



Social Impact Bonds: Learning from the U.K.

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Welcome



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Agenda

- Introduction to Social Finance
- What is a Social Impact Bond?
- UK Pilot: Peterborough SIB
- Future SIB development

- **Introduction to Social Finance**
- What is a Social Impact Bond?
- UK pilot: Peterborough Prison
- Future SIB development

Who we are



Emily Bolton, Director, Social Finance Ltd.

- Led the development of the first Social Impact Bond in Peterborough
- Leads Social Finance's work to develop Social Impact Bonds to reduce crime and offending
- Formerly at REDF, a venture philanthropy fund in San Francisco
- Previous experience as a strategy consultant in the UK and US
- BA Cambridge University; MBA , Berkeley



Tracy Palandjian, CEO, Social Finance Inc.

- Former Managing Director at The Parthenon Group (1999-2010) Head of Non-Profit Practice
- Additional experience at McKinsey & Company and Wellington Management Co.
- Board member of Facing History and Ourselves, Robert F. Kennedy Center, Harvard Business School Alumni Board, Agassi Graf Holdings, and Milton Academy Investment Committee
- BA, Harvard College; MBA, Harvard Business School

Who is Social Finance?



Mobilizing investment capital to drive social change

Social Finance is a nonprofit organization working to connect the social sector with the capital markets by structuring and managing innovative investment instruments that both generate meaningful social impact and provide a financial return.

- Our aim is to open up new pools of capital to finance effective social enterprises and drive social progress
- We believe social impact can be monetized, creating an ROI for investors
- Social Finance UK and US are separate entities with a shared mission. The two organizations are independently managed and funded:
 - SF UK: Founded in 2007, staff of 24
 - SF US: Launched operations in Boston in January 2011, staff of 5
- Common IP platform and knowledge sharing

- Introduction to Social Finance
- **What is a Social Impact Bond?**
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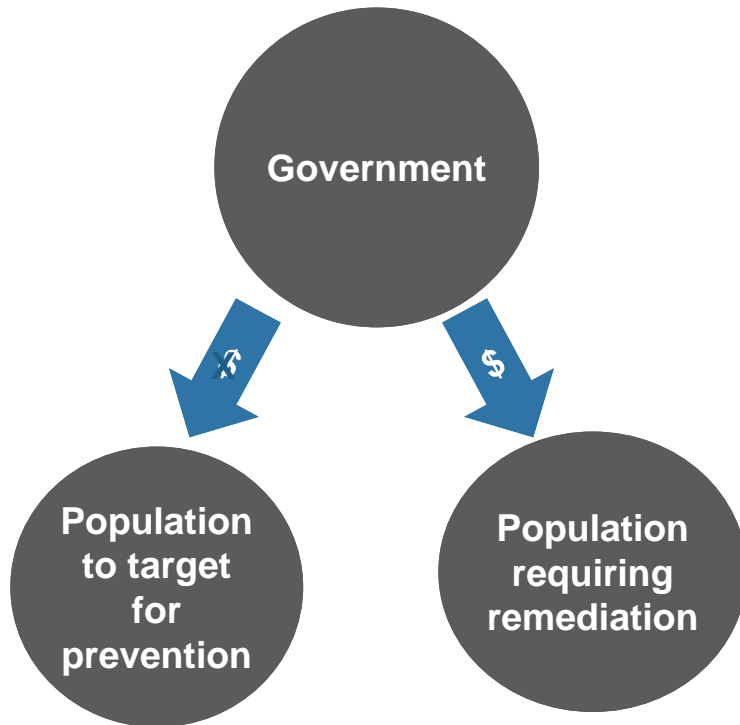
- **Government budgets under pressure**
 - Costly safety-net spending crowds out prevention programs
 - Government contracting for social services focuses on inputs rather than outcomes
- **Market failure in social sector funding**
 - The social sector is highly fragmented
 - Even the most effective nonprofit providers are starved for growth capital
- **Nascent but growing impact investment sector**
 - Recognition that private philanthropy and government funding are insufficient sources of capital to solve large intractable social challenges
 - Impact investors seek robust structures with transparent risk and return, both social and financial

The Premise: “An Ounce of Prevention is Worth a Pound of Cure”



