

# Choosing Social Impact Bonds

A Practitioner's Guide



## Contents

Introduction	03
Unlocking better outcomes	06
Designing for success	13
Recommendations and observations	31
Appendices	35
Methodology and acknowledgements	41

### About the author

Bridges Impact+ is the advisory arm of Bridges Ventures LLP, a specialist fund manager dedicated to sustainable and impact investing.

Bridges Impact+ seeks to promote the growth of the sustainable and impact investment sector by offering practitioner-led advisory services, based on Bridges Ventures' experience of investing for financial returns and positive impacts. While many of our projects are bespoke to clients, we also disseminate public research whenever we see an opportunity to support the sector's thinking.

Please direct any feedback or queries about this report to its lead author Emilie Goodall.

[emilie.goodall@bridgesventures.com](mailto:emilie.goodall@bridgesventures.com)

## Introduction

Around the world, communities are seeking ways to improve the lives of disadvantaged individuals. Given access to a market of appropriate goods and services, many people can lift themselves out of hardship. The growing range of impact-driven organisations selling directly to customers is a key part of the solution.<sup>1</sup> These organisations see a market opportunity to create value for disadvantaged customers – and to be rewarded for that value. They respond by harnessing the power of entrepreneurship, supported by growth capital, to come up with new interventions, find better ways of delivering existing ones, or simply scale up what works. Yet there remain many individuals whose circumstances mean that their life chances remain stubbornly poor, with high costs to society.

These individuals are typically given support by donors (whether foundations or corporations) or by governments,<sup>2</sup> who either deliver services directly or commission other delivery partners to do so.

Traditionally, both governments and donors have structured contracts with delivery partners so that they pay for a set of pre-defined activities that they believe will lead to their desired outcomes. This 'fee for service' approach does not incentivise delivery partners to innovate if the pre-defined service is not delivering the intended social outcomes, nor to strive for better outcomes than expected so may not trigger an entrepreneurial response. It also risks a high cost of failure: governments or donors can incur significant cost even when there is little or no benefit for the vulnerable individuals they are seeking to help.

“By using carefully designed contracts to ensure that government or donors pay directly for successful outcomes, SIBs trigger impact-driven organisations to behave as they would if selling directly to consumers: to harness the power of entrepreneurship, supported by growth capital, to come up with new interventions, find better ways of delivering existing ones, or scale up what works.”

Against this backdrop, three major trends are developing. First, governments and donors, in light of increasingly strained budgets, are searching for how to deliver better outcomes for beneficiaries using the same or fewer resources. Second, effective impact-driven organisations, whether lacking revenue for proven interventions, or seeking capital to test new innovations, are increasingly seeking creative ways to grow their impact. Third, there is an expanding pool of investors looking to harness the power of entrepreneurship to address some of our toughest social issues. Social impact bonds<sup>3</sup> (SIBs) uniquely draw together these trends, offering the potential for each party<sup>4</sup> to achieve their goal and, most importantly, for vulnerable individuals to see better outcomes.

<sup>1</sup> Impact-driven organisations range from trading non-profits and social enterprises to impact-driven businesses.

<sup>2</sup> Whether it is governments or donors (and the balance between the two differs between developed and emerging markets), the goal is the same: to deliver the greatest social value possible, for both vulnerable individuals and wider society, within the reality of constrained budgets.

<sup>3</sup> See pull-out box on page 5 for a definition of social impact bonds, which applies equally to development impact bonds. The distinction is that in SIBs (seen so far) a domestic government entity pays for outcomes. In development impact bonds, a development agency or foundation pays for outcomes. In this document, we use the term SIB to refer to both.

<sup>4</sup> In nearly all SIBs launched to date, government entities have committed to pay for outcomes and non-profits have provided the social intervention. This influences the insights captured in this report. As SIBs develop, there is likely to be increasing variety in who performs what roles. Outcomes payers could be government entities, foundations or corporates. Service providers could be non-profits or for-profits. Investors (in this report, used to refer to the ultimate owner of capital) could be foundations, individuals, government entities or institutional investors.

By using carefully designed contracts to ensure that governments or donors pay only for successful outcomes, SIBs trigger impact-driven organisations to behave as they would if selling directly to consumers: to enable creativity, supported by growth capital, to come up with new interventions, find better ways of delivering existing ones, or scale up what works.

This approach is full of promise but it can require a behavioural shift: SIBs ask governments and donors to focus on defining and costing their desired social outcomes, rather than managing the delivery of activities; they ask impact-driven organisations to have their impact performance more heavily scrutinised upfront and rewarded later, rather than vice versa; and they ask investors to calculate the risk that an impact-driven organisation can deliver specific social outcomes for a defined cohort of individuals over a set timeline.

Given these required shifts in behaviour (and contract design), it is perhaps no surprise that some of the 26 pioneering SIBs already operating globally have been neither quick nor straightforward to set up.<sup>5</sup> This need not remain the case. With nearly 100 more SIBs already under development, now is an important moment to learn from those who have designed, financed and are running SIBs.

Despite their wide-ranging scope, size and shape, the SIBs operating today

have revealed many of the same insights, especially as we compare notes across the world. In this report, we bring that learning together, offering a practitioner’s guide that aims to clarify the full value a SIB could bring.

In **Section 1**, we present a framework for describing the benefits that SIBs can offer to each party involved. Drawing on this framework, **Section 2** presents a series of design features that practitioners have already learned can increase the likelihood that these benefits will be achieved. **Section 3** finishes by bringing these design features together into a checklist for each party. We follow each checklist with observations about the underlying behaviours that will best underpin these recommendations.

In the light of significant global momentum, this report aims to cut through some of the complexity surrounding SIBs to provide a timely guide to help all parties involved set themselves up for success.

**Target Audience**

*For the SIB market to flourish, all parties key to a SIB – those who commission social outcomes (government and donors); those who deliver them (service providers); and those who provide capital to enable them (investors) – may benefit from clarification of how SIBs can unlock better outcomes. This practitioner’s guide is designed to help these three audiences understand this and the perspectives of the other key parties around the table, as well as the design features that may be required when considering choosing a SIB.*

**Case Study**  
The Utah High Quality  
Preschool Program

The Utah High Quality Preschool Program is funding the threefold scaling of a targeted curriculum for three and four year olds that is proven to increase school readiness and academic performance. If this SIB is successful, fewer children will use special educational services throughout their schooling, resulting in net cost savings for school districts and the State of Utah (the government payer).

The SIB has attracted US\$ 7m of funding for the multiple impact-driven organisations delivering the targeted curriculum across the State of Utah, enabling investors to directly

support long-term improved outcomes for thousands of children. If costs are saved as anticipated, those investing in the SIB will receive a financial return.

The SIB aligns all parties – the State of Utah, school districts, investors and impact-driven organisations delivering the curriculum – by incentivising them to maximise social outcomes delivered. This plus the intention of school districts and the State of Utah to spread the practices of the programme could lead to more and better outcomes for children in the future.

**What is a social impact bond?**

A social impact bond aligns at least three distinct parties – government or donor, service provider and investor (or multiples thereof) – around the delivery of a pre-agreed set of outcomes for an agreed financial value per social outcome (or set of outcomes).

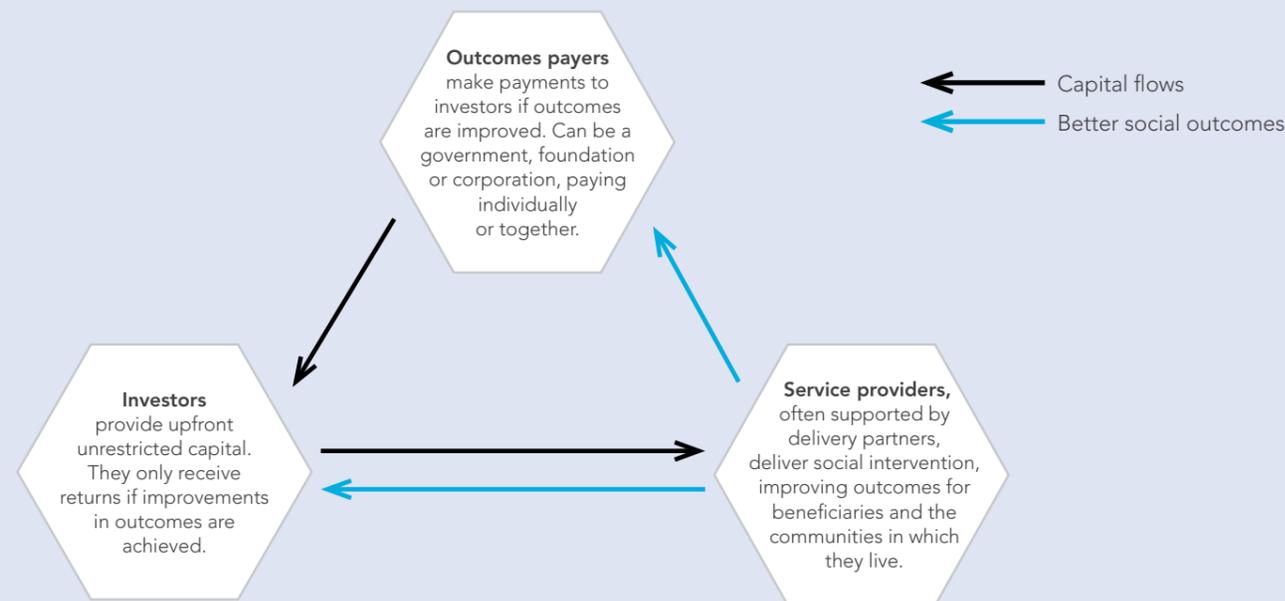
An outcomes-based contract enables government or donors to pay directly for successful social outcomes, once they are delivered. A third party – the investor – supplies capital upfront to cover the costs of the intervention. This could be in full or in part. Investor returns are contingent on the successful delivery of outcomes.

This tying of investor returns to successful outcomes is what distinguishes social

impact bonds from broader pay-for-success or payment-by-results contracting. In these broader contracts, private finance may be involved but repayment and returns are not directly contingent on the delivery of successful social outcomes.

In making this link, SIBs serve to align investors and investees, both of whom are incentivised to maximise delivery of the specified social outcomes.

How exactly the SIB is structured to enable this and the number of additional parties involves varies; this is looked at in more detail in **Section 2**.



Given that investor returns are contingent on the successful delivery of outcomes, SIBs differ from traditional bonds. Although SIBs operate over a fixed time period, similar to traditional bonds, returns are contingent and will vary according to the successful delivery of pre-agreed outcomes. This, coupled with the lack of liquidity at present, makes the risk profile of SIBs more akin to equity or quasi-equity.

<sup>5</sup> These 26 self-define as SIBs; there are likely many more outcomes-based contracts in operation in which the return of third party investors’ capital is contingent on delivery of pre-agreed social outcomes, and which therefore fit the definition of SIBs as provided opposite.

## SECTION 1 Unlocking better outcomes

Social impact bonds are being used in very diverse contexts – around the world and across social issues (see Appendix 1). Many more are in development to tackle an even greater variety of challenges, such as transitioning military veterans, reducing infant mortality and preventing diabetes. Despite these differences, interviews with those involved in all SIBs currently underway (as well as those in development) revealed that, in every case, SIBs are being chosen because they enable each party involved – governments or donors, impact-driven organisations and investors – to overcome structural barriers in order to unlock better outcomes for vulnerable individuals. Below, we explain how the SIB mechanism achieves this from the perspective of each party involved. We also explain how this process can generate wider system change.



“The funding model has been a key driver of behaviours and has focused attention on tracking individual participants towards the achievement of outcomes. Performance management has been intense. There has been active, hands-on involvement and a high degree of commitment from all project partners in this management effort. The perception is that this effort has successfully pushed up performance and that it will yield the desired results in terms of achieved outcomes.”

Department for Work and Pensions (2014)  
Innovation Fund pilots qualitative evaluation

### A. The government or donor perspective



Both governments and donors have traditionally structured grants or contracts with delivery partners so that they pay for a set of pre-defined activities ('fee for service') that they believe will lead to their desired outcomes. However, this approach has two consequences. First, it does not directly incentivise service providers to strive for better outcomes – either in the event that their activities do not deliver the desired results or if they can surpass expectations. Second, given competing demands for limited government resources (where every decision carries a high opportunity cost), there is a very understandable inclination for governments to commission 'tried-and-tested' activities that address current crises, with little risk of failure. There is also the added pressure that reallocating funds from existing in-demand services can be politically difficult, a situation exacerbated by short-term, often annualised, budget cycles.

