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The Performance of Social Impact Bonds

The Broadcast will Begin at 1:00pm Eastern

- ▶ Submit your questions in advance using the GoToWebinar control panel
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Hello! Welcome to the webcast.



Allison Rowland

Coordinator, Research and Technical Assistance
Council of Development Finance Agencies
Columbus, OH

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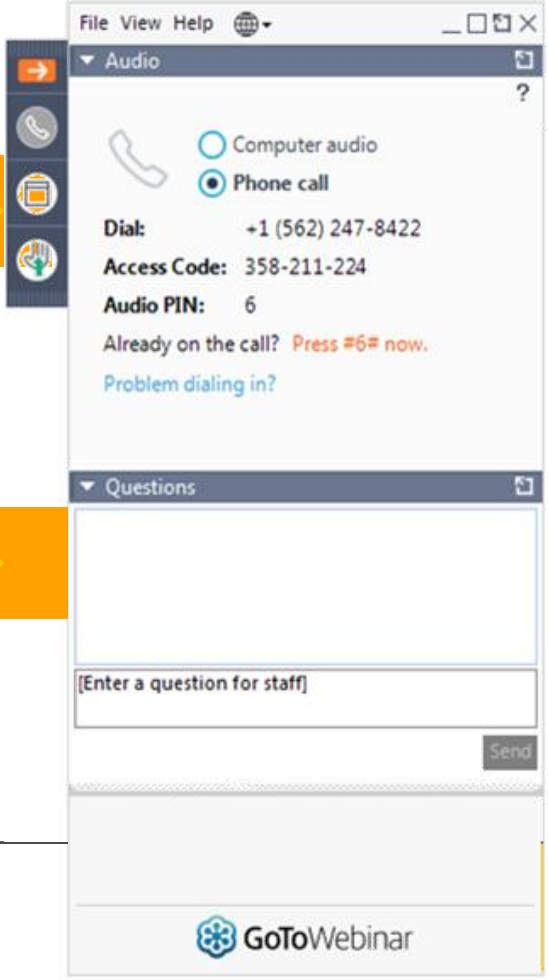
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Listen through the telephone for best audio quality.

Submit your questions to the panelists here.



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Panelists

Oreste Casciaro, *Moderator*

Vice President, Corporate Trust
The Bank of New York Mellon

Annie Dear

Associate Director
Social Finance

Jane Hughes

Professor
Simmons University School of Business

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SOCIAL IMPACT BONDS: INTRODUCTION AND EVOLUTION

APRIL 2020

Annie Dear

Associate Director

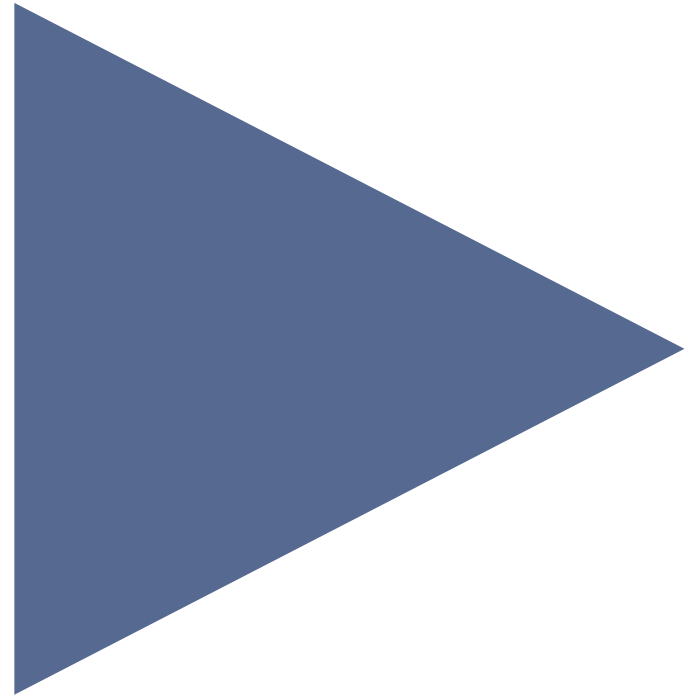
▶ AGENDA

1 About Social Finance and social impact bonds

2 Social impact bond market in the US and globally

3 Other models and looking to the future

▶ ABOUT SOCIAL FINANCE AND SOCIAL IMPACT BONDS





Dedicated to mobilizing capital to drive social progress

Our History

- **Founded in January 2011** by David Blood, Sir Ronald Cohen, and Tracy Palandjian
- **First dedicated** Pay for Success intermediary in the country

Our Global Network

- Social Finance UK, was founded in 2007 and launched **the world's first Social Impact Bond** in 2010
- Our Global Network now includes Social Finance **UK, US, Israel, India, and the Netherlands**

Our Team

- **Team of 60+** includes experienced professionals from the public, private, and nonprofit sectors
- Offices in **Boston, MA, Austin, TX, and San Francisco, CA**

Children & Families



Criminal Justice



Education



Health



Sustainability & Resiliency



Workforce



▶ WHAT WE DO: WE APPLY THE CORE PRINCIPLES OF PAY FOR SUCCESS TO ADDRESS CRITICAL SOCIAL PROBLEMS

Pay for Success is a set of innovative financing strategies that make payments directly dependent on results

Pay for Success strategies share these core principles:



Clearly defined
outcomes



Data-driven
decisions



Uncommon,
cross-sector
partnerships

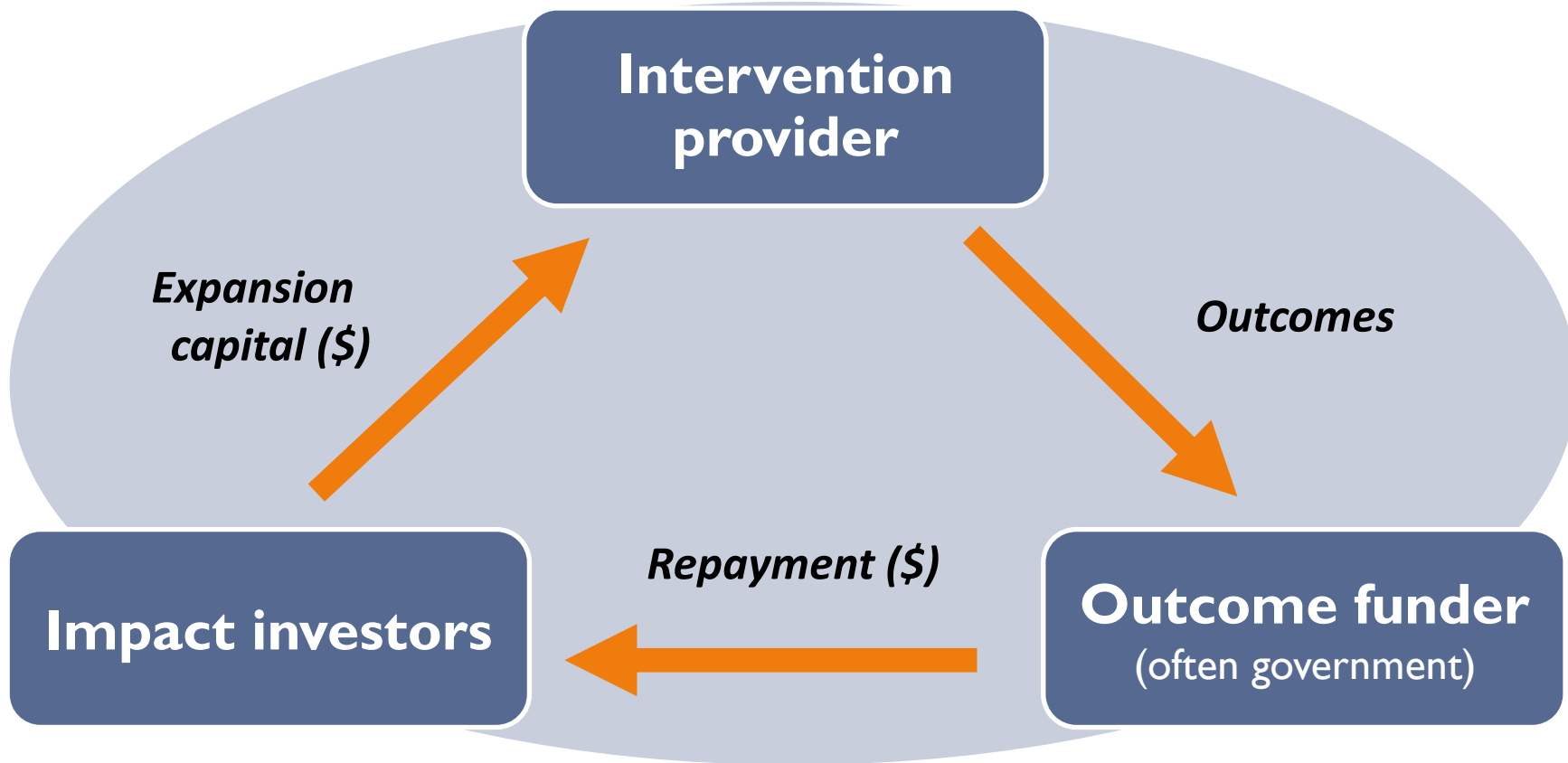


Strong
governance &
accountability



Private **capital**
for impact

▶ WHAT IS A SOCIAL IMPACT BOND?



Social Impact Bonds leverage **private capital** to drive **government resources** towards **outcomes**, measurably improving the lives of people most in need

▶ THE CHALLENGE IN MASSACHUSETTS

A significant gap in services results in poor employment outcomes

A population in need....

- Approximately 230,000+ known adult English language learners in greater Boston¹
- Limited English creates a **fundamental barrier to employment** and higher paying jobs:
 - Limited English immigrants earn **roughly \$24,000 less annually** than immigrants who speak English fluently²
 - **Over 40% are unemployed** compared to 30% of English speaking immigrants³

