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September 2014

SIB Sector Gains Increasing Momentum: Multiple Transactions Under Development

Dear Friends, Supporters and Colleagues:

The US Social Impact Bond market has gained critical momentum, and we at Social Finance are actively developing projects throughout the country – projects that represent a broad range of social issues, partners, and structures (see below). The market's rapid expansion provides unprecedented opportunities as well as unprecedented challenges, and we are keenly focused on maintaining our fundamental commitments to quality, mission, and [partners](#) throughout this exciting phase. Each new initiative represents not only market growth but a teachable moment, continuously enabling us to improve our organization, the Pay for Success sector, and our [collective ability](#) to expand opportunities for at-risk populations.

Warmly,

Tracy Palandjian
CEO and Co-Founder
Social Finance, Inc.

Social Finance Projects Tackle Challenges Nationwide

The rapid growth of the SIB landscape in the US – around half of all states are exploring or developing Pay for Success (PFS) projects – is both challenging and exciting. It underscores our core beliefs that private capital can drive social progress and government accountability, and that active performance management alongside rigorous evaluation can lead to improved social outcomes.

In addition to managing the live project launched in New York State last December, Social Finance is currently structuring five Social Impact Bonds (SIBs) that are expected to launch in the next 12 months.

Below is a snapshot of some of the projects we're working on.

SIB Development and Project Management

New York State reentry employment services. Comprehensive reentry employment services for formerly incarcerated individuals have begun under the [New York State Social Impact Partnership](#), which will eventually serve 2000 people. Having led the design, structure, and launch of the project, Social Finance is now providing ongoing performance management and will do so throughout the life of the project.

to conduct a number of landscape and feasibility studies around the country. These advisory projects will enable Social Finance to assess SIB financing opportunities in a variety of geographies and issue areas, from early childhood to workforce development to chronic disease management.

Veterans. Social Finance is partnering with Bank of America Merrill Lynch to assess the feasibility of PFS to better serve our nation's veterans, and is exploring opportunities in workforce development, wellness, and housing. [See press release.](#)

Memphis, Tennessee. Social Finance is assessing PFS opportunities in home visiting, pre-kindergarten, blight, teacher training and recidivism.

Mexico. In partnership with the Inter-American Development Bank and Social Finance UK, Social Finance is working on a landscape survey of several Latin American countries to identify opportunities for high-priority, high-impact SIB projects.

Fresno, California. Social Finance continues to oversee a demonstration project to collect evidence on the social and economic value of asthma management for low-income children.

WK Kellogg Foundation grantees. Social Finance is partnering with the WK Kellogg Foundation to provide four of its grantees with rigorous economic and strategic analysis to prepare them to seek outcomes-based funding (such as SIBs).

California PFS Initiative. The James Irvine Foundation and Nonprofit Finance Fund are supporting Social Finance and our partners – NFP in the Bay area and Orange County, and REDF and the Center for Employment Opportunities in San Diego – to explore two or more PFS projects in California.

[See press release.](#)

Oklahoma. Social Finance is advising on the development of a PFS contract in Oklahoma to support the Tulsa Women in Recovery program to improve outcomes for women with a history of substance abuse.

Accelerated Federal Interest in Social Impact Bonds

Signals of federal interest in SIBs accelerated over the summer with the introduction of SIB legislation in both the United States House of Representatives and Senate. The [Social Impact Bond Act](#) (HR 4885) was introduced in June by Representatives Todd Young (R-IN) and John Delaney (D-MD), along with a bipartisan group of co-sponsors. The legislation would direct \$300 million in federal funds to SIB feasibility studies, evaluation, and outcomes payments on contracts executed with state and local governments. Senators Michael Bennet (D-CO) and Orrin Hatch (R-UT) introduced a similar bill, the [Pay-For-Performance Act](#) (S 2691), in July. If passed, they would represent the first federal-level SIB legislation in the United States and motivate the development of projects with federal savings.

On September 9, the House Ways and Means Human Resources Subcommittee held a hearing on the Young-Delaney bill. Our New York State SIB project partner Sam Schaeffer, CEO of the Center for Employment Opportunities, [testified](#), "SIBs have the potential to scale some of this country's most effective social interventions, helping communities expand programs that have proven results and save taxpayer dollars. Legislation supporting these programs can help change how cities, states and the federal government support the social sector by persuading them to fund what works."

