The Promise of Social Financing
Presenters

- **Rachel Holmes**, Executive Director, Innovative Partnerships, Ministry of Social Development and Social Innovation

- **Ian Gill**, Principal, Cause+Effect

- **David Butler**, Vice President and Senior Policy Advisor, MDRC
The Promise of Social Finance – BCCfEE Sessions

Government’s Role in Fostering a Robust Social Finance Landscape

March 7, 2014
Action Plan for Social Innovation

Maximize BC’s capacity for social innovation, with a specific focus on social finance and social enterprise
History

- Social innovation and social enterprise have a long history in BC:
  - community economic development...
  - cooperatives...
  - credit unions...
  - non-profits...
  - volunteerism...
  - Community consultation in policy making....

- More recently,
  - Opening up policy making and data sharing
  - BC’s social finance and enterprise sector has begun to experience unprecedented growth
History

- Parliamentary Secretary for Social Entrepreneurship (2010)
- BC Social Innovation Council (January 2011)
- Assistant Deputy Minister’s Committee on Social Innovation (May 2011)
- BC Partners for Social Impact (June 2012)
- Canada’s first Minister of Social Innovation (June 2013)
Why BC?

- More Social Finance capital – Vancity in particular
- Political leadership & community readiness
- Collaboration with the Aboriginal community

*Source: Charles Leadbeater*
Action Plan Recommendations

Key Recommendations at a Glance

Supporting Social Enterprise
- 1. Social Enterprise Investment Tax Credit
- 2. Procurement to Support Social Enterprise
- 3. Social Impact Bonds
- 4. Social Enterprises include in SME Programs and Supports

Legislative Enablement
- 5. Community Contribution Companies
- 6. Engagement with provinces and federal government to support non-profit and charitable sector

Social Innovation Labs
- 7. Social Innovation Labs start-up in BC

Engaging Communities
- 8. BC Ideas Competition and Change Shop
- 9. Build Social Innovation Capacity in First Nations Communities
- 11. Establish Partners for Social Impact

Learning and Research
- 10. Community-Based Research and Learning Network
Government’s Role

- A formal commitment to social innovation through appointment of minister of social innovation
- Establishing a ‘whole of government approach’ to social innovation and social finance through ADMs committee
- Starting to create the structures to support increased investment and development of innovative financing tools and resources. First step taken – CCC’s, support for social enterprises...
BC’s Social Enterprise Landscape

- Based on a 2011 survey, BC social enterprises...
  - provided services to over 695,000 people
  - generated at least $60 million in revenues, including at least $49.5 million in sales
  - paid $37 million in wages and salaries to at least 2,600 people, of whom 2,400 were employed as part of the mission of the organization
  - involved 5,520 volunteers
  - trained thousands of people
Social Enterprise Support

- Social Enterprise as small business
  - Small Business Accord
    - Commitment to increase government procurement through small business by 20%
  - Improving social enterprise access to small and medium enterprise supports and services
Social Enterprise Support

- Access to research and program funding
  - i.e. Funding to evaluate social enterprise skills training and employment opportunities
- Cross sector partnerships to develop and design new social enterprise tools and resources
- Development of Community Contribution Companies
  - Canada’s first hybrid business model of its kind
Future Social Finance Opportunities

- Finance instruments under consideration:
  - Social Impact Bonds
A Pathway to a Canadian Indigenous Impact Partnership in Early Childhood Development

Lessons (so far) from Winnipeg
Main Findings of SIP analysis

- **Strong interest** across a range of stakeholders in piloting an I²P
- **Gross underinvestment** in early childhood development (ECD) in Canada, and in particular in Aboriginal communities
- Current practice in ECD is **patchwork, of variable quality, cost and availability**, and delivers **uneven outcomes that are unevenly measured**
- There is **no single ECD program** that fully delivers on the potential benefits of early childhood development, delivers a **whole of family** intervention, is **culturally appropriate** to Aboriginal communities, and integrates well with the larger school system
- In the **North End of Winnipeg** there is a willingness to participate in an I²P
- **Manitoba** has a **receptive government culture** and a unique and innovative cross-sector approach to childhood development issues, and has an impressive and **well-developed data gathering and analysis framework** to aid the design and performance measurement of an I²P
- Still, **measurement of outcomes** will be challenging, and represents perhaps the largest obstacle to a successful I²P – but also an opportunity for real innovation
- **Savings** will come from secondary effects, namely **reduced apprehensions** of children by child and family service agencies, and **reduced demand for special education programs** thanks to more children being school ready
- Serious commitment to **community co-design is essential** to the success of an I²P

Almost 90% of Aboriginal children are at risk at birth in Winnipeg’s North End

50% arrive at school ‘not ready’ – 25% are apprehended by social services

Hard costs range from $10K-$120K/per child/per annum for special education and/or foster care
What is required for a SIP?

