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Social Impact Bonds

> A New Tool for Social Financing

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Social Impact Bonds

A New Tool for Social Financing

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Purpose

This report was prepared for The Reinvestment Fund, a Philadelphia based Community Development Financial Institution (CDFI). The Reinvestment Fund has commissioned this report in order to gain a better understanding of social impact bonds – an innovative way to finance social projects, and a new opportunity for investors seek to achieve both returns and positive social impact.

> "SIBs have the potential to strengthen incentives and support innovation in the public sector."

Executive Summary

Social Impact Bonds (SIBs) are a new financial instrument that governments can use to finance social projects. SIBs have the potential to strengthen incentives and support innovation in the public sector. Still, like any financing scheme, they also present new challenges.

Social Impact Bonds— A SIB begins when a government agency identifies a social problem it wants to address. The agency then contracts with an organization to serve as an intermediary and administer the program. The intermediary raises capital from investors and uses those funds to support service providers who have a plan to address the agency's targeted problem. After a predetermined period of time, an independent evaluator will assess the service providers' progress towards the goal. Then, the government will reimburse the investors based on a formula established by the original agreement. If the program is successful, investors will be reimbursed for their investment. If it is not, they will lose money and potentially their entire investment, depending on the terms of the agreement [1]. Agreements sometimes provide guarantees to investors to minimize their exposure to risk.

All SIB agreements have two important elements in common: accountability and up-front financing. All SIBs hold investors accountable for the success of the project and incentivize them to find successful programs.Given that they desire investors' capital, both intermediaries and service providers have an incentive to deliver results. SIBs also provide service providers with up-front capital and thus help non-profits overcome the financing problems that so often stifle progress in the social sector.

Advantages and Disadvantages— If properly implemented, SIBs have the potential to improve the effectiveness and efficiency of social programs. They will encourage scaling-up successful models and possibly testing new models that have potential because they allow service providers a great deal of latitude to determine how to obtain results - as long as goals are met. Nonetheless, there are issues which SIBs are not capable of addressing. These are not easily measured by quantitative metrics, and can be so daunting that investors are unlikely to risk their funds at all. The SIB model also entails additional administrative costs, which means it should only be implemented when potential gains are likely to outweigh these additional costs.

Potential for TRF Involvement— This report will describe the SIB model, assess its strengths and weaknesses, and offer suggestions to The Reinvestment Fund (TRF) on ways in which it could potentially become involved in a SIB. It will argue that health care programs offer an ideal window for TRF to enter the SIB market. TRF can become involved in a SIB initiative that overlaps with the organization's policy priorities, such as healthcare.

Because successful SIBs require experienced non-profit organizations and government agencies that are willing to provide financial backing, this report briefly undertakes a review of the potential for SIBs in Maryland, Pennsylvania, and New Jersey. It also examines different roles TRF could play in a potential SIB agreement. TRF could choose to invest in a social impact bond by providing much-needed capital to service providers attempting to achieve the objective articulated by the sponsoring government agency. TRF could coordinate a SIB as its intermediary. If TRF chose this role, it would be responsible for raising capital as well as choosing and supervising service providers. The final role in which the report envisions potential TRF involvement is as an evaluator, providing an independent assessment of progress towards the SIB's goal on which will determine if investors are paid. The report also will discuss the advantages and disadvantages of each role with respect to TRF's particular goals and unique skills.

What is a Social Impact Bond?

A SIB is a specific type of social impact financing mechanism that allows governments to raise private sector funds to provide service producers capital to complete a task to achieve pre-determined outcomes[2]. This innovative mechanism allows the flexibility of governments to impact specific social issues, the security of knowing taxpayer money will only be spent if the outcomes are met, the stability of service providers getting long-term funding for their impactful work, the opportunity to earn both social and financial returns, and the target communities the help they need that will truly change lives.

This mechanism is uniquely different from other social financing tools for five reasons. First, SIBs allow for a vast pool of investment capital to support often under-funded service providers. Second, service providers with proven track records are given upfront capital. Third, sectors who rarely work together collaborate under the SIB model. Fourth, the focus is on preventive, rather than remedial action, which tackles the root of the issue. Finally, there is direct funding to the most effective programs at that time. SIBs are causing a stir in the social financing arena because they have real potential to alleviate the United States of the social issues that historically have been underserved.

Historical Background

Social Impact Bonds (SIBs) are a relatively new funding mechanism. SIBs were first launched in 2010 through a United Kingdom program called Social Finance UK. The UK program sought to reduce the rate of recidivism at Peterborough Prison in Cambridgeshire [2]. Following the UK program, SIBs took off and landed on American soil in 2012. New York City initiated its first SIB contract through an education and social policy research organization called Manpower Demonstration Research Corporation (MDRC) [3]. The NYC SIB contract focused on providing large-scale prisoner rehabilitation at Rikers Island Jail via a public-private partnership. Through the Young Men's Initiative, Goldman Sachs provided more than $9.6 million to ensure that detained 16 to 18 year olds received quality education, training, and counseling. Since its inception, the New York City SIB has provided services for more than 1,400 adolescents and has inspired city policymakers throughout the US to pursue SIBs.