...with limited options

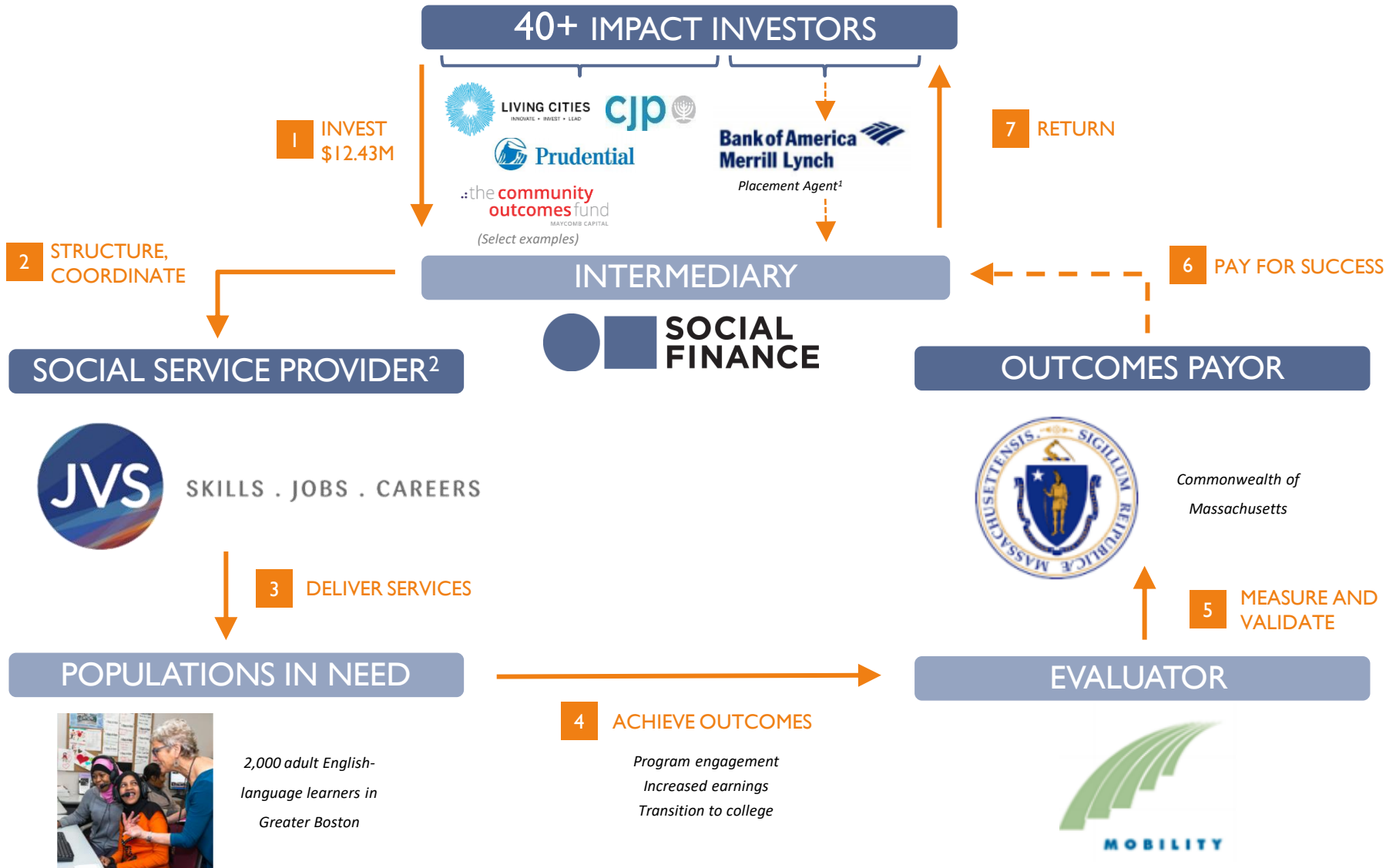
- **Insufficient funds for standard English classes.** 16,000 known individuals on service provider waitlists for English classes⁴
- **Current services lack workforce component.** Scarcity of programs designed to help individuals improve English and **transition to either employment or higher earnings**

Access to the right services can help limited English speakers increase their earnings and make successful transitions to higher education



Source: 1,2,3,4) "Breaking the Language Barrier: A Report on Language Services in Greater Boston," The Boston Foundation (March 2011).

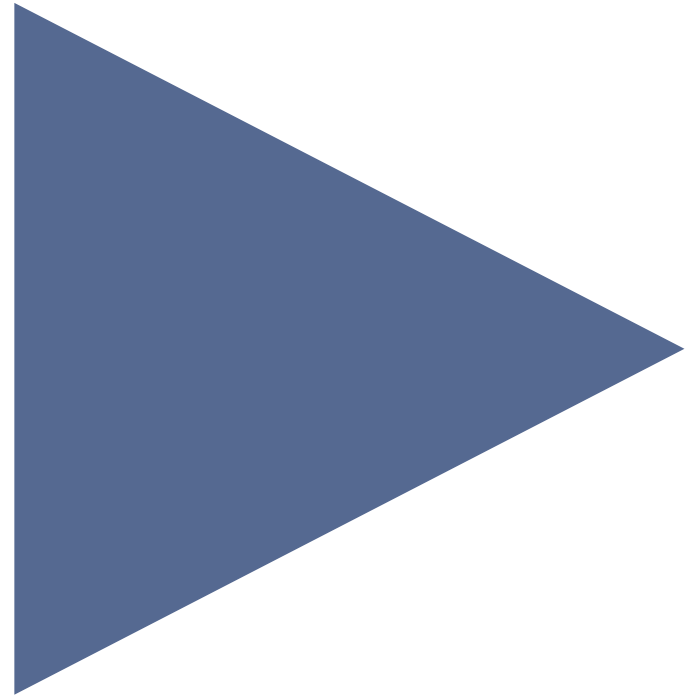
▶ EXAMPLE: MASSACHUSETTS PATHWAYS TO ECONOMIC ADVANCEMENT



Notes:

- 1) Bank of America Merrill Lynch acted as the placement agent for certain qualified high net-worth and institutional investors
- 2) Jobs for the Future (JFF) will be providing technical assistance services to JVS to implement the evaluation of their English for Advancement (EFA) program track

▶ SOCIAL IMPACT BONDS IN THE US AND GLOBALLY



▶ 28 IMPACT BONDS HAVE REACHED THE MARKET TO DATE
 ...and more are on the way

Children & Families



- 1 Salt Lake Cty
- 2 Chicago
- 3 Cuyahoga Cty
- 4 Connecticut
- 5 Jefferson Cty
- 6 Colorado
- 7 Denver Cty
- 8 Oklahoma
- 9 Shelby Cty

Criminal Justice



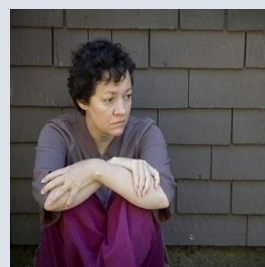
- 10 New York City
- 11 Massachusetts
- 12 New York State
- 13 Salt Lake Cty
- 14 Oklahoma
- 15 Alameda Cty
- 16 Ventura Cty