- According to Social Finance, a number of pre-conditions are necessary for a social impact partnership to be considered viable.
What is required for a *culturally appropriate* SIP?

- According to local Indigenous leaders in Winnipeg, citing what they’ve learned from Justice Murray Sinclair of the Truth and Reconciliation Commission, the following four questions are as important – if not more so – than “robust outcome metrics” (such as improved EDI scores)

- Despite widespread *recognition* of the need to develop culture-based measurement frameworks, there is a paucity of sustained good practice in this field

- The United Nations Permanent Forum on Indigenous Issues has articulated the need for Indigenous people to be involved in their own data collection to “**strengthen their capacity to evaluate their assets and problems, and design their own solutions**”
What stood out in Winnipeg

▸ Program fatigue – ‘constructive dissatisfaction with the status quo’
▸ Strong community leadership, but …
▸ A stuck system, and …
▸ No obvious way to unstick it
▸ Unique legislation: Healthy Child Manitoba Act (10 ministries)
▸ Brave bureaucrats willing to champion change
▸ Brave politicians (a rare added bonus)
▸ Business community hungry for change – alert to the problem, ready to act
▸ The potential to unlock a “golden moment’ in Winnipeg

Recommendations to McConnell Foundation

▸ Invest in community-led innovation in early childhood development
▸ Invest in development of a new narrative for Point Douglas
▸ Support co-design of a culturally appropriate I²P (or not – beware the ‘law of the instrument’)  
▸ Leverage Manitoba Government and local partnership support
What we’ve done to date

- Matched McConnell interest into shared commitment by Province of Manitoba and other funders ($1MM plus)
- November announcement of Early Childhood Development Innovation Fund
- First investment is in The Winnipeg Boldness Project (launched in January)
- Established Boldness Collaboratory as a purpose-built innovation incubator
- Initiated a time-limited R&D project (not an organization)
- Hired local project director – focused on integrating community knowledge
- Discovery phase now under way with multiple partners
ECD Innovation Fund

Lead investors committed to transformational ECD outcomes

Stand-alone fund to fuel breakthrough innovation and community co-design

Innovation incubator to: discover, develop and deploy transformational ECD initiatives

Breakthrough initiatives aligned to Bold ECD goal – for Point Douglas and beyond

Province

McConnell

Community (foundations, businesses)

ECD Innovation Fund

Fund board co-chaired by government & business

Managed by United Way of Winnipeg

Governed by 7-member Stewardship Group

United Way provides finance and administration services

THE BOLDNESS PROJECT

Informed by Boldness R+D

Generated by Boldness R+D

TRANSFORMATION INITIATIVES

One-year Boldness Collaboratory
The current constraints - constraints of $$ and imagination and political will - could drive us to the easiest immediate decisions. Do as little as possible. Dream as little as possible.

This is the crux of our work. We want to create a disruption – forge the conditions in this space to enable the best possible decisions to be made.

This is where transformation can happen. The seedbed for breakthrough ideas & breakthrough endeavours.

A commitment to inclusive, integrative, collaborative & courageous innovation.

There is a spectrum of possibilities for our community’s future.
Development plan - community design process

- The design process for any I²P must foster community ownership, enable a new narrative to ensure community and investor confidence, develop and embrace culture-based metrics and build capacity that is suitable for the operational landscape.

