

AN INTRODUCTION TO SOCIAL IMPACT BONDS

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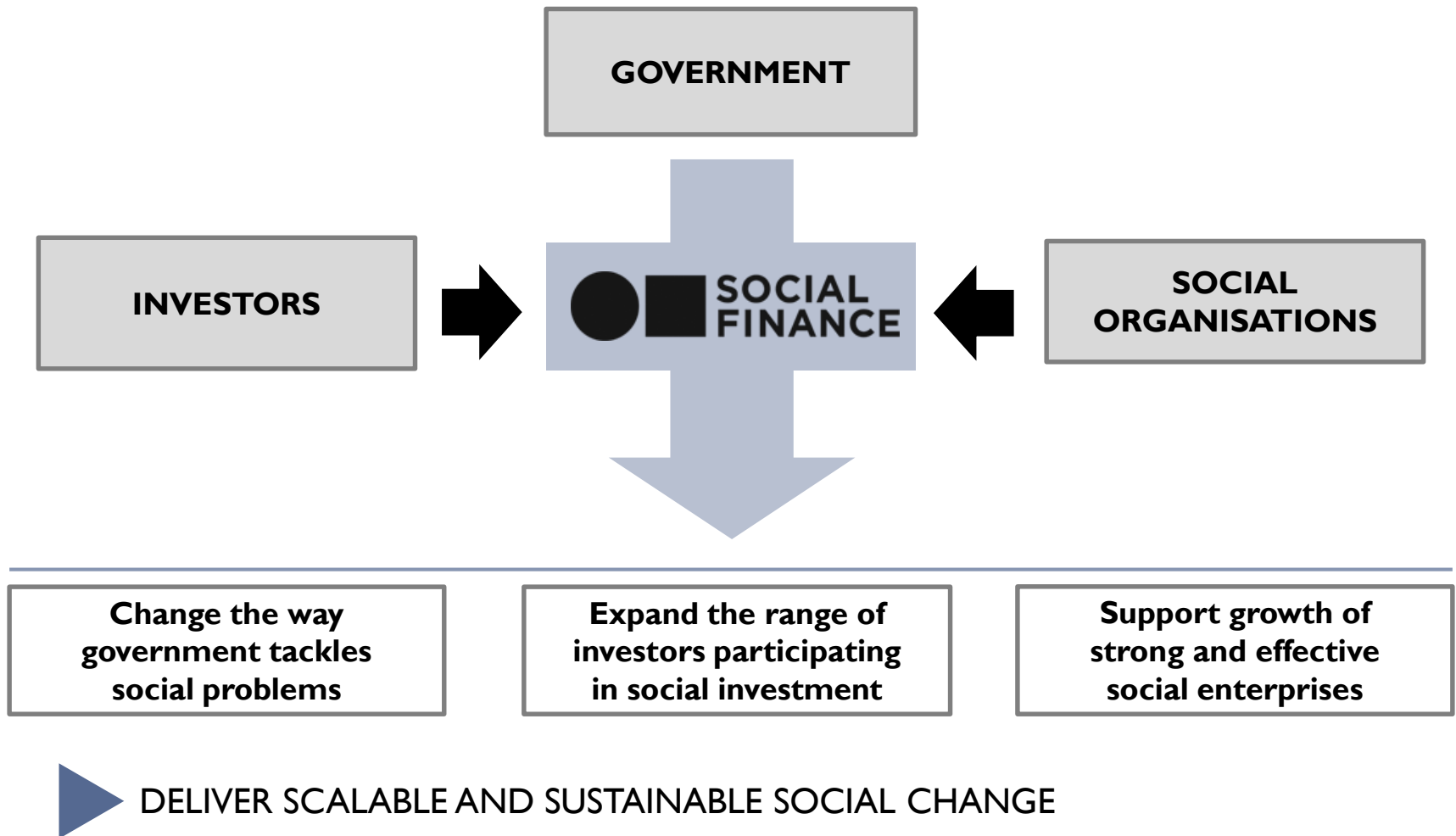
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- **About Social Finance**
- **What is a SIB: Peterborough Example**
- **Variations of the model**
- **Benefits of SIBs**
- **The global picture**



SOCIAL FINANCE IS A GLOBAL NON-PROFIT ORGANIZATION WITH A MISSION TO DEVELOP FINANCING MODELS TO ADDRESS PRESSING SOCIAL CHALLENGES

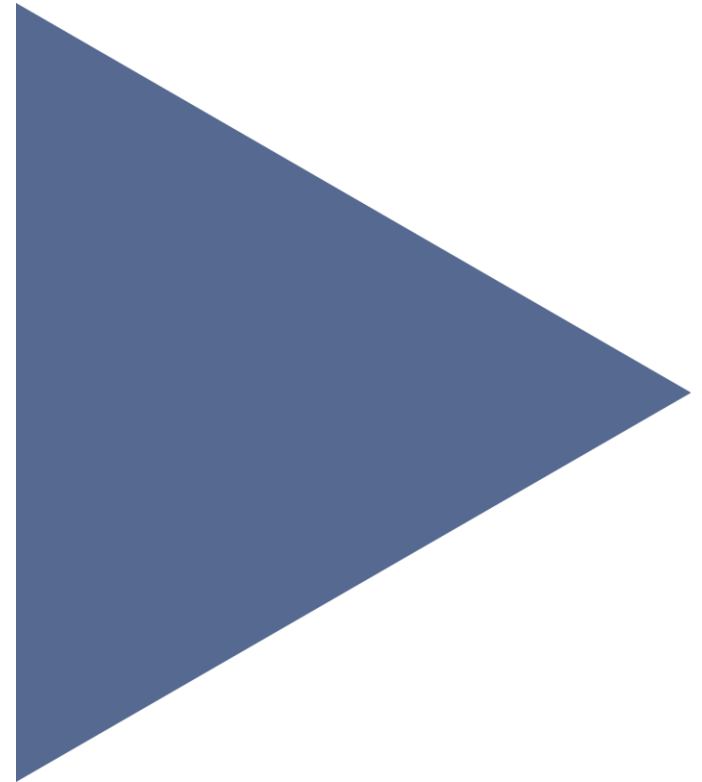
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PETERBOROUGH, UK: THE WORLD'S FIRST SOCIAL IMPACT BOND