All of this means that, even though both governments and donors are seeking to generate the greatest social value possible, there are clear structural reasons why many

improved approaches (in terms of implementation and/or intervention), as well as many preventative or earlier intervention services, are not sought out and funded. This creates a missed opportunity to strive for better outcomes in general, as well as to address the root causes of social problems which could help more people earlier on, and deliver cost savings for society in the long run.

The growing use of 'payment-by-results' or 'pay-for-success' contracts is a response to these challenges. First, by specifying and incentivising outcomes, not activities, payment-by-results contracts allow for flexibility in service delivery. This enables and encourages service providers to adapt to the changing environment and needs of service users, which has the potential to result in significantly better outcomes. Second, by paying for outcomes, governments can reduce their cost of failure, giving them confidence to commission new interventions (or new ways of delivering existing interventions) that could lead to better outcomes.

“This is a way of getting better outcomes in a way that we couldn't do otherwise, because of the risk involved. (Nonetheless) we are still responsible (for the target cohort); we hold the moral and legal risk; if the impact is negative via an intervention that backfires, we will have to address that.”

Government commissioner

“Governments’ confidence in commissioning new services when you only have limited resources to play with is low.”  
Government commissioner

Third, payment-by-results contracts can help governments apply resources more efficiently by reducing the higher costs of funding crisis services tomorrow through committing to pay for intervention or preventative services today. Diverting children from being taken into care and supporting young people into employment, for example, can represent future budget savings. Payments for these future outcomes can be made from future cashable savings rather than by having to reallocate funds from existing in-demand services. This can unlock better outcomes

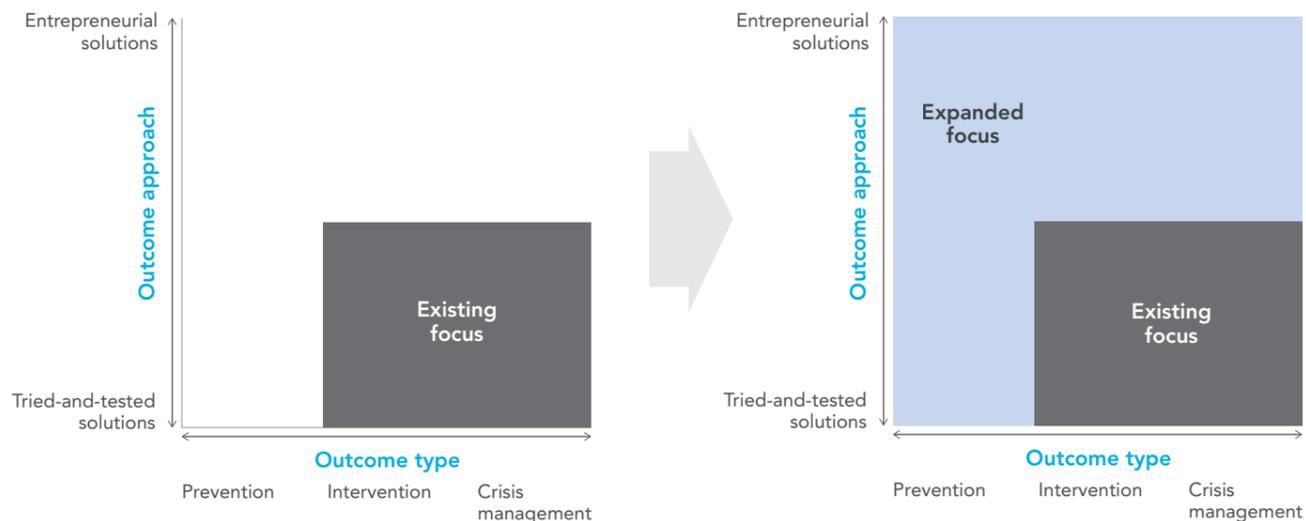
by funding preventative services that wouldn’t have been funded otherwise, as well as encouraging the scale-up of services already proven to reduce future societal costs.

Below we illustrate how outcomes-based commissioning can enable more entrepreneurial solutions – in terms of commissioning new interventions, or new ways of delivering existing interventions – as well as unlocking preventative over crisis services.

### B. The delivery partner perspective



Outcomes-based commissioning unlocks an expanded focus



The possibility of unlocking better outcomes is also important to service providers. Payment-by-results contracts open up new sources of revenue for their services, while their outcomes focus allows scope for innovation in implementation once service delivery begins. Activities are left to service providers to design and deliver in pursuit of the outcomes set, encouraging innovation and creativity. This leaves service providers to ‘focus on doing what they do best’, as many interviewees put it, by concentrating on the needs of service users and adapting programmes accordingly, in a bid to drive better outcomes (see case study overleaf for examples). Focusing on outcomes can also drive efficiencies by ensuring resources are targeted towards the most relevant groups (see Example 2 in Appendix 2).

To engage in such contracts, service providers need to be sufficiently confident that they can deliver the required outcomes

at the price set per outcome (or set of outcomes). They also need to have sufficient reserves to cover the working capital requirements that arise from only being paid when successful outcomes are delivered.

However, many service providers lack sufficient reserves, precluding them from engaging in such contracts. This includes those who may be best placed to deliver the outcomes sought, in terms of their knowledge of and track record of working with the target group.

Social impact bonds overcome this challenge by introducing a third party – the investor – who provides capital upfront (in full or in part) to cover service providers’ delivery costs, ahead of results being delivered. Investor returns are contingent on the successful delivery of the outcomes prescribed in the payment-by-results contract with the government or donor.

“Setting outcomes gives us permission to think differently. People are hugely innovative and creative if given the opportunity.”  
Service provider

“We say we’re here to make a difference, but we don’t know whether we are or not. Government doesn’t know whether we are or not. What’s changing in practice (with this social impact bond) is a cultural shift within teams.”  
Service provider

**Case Studies**

How outcomes-focused contract flexibility can drive innovation in service delivery

**Teens and Toddlers Innovation** is one of the ten social impact bonds commissioned by the Department for Work and Pensions Innovation Fund, and is helping disadvantaged 14-16 year olds across Greater Manchester. Teens and Toddlers partners a young person with a toddler in a local nursery, offering an opportunity for responsibility and empathy and allowing the young person to act as a role model. Teens and Toddler’s proven flagship intervention was to work for 18 weeks with young people to address underlying issues that can lead to them becoming disengaged from education, employment or training, such as low self-esteem and a lack of positive role models. The programme has been extended specifically for the purposes of the SIB, adding a Stage 2 that applies strengths and skills developed via Stage 1 to school behaviour and academic studies. This includes setting learning and behavioural goals in five key areas known to have an impact on performance. Within the first year of programme delivery, analysis of interim results indicated that the new Stage 2 approach could be further oriented towards the academic outcomes targeted. The programme has been adapted accordingly, with a sub-contractor appointed to tutor students in Maths and English.

The **Multi-Systemic Therapy** (Essex) SIB, delivered by the charity Action for Children, targets improved parenting and rebuilding positive relationships to help reduce the likelihood of children going into care. MST is known to be particularly intensive work, with therapists working in challenging situations and accessible at all times – including weekends and overnight – by the young person and their families. In addition, the training and experience gained means therapists are in demand, so may move on after a fairly short period of time. In the first year of the SIB, high therapist turnover was proving disruptive to delivery. To mitigate this risk, and taking advantage of the flexibility that the payment-by-results contract offers, the board of the MST SIB (comprising two investor representatives, an intermediary, independent MST expert and independent Chair) proposed and agreed to bolster therapist numbers and ensure continuous coverage for young people and their families.

**C. The investor perspective**



Investors are increasingly seeking to align their values with their investments and to create an economy that rewards all organisations for the social value that they create. This applies to individuals as well as institutional investors, whether foundations, pension funds or insurance companies, all of whom have engaged in SIBs either directly or via investment intermediaries such as funds.

Investors are attracted to SIBs for similar reasons to those that attract them to any impact investment: the ability to create positive social change through investment. However, within the landscape of compelling impact investment opportunities, SIBs have three distinct features for investors. First, they offer the chance to invest in entrepreneurial solutions to a range of social issues that investors may not be able to address with the rest of their impact investment portfolio (since governments or donors fund the solutions, rather than vulnerable individuals themselves acting

as consumers). Second, the contractual alignment of all three parties in delivering pre-agreed social outcomes directly aligns those outcomes with financial incentives, providing even greater assurance to investors that all counterparties are pulling in the same direction. This, coupled with the flexibility afforded in payment-by-results contracts, may increase the likelihood of better outcomes being achieved.

Finally, SIBs also seek to tackle from the outset a question commonly accompanying philanthropically funded innovation: who will pay for this service in the future, if it is successful? In a SIB, a government or donor commitment to an outcome provides a strong indication of commitment to tackling the social issue, even if there is no guarantee that the government or donor will continue to fund the service in the future. It also establishes a price that government or donors are willing to pay for each social outcome.

### The potential for wider system change



SIBs offer a range of benefits for governments and donors, impact-driven service providers and investors, powerfully aligning their efforts to strive for better outcomes for vulnerable individuals. These benefits are illustrated with case studies of specific SIBs in Appendix 2.

These case studies show that SIBs also have the potential to generate wider system change. Because each contract specifies objective measurable outcomes, SIBs can generate an improved evidence base regarding which social interventions lead to what results (and at what price). This is particularly powerful where evidence was previously lacking. This evidence base can inform future service delivery for those directly involved but also – if the information generated is sufficiently public – other governments or donors and service providers.

SIBs require strong performance management systems to ensure that partners are on track to deliver the outcomes sought.

This behavioural shift, once institutionalised within service providers, government and donors, could inform future commissioning and service delivery.

In this way, the process itself could indirectly lead to improved outcomes beyond the individual SIB. This potential for system change is of interest to investors too, some of whom are attracted to SIBs because *‘of the long-term goal of encouraging outcomes-based contracting’* to drive improved social outcomes (Investor).

**“We were very good at saying what was done, retrospectively, but were not very good at forecasting. We are now comfortable with the ability to do that, and have the tools to forward forecast. Many of the tools used have been used on other contracts we are running. Accountability on individuals is much sharper than it was, and the staff team are very outcomes driven.”**

Service provider

## SECTION 2 Designing for success

In principle, the benefits offered by social impact bonds are compelling. In practice, insights derived from those engaged in designing, funding and running social impact bonds indicate that a number of design features are critical to such benefits being achieved. Using the framework in the previous section as our guide, this section considers the design features key to realising each potential benefit of a SIB, supported by real-life examples.

Any party can originate a SIB. In most operating currently, the government has identified a target group for whom outcomes have been poor and societal costs high, often working with advisory firms developing a track record in SIBs.<sup>6</sup> Yet there are examples of service provider-originated SIBs (see Example 1 in Appendix 2). Once a

target group has been identified, there are a number of design features to consider.

Each gives rise to a set of activities that can be delivered through different structures, either in-house by one or more of the three key parties, or supported by external parties. These are summarised in Table 1, overleaf.

### Tackling transaction costs

A common challenge raised in relation to SIBs is how to reduce transaction costs, many of which arise from the design features identified in this section and the variety of parties involved. The majority of activities could, at least in theory, be delivered by one or more of the three core parties. Whether they are or not depends to some extent on parties’ capacity and capability, which may need bolstering with additional support from external parties. Key points to consider in relation to costs include:

- A number of design features are not unique to SIBs. Many reflect good practice in designing and delivering social interventions. SIBs demand this discipline from the outset and throughout the process. Therefore, as several interviewees commented, it can feel like a ‘higher bar’ has been set compared to other social interventions in which they are involved. As such, some of these costs could be said to be compensating for existing deficits in delivering social interventions.
- Where a design feature is needed, it may be tempting to undertake activities

in-house rather than contracting them out. Undertaking activities in-house still gives rise to costs which are simply harder to pinpoint at present because in many SIBs they remain unquantified. Appendix 3 illustrates this by presenting an analysis of the percentage of costs included in the payments set for outcomes across a selection of SIBs.

- Each design feature indicated is only needed if the associated intended benefit is sought. For example, not all SIBs are enabling preventative services that are to be financed out of future cashable savings, so there may be no need to explore outcomes payments across department budgets in the event that those savings are spread.

