

An Introduction to Social Impact Bonds

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Innovations in Public Health Financing

INTRODUCTION TO SOCIAL IMPACT BONDS

Significance of Social Impact Bonds (SIBs)

- ❑ Social ills and public health problems cost money
 - Example: Homelessness (\$6–7 billion)¹
 - Shelter costs
 - Welfare
 - Medicaid
 - Etc.
 - Many governments lack the funding needed to address problems
- ❑ SIBs can transform those costs into potential profit
 - If profitable, 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

¹ 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

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
 - Fosters collaboration
- Commercial investors
 - Promising new market for commercial profit
 - Growth to social services

□ Intervention recipients

- Access to needed programs

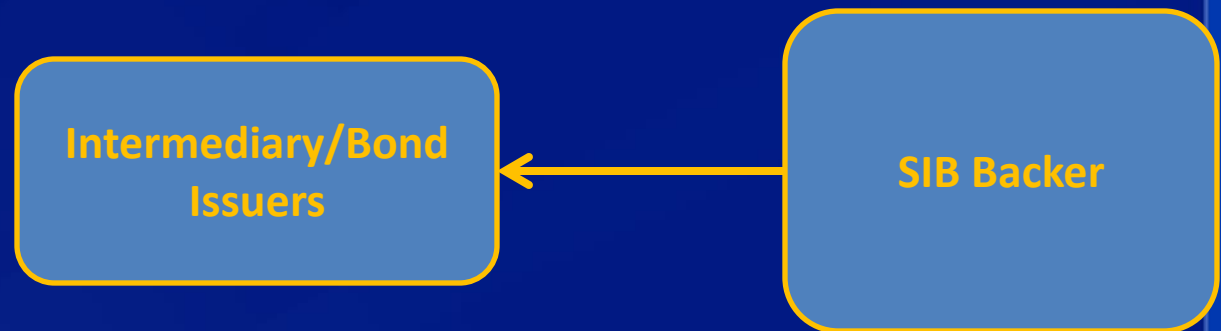
Jeffrey Liebman and Alina Sellman, *Social Impact Bonds: A Guide for State and Local Governments*, Harvard Kennedy School Social Impact Bond Technical Assistance Lab, 9 (2013)

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)

A Structural Example

SOCIAL IMPACT BONDS

An intermediary negotiates
with SIB backer for SIB
repayment terms



Typically a Non-Profit

Typically a Government

Investors/Bond Holders

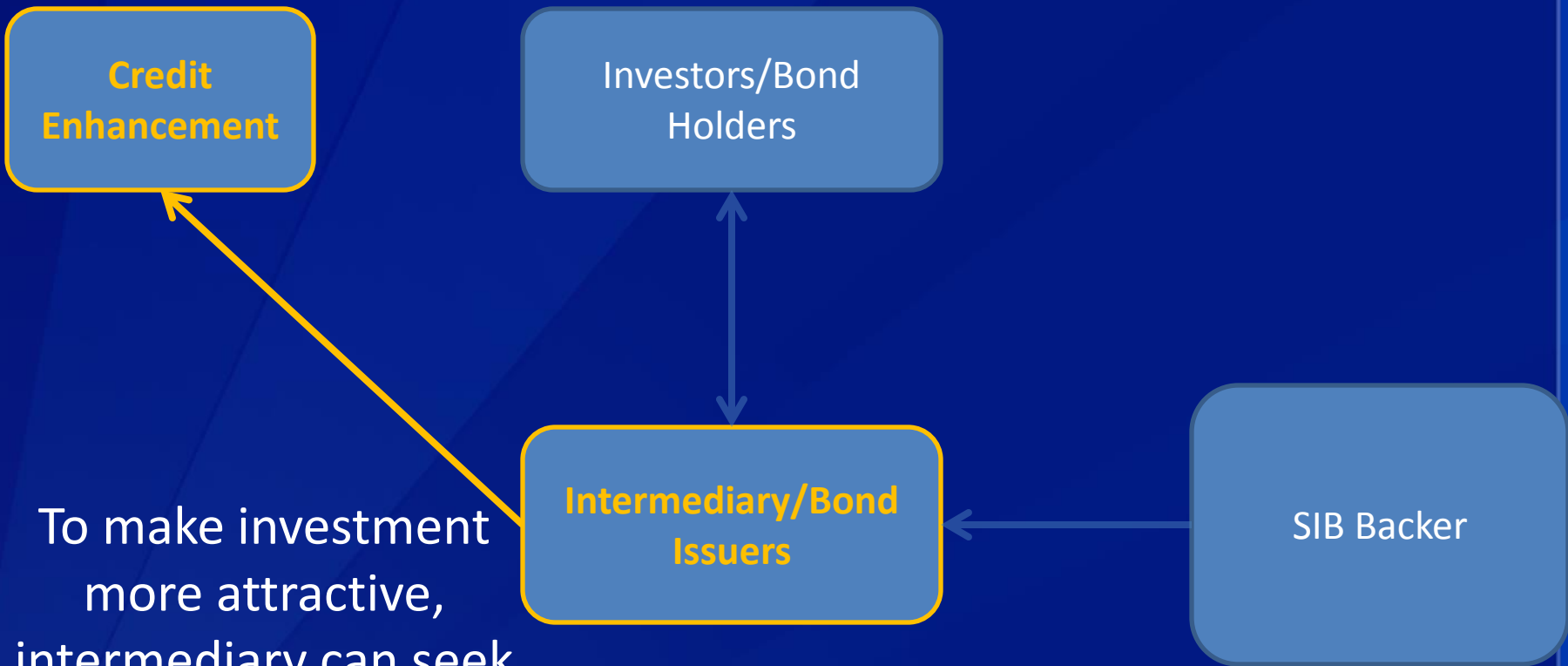
Intermediary seeks initial financing from private investors by issuing SIBs