Health



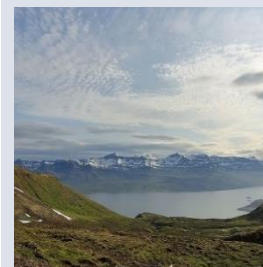
- 17 South Carolina
- 18 Michigan
- 19 Delaware

Homelessness



- 20 Massachusetts
- 21 Santa Clara Cty
- 22 Denver
- 23 Salt Lake Cty
- 24 LA Cty

Sustainability & Resiliency



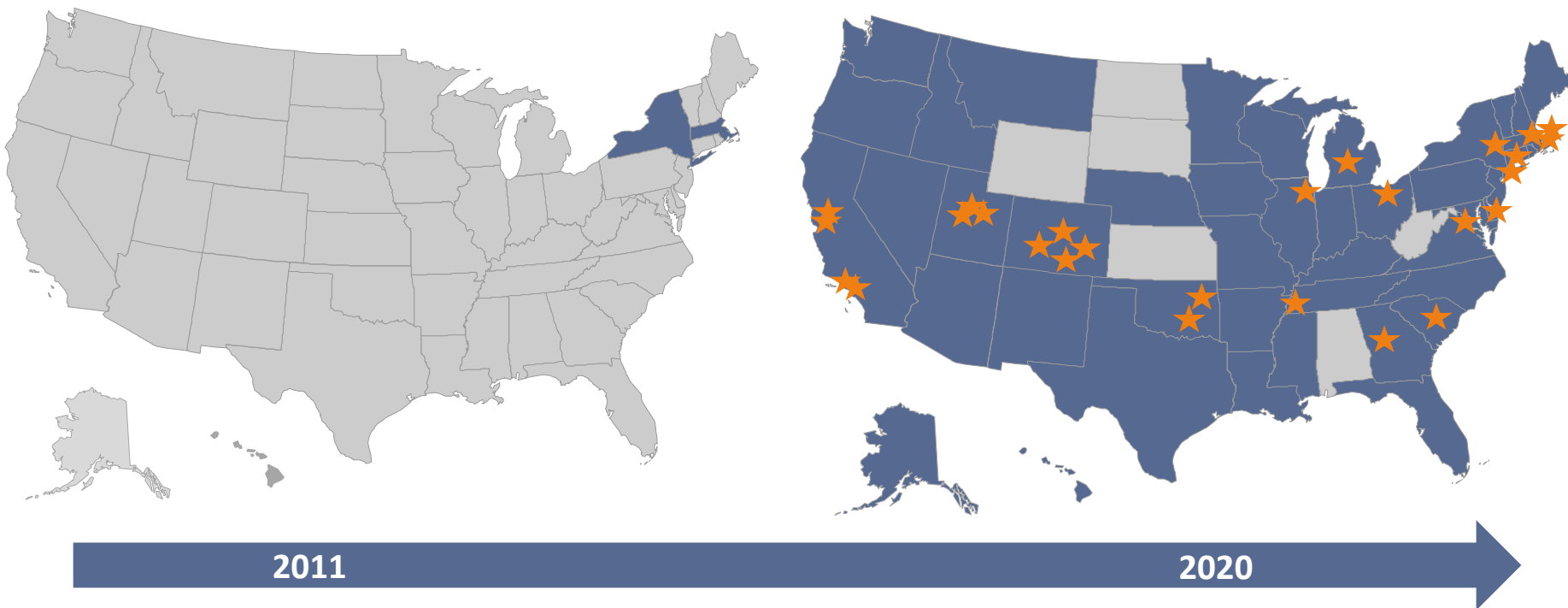
- 25 Washington, DC
- 26 Atlanta

Workforce Development



- 27 Massachusetts
- 28 Massachusetts & New York

▶ THE PAY FOR SUCCESS LANDSCAPE IS EVOLVING QUICKLY

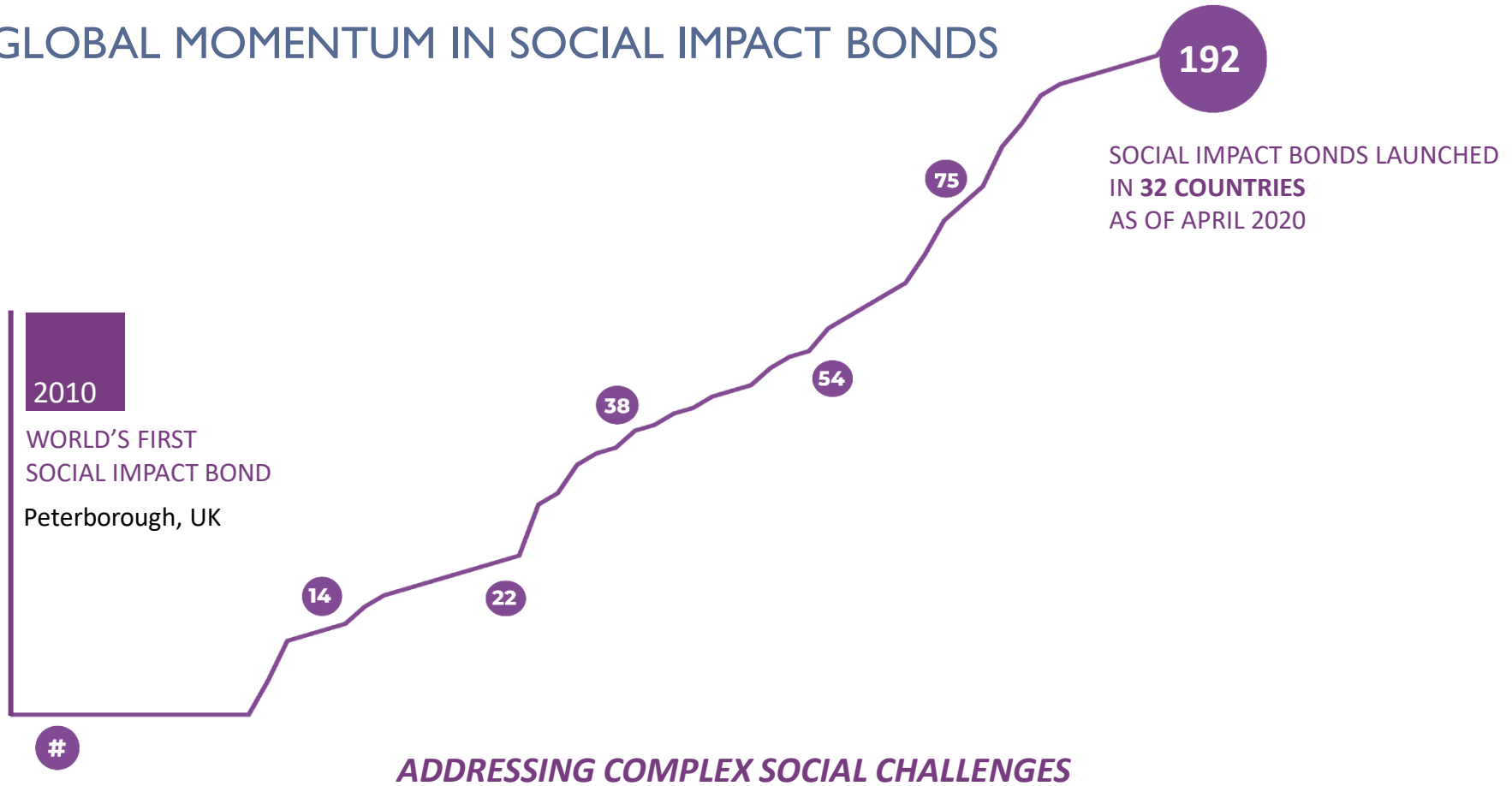


■ Taken steps to explore Pay for Success*

★ Launched Impact Bond

