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Background Paper

Using Social Impact Bonds to Finance Better Social Outcomes

Social Impact Bonds (SIBs) are generating huge interest amongst community & voluntary organisations, governments and socially-motivated investors worldwide.

Below, we introduce the concept and explain how SIBs can be used to deploy private capital to improve social outcomes. We consider briefly current and possible areas for SIBs, and their potential for use in Ireland.

This paper is a companion document to *Potential SIB Projects in Ireland – Call for ideas*, a questionnaire to identify social issues and interventions that may fit the criteria for SIBs in Ireland.

The responses to which will form a key part of a research project *Scoping the Potential for SIBs in an Irish Context* (led by Clann Credo - the Social Investment Fund, The Atlantic Philanthropies and the Centre for Effective Services), to identify high-potential SIB areas in Ireland. It is envisaged that this research project will culminate in a report identifying two-to-three high-priority, high-potential areas for Irish SIBs.

1. Research Advisory Group

An Advisory Group, chaired by Gerry Kearney, former Secretary General, Community, Equality and Gaeltacht Affairs is overseeing and supporting the research. Other members of the Advisory Group include Sheila Nordon, Executive Director, ICTR; Toby Eccles, Founder and Development Director, Social Finance; David Moloney, Assistant Secretary, Department of Public Expenditure and Reform; Tom Costello, Programme Executive, The Atlantic Philanthropies; Katie Burke, Principal Fellow, Centre for Effective Services and Paul O'Sullivan, CEO, Clann Credo - the Social Investment Fund.

2. What are Social Impact Bonds (SIBs)?

A Social Impact Bond is a contract with the public sector in which a public sector entity commits to pay when significant improvements in social outcomes for a defined population are achieved. On the basis of this contract, private capital is raised from socially-motivated investors to fund interventions and preventative services that aim to deliver these improved social outcomes. Financial returns to investors are dependent on the degree to which these interventions improve the target social outcomes. If the interventions fail, the investors may lose their money. If the intervention succeeds, the public sector pays the investors a return based on pre-defined measures of social outcomes. The exchequer payments would be financed from a share of the public sector benefit and / or exchequer savings that could result from the improved social outcomes (e.g. reducing future demand for high cost services or decommissioning ineffective services).

In this way the public sector transfers the financial risk associated with delivering the target social outcomes to the investors.

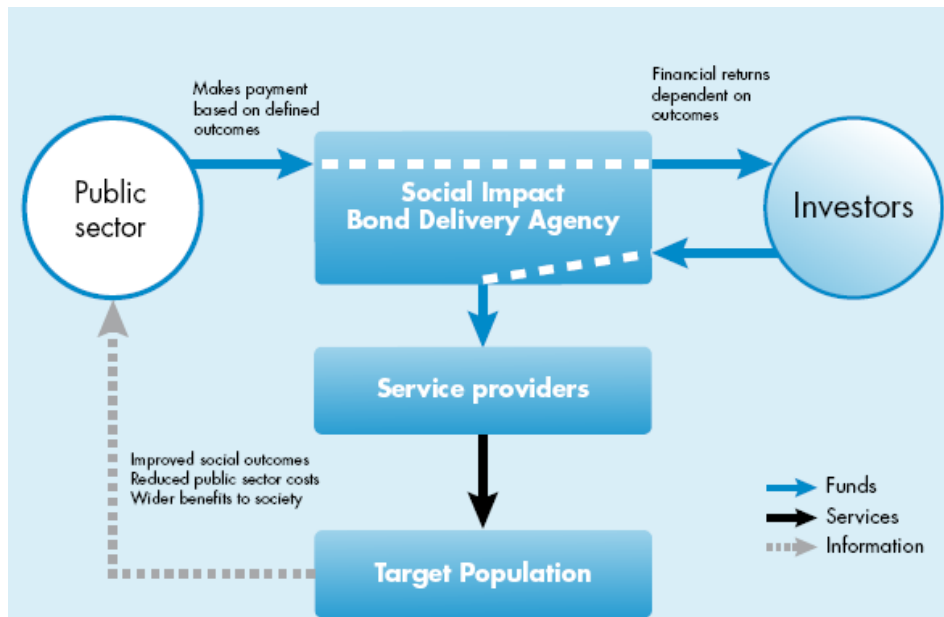


Figure 1: Basic SIB structure (ref: *Towards a New Social Economy* - Social Finance, 2010)

3. Why are SIBs of interest in the Irish context?

SIBs are founded on their ability to deliver real benefits for all key stakeholders. The target population benefits from innovative new service provision. The public sector benefits from the availability of private sector funding and the transfer of financial risk to those investors. The social sector service providers benefit from up-front funding to fund real social interventions. Investors benefit from an opportunity to make a social as well as a financial return on their investment and also to deploy non-grant capital to achieve social impact.