Intermediary/Bond Issuers

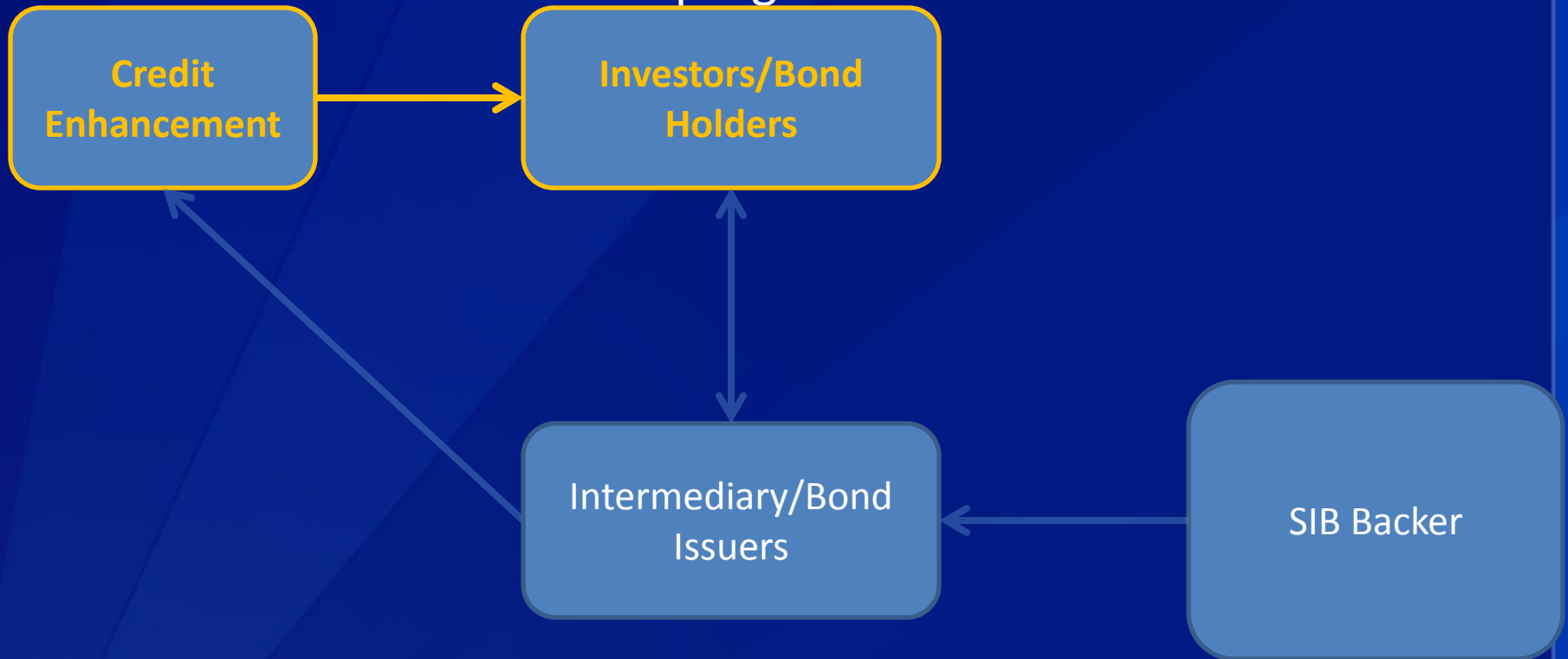
SIB Backer

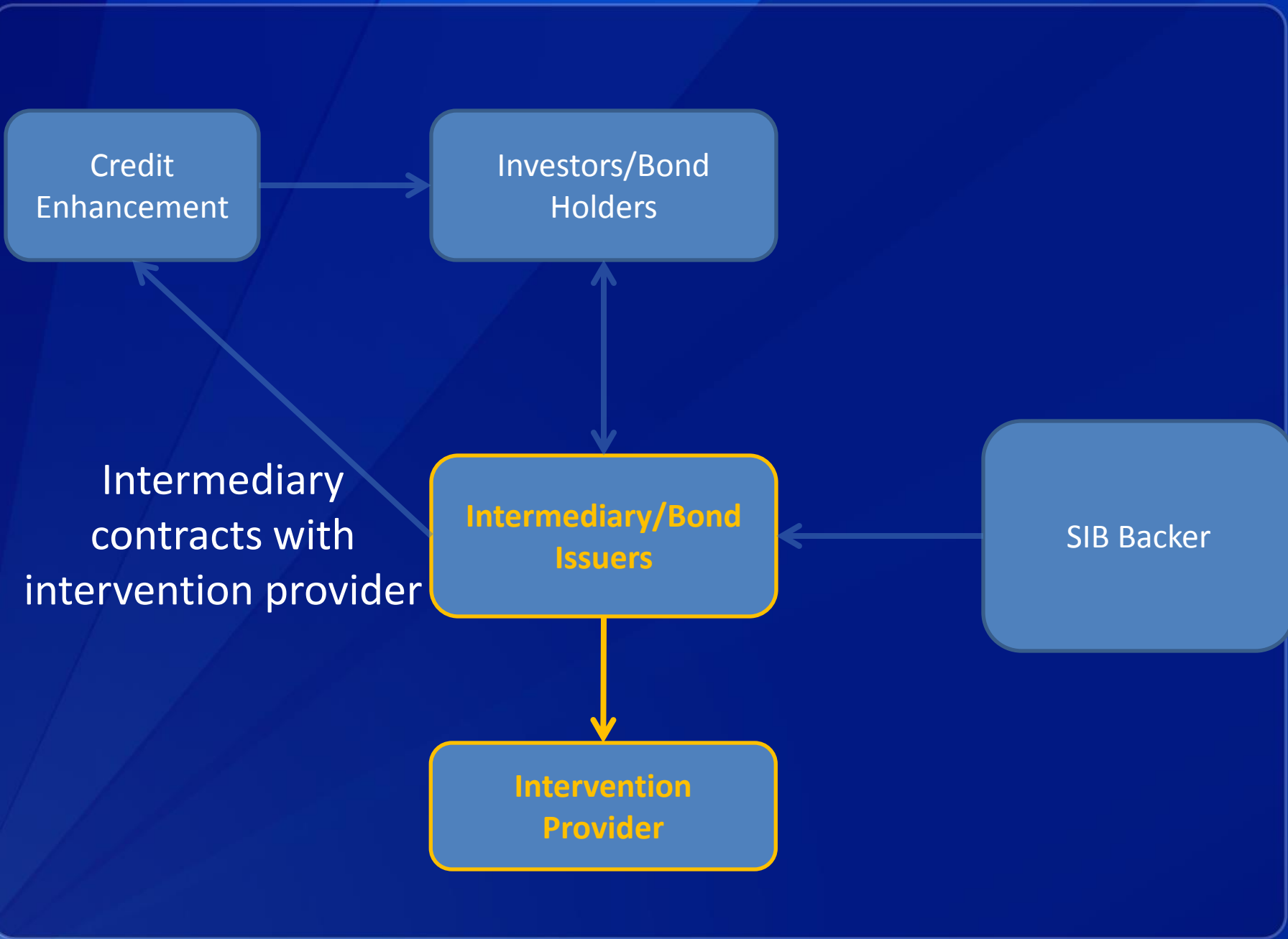


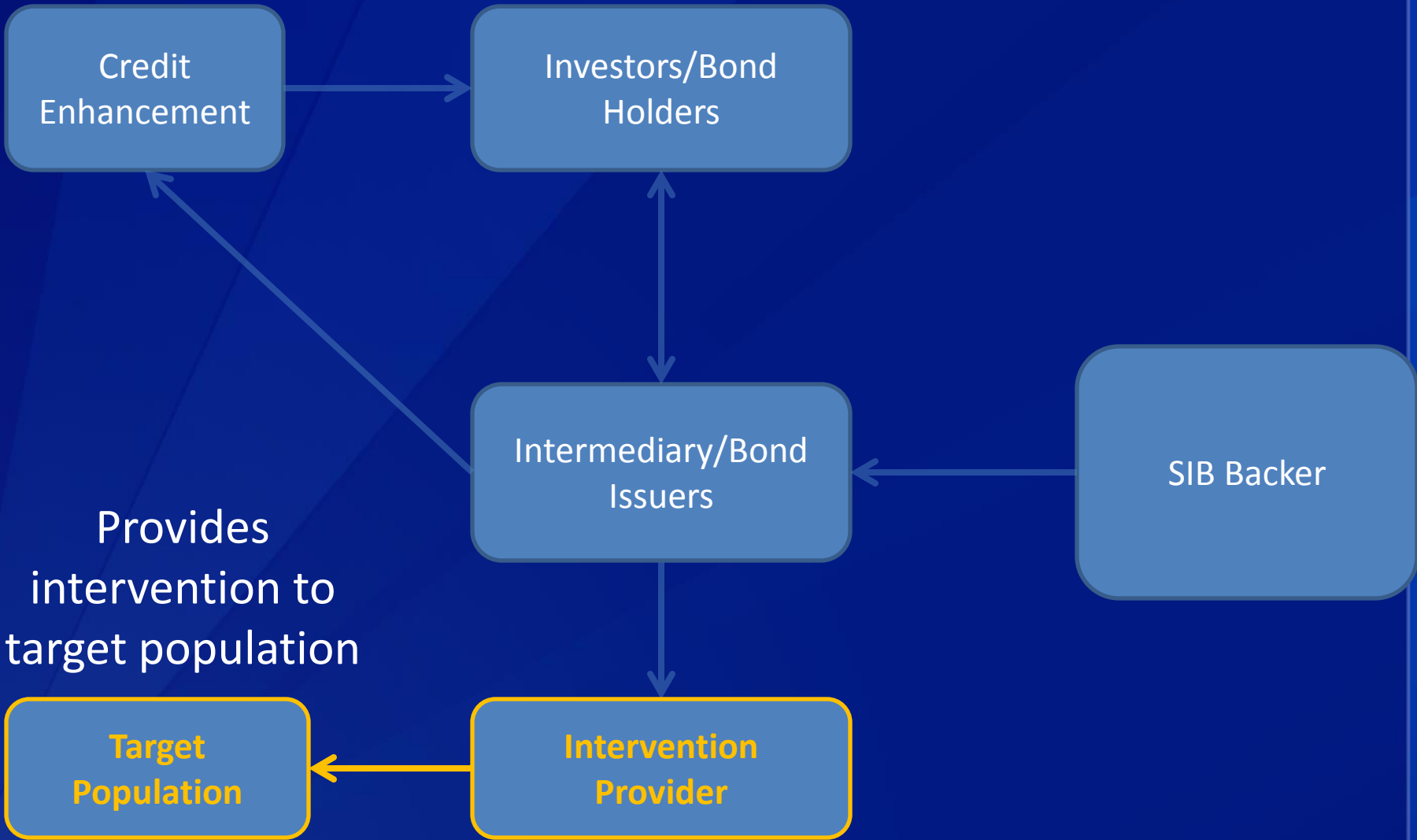


To make investment more attractive, intermediary