Over time, as parties become more familiar with the demands of SIBs they may be tempted to ‘relax’ the design features needed and the number of parties involved. This temptation needs to be carefully weighed up against the effect it may have on delivering the full potential value of a SIB, as identified in Section 1.

<sup>6</sup> See Methodology and acknowledgements for advisors involved in designing and managing SIBs interviewed for this report.

Table 1: Summary of Section 2; the design features needed to deliver the intended benefits of SIBs, the activities the design features give rise to, and who typically undertakes them.

Intended benefits	Design features required	Activities needed	Who?	Intended benefits	Design features required	Activities needed	Who?		
Focus resources on outcomes	1. Ensure payment metrics directly relate to intended outcome (and include a longer-term outcome evaluation if necessary).	Evidence gathering (and outcomes evaluation)	The <b>originator of the SIB</b> is often well-placed to identify the relevant metrics for the intended outcomes, as they are likely to have a longstanding focus on the issue. <b>Foundations</b> and <b>academics</b> could be another source of understanding the outcomes that could be achieved and relevant metrics, as they often have deep knowledge of social issues and the various interventions tackling them.	Stimulate innovation/ Have scope to innovative	7. Build data collection and reporting systems that enable accurate and timely reporting on progress.	IT systems and performance dashboard building	Such systems can be developed by <b>service providers</b> , if not already in place, or developed by <b>external consultants</b> to be used by service providers.		
		Outcomes evaluation	If the set payment metrics do not align with the longer-term or wider outcomes sought, core parties might put in place a separate outcomes evaluation to review these. In most cases independent evaluations are being commissioned by government or donors to be delivered by <b>evaluation experts</b> and <b>academics</b> .			8. Ensure governance structure is empowered to respond decisively and creatively.	Board and management oversight enabling parties to track progress and inform delivery	<b>Investors</b> typically form part of the governance structure, given that their returns are linked to successful delivery of outcomes. Where there are multiple investors, this responsibility will be delegated to a lead or fund representing investors.	
	2. Clearly define target beneficiaries. 3. Identify the full cost to society of the issue being addressed, thereby establishing a value for the social outcomes sought. 4. Establish a way of accounting for what would have happened anyway. 5. Ensure all parties will agree on whether outcomes have or have not been delivered, against which payment will be made.	Evidence gathering, establishing counterfactual and putting a price on outcomes	<b>Government</b> or <b>donors</b> establish the price they can pay, which may require financial support from other government entities or philanthropists. It is likely to require scrutiny of historic costs and future budgets, involving treasury/finance departments.  Evidence may already be available, held by the <b>service provider</b> , <b>government</b> or <b>donor</b> or be in the public domain – evidence that can then be mined to establish the counterfactual.	Grow services	9. Drive appropriate referrals by engaging and incentivising ‘gatekeepers’.	10. Tap new sources of capital to avoid ‘cannibalising’ existing funding. 11. Fully cost the required intervention and investment. 12. Match investors’ financial risk-adjusted return expectations to outcome expectations.	Stakeholder engagement	The responsibility for ensuring appropriate referrals falls most often to the <b>service provider</b> . However, <b>government entities</b> often act as gatekeepers for referrals, and need encouraging or incentivising. Given that government entities are often also commissioners, this is more often within their control than within service providers’ control.	
		Independent valuation or audit	This role needs to be undertaken by an <b>independent party (audit firms or academics)</b> to ensure objectivity.				13. Explore top-up payments that create a financial upside opportunity linked to impact upside. 14. Consider tiered capital structures, where investors with a deep understanding of the target group and outcomes sought provide downside protection to attract less familiar investors.	Corporate finance and capital raising	Corporate finance – i.e. the financial modelling of the SIB structure – and capital raising could be undertaken by the <b>government</b> or <b>donor</b> or <b>service provider</b> . In most instances, it has been supported by intermediaries who have access to a network of investors and understand their financial return and outcome expectations. This has included <b>impact investing funds, investment banks</b> and <b>non-profits specialising in impact investing advisory and consulting</b> .
		Top-up funds, whether issue-specific or social impact bond-specific	Government or donors may need to link up with other government departments or <b>philanthropists</b> to top up payments.					Link financial returns to social outcomes	Top-up funds, whether issue-specific or social impact bond-specific
Invest in intervention and preventative services	6. Support outcomes payments across government departments.			Catalyse entrepreneurial solutions	15. Ensure investors can engage and influence.	Tiered capital structures and guarantees	Downside protection has been provided by higher-risk bearing <b>investors</b> , which can include <b>service providers</b> investing themselves, as well as <b>government</b> or <b>donors</b> .		
						Hands-on approach to tracking progress and informing delivery	If investors do not have the capacity or capability to engage directly, oversight may be delegated to <b>advisers</b> and/or via <b>specialist funds</b> .		

## Focusing resources on outcomes



### Design feature

#### 1. Ensure payment metrics directly relate to intended outcome.

To ensure that parties can all agree that intended outcomes have been delivered, the metrics selected have to be objectively and practically measurable. This can result in proxies being used as the best available option. Such proxies are often measurable over a shorter timeframe, which can suit investor return expectations as investors typically seek return of capital within three to seven years. The average projected service delivery period of SIBs launched to date is just less than four years, reflecting this.<sup>7</sup> This risks not being long enough to deliver the life-changing outcomes sought, particularly for preventative services and those engaging with harder-to-reach users.

##### Example

The UK Government's Department for Work and Pensions Innovation Fund is supporting a number of SIBs aimed at improving the lives of vulnerable 14-18 year olds by getting them into education, training and, ultimately, employment. The desired outcome is stable employment throughout adulthood, but tracking individuals over a lifetime in order to measure this is unrealistic. Metrics against which payments are made are therefore restricted to proxy outputs that reflect a path to employment over a shorter timeframe: improved attitude towards school, attendance and behaviour, qualifications being achieved (with higher payments for higher qualifications), getting a job and keeping it for six months.

The need for simple and measurable payment metrics, deliverable within a medium-term timeframe, may not fully reflect the longer-term social outcomes sought. Worse, if not designed carefully, the payment metrics may drive behaviours that lead to unintended consequences. Putting in place a separate longer-term or wider outcome evaluation can help mitigate the risk that the payment metrics do not align with the longer-term or wider outcomes sought.

##### Example

Final payments in the It's All About Me (IAAM) SIB (Example 1 in Appendix 2) are based on harder-to-place children still being with their adoptive families two years beyond the point of adoption. The stability of placement is used as a proxy for the child's well-being. To provide a fuller picture, ten-year evaluations are planned that will look at a number of aspects including the child's well-being, their educational engagement and attainment, as well as what works in therapeutic parenting to deliver improvements for the child.

Similarly, the New South Wales Government-commissioned evaluation of the New Parent and Infant Network SIB (Example 2 in Appendix 2) is comparing a range of outcomes for the children and families on the programme with the proxy measures used to calculate payments in order to review how close the proxies are to these outcomes.

#### 2. Clearly define target beneficiaries.

SIBs require a very clearly defined target cohort. This is to ensure that the intervention is suitable for those receiving the service, focusing resources. It can also help ensure that service providers do not focus exclusively on those for whom it is easiest to deliver the outcomes (commonly known as 'cherry picking'). Having a defined population for whom all outcomes are measured, not just people who receive the intervention, can control for this. As can having independent parties make referrals to the programme, rather than the service provider selecting for themselves, or government or donors setting a higher payment per outcome for the harder to reach.

##### Example

In the Rough Sleepers SIB (Example 3 in Appendix 2), the target cohort comprises 800 named individuals, identified as repeat rough sleepers during the SIB's design, to be tracked throughout the programme.

### Design feature

#### 3. Identify the full cost to society of the issue being addressed, thereby establishing a value for the social outcomes sought.

Establishing the value government or donors place on the specified outcome, or set of outcomes, is an essential step in designing a SIB. It requires identifying the full cost to society of the issue being addressed. This price can be based on the historical cost of delivering outcomes. Alternatively, it may purely be based on future cost benefits to the government or donor.<sup>8</sup> Where information is difficult to find on either of the above, the price may instead be based on quantified social value. Once a value has been established, service providers can offer an appropriate price.

##### Example

The price set per outcome for the ten social impact bonds arising from the Department for Work and Pensions Innovation Fund were based on the assumed reduction in benefits payments if the young people continued in education, training or employment, rather than estimated programme delivery costs of diverting young people from unemployment.

#### 4. Establish a way of accounting for what would have happened anyway.

To ensure resources are not wasted, government or donors will want to ensure they are not paying for outcomes that would have occurred anyway. The counterfactual, as it is known, can be established via a randomised control trial (RCT), live comparison group or by establishing a historical baseline. RCT is generally seen as the 'gold standard'. It is not always feasible, however, for reasons of cost as well as practicality.

##### Example

In the Adolescent Behavioural Learning Experience at Rikers Island prison, New York, the cohort split for the programme would have been based on where the young men lived. But the young men accessing the programme are highly mobile, constantly moving from housing unit to housing unit. The evaluation design was based instead on the net difference in reoffending rates between the target group and a historic baseline based on a similar cohort from the previous five years.

In some instances, controlling the referrals themselves gives government or donors the confidence that they are targeting resources to successful outcomes that would not have happened otherwise.

##### Example

In the IAAM SIB (see Example 1 in Appendix 2) payments are made on the basis that none of the harder-to-place children would have been placed for adoption without the intervention, given the rates of adoption for these children. Local authorities effectively make this decision when they refer the child, as they are deeming them too difficult at that point to place via existing means. The counterfactual is therefore zero.

#### 5. Ensure all parties will agree on whether outcomes have or have not been delivered, against which payment will be made.

This requires an objective validation that outcomes have been achieved. This can be via repeat measurement or a recount of the data in question; direct observations of service delivery; or random spot checks among the target group receiving services. The verification should also cover the live comparison group or historical baseline, where one is being used.

##### Example

The primary payment metric in the New Parent and Infant Network SIB (Example 2 in Appendix 2) is the proportion of children attending a Newpin Mothers' Centre who are successfully restored to the care of their family. This restoration rate and the programme data used to calculate it is verified by an independent certifier, Deloitte Touche Tohmatsu.

<sup>7</sup> In most SIBs, outcomes will continue to be delivered post-intervention, so returns to investors continue to be paid one to two years after service delivery has stopped.

<sup>8</sup> The UK Government worked with New Economy to identify some 600 cost estimates to inform such analysis. These have been brought together in a publicly searchable format at [http://neweconomymanchester.com/stories/832-unit\\_cost\\_database](http://neweconomymanchester.com/stories/832-unit_cost_database)

## Investing in intervention and prevention

To unlock investment in intervention and preventative services, future cashable savings can be a powerful driver. Future cashable savings require actual rather than theoretical savings, and any reduction in service demand arising from the successful implementation of a preventative social impact bond needs to result in a future reduction in the supply of services by government for actual savings to be generated. Government carries fixed

costs in relation to many services. Outcomes either have to happen at sufficient scale to reduce costs, i.e. by closing a prison, or savings need to be derived from discretionary services, i.e. reducing out-of-home care provision in foster families. It is not surprising that a number of SIBs to date (Appendix 1) are therefore focused on intensive family interventions targeting a reduction in children being cared for away from the home.



### Design feature

#### 6. Support outcomes payments across department budgets.

If future cashable savings can be identified but fall across department budgets, there is a risk that the cost outweighs the benefit to any one department that is paying for all the outcomes. Consequently, departments may agree to jointly support SIBs.

#### Example

The UK Cabinet Office and Big Lottery Fund have jointly launched two such funds, Commissioning Better Outcomes and the Social Outcomes Fund.<sup>9</sup> A similar Pay for Success Fund has been proposed in the US.

Such funds might also be issue-specific.

#### Example

The Youth Engagement Fund, launched in the UK in 2014, is a schools-based SIB fund to support young people not in education, employment or training. Outcome payments are to be jointly funded by the Department for Work and Pensions, the Cabinet Office and the Ministry of Justice, in recognition of the link between risk factors linked to youth offending and not being in education, employment or training. In addition, the Youth Engagement Fund requires a financial contribution at a local level, whether from schools, local authorities or other local parties interested in improving outcomes for young people.

