This collective approach has given the Impact Incubator team real optimism that together can it improve outcomes in some of society's most difficult issues. ●

FIVE MINUTES WITH EMILY BOLTON



Hello. Hi. I am Emily and I work at Social Finance.

What do you do? I head the Impact Incubator, a collaboration between Social Finance and charitable foundations.

What do you do in your free time? I have a fabulous family – a great husband and two hilarious children who I love being with. I also love to paint but don't do it as much as I would like to.

What is your background? I was initially a strategy consultant and went to business school in the US. I worked in San Francisco for a venture philanthropy fund supporting people with multiple barriers to employment back into work. I have spent the last 15 years learning from a range of models that have been designed to deliver change at scale. I try to combine a genuine understanding of where people are with new tools from business and finance that can create sustainable models of change.

What are you responding to by working at Social Finance? Social injustice

Choose one word that describes your biggest frustration. Apathy

Define your ambition in one word. Transformation.

Give us your elevator pitch for Social Finance. Social Finance reimagines social change. We bring together a diverse collaboration of people with a goal of transforming how we address some of society's trickiest issues. We have the ambition, tools and financing to tackle these issues at scale.

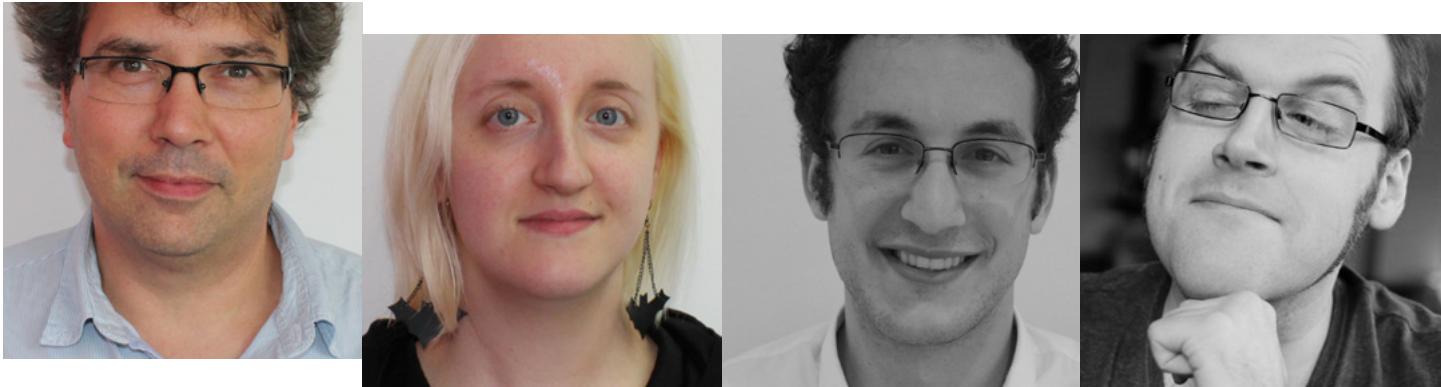
Social Finance faces different constraints: how to deliver high impact within budget for those who are seeking innovation and transformation



It solves this conundrum by seeking partners with a deep understanding of the social issues, and aligning delivery with measurable impact



USING THE POWER OF TECHNOLOGY



The Digital Labs team is helping social and public sector partners access data to solve difficult social issues. **Kaj Siebert** explains.

TECHNOLOGY AND data analysis can help provide better, more effective services for vulnerable people. However, to ensure that data is being used in day-to-day decisions, from chief executives to frontline staff, there need to be products that can access actionable and reliable analyses and insights.

The Social Finance Digital Labs team is spending its time designing such products. It has been fortunate to have received a generous grant from the Christie Foundation to make this happen.

Its first task has been to look at data held within Children Services. They are one of the most important functions of local government and have one of the most complex

datasets to work with. At any one time, there are roughly 440,000 children in England receiving social services support. Despite this responsibility, Children Services departments face declining budgets and rising Looked After Care caseloads. Local authorities need to identify how to best use their limited budgets and more effectively target support at those who need it most.

