



SOCIAL IMPACT BONDS  
ARE AN INNOVATIVE WAY  
OF ATTRACTING NEW  
INVESTMENT THAT  
BENEFITS INDIVIDUALS  
AND COMMUNITIES

## Introduction to Social Impact Bonds

Public services are designed to meet acute need. If a person commits a crime he/she is put in prison; if a family breaks down, children are often taken away by the State; if Diabetes sufferers are not properly treated, they will have repeated visits to hospital Emergency departments.

Shifting government spending to preventative services is more difficult than it seems. There are a number of reasons why. Firstly, governments around the world find it hard to invest in prevention because they still need to pay the bill if the intervention goes wrong. For instance, if rehabilitating prisoners fails, the government needs to pay for police, court and prison time to punish the offenders. Secondly, usually there is only partial data that municipalities and government departments can access to understand when an intervention is needed, and when it works. The real cost of a social problem is not always fully analysed and the financial case for intervening when the data is incomplete is difficult. And thirdly, social organisations are paid to deliver a set of services rather than deliver a result. This means that, typically, there is little incentive to innovate.

In 2010, Social Finance pioneered a model that separates the payment for the delivery of an intervention from the payment for the success of that intervention. This is the Social Impact Bond (SIB). Working with a number of partners, we realised that we needed to understand not only the financial costs of a social issue but the value to interested parties, primarily government, of preventing an escalation of the same social issue. Once we had agreed the financial value of preventing or improving a social issue, we assessed the level of investment needed that would cover the costs of the delivery of the interventions and the risks to the investors if the interventions were not successful.

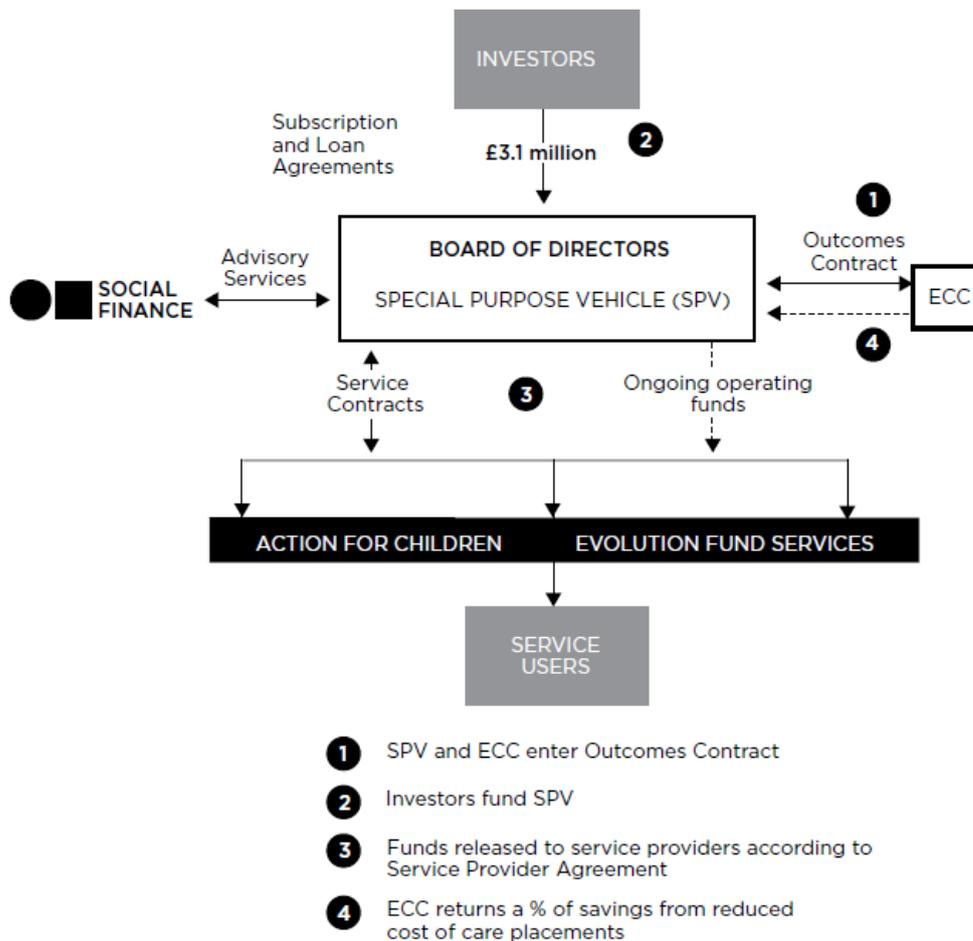
The first SIB was launched in September 2010 at Peterborough Prison. It funds rehabilitation services for short-sentence prisoners released from the prison, with the aim of reducing reoffending post-release. To date, a total of 14 SIBs have been launched in the UK, ranging from supporting young people to find work to helping rough sleepers off the streets.