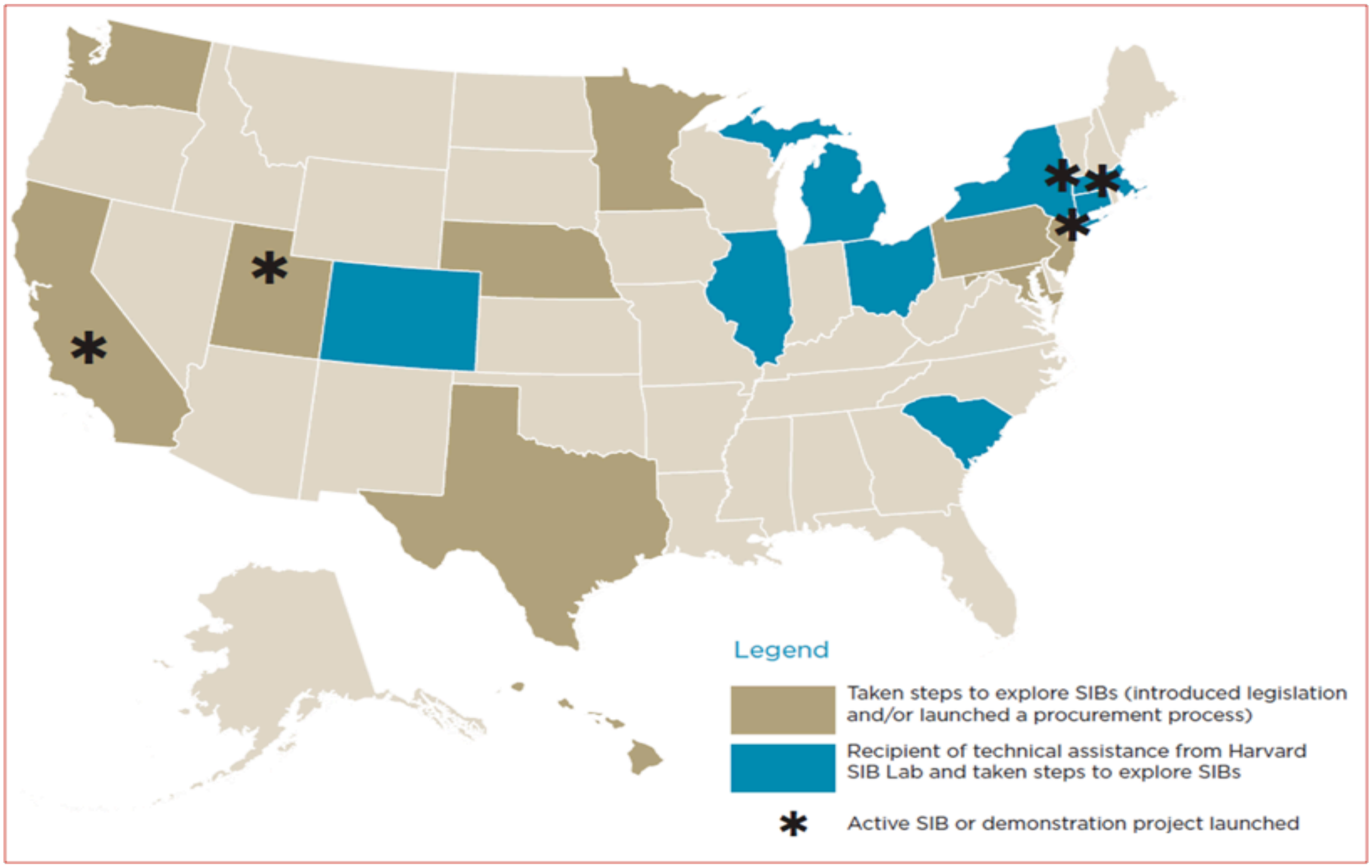
Many other states, including Massachusetts, Michigan, and Indiana, have also taken steps to explore SIBs through introducing legislation and, in some cases, beginning SIB programs [4]. Along with a series of cabinet-level departments, the White House has initiated federal activity in support of SIB contracts and has allocated money to states for their SIB programs. Additionally, the Harvard Kennedy School Social Impact Bond Technical Assistance Lab has funded full-time fellows to develop SIB initiatives in various states [4].

Purpose

The purpose of the SIB model is to generate cost-savings for a government, focus on outcomes rather than inputs or outputs, and reduce political and financial risk. SIBs were created to alleviate high governmental spending associated with social problems [5]. For example, over the past few decades, the government has devoted a considerable sum to alleviate homelessness, reduce prison recidivism, and increase job placement. However, government agencies often struggle to find ways of spending these funds that actually make an impact. Even when innovative best practices exist to address these social problems, government agencies and non-profit contractors are often slow to adopt them.

The biggest motivator for governments to implement SIBs is the potential for cost-savings. Governments will analyze the SIBs before they are implemented to see if there may be some benefit for these programs. Where the savings are seen depend solely on the type of SIB. For example, if there is a health-related SIB, this may create

State and Local Activity- A Snapshot



Source: www.SocialFinanceUS.org

savings in Medicare and Medicaid, which are federally-funded programs, or to impact prisons, which could be federally or state operated. Some programs may be more long-term savings centered rather than short-term savings oriented. A SIB related to prison recidivism would show short-term savings that could turn into long-term savings by shutting down government-funded prisons due to the consistent reduction of prisoners. Taxpayers, then, can have confidence knowing their tax money is going to proven, reliable projects under a SIB. Investors will not invest in unattractive or substandard projects, and intermediaries will not select non-profits that are not capable of meeting the outcomes. There are checks and balances in place to hold each other accountable, which increases overall outcomes.

SIBs create an opportunity for service providers to focus on the important outcome as opposed to a numerical input or output [5]. It is important to note the difference between outcomes and output. Outputs refer to what is done while outcomes refer to the difference that is made. Simple inputs and outputs won't necessarily equate to getting the desired outcomes. For example, an outcome pertaining to employment programs would be getting people a well-paying job, an input would be enrollment in job training courses, and an output would be job training certificates. This model offers service providers the freedom to determine which strategy will best accomplish the objectives.

Through SIBs, governments can offset financial risks to the private sector and mitigate political risks. If the evaluators determine that the service providers have not met the previously established goals, the government will not repay investors. Therefore, the financial risk is transferred to the private sector or the guarantor, if that specific SIB has a guarantor. SIBs also enable government officials to pursue social issues without the risk of funding unsuccessful programs with taxpayer money. Political figures could then address social issues that are less politically attractive (e.g., homelessness).

Applications

While SIBs are not universally applicable to all social issues, they can potentially impact the lives of many vulnerable populations. The government has applied SIBs in the following social issue areas:

Juvenile and Adult Recidivism

Through a SIB initiative, governments have attempted to address the issue of recidivism and reduce governmental expenditures on the prison system. Research indicates that a significant number of released prisoners re-offend and return to prison shortly after being released [6]. Through SIB-funded projects, the government can provide released convicts with rehabilitation and treatment efforts that help them restart their lives as productive citizens. Implementing prisoner rehabilitation programs will not only help decrease crime rates but it will also help the government save money.

In August 2012, New York City initiated a SIB contract that focused on providing cognitive therapy services to incarcerated teens from 16 to 18 years old [7]. The purpose of this initiative was to impact the lives of the adolescents imprisoned at Rikers Island and reduce their risk of becoming repeat offenders. This program helped ensure that young offenders received quality education, training, and counseling so they could become productive members of society. Illinois, Ohio, and Massachusetts are also launching similar projects.

Healthcare

There is a tremendous need for innovative solutions in the healthcare arena. Currently, the U.S. spends more than 15 percent of its gross domestic product, or $2.7 trillion a year, in health care costs. Through a SIB initiative, the government can reduce the governmental expenditures on treatment, hospitalization, and medical care.

In 2012, New Jersey proposed a five-year SIB that focused on health care programs for low-income and uninsured residents [8]. The New Jersey Economic Development Authority (NJEDA) would administer the program. The funds from New Jersey's SIB will be used to provide health care, which focuses on preventative treatment rather than paying for costly future emergency room visits [9]. South Carolina is considering launching a similar program to improve maternal and child health [10].