Within the investor pool, SIBs are often of particular appeal to charitable trusts and foundations in offering them the opportunity to fund innovative programmes with public sector involvement. This allows them greater confidence around securing longer-term funding for successful social projects from the public sector.

In summary, SIBs:

- (i) Focus on outcomes for target populations (rather than service outputs or inputs).
- (ii) Provide a potential, non-exchequer funding mechanism for early intervention and preventative interventions.
- (iii) Attract private risk capital to a particular sub-set of social issues.
- (iv) Are a potential mechanism for funding and encouraging the mainstreaming of innovative, evidence informed public services.
- (v) Use private financing to overcome existing barriers to performance-based support for social service providers.

4. What work has been done in Ireland so far?

Clann Credo – The Social Investment Fund, The Atlantic Philanthropies and the Centre for Effective Services have begun research Social Impact Bonds (SIBs) and their potential applicability in an Irish context. We recently organised a high-level roundtable discussion about SIBs which was attended by,

amongst others, civil servants, philanthropists, and community and voluntary organisations. A copy of the report of the *ROUNDTABLE TO EXPLORE THE POTENTIAL FOR SOCIAL IMPACT BONDS IN IRELAND* is available for download at <http://www.tinyurl.ie/23b>

At this roundtable, Social Finance made a presentation about SIBs. Social Finance is the first organisation to launch a SIB (see the example in section 6) and is developing further SIBs in the UK.

The UK's lead in this area has been followed by the USA, where President Obama announced a \$100m fund for 'pay for success' bonds. Other countries, notably Australia, are also exploring the potential for SIBs. This briefing note is a follow-on action arising from the roundtable event as part of an effort to explore the potential for SIBs in an Irish context.

The *Programme for Government (2011 to 2016)* makes reference to SIBs and their potential in a number of contexts as follows:

"Choice and Voice" for Service Users

'We will establish a new model of financing social interventions – called Social Impact Bonds – that share audited exchequer savings with charitable and voluntary organisations.' Page 3

Social Housing

'We will enable larger housing associations and local authorities to access private sector funding for social housing by issuing 'social housing bonds', secured on the value of their existing housing stock when market conditions allow.' Page 15

Anti-Social Behaviour

(vi) *'We will also examine outcomes-based contracts with community organisations to help reduce reoffending by young people, based on the social impact bond model in the U.K.'* Page 19

5. What are the key requirements for SIBs?

This briefing is designed to stimulate thinking around potential SIB opportunities in Ireland. At the end of this paper is a more detailed set of questions outlining criteria for projects that might potentially be funded with SIBs. Experience in the UK has revealed the following pre-conditions for a successful SIB:

- (i) There is a clear social problem.
- (ii) There is a clearly-defined target group.
- (iii) There are measurable and verifiable social outcomes.
- (iv) There are interventions which have been shown to deliver the target outcomes.
- (v) The outcomes will generate clear benefit for the public sector within a reasonable timeframe.
- (vi) The cost of intervention is smaller than the potential benefit to the public sector.
- (vii) The issue area is a priority for the public sector.
- (viii) The issue area is a priority for investors.

6. Are there examples of SIB projects?

The first SIB was launched in the UK by Social Finance in September 2010. This SIB aims to reduce re-offending rates amongst male prison-leavers in Peterborough. There is limited support for short-sentence prisoners in the UK and 60% re-offend within one year of release. In recognition of the high costs to the public sector that this implies (particularly in prison provision), the UK Ministry of Justice agreed to pay for reductions in re-offending rates amongst young men in Peterborough.