## What is a Social Impact Bond?

Social Impact Bonds raise investment to alleviate social problems. They fund interventions which address the unmet needs of vulnerable groups of our society.

A SIB is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of financial interest to a government commissioner. If the social outcome improves, the government commissioner repays the investors for their initial investment plus a return for the financial risks they took. If the social outcomes do not improve above an agreed threshold, the investors stand to lose their investment.

The diagram below draws on the Essex Social Impact Bond for vulnerable children on the edge of being taken into care. This is an example to illustrate how a SIB can be structured.



## What is the process of developing a Social Impact Bond?

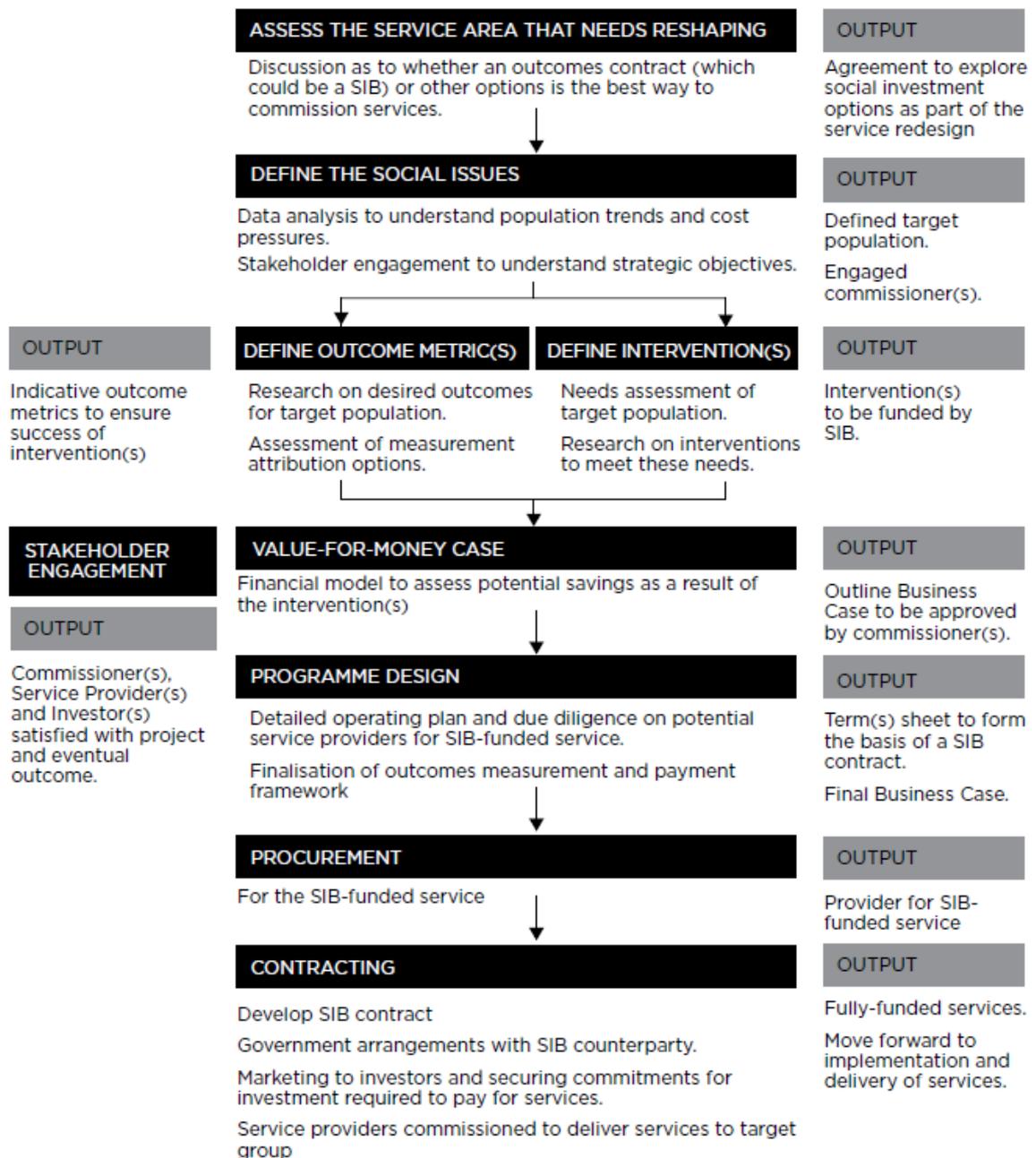
The main objectives of the SIB are to:

- align public sector funding more directly with improved social outcomes;
- increase the pool of capital available to fund prevention and early interventions;



- enable a broad diversity of service providers to collaborate;
- provide greater certainty over revenue streams for effective service providers; and
- encourage a more rigorous approach to performance management including objective measurement of outcomes which contributes to building a broader evidence base for what works.

Social Impact Bonds will not apply in all circumstances. In many areas, traditional funding streams will remain the most appropriate. To determine whether a SIB could apply to tackling a specific social problem, a number of factors must be considered. We set out below the various stages of the development process.



## What is required for a SIB?

### A clearly defined target group

If the target group is not sufficiently defined the interventions may be too diffuse to have a significant impact in achieving the target outcome. If it is too narrow, the target population may be too small to demonstrate a statistically significant effect. In the children's services area, a target group could be adolescents aged 10–15 with behavioral problems, who are referred to the local children's services authority. In health, a target group could be patients at high risk of emergency hospitalisation who are identified through risk assessment tools.

### Robust outcome metric

The outcome metrics form the foundation of the SIB contract between the public sector and investors. All stakeholders need to trust that there is an objective mechanism for assessing and agreeing the degree to which social outcomes have been achieved. Such a metric might need to be linked to cashable savings on the part of the public sector commissioner. Whether suitable metrics can be identified is a key determinant of whether or not a SIB is the appropriate instrument for addressing an identified social issue.

### Innovative interventions

Social Impact Bonds look to fund preventative, innovative interventions that tackle the root causes of a range of social issues. Tackling these issues effectively often means a variety of interventions need to be brought together. For example, drug users might need not only drug treatment services but also family support programmes that would reduce their risk of relapse. To develop an intervention programme, we recommend engaging with national and local service providers to identify where complementary interventions could better meet the needs of the target population and achieve the desired outcome.

## Building the Business Case

### Operating Model & Intervention Costs

Given that SIBs are likely to fund a consortia of service providers, it is necessary to have a robust understanding of the total programme delivery costs, including infrastructure and overhead costs. The development of an indicative budget for the proposed suite of services will determine the level of funding that will need to be raised from investors through the SIB.

It is important at the feasibility stage to consider the practical implications of how the SIB can operate. Engagement with a public sector commissioner is helpful to understand how the portfolio of SIB interventions could sit alongside "business as usual" processes.

### Financial Model

The financial model aims to reflect the economics of the SIB. It estimates the costs of interventions, overheads and other fixed costs which together determine the level of investment required over the period of the SIB. Set against this will be the share of the cost savings agreed by the commissioner to be distributed to investors should a sufficient improvement in outcomes be achieved. The financial model requires consideration of three factors:

- intervention costs



- outcome values
- time horizon to realise investment returns

## International

SIBs were first launched in the UK. The UK continues to lead the field with 14 SIBs already launched and others in development, as well as building the infrastructure to support market development. The concept has, however, captured the attention of policymakers and social sector organizations and investors across the world. There are 100 initiatives being explored across the world. For example: the Treasurer of New South Wales signed Australia's first Social Benefit Bond in 2013 to help children already placed in care to return safely to their families; The Netherlands launched the first SIB on mainland Europe in December 2013 to tackle youth unemployment in Rotterdam; President Obama allocated \$200m to pay for outcomes from Social Impact Bonds in the federal budget and two Social Impact Bonds have already been launched in the United States, with initiatives in place to support many more.

For more information about Social Impact Bonds, please visit the Social Finance website [www.socialfinance.org.uk](http://www.socialfinance.org.uk) or email us at [info@socialfinance.org.uk](mailto:info@socialfinance.org.uk)