- The timetable for any I²P must provide for these elements to be properly established.
What is emerging ... discovering the possibility space

- Bold goal – 80% of Point Douglas kids conceived in 2014 and born in 2015 measurably ready for school by 2020 (six-year intervention)
- Community-based parenting model
- Measure secure attachment vs. separation (apprehension)
- A strength-based narrative of personal and neighborhood renewal
- Point Douglas and Manitoba leads the world in *investing* in Indigenous wellbeing
- Re-generation as the ultimate expression of true re-conciliation
BOLDNESS
vs.
STUCKNESS
Contact:

IAN GILL
Principal
Cause+Effect

e: gillfile@gmail.com
c: 778-879-9464
Skype: ian.gill32 | Twitter: @gillwave
Goals of Pay for Success

- Increase Performance Accountability
- Tap New Funding Sources for Preventive Programs
- Reduce Government Risks Associated With Funding and Scaling Innovations
Evolving Payment Strategies

- **Traditional Procurements**
  - Inputs (projected operating costs, numbers of case managers)

- **Performance Based Contracting**
  - Outputs (# of counseling sessions, number of participants who completed the program)
  - Outcomes (# of participants that stay out of jail, found employment)
  - Risks and Advantages

- **Pay for Success**
  - Outcomes (# of participants that stay out of jail)
  - Impacts (# of participants that stay out of jail compared to a control or comparison group)
  - Hybrid models
  - Risks and Advantages of different strategies
What is a Social Impact Bond (SIB)?

- Investors finance a program
- Non profit service providers operate the program
- Government agrees to pay back investors if specific predetermined outcomes (ideally impacts) are achieved
- Government pays nothing if desired outcomes/impacts are not achieved
- Independent evaluation determines payment
Goldman Sachs funds the project’s delivery and operations through a $9.6 million loan

Bloomberg Philanthropies, as part of its government innovation program, provides a $7.2 million grant to guarantee the investment

MDRC oversees the day-to-day implementation of the project and manages the Osborne Association and Friends of Island Academy, the nonprofit service providers who deliver the intervention

The Department of Correction pays MDRC based on the level of recidivism reduction achieved and the associated cost savings, and MDRC then pays the private investor

The Vera Institute of Justice, an independent evaluator, determines whether the project achieves the targeted reductions in recidivism
NYC SIB: Contracting Structure

City of New York

NYC Department of Correction

Intermediary: MDRC

Grant Agreement for Operating Costs

Bloomberg Philanthropies

Goldman Sachs

Service Providers:
Osborne Association
Friends of Island Academy

Mayor’s Fund

Evaluator: Vera Institute of Justice

Investment

Master Contract

Outcomes Contract

Contract for Services

Investment

Evaluation Contract
The Policy Context: Reducing Recidivism

- Individuals who enter the City jail system as adolescents (16- to 18-year-olds) have a high likelihood of reentering the system as adults.
  - Nearly half of all youth in custody will return within one year of their initial release.
  - The typical adolescent who passes through Rikers will spend more than 200 days in jail during the next six years (in addition to the current stay), an average of 34 days in jail each year.

- Criminal justice involvement has a highly corrosive impact on individuals, families, and communities.
  - The high rate of incarceration among low-income, minority youth is particularly troubling.
  - In 2011, Mayor Bloomberg launched the Young Men’s Initiative, a cross-agency enterprise that seeks to address disparities between young black and Latino men and their peers by investing millions of dollars in programs and policies that support this mission.

- Incarceration is extremely costly to government and taxpayers.
  - The City of New York spends more than $1 billion a year on jails.
  - The average operating cost per inmate is more than $85,000 per year.
Cognitive Behavioral Therapy (CBT)

- Distorted thinking can lead to criminal behavior
- CBT restructures thinking to change behavior
- CBT programs improve social skills, problem solving, moral reasoning, self-control, and impulse management
- CBTs have been evaluated extensively and have been found to reduce arrests, convictions and incarcerations among adults and youth
Moral Reconciliation Therapy (MRT)

- MRT was developed by Correctional Counseling Inc. in 1985, and has been widely and successfully implemented in prisons, jails, drug courts, probation offices, and schools.
- MRT has been used with adults and adolescents alike.
- MRT addresses beliefs and moral reasoning by taking participants through a 12-step curriculum that is self-paced workbook based.
The Intervention

Why Moral Reconation Therapy (MRT)?