Additional indication of federal support for SIBs came in June, when the Corporation for National and Community Service (CNCS) announced an \$11.2 million [Social Innovation Fund PFS grant competition](#). CNCS will award funds to support technical assistance, capacity building, and transaction structuring. A month later, Washington reauthorized the Workforce Innovation and Opportunity Act, which includes [a provision](#) allowing local workforce investment boards to redirect up to 10% of their federal dollars to PFS contracts.

The Global SIB Market: A Roundup

SIBs continue to expand far beyond the original issue areas and geographies. Since Social Finance UK launched the world's first SIB in 2010, governments in seven countries have commissioned a total of 25 SIBs to tackle a variety of social challenges. Below are some of the themes we're seeing across the field.

The first results demonstrate positive outcomes. In the past month, early results from the SIBs at [Peterborough](#) prison in the UK and the [Newpin](#) project in Australia yielded valuable insights for the field. Newpin delivered a 7.5% return to investors for Year 1, and Peterborough is on track to exceed the 7.5% hurdle rate required for outcomes payments in 2016. Peterborough investors will not receive an early payment this year, however, which was set at a higher hurdle rate of 10% – demonstrating that SIBs involve genuine risk for investors. Perhaps most important, both SIBs helped to deliver valuable services that led to improvements in outcomes for the program participants. And most promising, the Peterborough program showed a measurable uptick in its performance over time—suggesting that the feedback loop and active performance management are working effectively.

SIBs are concentrated in a few broad social areas, but are becoming more diverse. Of the 25 SIBs launched globally, there is a strong emphasis on children, at-risk youth (young people who are neither employed nor in the educational system), criminal justice, and homelessness. SIBs under development tackle even more diverse issues, such as teen pregnancy, child welfare, chronic disease management, workforce development, early education, maternal and infant health, and adoption.

SIBs are global. SIBs have raised more than \$100 million worldwide to date. The largest SIB market in dollar terms is the US, with around \$50 million in deals on the ground. The UK comes in second, followed by Australia, Germany, the Netherlands, Belgium, and Canada. Interest in SIBs to address development priorities in emerging markets is also growing – the Inter-American Development Bank, for example, launched a \$5.3 million facility to catalyze the development of a SIB market in Latin America and the Caribbean.

SIBs attract a variety of investors. The investors in the world's first SIB were predominantly philanthropic entities. While foundations remain a prominent and crucial set of investors, the market has begun to attract a broader range of capital as well as mainstream financial institutions such as Bank of America Merrill Lynch and Goldman Sachs. In the UK and Australia, social investment funds and institutional investors have provided capital for SIBs.

SIBs offer diverse financial structures. The financial structures of SIBs on the ground are strikingly dissimilar; as we like to say, "If you've seen one SIB, you've seen one SIB." Some SIBs have mitigated investor risk through mechanisms such as guarantees, first-loss capital from philanthropic organizations, or staged payments linked to interim outcomes. Over time, these varied structures will offer valuable lessons as the field develops best practices and moves toward standardization.

For a more detailed description of the global SIB market, read [Social Finance UK's August 2014 factsheet](#), from which this information was drawn.

Social Finance Welcomes New Directors to Our Board

Social Finance is proud to welcome two new additions to our Board of Directors: [Pamela Dippel Choney](#) and [Nancy Zimmerman](#). Pam is a retired Partner and Senior Vice President of Wellington Management Company, and Nancy is co-founder and managing partner of Bracebridge Capital, LLC. We are delighted to have their wisdom and expertise on our Board!

SIB Pioneers and Thought Leaders Gather in Canada

On a quiet Canadian island, pioneers and developers of the global SIB sector came together for three days in August to share learnings and plan for the future. The group included leaders from Social Finance US (SFUS), Social Finance UK, and Social Finance Israel, as well as the Asian Venture Philanthropy Network, Inter-American Development Bank, Third Sector Capital Partners, Genesis Analytics, Germany's BMW Foundation, and Canada's MaRS Centre for Impact Investing (which hosted the event).

Participants offered divergent voices and powerful lessons about this still-young field. According to Jeff Shumway, Vice President of Advisory Services at SFUS, "The opportunity to spend three days thinking and talking about SIBs with the leaders of the field was unprecedented. We envisioned a vibrant and highly effective SIB sector five years out, and started developing a road map to help get us there."

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