* States are shaded where a state or local government has taken at least one of the following steps to explore Pay for Success: introduced legislation, initiated procurement, commissioned a feasibility study, or entered into Impact Bond development.

GLOBAL MOMENTUM IN SOCIAL IMPACT BONDS



CHILDREN & FAMILIES



CRIMINAL JUSTICE



EDUCATION



HEALTH



HOMELESSNESS



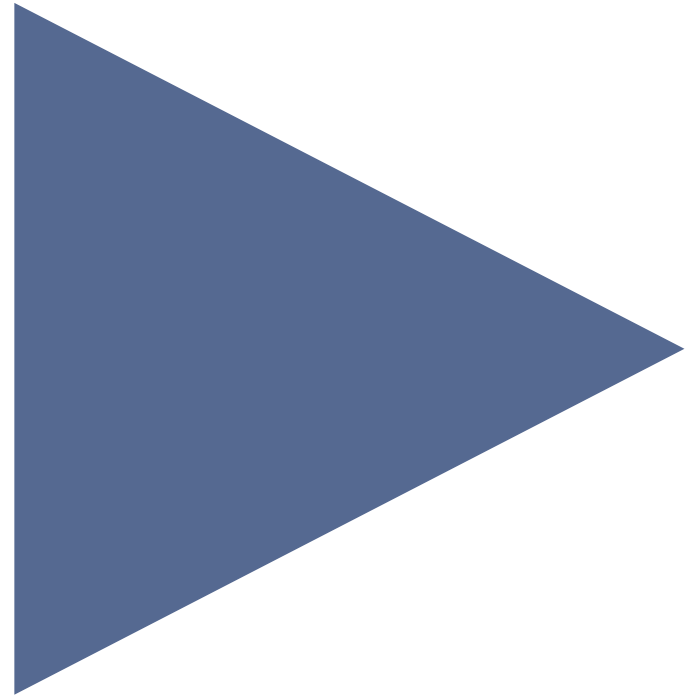
SUSTAINABILITY & RESILIENCY



WORKFORCE

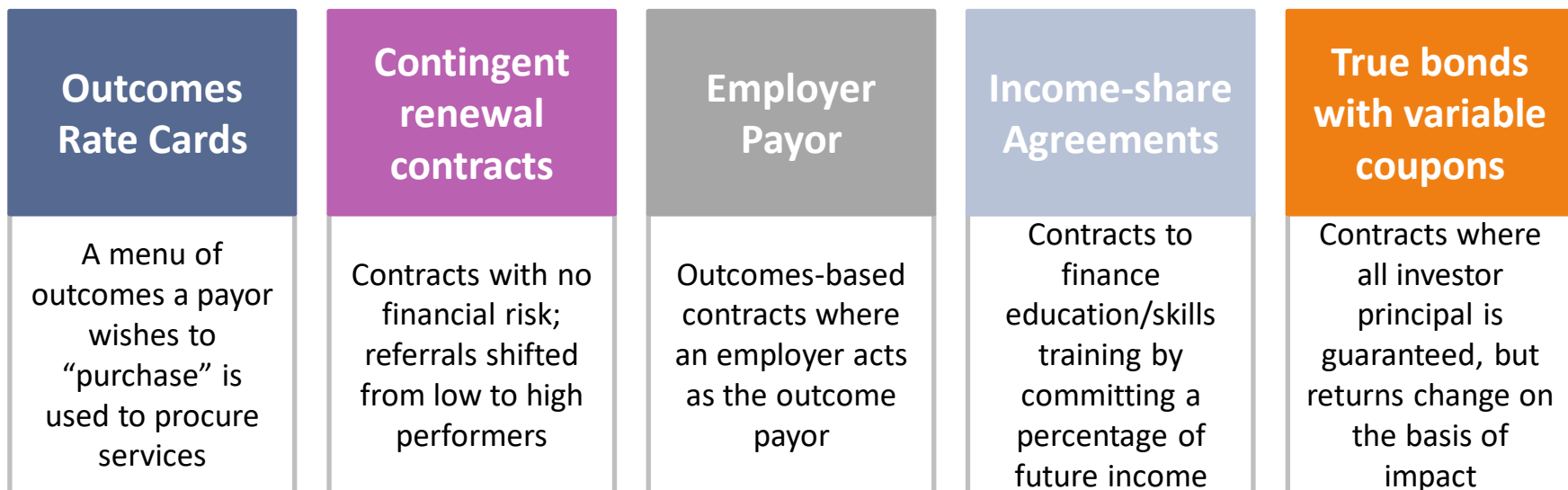
Source: Brookings Institution, "Social and development impact bonds by the numbers," available at <https://www.brookings.edu/research/social-and-development-impact-bonds-by-the-numbers/>.