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CASE STUDY: RE-OFFENDING RATES IN THE UK

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EX-OFFENDERS
RECONVICTED WITHIN
1 YEAR

63%

AVERAGE NUMBER OF
PREVIOUS OFFENCES
OF A SHORT-SENTENCE
OFFENDER

43

AVERAGE NUMBER OF
PREVIOUS JAIL TERMS

7



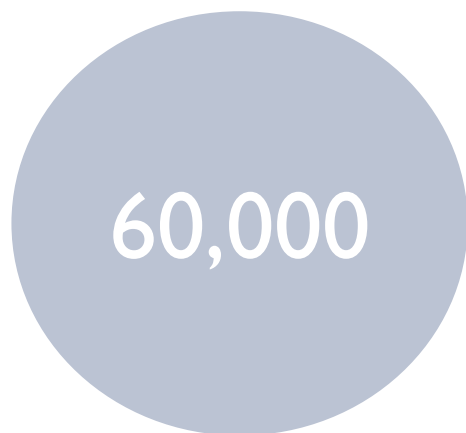
THE COST TO THE STATE IS ESTIMATED TO BE \$15-20 BN PER YEAR



DESPITE THE CLEAR SOCIAL NEED, LITTLE WAS DONE TO SUPPORT THESE INDIVIDUALS BEFORE THE PETERBOROUGH SIB

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SHORT SENTENCE
OFFENDERS EACH YEAR
(2010)