Social Finance raised Stg£5m from 17 investors (primarily charitable trusts and foundations, and high-net-worth individuals) to support interventions to reduce re-offending rates. Social sector service providers with an established track record, such as the St. Giles Trust and Ormiston Children & Family Trust, are paid upfront from the investment raised to provide support to offenders and their families, both inside and outside prison, to help them to reintegrate into the community upon their release.

Investors in the first SIB will receive a financial return of up to 13% p.a. if there is a measured reduction in re-offending in the target population when compared to a control group. If the reduction in re-offending is less than 7.5%, then no payments are made to the investors and the initial investment is not recovered.

The UK government is commissioning feasibility studies for other SIBs and a number of other projects are also in development internationally. In addition to justice, we believe there are a number of potential applications in Ireland. These might include:

Homelessness: Homeless people who are not housed fairly quickly often find themselves in state-funded emergency B&B accommodation. Once in such accommodation, it becomes very difficult to move to alternative accommodation. Effective interventions exist: established service providers can work with housing associations to develop a rapid response to homeless persons in emergency accommodation with a view to minimising or eliminating the need for stays in short-stay accommodation. Through finding secure, stable alternatives, if the public sector agree to pass on a proportion of savings from any reduced need for emergency accommodation that was delivered it may be possible to raise investment from private individuals to fund interventions.

ADHD: Children displaying ADHD-type behaviour are frequently prescribed medication, even though it may not necessarily be absolutely necessary. Outreach programmes intervene with young people and their parents to help them with the young person's behaviour. A SIB targeting a reduction in behavioural drug prescriptions could potentially bring private sector funding to the issue if the public sector agreed to pay a proportion of any savings from reduced medication costs to investors if agreed targets are met.

Diabetes: Approximately [x] people are diabetic in Ireland. Each year in Ireland [y] limb amputations are performed as a result of diabetes. However, the impact of diabetes can be substantially reduced through pro-active management of the condition. Private investors could potentially fund a SIB to provide community support to a target at-risk population with diabetes, helping them to manage their condition, in order to avoid complications that require hospital treatment. The SIB contract with the public sector could pass on a proportion of any savings made from a reduction in diabetes-related emergency hospital admissions to repay the private investment.

We would like your support to identify the social issues and / or interventions that you believe have most potential for a SIB in Ireland. Please complete the *Questionnaire: Potential SIB projects in Ireland – Call for ideas* which sets out some questions to identify these issues. We would be grateful if you could send initial thoughts to paul@clanncredo.ie by September 9th.

For more information or further clarification, please contact:

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Background information on Organisations

Clann Credo - the Social Investment Fund - has 15 years experience of raising private capital for social investment and in investing for both social impact and a financial return. Currently over €15m is invested in over 125 projects that yield a social dividend and a financial return. Its aim has been to use finance and financial instruments exclusively for social purposes. Please see: www.clanncredo.ie

The Atlantic Philanthropies are dedicated to bringing about lasting changes in the lives of disadvantaged and vulnerable people. Atlantic focuses on four critical social problems: Ageing, Children & Youth, Population Health, and Reconciliation & Human Rights. Programmes funded by Atlantic operate in Australia, Bermuda, Northern Ireland, the Republic of Ireland, South Africa, the United States and Viet Nam. To learn more, please visit: www.atlanticphilanthropies.org.

The **Centre for Effective Services** is part of a new generation of intermediary organisations across the world, supporting service providers and policy makers to do their work. The organisation is based in Dublin and Belfast, and its mission is to connect the design and delivery of services with scientific and technical knowledge about what works, in order to improve outcomes for children and young people and the families and communities in which they live. See: www.effectiveservices.org

Social Finance is an FSA regulated, non-profit organisation with a mission to accelerate the flows of non-government capital to address difficult social issues. Social Finance's team brings together individuals with expertise in finance, strategy consultancy and social sector research. Team members are committed to driving innovative, sustainable and scalable solutions by combining a deep understanding of social issues with expertise in financial modelling, business case development and investment structuring. Social Finance developed and launched the first Social Impact Bond in the UK in 2010 raising £5 million around a contract with the Ministry of Justice to pay for reduced reoffending among short-sentence offenders leaving Peterborough prison. Social Finance is now working on developing Social Impact Bonds to deliver social impact across a number of other areas including children's services, drug rehabilitation and health.

See: www.socialfinance.org.uk