#### Additional insight

Future cashable savings do not feature in all SIBs; government or donors can use the mechanism to drive improved outcomes without there being cost savings. In the Rough Sleepers SIB (Example 3 in Appendix 2), the government payer Department for Communities and Local Government will see no direct savings to its own budget from providing coordination services for persistent rough sleepers. Savings are anticipated in some areas – such as to accident and emergency services – but in other areas cost may increase (and to other departments) as individuals move into accommodation or receive support for long-term health problems.

<sup>9</sup> Their aim is to smooth outcomes payments in complex policy areas, where no single commissioner can justify making all of the outcomes payments but where the wider benefits suggest that a social impact bond may provide value for money. They also intend to help government commissioners and service providers develop robust proposals.

## Stimulate innovation/ Have scope to innovate

Section 1 indicated that SIBs' contractual focus on outcomes rather than activities can stimulate innovation, a key driver of the potential for better outcomes. To derive this benefit, investors need to be confident that delivery partners have the capability and capacity to robustly manage service delivery. This requires the collection and scrutiny of timely and relevant data to ensure progress towards desired outcomes, and adapting implementation and even the intervention in response if and where

needed. If delivery partners lack a track record of using results to inform service delivery, then performance management support will need to be built into the social impact bond – either by the service provider recruiting such a function, or it being outsourced. Decisive and creative board and management oversight is critical, influencing the structure of the SIB. Three emerging SIB structures are illustrated in the case studies overleaf.



### Design feature

#### 7. Build data collection and reporting systems that enable accurate and timely reporting on progress.

A good indicator of using results to inform service delivery is whether the service provider has a data collection and reporting system capturing accurate and timely data in a way that can be interrogated. Ideally, there would be evidence that the service provider is used to operating in this way and that such collection and scrutiny of data has informed service delivery in the past. If not, this needs to be built into the delivery model and factored into service delivery costs.

#### 8. Ensure governance structure is empowered to respond decisively and creatively.

Assuming that accurate and timely data is available via data collection and reporting, this information needs analysing and interpreting to assess whether progress is on track. If there are problems that threaten the delivery of outcomes – fewer referrals to the programme than anticipated, for example, or problems with staff recruitment or retention that are negatively affecting service delivery – timely decisions need to be made in response. This requires a robust governance structure, including investor representation.

#### Example

Analysis of SIBs in operation indicates that there are three emerging structures that reflect differences in where governance and accountability, including responsibility for performance management, sit within the SIB. Case studies overleaf explain and illustrate these three structures: 'direct', 'intermediated' and 'managed'.<sup>10</sup>

#### Additional insight

Given the novelty of SIBs, most parties have no prior experience of the mechanism, or indeed other payment-by-results or pay-for-success contracts. This is likely to be the case for the majority of SIBs launched over the next few years. Even in the event that core parties have prior experience, rarely will all three parties have worked together before. It is not surprising therefore that core parties seek outside help, and that the majority of SIBs launched to date are intermediated or managed rather than direct.

<sup>10</sup> These illustrations primarily capture contract and performance management roles. Each SIB also has other parties performing functions, such as legal counsel, or external parties validating outcomes, which are not included on these illustrations.

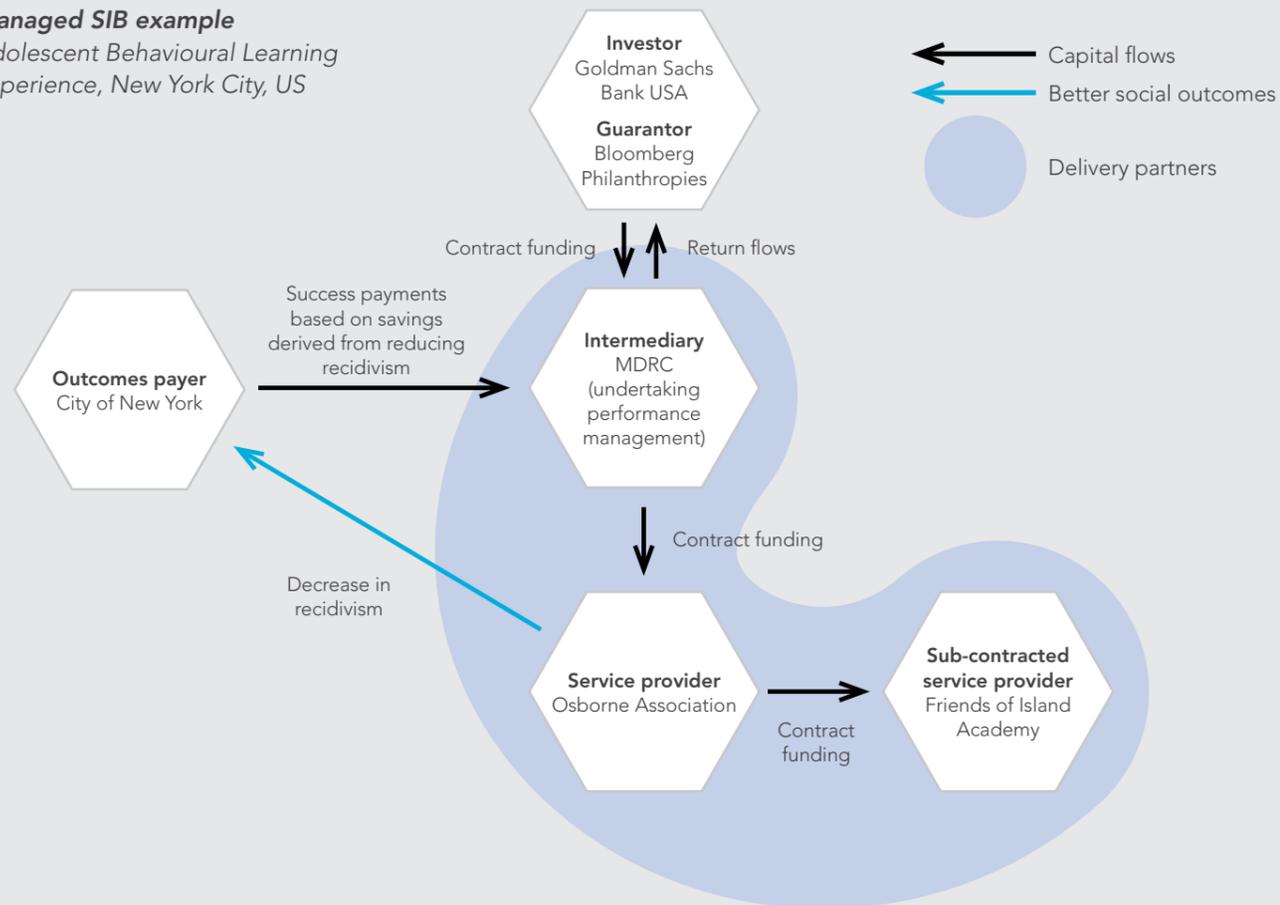


## Case Studies

### Three emerging SIB structures (continued)

#### Managed SIB example

Adolescent Behavioural Learning Experience, New York City, US



“ (The intermediary that helped structure and raise investment) was fantastic. We couldn’t speak highly enough of them. The majority of our revenue is from government grants. We had never run a social enterprise, or engaged in social investment, or raised funds from high net worth individuals. We didn’t understand which risks were or were not acceptable to investors. ”

Service Provider

#### Design feature

##### 9. Drive appropriate referrals by engaging and incentivising ‘gatekeepers’.

Service providers often have little direct control over referrals to the programme, yet accurate referrals are critical to delivering desired social outcomes. Interim findings from the ten SIBs supported by the Department for Work and Pensions Innovation Fund found that referrals were behind schedule in several during the first year as a result of partner agencies on which referrals were dependent taking longer than anticipated to engage with the programme. The more concentrated the sources of referral, the easier to engage with gatekeepers to ensure suitable referrals. Otherwise efforts to engage referring agencies risk being ‘disproportionately large compared to the potential returns in recruitment levels.’<sup>12</sup>

This requires strong relationships with referring agencies, which if not already in place need to be built as quickly as possible.

#### Example

The One Service has reduced reoffending rates at Peterborough prison by offering intensive support to ex-offenders via a network of provision, both inside prison and after release, to help them resettle into the community. Strong relationships with the prison but also with a range of local services were critical to the programme’s success, given that the One Service provides individualised proactive, practical support in accessing existing services and overcoming problems.

Social Finance, who designed the service and the SIB that financed it, took steps early on to ensure buy-in at a local and regional level and to continue this throughout service provision. This involved liaising with multiple agencies, run by government entities and other non-profits, within and outside of the prison. To give just two of many examples, Connections workers are individuals serving longer sentences in Peterborough prison. They provide information to fellow prisoners about services available including via the One Service, encouraging cohort members to engage with the programme in the first place, helping referrals. Referrals were also supported by the Safer Peterborough Partnership, a multi-agency body that includes police and probation services.

Incentives can help, such as setting deadlines and generating competition among referring authorities by indicating limited places are available.

#### Example

In the contract for the Multi-Dimensional Treatment Foster Care – Adolescents SIB in Manchester, UK, if the Manchester local authority does not refer sufficient numbers of young people to the programme, the service provider (Action for Children) will offer the service to other local authorities.

In the Newpin SIB (Example 2 in Appendix 2), the NSW Government has to provide a minimum level of referrals or may face financial penalties, to avoid the service provider, UnitingCare Burnside, facing lower volumes than anticipated and therefore losses over which they have little control.

“ (The government entity’s) commissioning and procurement teams led the process, rather than operational staff, which led to a disjoint. Communication to frontline staff has to stress the benefit to the (target group); it has to be ‘sold’ to operational staff (...) We are basing some staff in (the government entity’s) offices so that we can connect directly. ”

Service Provider

## Grow services



### Design feature

#### 10. Tap new sources of capital to avoid 'cannibalising' existing funding.

If service providers are to grow their services, the sources of revenue and capital on offer via the SIB should be from previously untapped sources. Service providers may seek new sources of capital themselves, but in many SIBs, impact investing funds, investment banks and non-profits specialising in impact investing advisory and consultancy who have developed experience in SIBs are helping to raise funds.

#### Examples

In the Increasing Employment and Improving Public Safety SIB, a key attraction for the service provider (the Center for Employment Opportunities) was accessing new forms of financial support. Bank of America Merrill Lynch worked with Social Finance Inc. to define the terms and acted as placement agent to attract 44 investors to back the scaling of its programme boosting employment and reducing crime (Example 4 in Appendix 2).

St. Mungo's Broadway (Example 3 in Appendix 2) covered Triodos Bank's costs in helping it raise capital for the Rough Sleepers SIB. It anticipates it will recoup these costs as part of its service delivery fees.

#### Additional insight

Even where new sources of capital are raised, service providers should be aware that capital provision over the life of the SIB is not guaranteed. Investors commonly stagger capital drawdown in order to mitigate risk of underperformance, with service delivery phased over discrete cohorts. Investors may replace service providers altogether. For example, in the One Service (Peterborough) SIB, a network of providers is needed to deliver the range and flexibility of services over the six to seven years that the model demands. As such, contracts with all providers last one year, agreed annually with repeat contracting subject to performance, managed by the specially created One Service acting as intermediary.

As indicated by the three emerging SIB structures looked at earlier in this section, in 'direct' and 'intermediated' SIBs, rescinding the contract would more likely halt the SIB for want of a comparable delivery partner, failing to deliver any of the SIBs intended benefits.

“We had to quickly become familiar with the language and priorities of the investment community. Terms such as “asset class” and “capital stack” were new to our lexicon.”

Service Provider<sup>13</sup>

### Design feature

#### 11. Fully cost the required intervention and investment.

Given the extra demands associated with establishing an evidence base and the ongoing performance management requirements, there is a risk that service providers underestimate operational costs needed to deliver better outcomes. Even where additional parties are contracted to support these requirements, those demands may be higher when compared with fee-for-service contracts or grants and require additional senior management time.

#### Example

Energize Innovation (Thames Valley) is funding the charity Adviza to support young people to engage in education and training and improve their employability. Additional performance management requirements were reflected in operational costs, upfront. Adviza increased the project manager role to full-time and factored in additional oversight from the senior management team.

The need to fully cost the required intervention should be balanced against the potential for financial uplift in line with successful delivery of outcomes. In half of SIBs analysed, service providers stand to gain financially in the event that they exceed expectations in relation to delivery of desired social outcomes. This reflects the financial stake that they have in SIBs, directly or indirectly:

- Directly, service providers can act as investors.

