

SIE FUND SHARING SESSION: PAY-FOR-SUCCESS

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● ■ SOCIAL FINANCE IS A NON-PROFIT THAT BUILDS PARTNERSHIPS TO ADDRESS SOCIAL PROBLEMS

Government / Funders

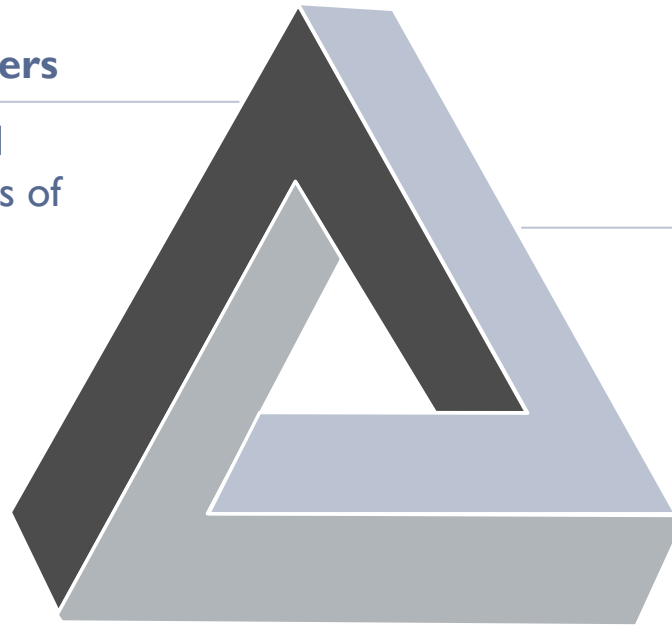
Seeking to identify and implement new models of change

Socially-minded organisations

Seeking to strengthen and grow

Investors

Prepared to supply capital that supports and drives impact



● ■ THE PFS MODEL - THE FIRST STEP ON OUR JOURNEY

Initial Hypothesis

- Social Finance founded in 2007 on the conviction that social sector organisations would benefit from access to investment – to spur their growth and increase their impact and sustainability.

Early findings

- Revenue models and management capacity of many social organisations too frail to support repayable investment.
- More broadly, the financing of social problems is broken - funding lacks (and rarely empowers) flexibility to respond and adapt to the reality of complex need.

This stimulated our focus

- How do we rethink the way funding flows around a social issue to enable sustained investment in prevention and innovation.
- How do we create a focus on outcomes so that the social sector is better rewarded for the value they create.
- These thoughts led to the Peterborough PFS model ... and since then our involvement in many other PFS projects.



The SF Global Network currently comprises of five organisations (Social Finance UK, US, Israel, India and Netherlands). Social Finance is part of the Global Steering Group (GSG) for Impact Investment platform.

● SOCIAL FINANCE EXPERIENCE IN PFS

Social Finance has led on the launch of 25+ PFS deals – and has supported our partners in launching many more – mobilising capital of \$120M+ to scale social change.