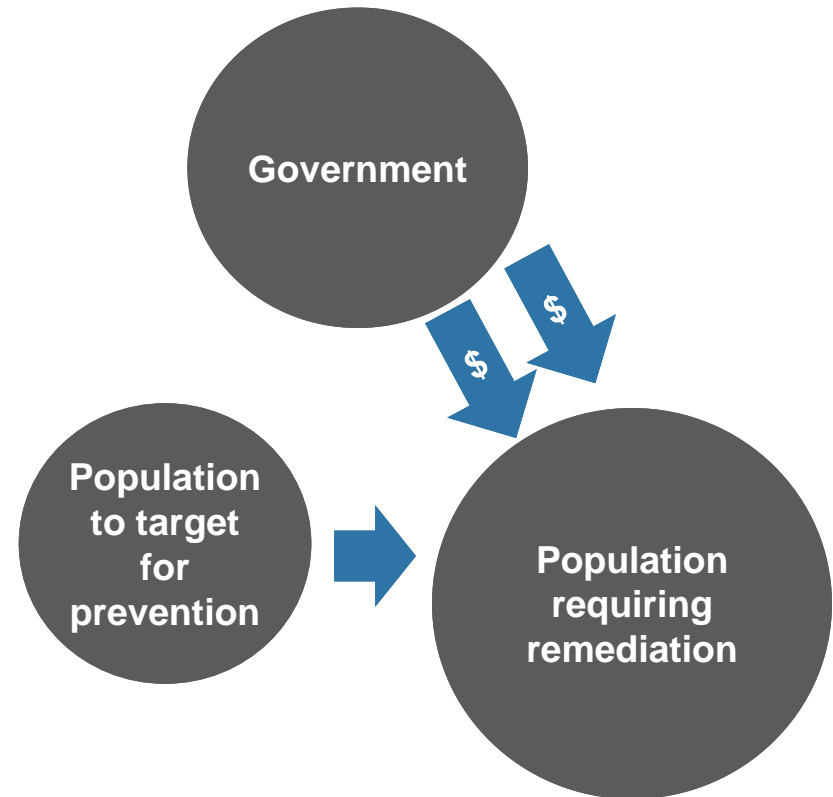
Phase I: Budgetary pressure reduces investment in early interventions