In March 2013, California initiated a SIB project that focused on improving the health of low-income children with asthma**.** The city of Fresno, California, was the first municipality in the U.S to see whether a SIB can be used to tackle health care issues and improve health care accessibility for low-income children [11]. The SIB seeks to make healthcare more accessible and reduce the cost of emergency room treatment for low-income families by providing them with home care, health education, and financial support for air filters.

Education

A SIB has the potential to address school readiness and improve academic performance at an early age. In return, these programs generate cost savings for the government because there will be less spending on improving students' education in elementary, middle, and high school.

In 2013, Salt Lake City initiated an Early Childhood SIB that finances school readiness programs for young children. The Utah High Quality Preschool Program is a SIB that targets 3 to 4 year olds by creating a curriculum that will increase school readiness and improve academic performance. The purpose of this program is to have students better prepared when they enter kindergarten. This should reduce the number of students in special education and remedial courses in kindergarten through high school. In addition, it would result in cost savings for school districts and the state of Utah [12].

Homelessness

SIBs have the ability to address the issue of homelessness. The government spends a large amount of money taking care of chronically ill homeless people. A program would have the capability of working with service providers to provide homes and shelters for homeless people. Research has shown that providing permanent supportive homes and shelters to the homeless will reduce costs for the government [13].

In 2012, Massachusetts allocated funds for a SIB to house chronically ill homeless people. The SIB has not been initiated, but it is currently in the process. In addition, Denver, Colorado is expected to have funds and a program running by 2015. This program will provide housing for homeless people who struggle with mental health and substance abuse [14].

Job Training

SIBs could be well-suited to manage job training programs with the goal of helping workers become employed full-time and earn competitive wages. They can be quantitatively assessed through measurements of employment and wage data [16].

Structure

SIB contracts represent a collaborative effort between government, intermediaries, and private investors and evaluators.

Government

A government agency identifies a social problem it would like to address through a SIB-funded program. Next, the agency works with an intermediary to set the objectives for the program. Upon the program's completion, evaluators determine if the program's objectives were met. If the evaluators determine that the goals were successfully achieved, the government will repay the SIB investors.

SIBs provide the government with a mechanism to fund social programs while creating incentives to get results and spur innovation. Successful SIB programs may result in substantial government savings as intermediaries innovate to find more efficient ways to deliver services. A final advantage of SIBs from a governmental perspective is that the government is only required to pay if the program actually achieves specified results. This increases the likelihood that the program will achieve those results. It also reduces the negative repercussions of a program that does not meet its targets; while such a program would fail to improve services, it would not cost the government any money.

For example, if the New York City Rikers Island SIB fails, the New York City government is not required to return any of Goldman Sachs' $9.6 million investment, allowing these funds to be used for another purpose. This protects the city government from risks. Also, this feature of SIBs increases the likelihood that policymakers will support innovative but risky solutions to social problems. If these solutions are funded through a SIB, the political costs of failure are much lower because failure would not result in the loss of taxpayer dollars. Federal, state, and local governments can initiate SIBs:

Federal government involvement

The Obama administration has expressed strong interest in SIBs [17]. In September 2013, the US Department of Labor's Employment and Training Administration financially backed initiatives to reduce recidivism and increase employment among formerly incarcerated individuals in New York and Massachusetts. If the programs are successful, the Department of Labor will use Workforce Innovation Fund money to reimburse the investors as well as pay them interest [18]. While SIBs are not implemented at the federal level, the federal government can assist state and local governments by providing financial and technical support to initiate these programs.

The federal government will:

1. Determine availability of SIB grant funds;
2. Solicit applications from local governments;
3. Determine recipients of funds to support social programs;
4. Work with local governments and intermediaries on objectives of the SIB funded program; and
5. Allocate money to investors in successful programs.

Recently, the federal government has played a supportive role in SIBs. The Obama administration created the Office of Social Innovation and Civic Participation (OSICP), which is charged "with engaging the social sector - individuals, non-profits, foundations – as well as business and government - to find new ways to solve old problems and drive collaboration to make greater and more lasting progress in meeting the challenges our Nation faces" [18]. In conjunction with OSICP, the White House has played a critical role in encouraging dialogue between different stakeholders to discuss SIB projects. If these initial programs yield success, the federal government will likely expand its involvement in SIB-funded programs. In June 2014, Representative Todd Young (R-IN-9) introduced H.R.

4885: "The Social Impact Bond Act" [19]. With 14 cosponsors (seven Democrats and seven Republicans), this bipartisan bill allows the government to allocate $300 million to fund SIBs around the country [19]. The bill proposes that funds, which will be managed by the US Department of Treasury, are set aside for the next ten years to fund new state programs. This is Congress's first major legislative action for SIBs, and shows the role the federal government could play in assisting state and local governments with their programs.

State and local governments

State and local governments choose which social problem to target based upon several factors [20]. First, a reduction in the problem must lead to government budget savings. The problem must also affect a defined target population that is small or concentrated enough that the SIB-funded program can make a meaningful impact. If a social problem meets these criteria, the government could choose to initiate a SIB to address it. The state or local government will:

1. Enact the SIB;
2. Hire an intermediary;
3. Negotiate the terms of the SIB;
4. Pay all administrative costs; and
5. Repay investors of programs where objectives are met.

Once the intermediary is selected, the government assumes a passive role, continues to take part in contracts, and is updated on the progress of the program. Depending on the evaluator's assessment at the end of the program's timeline, the government will decide whether or not to repay the investors.

Intermediary

The intermediary facilitates the SIB process and is ultimately responsible for negotiating and implementing the SIB initiative in coordination with the government, investors, and service providers [21]. First, the intermediary identifies potential private investors and philanthropists to fund the SIB program. This process includes the intermediary emphasizing the potential social and economic benefits of investing in a SIB. The intermediary then negotiates contracts that outline the terms of the investment(s), repayment, and program objectives and evaluations. The contract process includes the government, investors, and intermediary.

Finally, the intermediary identifies a service provider that has a track record of effective interventions for this particular social issue to carry out the SIB-funded program, oversees the program, and handles any potential changes to the terms of the contract. It is helpful for the intermediary to have a strong background in community investing, social policy, financing, and program evaluation since it must understand the motivations and concerns of each actor.

Investors

Through the SIB model, investors can produce a social impact in a targeted community, reap a financial return, diversify their portfolios, and improve their public image [22]. These benefits are part of an emerging interest in conscious capitalism, whereby corporations can both make profits and facilitate positive social changes.

Through their sponsorship of a SIB, investors assume financial risk for its failure. If the evaluators determine that the service provider has failed to meet the previously established goals and expectations for the SIB initiative, the government will neither reimburse the investors for their prior financial sponsorship nor pay them interest. While the investors do not directly implement the SIB initiative, they have a strong incentive to ensure the SIB succeeds so they receive reimbursement and interest for their financial sponsorship. A guarantor provides a safety net in the form of a guaranteed repayment for investors to mitigate their financial risks.

