

# An Introduction to Social Impact Bonds

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Innovations in Public Health Financing

# **INTRODUCTION TO SOCIAL IMPACT BONDS**

# Presentation Overview

- ❑ A social impact bond (SIB) analogy
- ❑ What are SIBs and why are they important?
- ❑ Considerations in creating a SIB program
- ❑ SIBs in progress and new applications
- ❑ Laws and proposed laws addressing SIBs
- ❑ Concluding remarks
- ❑ Questions

# An Analogy



# The Deal

## ❑ Problem

- Cost of 30 new energy efficient bulbs is \$120

## ❑ Offer

- I replace all of your bulbs for free
- You give me nothing upfront

## ❑ Catch

- If you get energy savings of \$200 (\$100 per year for 2 years), then you give me \$150 after 2 years
- If not, I get nothing and take my bulbs back and return your old bulbs



# The Deal: A Positive Resolution?

## ❑ Results if successful

### ▪ For you

- Total cost: \$150
- Total savings: \$200
- Net benefit: \$50

### ▪ For me

- Total cost: \$120
- Total income: \$150
- Return on investment: 25%

## ❑ Result if unsuccessful

### ▪ For you

- Go back to old bulbs

### ▪ For me

- Stuck with new bulbs and costs



# Pay for Success

- Pay for success (PFS) arrangements
  - Payments are based on program outcomes
    - example: SIBs



# Current Problems in Social and Public Health Services

- ❑ Limited resources
- ❑ Focus on remediation not prevention
- ❑ Pay for services
  - Services may not achieve desired outcomes
- ❑ Lack of data on effectiveness of programs

# Significance of PFS and SIBs

- ❑ Social ills and public health problems cost money
  - Example: Homelessness (\$6–7 billion)<sup>1</sup>
    - Shelter costs
    - Welfare
    - Medicaid
    - Etc.
  - Many governments lack the funding needed to address problems
- ❑ PFSs and SIBs can transform those costs into potential profit
  - If profitable, PFSs and SIBs can leverage large amounts of private capital into Social and Public Health Programs
- ❑ Can create a public policy trifecta
  - Win-win-win for government, private sector, and vulnerable populations

<sup>1</sup> Laura Callanan, Jonathan Law, Lenny Mendonca, *From Potential to Action: Bringing Social Impact Bonds to the US*, McKinsey & Company, 8 (2012)

# What Are SIBs?

## □ Definition

- Financing mechanisms used to raise upfront funding for social and public health preventative interventions from private investors
- Leverage the anticipated savings due to prevention as a source for financial rewards to the investors
- Rewards due if and only if the intervention succeeds in reaching predetermined benchmarks, thereby shifting the financial burden of success to the investors

## □ Definitional problems

- Difficulties: novelty, flexibility, complexity, and terminology

# Why Is This Model Attractive?

## □ Governments

- Limited financial risk
- Funds prevention/outcomes
- Potential budget savings
- Encourages efficiency

## □ Intervention providers

- Stable multiyear funding
- Builds relationship with government
- Amplify impact

## □ Investors

- Philanthropic investors
  - Performance evaluated
  - Opportunity to scale initiatives
  - Program-related investments
  - Fosters collaboration
- Commercial investors
  - Promising new market for commercial profit
  - Growth to social services

## □ Intervention recipients

- Access to needed programs

Jeffrey Liebman and Alina Sellman, *Social Impact Bonds: A Guide for State and Local Governments*, Harvard Kennedy School Social Impact Bond Technical Assistance Lab, 9 (2013)

Jane Hughes and Jill Scherer, *Foundations for Social Impact Bonds: How and Why Philanthropy Is Catalyzing the Development of a New Market*, *Social Finance*, 17–23 (2014)

# Promising SIB Applications

- ❑ Recidivism
  - UK, NYC, MA, NY
- ❑ At-risk youth services
  - UK, NY, MA, Australia
- ❑ Homelessness
  - UK, MA
- ❑ Workforce development
  - U.S. Dep't of Labor
- ❑ Early childhood services and education
  - Salt Lake City, Utah
- ❑ Pre-natal care
  - SC
- ❑ Asthma reduction
  - Fresno, CA
- ❑ Diabetes
  - Israel
- ❑ Elderly services
  - UK, S. Korea
- ❑ Others likely in the future