SHORT SENTENCE
OFFENDERS HAVE
MULTIPLE NEEDS

DRUG AND ALCOHOL MISUSE

MENTAL HEALTH NEEDS

UNEMPLOYMENT

HOUSING

SEVERED FAMILY RELATIONSHIPS

LIMITED EDUCATION AND
TRAINING

NO STATUTORY
GOVERNMENT SUPPORT

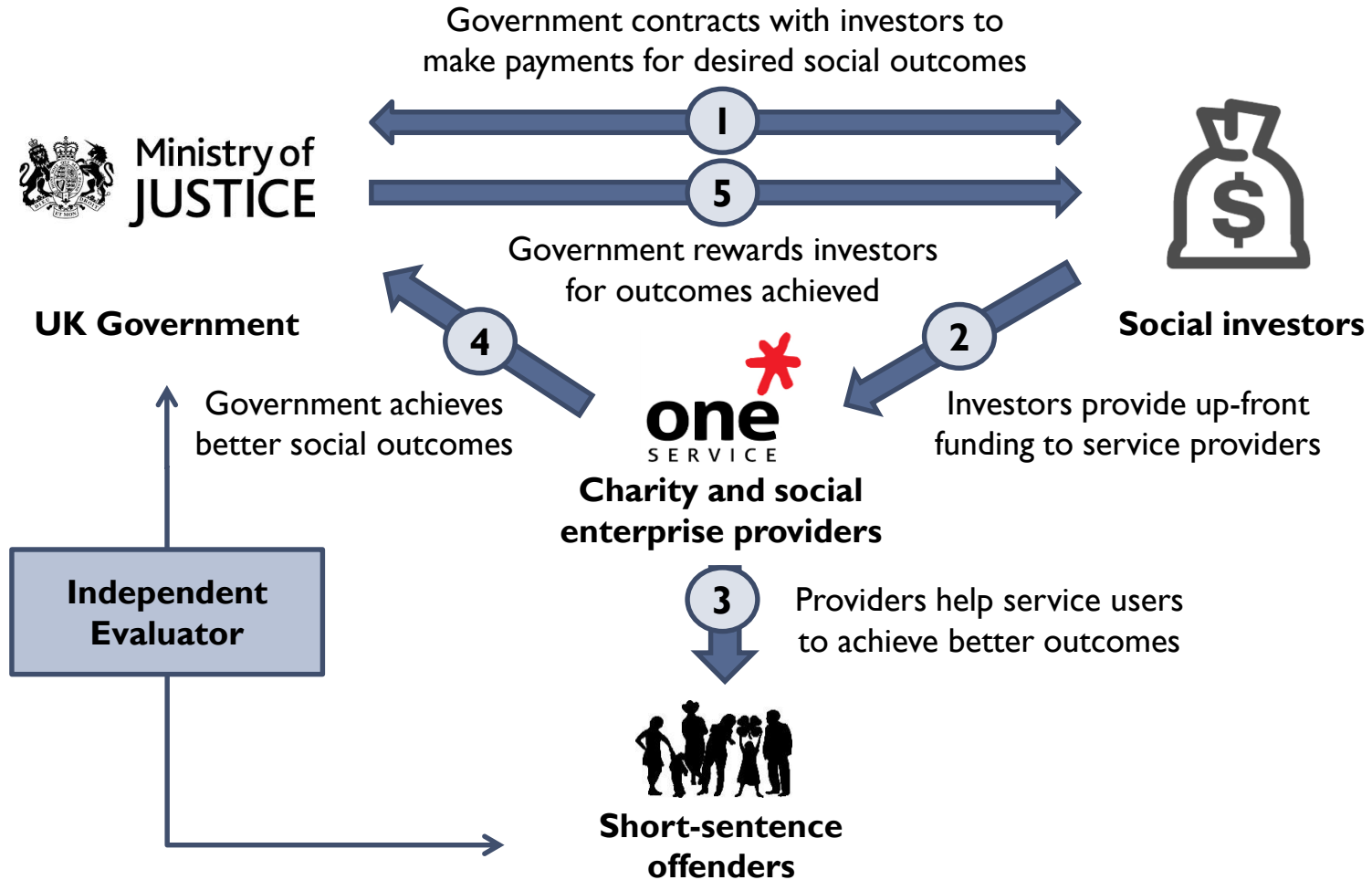
VARIABLE PUBLIC
SECTOR PROVISION

PATCHWORK OF
CHARITY SERVICES



HOW THE PETERBOROUGH SOCIAL IMPACT BOND WORKS

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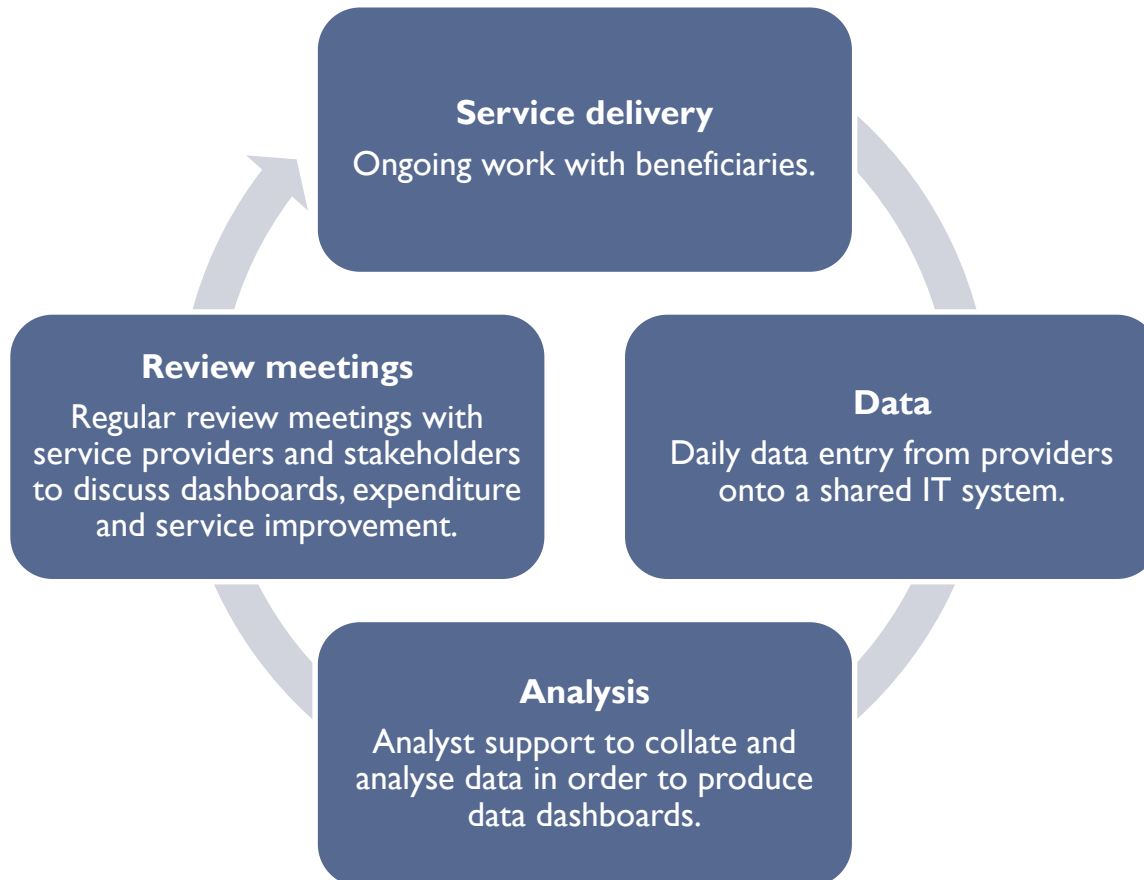


INVESTORS ARE REWARDED ACCORDING TO OUTCOMES ACHIEVED: THE BETTER THE OUTCOMES, THE GREATER THE RETURN



RIGOROUS PERFORMANCE MANAGEMENT ENABLES ADAPTATION AND ENHANCED SERVICE DELIVERY 8

Performance management in Peterborough



Service providers and selected stakeholders (e.g the prison) use a shared IT platform to record information about the service, including:

- Needs of prisoners
- Take up of Needs Assessment and Meet at Gates service
- Activities completed in month post release
- Engagement rates with services
- Job outcomes

SOCIAL IMPACT

- Worked with c.1500 offenders
- 37% of Cohort 1 members and 50% of Cohort 2 members have engaged with the One Service for one month immediately after release
- The first cohort recorded a reduction in reoffending of 8.6%, compared with the national control group
- Early data indicates that performance has improved for the second cohort