Elderly Health and Wellbeing



Mental Health and Employment



Advancing Career and Technical Education



Improving Maternal and Child Health and Wellbeing

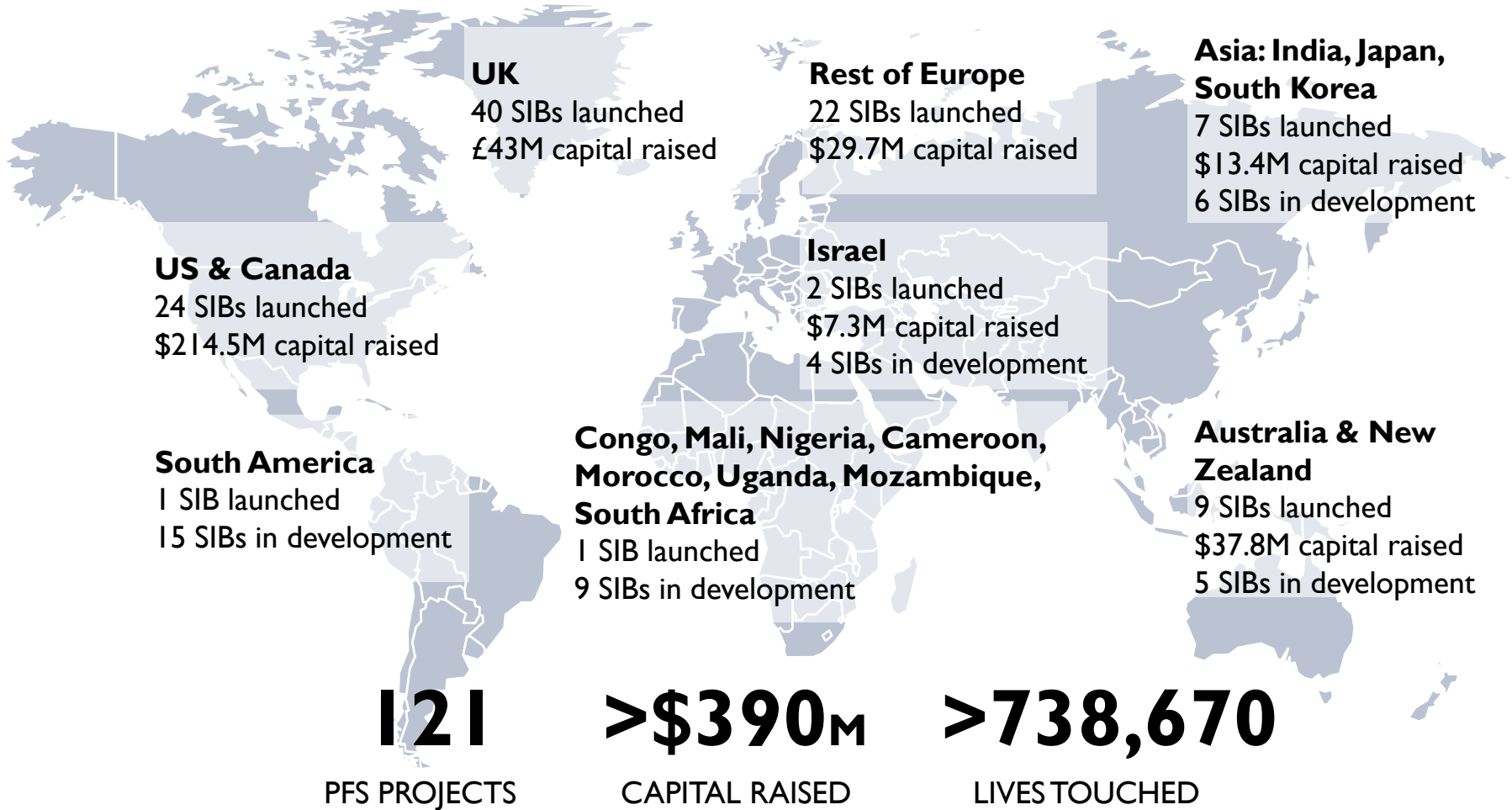


Improving wellbeing of vulnerable young people



Preventing Type II Diabetes

● ■ SINCE PETERBOROUGH, PFS HAS REACHED GLOBAL MASS



Social Finance is committed to supporting the development of the PFS market in Hong Kong.

● ■ BUT CRUCIAL TO START FROM THE SOCIAL ISSUE ... PFS IS NOT A SILVER BULLET

PFS approach works well for...
Provision of people-centred support
Complex problems with multiple underlying factors - but a clear outcome
Problems where investing in prevention is more efficient than remediation
Need for external risk capital
New collaborations or partnerships are needed



...when these conditions are met...
Outcomes measurable
Reliable and timely data flow (including baseline data)
Outcomes attributable to inputs
On-the-ground delivery & iteration capacity
Availability of social investment
Government + funder priority



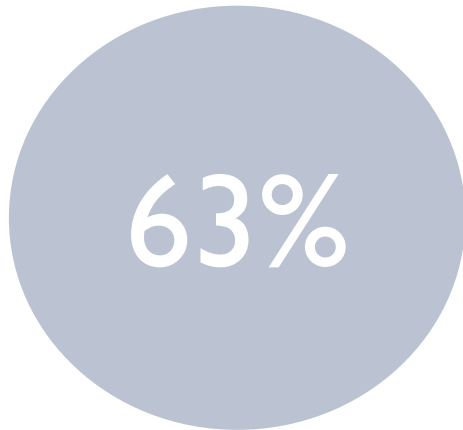
...but works less well when ...
Outcomes are almost certain from paying for the activity (e.g. infrastructure development)
Limited opportunity for innovation - such as where there are strong statutory obligations
Difficult to attribute impact to the intervention rather than external factors