The Edge of Care Commissioning Tool helps Children Services departments define the characteristics of different groups of vulnerable young people, the number of young people who would be eligible for different interventions and the potential cost savings found thanks to the reduction in the young people spending time in care. ▶

- ◀ This tool enables public and social sector staff to ask and begin to answer the questions that matter most. For instance, local authorities want to know when is it better to leave the child with a family or take them into care. They need to know what practice models and/or interventions are likely to result in better long-term outcomes for a child.

Social Finance is currently working closely with Newcastle City Council to look at ways of improving front-door risk assessments – that is, it flags risks that it has repeatedly identified for certain vulnerable groups who contact the local authority. The digital labs team make those flags available to social workers. They are then better placed to respond effectively.

One of its flagship projects has been around the National Pupil Database and creating an interactive ‘learning community’ around insights found in that dataset. It has also completed a Comic Relief funded project with DePaul for their Nightstop programme. It streamlined the matching process between host families and young people on the streets. In partnership with the Impact Incubator, it is beginning a major piece of work on support for care leavers.

With the advance of Artificial Intelligence and Machine Learning, an increasing number of decisions that affect people’s daily lives will be data informed. However, these technologies are complex and the risk of misuse high. It is going to be a challenge to make sure these systems are safe and used appropriately to improve services. One of the biggest hurdles is to ensure that the data government collects is free from bias and representative of the individuals it covers.

At present, there are a number of issues with government data. First, the data collected is often used to capture and monitor process rather than trying to create a clear picture of the person and their needs. Second, most authorities and government departments do not have access to different data systems which means that data is fragmented and generally not comparable. And lastly, it is often locked away by information governance and data protection policies even when it can be safely shared.

For government and other social and public sector organisations to take advantage of the data revolution, it needs to build an open, human-centered data system. It must be built with a deep sense of data ethics and a responsibility to identify the potential biases within it. And it needs to make it available safely to anyone who wants to collaborate. This shift would transform the way support and interventions are offered to those in need. ●

FIVE MINUTES WITH KAJ SIEBERT



Hello. Hi. I am Kaj and I grew up in Norway.

What do you? I’m the Chief Technology Officer. I deal with the tech stuff, plus data and security. I also head the digital labs team, our data science and software development team.

What is your background? I have a background in Astrophysics and worked on, what was considered at the time, automating analysis of large datasets. That took me to Reuters and the City and then a few FinTech start ups before Social Finance.

Who else is on the Digital Labs team? There’s Anneka and Lucy who come from media backgrounds and are writing the front-end code. Tom, who worked in education technology start-ups, is our product manager. Our data scientists are Rikk, who studied machine learning, and Sara with a background in maths and finance. Finally, there’s Dan, who left public policy to study applied stats and is now helping organisations and government embed data analysis into daily decision-making processes.

What are you responding to by working at Social Finance? With great data comes great responsibility. Data can be a source of good but can so easily be misunderstood.

Give us your elevator pitch for Social Finance. Social Finance is all about using data and evidence to improve lives and drive social change.



BUENOS AIRES CALLING



Sebastian Welisiekko worked with Social Finance while it supported the Buenos Aires government design its first Social Impact Bond to tackle youth unemployment. The Social Impact Bond is expected to launch in 2018. It will work with approximately 1,000 vulnerable young people living in the southern boroughs of Buenos Aires. What follows is an abbreviated version of his goodbye email sent-to-all at Social Finance.

"AS SOME OF YOU KNOW, I am finishing my consulting engagement with Social Finance after almost 10 months of fascinating and intense work with Marta, Emilie

and Jane on the Buenos Aires Social Impact Bond. It is sad to say goodbye but I am also thrilled about the new beginnings. Last Friday I returned to my home country of Argentina to join the President's team at the Cabinet Office, with the mission of leading the impact investment agenda in Government.