can seek credit enhancement (CE) to lower the risk of failure to investors

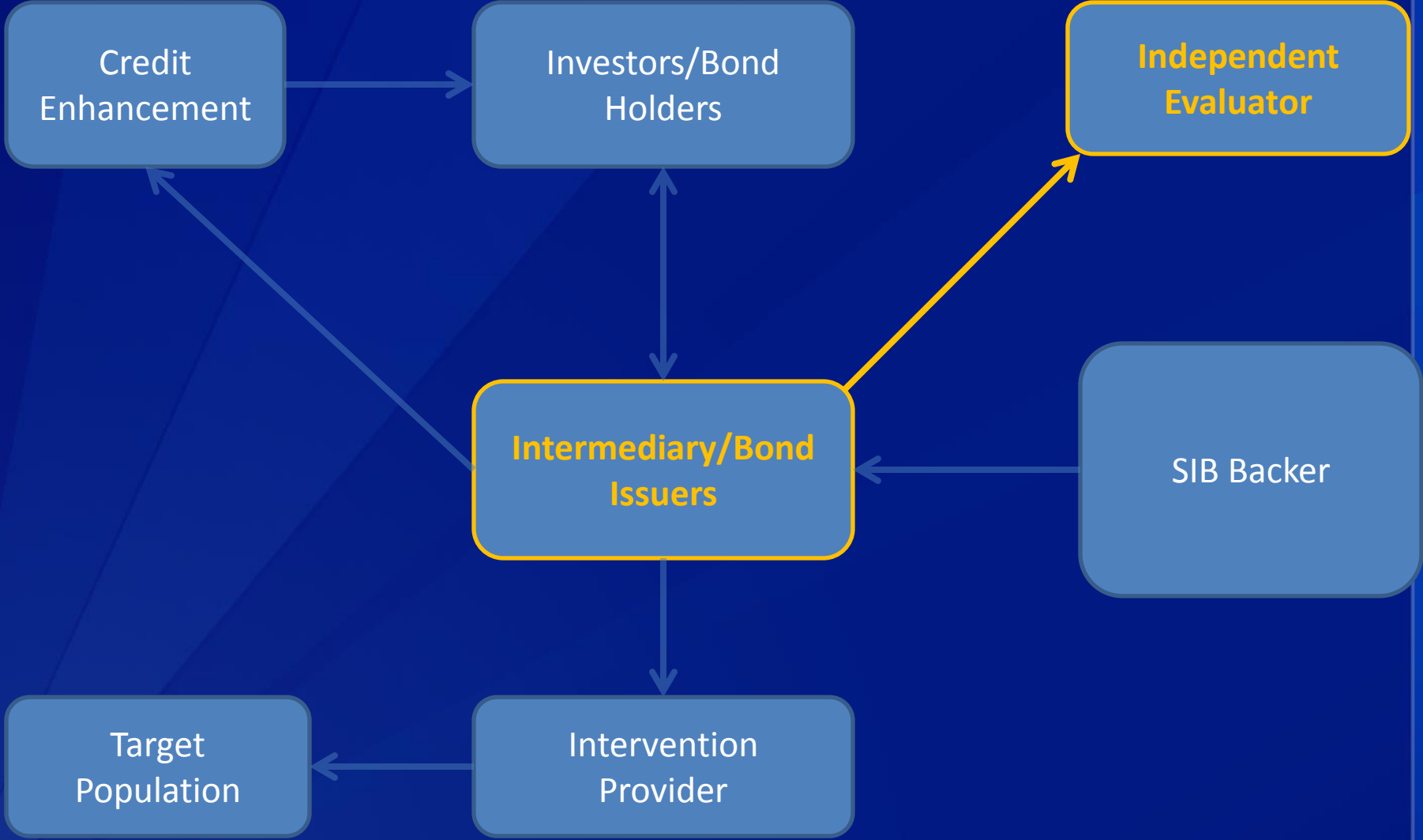
Similar to insurance, CE returns a portion of investment if SIB program fails