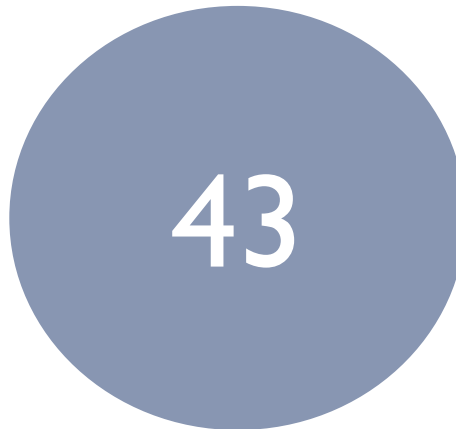
CASE STUDY: REDUCING REOFFENDING IN PETERBOROUGH

● ■ SHORT SENTENCE PRISONERS FREQUENTLY RE-OFFEND,
CREATING SOCIAL AND FINANCIAL COSTS

**RECONVICTION
RATE WITHIN 1
YEAR**



**AVERAGE NUMBER
OF PREVIOUS
OFFENCES**



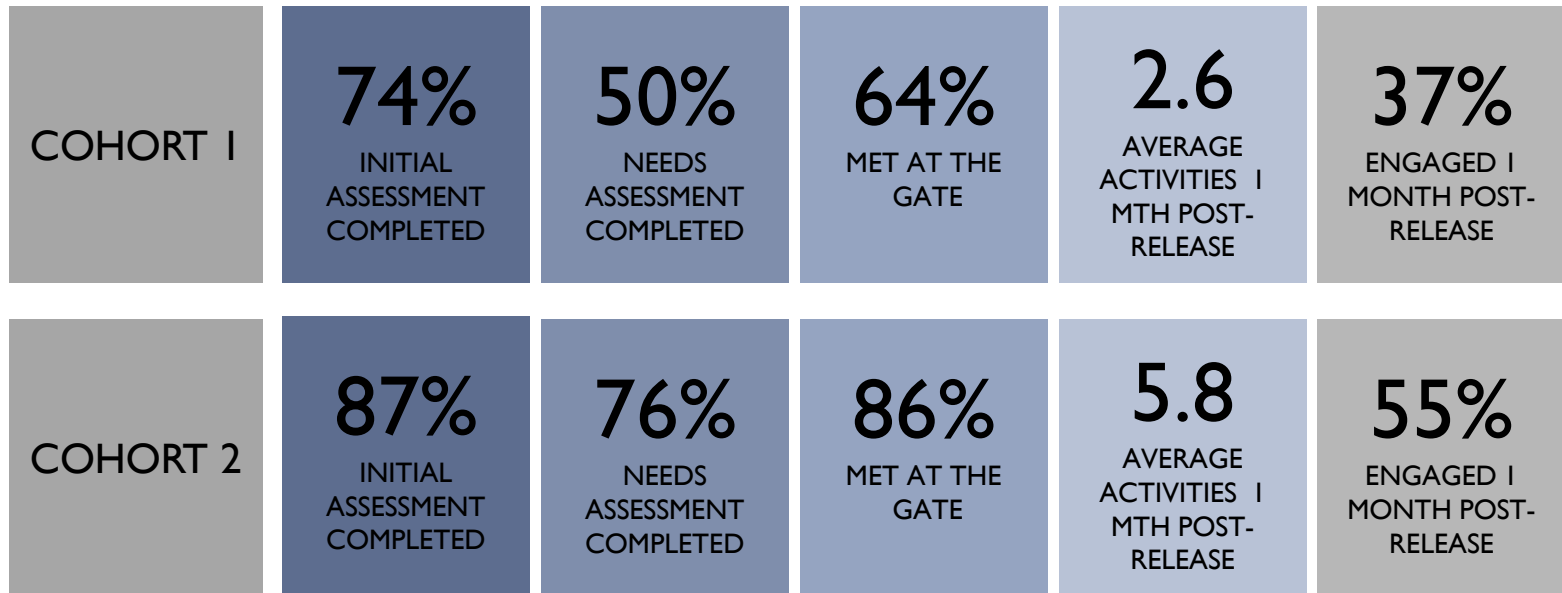
**AVERAGE NUMBER
OF PREVIOUS JAIL
TERMS**