On the bright side, I hope to be able to share learning from the Buenos Aires City project with colleagues in the National Administration, in the hope of seeing more and better deals emerge across sectors and regions. I am also thrilled to have started a conversation with some of you on opportunities for cooperation further down the line.

I cannot thank you enough for all I have learnt in this fascinating journey with the leading impact intermediary in the world. Thanks, thanks and thanks again for sharing your knowledge, so generously, always with a smile and great passion."

Seb is part of Social Finance's international alumni network. Social Finance has set itself a goal to develop change makers across the globe, equipped with the tools to address society's most challenging problems.

Some alumni have gone back home to Portugal, the Netherlands, Denmark, Canada and Australia, to establish their own or join local social impact firms. Other colleagues have moved to impact investment, the senior civil service, front-line charities, social enterprise, academia, journalism and policy institutions. They remain personal and professional friends. It is through them that Social Finance punches above its weight. They carry the torch in spreading impact. ●

72,000 children are in care in the UK



4,134 people are estimated to be sleeping rough



Two women die every day from domestic abuse



62 percent of short sentenced prisoners reoffend within 12 months



Children in care for 12 weeks or more are rarely reunited with their birth families



One million people in the UK haven't spoken to anyone for a month



1.8 million households are on waiting lists for social housing



72 percent of sex workers in Johannesburg are HIV positive



43 percent of the population is illiterate in Liberia



Homeless people die at the average age of 47 years



8 percent of people with severe mental illness are in paid employment



95 percent of people in lower-income areas of Kigali and Dakar do not have access to a safe-treatment sewage system



Only 61 percent of Brazilian 15–17 year olds are in the right school year



Poor and disadvantaged Black Caribbean boys are 168 times more likely to be permanently excluded from school than white British girls



Fewer than one percent of all perpetrators of domestic abuse receive any kind of intervention to change or challenge their behaviour



At least half of all refugees become homeless in the UK once their asylum support ends



Every £1 invested in a park generates £34 in social benefits



80 percent of adolescents enter care voluntarily

Social Finance is grateful to the many partners and supporters it has had since 2007.

A B Charitable Trust
Apax Foundation
Barrow Cadbury Trust
Big Lottery Fund
Big Society Capital
Calouste Gulbenkian Foundation
Christie Foundation
City Bridge Trust
Comic Relief
Esmée Fairbairn Foundation
Garfield Weston Foundation
Generation Foundation
Golden Bottle Trust
Guy's and St Thomas' Charitable Trust
Hadley Trust
John Ellerman Foundation
Joseph Rowntree Foundation
Lankelly Chase
Legal Education Foundation
Lloyds Bank Foundation

Macmillan
Montpellier Foundation
National Trust
Omidyar Network
Panahpur
Paul Hamlyn Foundation
Social Investment Business
The Barbara and Stanley Fink Foundation
The Health Foundation
The Indigo Trust
The Law Charitable Foundation
The Mark Leonard Trust
The R&S Cohen Foundation
The Rayne Foundation
The Rockefeller Foundation
The Spiers Family Foundation
The Tudor Trust
Treebeard Trust
True Colours Trust
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In particular, it would like to thank the group who helped support the founding of Social Finance in 2007 – David Blood, Sir Ronald Cohen, Lord Stanley Fink, Phil Hulme and Bernard Horn. Without their vision, commitment and generosity, Social Finance would never have had the chance to take the risks it took.



LEAVING CHANGE BEHIND



QUEEN VICTORIA would not have enjoyed Social Finance board meetings. "Change?" she once scoffed. "Why do we need change? Things are quite bad enough as they are."

At Social Finance we talk about change more than anything else. How, we ask ourselves, can we help change the way our society works to better serve the most disadvantaged?

Social Finance has no claims to know all the answers. We respect and admire expert social workers, counsellors and managers. They have experience which we cannot do without.