#### Example

In the Juvenile Pay for Success (Massachusetts) SIB<sup>14</sup> the service provider Roca deferred a portion of its fees (US\$ 3.3m), reducing the total amount of external working capital required. If the 40% decrease in days in incarceration target rate is hit, Roca stands to share in the financial upside, up to a maximum of US\$ 1m. Not all service providers are in a position to invest directly. Few have the balance sheet strength to be able to do so, a challenge that is not restricted to small service providers. The Center for Employment Opportunities (Example 4 in Appendix 2) is in the top 5% of public charities in the US in terms of expenses. Yet taking financial risk 'was not viable for CEO (...) We did not feel our reserves could cover our financial stake.'<sup>15</sup>

- Indirectly, all service providers run reputational risk from the heightened scrutiny on performance and the very public nature of failure in the event of targets being missed. This could affect their ability to attract further funds, negatively but also positively. Service providers stand to gain from a considerable reputational boost in the event of positive performance, which could help them attract future funding.

“Internally, it has given the team a sharp focus on delivering more evidence-based provision, and not just in (the SIB area of programme delivery). Our portfolio of evidence-based interventions (...) has been implemented in other local authority contracts and in two grant-funded programmes. We feel our more evidence-based approach has helped in winning new contracts.”

Service Provider

<sup>14</sup> The SIB is reducing recidivism and increasing employment among young men who are in the probation system or exiting the juvenile justice system through intensive street outreach and targeted life skills, education and employment programming.

<sup>15</sup> Sam Schaeffer, Executive Director of CEO, writing in Stanford Social Innovation Review online (July 2014) Assessing Non-profit Risk in PFS Deals.

<sup>13</sup> Sam Schaeffer, Executive Director of CEO, writing in Stanford Social Innovation Review online (July 2014) Assessing Non-profit Risk in PFS Deals.

## Link financial returns to social outcomes



The design features outlined so far in Section 2 all target better outcomes, and as such are as much of interest to investors as to other parties. To help recap these points from the investor perspective, the key questions an investor should ask when choosing a social impact bond include:

- 1. Are the right incentives in place to deliver impact?** This includes ensuring that the right metrics are in place to reward genuinely better outcomes and that gatekeepers are engaged and incentivised to drive appropriate referrals.
- 2. Is there a good team of delivery partners in place?** This includes having a track record of performance management, and suitably strong governance within the SIB structure.
- 3. What evidence is there that the proposed intervention works?** This includes understanding trends relating to the target group and the evidence that the outcomes can be achieved.

All three make up outcomes risk – the risk of paying for services that do not deliver the desired social outcomes – which is directly related to financial risk. What went before is a good indicator of what may follow, but it does not guarantee outcomes. Indeed, in a number of SIBs, the intervention itself is relatively novel or there are a number of variations from the underlying evidence base (see Table 2).

All social interventions bear an element of outcome risk as they rely on interactions with people, usually in a changing environment. This may help explain why the majority of SIBs have been intermediated or managed, involving additional performance management capacity and scrutiny. This is why the performance management aspect of SIBs and incentivising all parties to focus on better outcomes becomes so important when choosing a SIB.

“Certifying a social innovation as ‘evidence-based’ means that we know that it works, how well it works, why it works, and how to implement it. It does not mean that it’s simple to adopt (...) Implementing evidence-based programs like Nurse-Family Partnership and Multisystemic Therapy is extremely challenging, and we know they don’t work without rigorous quality controls that most government programs don’t have. Poor implementation always trumps a good model.”

Steve Goldberg<sup>16</sup>

Table 2: Examples of how service provision can vary from the underlying evidence base

Variation from evidence base	Example
<i>The nature of the intervention itself.</i>	The ThinkForward SIB, part of the UK Department for Work and Pensions Innovation Fund, is providing a new service to young people in East London. Developed by the investor PEF-Impetus Foundation, the intervention was devised following an international scan of evidence-based models and local research to ensure the programme was adapted to the UK settings in which it would be applied.
<i>The target issue to which the intervention is applied.</i>	Multi-systemic therapy (MST) is a recognised brand with a strong track record in the US and an evidence base that it can support reduced offending among young people. It has less of an evidence base in relation to diverting young people from entering care, but is being used with this aim in the MST (Essex) SIB.
<i>The target group to whom the intervention will be offered.</i>	The One Service SIB offers intensive support to ex-offenders both inside Peterborough prison and after release, to help them resettle into the community. The service is exclusively for prisoners with sentences of less than twelve months. This is a group for whom no statutory provision was previously made, although the service providers involved have considerable experience working with offenders. It has reduced reoffending among the first 1,000 ex-prisoners supported by 8.4% compared to the national baseline.
<i>The provider who will be delivering the service.</i>	In the MST (Essex) SIB, the service provider Action for Children had decades of experience working with children but was new to multi-systemic therapy.
<i>The setting in which it will be applied.</i>	Moral Reconciliation Therapy was specifically selected for the Adolescent Behavioural Learning Experience SIB at Rikers Island prison, New York City, because it was a form of cognitive behavioural therapy that had been used extensively in prison and juvenile residential facilities. It had not previously been used at Rikers Island.
<i>The scale of the delivery.</i>	Over the next five years, the Utah High Quality Preschool Program will expand early education services to up to five cohorts totalling over 3,500 low-income children, a threefold increase on the service provision previously run by the Granite School District, while also improving the quality of preschool services provided to another 10,500 children.

**Design feature**

**12. Match investors' financial risk-adjusted return expectations to outcome expectations.**

At present, as an innovative investment product lacking a proven track record, SIBs have been piloted by investors that are willing and able to take apparently disproportionate risk. Government or donors set a maximum price per outcome but also set a maximum upper payment threshold, factoring in aggregated outcomes. This enables them to cap the total amount for which they would be liable in the event of outperformance. This reduces government or donors' liabilities as well as enabling them to budget, but this ceiling on total returns can discourage investors. Although all investors anticipate the return of principal, some are willing to accept this 'unquantifiable' risk without seeking further derisking mechanisms, such as downside protection, attracted by the prospect of better social outcomes (see figure below). Such socially-motivated capital may not be easy to source, a challenge if the SIB market is to grow.

**Example**

Globally, an estimated US\$ 46bn is being managed in impact investing,<sup>17</sup> only the minority of which (46%) is targeting below-market-rate returns. To attract the bigger pool of capital seeking risk-adjusted financial returns, and fulfil SIBs' potential to access new sources of capital and enable better outcomes, increasing upside or reducing downside is likely to be needed.

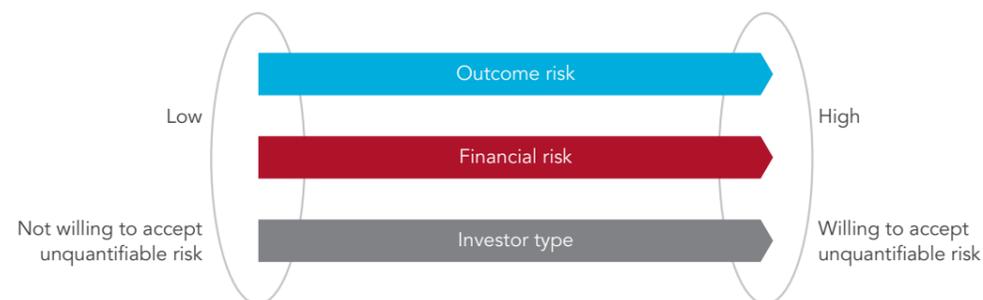
**13. Explore top-up payments that create a financial upside opportunity linked to impact upside.**

Using outcome top-up payments encourages financial upside, which could serve to attract bigger pools of risk-seeking capital. It would make SIBs more akin to venture capital, where investors are able to take on higher risk because of the uncapped potential returns in the event of success. Using outcome top-up payments also serves to incentivise all parties to deliver and exceed desired outcomes.<sup>18</sup>

**Example**

The UK Cabinet Office and Big Lottery Fund have jointly launched the Commissioning Better Outcomes and the Social Outcomes Fund, mentioned earlier in this section. Although their stated aim is different, it may have the same effect.

*Matching outcome expectations to financial return expectations*



**Design feature**

**14. Consider tiered capital structures, where investors with a deep understanding of the target group and outcomes sought provide downside protection to attract less familiar investors.**

SIBs that have attracted capital at scale – in the US and Australia, for example – have focused on proven interventions delivered by parties with a track record of delivering those interventions. To encourage investors, some have set the payment threshold below the success rate previously evidenced for the intervention, where such evaluations exist.<sup>19</sup>

Additional de-risking mechanisms used to attract bigger pools of capital include tiered capital structures and guarantees. These have been used in 20% of SIBs launched to date, appearing in six out of the seven largest (US\$ 6.4m and above). The counterparty to the low-risk bearing investor could be higher-risk-bearing investors, which as seen earlier has included service providers. Alternatively, philanthropists may share risk with investors. These risk-sharing parties understand the social issue in question and potential for driving better outcomes, and as such are well placed to take first loss positions.

**Example**

The Benevolent Society (New South Wales) SIB funds Resilient Families, an intensive family support programme designed to keep children with their families where safe and to avoid their entry to out-of-home care. Two classes of bonds were offered to attract the range of capital needed to make up the AUS\$ 10m sought. The low-risk tier (Class P) is capital protected, while the high-risk tier (Class E) is subject to 100% loss of principal if the performance improvement of the programme is less than 5%. However, as befits the higher risk Class E investors are taking, they stand to make a higher return – up to 30%, as opposed to the maximum 10% that Class P investors could make.

Class E investors are not providing the capital protection for Class P investors. Rather, the transaction is structured so that cash flow is channelled to protect capital, supported by a portion of upfront investment from New South Wales Government supported by NSW Treasury – as such, in this example, it is the government or donor that shares the financial risk.

A similar tiered structure was used in the Juvenile Justice Pay for Success SIB, which saw junior (US\$ 3m) and senior (US\$ 9m) loan tranches. In this example, the risk is inverted – the higher-risk investors, both programme-related investors, stand to gain less financial return in the event of success than the lower-risk investors. The programme is targeting a 40% decrease in days of incarceration, at which level, it would generate budgetary savings to the Commonwealth of Massachusetts (the government payer) that offset the cost of delivering services. At this target rate, the lower-risk investor, Goldman Sachs, will be repaid plus a base annual interest rate of 5%, whilst the higher-risk investors, Kresge Foundation and Living Cities will be repaid with a base annual interest rate of 2%. The SIB was also supported by recoverable grants, from the Laura and John Arnold Foundation, New Profit, Inc. and The Boston Foundation. Should the programme exceed the target of 40% decrease in days in incarceration, after loan providers have been paid out, grantmakers will see their capital recycled up to a total maximum of US\$ 6m.

The Adolescent Behavioural Learning Experience (ABLE) programme being delivered to inmates at Rikers Island prison, New York, is financed via the Urban Investment Group of Goldman Sachs Bank USA's \$9.6m multiple drawdown loan to the intermediary MDRC. A reduction in recidivism of 10% is required for the investor to break even. If this threshold is not met, then Bloomberg Philanthropies is acting as guarantor and would cover Goldman Sachs' losses up to 75%. If the threshold exceeds 10%, Goldman Sachs stands to gain, up to a maximum of 20% recidivism reduction resulting in a maximum possible return of US\$ 2.1m.

<sup>17</sup> JP Morgan, GIIN (2014) Spotlight on the Market: The Impact Investor Survey. The definition of impact investment used is 'investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. They can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.'

<sup>18</sup> Adrian Brown writing online for Pioneers Post, May 2014, Investor hammer smashes social logic, where he also explains that using top up payments can overcome the challenge of establishing the true risk-adjusted price per outcome that arises when using tiered capital structures and guarantees.

<sup>19</sup> For example, in the Increasing Employment and Improving Public Safety (New York State) programme, prior to the SIB, a randomised control trial had shown that the Center for Employment Opportunities had reduced recidivism among the cohort it worked with in New York State by 30%. Delivering the same programme but at scale, the success threshold at which investors would begin to be repaid was set at 8%.

