Social Impact Exchange

Taking successful innovation to scale

Social Impact Bonds

The Social Impact Exchange is engaged in work on developing Social Impact Bonds in the United States. This work includes both:

1. Developing a Social Impact Bond for distribution in the United States and
2. Furthering the development of a marketplace for Social Impact Bonds by working with others interested in this field. We seek to create a platform that will facilitate education, knowledge sharing, distribution and eventually standards.

In order to address some of the questions we have received from our members -- and increase the knowledge of those interested in understanding more about this project, we have put together some answers to Frequently Asked Questions:

What is a Social Impact Bond?

While the definition varies some, a Social Impact Bond is basically an agreement pursuant to which private investors provide the financing necessary for social interventions. If the interventions are successful and the government saves money as a result, a government entity will use a portion of the actual cost savings generated from improved social outcomes to repay investors plus a return on their investment. It requires a outcomes success metric to be agreed upon up-front between the government entity and the funders. It is not an actual "bond" in that there is no guaranteed principal or fixed rate of return.

The Social Impact Bond has potential widespread applications in areas that include health, education, youth development and poverty alleviation.

What has been the success of Social Impact Bonds to-date?

Social Finance Ltd. in the United Kingdom announced the launch of the first Social Impact Bond on March 18, 2010. The UK bond funds a set of interventions aimed at reducing recidivism at Peterborough Prison. If the interventions, working in concert, reduce recidivism by 7.5% or more, investors will receive a share of government's savings up to a maximum return on their investment of 13%.

The Social Finance model of the Social Impact Bond starts with indentifying an appropriate outcome and contracting with an appropriate government agency before then identifying a number of appropriate service providers, who they believe can achieve the desired outcome.

In addition, an Australian jurisdiction, New South Wales, recently announced their plans to pursue Social Impact Bonds.

Numerous discussions are underway in the U.S. and around the world as social entrepreneurs, government, impact investors and others look to understand how this innovative structure can benefit their countries and their communities.

Why is the Social Impact Exchange involved with Social Impact Bonds?

The Social Impact Exchange is focused on creating a marketplace that scales up evidence-based high-performing nonprofit organizations and solutions. We believe the Social Impact Bond may open up new sources of financing for scaling these types of organizations and their interventions. Therefore, our approach will often be to identify those nonprofits that have a track record of producing social outcomes and meet high standards for "scale-worthiness and scale-readiness" and explore whether the Social Impact Bond could be a source of growth capital for them. The Exchange also serves as a platform for developing and sharing knowledge on innovative methods and products (such as the Bond) that can unlock new sources of growth capital to fund large-scale expansions of evidence-based social solutions.

What type of organization would be appropriate for a Social Impact Bond?

Many organizations deliver social good. Relatively few have a track record of delivering measureable, evidenced-based outcomes within a 3-5 year time horizon. Fewer still can save the government enough money by achieving their outcome such that government can both pay investors back for the program costs <u>and</u> make an additional payment to investors out of those savings. Those that meet these requirements may be good candidates for exploring how a Social Impact Bond can expand their impact.

Who is the Social Impact Exchange working with to develop Social Impact Bonds?

The Social Impact Exchange is working with the major law firm Davis Polk & Wardwell on the necessary legal work for structuring and execution. Davis Polk & Wardwell is providing services on a completely pro bono basis to the Exchange.

An Exchange Project Team of 15 leaders has formed to work collaboratively on the Bond. This team includes individuals from the following organizations:

BBB Wise Giving Alliance	GiveWell	Open Society Institute
Blue Ridge Foundation	Investors' Circle	Robert Wood Johnson Foundation
Charity Navigator	Jessie Ball DuPont Fund	Rockefeller Foundation
Duke University	McKinsey and Company	SeaChange Capital Partners
Evaluation Roundtable	New Profit, Inc.	Silicon Valley Social Venture Fund
Ford Foundation		The Starr Foundation

In addition, another 30+ member of the Exchange have asked to learn more and are interested in following and participating in this initiative.

How can you help?

Currently, the Exchange is exploring potential opportunities for specific Social Impact Bond projects as well as gathering learnings from the field and collaborating with others involved in related projects. We anticipate that we will be looking for additional Social Impact Bond projects in 2011 and will be asking others to help identify potential projects.

How can I learn more?

1. The Social Impact Exchange will continue to keep you updated as we and others explore a Social Impact bond in the US and have concrete learnings to share from our work.
2. The Social Finance Ltd website: http://www.socialfinance.org.uk/services/index.php?page_ID=15
3. Towards a new social economy: Blendedvalue creation through Social Impact Bondshttp://www.socialfinance.org.uk/downloads/Towards_A_New_Social_Economy_web.pdf Social Finance, March 2010
4. Social Impact Bonds: Rethinking finance for social outcomehttp://www.socialfinance.org.uk/downloads/SIB_report_web.pdf?phpMyAdmin=53fcc4cffa4a2t4642c4adr430f Social Finance, August 2009
5. The Young Foundation website: http://www.youngfoundation.org/our-work/advising-public-service-innovation/social-impact-bonds/social-impact-bonds
6. Social Impact Investment: The opportunity and challenge of Social Impact Bondshttp://www.youngfoundation.org/files/images/10-11-30_Social_Impact_Investment_Paper.pdf Geoff Mulgan, Neil Reeder, Mhairi Aylott & Luke Bo'sher, November 2010

7. Young Foundation director Geoff Mulgan's blog entry on Social Impact Bondshttp://www.youngfoundation.org/social-innovation/tips/social-impact-bonds-and-social-value
8. Social Impact Bonds in Health http://www.youngfoundation.org/files/images/cial_Impact_Bonds_in_Health_-_Briefing_Paper.pdf
9. Announcement from Australia on "world's 2nd Social Impact Bond"http://www.premier.nsw.gov.au/sites/default/files/101125-social-impact-bonds.pdf.