A Structural Example

# **SOCIAL IMPACT BONDS**

An intermediary  
negotiates with SIB  
backer for SIB repayment  
terms

**Intermediary/Bond  
Issuers**

**SIB Backer**

Typically a Non-Profit

Typically a Government

**Investors/Bond Holders**

Intermediary seeks initial financing from private investors by issuing SIBs

**Intermediary/Bond Issuers**

SIB Backer



**Credit  
Enhancement**

Investors/Bond  
Holders

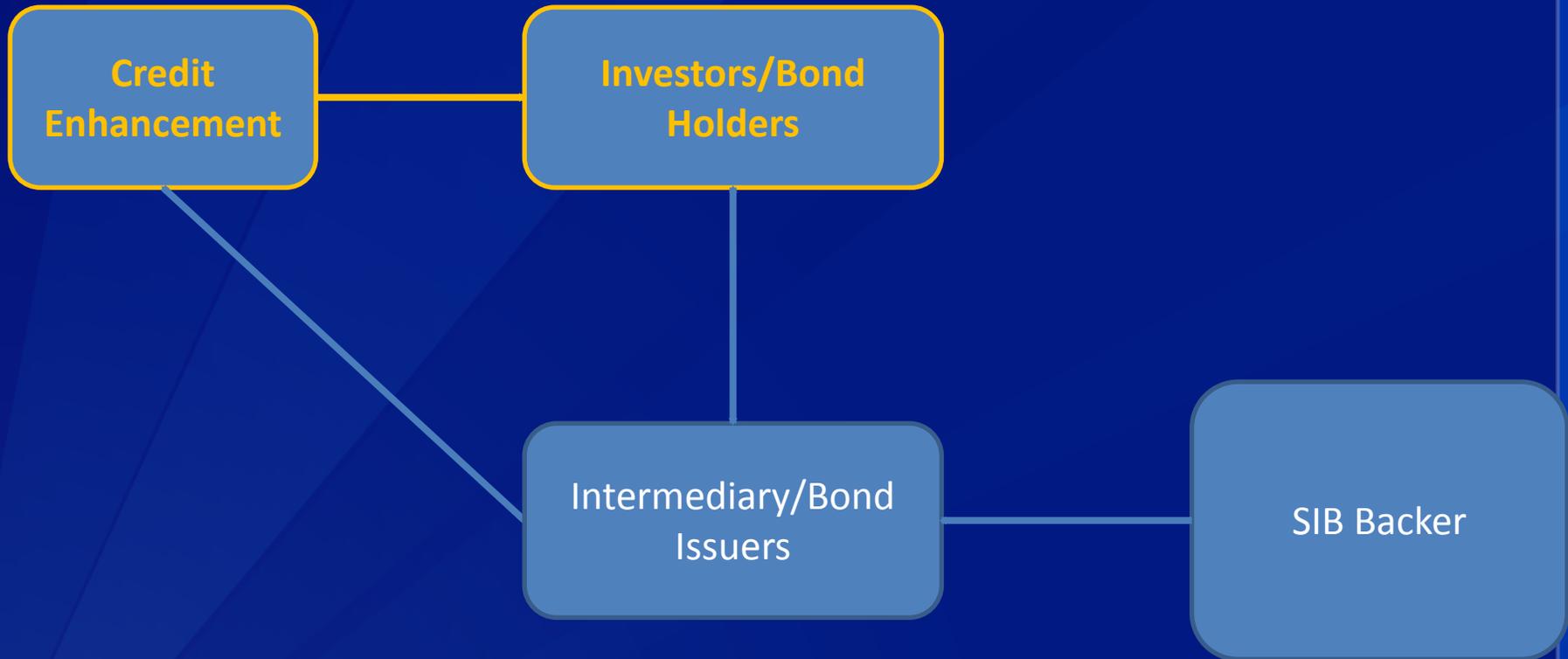
**Intermediary/Bond  
Issuers**

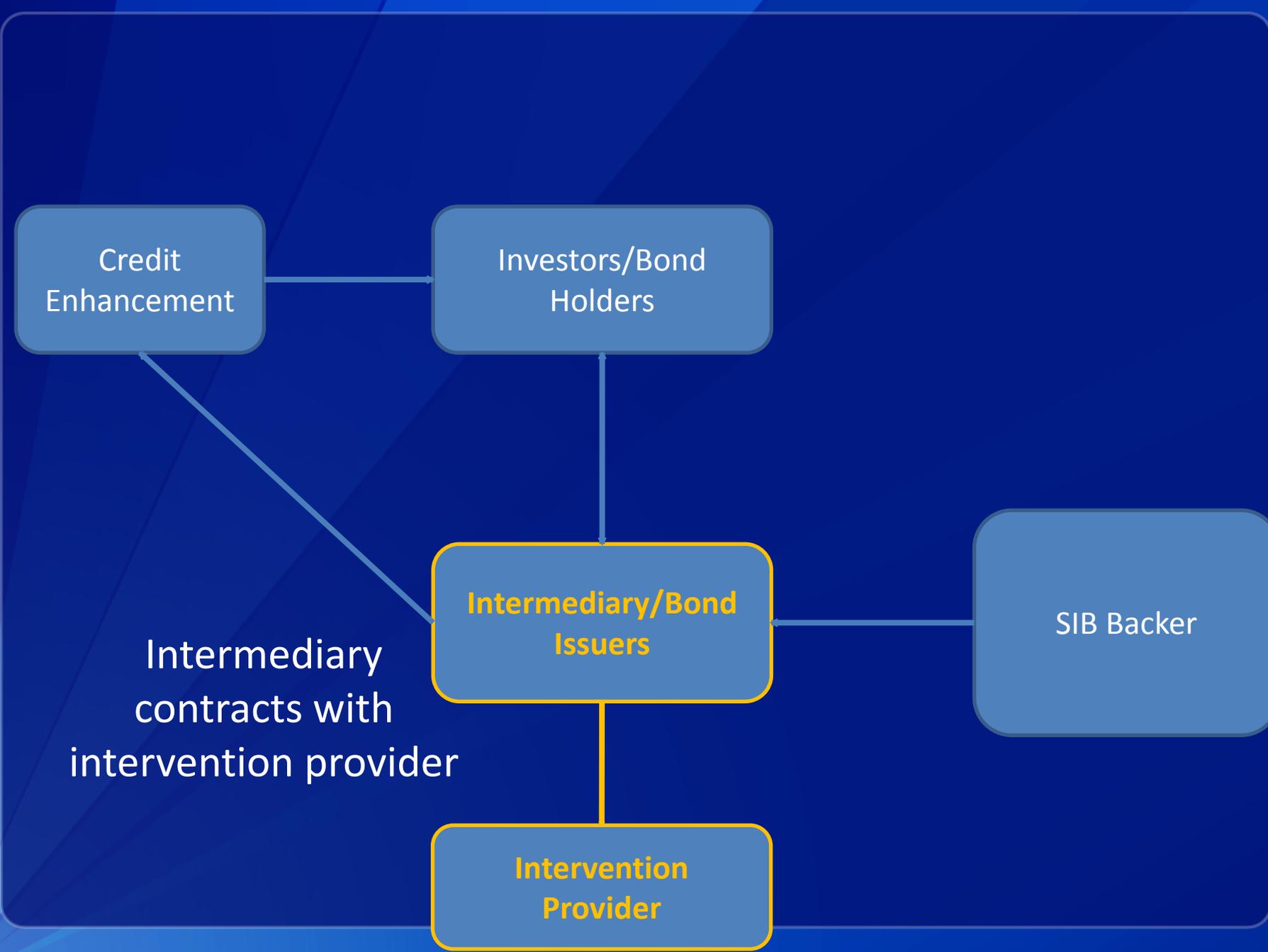
SIB Backer

To make investment  
more attractive,  
intermediary can seek  
credit enhancement (CE)  
to lower the risk of failure  
to investors