But if you are working long hours running essential services it can be very difficult to find the time, resource and mental energy to analyse new data, dig into the roots of a problem and imagine an alternative set of solutions. Change happens in the collation and examination of hard facts. What works? And what does not work? Why and how do projects succeed or fail? Those are the sort of questions we ask.

It is important that we connect with the systems of the state. Our end users often have frequent contact with mainstream statutory services. Children leaving care, families struggling with domestic abuse, prolific offenders searching for a new life –these are just a few examples of the tricky issues local and central government accept responsibility for.

Mainstream statutory services are invariably process driven. They are complicated and bureaucratic but sustainable improvement springs from systemic reform. Rather than adding to the itty-bitty, we want to change the nitty-gritty.

We think funding models have a big part to play. Inflexible government funding programmes often strangle innovation. But our thinking doesn't begin with the money. We start by trying to understand needs. We gather kindred spirits to consider alternative approaches and we develop

practical plans. We almost always work in partnership with those already on the ground. Then we think about the money. Finance is central to all that we do but not the beginning or the end.

"If you want change you must get your hands dirty" says the internationally regarded social entrepreneur Srikan Gullapalli. We agree. And though Social Finance does not pretend to be a long term service provider, we want to get our hands dirty, working with others to leave change behind.

The current period of austerity can be a fertile time for social invention. We know that the twin trajectories of escalating needs and diminishing resources are unsustainable. We also know it is an insanity to do the same thing repeatedly and expect different results. History tells us that innovation rarely comes from within government. The future is always on the periphery.

That said, austerity will end one day. Already we are beginning to hear murmurs about a gradual releasing of the hand brake. So there are choices to be made.

We could look backwards and seek to restore everything to 2010 levels of provision. There will be strong and focused lobbies arguing for this option. However, no political party or serious commentator is holding out the faintest hope that public expenditure will reach these levels again anytime soon, possibly anytime ever. The backwards vision would, at best, result in the random and partial restoration of old ideas.

We could look inwards, repair the estate, increase wages and look after the producer. Powerful interests are already staking out these positions. Some such expenditure is plainly long overdue but again it wouldn't do enough.

Or we could look forwards with a modern post austerity narrative with practical new ideas for gripping old problems efficiently and effectively.

The noble queen would not have approved but I know which team I want to be on. ●

Commissioning is a process that public sector organisations use to plan, procure, deliver and evaluate services

Development Impact Bonds are results-based contracts where private investors are repaid for positive social outcomes by external donors (aid agencies, international foundations).

Digital Labs is Social Finance's team dedicated to finding better ways to use pre-existing publicly available data.

Fee for service are contracts where the organisation is paid to deliver a set of services, such as monthly in arrears or quarterly in advance.

Impact Incubator is a partnership between UK charitable foundations and Social Finance.

Individual Placement and Support Schemes are designed to help people with disabilities and long term sicknesses into work.

Interventions are projects or programmes designed to address the needs of a vulnerable person or community.

Outcomes are specific changes in a person's or communities' behaviour, ability or situation, such as securing employment, graduating from university, or reducing reoffending.

Outcomes Funds are pooled funds from one or more funders in support of a set of pre-defined outcomes.

Payments from the fund only occur if specific social outcomes are met.

Pay for Success is the US name for Social Impact Bonds.

Place based Transformation are partnerships with UK local authorities designed to provide social improvement across a range of different but related issues.

Social Impact Bonds are financial instruments where government agrees to pay and reward investors if defined social outcomes are achieved. The investors pay for social interventions. If the outcomes are not achieved, investors stand to lose all or part of their investment.

Social Intermediary is an organisation that structures social investment products and/or transactions, invests in social organisations or programmes and/or provides capacity building support to stakeholders involved in social investment, including social organisations, investors and commissioners.

Social Investment is investment into an activity, organisation or fund that generates both social and financial returns. Social investments can be 'impact first' or 'financial first' 'return'.

Social Investment Tax Relief (SITR) is the UK government's tax relief to encourage individuals to support social enterprises.





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