Evaluators

Independent evaluators ensure an unbiased evaluation of a SIB program. Evaluators determine whether the targeted goals and outcomes have been achieved according to the terms and conditions of the agreement. This evaluation determines whether or not the government repays investors. Evaluators are not paid by the intermediary, but instead are funded directly by the government. Regardless of the outcome, the government pays the evaluator, a critical factor in helping ensure an unbiased assessment of the program's success or failure.

The independent evaluators create an extensive database to monitor the SIB's progress [23]. An intermediary may already have developed its own data collection system, but independent evaluators perform data-collection protocols to assess any gaps and weaknesses. For instance, the Vera Institute of Justice is currently evaluating the Adolescent Behavioral Learning Experience Program at Rikers Island. Under their evaluation model, the Vera Institute has combined the intermediary's data collection systems with its own to produce a 12-month and 24-month program impact assessment [24]. At the end of the SIB program, Vera will determine if the program was successful.

During the SIB process, the evaluators can interact with the other stakeholders in two different ways. In the first option, the evaluators are more involved with the intermediary and service provider. During the SIB period, the evaluators advise the intermediary and service provider. They periodically monitor the progress of the service provider and provide on-going feedback to ensure that the SIB reaches its goal. The evaluators can provide the intermediary with recommendations to adjust the service-provider's program. The purpose of the modifications is to ensure that the program will be most effective.

In the second option, the evaluators take on a more traditional evaluative role. They are not involved with the intermediary and service-provider in program implementation. These traditional evaluators collect data and decide whether the SIB was successful or unsuccessful at the end of the program. In this evaluation model, the evaluators do not provide implementation recommendations and remain objective in their data analysis.

In the current structure, the evaluators are determined once the final performance target is met. SIBs currently contract an "independent third party" as an evaluator. However, some scholars have argued that the evaluator should have a role in determining the final target goal [25]. In the future, it is possible for the evaluator to work with the other stakeholders to define performance targets, but evaluator involvement would forgo the benefits of independent evaluation.

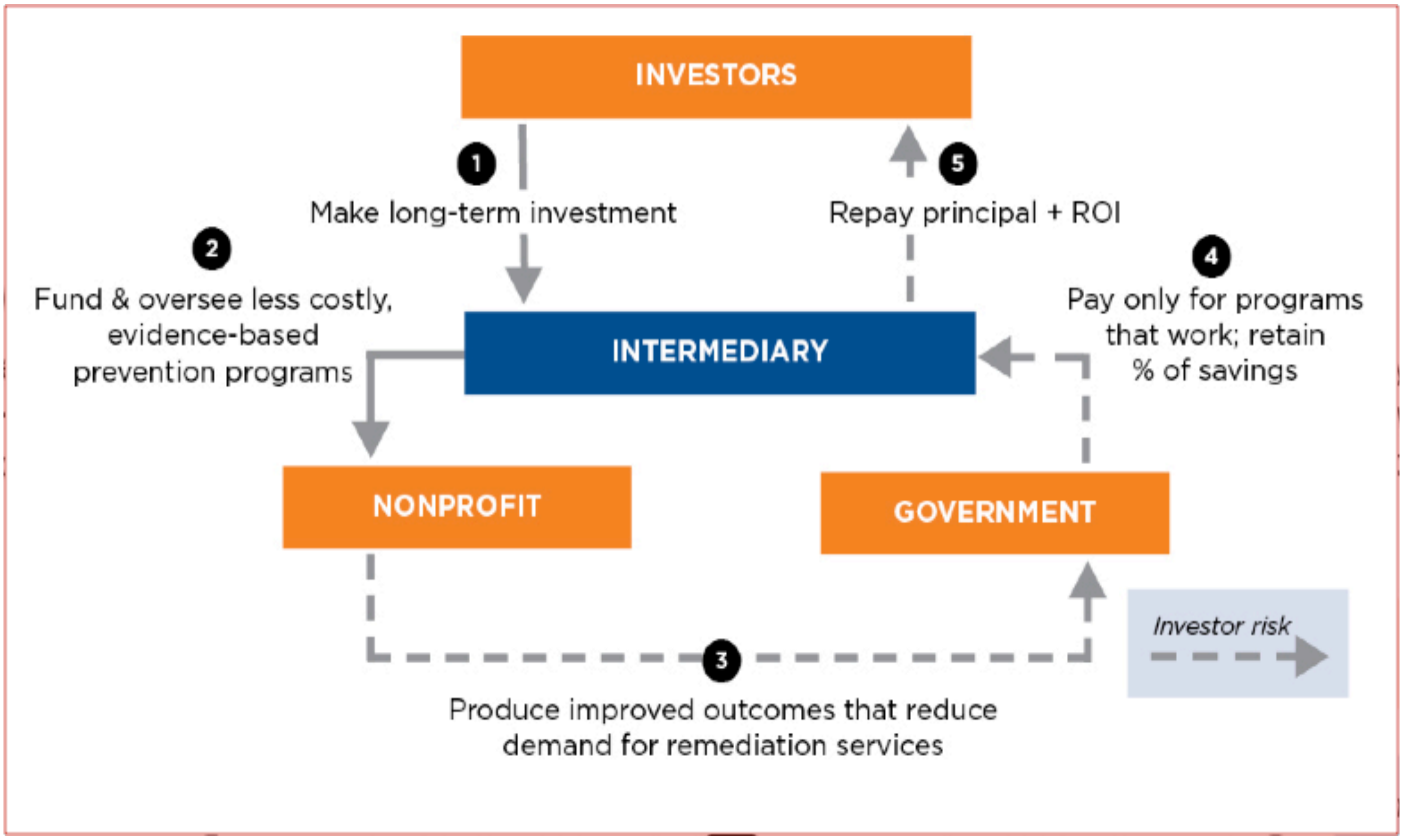
Variation of SIB Model

The model above shows the typical SIB process; however, models differ by state. There are many variations to the original model of a SIB with different stakeholders involved or one stakeholder taking on multiple roles. However, although these models have slight variations, they have the same incentives of obtaining results and operating with up-front private capital.

The Addition of a Guarantor

Within the original model, there is usually a financial guarantor. The guarantor's role in this process is to reduce the financial risk of the investors. In the original model, the investor assumes all the risk, and could potentially lose their entire investment if the program does not meet the objectives. The guarantor provides a financial guarantee to the investors, meaning the investor(s) will not lose their entire investment if the SIB-funded program does not meet objectives. For example, the guarantor can guarantee that the investors

How Social Impact Bonds Work



Source: "A New Tool for Scaling Impact: How Social Impact Bonds Can Mobilize Private Capital to Advance Social Good", Social Finance, 2012.