▶ OTHER MODELS AND LOOKING TO THE FUTURE



▶ A BROADER SPECTRUM OF OUTCOMES-BASED CONTRACTS

The principles of social impact bonds have been applied to new and innovative contract arrangements and financing mechanisms



e.g., Connecticut Office of Early Childhood Outcomes Rate Card

e.g., Philadelphia child welfare contracts

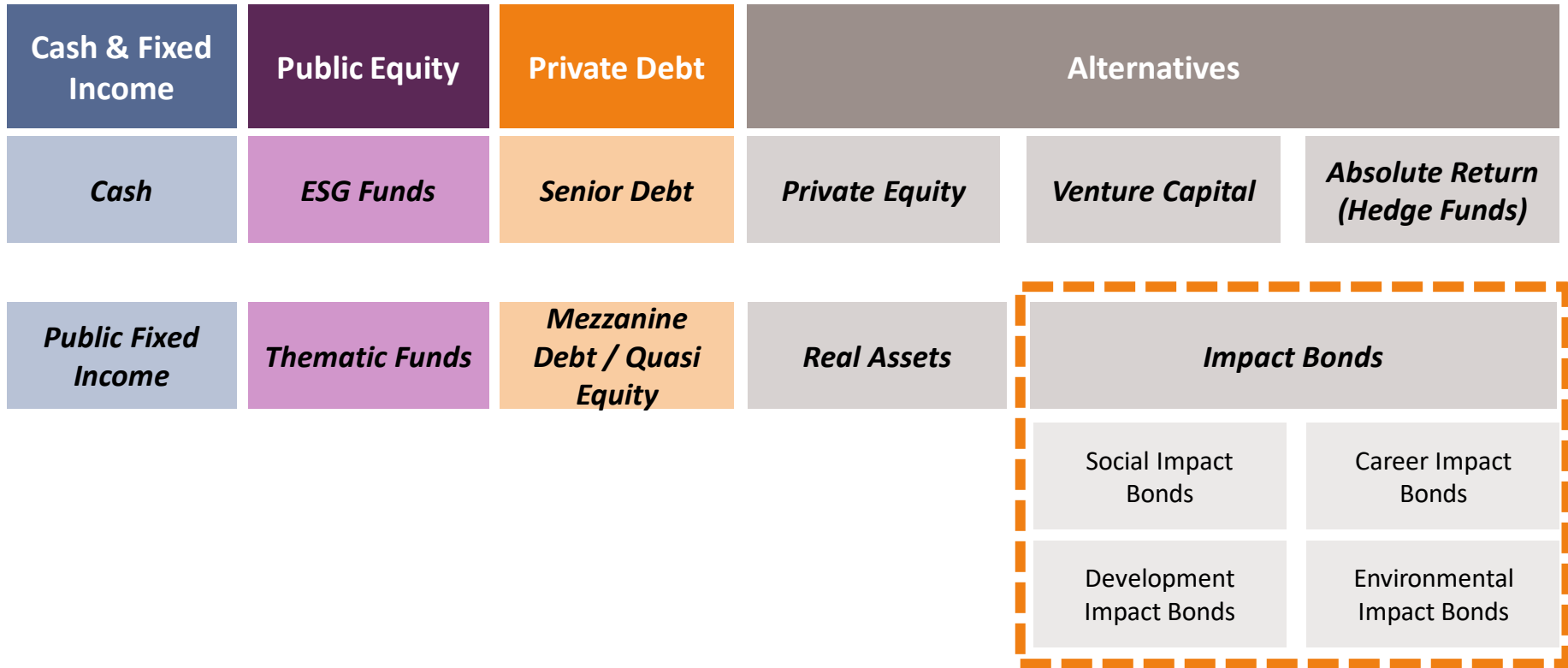
e.g., Philadelphia Works employer payor

e.g., General Assembly ISA

e.g., DC Water Environmental Impact Bond

WHERE DO IMPACT BONDS FIT IN THE ASSET ALLOCATION FRAMEWORK?

Example impact investments across asset classes



DOES PAY FOR SUCCESS WORK? HIGHLIGHTING TWO CONTRASTING EXAMPLES

PETERBOROUGH PRISON



Project reduced reoffending among target population by 9%, resulting in full repayment of principal and a 3% annual return to investors.

RIKERS ISLAND



Project did not achieve measurable impact; financing mechanism worked as designed—taxpayers did not pay for the program, and it was discontinued.

▶ SOCIAL IMPACT PARTNERSHIPS TO PAY FOR RESULTS ACT (SIPPRA)

The US Department of the Treasury appropriated \$100M through SIPPRA to support the launch of state and local PFS initiatives

SIPPRA was signed into law on **February 2018** – it creates an opportunity for state and local governments to **leverage federal resources to tangibly advance policy initiatives** while building a foundation for outcomes-based decision making.