When budgets come under pressure, preventative services are cut



Phase II: Additional remediation is required

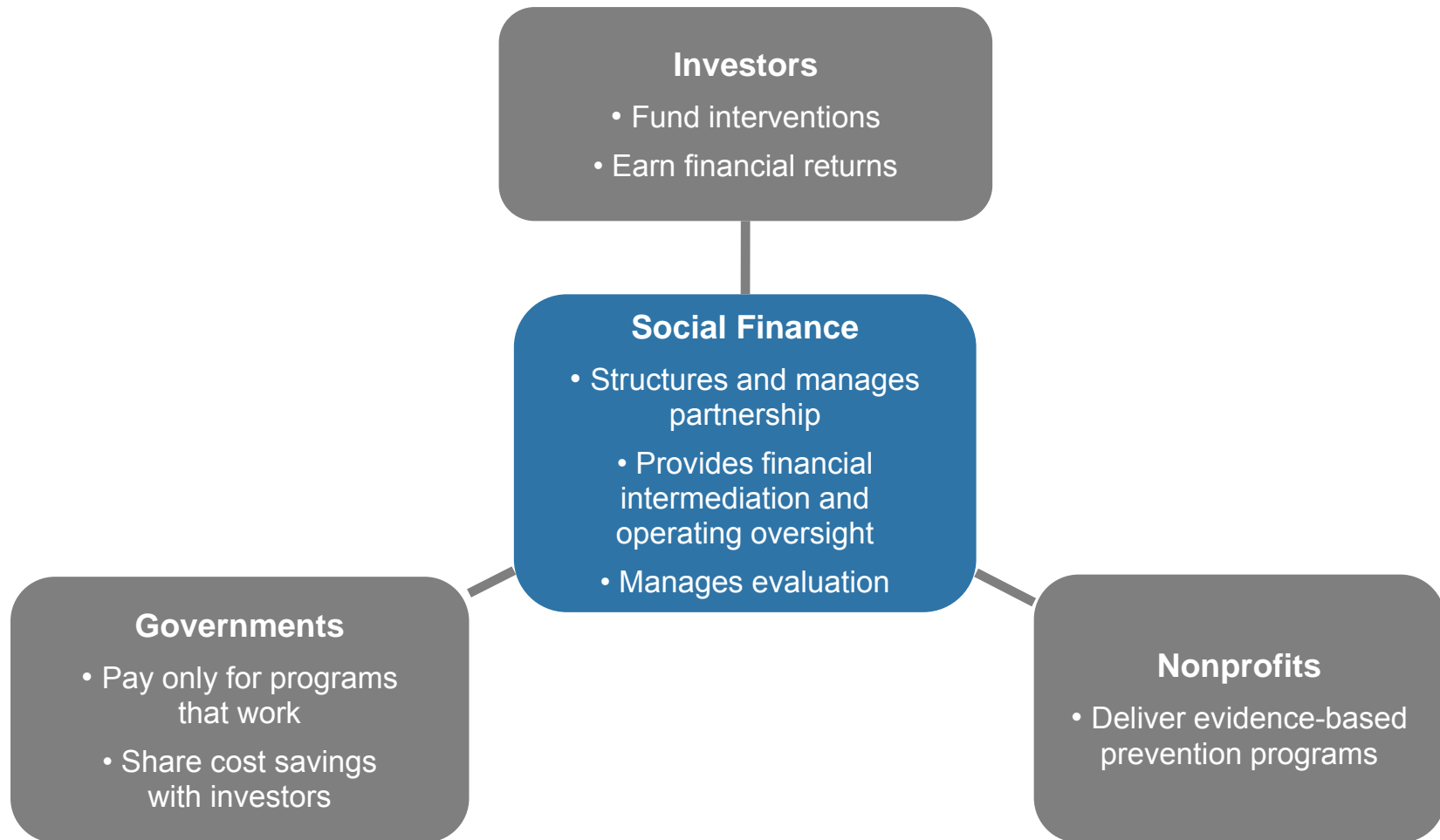
Without preventative services in place, the population requiring remediation grows, putting additional strain on budgets



Definition: Social Impact Bonds (SIBs)



SIBs employ private investment capital to pay for early intervention programs delivered by nonprofit service providers. The government pays investors their principal and a rate of return, only if the programs achieve predefined metrics.*



*Also called Pay for Success Bonds

Win-Win for All Participants

SIBs unlocks new capital to address costly social problems. By linking financial returns to social outcomes, SIBs contribute to the development of a more accountable, innovative and evidence-based social sector.



Government

The government stands to reduce costs from the development of effective intervention programs, and only has to pay if the service providers achieve a positive impact. SIBs also represent a new way of procuring government contracts with greater accountability and efficiency

Investors

SIBs offer investors an opportunity to participate in an uncorrelated asset class, to improve societal outcomes and to potentially make an attractive financial return tied to the outcomes achieved

Nonprofit Providers

SIBs reward effective nonprofits with proven models and robust outcomes. They provide stable and predictable funding to scale innovative and effective social enterprises

Our Community

Disadvantaged individuals and their communities benefit from both increased and improved social goods and services

A New Paradigm



SIBs shift the existing paradigm of downstream safety-net government programs to upstream preventative programs delivered by effective nonprofits