Similar to insurance, CE returns a portion of investment if SIB program fails





Credit Enhancement

Investors/Bond Holders

**Intermediary/Bond Issuers**

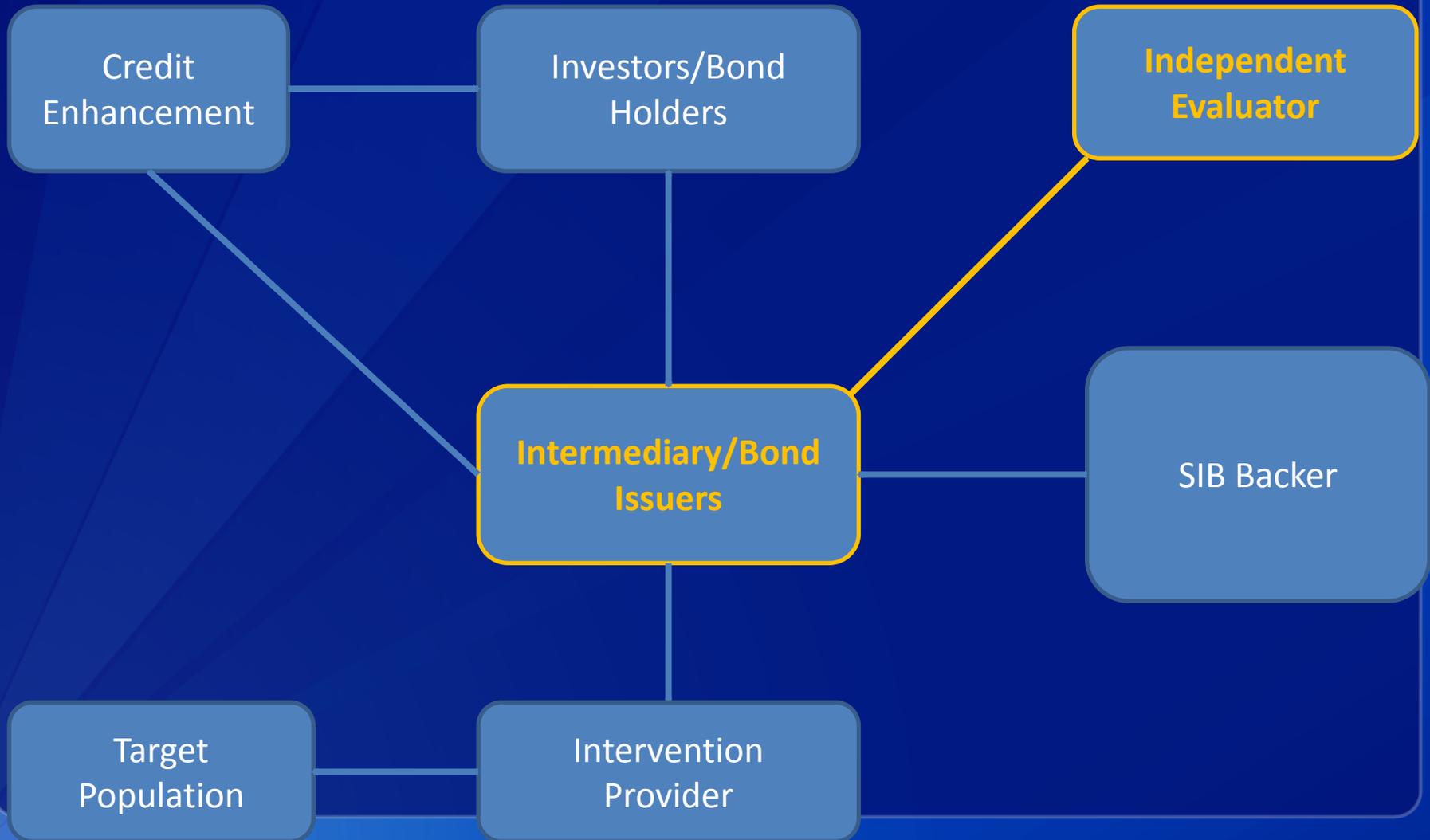
SIB Backer

Intermediary contracts with intervention provider

**Intervention Provider**

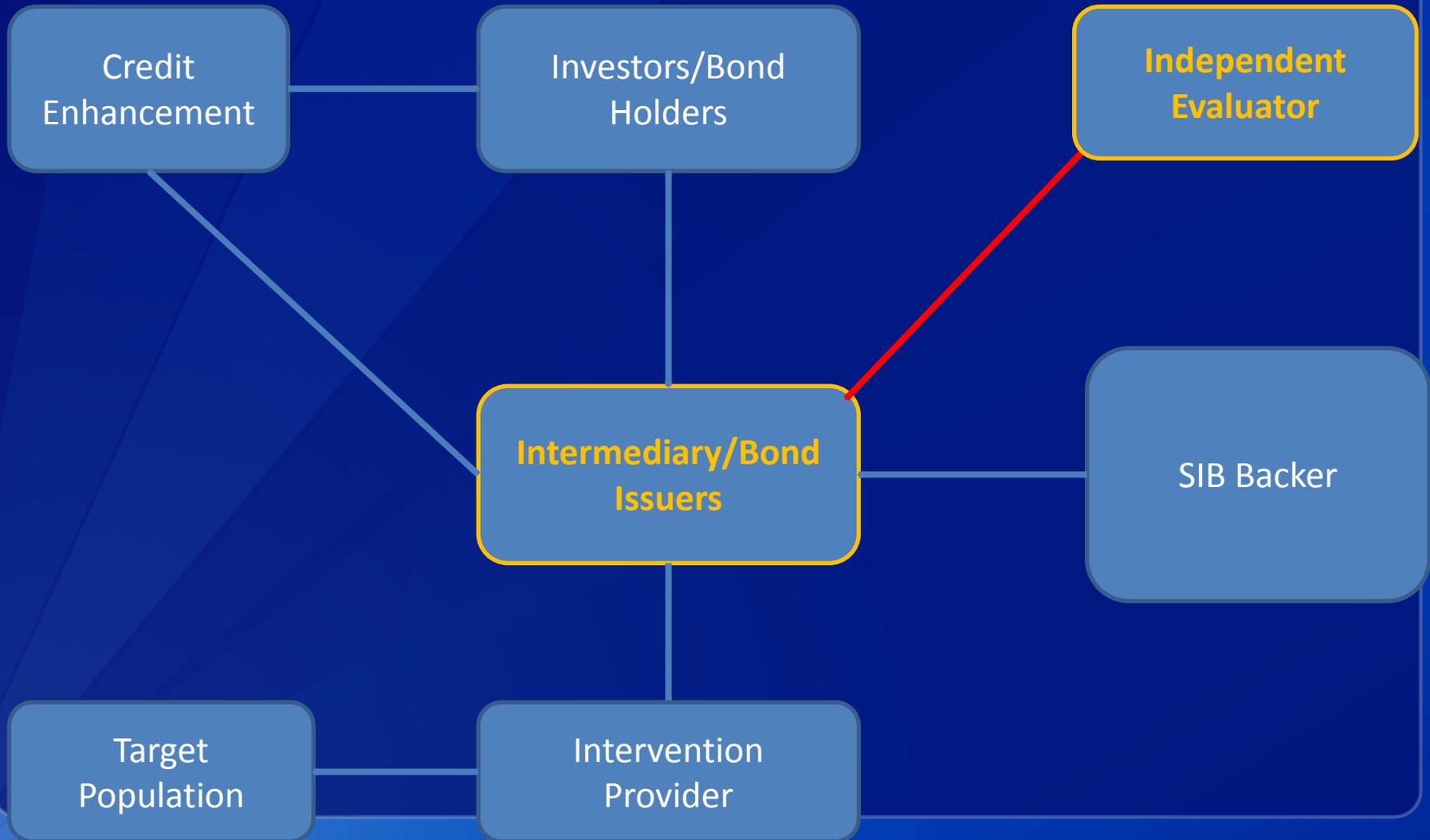


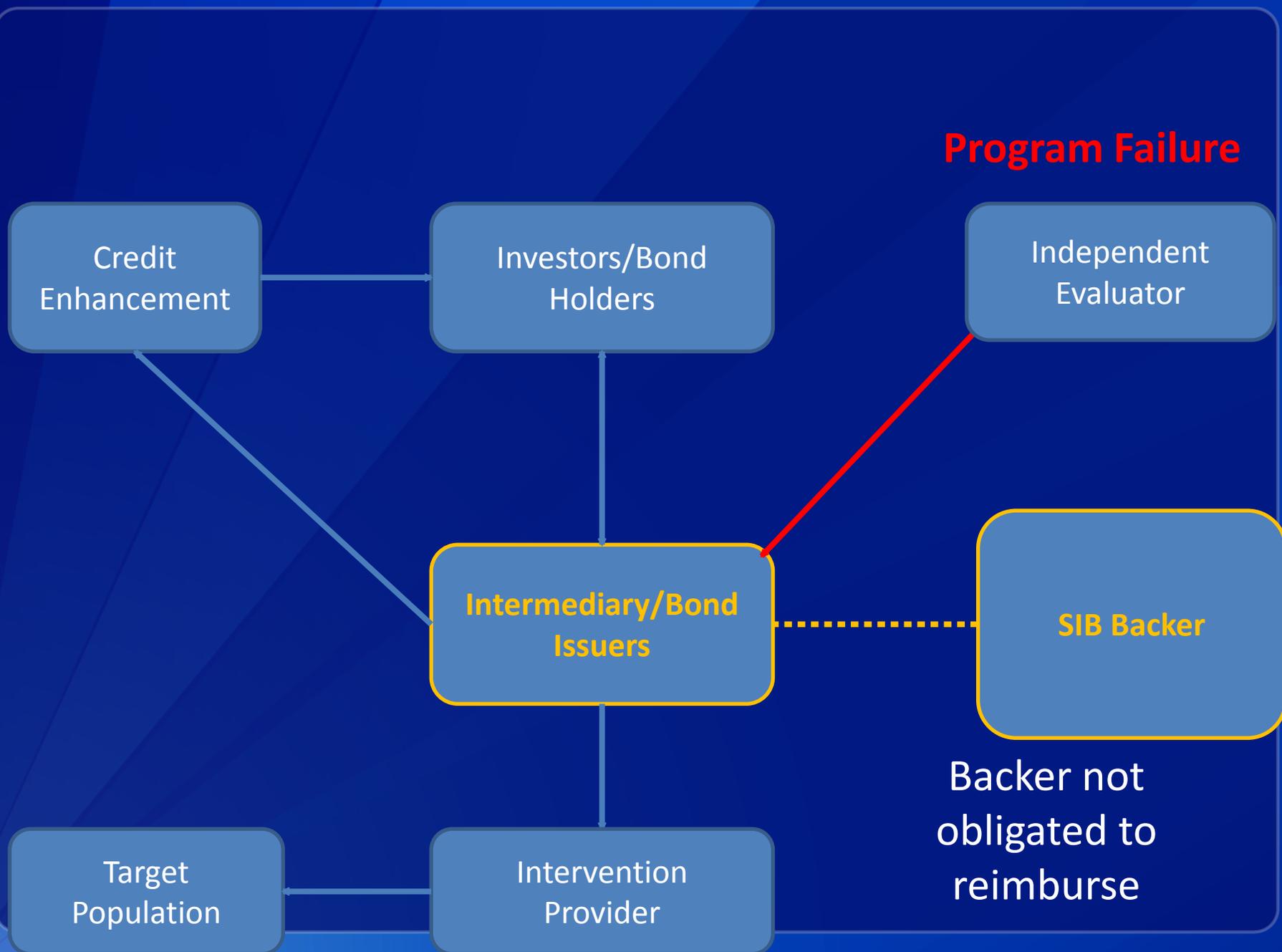
At pre-determined times,  
independent entity evaluates the  
program's success or failure