Results Act funding can be used across the spectrum of Pay for Success project development to improve twenty priority outcomes, including those in the following issue areas: **child welfare, family stability, education, health, employment, recidivism, and veterans.**

UP TO
\$75M

FOR OUTCOME PAYMENTS

UP TO
\$10M

FOR FEASIBILITY STUDIES

UP TO
\$15M

FOR EVALUATION COSTS



**SOCIAL
FINANCE**



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Professor
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SOCIAL AND OTHER IMPACT BONDS

CDFA WEBINAR

APRIL 21, 2020

PROFESSOR JANE HUGHES

**Pay-for-success: outcomes-based funding structure
in which financial returns are dependent on social
outcomes**



Hurricane Harvey:
\$57B+ to rebuild Houston



Rebuilding Houston: Harvey SIB based on outcomes, e.g. housing value, business output, kids in school







Low-hanging fruit: Short-term, easily quantifiable outcomes







SIBS DEPEND ON PHILANTHROPY



Newpin Australia: The fine print

- Seven years, \$7M – launched 2013
- Minimum 5% interest first 3 years; maximum rate is 15% p.a. over the full term
- Outcome metric: restoration of children from out-of-home care to their families
- Restoration rate of 65% = interest of 12% p.a.
- Principal protection 75% years 1-3, 50% years 4-7



Note: Loss of principal would require restoration rates below the 2012 performance

One solution to rough sleeping in London is
deportation





Preschool in Chicago

Rajasthan Educate Girls DIB

- Outcomes:
 - Achieved 160% of learning target
 - Achieved 116% of enrollment target
- From one philanthropy to another...
 - Investor: UBS Optimus Foundation
 - Outcome payor: Children's Investment Fund Foundation
- Project budget: \$270,000
- Total costs: \$1M (including mgmt, evaluation, public sharing of results)




SIBs vs Impact Bonds

SIBs

- Not really bonds
- Based on PFS
- Variable return
- May have guarantee of principal
- Impact-first investors
- Long build-up
- \$400M in 10 years

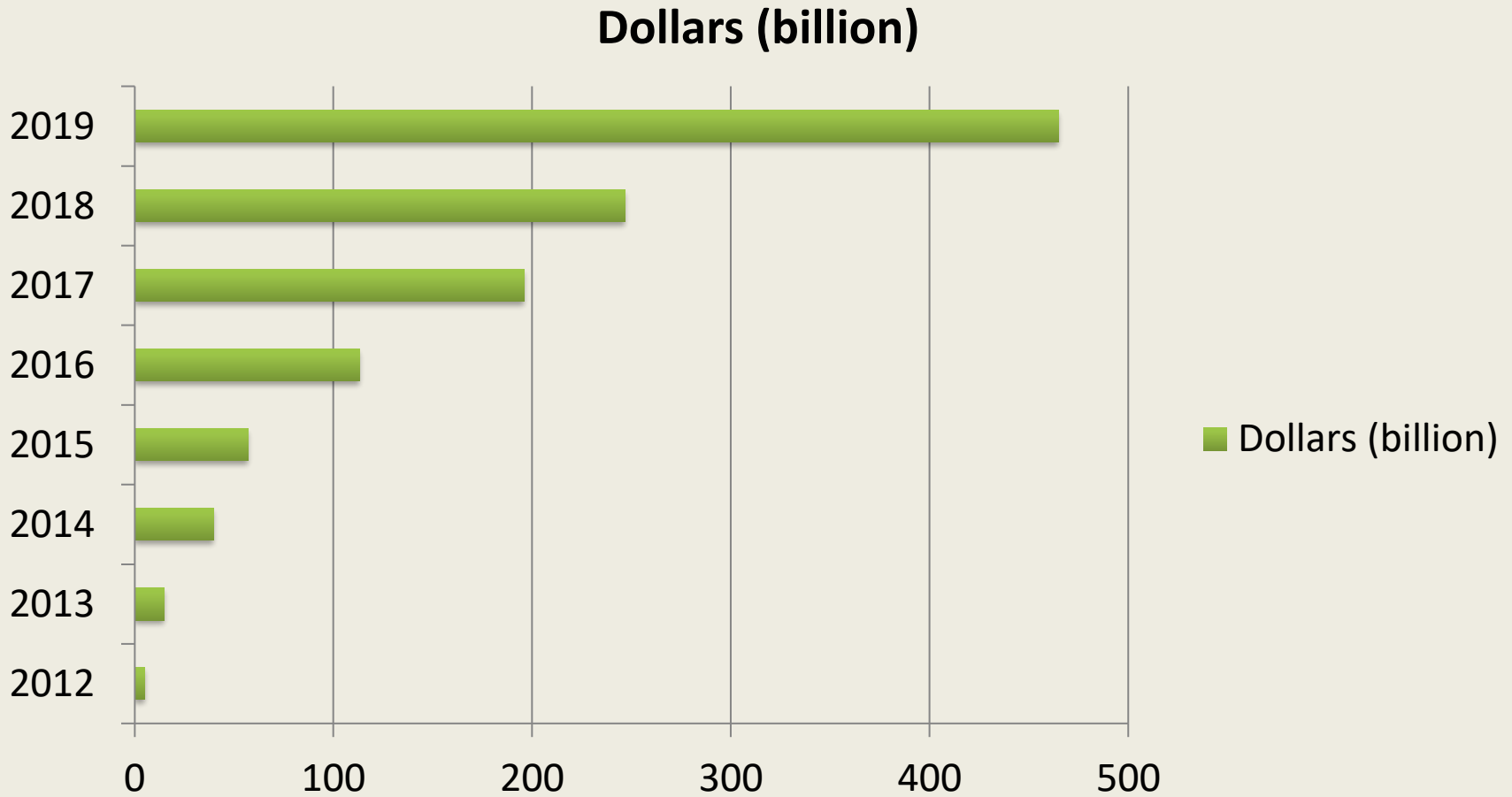
Impact Bonds

- Bonds
- Not usually PFS
- Fixed income
- No guarantees
- Mainstream investors
- Quick issuance
- \$400B in 2020 alone!