INVESTORS

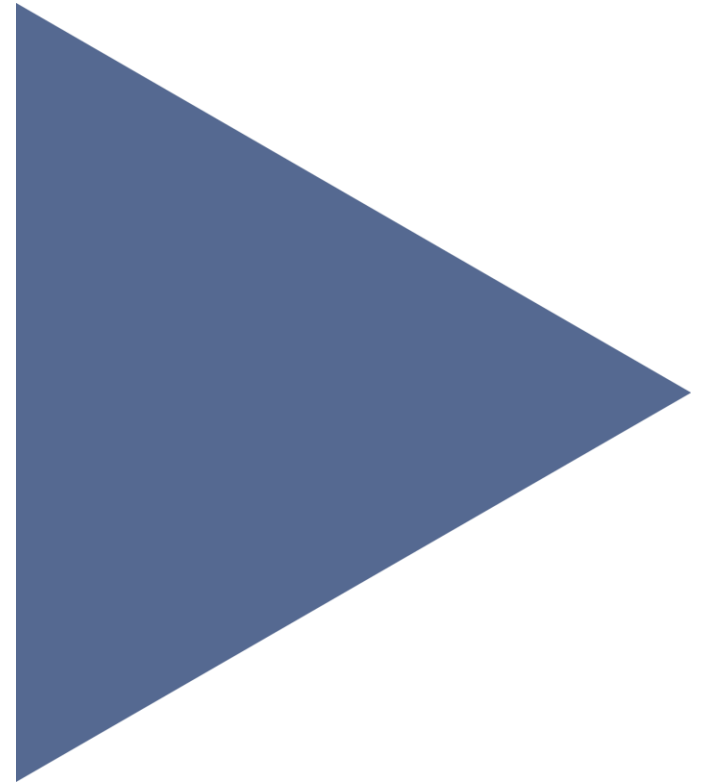
- The programme is on course to meet the 7.5% reduction-in-recidivism hurdle rate required for payment to investors

PUBLIC SECTOR

- The UK Government has formally recognised the success of the programme and is using it as a blueprint to design a new national service for short-sentence offenders



PETERBOROUGH HAS PIONEERED A NEW WAY OF WORKING WITH OFFENDERS AND, IN DOING SO, HAS CHANGED HOW WE THINK ABOUT OTHER SOCIAL SERVICE PROVISION



FOCUSING ON SOCIAL VALUE, RATHER THAN TANGIBLE GOVERNMENT SAVINGS



Homelessness in London

Issue Area and Impact

- Reduce the number of rough sleepers in London
- The city of London is paying for the long-term social value created by reducing homelessness, rather than for any short-term tangible savings

Payment Structure and Metrics

- Payments reward outcomes reflecting the individuals' reintegration into society (e.g. sustainment of tenancy, employment or volunteering activity, reconnection to country of origin, etc.)
- The metrics are designed to incentivise continued work with cohort members once they leave the streets

Financing Structure and Capital Raise

- £2m to work with 850 individuals, running through 2012-2015
- The service providers agreed to bear part of the risk (and the upside), as a show of confidence on their own ability to deliver

Partnership Model

- The Department of Communities and Local Government agreed to pay for the outcomes, whereas the Greater London Authority, which amalgamates the interests of all London boroughs, coordinated the public procurement side
- Two large charities came on board as both service providers and co-investors



PAYING FOR INDIVIDUAL RATHER THAN AGGREGATE OUTCOMES

Youth engagement across the UK



Issue Area and Impact

- Reduce the number of 18 year olds who become NEETs by working with at-risk youth from age 14 to increase their educational attainment and levels of employment

Payment Structure and Metrics

- Tariff-based payment model, where investors get paid for each individual who reaches the predefined targets
- Targets are a mix of soft/intermediate metrics (school attendance, attitude, behavior) and harder/final outcomes (specific qualifications, first employment)

Financing Structure and Capital Raise

- Per-capita payment structure allowed for a lower amount to be raised upfront, as income generated could be recycled into the SIB to cover ongoing needs
- This reduced the overall risk to investors and enabled a more continuous flow of paybacks

Partnership Model

- Commissioned by the Department of Work and Pensions through the creation of an Innovation Fund to launch 10 pilot SIBs across the UK
- All tenders needed to be led by an intermediary, in charge of lining up investors and social providers

●■ UNLOCKING NEW SOURCES OF PRIVATE CAPITAL

Workforce re-entry in New York State



Issue Area and Impact

- Reduce recidivism and increase job placement among 2,000 formerly incarcerated individuals at high-risk of returning to prison

Payment Structure and Metrics

- Repayment to investors will be tied to reduction in recidivism and increase in employment
- Evaluation will be a randomized control trial, validated by independent third party

Financing Structure and Capital Raise

- This \$13.5 deal was distributed by Bank of America Merrill Lynch to 45 institutional and high net worth clients; this kind of private placement can unlock an entirely new pool of private investment capital

Partnership Model

- New York State will serve as the outcomes payer
- Social Finance US will serve as the project intermediary, and will be responsible for investor relations and performance monitoring and management



AN INTERNATIONAL DEVELOPMENT AGENCY AS OUTCOME PAYER



Sleeping sickness in Uganda

Issue Area and Impact

- Reduce the incidence of East African sleeping sickness in Uganda, thereby improving the life expectancy and productivity for those at risk of infection, and unlocking substantial livestock gains in terms of improved health and productivity

Payment Structure and Metrics

- Payback to investors is tied to operational outputs (mass treatment of cattle early on, and to sustained reduction of parasite prevalence in the long-term)
- Performance monitoring will be based on an extensive data collection effort using the latest technology which will generate valuable insights