> “SIBs improve the effectiveness of social programs by establishing reliable metrics for measuring performance, increasing creativity, and financial flexibility.”

will get a percentage of their investment back, whether the SIB succeeds or fails.

This model is useful in getting investors interested. In the original model, it is difficult to attract investors because there is a risk of losing the entire investment. The first SIB established in the United States was in New York City and it had a guarantor involved. Goldman Sachs made an investment of $9.6 million; however, Bloomberg Philanthropies provided a guarantee of $7.2 million. This substantially reduced Goldman Sachs' risk [7].

The Intermediary as the Service Provider

The original SIB model has the intermediary provide the investors' funds to non-profit service providers. The service provider then uses those funds to operate a program that addresses the social issue. However, the intermediary can fulfill this role as well. The intermediary is usually a non-profit that has experience in certain areas to provide a program that can address the issue. When you remove the addition of a service provider, then the intermediary does not have the responsibility to search for the most efficient service provider. However, it now has the responsibility to administer a program to reduce the social issue.

Government as an Intermediary

As the proposed legislation in New Jersey demonstrates, the government can structure a SIB in such a manner that there is no separate intermediary. The New Jersey legislation, titled "The New Jersey Social Innovation Act," calls for a study commission to assume the responsibilities of the intermediary [26]. The New Jersey Economic Development Authority would appoint the members of the commission. This study commission is charged with soliciting investors, selecting service providers, and assisting in negotiating contracts between stakeholders. In the general SIB structure, these responsibilities belong to the intermediary.

The Pros and Cons of SIBs

As with any financing mechanism, the SIB model has advantages and disadvantages. While some of these advantages and disadvantages are fundamental consequences of the SIB model's unique design, others depend on the specific implementation of a SIB project.

Advantages

SIBs have a variety of major advantages over traditional social financing schemes:

1. *Improve effectiveness and efficiency of social programs*. SIBs improve the effectiveness of social programs by establishing reliable metrics for measuring performance, increasing creativity, and financial flexibility. The introduction of quantitative metrics into non-profit performance standards improves the effectiveness of SIB-funded social services. The specific parameters of SIBs optimize the allocation of resources as well as maximize their impact on the targeted populations, thereby promoting a more efficient utilization of financial and physical capital. Furthermore, SIBs create a space for the intermediary to contract various service providers to address a social issue under one funding model. The aggregation of varying service providers offers a holistic approach to social issues and thus improves the effectiveness of the particular social program.

2. *Strengthen relationship between public and private sectors*. SIBs establish and facilitate a substantive relationship between the public and private sectors in order to confront crucial social issues. SIBs create a space between the public and private sectors for responsible social investing. For example, in February 2012, governmental officials of New York City issued a $9.6 million SIB for prisoner rehabilitation [27]. This SIB enabled MDRC (the intermediary), Goldman Sachs (the investor), and Osborne Association and Friends of Island Academy (the service providers) to have a space in which they could negotiate and establish an innovative model to alleviate recidivism. Outside of this SIB model, this non-profit organization and this global for-profit firm would have very limited, if any, contact with one another.

3. *Fund politically unattractive initiatives*. Politicians can use SIB funding to implement social programs for issues that are politically risky. The SIB model of payment for success spares taxpayers the cost of failed programs. Constituents are less likely to oppose SIBs than other social programs because the government only pays for programs that successfully reduce a social problem. With SIB funding, policymakers can implement social programs without increasing budgets. Social issues that are expensive and usually politically unattractive are more easily addressed.

4. *Enable service providers to scale-up*. SIBs allow service providers to obtain large amounts of capital up-front. As a result, service providers can rapidly scale up practices that have proven successful, and investors and intermediaries have a financial incentive to find service providers that can do so. Regardless of success, SIB contracts increase funding for non-profits so that they can expand their services and operations. SIBs do not redistribute funding among non-profits, but rather increase total funding from other revenue streams. Private investors, rather than government non-profits funds, provide initial capital. Government agencies repay successful SIB loans with expected savings from their respective budgets.

Disadvantages

However, SIBs also present novel challenges:

1. *SIBs require cost savings and quantitative metrics*. The issues that can be addressed by SIBs require government cost savings and quantitative measures of success. Many social problems, however, do not lend themselves to quantitative analysis or do not present a potential for

cost savings. Issues that are difficult to measure are likely to be ignored by SIB programming. For example, racial inequality is not easily measured and could not be effectively translated into the metrics necessary for SIB evaluation. Also, some programs such as TANF, SNAP, and public housing are important social programs for lower-income individuals that are administered without the expectation of government savings. SIBs cannot be used to fund transfer programs because cost savings cannot be realized without diluting the transfer.

2. Extensive administrative costs. SIBs' highly intricate structure complicates the stakeholders' ability to navigate the process. Negotiating and implementing a SIB - while coordinating with all involved stakeholders - could be logistically daunting. This complexity incurs higher administrative costs and creates a greater potential for confusion. Therefore, SIBs are only worth pursuing if significant savings are available from improving the efficiency of service delivery - savings great enough to cancel out additional administrative expenses. An evaluation of Maryland's program indicates that SIBs may not bear savings until applied at sufficiently large scale [28].

3. *Ignore systemic issues*. The growing attention for SIBs may distract from more meaningful social policy reforms. For example, reducing recidivism rates for one prison ignores the institutional policies that systematically perpetuates the mass incarceration of particular populations. Politicians may use SIBs to superficially advocate for an issue without delving deeper into long-term and systematic solutions.

4. Profit motive may compromise social impact. Profit as the incentive can undermine the potential for social impact in exchange for greater revenue. Private entities can profit from the social goods that the government provides via the SIB model. Companies with excessive legal resources may dominate contract negotiations and influence government programs in ways that may not optimally serve the public. With SIB programs, welfare services are opened to the free market and the associated risks of market failures. Where price excludes intangible social benefits, SIBs fail to provide a level of quality that is not represented by market value.

The Reinvestment Fund & SIBs

The Reinvestment Fund (TRF) targets Mid-Atlantic communities including Philadelphia, Baltimore, and Jersey City. TRF's goal is to revitalize neighborhoods and strengthen communities. In light of this goal, TRF focuses on the following issue areas: housing, education, food, health and energy [29]. TRF uses its loan funds to provide capital to under-financed community development projects. TRF collaborates with public, private, and community-based organizations that are implementing programs in their communities [30].

SIBs are structured differently than TRF's projects. The SIB is a financing model built around a project's potential for government savings. As a result, SIB projects are only able to target a narrow range of social problems. The most popular problem addressed with SIB financing is prison recidivism. While a few SIB projects focus on other issues, intangibly defined issues are not addressed with SIBs.