Risk

Financial risk shifts from government agencies to private investors

Time

Current outlays shift to future contingencies

Intervention

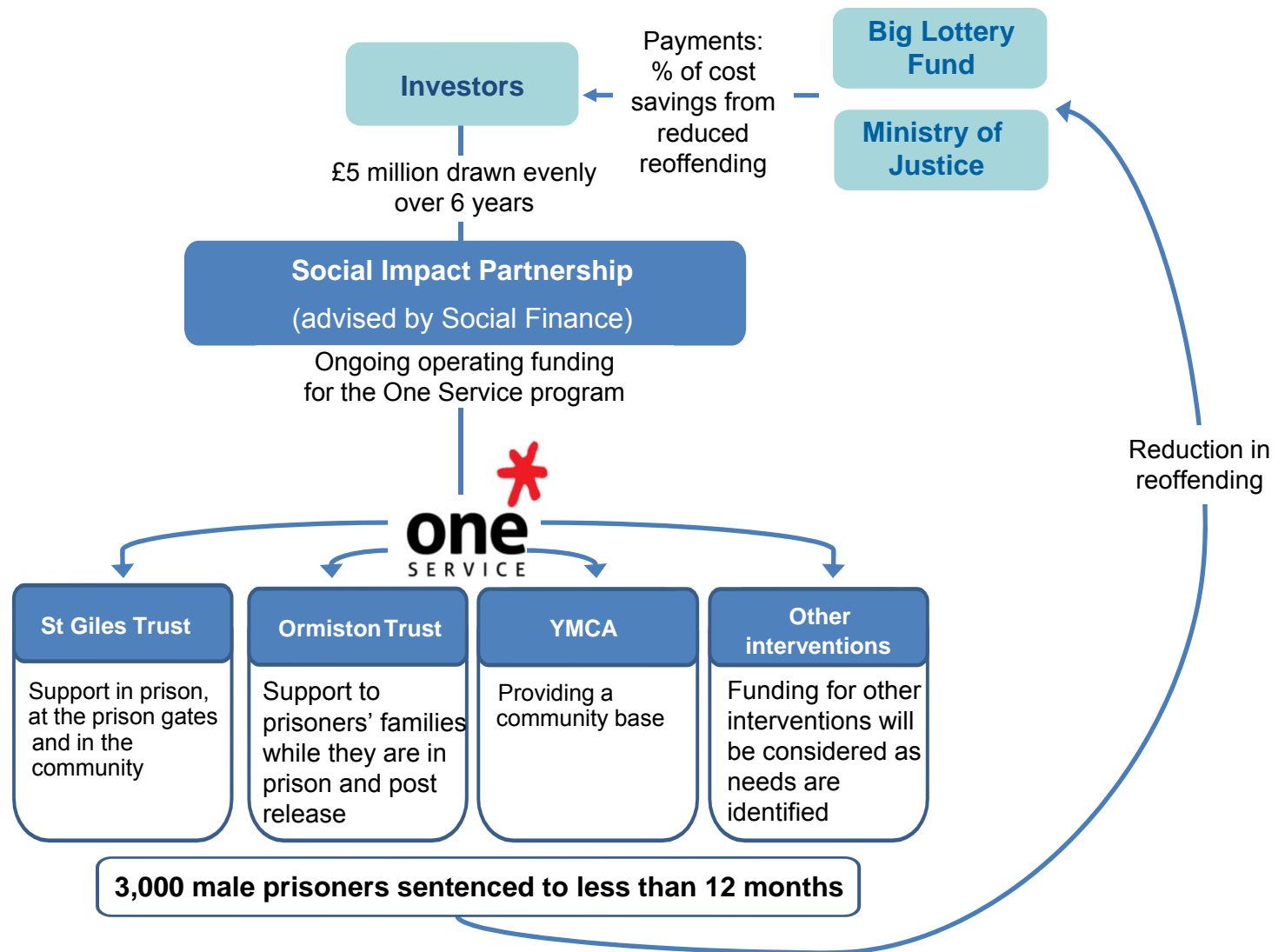
Services shift from safety net to prevention

Control

Control shifts from governmental command-and-control to public-private-nonprofit collaboration managed by intermediary (Social Finance) with skin in the game

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Structure of Peterborough SIB



Peterborough Investor Economics



Outcome Measurement

- Performance is measured for the treatment population against a control group
- Measurement occurs for 3 cohorts of 1,000 prisoners and then for the total SIB population. To be statistically significant:
 - 10% or greater improvement for each cohort is required
 - 7.5% or greater improvement for the total population is required