Financing Structure and Capital Raise

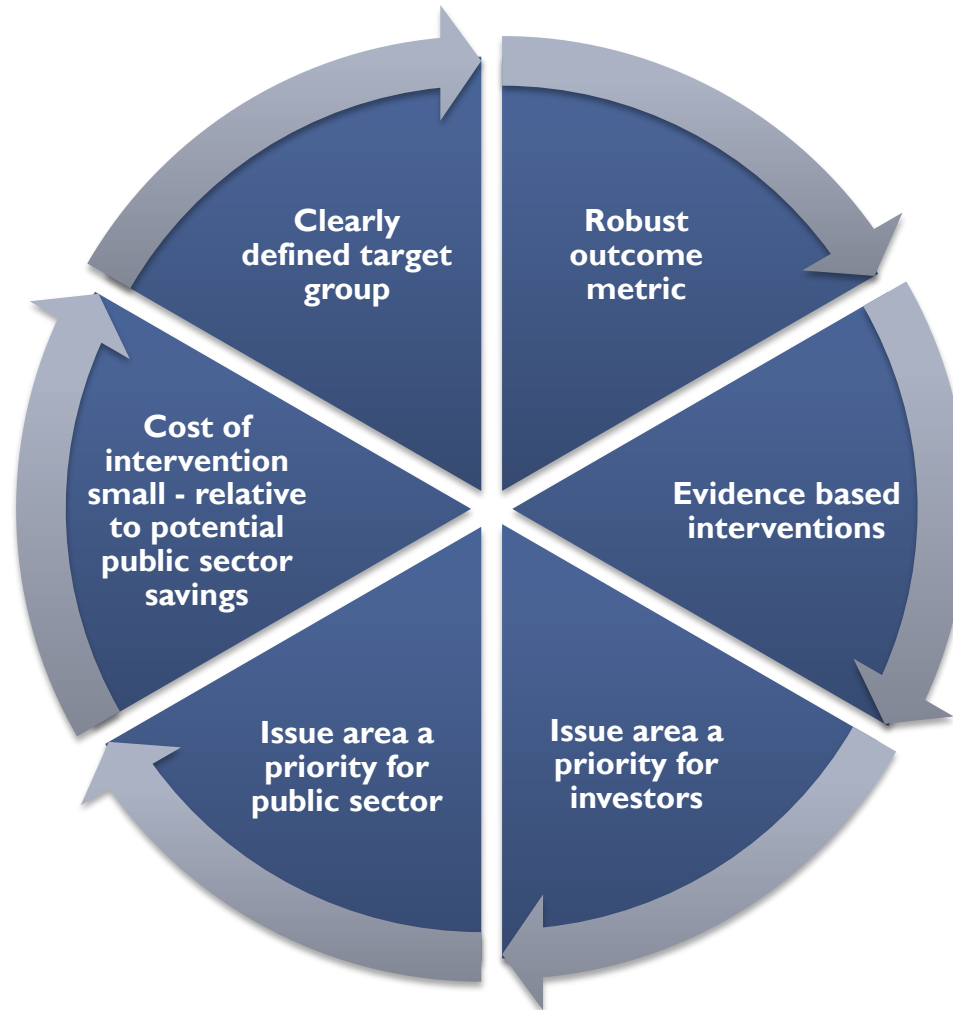
- The scope of the programme will require tens of millions of dollars of funding
- Likely investors include Development Finance Institutions, health-focused charitable foundations and high net-worth individuals with an interest in the issue or the region

Partnership Model

- A multilateral or bilateral donor (e.g. World Bank, UK's DfID), rather than Uganda's sovereign government, will serve as the primary outcomes payer
- Uganda's government will be involved in the partnership in an advisory and facilitative role – providing deep issue expertise and institutional support

■ SIBS ARE ESPECIALLY APPROPRIATE WHEN CERTAIN CONDITIONS EXIST

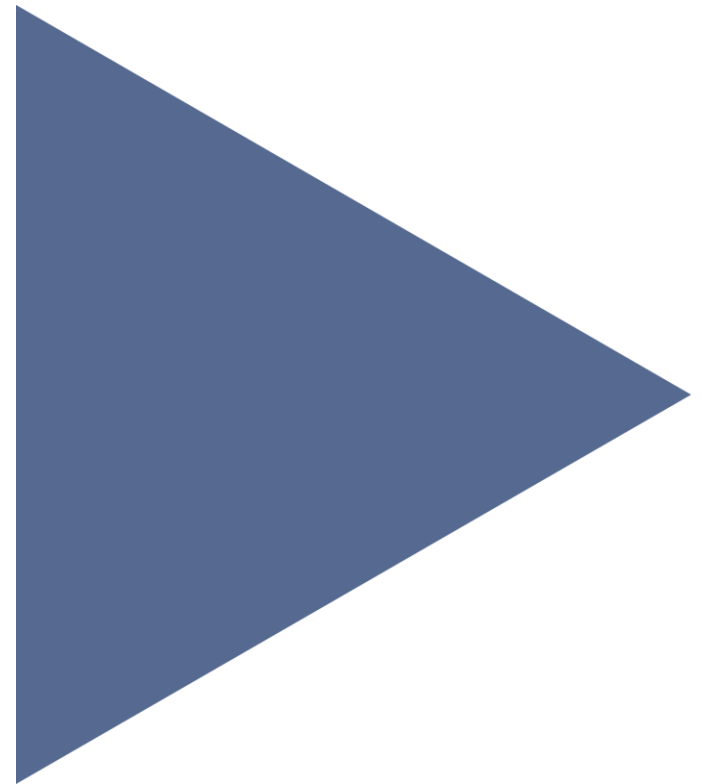
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BENEFITS OF SIBS?