In New Jersey, Representatives Timothy Eustace, Amy Handlin and Joseph Lagana have proposed a SIB project that focuses on public health [31]. Health is one of the areas in which TRF is interested. This is perhaps the only current SIB project that aligns with TRF interests, though potential applications may expand as more SIB models are developed. In the current models, TRF could serve various roles such as the evaluator, intermediary, or investor. Entering the growing SIB market will give TRF access to a new type of community financing.

Opportunities for TRF Collaboration

TRF should consider the possibility of SIBs in its targeted geographic area. Many potential collaborators in the mid-Atlantic region, particularly in Philadelphia, have already expressed an interest in SIBs. Philadelphia is the TRF market where SIBs currently have the most traction, though ideas for different program areas and sponsoring government agencies may arise in Jersey City or Baltimore in the future.

Pennsylvania

Several organizations in Philadelphia appear interested in social issues that align with TRF's focus areas and might contribute to a SIB project that addresses these issues. Depending on the specific social problem targeted, the Nonprofit Finance Fund and Philadelphia Higher Education Network for Neighborhood Development could serve as investors or intermediaries in a SIB project in which TRF would be involved. Furthermore, Pennsylvania and Philadelphia government officials have expressed intentions to pursue SIB-funded programing [32]. In 2013, Pennsylvania State Representative Dwight Evans advocated for more SIB budgeting at the state level. Philadelphia Mayor Michael Nutter announced plans late last year to increase collaboration between local corporations, service providers, and philanthropy to reduce poverty in the city. The Shared Prosperity Philadelphia initiative through the city's Office of Community Empowerment and Opportunity could include SIB financed programs to pursue the mayor's goals. This work could be done in collaboration with the Mayor's Office of New Urban Mechanics, which is also exploring ways to reduce government spending while providing better services to citizens and alleviating social problems.

New Jersey

New Jersey proposed the New Jersey Social Innovation Act to appropriate funding for SIB projects in the state [26]. The bill was passed at the end of the 2013 session but expired after Governor Christie did not sign the bill into law [33]. The Social Innovation Act was reintroduced in 2014. As of May 2014, it had passed through the Assembly Commerce and Economic Development Committee but was awaiting action in the Assembly Appropriations Committee. If the bill is signed into law, interest in SIBs could increase across the state, including TRF's targeted region of Jersey City.

Maryland

Given the limited success of previous efforts in Maryland, SIB involvement in Baltimore seems less promising. Last year, Delegate Sandy Rosenberg introduced a bill in the state legislature to use SIBs to finance improvements to public education for Pre-K through 12th grade in Baltimore. The bill was not passed, citing concerns about the additional administrative costs, potential for new providers, exclusion of riskier programs to minimize investors' liability, and lack of conclusive evidence which establish that SIBs result in significant government savings [34]. Maryland's Department of Legislative Services also evaluated how SIBs might be used to finance reentry programs in the state. They concluded that potential government savings would not justify the additional costs of a SIB financed program [28].

Possible Role: Investor

One possible role for TRF in a social impact bond is the investor. The investor provides the upfront capital for the SIB project. Thus, this role is similar to the work of TRF. TRF already manages various funds that it invests in community development. TRF designates some of these funds for specific programs. These funds include the Collaborative Lending Initiative and the Pennsylvania Fresh Food Financing Initiative. The organization also manages the TRF Loan Fund, a general community development fund [35]. Therefore, TRF could potentially use capital from this fund to invest in the SIB project. Alternatively, TRF could possibly create a new fund specific to SIB projects.

Investor's Benefits

TRF Financing Expertise

Given its history of managing multiple community development funds, TRF possesses the skill set needed to invest wisely. Because of its work with public, private, and non-profit sector collaborators, TRF also possesses the skills to negotiate multi-party investment contracts. Such successful contract negotiations are fundamental to the success of the SIB process. Multiple stakeholders, each with different priorities, must agree upon measurable goals for the project and the repayment rates for meeting these goals. They must also agree upon the metrics which determine if the goals are met. Since TRF possesses knowledge of prudent investment practices, as well as experience in project assessment and contract negotiation, it would be able to act as a responsive and informed investor in the SIB process.

Opportunity for Socially Responsible Investing (SRI)

SIBs are a form of Socially Responsible Investing (SRI) [36]. As such, they align with TRF's stated values of strengthening communities and creating economic opportunity [37]. The difference between SIBs and other forms of SRI community investments is that SIBs are based on government savings. Because returns are based on government savings, SIBs can provide benefits not incorporated into private sector returns. Unlike private sector SRI community investments, SIBs include the social benefits in the calculations of returns to investors. SIBs can directly target social impact in ways that traditional SRI community investment cannot.

New Collaborative Relationships

The SIB process brings together several different stakeholders, including governments, non-profits, impact investors, and philanthropic foundations or research institutions. TRF has experience working with these different types of stakeholders in various previous projects. What is unique about the SIB process, though, is that way in which it brings together these different stakeholders for the purpose of one shared project. As an investor, TRF would have the opportunity to work with the government that initiated the project, the service providers that implement the project, and the philanthropic foundations or institutions that oversee and evaluate the project. Thus, SIB projects offer new opportunities for forms of multi-party collaborations and the development of collaborative relationships which could provide the foundation for future projects.

Investor's Disadvantages

High Risk and Low Returns

If a SIB project fails to meet its goals, the government does not repay the investor. If there is a guarantor, it would repay the investor a predetermined amount of the principal for a failed project. Thus, SIBs are a high-risk investment. If the project fails, TRF would lose not only the interest expected of its investment, but also potentially lose the principal of the investment itself. Depending upon the amount TRF invested in the SIB project, this could amount to a substantial loss for TRF funds. For the last thirty years, TRF has maintained a repayment rate of 100% to their investors [38]. Investing in such a high-risk financing model could strain TRF's efforts to maintain this repayment rate. Incurring a loss due to investing in a SIB project would force TRF to invest more in extremely low-risk projects to compensate for this loss. Consequently, TRF might not be able to invest in some projects that have moderate risk but higher impact than the low-risk projects. Therefore, TRF might choose to not invest in a SIB project at all, rather than risk forfeiting these other investment opportunities.

Top-down Approach

A second important deterrent of the SIB financing model for TRF is that it is inherently a top-down approach to alleviating social problems. The government, rather than the community, initiates the SIB process, since the model is designed upon government savings. Therefore, neither the community nor the service provider approach the investor with a proposal to reduce a certain social problem. The government initiation of SIB projects results in a preference for social problems that are relevant to government operations. As a result, these social problems might not always be the most relevant to the priorities of community organizations or non-profit. The government selects which social issues to address based upon potential reductions in government costs. However, the community does not take government savings into account when it selects which social issues to address. For example, reducing homelessness could save the government in emergency health care costs. However, the community might regard homelessness as an important issue for the community in general. The community might instead prioritize an initiative that does not produce direct government savings, such as the construction of a local supermarket. Traditionally, TRF has focused on projects that are a community priority because its goals as an investor are to aid community development. Thus, TRF might not wish to invest in projects that are initiated by the government to produce government savings rather than to produce optimal community impact.