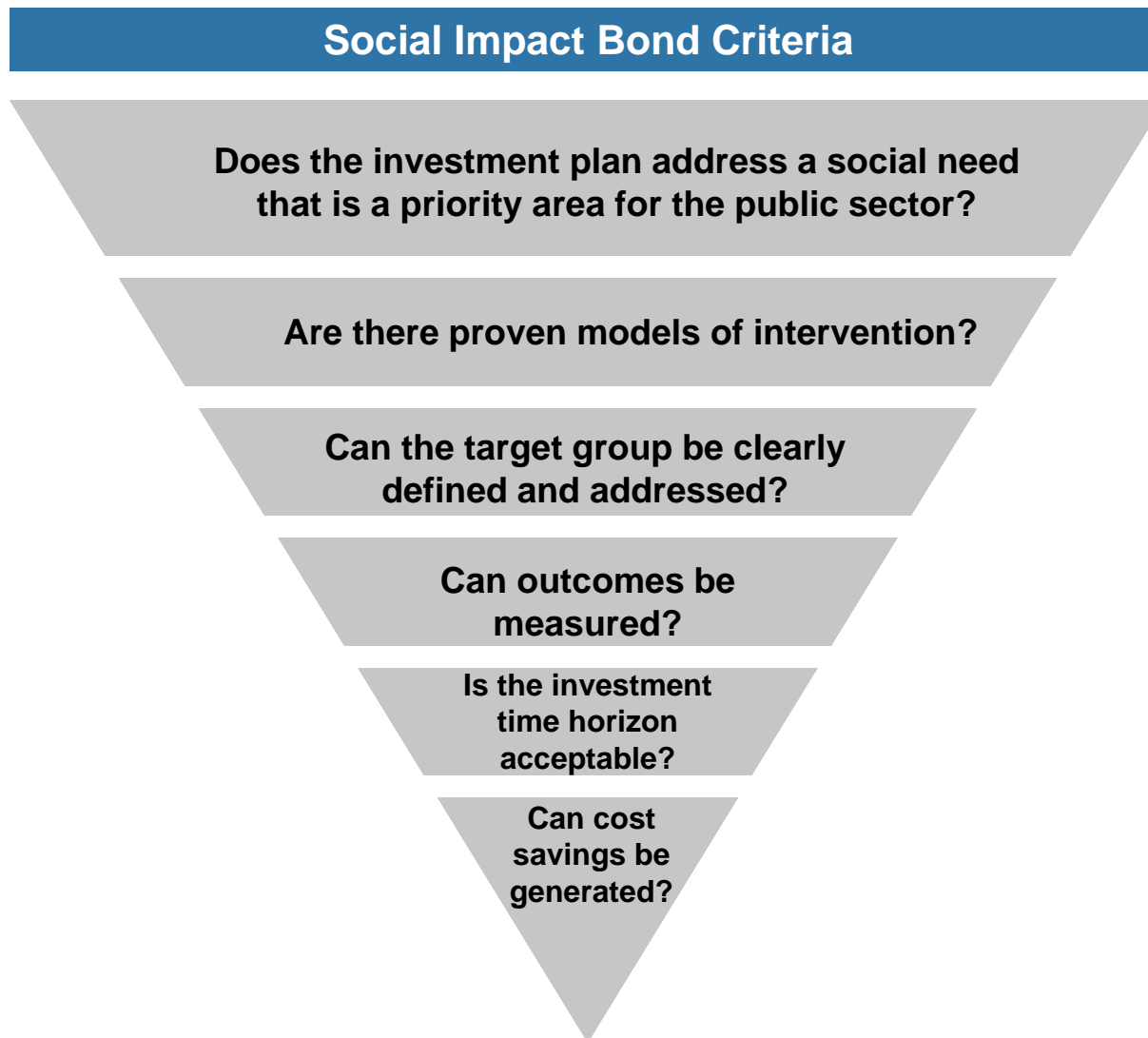
Capital Flows

- Investor capital is drawn evenly over 6 years to fund interventions
- Outcomes payments to investors made in years 4, 6 and 8

Investor Returns

- If re-offending falls by 7.5% or more, investors receive a return
- Investors receive an increasing return for better outcomes, capped at a maximum of 13% per year
 - For example, 10% reduction in re-offending would result in a 7.5% annualized return

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Social Finance US: Potential SIB applications

Goals

- Develop SIBs spanning a range of high-impact social issue areas
- Ensure geographic diversity
- Achieve bipartisan support

Applications in discussion

- Permanent supportive housing to reduce chronic homelessness
- Supportive elderly housing to delay nursing home admission
- Community-based alternatives to juvenile detention
- Community-based alternatives to adult incarceration

Geographies in discussion

- Massachusetts
- Rhode Island
- New York, NY

Goals

- Focus on disconnected groups who tend to be expensive, poorly engaged with existing services and experience poor outcomes