IN PETERBOROUGH, RIGOROUS DATA COLLECTION AND ANALYSIS ENABLED CONTINUOUS IMPROVEMENT OF SERVICE PERFORMANCE

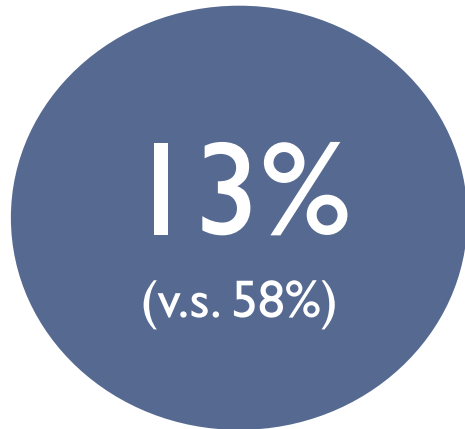




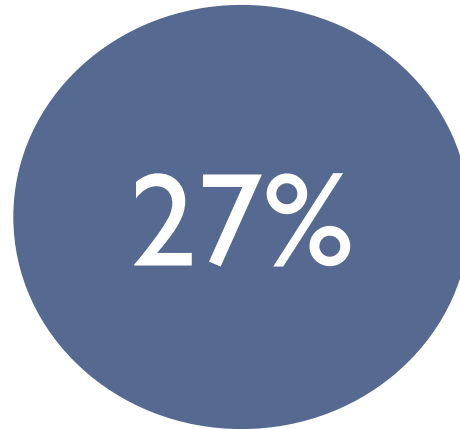
CASE STUDY: REDUCING YOUNG PEOPLE'S ENTRY INTO CARE

● ■ **YOUNG PEOPLE IN THE CARE SYSTEM TYPICALLY DO NOT ACHIEVE GOOD OUTCOMES**

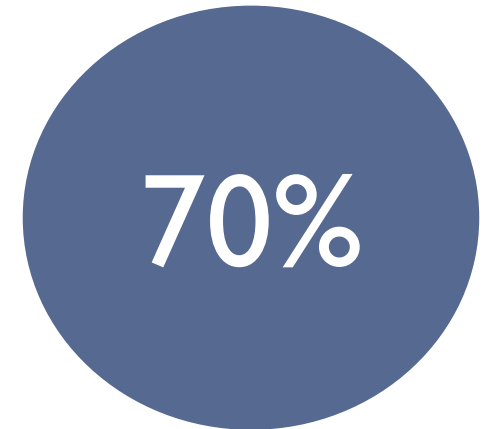
**ACHIEVE
REASONABLE LEVEL
OF FIVE GCSES**



**OFFENDERS IN
PRISON WHO HAVE
SPENT TIME IN CARE**



**PROSTITUTES WHO
HAVE SPENT TIME IN
CARE**



Local interest

- Some are keen to support their local communities e.g. Community Foundations

Engagement

- Some like to be involved in business case development

Social Issue

- All investors are committed to improving outcomes for vulnerable young people

Learning and Innovation

- Essex SIB attracted Belgian foundation and German social investment fund



Applies **investment approach** to delivering social outcomes

- Rigour, focus, data analysis and service adaptation

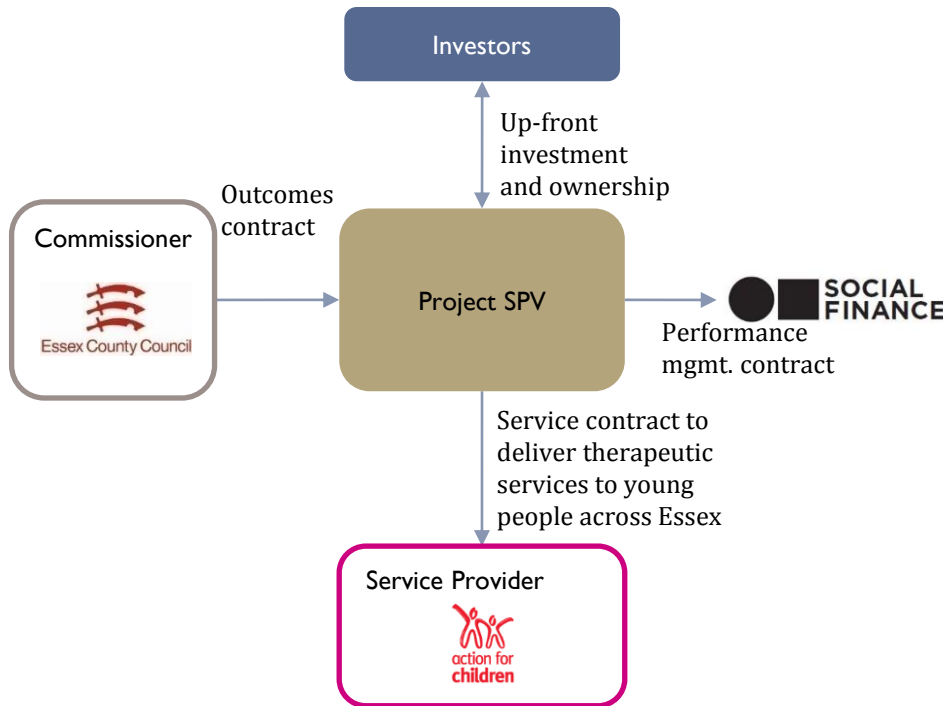
Intervention

- Scaling up promising approaches which have potential to transform outcomes and reshape service delivery