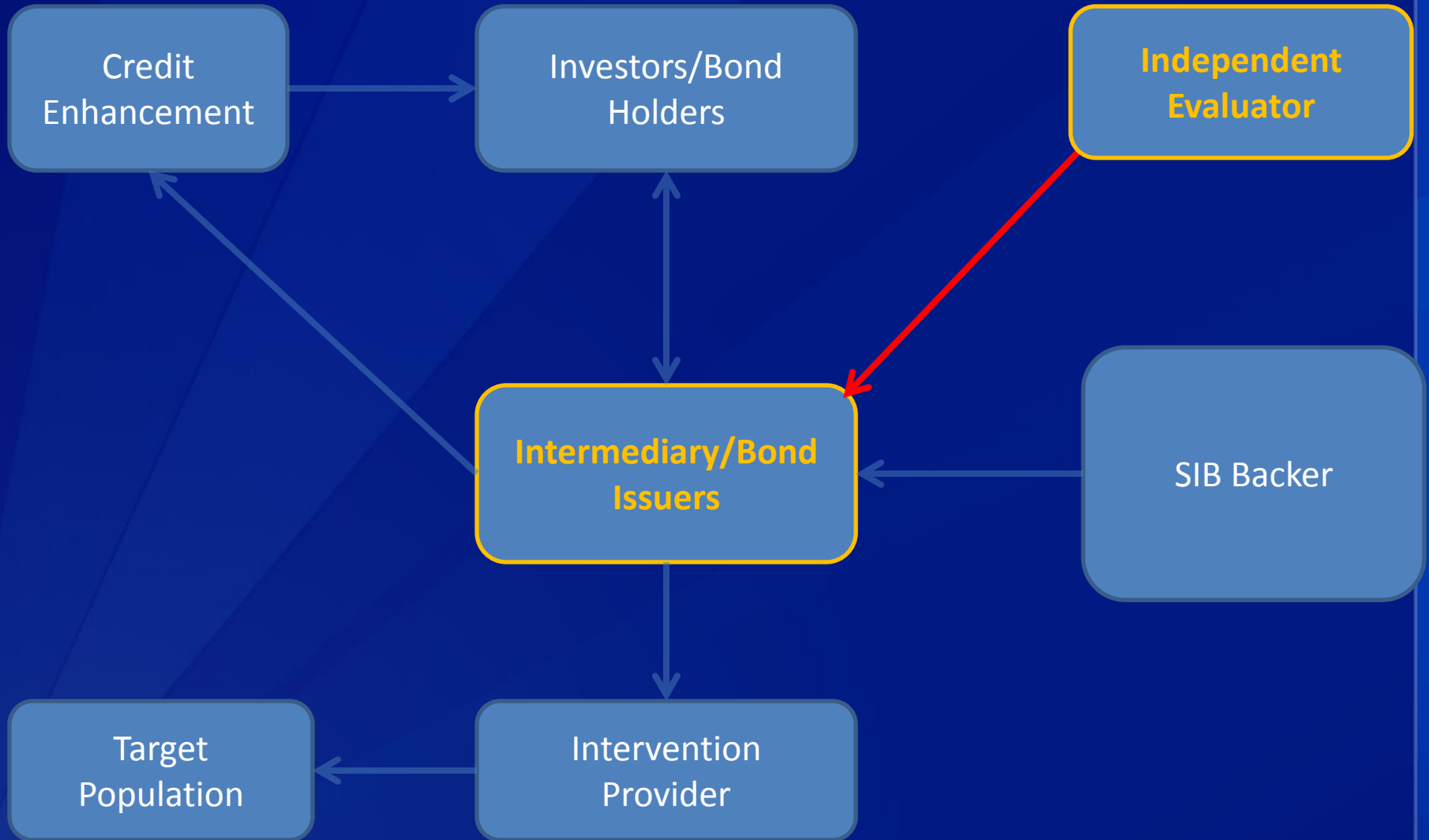


At pre-determined times, independent entity evaluates the program's success or failure

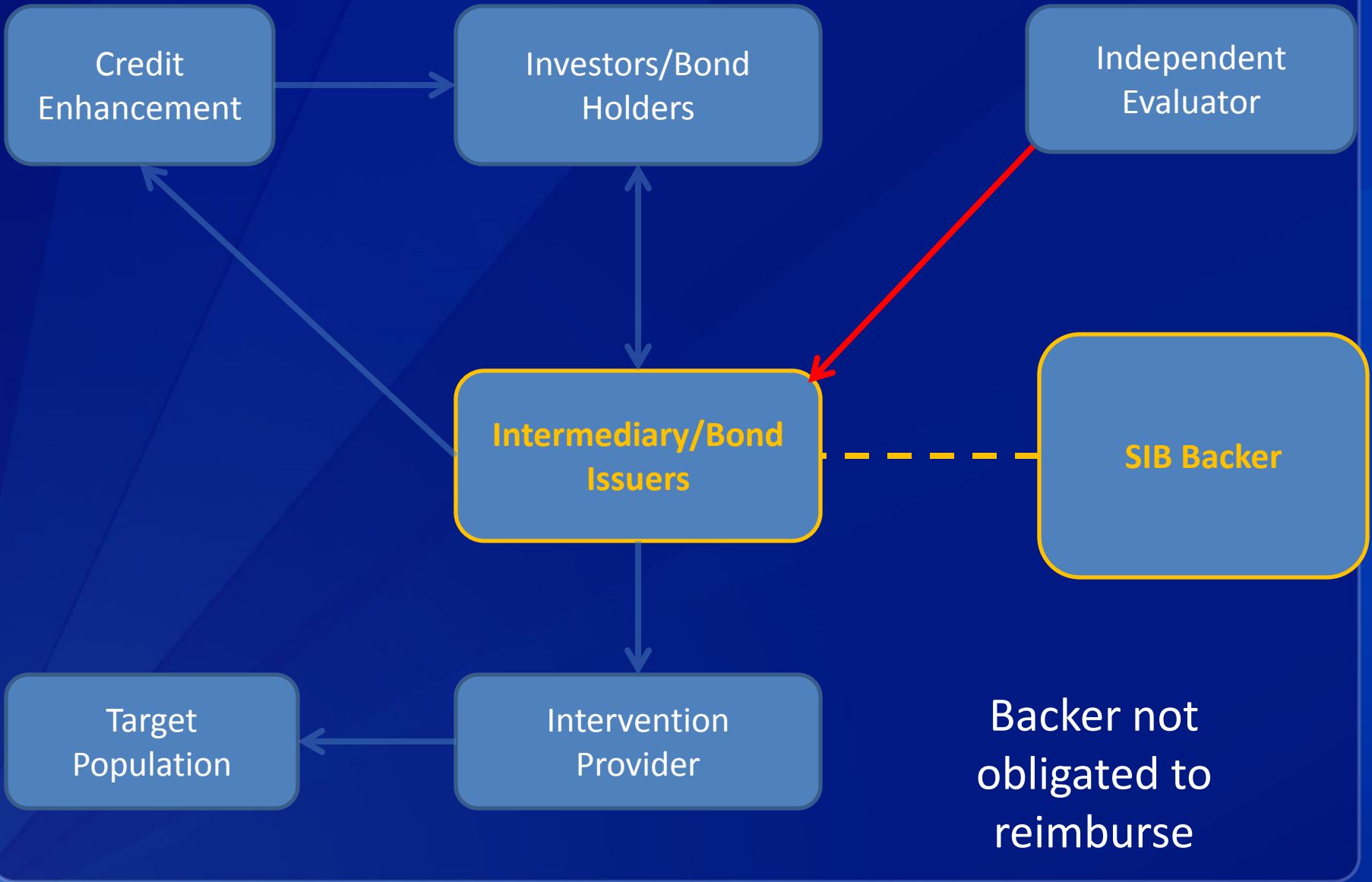


If SIB Program Fails . . .