**If SIB Program Fails . . .**

Evaluation reveals that program failed to reach benchmarks for success





**Program Failure**

Credit Enhancement

Investors/Bond Holders

Independent Evaluator

Intermediary/Bond Issuers

SIB Backer

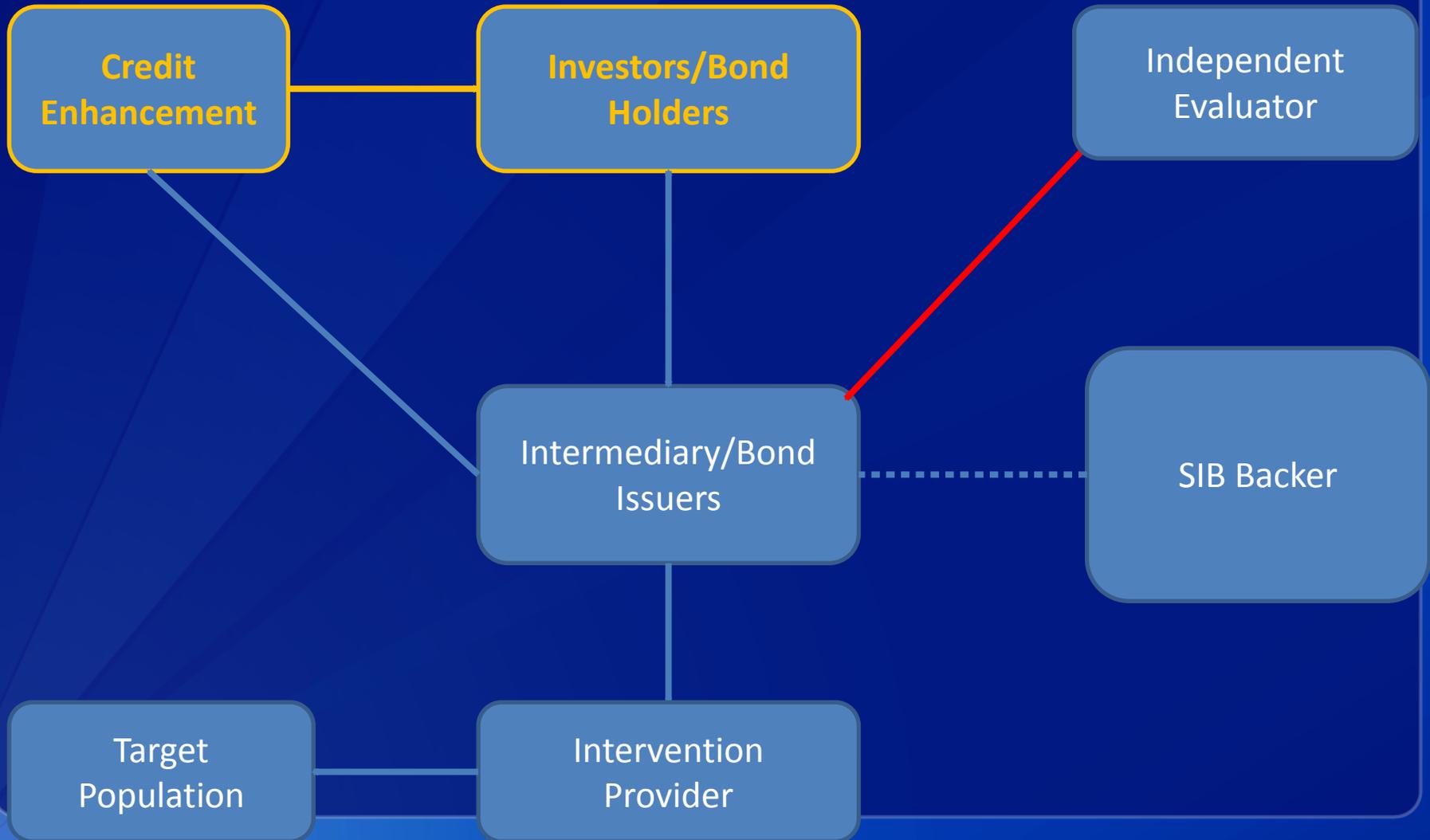
Backer not obligated to reimburse

Target Population

Intervention Provider

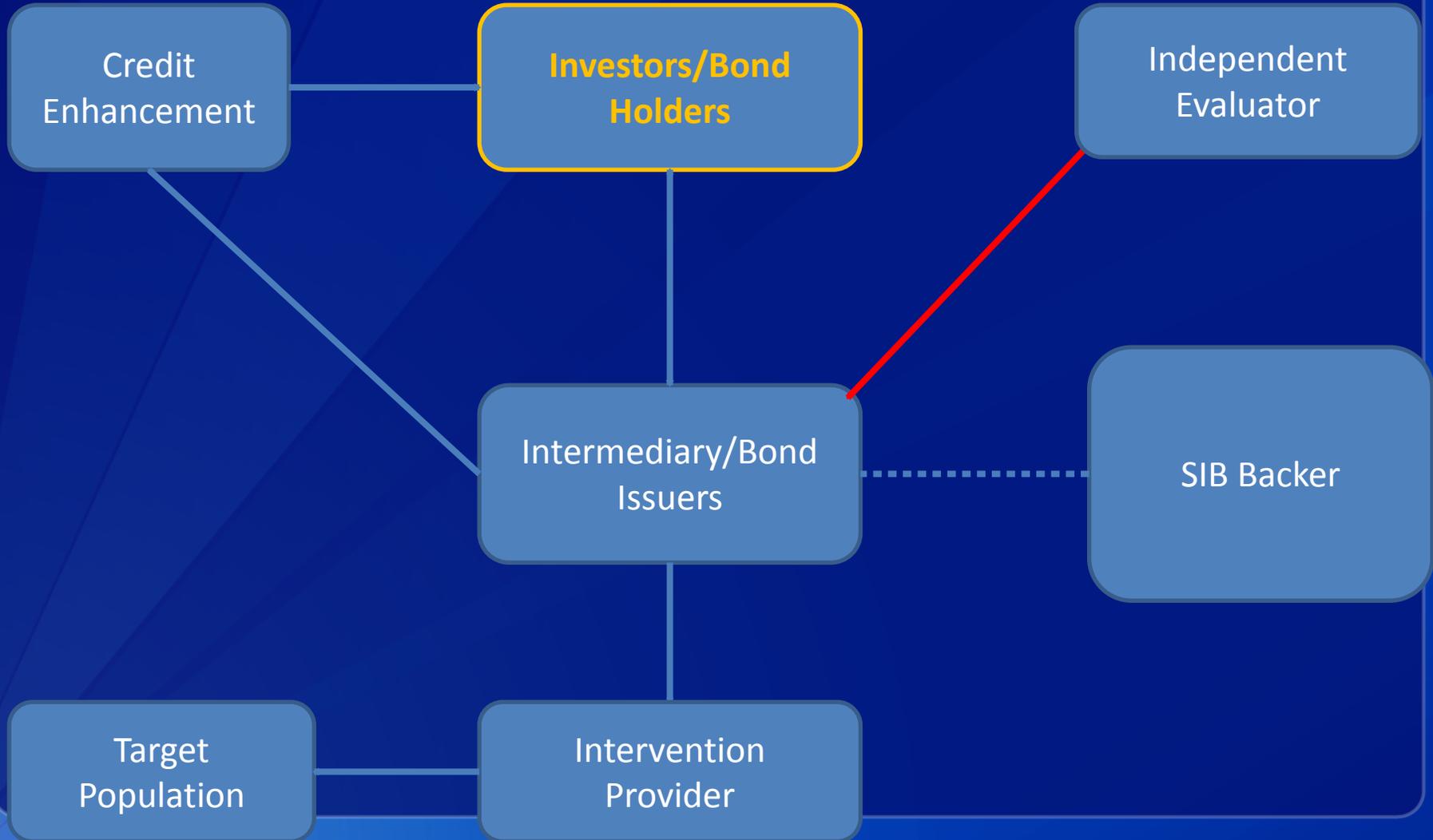
If used, CE partially repays  
investors, reducing impact of  
failure