## Catalyse entrepreneurial solutions



### Design feature

#### 15. Ensure investors can engage and influence.

Returning to the venture capital analogy, venture capital takes a hands-on approach that offers specialist sector knowledge, copied in venture philanthropy and impact investment in recent years. Both investors and service providers can benefit from specialists' knowledge and experience of impact-driven organisations, and their understanding of outcome risk. Given the particular need for performance management highlighted already in this section, it is perhaps no surprise that investors in SIBs have taken a similarly hands-on approach, directly or indirectly. In most, investors have engaged advisers, prime contractors or specialist fund managers to help assess and manage performance. Investing in specialist fund management can also serve to spread risk across a number of investments and to share risk with other investors, reducing capital exposure. There is only one such dedicated fund at the moment (the Bridges Ventures Social Impact Bond Fund) although other impact investing funds have supported SIBs. The pooled fund model may be less attractive to investors interested in a specific social issue, e.g. job creation, or improving health, as the small number of SIBs at this point precludes having issue-specific funds. This may change over time as the market grows, as it has elsewhere in impact investing.

### Counterparty risk

The world's first SIB, the One Service in Peterborough prison, reduced reconviction rates among the first 1,000 ex-prisoners supported by 8.4% compared to the national baseline, evidencing that it is possible to make a difference to recidivism rates for ex-prisoners serving less than twelve months. In the light of this, the Ministry of Justice (which is paying for the SIB's outcomes) has announced a nationwide roll-out of support to short sentence offenders that will use an element of outcomes-based commissioning. As a result, the One Service will not continue to its planned third and final cohort of ex-prisoners, partly because the nationwide roll-out will affect the live comparator

group against which the SIB's outcomes are being assessed and on which payments are made. Although the pilot's investors will be rewarded, continuing the programme would have enabled those involved to continue to build on and improve the outcomes for the target group.

Counterparty risk is not unique to SIBs; in any contract, outcomes payers might renege on their agreement to pay for services. For SIBs to flourish, investors will seek reassurance that commissioners are committed over a sufficiently long-term time horizon to be able to deliver better outcomes, and that there is provision for compensation if the contract changes.

## SECTION 3

## Recommendations and observations

This report has offered a practitioner's guide for all key parties to clarify the full value a social impact bond could bring. It aims to cut through some of the complexity surrounding social impact bonds, identifying the key design features and potential structures needed to deliver that full value. This final section brings these design features together into a checklist for each party. We follow each checklist with observations about the underlying behaviours that will best underpin these recommendations.

For the market of SIBs to flourish, each party – governments and donors, service providers and investors – must understand the perspective of the other parties at the table.

From a government and donor perspective, SIBs have the potential to deliver better outcomes by improving how existing interventions are implemented, by trying innovative approaches or by preventing crises from happening in the first place. From the perspective of impact-driven service providers, they have the potential to unlock growth capital. From an investor perspective, they offer a direct opportunity

to catalyse entrepreneurial solutions to pressing social challenges, aligning their values with their wealth. Most importantly, for all parties, they offer the prospect of better outcomes for vulnerable individuals.

Indeed, this is perhaps one of the most inspiring aspects of a SIB: bringing public, private and civic organisations not just into direct alignment but into an ongoing dialogue about how, together, we might address some of society's toughest social issues. It is for this reason that this report addresses all three audiences and closes with recommendations for each party, which we hope will be of interest to all.

“Government does have the tendency to change the rules. Their tinkering with the system is a big risk.”

Investor

## Recommendations for government and donors

- ✔ Ensure payment metrics directly relate to intended outcome (and include a longer-term outcome evaluation if necessary)
- ✔ Clearly define target beneficiaries
- ✔ Identify the full cost to society of the issue being addressed, thereby establishing a value for the social outcomes sought
- ✔ Establish a way of accounting for what would have happened anyway
- ✔ Ensure all parties will agree on whether outcomes have or have not been delivered, against which payment will be made

## Observations

### Letting go of a focus on activities.

Even when paying for outcomes, governments or donors may be inclined to continue specifying and tracking activities, due to annual budgeting cycles, their team structure, or simply habit. This risks hampering innovation and increasing costs unnecessarily, undermining the decision to use a SIB in the first place. Service providers report that they feel they are reporting on their activities to ‘two masters’ (the commissioner and the investor), and question whether ‘the extra costs are needed.’ Where governments or donors have legitimate questions regarding the ‘means to the end’ being deployed, these may be more efficiently addressed by specifying standards of behaviour or professional codes of practice, rather than activities.

### Identifying what drives better outcomes during implementation, to inform re-commissioning.

Some interviewees anticipate that, once a SIB has proven to be effective, the intervention could then be brought ‘in-house’, funded directly by the government or donor, or at least on more of a risk-share basis with service providers (who, post-SIB, will have a track record and, in some cases, improved performance management capability). The rationale for this is reduced transaction costs, on the assumption that the intervention may be replicated easily and the additional support roles no longer required. Yet, as various other interviewees pointed out, many current SIBs are showing us that effective implementation is as important as the intervention – and those additional roles, such as the coordination between parties or hands-on management support, may be a critical driver of success. Helpfully, process evaluations are underway in a number of SIBs in a bid to isolate the drivers of success (or failure) and understand what needs to be replicated to deliver similar outcomes. We encourage governments and donors to consider these process evaluations and to scrutinise the costs of replicating the nature of implementation as much as the intervention itself.

#### Example

In the Multi-Systemic Therapy (Essex) SIB, independent evaluators are looking at how the SIB process itself might be influencing outcomes. This is possible because the intervention is a rigid evidence-based treatment, underpinned by a rigorous assessment of adherence to the treatment model. It has been delivered for many years in many different settings, including in other UK local authorities with similar target groups, via alternative funding mechanisms. As such, a comparison may be possible (access to data permitting) regarding the cost-effectiveness of the Essex model, funded via a SIB, when compared with other differently funded models. The evaluation, conducted by the Office for Public Management, should provide insight as to whether the mechanism itself is driving better outcomes.

“The model should allow for greater flexibility on our part, but it hasn’t happened that way in the programme. (The government commissioner) is still feeling quite prescriptive; we have to meet certain output criteria.”

Service provider

## Recommendations for service providers

- ✔ Embed accurate and timely data collection and reporting systems
- ✔ Ensure governance structure is empowered to respond decisively and creatively
- ✔ Drive appropriate referrals by engaging and incentivising ‘gatekeepers’ to the target group
- ✔ Tap new sources of capital to avoid cannibalisation of existing funding
- ✔ Fully cost required intervention and investment

## Observations

### Raising the impact measurement bar, regardless of SIBs.

A number of design features central to SIBs, such as scrutinising the evidence base and ensuring robust impact data management, are by no means unique to SIBs. As many interviewees commented, they can – and arguably should – be applied to any social intervention in a bid to test and improve outcomes. While impact-driven organisations that have already taken steps to evidence their intervention are likely to be prioritised as delivery partners in a SIB, others can take these steps without awaiting a SIB. Developing an evidence base can bring additional demands; rather than seeing this as a costly requirement of SIBs, raising the impact measurement bar could prove a fundamental building block for their own path to success.

#### Example

In conducting due diligence for a leadership prize for non-profits globally, researchers ‘observed how rare it is for organisations to obtain substantive data on whether their intervention actually works. More than 75 percent of the 800-plus non-profits that we have researched over the past nine years do not have impact data that one could deem reliable.’<sup>20</sup>

### Embedding learning from outsourcing.

Many service providers commented that the process of engaging in a SIB has improved their internal systems and even had positive spillover effects for their other programmes. Over two thirds of SIBs have involved advisers or consultants supporting performance management during implementation; where service providers are self-managing performance, several have sought advice from evaluation professionals. To maximise the chances that engagement with such intermediaries leads to capacity building that both endures and spreads beyond a given SIB, service providers can seek knowledge transfer as an explicit aim of the outsourcing arrangement. This requires defining at the outset the skill-set transfer anticipated through use of an intermediary and defining a framework against which to assess success.

“The lessons we’ve learnt apply to other business areas. Like the scrutiny of individual staff’s performance and contribution to service delivery, at all levels, and the capacity required to have the impact needed on the ground.”

Service provider

### Recommendations for investors

- ✔ Match investors' financial risk-adjusted return expectations to outcome expectations
- ✔ Consider tiered capital structures, where investors with a deep understanding of the target group and outcomes sought provide downside protection to attract less familiar investors
- ✔ Seek top-up payments to create a financial upside opportunity that is linked to impact upside
- ✔ Ensure investors can engage and influence

### Observations

<p>Being 'hands-on'.</p>	<p>Several interviewees drew an analogy between venture capital and SIBs, with a nod to the misleading use of the word 'bond'. Venture capital takes a hands-on approach, offering entrepreneurial management support alongside capital. We are seeing the same approach in SIBs: in over 80% of those in operation, investors have engaged intermediaries in some capacity – whether advisers or specialist fund managers – to assist them in calculating risk, to ensure the right incentives are in place or to support (and shape, if necessary) day-to-day service delivery. As the market welcomes more passive lower-risk investors, this need for venture-style management support will need to continue and may, ironically, prove fundamental to SIBs delivering the consistent bond-like cash flows that their name suggests.</p>
<p>Growing the investor pool.</p>	<p>As an innovative investment product, without a proven track record, many SIBs have been kick-started by investors that are either willing and able to take apparently disproportionate risk for the sake of impact, or are better able to price the risk due to a deep understanding of the target group. However, some pioneering institutional investors are not far behind, having begun to test the market by allocating small amounts (relative to their portfolio size), often with downside protection from those who are more familiar with the outcomes sought. The motivation for institutional investors is partly the opportunity to finance entrepreneurial solutions to social issues that they have historically been unable to support. Over time, they may also recognise a compelling financial reason: although risk-adjusted returns will become clearer as this first wave of SIBs matures, it is possible that SIBs will prove to be an investment opportunity capable of delivering attractive risk-adjusted financial returns. An important aspect of SIBs fulfilling this potential is that they may also deliver less correlated returns for investors. Performance metrics such as a cohort of children's exam results or reduced hospital visits for older people are not dependent on traditional performance metrics, such as the price of oil, that influence markets.</p>

## Appendix 1: Operational SIBs by social issue and geography<sup>21</sup>

Increasing education, employment and training for young people	Strengthening families	Tackling recidivism	Reducing homelessness
<p><b>UK</b></p> <ul style="list-style-type: none"> <li>• Links4Lfe (London)</li> <li>• Triodos New Horizons (Merseyside)</li> <li>• Advance (Birmingham)</li> <li>• Living Balance (Scotland)</li> <li>• Employer Hub and Nottingham Futures (Nottingham)</li> <li>• ThinkForward (London)</li> <li>• 3SC Capitalise (Wales)</li> <li>• Energise Innovation (Thames Valley)</li> <li>• Teens and Toddlers Innovation (Greater Manchester)</li> <li>• Prevista (London)</li> </ul>	<p><b>UK</b></p> <ul style="list-style-type: none"> <li>• Multi-Systemic Therapy (MST) (Essex)</li> <li>• It's All About Me (IAAM) Adoption</li> <li>• Multi-Dimensional Treatment Foster Care – Adolescents (MTFC-A) (Manchester)</li> <li>• Team Parenting (Birmingham)</li> </ul>	<p><b>UK</b></p> <ul style="list-style-type: none"> <li>• One Service (Peterborough)</li> </ul>	<p><b>UK</b></p> <ul style="list-style-type: none"> <li>• Rough Sleepers (London)</li> </ul>
<p><b>North America</b></p> <ul style="list-style-type: none"> <li>• The Utah High Quality Preschool Program (Utah, US)</li> </ul>	<p><b>North America</b></p> <ul style="list-style-type: none"> <li>• Sweet Dreams (Saskatchewan, Canada)</li> </ul>	<p><b>North America</b></p> <ul style="list-style-type: none"> <li>• Adolescent Behavioural Learning Experience (ABLE) (New York City, US)</li> <li>• Increasing Employment and Improving Public Safety (New York City, US)</li> <li>• Juvenile Justice Pay for Success Initiative (Massachusetts, US)</li> </ul>	
<p><b>Europe</b></p> <ul style="list-style-type: none"> <li>• Buzinezzclub Rotterdam (Netherlands)</li> <li>• Duo for a Job (Belgium)</li> <li>• Juvat (Germany)</li> </ul>	<p><b>Australia</b></p> <ul style="list-style-type: none"> <li>• New Parent and Infant Network (Newpin) Social Benefit Bond (New South Wales)</li> <li>• Benevolent Society Social Benefit Bond (New South Wales)</li> </ul>		