Evaluation reveals that program failed to reach benchmarks for success

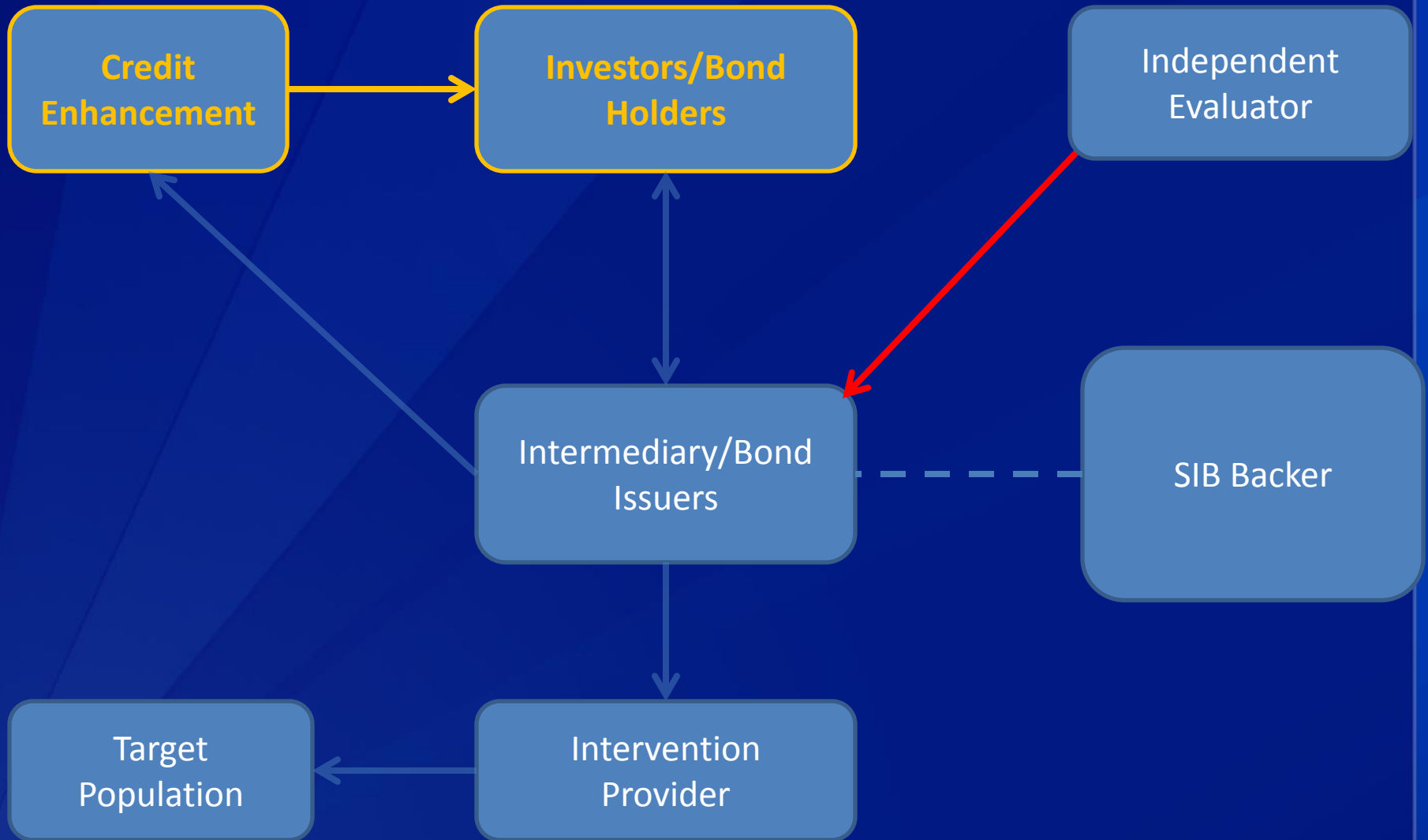


Program Failure



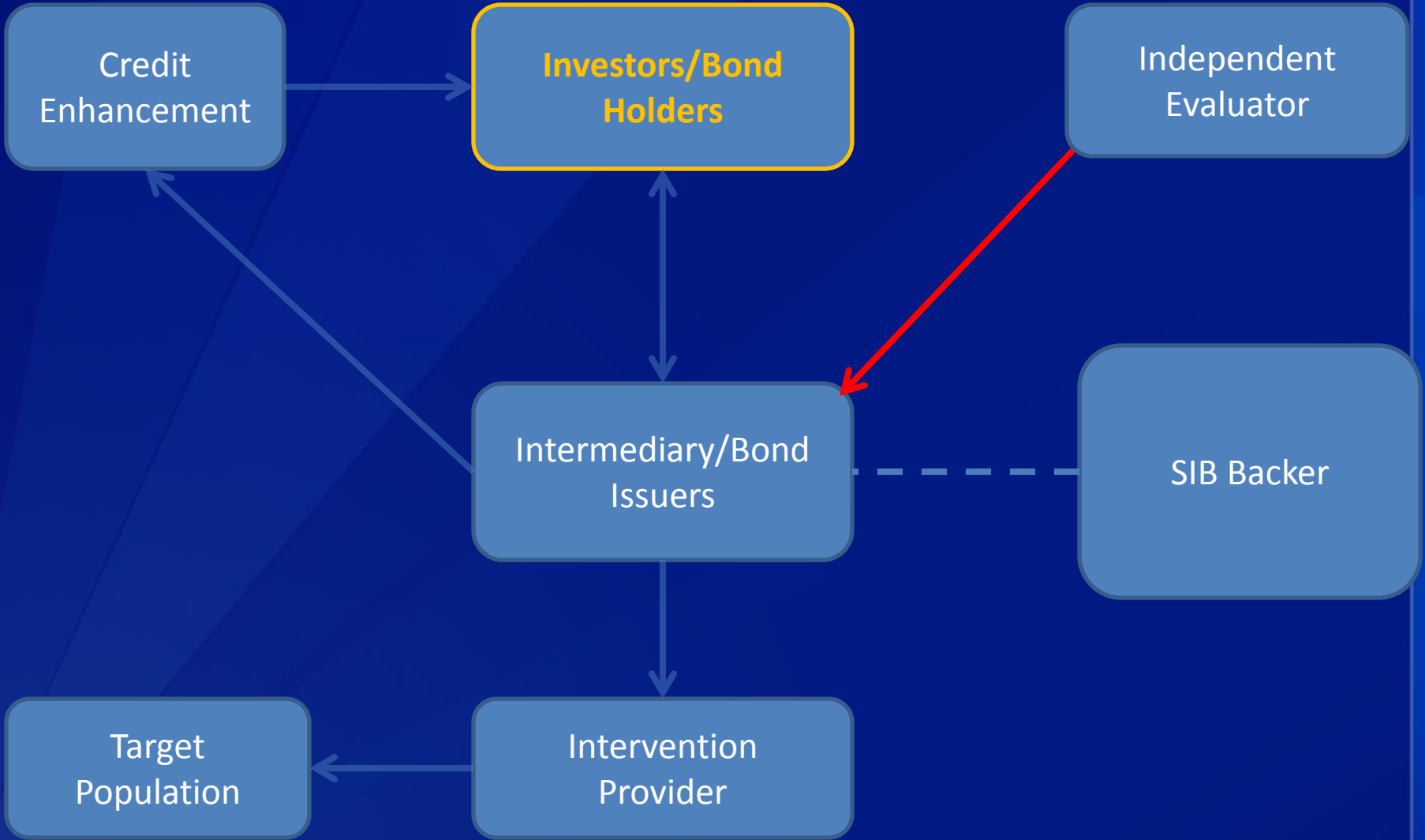
If used, CE partially repays investors,
reducing impact of failure