## Program Failure



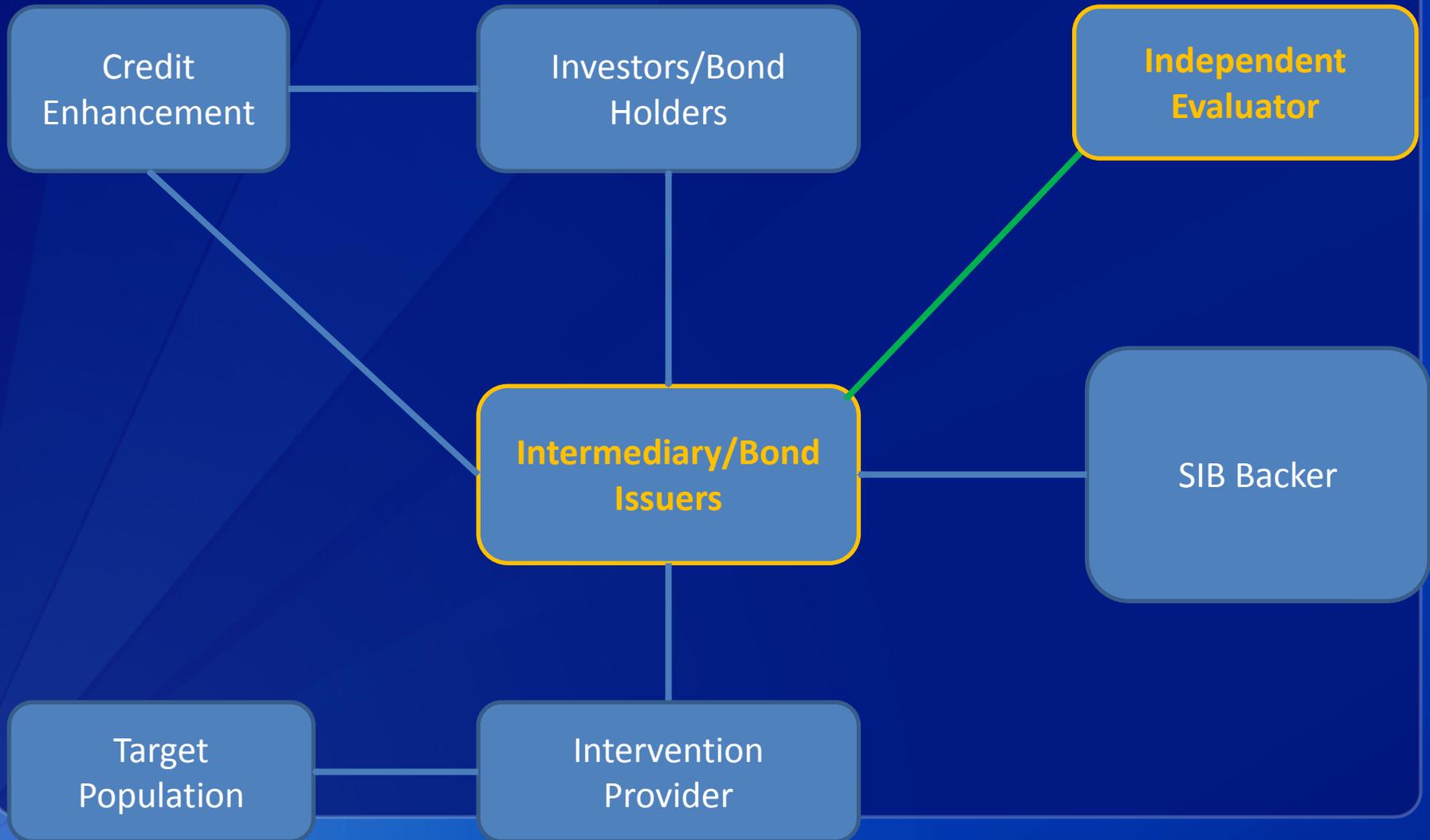
Investors suffer any additional loss

**Program Failure**

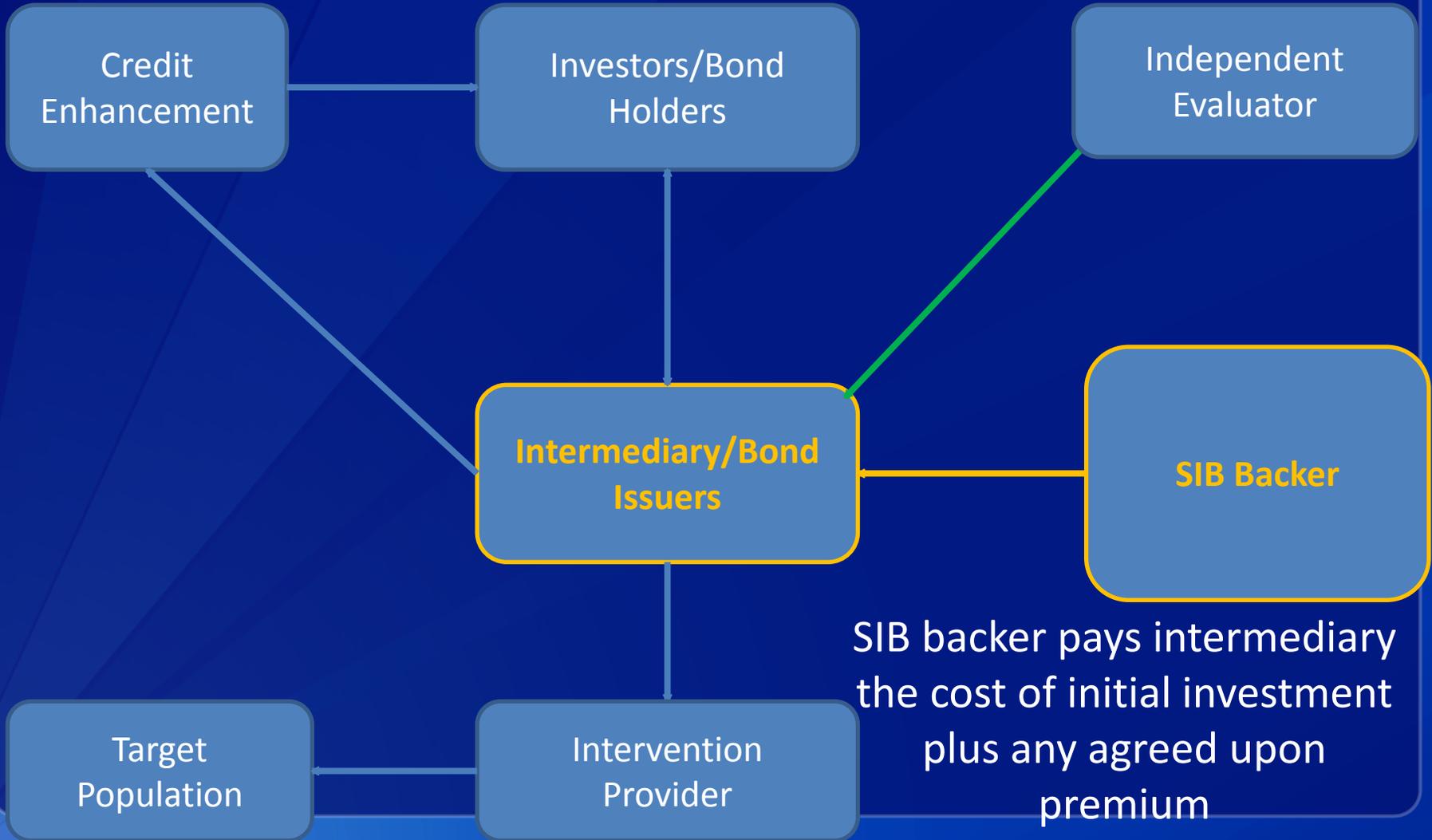


**If SIB Program Succeeds . . .**

Evaluation reveals that program has reached success benchmarks

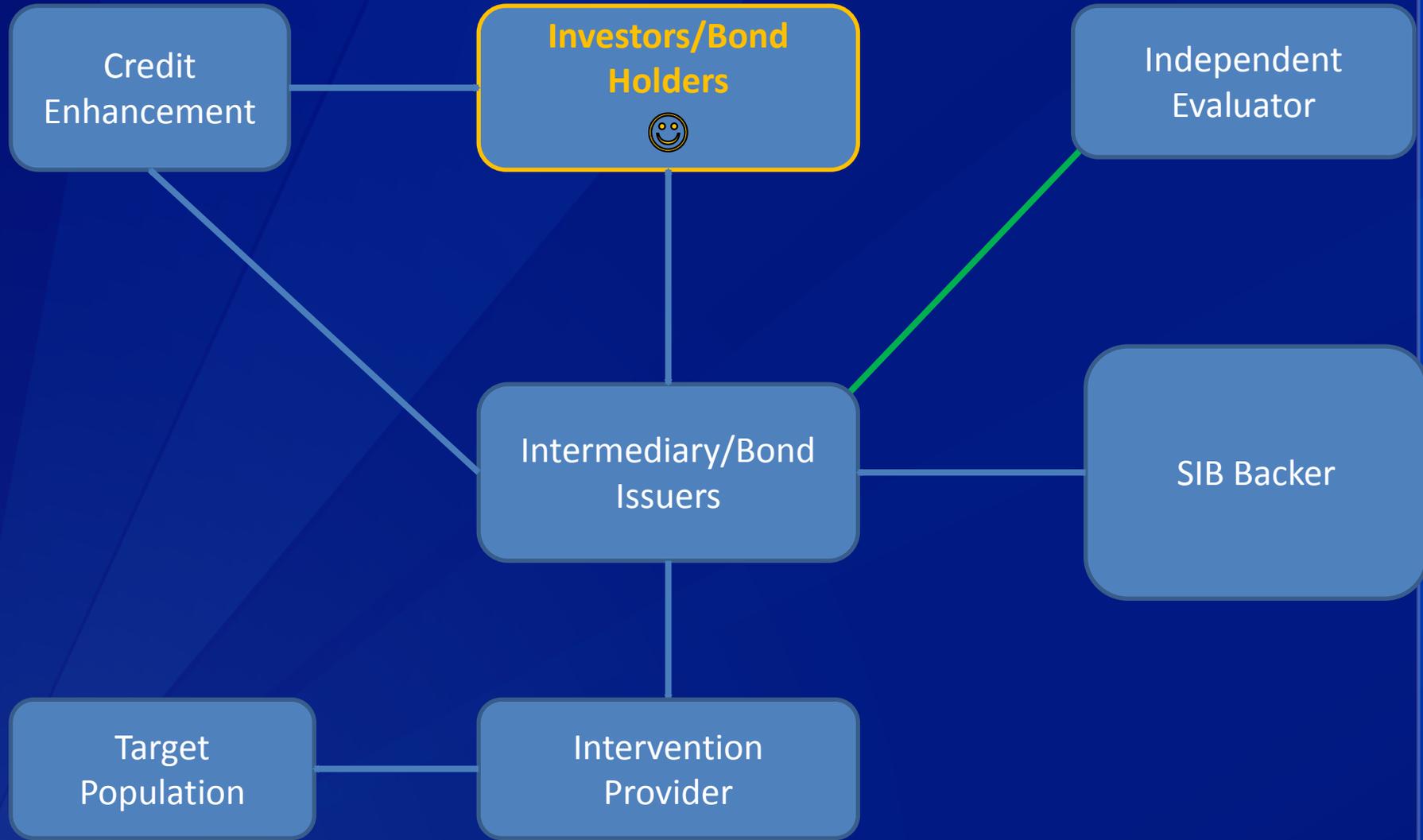


## Program Success

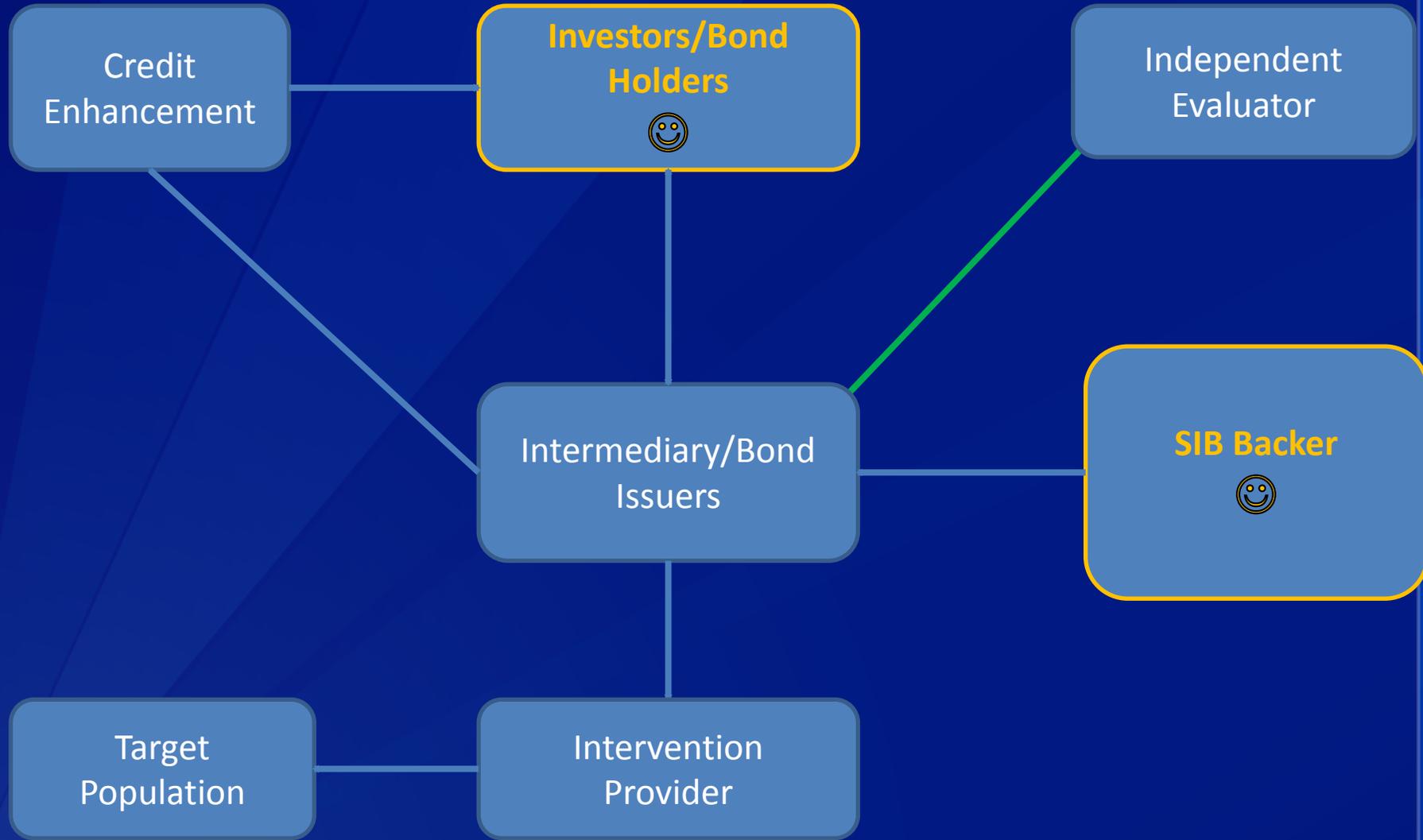




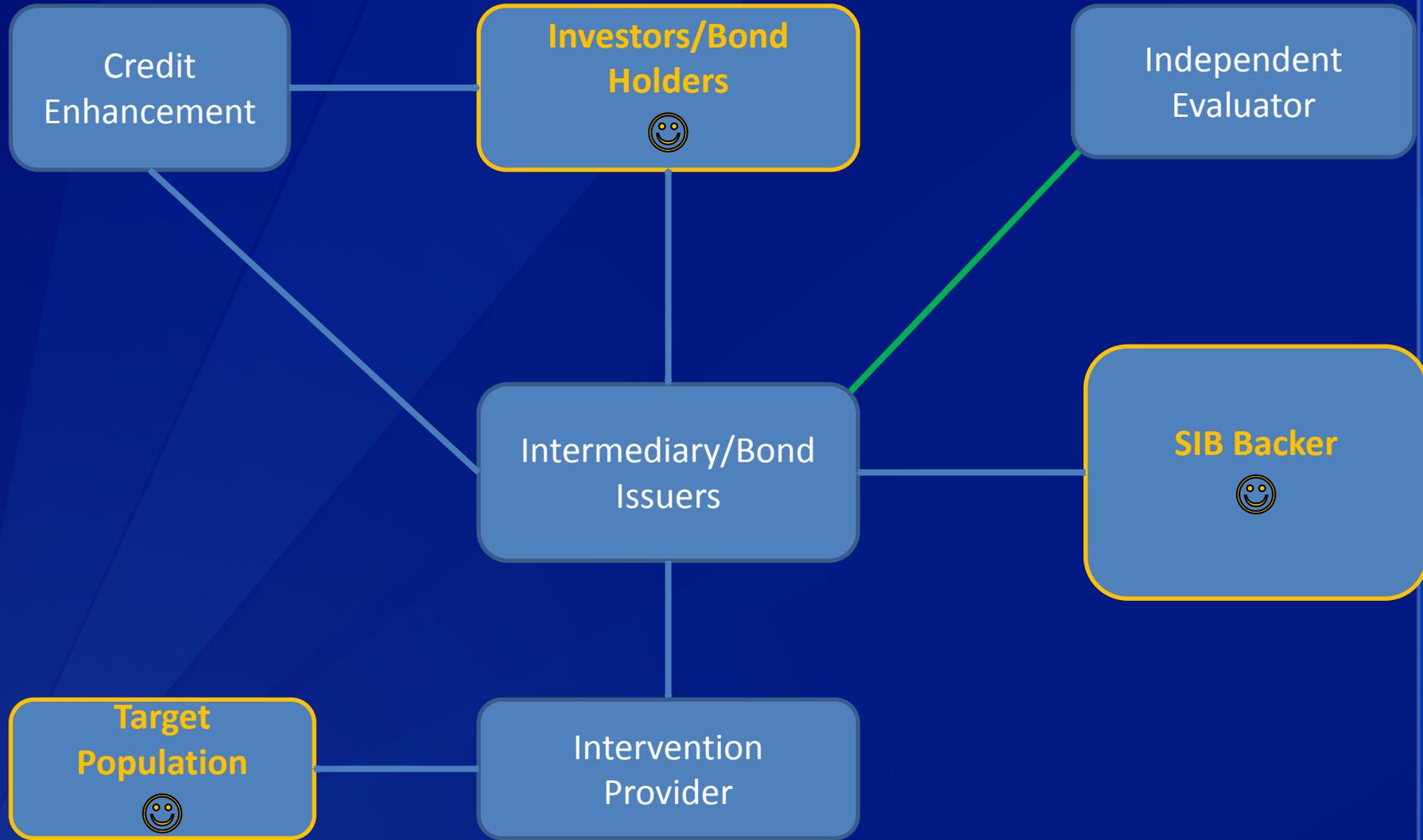
# Program Success



# Program Success



# Program Success



# **CONSIDERATIONS FOR CREATING A SIB**

# Considerations for a Successful SIB

- ❑ Definitions
- ❑ Evaluation
- ❑ Risk
- ❑ Potential savings



# Considerations for a Successful SIB: Definitions

- ❑ The elements of the SIB should be carefully defined
  - Who is the target population?
  - What does success look like?
    - Outcome performance goals need to be
      - Clear
      - Objective
      - Measurable
      - Non-debatable
      - Achievable
  - What can be “saved”?