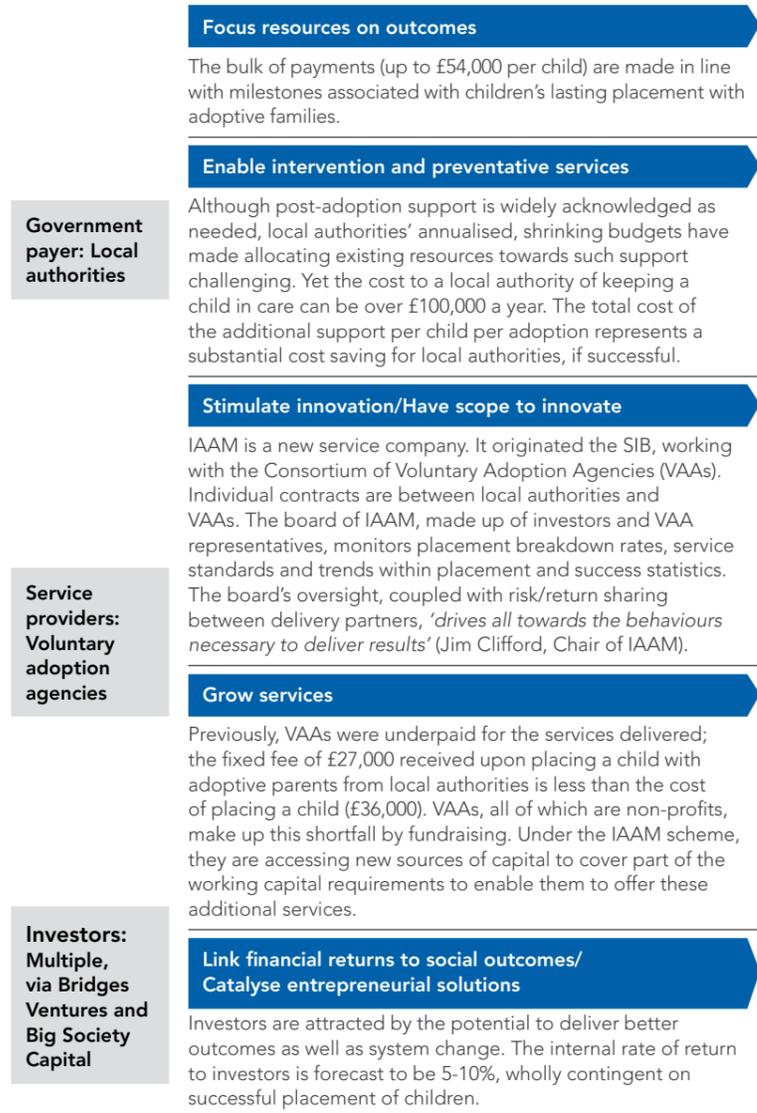
<sup>21</sup> As at October 2014. For regularly updated lists of social impact bonds, see Instiglio Social Impact Bonds and Development Bonds worldwide <http://www.instiglio.org/sibs-worldwide/> and UK Government's Cabinet Office Centre for Social Impact Bonds Knowledge Box map [http://data.gov.uk/sib\\_knowledge\\_box/map](http://data.gov.uk/sib_knowledge_box/map)

## Appendix 2: Case studies

### Example 1: It's All About Me (IAAM), UK

In the UK, nearly 3,000 children seeking adoption each year do not find a permanent home. Many of these children have suffered from neglect, developmental disruption and traumatic experiences. Research shows that children who fail to find permanent homes, families and support are much more likely to miss out on education, and to suffer from poor

mental and physical health. They need additional support to rebuild a normal developmental pattern and deal with their traumas, without which finding suitable homes can be difficult. IAAM is a new long-term scheme that aims to increase the number of hard-to-place children being adopted, financed via a SIB.



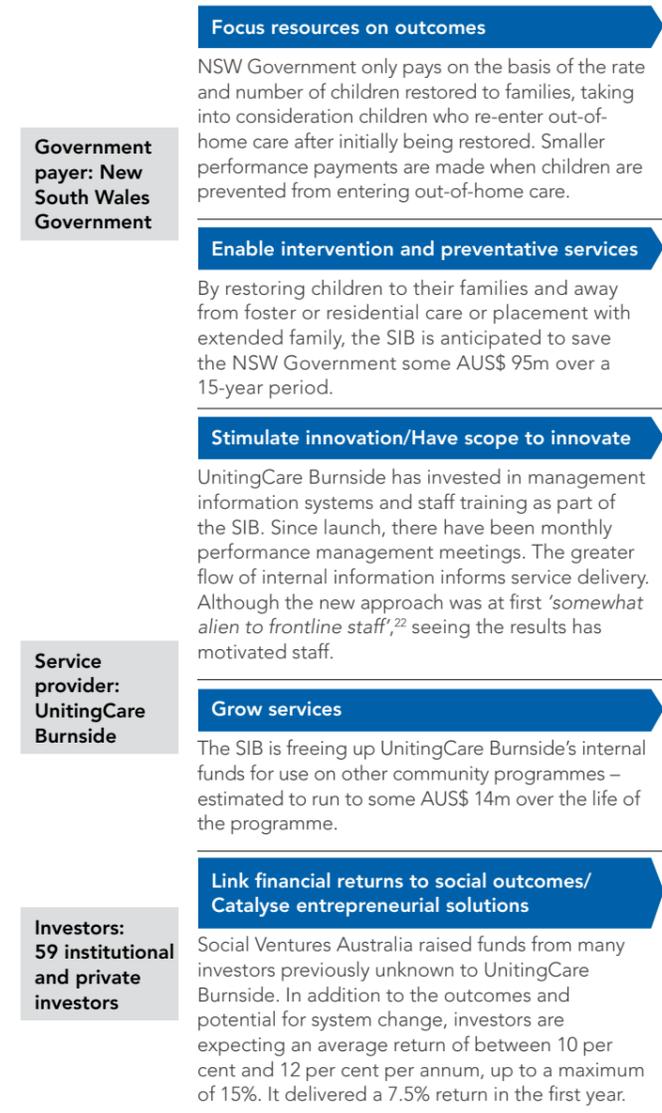
The SIB is financing additional services, some but not all of which were provided by VAAs previously. Therapeutic training for adoptive families, 24 hour social worker support and medical and psychological assessment for the child are all designed to increase the likelihood of harder-to-place children being adopted and those adoptions being sustained.

This innovative model has the potential to drive wider, **system change**. If successful, the model could be expanded beyond the initial six VAAs to create a UK-wide virtual market successfully placing harder-to-place children with adoptive families.

### Example 2: New Parent and Infant Network (Newpin), New South Wales, Australia

Research by Australia's New South Wales Government found that children in out-of-home care are over-represented in the juvenile justice system, have higher rates of homelessness once leaving care and have poorer education and employment outcomes. The New Parent and Infant Network (Newpin) is a preventative, therapeutic programme that works intensively with families facing potential

or actual child protection issues. UnitingCare Burnside has a track record of restoring children aged under five to their families via the programme. All family restorations are independently decided by the NSW Children's Court, so children are only restored to their families where it is safe to do so and in the best interests of the child.



UnitingCare Burnside was already delivering the Newpin service at a cost of AUS\$ 1.9m a year covered by an internal investment fund. UnitingCare Burnside was therefore planning to close two of its four centres when the opportunity arose to continue the programme and expand it as a result of NSW Government's interest in SIBs.

To prepare for the SIB, UnitingCare Burnside's detailed review of three years' worth of case files indicated significant success in restoring children to their families and restorations being sustained. UnitingCare Burnside then tested the model further, targeting it more at families seeking restoration, which highlighted distinct cohorts that have been used to inform a better programme. 'The model hasn't changed that much, but who we deliver to and how we deliver the service has changed (...) It has made it a better programme, working with higher needs groups than when we started.'<sup>22</sup>

UnitingCare Burnside are building performance management into every programme, reflecting a 'cultural shift'<sup>22</sup> that has occurred within teams.

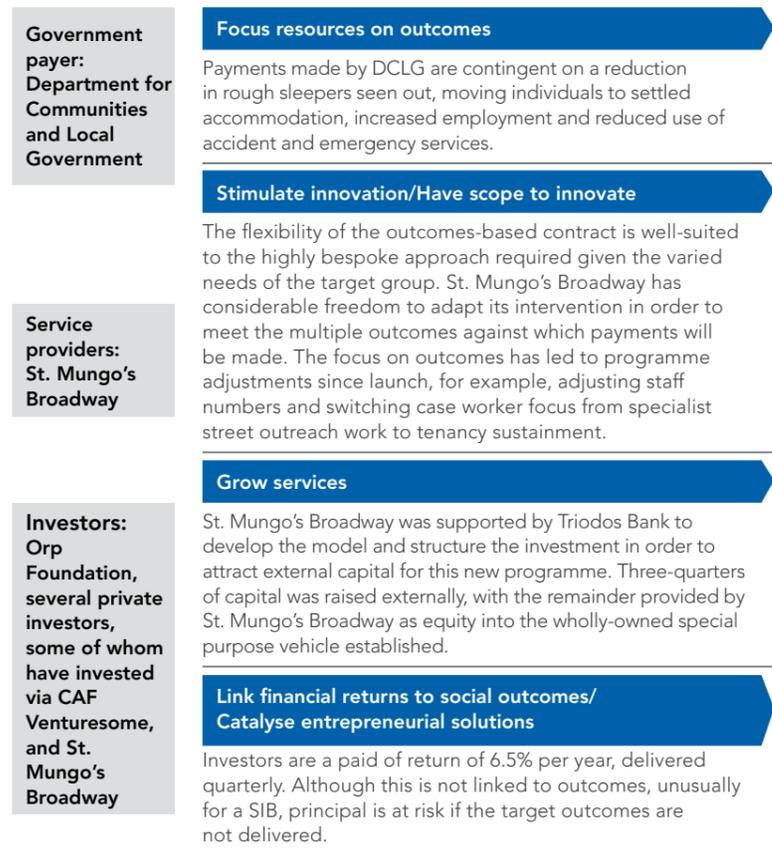
A wider evaluation of the programme is underway, identifying outcomes that are not linked to payments, such as school readiness and parents' self-advocacy. This will be made public, providing a richer understanding of outcomes delivered that others can learn from.

<sup>22</sup> Sally Cowling, Manager, UnitingCare Burnside.

### Example 3: Rough Sleepers, London, UK

In London, one sixth of rough sleepers account for almost half of all recorded rough sleeping. Despite over 150 providers offering homelessness and rough sleeper support services in London, outcomes for this group of vulnerable individuals have remained consistently poor over a number of years. This SIB is providing rough sleepers with a consistent trusted adult (a 'navigator') who will be able to provide support over an extended period to tackle the fundamental issues which often prevent

rough sleepers from benefiting from existing service provision. The government payer is the Department for Communities and Local Government (DCLG), with commissioning and management devolved to the Greater London Authority (GLA). It has split the cohort between two service providers, delivering against an identical payment-by-results contract but financed in different ways. The St. Mungo's Broadway contract is explained below.