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SIBS ARE CAREFULLY DESIGNED TO DELIVER A NUMBER OF BENEFITS

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INNOVATION



RIGOUR



CLIENT-FOCUS



PARTNERSHIP



FLEXIBILITY

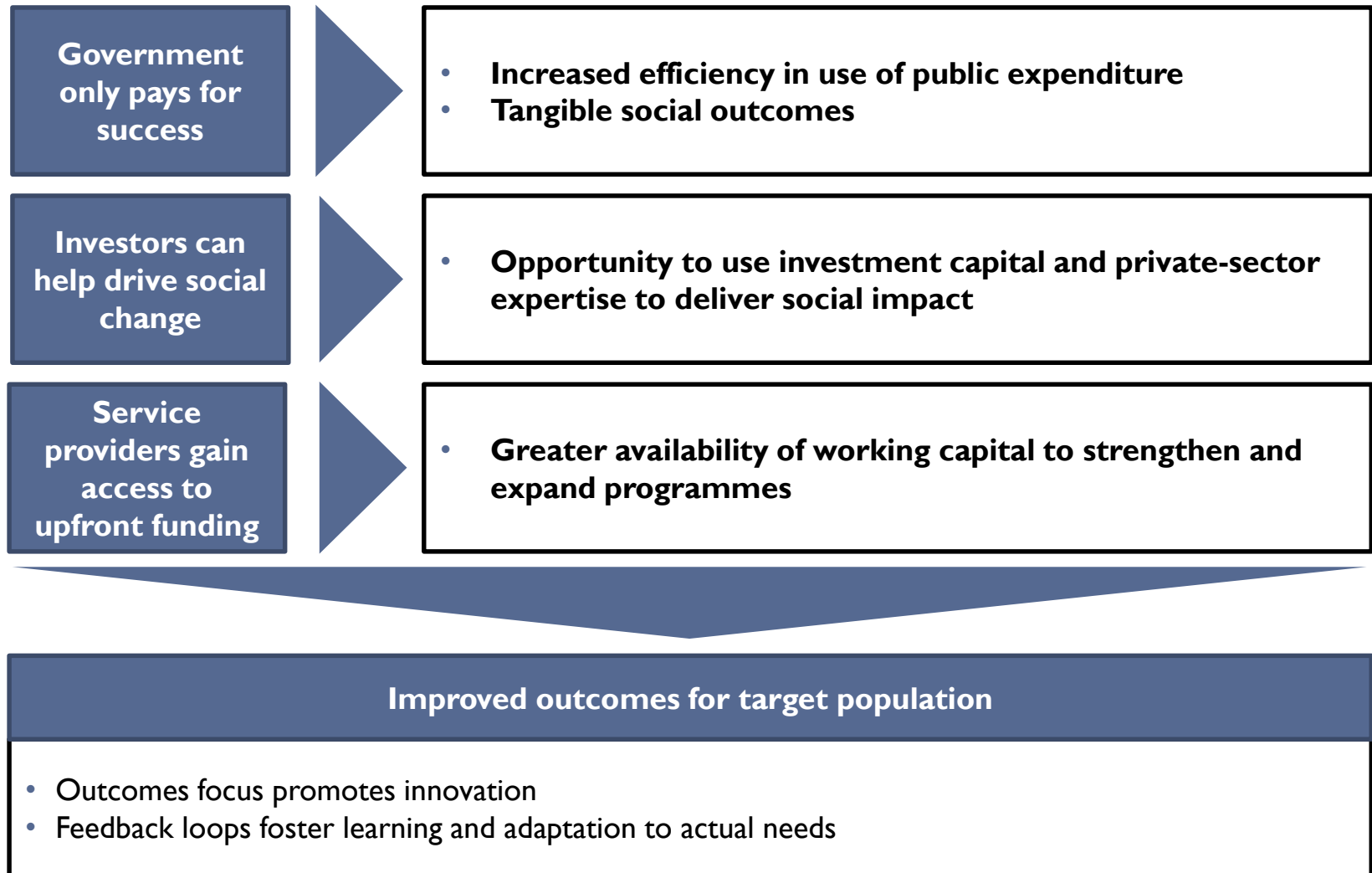


INVESTIBILITY



● ■ EACH PARTICIPANT OBTAINS CLEAR, TANGIBLE VALUE

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WHAT ATTRACTS SOCIAL INVESTORS TO SIBS?

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Interest in scaling a particular intervention or supporting a specific community