- Aligns with environment at Rikers: high turnover rate, high number of participants to serve
  - Inmates have great variability in length of stay
  - MRT can be incorporated into the school day
- Open groups
  - Inmates are moved frequently
  - Participants can enter a group at any time
- Flexibility
  - Participants can move through the program at their own pace
## Payment Terms by Impact

Profits and Losses Are Both Capped

<table>
<thead>
<tr>
<th>Impact on Recidivism Rate</th>
<th>DOC Payment</th>
<th>Initial Investment</th>
<th>Investor Profit</th>
<th>Net Projected Taxpayer Savings*</th>
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<tbody>
<tr>
<td>≥20.0%</td>
<td>$11,712,000</td>
<td>$9,600,000</td>
<td>$2,112,000</td>
<td>$20,500,000</td>
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<tr>
<td>≥13.0%</td>
<td>$10,368,000</td>
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<td>$768,000</td>
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<td>$672,000</td>
<td>$6,400,000</td>
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<td>$9,600,000</td>
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<td>≥11.0%</td>
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<td>$9,600,000</td>
<td>$480,000</td>
<td>$1,700,000</td>
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<td>≥10.0%</td>
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<td>&lt; $1,000,000</td>
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<tr>
<td>≥8.5%</td>
<td>$4,800,000</td>
<td>$9,600,000</td>
<td>-$4,800,000</td>
<td>&lt; $1,000,000</td>
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</table>

* Excludes city savings used to continue funding program delivery at Rikers.
Schedule

- **Pilot Period:** May 2012 – August 2012

- **Program Launch**
  - September 2012: official program start and scale up
  - January 2013: program operating at full scale

- **Evaluation**
  - Evaluation period is one year: January 2013 through December 2013
  - The Vera Institute of Justice will assess the percentage of future jail days avoided as a result of the program

- **Evaluation Timing**
  - Initial evaluation looking at 12-month impacts will be completed by July 2015 (payment occurs July 2015)
  - Final evaluation looking at 24-month impacts will be completed in July 2016; the impact observed in the final evaluation will be used as the measure of success for purposes of payment (payment occurs July 2017)
Pilot experience was invaluable but there were still unexpected challenges in scaling up.

Tension between maintaining quality and achieving scale needed for cost savings.

The role of the intermediary more extensive and intensive than expected.

Buy in from COs is critical and depends on early wins.

Tension between program fidelity and need to adapt to operational realities and constraints.
Takeaways

- Interest in SIBs is high but the number of projects up and running is tiny so far, suggesting this is harder to do than it seems.

- It will take a number of years to learn about the viability and impact of this financing model.

- SIBs can reduce but not eliminate risk for government. Savings depend on timing and how they are measured.

- SIBs with strong evaluations benefit all stakeholders, but reliable evidence doesn’t come cheap.

- Intermediaries may not always be necessary in SIBs but when they are they risk being underfunded especially if they are competing for program dollars.

- SIBs can move beyond government savings to social benefits; from “ability to save” to “willingness to pay.”
Questions?

David Butler, Vice President
david.butler@mdrc.org
Key Terms

- **Pay for Success** – pay for demonstrated success rather than services or promised success as is done now.
- **Financing** – an arrangement that spreads payment over time.
- **Social Impact Bonds** – a subset of Pay for Success Financing where risk is passed to private investors (not actually a bond).
SIBs Should Focus on Impacts, Not Outcomes
Minimizing Risk with Strong Evaluations

Future Days Spent in Jail

Program A

Future Days Spent in Jail

Program B

Program Group

Comparison Group
SIBs Should Focus on Impacts, Not Outcomes
Minimizing Risk with Strong Evaluations

![Bar Graphs]

**Program Group** vs. **Comparison Group**

- **Program A**
  - Future Days Spent in Jail: 60 (Program Group), 80 (Comparison Group)

- **Program B**
  - Future Days Spent in Jail: 40 (Program Group), 40 (Comparison Group)
Participation by Year

Projecting the Impacts of One Cohort to Other Cohorts Creates Uncertainty

Number of Program Participants by Year

<table>
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<tr>
<th>Year</th>
<th>Participants</th>
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<tbody>
<tr>
<td>Pilot</td>
<td>560</td>
</tr>
<tr>
<td>Year 1</td>
<td>2,627</td>
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<tr>
<td>Year 2</td>
<td>3,100</td>
</tr>
<tr>
<td>Year 3</td>
<td>3,000</td>
</tr>
<tr>
<td>Year 4</td>
<td>3,000</td>
</tr>
<tr>
<td>Year 5</td>
<td>3,000</td>
</tr>
<tr>
<td>Year 6</td>
<td>3,000</td>
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Guaranteed