Maria Hernandez, S. Len Syme, and Rick Brush, *Impact Investing in Sources of Health*, *Collective Health*, 5 (2012), available at [http://collectivehealth.files.wordpress.com/2012/04/impact-investing-in-health\\_tce-paper\\_feb-2012.pdf](http://collectivehealth.files.wordpress.com/2012/04/impact-investing-in-health_tce-paper_feb-2012.pdf).

Steven Godeke and Lyel Resner, *Building a Healthy & Sustainable Social Impact Bond Market: The Investor Landscape*, Godeke Consulting, (2012)

# Considerations for a Successful SIB: Evaluation

- ❑ Independent evaluators
  - Intermediary may have own evaluators
- ❑ Reliable and valid methodology is crucial
  - Measurable evaluation criteria
- ❑ Evaluation critical to fair outcomes



# Considerations for a Successful SIB: Risk

- ❑ Available data helps define the risks
  - Model – effectiveness of the intervention
  - Execution – effectiveness of the intervention as provided
- ❑ Proven v. promising
  - Focus on proven interventions minimizes the model risk
  - Promising interventions may still attract investors if potential return is significant
  - Some suggest SIBs use proven interventions until the SIB concept demonstrates success
- ❑ Credit enhancement
  - Strategies to improve the risk-benefit outlook for investors, e.g., insurance

## Considerations for a Successful SIB: Potential Savings

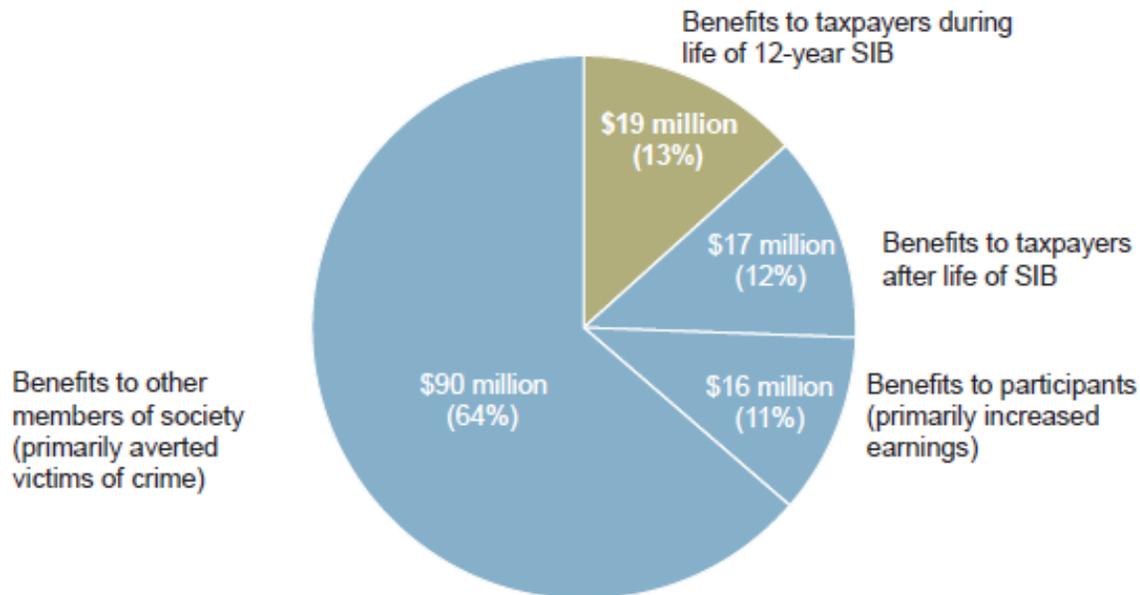
- ❑ Significant potential savings are crucial to attract investors
- ❑ Important that SIB deliver savings in excess of cost
- ❑ Savings should be identifiable and supported by data
- ❑ Savings justify bringing interventions to scale

### Exhibit 4.3: Functional Family Therapy SIB pro forma: present value of all benefits to society

2010 dollars, inflation adjusted and discounted at 3.5% real interest rate

Present value of total benefits to society: \$142 million

- SIB can capture benefits worth \$19 million in present value, which is \$24 million in undiscounted current value
- Benefits are primarily due to reduced use of prisons and other elements of criminal justice system



## Illustration of Bankable Savings for Recidivism SIB

Callanan, Jonathan Law, Lenny Mendonca, *From Potential to Action: Bringing Social Impact Bonds to the US*, McKinsey & Company, 49 (2012)

# SIB Considerations

- ❑ Legal issues
  - Appropriations
  - Government “silos”
- ❑ Standardization
- ❑ Other critiques
  - Shifting attention and resources away from other important problems
  - Possible investor influence over intervention delivery
  - Inherent inefficiencies



Current State of SIBs

# **SIBS IN PROGRESS AND NEW APPLICATIONS**

# United Kingdom – Inmate Recidivism

- ❑ World's first SIB started in Peterborough in 2010
  - \$8M initial investment raised by Social Finance
- ❑ Goal
  - Reduce inmate reoffending rate by 7.5%
  - Interim results (Nov. 2013)
    - 12% decrease recidivism in contrast with 11% *increase* nationally
- ❑ Intervention
  - Social services to 3,000 short-sentence male inmates
- ❑ Evaluation period
  - Outcomes evaluated years 4, 6, and 8

Jeffrey Liebman and Alina Sellman, *Social Impact Bonds: A Guide for State and Local Governments*, Harvard Kennedy School Social Impact Bond Technical Assistance Lab, 10 (2013)

Nicky Stubbs, *Peterborough social impact bond seeing positive results*, Blue & Green Tomorrow (Nov. 2, 2013), available at <http://blueandgreentomorrow.com/2013/11/02/peterborough-social-impact-bond-seeing-positive-results/>.

# New York City – Juvenile Recidivism

- ❑ In 2012, New York City launched the first SIB in the US
- ❑ Goals
  - Graduated benchmarks (8.5% to 20.0% recidivism rate reductions)
  - Payment range: \$4.8M (8.5% reduction) to \$11.7M (20% reduction)
- ❑ Intervention
  - Social services to 3,000 adolescent men per year through 2015
- ❑ Investment
  - MDRC raised \$9.6M from Goldman Sacs
- ❑ Credit enhancement
  - Bloomberg Philanthropies providing \$7.2M guarantee

# Massachusetts – Homelessness

## □ Goal

- Reduce costs associated with chronic homelessness, specifically costs associated with mental and physical health, jail use, and shelter use

## □ Intervention

- Supportive housing for the chronically homeless

## □ Evidence Supporting Intervention Model

- 2009 program found mean annual Medicaid costs dropped from \$26,124, to \$8,500 after supportive housing, estimated \$1.7M in Medicaid savings

Joe Finn and Jeff Hayward, *Bringing Success to Scale: Pay for Success and Housing Homeless Individuals in Massachusetts*, COMMUNITY DEVELOPMENT INVESTMENT REVIEW, FEDERAL RESERVE BANK OF SAN FRANCISCO, 127 (2013), available at <http://www.nj.gov/state/programs/pdf/faith-based-investment-success-financing.pdf>.

Massachusetts First State in the Nation to Pursue “Pay For Success” Social Innovation Contracts, Exec. Office for Admin. and Finance, (Jan. 18, 2012), available at <http://www.mass.gov/anf/press-releases/2012/ma-first-to-pursue-pay-for-success-contracts.html>

# Fresno, California – Asthma Emergency Prevention

- ❑ Nongovernmental SIB arrangement
  - Financial stakeholders back the SIB
- ❑ Problem and intervention
  - Estimated \$87M in annual costs associated with asthma emergencies
    - ED visits, hospitalizations, and lost worker productivity
  - Targeted home based interventions to reduce asthma triggers
- ❑ Costs
  - Intervention expected to lower healthcare costs of target population 41%
- ❑ Estimated financial savings to backers
  - Medi-Cal (\$3M), local employers (\$2.3M), healthcare providers (\$1M )

Rick Brush, *Can Pay for Success Reduce Asthma Emergencies and Reset a Broken Health Care System?*, COMMUNITY DEVELOPMENT INVESTMENT REVIEW, FEDERAL RESERVE BANK OF SAN FRANCISCO, 108 (2013), available at <http://www.nj.gov/state/programs/pdf/faith-based-investment-success-financing.pdf>.