Desire to increase government efficiency



Desire to promote collaboration, innovation and build new markets

SELECTED SIB INVESTORS



King Baudouin Foundation



Esmée Fairbairn Foundation



Lankelly Chase Foundation



Rockefeller Foundation
Innovation for the Next 100 Years



BIG SOCIETY CAPITAL
Transforming social investment



The Getty Foundation



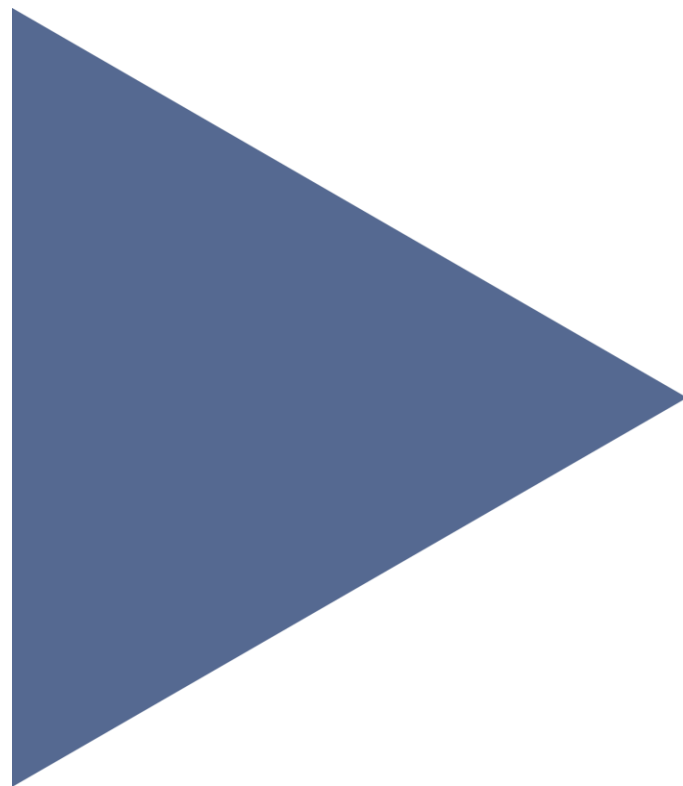
Interest in shifting funding toward prevention



Focus on improving outcomes around a particular social issue



Desire to invest in effective social programmes





A GLOBAL SNAPSHOT OF SOCIAL IMPACT BONDS: THE FIRST 25

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NORTH AMERICA

- 8 Riker's Island SIB 2012
New York, USA
Recidivism
First US SIB
- 18 Utah SIB, 2013
Salt Lake City, USA
High Quality Preschool Program
First early education SIB
- 19 New York State SIB 2013
New York State, USA
Recidivism and employment
First state-led SIB
- 21 Massachusetts SIB 2014
Massachusetts, USA
Criminal Justice/Rehabilitation
First non-guaranteed US SIB
- 24 Sweet Dreams SIB 2014
Saskatoon, Canada
At-risk single mothers
First Canadian SIB

EUROPE

- 1 Peterborough SIB 2010
Peterborough, England
Short sentence offenders
First SIB launched
- 2 APM UK SIB 2012
West Midlands, England
Unemployment/NEETs
First round DWP Innovation Fund
- 3 Links4Life SIB 2012
East London, England
Unemployment/NEETs
First round DWP Innovation Fund
- 4 Living Balance SIB 2012
Perthshire & Kinross, Scotland
Unemployment/NEETs
First round DWP Innovation Fund
- 5 Nottingham City Council SIB 2012
Nottingham, England
Unemployment/NEETs
First round DWP Innovation Fund
- 6 ThinkForward SIB 2012
East London, England
Unemployment/NEETs
First round DWP Innovation Fund

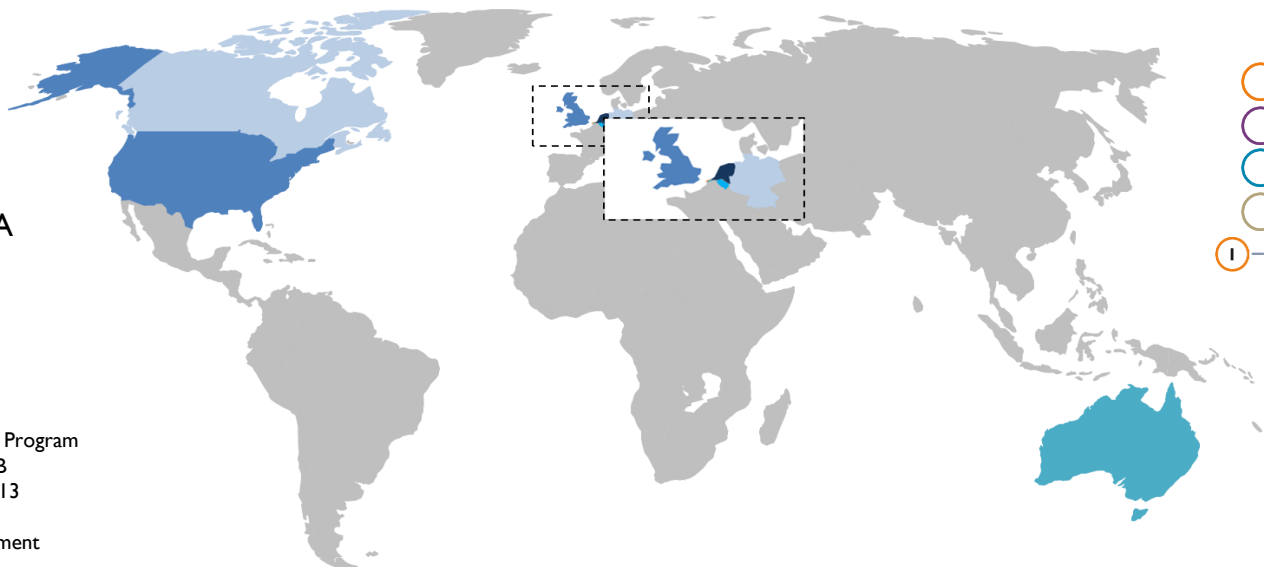
- 7 Triodos New Horizons SIB 2012
Greater Merseyside, England
Unemployment/NEETs
First round DWP Innovation Fund
- 9 3SC Capitalise, Oct 2012
Cardiff & Newport, Wales
Unemployment/NEETs
Second round DWP Innovation Fund
- 10 Energise Innovation, Oct 2012
Thames Valley, England
Unemployment/NEETs
Second round DWP Innovation Fund
- 11 Prevista, Oct 2012
West London, England
Unemployment/NEETs
Second round DWP Innovation Fund
- 12 Greater Manchester, England
Unemployment/NEETs
Second round DWP Innovation

