



## SOCIAL IMPACT BONDS

### WHAT ARE THEY?

The Social Impact Bond (SIB) is a pay-for-success financing mechanism that was first implemented in 2010 in the United Kingdom, and is now spreading across the United States. The SIB is not actually a bond in the traditional sense. Instead, the SIB raises money from investors in the capital markets, and then uses that money to pay social service providers that have a proven, measurable track record in reducing a specific social problem and the costs associated with it. In creating the SIB, the investors and the service providers agree on a timeframe and target performance goals (for instance, reducing the recidivism rate among ex-offenders by 10% over a five year period). If the service providers hit their performance goals, the savings generated by their successful services are used to pay back the investors with a rate of return. If the service providers do not hit their performance goals, the investors could lose some or all of their money.

The first SIB was created in 2010 by a group called Social Finance, Ltd. in the United Kingdom. Social Finance received funding from a number of philanthropic foundations which were interested in experimenting with new ways of connecting the capital markets with highly effective social service providers who were ready to scale up their operations. Social Finance raised approximately \$8 million from 17 investors and invested that money in a re-entry services program for ex-offenders leaving Peterborough prison. If the re-entry services program is successful in reducing recidivism by at least 7.5% (relative to a comparison group), investors will be paid back with returns ranging from 2.5 to 13%, depending on how much the recidivism rate is reduced. The investors will be paid back from savings at the Ministry of Justice, and by the Big Lottery Fund. This SIB has an 8 year term. The role of Social Finance, which served as the intermediary on this SIB, was to assemble the investors, evaluate the service providers, structure the terms of the deal, and provide ongoing oversight of the service providers over the course of the SIB. An independent auditor will verify that the performance goals are being met.

Since the 2010 SIB in the United Kingdom, several SIBS have been launched in the United States. In 2012, both New York City and the State of Massachusetts created SIBS. In New York City, MDRC served as the intermediary for an investment of about \$10 million in reducing recidivism for ex-offenders coming out of the Rikers Island prison. The financing for this SIB came from Goldman Sachs, with a guarantee to reduce investor risk provided by Bloomberg Philanthropies. In Massachusetts, Third Sector Capital served as the intermediary for investments of up to \$50 million that the State is making in two distinct areas: reducing chronic homelessness, and providing



intervention services with at-risk youth. In 2013, the State of Illinois announced its intention to create a SIB, and is currently developing a Request For Information (RFI) to explore possible social service programs. Additional SIB activity has been launched over the last 12 months in Cuyahoga County, Ohio, and in Fresno, California.

## **WHAT ARE THE PROS AND CONS OF SIBS?**

Like all pay-for-success financing models, SIBS require the organizations that receive funding to measure the outcomes of their programs so that their effectiveness can be evaluated. While this sounds like a fairly simple requirement, it is often complex and time-consuming for social service organizations to develop and implement the data tracking systems that enable them to measure outcomes, and many of them are still at the very beginning stages of this work. They may be measuring complicated (behavioral) outcomes that develop over several years, or they may be operating in a culture that has never relied on data tracking and analysis, or they may simply be so resource-constrained that anything other than direct service work is considered a luxury. The requirement to define and track outcomes is one of the key benefits that SIBS, and other pay-for-success financing tools, bring to the social service organizations that they partner with.

Another benefit of SIBS is their ability to provide investment and operating capital over a multi-year period, enabling their partner organizations to plan multi-year scaling operations that would otherwise be very difficult to fund.

A third benefit of SIBS is that they transfer some, or all, of the investment risk from the tax payer to the private investor.

## **WHERE CAN I LEARN MORE ABOUT SIBS?**

The following links can provide more detailed information about SIBS.

General information:

- [http://www.nytimes.com/2012/11/09/giving/investors-profit-by-giving-through-social-impact-bonds.html?pagewanted=all&\\_r=0](http://www.nytimes.com/2012/11/09/giving/investors-profit-by-giving-through-social-impact-bonds.html?pagewanted=all&_r=0)
- <http://www.socialenterprisebuzz.com/2012/03/06/what-are-social-impact-bonds/>
- <http://www.rockefellerfoundation.org/uploads/files/655fab01-83b9-49eb-b856-a1f61bc9e6ca-small.pdf>
- <http://www.americanprogress.org/issues/open-government/report/2011/02/09/9050/social-impact-bonds/>
- <http://www.socialfinanceus.org/work/sibs>
- <http://knowledge.wharton.upenn.edu/article.cfm?articleid=3078>



- <http://nonprofitfinancefund.org/pay-for-success>

Peterborough Prison SIB:

- <http://www.justice.gov.uk/downloads/publications/research-and-analysis/moj-research/social-impact-bond-hmp-peterborough.pdf>

New York City SIB:

- [http://www.npr.org/2013/03/24/175197680/goldman-sachs-hopes-to-profit-by-helping-troubled-teens?ft=1&f=1006&utm\\_source=dlvr.it&utm\\_medium=tw&utm\\_campaign=npbusiness](http://www.npr.org/2013/03/24/175197680/goldman-sachs-hopes-to-profit-by-helping-troubled-teens?ft=1&f=1006&utm_source=dlvr.it&utm_medium=tw&utm_campaign=npbusiness)
- <http://www.mdrc.org/bloomberg-tv-social-impact-bond-project-rikers-island>
- [http://www.mdrc.org/project/social-impact-bond-project-rikers-island#featured\\_content](http://www.mdrc.org/project/social-impact-bond-project-rikers-island#featured_content)
- [http://www.goldmansachs.com/what-we-do/investing-and-lending/urban-investments/case-studies/social-impact-bonds.html?cid=PS\\_02\\_33\\_06\\_00\\_00\\_00](http://www.goldmansachs.com/what-we-do/investing-and-lending/urban-investments/case-studies/social-impact-bonds.html?cid=PS_02_33_06_00_00_00)

Other U.S. SIBS:

- <http://www.thirdsectorcap.org/blog/2012/08/01/boston-globe-ma-pay-for-success/>
- <http://www3.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=2&RecNum=11072>
- <http://www.thirdsectorcap.org/blog/2012/11/05/press-release-cuyahoga-county-partners-with-third-sector-on-pay-for-success-procurement/>
- <http://kvpr.org/post/social-impact-bond-may-fund-asthma-prevention-fresno>