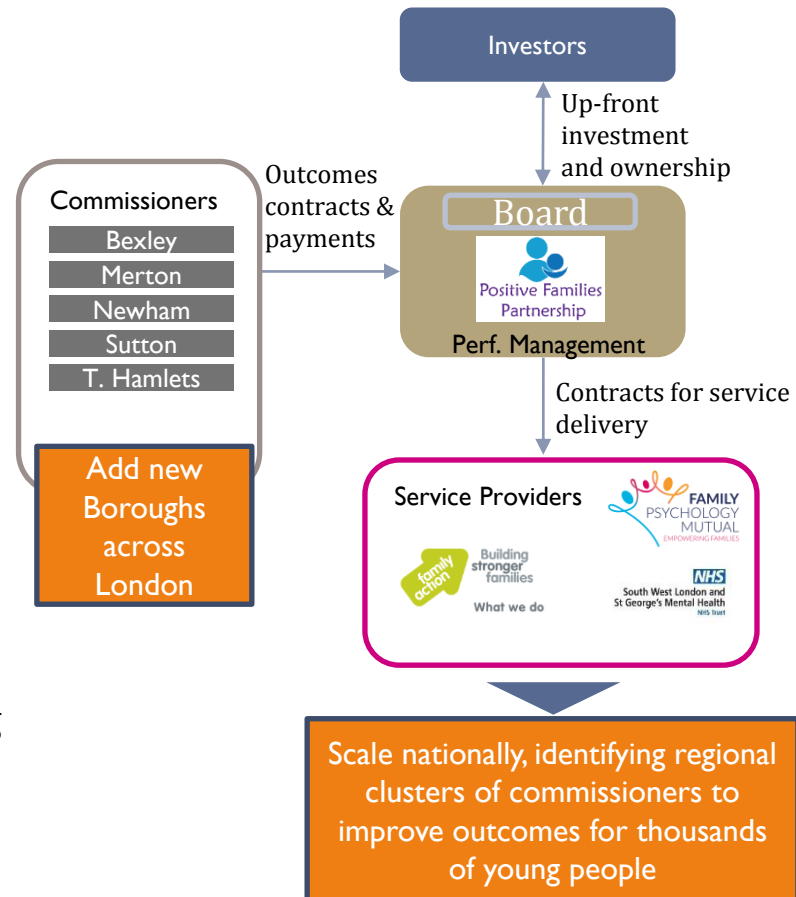
SCALING IMPACT

Platform of 5 London Boroughs is now established from which to scale further across the city, supporting hundreds more families and young people.

2012 Essex PFS – single commissioner / launch provider



2017 London – multiple commissioners / launch providers contracting independently with prime contractor








- **Multiple boroughs increases contract size**, enabling management cost to be spread over more outcomes
- **Multiple providers drives competition**, improving performance



WHAT HAVE WE LEARNT SO FAR?

WHY DID THE PFS MODEL RESONATE?

Most of the founding principles of the PFS model have played out in practice to date

Issue	Promise	Progress to Date
• Address underfunding of prevention work	• Providing upfront investment to fund intensive prevention services with evidence of success.	
• Input-defined services too rigid	• Adaptation and innovation in service delivery • Continuous improvement through rapid feedback loops • Better targeting	
• Rigour in Measuring Effectiveness	• Transparent measurement of outcomes over multi-year contract	
• Mobilise social investment	• Aligning financial return with social outcomes	
• Sustainability	• Proof of effectiveness of prevention service leads to embedding into mainstream	

- **Readiness of government agencies** to adopt the tool or to explore different ways of contracting for social services is critical for the development of PFS in any market.
- **PFS does not guarantee better outcomes.** Robust analysis of social issue, finding the right fit in terms of intervention/financing approach, and rigour in service delivery matters.
- **Most investors in early transactions are foundations and impact investors** with higher tolerant for risk and a desire to see complex social issues addressed effectively. So far, positive results have driven modest to strong investor returns.
- **Important to strike the balance between measurement rigour with desire for simplicity.** Measurement methodologies have varied across PFS projects worldwide. Where simpler measurement methodologies are used, potentially greater safeguards will need to be in place.
- **Performance management can be one of the most challenging elements of PFS.** PFS invariably involve a new way of working for service providers, and the transition can take time.
- **Routes to scale will vary depending on market context,** e.g. government engagement in PFS pilot to mainstream program into public sector, using replication platforms to launch multiple programs, supporting development of outcomes funds, seeking interventions and delivery partners that can deliver larger PFS projects from the start.



THANK YOU