A young green sapling with several leaves is growing in the foreground on the left. To its right is the thick, textured trunk of a much larger tree. The background is a blurred forest floor with rocks and fallen leaves. The overall tone is natural and green.

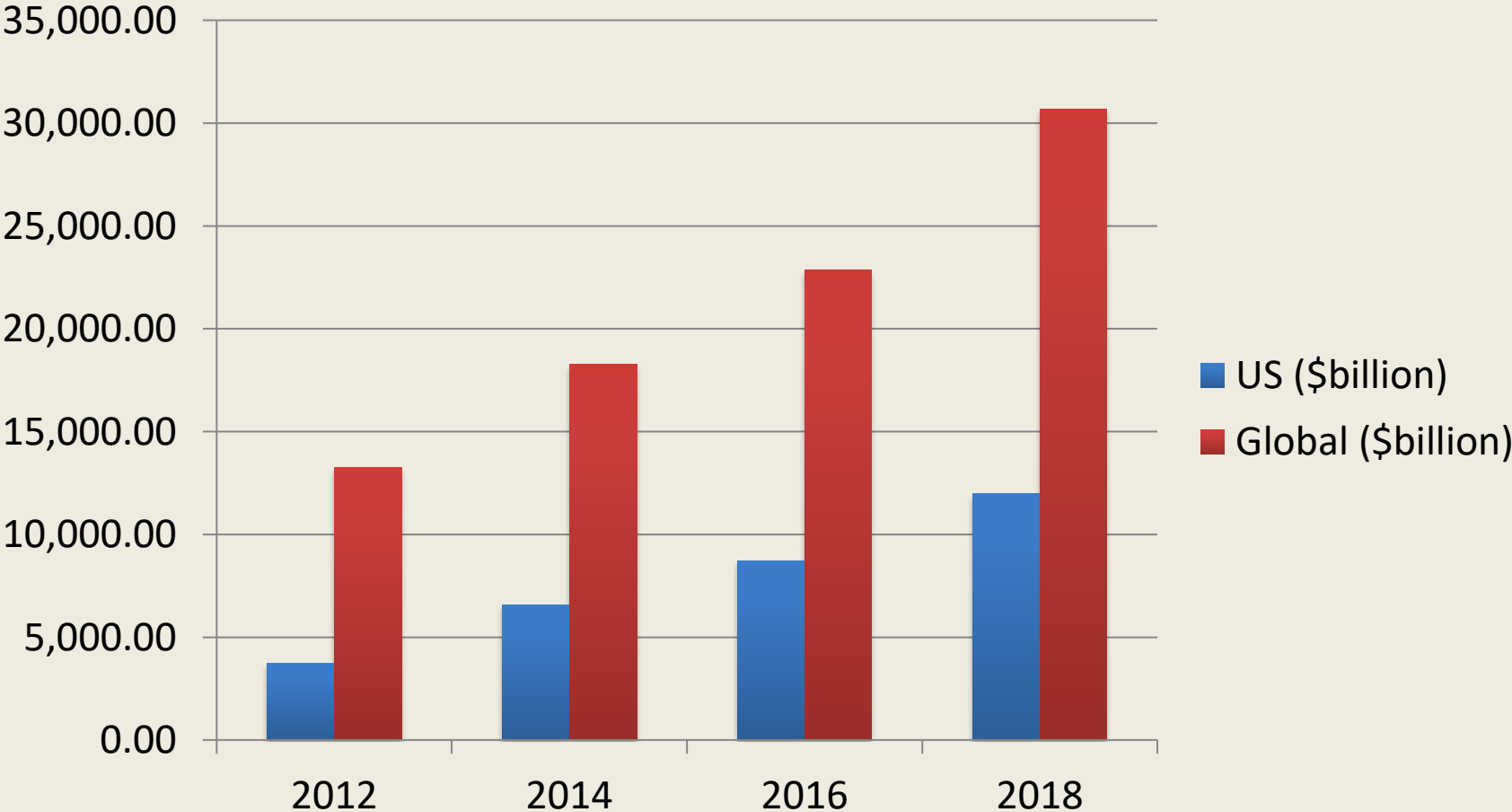
Green bonds raise funds
for climate/environmental
projects

SUSTAINABLE DEBT ISSUANCE



Source: Bloomberg

GLOBAL SUSTAINABLE ASSETS



Source: Global Sustainable Investment Alliance



ESG: An environmental, social,
and governance lens for investors



SIBs as research incubators



SOCIAL BOND GUIDELINES

- Use of proceeds: For clear social benefits; impact to be assessed and, when possible, quantified
- Process for project evaluation and selection
- Management of proceeds
- Reporting

- External review is recommended
- Compliance is voluntary

Green/Environmental IMPACT BONDS

- Fannie Mae, 2012-18: \$58B in Green Bonds to finance green multifamily units @2.5-3%
- DC Water & Sewer Authority, 2016: \$25M Municipal Bond for green infrastructure projects to manage stormwater runoff @3.4%
- Atlanta, 2019:\$13M publicly offered Environmental Impact Bond (PFS structure)
- Massachusetts Clean Water Trust, 2013-20: \$1B in Green Bonds @2.5%

SUSTAINABILITY BOND OF THE YEAR 2019: NYS HOUSING MUNI BOND

- June 2019: \$130M (oversubscribed by over \$500M)
- Aligned with Sustainability Bond Guidelines
- Used to finance affordable, energy-efficient housing
- Coupon: 1.35%-3.25%





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May 20-21, 2020
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Wednesday, May 12, 2020

11:00 AM - 1:00 PM Eastern

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