Possible Role: Intermediary

One possible role for TRF is as an intermediary. As an intermediary, TRF would be responsible for attracting investors, identifying non-profit service providers, coordinating stakeholders, and providing policy expertise in the implementation of the program. TRF already has the training and capacity to follow suit as an intermediary through SIB contracts; minimal additional resources would be necessary for the organization to take on the role of intermediary.

Intermediary's Benefits

TRF Investor Relationships

One of the intermediary's main responsibilities is to attract investors for SIB projects. Other organizations trying to attract investors may face difficulty in finding investors to accept high-risk community investments. TRF has an advantage in this field and could draw upon existing relationships to create a steady stream of capital investments. TRF has experience in community investment, which may put it in front of other potential intermediaries.

TRF Funding Source

Given the growing excitement around SIB funding, the potential for gains from SIB contracts is promising. As an intermediary, TRF can extend business to a completely new funding structure, rather than simply expanding existing work. Intermediaries are contracted for the life of the SIB contract. SIBs offer a significant funding stream for intermediaries, who could specialize in SIB implementation. If interest in SIBs remain high, TRF can utilize these mechanisms to fund a large percentage of its social initiatives.

Intermediary's Disadvantages

Up-front Research and Development Costs

As intermediary, TRF would need to conduct initial research and development for the SIB project. It would need to study the targeted social problem, specifically how that social problem manifests in the area where the service providers will implement the SIB project. This research would help TRF select service providers and construct metrics for evaluating the SIB project. TRF would need to conduct research on the quality of programs various local service providers are already implementing to address the problem. It would need to use this research to determine which service providers have the strongest programs. Finally, as intermediary, TRF would need to build a knowledge base of potential investors and their specific concerns in investing in the SIB project. TRF would need to develop relationships with these potential investors so that it can contract them for the SIB project. Thus, if TRF assumed the role of intermediary, it would need to dedicate a large amount of time and resources to the upfront research and development of the SIB project.

Government Future Assumes Intermediary Responsibilities

The intermediary plays the crucial role of negotiating and implementing a SIB project in coordination with the other stakeholders. However, since the government is the stakeholder which initiates a SIB project, it is the one which structures the SIB process for that specific project. In the New Jersey SIB model, the government study commission has assumed roles that belong to the intermediary in the typical SIB model. It is possible the commission could decide that an independent intermediary is not necessary, since the commission can fulfill those responsibilities itself. If other governments replicate the structure of the New Jersey legislation, it is possible that some future SIB projects will not require a separate intermediary actor. Thus, this role might cease to become a manner in which TRF can become involved.

Potential Role: Evaluator

TRF could enter the SIB arena as an evaluator. Evaluators provide statistical mid- and post-program evaluation to determine the success of the program. If necessary, they intervene to guide the implementation of the program. Evaluation could feasibly be incorporated into the business operations of TRF.

Evaluator's Benefits

Evaluation would expand TRF's current program assessment work.

One of TRF's services is program assessment for various government programs [39]. SIB evaluation is similar to current program assessment work, though applied to services provided by non-profit organizations. TRF's assessment program has the quantitative skills necessary to provide the SIB project with statistical analysis. Transitioning to SIB evaluation would not require significant additional training or staff.

TRF Policy Expertise

In some SIB models, the evaluator takes on the responsibility of providing recommendations to the intermediary and service-provider in failing programs [25]. TRF is in a better position than other potential evaluators because it has the policy expertise to work with non-profit service providers [40]. Evaluators that are more capable of effective collaboration with non-profits are more likely to contract evaluation work. Misunderstandings between evaluation and intermediation jeopardize the success and effectiveness of SIB programs. Governments would have the ease of mind knowing their contracted evaluator will make statistical decisions that make sense in terms of not only math, but policy analysis.

TRF Knowledge of Effective Metrics

If TRF were involved as an evaluator early in the creation of the SIB project, it would be well-suited to determine project targets for a number of reasons. TRF already specializes in community financing in a number of SIB target areas. SIB evaluation requires close work with the project team, which TRF would be able to do since it would be able to collaborate with the service provider, government, and investors in ways less policy-minded evaluation organizations could not. Through their program assessment service, TRF monitors the ongoing progress of each project using their public management expertise and applying their data analysis skills to improve the implementation of each program [39]. TRF is in a better position for SIB evaluation than other organizations that are more focused on data collections and analysis. For example, the Vera Institute of Justice uses detailed existing data to assess their planning and demonstration projects [41]. On the other hand, TRF's program assessment services work closely to the service provider to define performance targets and to make corrections to the implementation of the program when necessary [39].

Evaluator's Disadvantages

Evaluator's Passive Role in SIB Making

The evaluator is contracted for existing SIB programs and does not take part in the creation of SIB programs. TRF would not be able to help shape SIB programs for success. The organization's policy expertise would not be utilized and TRF could risk involvement in programs not prepared for success. TRF has the unique combination of expertise in community financing, program assessment, and non-profit work that can be used to create innovative SIB-funded solutions. SIBs are at an early enough stage that TRF involvement could shape the market and legitimize the use of SIBs moving forward.