- 13 Essex SIB 2012
Essex, England
Children at the edge of care
First local authority commissioned SIB
- 14 GLA Homelessness SIB 2012
Greater London, England
Homelessness
Service providers also investors
It's All About Me (IAAM) SIB 2013
Whole of the UK
Adoption services
First supplier-led SIB
- 15 Manchester City Council SIB 2014
Manchester, England
Children in residential care
Investment directly in service provider
- 20 Buzinezzclub SIB 2013
Rotterdam, Netherlands
Unemployment/NEETs
First SIB in continental Europe
- 22 Juvat SIB 2014
Augsburg, Germany
Unemployment/NEETs
First German SIB

- 23 Belgium SIB 2014
Brussels, Belgium
Workforce empowerment
Focused on migrant job seekers

AUSTRALIA

- 16 Newpin SIB 2013
New South Wales, Australia
Complex families & child welfare
First Australian SIB
Benevolent Society SIB 2013
- 17 New South Wales, Australia
Complex families & child welfare
Used low and high-risk
investment tiers



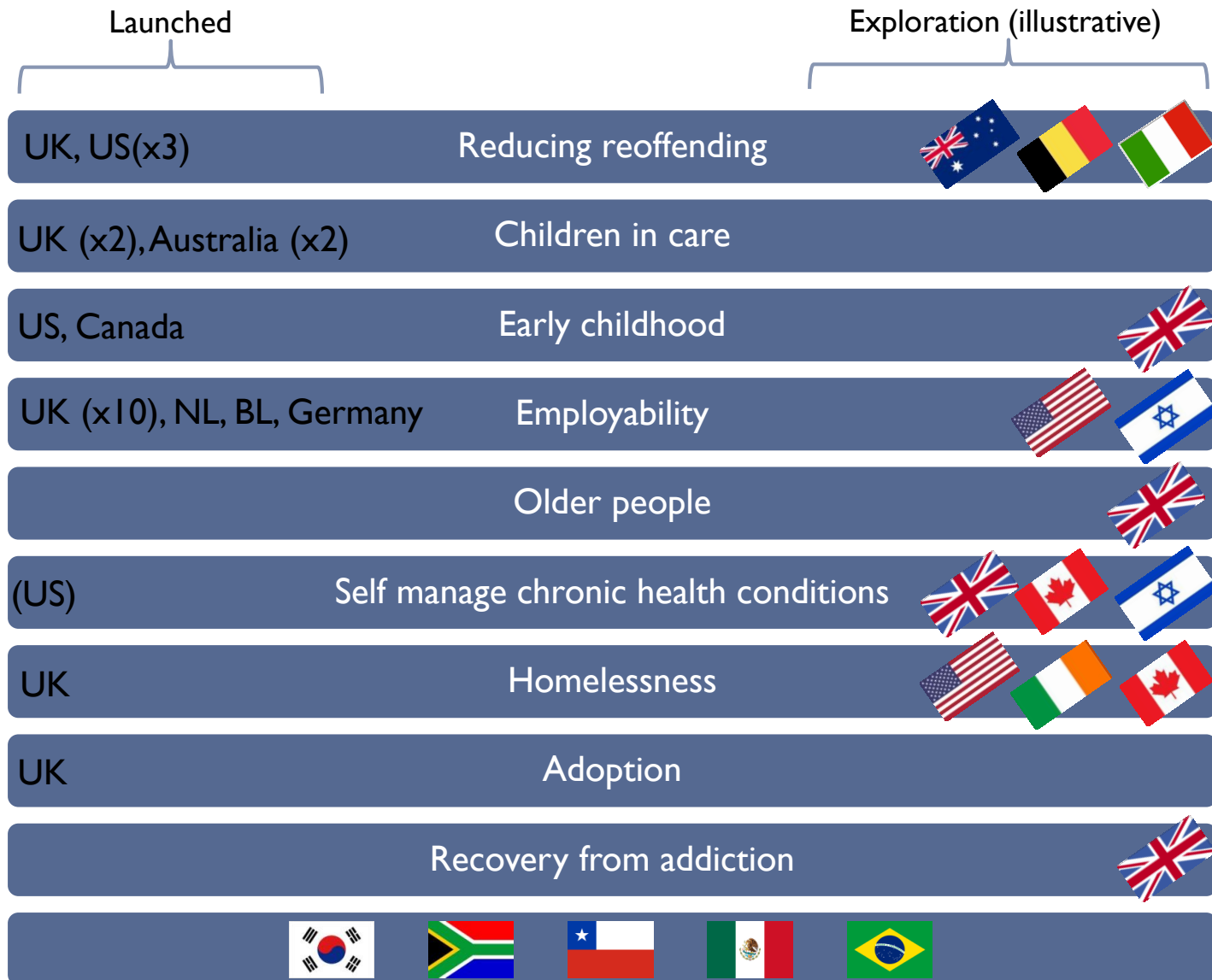
- NEETs/Youth Engagement
- Children and Young People
- Criminal Justice
- Adults with Complex Needs
- 1 — 25 SIBs numbered in chronological order



GLOBALLY, SIBS ARE BEING APPLIED TO A VARIETY OF ISSUES

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25 SIBs launched – 7 countries





THANK YOU