Conditional

Funded by City
## Participation and Projected Impacts

Projecting Sustained Impacts Over Time Creates Uncertainty

<table>
<thead>
<tr>
<th>Cohort</th>
<th>Yr 1</th>
<th>Yr 2</th>
<th>Yr 3</th>
<th>Yr 4</th>
<th>Yr 5</th>
<th>Yr 6</th>
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<td>Pilot</td>
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<td>560</td>
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<tr>
<td>Cohort 1</td>
<td>2,627</td>
<td>2,267</td>
<td>2,267</td>
<td>2,267</td>
<td>2,267</td>
<td>2,267</td>
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<tr>
<td>Cohort 2</td>
<td>3,100</td>
<td>3,100</td>
<td>3,100</td>
<td>3,100</td>
<td>3,100</td>
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<tr>
<td>Cohort 3</td>
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<tr>
<td>Cohort 4</td>
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<td>Cohort 5</td>
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<tr>
<td>Cohort 6</td>
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<td>Total</td>
<td>3,187</td>
<td>6,287</td>
<td>9,287</td>
<td>12,287</td>
<td>15,287</td>
<td>18,287</td>
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Impacts are not applied equally to all cohorts: for example, the impact for the Pilot and Cohort 1 is counted for six years, whereas the impact of Cohort 4 is only counted for four years.

Cohort 5 and Cohort 6 are not paid for by SIB financing but will be funded by the City using savings.
Effect of Intervention at 10% Reduction
Impacts are Spread Evenly Over Time

Future Jail Beds Associated with Program Participants

- Expected Bed Use Without ABLE
- Expected Bed Use with ABLE

Number of Jail Beds

Yr 1 Yr 2 Yr 3 Yr 4 Yr 5 Yr 6 Yr 7
Savings of Intervention at 10% Reduction

Savings Disproportionately Accrue in More Distant Future, Creating Uncertainty

Cost of Jail Beds and Savings

Marginal cost with less than 100-bed decrease = $4,600 per bed
Marginal cost with greater than 100-bed decrease = $28,000 per bed
Hypothetical SIB in Education
Moving from “Ability to Save” to “Willingness to Pay”

Learning Communities at Kingsborough Community College 6 yrs

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Program Group</th>
<th>Control Group</th>
<th>Difference</th>
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<tbody>
<tr>
<td>Net cost per student ($)</td>
<td>33,990</td>
<td>30,410</td>
<td>3,580</td>
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<tr>
<td>Earned a degree (%)</td>
<td>35.9</td>
<td>31.3</td>
<td>4.6*</td>
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<tr>
<td>Cost per degree earned ($)</td>
<td>94,680</td>
<td>97,160</td>
<td>-2,480</td>
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</table>

Sample size (N=1,534) 769

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Value</th>
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<tbody>
<tr>
<td>Total cost to run program ($)</td>
<td>2,753,020</td>
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<tr>
<td>(769 * $94,680 * 35.9%)</td>
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<tr>
<td>Value of additional degrees ($)</td>
<td>3,436,938</td>
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<tr>
<td>(769 * $97,160 * 35.9%)</td>
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</tr>
<tr>
<td>Potential return to investors ($)</td>
<td>683,918</td>
</tr>
<tr>
<td>Annual interest rate</td>
<td>3.8%</td>
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Key Features of the NYC SIB
Some Are More Replicable Than Others

- There is a substantial delay between program operation and realization of savings
- Selected intervention had more evidence than most but is not “proven”
- Program required quick implementation and scaling
- Government contract to pay for impacts and foundation support to “backstop” attracted private capital
- Additional foundation support allowed:
  - Intermediary services to be paid outside of program financing
  - Evaluation services paid outside of program financing
Expanding beyond “proven” programs

- Three Tiered Risk Structure
  - Proven programs
    o Scaling the elite set of programs with strong evidence of effectiveness in diverse settings, strong replication system
    o Limited need for intermediary; routine evaluation/validation
  - Programs w Mixed Evidence
    o Risk of failure higher, requiring different mix of investors including foundation backstop, richer evaluation focused on scaling, and larger intermediary program management role
  - New Programs
    o High risk innovation for areas without good evidence
    o Demonstration mode requires strong intermediary role, in-depth what works research, lower likelihood of payback
Design your own SIB

- What outcomes are you willing to pay for?
- How much are additional outcomes worth?
- How much will the program cost?
- How much change is needed to make the program worth the cost?
- Why is it reasonable to achieve that impact?
Thank you!

Q & A