Maria Hernandez, S. Len Syme, and Rick Brush, *Impact Investing in Sources of Health*, Collective Health (2012), available at [http://collectivehealth.files.wordpress.com/2012/04/impact-investing-in-health\\_tce-paper\\_feb-2012.pdf](http://collectivehealth.files.wordpress.com/2012/04/impact-investing-in-health_tce-paper_feb-2012.pdf).

# South Carolina – Early Childhood Services

- ❑ 2013 study suggests that a PFS is a feasible mechanism to improve early childhood outcomes<sup>2</sup>
- ❑ Intervention: nurse–family partnerships (NFP)
  - House visits and services to first-time, low-income mothers
- ❑ Measurable outcomes
  - Measurable improvements possible in health, education, and family prospects
  - Pre-term births suggested as a “bellwether” index



<sup>2</sup> Golden, Megan, et al., *Using Pay for Success Financing to Improve Outcomes for South Carolina’s Children: Results of a Feasibility Study*, Institute for Child Success (2013).

# Israel and Type 2 Diabetes

## ❑ Proposed intervention

- One-year intensive intervention and two-year follow-up
  - Healthy living and personal fitness programs to high-risk pre-diabetics

## ❑ Measurement

- Number of type 2 diabetics relative to a control group
- Number of healthy states produced relative to a control group

## ❑ Outcome payments

- Reduction in medical expenditures
- Reduction in disability expenditures
- Increase in economic productivity



Dr. Ophir Samson, *Planning of a Social Impact Bond to Reduce Development of Type 2 Diabetes in High-risk Pre-diabetics*, Presentation to the Social Impact Investment Taskforce Established by the G8, (Dec. 5 2013), available at <http://www.socialfinance.org.il/files/files/Social%20Finance%20Israel%20-%20Social%20Impact%20Bond%20to%20reduce%20development%20of%20type%20diabetes%20in%20high-risk%20pre-diabetics.pdf>.

# **EXISTING AND PROPOSED LAWS**

# Examples of Existing Laws

## □ California

- CAL. WELF. & INST. CODE § 14127.4
  - Enables state to “enter into risk-sharing and social impact bond program agreements”

## □ Connecticut

- CONN. GEN. STAT. ANN. § 4-68aa
  - Authorizes use of “social investment vehicles”
  - Creates social innovation account

## □ Massachusetts

- Social Innovation Financing Trust Fund – MASS. GEN. LAWS ch. 10, § 35VV(c)
  - Pay for performance obligations constitute “general obligations” backed by “the full faith and credit of the commonwealth”

## Examples of Existing Laws (Cont.)

### ☐ Minnesota

- Pay for Performance Act – MINN. STAT. ANN. § 16A.93 et al.
  - Pilot program to test “feasibility and desirability of using state appropriation bonds to pay for certain services based on performance and outcomes for the people served”
  - Creation of special appropriation bond proceeds account

### ☐ Pennsylvania

- Innovate in PA Fund – 72 PA. STAT. ANN. § 8811-F (c)(2)
  - Enables consideration of “impact investments based on performance”

# Examples of Proposed Laws

- ❑ California Senate Bill No. 593 (2013)
  - Requires director of the Office of Planning and Research to identify at least three proposed social impact partnerships to the Legislature each year.
- ❑ California Senate Bill No. 594 (2013)
  - Workforce Development Bond
- ❑ Hawaii House Concurrent Resolution No. 119-13 (2013)
  - Requested feasibility study for SIBs to fund early learning programs

# Examples of Proposed Laws (Cont.)

- ❑ Maryland Senate Bill No. 434 (2013)
  - Request for proposals
- ❑ Maryland House Bill No. 517 (2013)
  - State Board of Education – Request for Proposals for SIBs
- ❑ Nebraska Legislative Resolution No. 279 (2013)
  - Requires the legislative Judiciary Committee to conduct an interim study of SIBs
- ❑ New Jersey Assembly Bill No. 3289 (2012)
  - Five-year SIB pilot program and study

# Examples of Proposed Laws (Cont.)

- ❑ Texas Senate Bill No. 1788 (2013)
  - Requires a prevention committee to advise on use of SIBs to finance child abuse prevention programs
- ❑ Rhode Island Senate Bill No. 2196 (2013)
  - Five-year SIB pilot program
- ❑ Vermont House Bill No. 625 (2011)
  - Authorizes committee to determine whether SIB opportunities exist
- ❑ Washington House Bill No. 2337 (2013)
  - Establishes social investment steering committee
- ❑ Washington D.C. Legislative Bill No. 125 (2013)
  - Social Impact Financing Amendment Act of 2013

# International Laws and Proposed Laws

- Alberta, Canada
  - 2014 – Bill 1 creates \$1B Endowment for Social Innovations

2014 Bill 1, Savings Management Act, Second Session, 28th Legislature, 63 Elizabeth II (2014)  
Announcements: Putting Alberta's growing savings to work for our future, (Mar. 4, 2014) (avail.  
<http://alberta.ca/release.cfm?xID=359728D5EF19F-D565-C959-7EFD9867C9BC38F7>).

Social Impact Bond Viability

# **CONCLUDING REMARKS**

## Market Viability of SIBs

From the McKinsey & Co. United States SIB market analysis

- “Our research suggests that SIBs have specific benefits and that the right conditions are in place today to implement SIBs: evidence-based social interventions already exist, there is sufficient stakeholder capacity, and there is real interest and momentum to make SIBs a reality. But turning potential into action will require a clear choice to move ahead and concerted effort to implement this new tool: stakeholders must overcome several challenges, a number of proof points must be demonstrated, and making SIBs more widespread will require some standardization.”

## Early Evaluations

UK Justice Secretary Chris Grayling reacting to an interim report suggesting positive outcomes from world's first SIB in Peterborough

- “The message is clear – our reforms are the right approach and will help us end the pernicious cycle of reoffending, keeping our communities safer.”

Nicky Stubbs , *Peterborough social impact bond seeing positive results*, Blue & Green Tomorrow (Nov. 2, 2013), available at <http://blueandgreentomorrow.com/2013/11/02/peterborough-social-impact-bond-seeing-positive-results/>.

# Selected Resources

## ❑ CDC Public Health Law Program Research Anthology

- <http://www.cdc.gov/phlp/docs/sib-researchanthology.pdf>

## ❑ Descriptive

- Jeffrey B. Liebman, *Social Impact Bonds*, CENTER FOR AMERICAN PROGRESS (February 2011), [www.americanprogress.org/issues/2011/02/pdf/social\\_impact\\_bonds.pdf](http://www.americanprogress.org/issues/2011/02/pdf/social_impact_bonds.pdf)

## ❑ Technical guides

- Lisa Barclay & Tom Symons, *A Technical Guide to Developing Social Impact Bonds*. SOCIAL FINANCE (January 2013), [www.socialfinance.org.uk/resources/social-finance/technical-guide-developing-social-impact-bonds](http://www.socialfinance.org.uk/resources/social-finance/technical-guide-developing-social-impact-bonds)
- Steven Godeke, & Lyel Resner, *Building a Healthy & Sustainable Social Impact Bond Market: The Investor Landscape*, GODEKE CONSULTING (2012), [www.rockefellerfoundation.org/media/download/6a7eba56-aa6f-47bf-a451-f883b8b4ccc5](http://www.rockefellerfoundation.org/media/download/6a7eba56-aa6f-47bf-a451-f883b8b4ccc5)
- Jeffrey Liebman, & Alina Sellman, *Social Impact Bonds: A Guide for State and Local Governments*, HARVARD KENNEDY SCHOOL SOCIAL IMPACT BOND TECHNICAL ASSISTANCE LAB (June 2013), [payforsuccess.org/sites/default/files/social-impact-bonds-a-guide-for-state-and-local-governments1.pdf](http://payforsuccess.org/sites/default/files/social-impact-bonds-a-guide-for-state-and-local-governments1.pdf)

## ❑ Commentary

- *Pay for Success Financing*, 9 COMMUNITY DEVELOPMENT INVESTMENT REVIEW 1, 1–137, (Ian Galloway ed. 2013), [www.nj.gov/state/programs/pdf/faith-based-investment-success-financing.pdf](http://www.nj.gov/state/programs/pdf/faith-based-investment-success-financing.pdf)

**QUESTIONS?**

# Thank you!

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For more information, please contact CDC's Office for State, Tribal, Local and Territorial Support

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