Program Failure



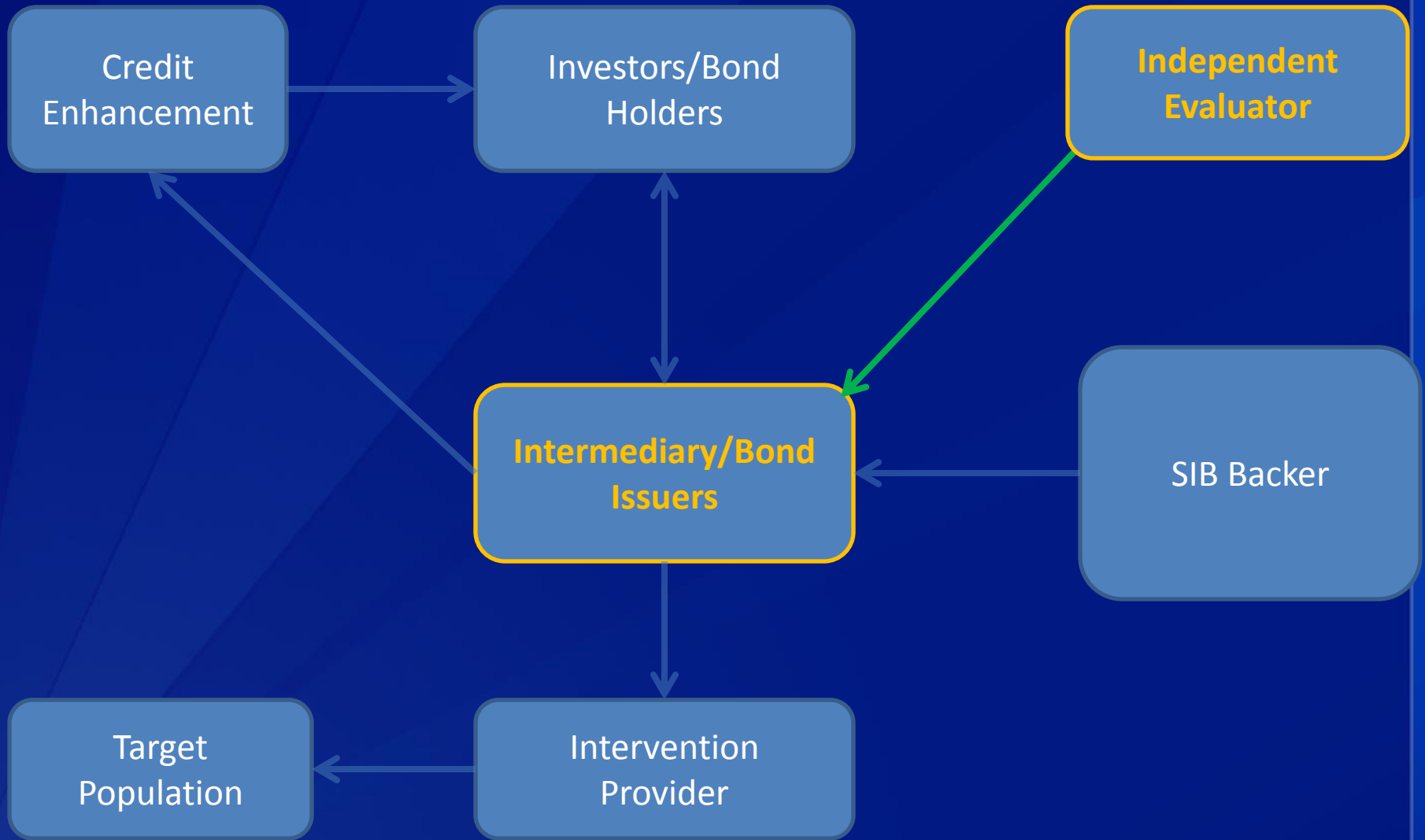
Investors suffer any additional loss

Program Failure

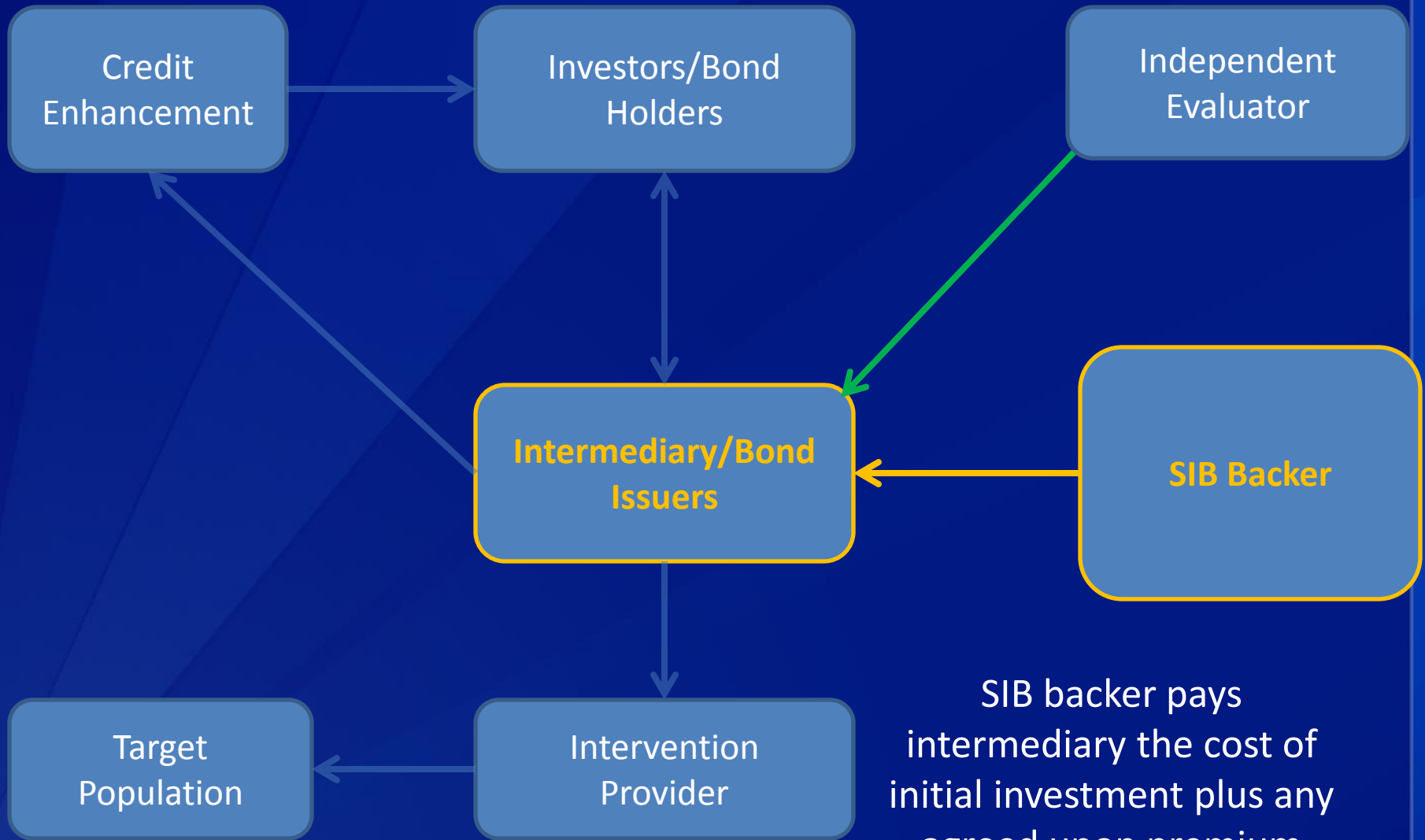


If SIB Program Succeeds . . .