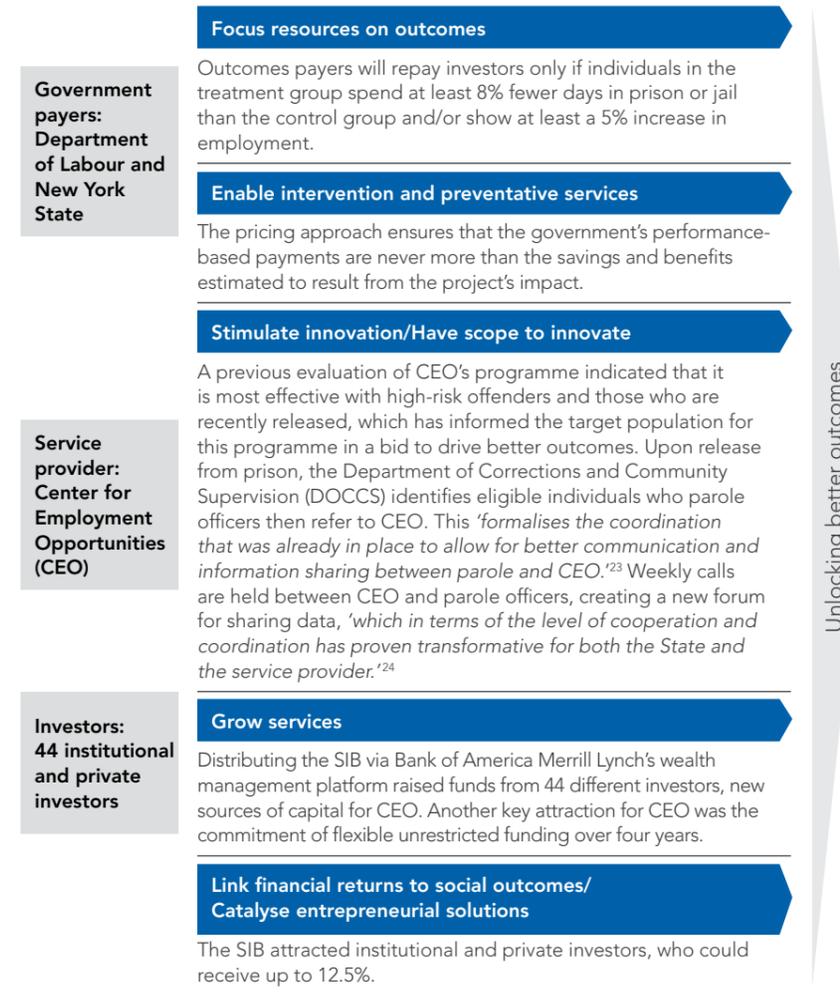
Unlocking better outcomes

The programme is a new, more intensive version of support already offered by St. Mungo's Broadway, using a case management approach that targets named individuals – those identified as entrenched rough sleepers – and provides follow-on support over a longer period of time.

### Example 4: Increasing Employment and Improving Public Safety, New York State, US

In 2013, nearly 24,000 individuals were released from prison in New York State, over half of whom are classified as high risk of reoffending. Stable employment can reduce chances of reoffending, yet less than a third of individuals under community supervision who lack employment are enrolled in targeted workforce support services. This SIB is providing services to 2,000 released individuals who are at high risk of reoffending. Upon release from prison, the Center for Employment Opportunities (CEO) provides intensive

employment training and job placement services with the aim of boosting employment and reducing crime. Social Finance Inc. identified the opportunity, conducted due diligence to select CEO and will also provide ongoing performance management throughout the life of the project. Bank of America Merrill Lynch worked with Social Finance Inc. to define the terms of the investment and acted as the placement agent for the offering to qualified high net worth and institutional investors.



Unlocking better outcomes

The SIB enables CEO to scale its proven employment re-entry programme for formerly incarcerated individuals by 25%.

System change

There is a desire to learn from the approaches used via the SIB in order to inform other areas of service delivery. 'The partners in this project share a focus on learning and evaluation with the hope that, at the end of the project, policy makers, capital providers, and service providers better understand and direct funding to what works.'<sup>23</sup>

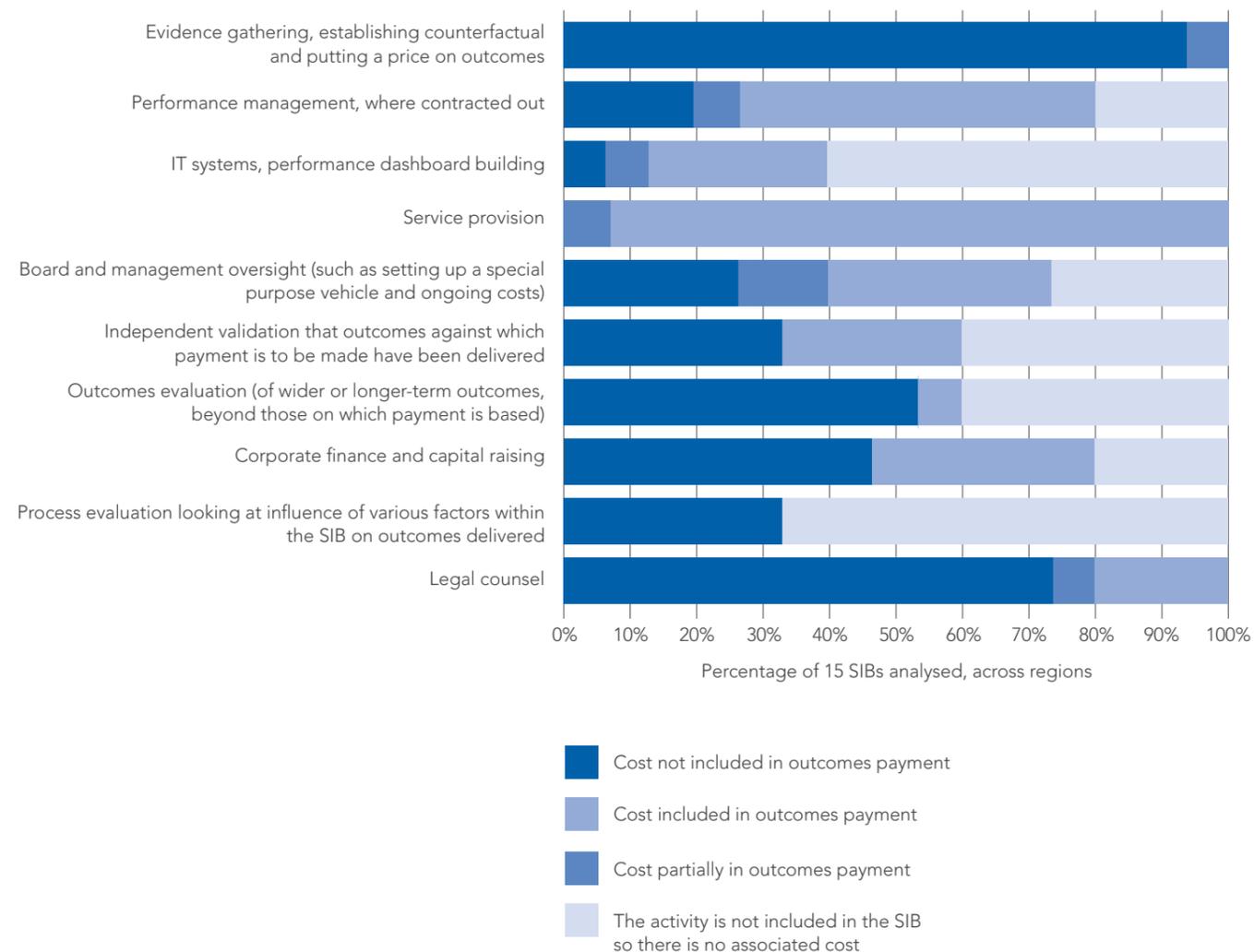
<sup>23</sup> Cait Reimers Brumme, Director, Social Finance Inc.

<sup>24</sup> Hanna Azemati, Government Innovation Fellow for Harvard Kennedy School's Social Impact Bond Technical Assistance Lab, seconded to the New York State Governor's Office.

## Appendix 3: Percentage of SIB costs that are included in the payments set for outcomes

The design features outlined in Section 2 give rise to activities which carry costs. These are not always included in the payments set by government or donors for the outcomes sought. These costs relate primarily but not exclusively to design phase activities, as illustrated in the table below. Where costs are not included:

- they have been absorbed by one or more of the three core parties (government and donors, service providers and investors), in which case they are rarely quantified;
- they have been offered pro bono or at low cost, reflecting professional parties' (such as lawyers<sup>25</sup>) interest in the model;
- or they are covered by philanthropic funding.



25 In nearly all SIBs to date, legal counsel has been provided on a pro bono or low-cost basis. As the market matures, we should assume that the full price of legal services will need covering.

## Methodology and acknowledgements

This report was created based on interviews with 50 practitioners involved in SIBs and an extensive literature review. Quotes included in this report are taken from those interviews, unless otherwise indicated. The authors would like to express their gratitude to:

- Bank of America Merrill Lynch for making this study possible through their funding and support. In particular, we would like to thank Matthew Hale and Andrea Sullivan for their thoughtful contributions and guidance.
- Our advisory group of Toby Eccles, Michele Giddens, Uli Grabenwarter, Kirstin Hill, Daria Kuznetzova, Emily Martin, Antony Ross and Caroline Whistler.
- All of those practitioners, listed alongside, who generously shared their time and expertise during interviews for the report.
- We would also like to thank the following for their time: Adrian Brown, Boston Consulting Group; Roger Bullen, Roger Bullen Consultancy Ltd; Ian Marr, YMCA Aberdeen; Alex Nicholls, Skoll Centre for Social Entrepreneurship at Saïd Business School; Tamsyn Roberts, Cabinet Office; John Roman, Urban Institute; Laurie Spengler, Enclude.

### UK

- Outcomes payment**
- Department for Communities and Local Government (Tim Gray)
  - Department for Work and Pensions (Aisha Riaz)
  - Manchester City Council (Jock Rodger)
  - Nottingham City Council (Nigel Johnson)

- Designing and managing SIBs, including performance management**
- Social Finance (Toby Eccles)
  - Baker Tilly (Jim Clifford)
  - Triodos Bank (Whitni Thomas)
  - 3SC (Dave McCloskey)

- Investment intermediaries**
- Bridges Ventures (Andrew Levitt, Mila Lukic)
  - CAF Venturesome (Holly Piper)
  - Impetus-PEF (Kevin Munday, Sophie Manning)

- Investing**
- Big Society Capital (Daria Kutzetnova)
  - Esmée Fairbairn Foundation (Trupti Patel, Caroline Mason)

- Service provision**
- Action for Children (David Derbyshire, Sue Atkinson-Millmoor)
  - Adviza (Lee Teideman, Bob Harrison)
  - Community Links (Jonny Boux, Zoe Eccles)
  - Core Assets (Paul Riley)
  - Greater Merseyside Connexions Partnership (David Howard, Joe Linnane)
  - St. Mungo's Broadway (Mike McCall)

- Evaluation**
- London School of Hygiene and Tropical Medicine (Nicholas Mays)
  - Office for Public Management (Chih Hoong Sin)
  - ATQ Consultants (Neil Stanworth)

### Europe

- Designing and managing SIBs, including performance management**
- Thomas Dermine

- Investment intermediaries**
- Koïs Invest (Francois de Borchgrave)

- Investing**
- Start Foundation (Jos Verhoeven, Ralph de Ruijter)

- Service provision**
- Duo for a Job (Matthieu Le Grelle)

### North America

- Outcomes payment**
- Government of Saskatchewan (Ken Kolb)
  - New York City Hall (Kristin Misner)
  - New York State/Harvard Kennedy School's Social Impact Bond Technical Assistance Lab (Hanna Azemati)

- Designing and managing SIBs, including performance management**
- MDRC (David Butler)
  - Social Finance Inc. (Cait Reimers Brumme)
  - Third Sector Capital Partners (Caroline Whistler, George Overholser)
  - United Way of Salt Lake City (Bill Crim)

- Investment intermediaries**
- Bank of America Merrill Lynch (Kirstin Hill)

- Investing**
- Bloomberg Philanthropies (Katie Appel Duda)
  - Goldman Sachs Urban Investment Group (Andrea Phillips)

### Australia

- Designing and managing SIBs, including performance management**
- Social Ventures Australia (Ian Learmonth)

- Investing**
- Christian Super (Tim Macready)

- Service provision**
- Benevolent Society (Jocelyn Bell, William Hopkins, Madly Bodin)
  - UnitingCare Burnside (Sally Cowling)

### Cross-border

- Outcomes payment**
- Children's Investment Fund Foundation (Faith Rose, Lucy Heady, Robin Horn)

- Designing and managing SIBs, including performance management**
- Instiglio (Mike Belinsky)

*This paper contains general information only. Nothing in this paper constitutes investment advice. You should consult a suitably qualified financial services or legal expert on any specific issue or matter.*





Bridges Ventures LLP  
38 Seymour Street, London, W1H 7BP  
Tel: 020 7262 5566  
info@bridgesventures.com  
www.bridgesventures.com

Bridges Ventures LLP is authorised and regulated  
by the Financial Conduct Authority.  
Registered in England No OC367510.

Copyright designation: This work is licensed under the  
Creative Commons Attribution-NoDerivatives International  
4.0 License, that allows the copying, displaying and  
distribution of this material if credit is given to the authors  
(<http://creativecommons.org/licenses/by-nd/4.0/>)  
Bridges Ventures, October 2014