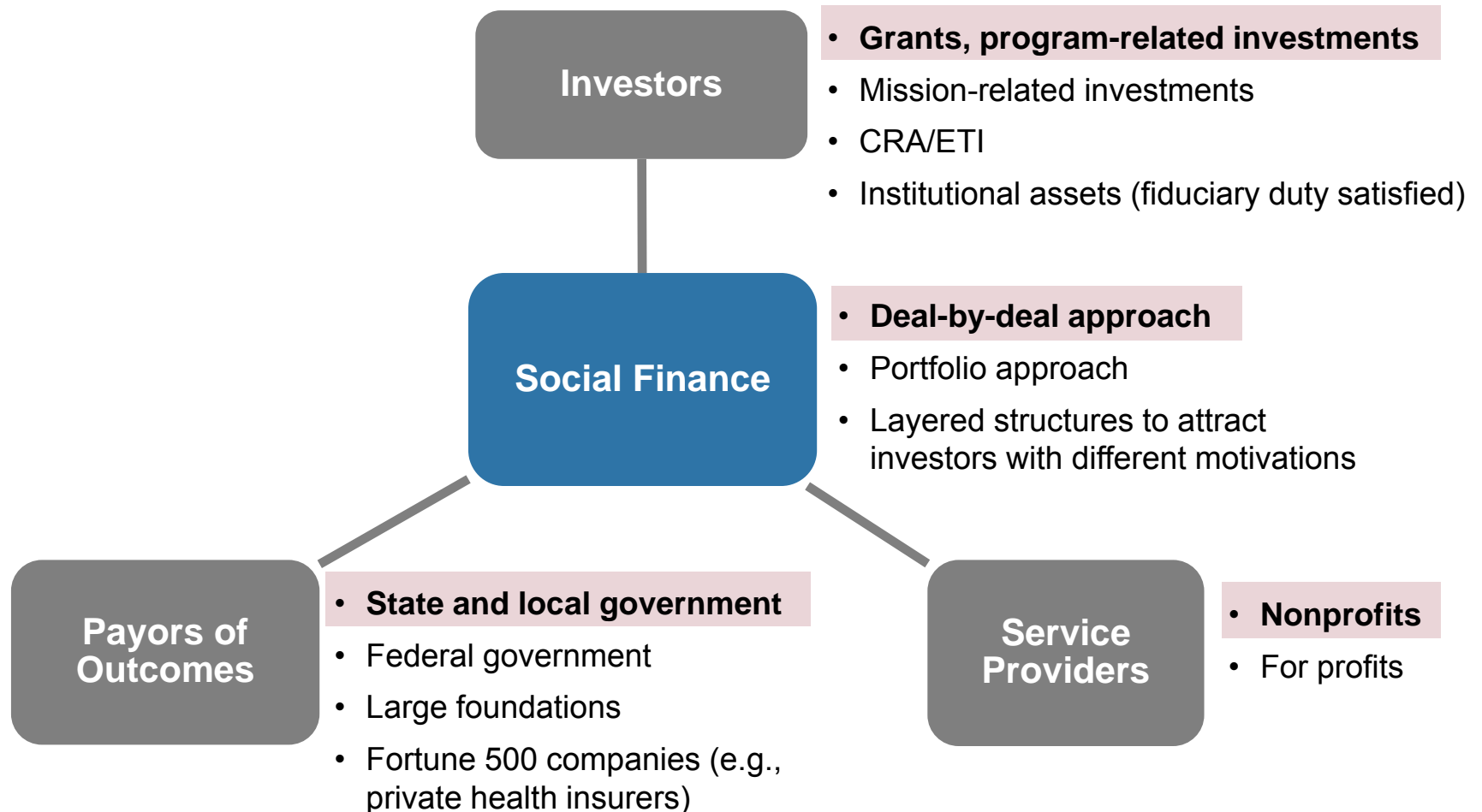
Applications in discussion

- Broader applications in criminal justice (e.g., alternatives to custody, women in prison, youth offenders)
- Health and social care
- Drug rehabilitation
- Education (excluded children)
- Looked after children

SIB structure is flexible and can accommodate different investors, payors and providers



SIB Version 1.0



Questions?



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Resources



- <http://www.socialfinanceus.org>
- <http://www.socialfinance.org.uk>



- <http://www.primakers.net>



- <http://www.moreformission.org>

Thank you



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