Evaluation reveals that program has reached success benchmarks

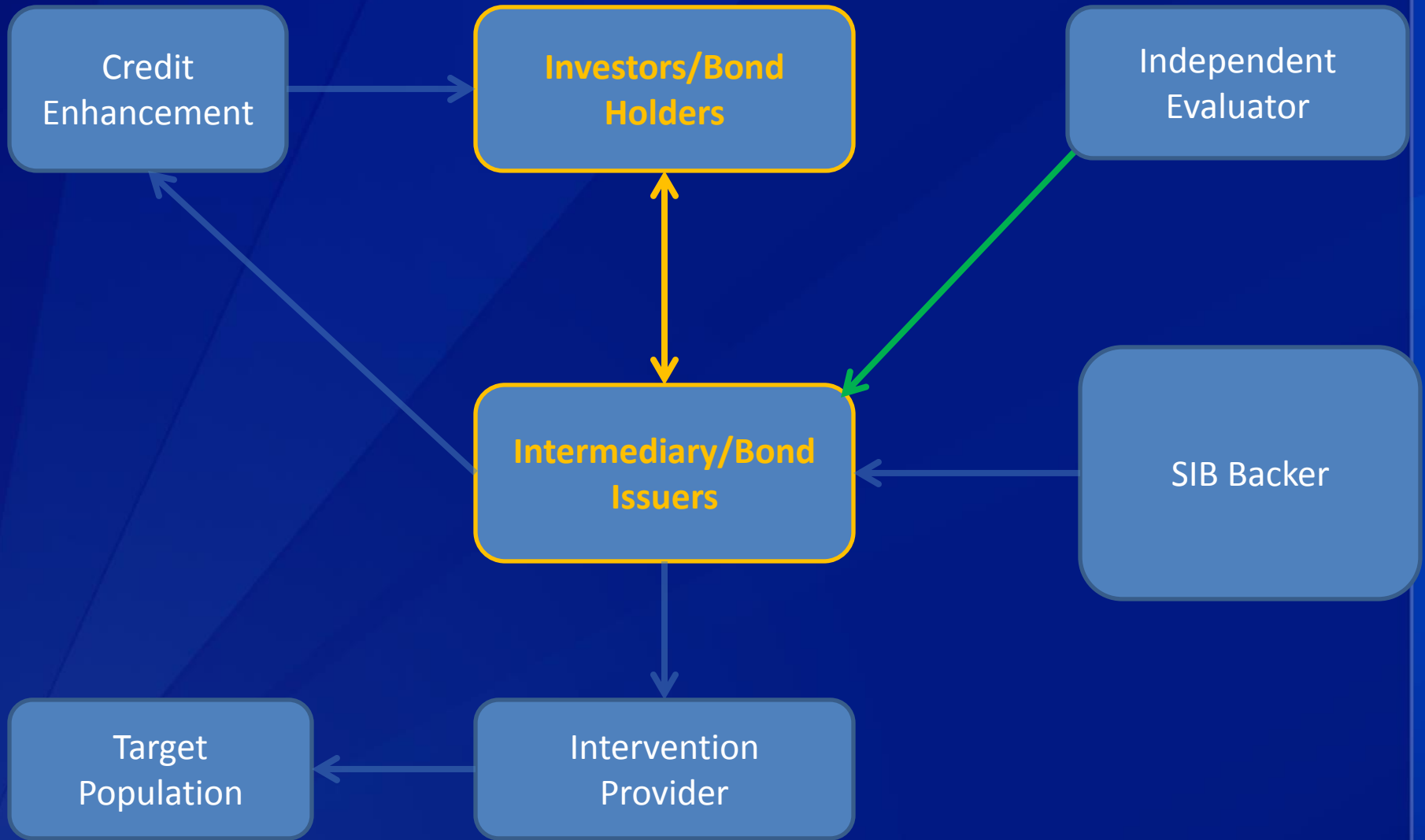


Program Success

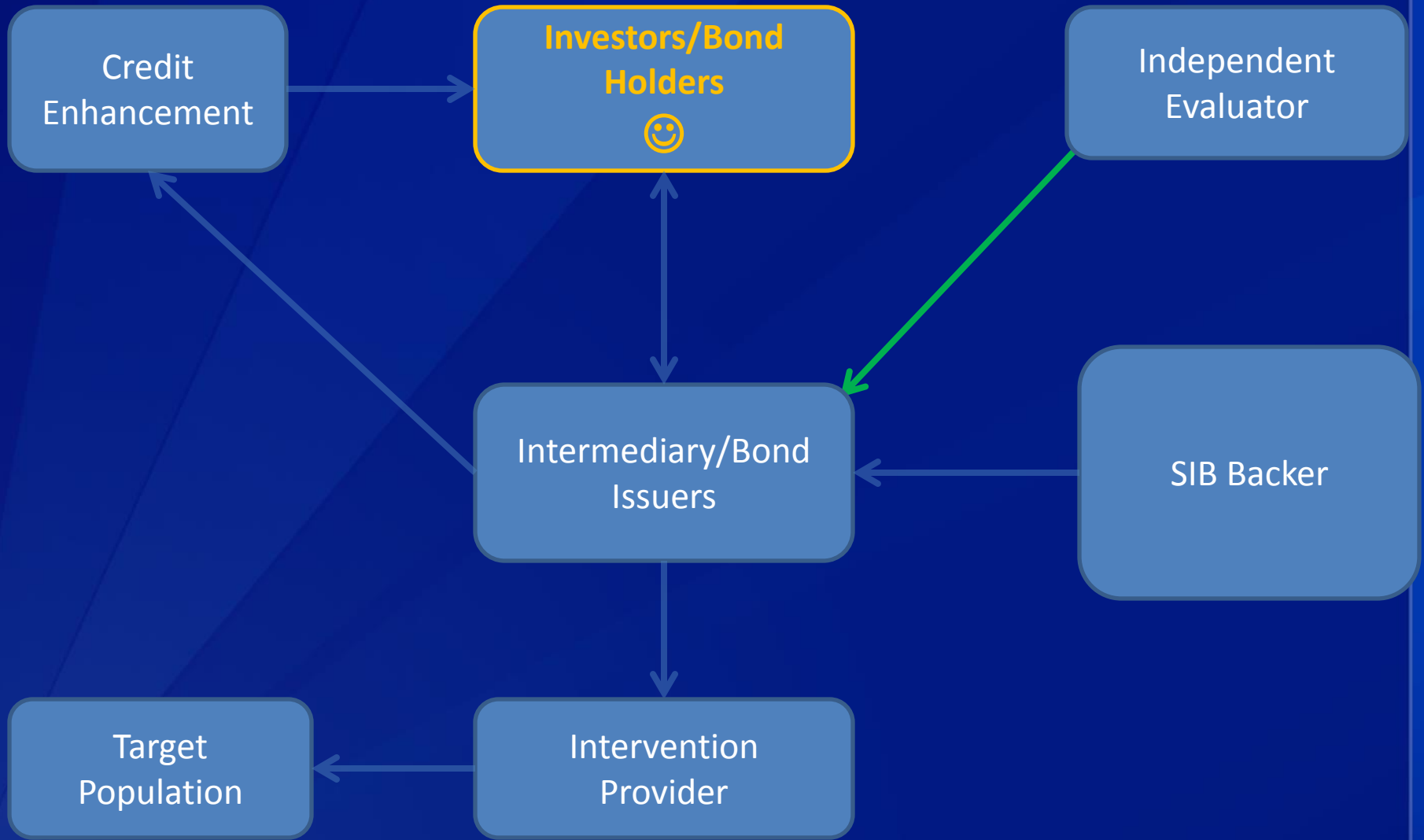


Intermediary repays SIB holders plus any due premium

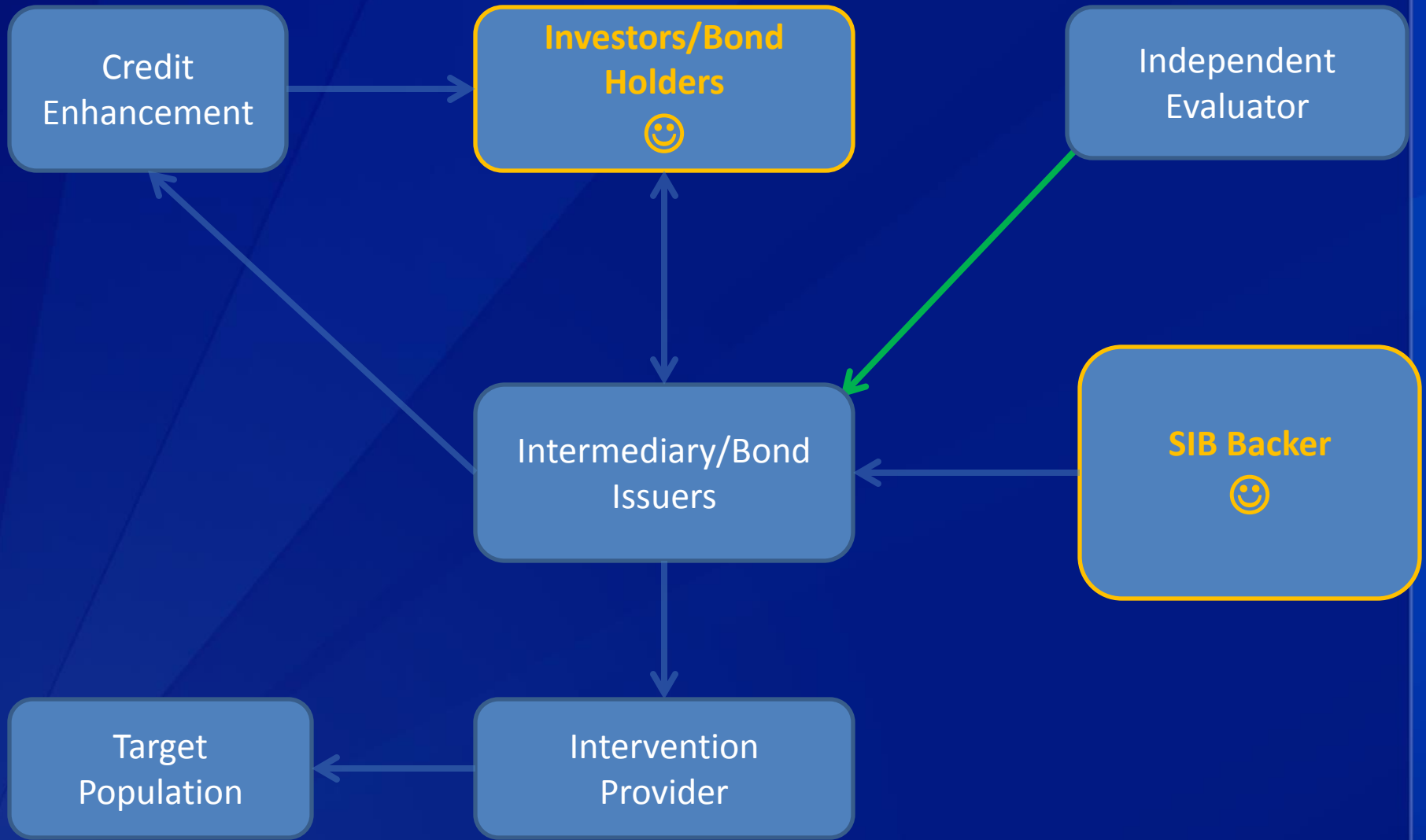
Program Success



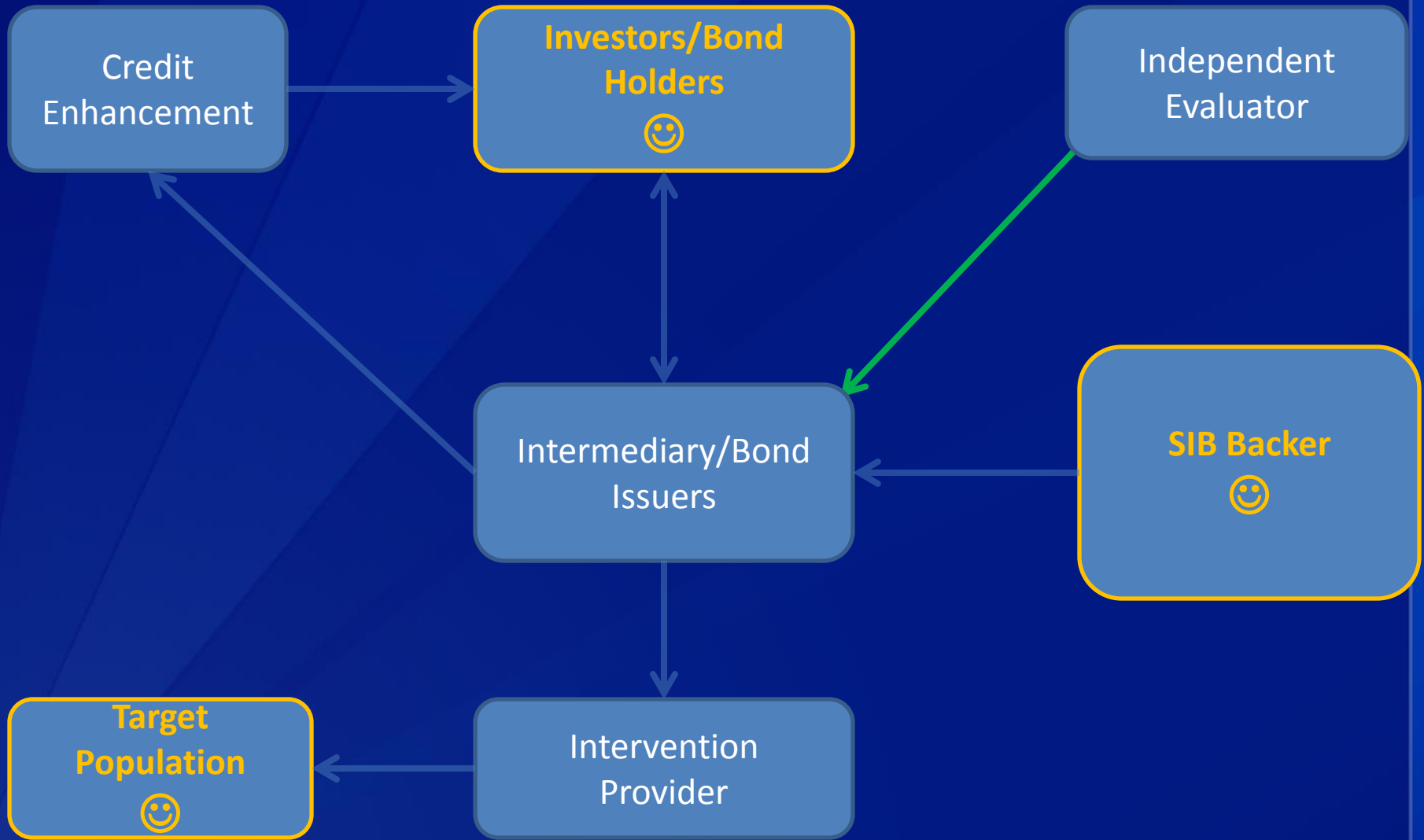
Program Success



Program Success



Program Success



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

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



Selected Resources

❑ Expanded Public Health Law Program resource guide

- In development

❑ Descriptive

- Jeffrey B. Liebman, *Social Impact Bonds*, CENTER FOR AMERICAN PROGRESS (February 2011), 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
- 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
- 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

❑ 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

Thank you!

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