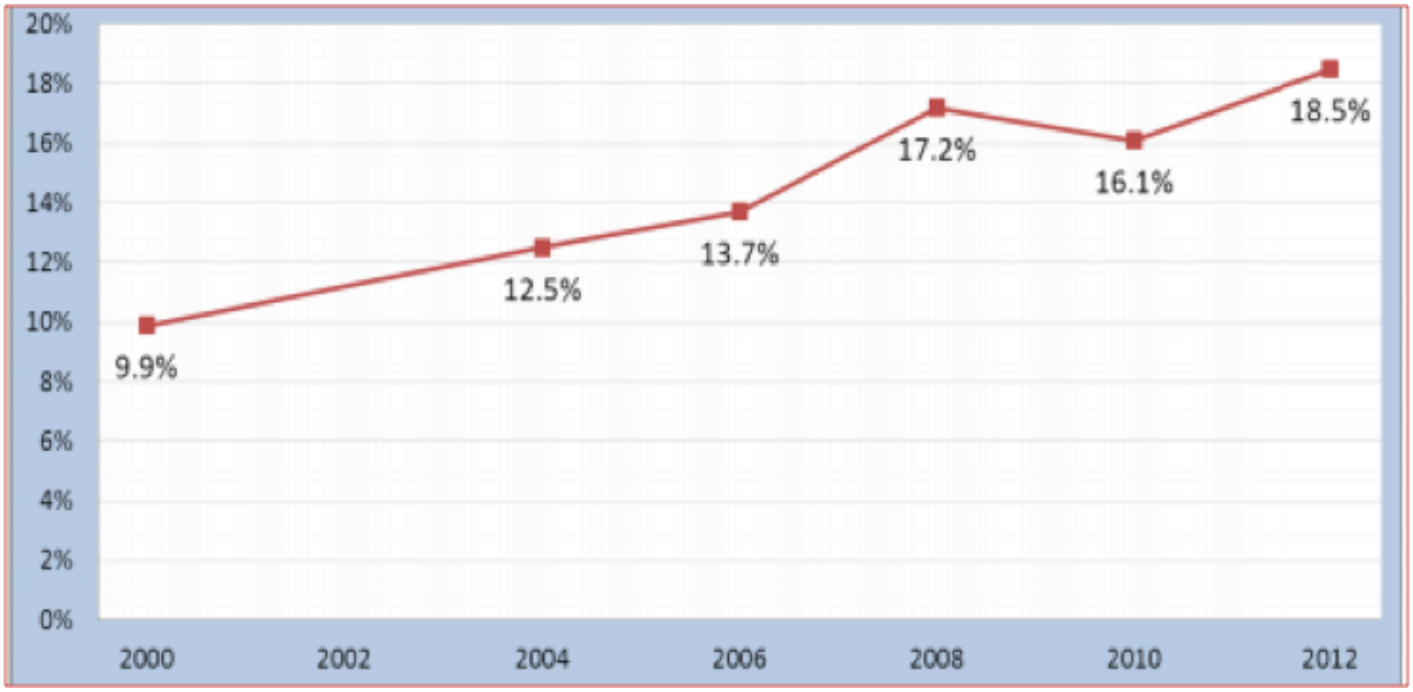
Evaluator's Limited Financial Gain

With a limited role in the SIB process, evaluators may receive less financial gain than other actors in the SIB model. Evaluation in many SIB programs is executed post-program, by evaluators contracted for a short time period. Even evaluation continued throughout the program requires less capacity than the work of the intermediary. TRF is capable of entering SIBs with a greater role that would draw more revenue. With SIBs growing in popularity, limiting the role of TRF within evaluation presents a significant opportunity cost.

TRF's Options

The numerous stakeholders in SIBs allow TRF to become involved in several different ways. TRF could participate in a SIB as an investor, intermediary, or evaluator. As demonstrated by its past accomplishments, TRF possesses the necessary skill sets for all of these roles. However, the benefits to TRF differ between each. TRF's expertise in community financing positions the organization to become SIB investors. Of the possible roles, investment provides the highest potential financial return for the least administrative cost, although these returns depend on the success of the project. On the other hand, the intermediary or evaluator is guaranteed monetary benefits throughout the SIB life. TRF has the policy expertise to enter the SIB game as either an evaluator or an intermediary.

Adults Forgoing Care Due to Cost, 18-64 Years



Source: Adopted from the Public Health Management Corporation (PHMC) Household Health Survey

If TRF would like to expand its community financing, it would be well-suited to enter the SIB game as an investor. The decision regarding which role to play depends on the emphasis TRF would like to place on community financing and program implementation.

Potential Application: Health Care

TRF can become involved in a SIB initiative that overlaps with the organization's policy priorities, such as healthcare. In such a SIB, TRF could take on the role of the investor, intermediary, or evaluator as discussed above. The specific policy issue being addressed will determine which role is most appropriate for TRF involvement. TRF's unique expertise allows it the flexibility to choose among the aforementioned roles in a SIB initiative.

Health care is an area of TRF involvement with strong potential for government savings through SIB funding. Health care is both one of TRF's key interest areas and an issue with the measurable government savings required by SIBs. TRF has previously demonstrated a commitment to community health care centers and could consider involvement in a health care service provision initiative [42]. This section outlines the possible benefits of a health care SIB in Philadelphia, a TRF targeted region with a great need for preventative health care.

Increasing access to health care in West Philadelphia is one specific opportunity for SIB involvement. According to a 2014 community health assessment report by the Philadelphia Department of Public Health, West Philadelphia has the highest rate of preventable hospitalizations and outpatient care [9]. A "preventable hospitalization" is one that could have been prevented if the individual had seen a doctor earlier [43]. As shown in the graph, Philadelphia faces increasing rates of adults failing to visit primary care physicians due to a lack of insurance coverage or other cost-related issues [9]. If costs prevent individuals from obtaining preventative medical care, the result is increased expenditure on hospital visits that could have been avoided [9].

Increasing access to primary care services in West Philadelphia can ultimately decrease government expenditure in emergency room outpatient care. According to the National Association of Community Health Centers, Inc., about one-third of all emergency room visits could be treated in primary care environments. Minor medical issues can cost between two and five times more at the emergency room than they would have cost at a primary care facility. The high levels of emergency room usage lead to the waste of over $18 billion dollars across the US each year in avoidable hospitalizations [44].

TRF and the Philadelphia government may find the SIB model to be an effective way of tackling health care. The first step to a successful program is determining the main reasons why the people in a specific community (in this case, West Philadelphia) are visiting the emergency room. The SIB should proceed to provide the start-up capital for health centers and programs designed to target these main issues. Maintaining an efficient program will require a close relationship between the community's hospitals and the health centers. Hospitals should triage patients who do not need emergency care from the hospital to the health center, and the two should be in frequent communication [44]. This process should remain in place for the specified period of time outlined in the contract, and ideally will produce measurable health care savings. Utilizing the SIB model would give the Philadelphia government the freedom to focus on primary care rather than hospitalization, which would impact the local community in a powerful, positive way.

Conclusion

A SIB is a type of financing model that creates public-private partnerships dedicated to community development and social justice. SIBs generate savings for government agencies and offer non-profits consistent financial and capital investments. SIBs are used to address social issues like homelessness, public safety, and recidivism. States across the country are also investigating the use of SIBs as a way to alleviate a variety of other issues such as: teen pregnancy, transportation, aging infrastructure, and substance abuse. Policy makers interested in SIBs should consider how to effectively monitor the progress of each social program and ensure that program providers develop economic stability and self-sufficiency.

This report provides a qualitative analysis of the roles, issues, and geographical locations available to TRF. Nonetheless, government agencies must initiate and fund the SIB - which will determine the role and involvement of TRF. TRF can encourage policymakers to create SIBs and become a willing participant; in fact, this is how many pilot SIB programs have started. Should TRF be provided the opportunity to participate in a SIB, it should conduct a comprehensive investigation of costs, benefits, and impact to further prepare for its role.

While the success of any SIB ultimately depends on the actors within it, and while the history of SIBs is too short for us to conclude that the SIB model is, in fact, an effective one, there is no question that SIBs are a promising an innovative solution to many of the problems faced by policymakers and organizations like TRF.

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