Social Impact Investing

• Pay for Performance Contract Based on Economic Value

• Value Creation= Incremental Taxes +Cost Savings

• Capital Provided by Private Investors
Social Impact Investing

Two Models Have Emerged:

• Social Impact Bonds (SIBs) In 7 Municipalities

• Human Capital Performance Bonds (HUCAPs) In Minnesota
HUCAP Precedence

• “Pay for Performance” contract with Twin Cities RISE! by Mn. Legislature in 1997

• Based on economic value established by higher tax receipts and lower government subsidies from increased incomes

• $10,000 increase in income assumed $3,800 cash value/yr. and p.v. of $31,000 (actual is $50,000)

• TCR! paid $9k at placement, $9k at retention

• State’s 15 year ROI= 671% ($36.2M benefit for $4.7M investment)
Human Capital Performance Bond Structure

1. Cash deposit to Government
2. Cash deposit or bond to External Investor
3. Loan to Working Capital Pool
4. Contingent cash performance payment to High ROI Non-Profit
5. Ongoing reporting to demonstrate economic value (High ROI)
6. Cash returned to Government based on Government’s lower costs and higher revenues from increasing incomes/cost avoidance (High ROI)
Computed average per placement savings and benefits in first year after job placements (cash flows) for Minnesota and Federal government, for three dependent-child scenarios, sorted by level of program intensity, including crime-related cost savings.
Social Impact Investing

Benefits

• Completely New Source of Capital
• Measurable Outcomes
• Shifts from Cost to Value Creation
• Breaks “Silo” Budgeting
• Invests for highest long-term return
• Encourages Interventions with Most Difficult Clients
• Pilot for Appropriation Action

What’s Needed

• Champion

• Identify Outcomes not Outputs
• Monetize outcomes based on new Revenue and Cost Savings
• Refined Measurement and Accounting Systems
• Research Design
• Federal Waiver Authority to Share Benefits