

Funding Social Change

Get the gist on the future of Social Financing

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What is a Gist report?

Gist reports provide a brief overview of the current and future status of each topic and are intended to help readers quickly and conveniently appraise the future of an issue. Each 5 to 10-page Gist report includes an introduction to the topic, a literature review using our auto-extracted Forecasts, and our own method of analysis. The Gists quickly and conveniently get every team member on the same page so that meetings may be conducted more efficiently and with deeper insight. The Gists then become a launching pad for organizations to develop their own analysis and strategy.

Introduction

Social Financing is an emerging trend that involves a variety of innovative new methods of solving social challenges while generating financial returns for investors. Social financing is creating new partnerships between stakeholders from the private sector and traditional social services organizations.

Historically, creating and running programs to help solve social challenges has been the realm of government institutions and non-profit organizations. There are programs to help reduce poverty, provide financial aid, transition prisoners back into society, reduce the number of teen pregnancies, etc. The success of such programs varies greatly and can be extremely costly to implement and manage.

Today, interest in solving social problems is increasing from private investors, businesses, and entrepreneurs, bringing a new group of stakeholders with unique and practiced methods of solving problems to the social services arena. These individuals are exploring innovative new ways to fund and create positive social change. They are creating market based tools and forming partnerships with the traditional social service organizations and non-profits.

These social entrepreneurs bring practices from the business world and apply them to the world's pressing social challenges. Although creating a positive social impact is a primary goal of these ventures, a financial return is still sought. With that in mind, investors will likely create programs and partner with organizations that have proven track records and a high probability of success. This has the potential to transform social programs by bringing more accountability and measurability to the industry.

Social Financing could very well be the future of funding social change. This Gist will describe the baseline scenario for Social Financing and suggest a number of concerns and variables to monitor.

- Social finance will be able to capitalize a new generation of high impact social innovation. [The Social Purpose Capital Marketplace: An Opportunity for the Canadian Charitable Sector](#)
- Significant capital could potentially be available to finance social innovation given the current and anticipated influx of new wealth donors and socially motivated investors.
- There is a good chance that within the next 40 years, the innovative capacity of societies and governments will become at least as important a differentiator of national success as the innovative capacity of economies. [Social Innovation: What it is, Why it Matters and How it Can Be Accelerated](#)
- The establishment of incubators which focus on social innovation will bring together expertise and knowledge from across different sectors and from different European and

non-European countries. [Financing Social Impact Funding Social Innovation in Europe – Mapping the Way Forward](#)

- Social innovation is both a business and societal opportunity.

Types of Social Financing

A variety of financial models fall under the umbrella of Social Financing. What they all have in common is the goal of achieving a social dividend while simultaneously generating an economic return.

FIGURE 1 INSTITUTIONS WITH PRIMARILY SOCIAL GOALS ARE ON THE LEFT OF THE SPECTRUM. INSTITUTIONS WITH PRIMARILY FINANCIAL GOALS ARE ON THE RIGHT. EXAMPLES OF SOCIAL FINANCING ARE BETWEEN THE TWO.



Social Impact Bonds

Social Impact Bonds (SIB) are a subset of Pay for Success (PFS) funding—an innovative funding model that drives government resources toward social programs that prove effective at providing results to the people who need them most. SIBs are specifically an arrangement between a government agency and an external organization. The terms of this arrangement are outlined in a pay-for-performance contract—an incentive payment system based on job performance metrics. Oftentimes, the terms pay for success, pay for performance, and social impact bonds are used interchangeably.

A government agency will outline a social impact it wishes to achieve such as reducing the number of juvenile delinquents or increasing the number of students matriculating to college. Then, the external organization (a private investor, business, philanthropic organization, etc.) agrees to provide the finances required to achieve the specified impact.

If the impact is achieved, the government agency pays the external organization a pre-determined sum as outlined in a pay-for-performance contract. If the impact is not achieved, the external organization receives no payment.

SIBs transfer the financial risk of running a program away from the government to external funders. Even though the government agrees to pay upon the achievement of a particular outcome, SIBs are designed to save the government money since they will pay only for successful programs. Furthermore, the philosophy behind SIBs encourages a focus on evidence based programs that have a high likelihood of success and scalability.

In 2010, one of the first SIBs was issued in the United Kingdom. The goal of the program was reducing recidivism rates of short-term prisoners. In 2012, the first SIB to take place in the United

States was announced with a goal of providing rehabilitation services to youths incarcerated on Rikers Island ([Social Impact Bonds Gain Momentum in the Criminal Justice Field](#)).

- The number of PFS transactions in the U.S. could explode. [Winning Social Innovation Fund Applications Suggest Substantial Growth Ahead for Pay-for-Success Funding](#)
- Verified social impact will form the basis of outcome payments to investors. [Foundations for Social Impact Bonds: How and Why Philanthropy Is Catalyzing the Development of a New Market](#)
- Data on SIBs' performance and risk are not yet available to attract mainstream impact investors at scale. [Foundations for Social Impact Bonds: How and Why Philanthropy Is Catalyzing the Development of a New Market](#)
- Foundations could pay for outcomes where governments are reluctant to participate. [Foundations for Social Impact Bonds: How and Why Philanthropy Is Catalyzing the Development of a New Market](#)
- Development Impact Bonds represent a way for donor agencies and partner governments to be more innovative and transfer risks associated with delivering successful outcomes to investors. [Investing in Social Outcomes: Development Impact Bonds](#)

Social Investment Funds

Social Investment Funds (SIF) use finances collected from a variety of investors to provide loans, mortgages, lines of credit, and working capital to non-profit organizations. Investors are then repaid, with interest, over a specified time frame.

Headquartered in California, RSF Social Finance is one example of an organization that offers SIF. Since 1984, they have solicited funds from investors to provide more than \$275 million in loans to social enterprises. RSF maintains a 100% repayment to its investors at levels comparable to those paid by traditional bank certificates of deposit ([RSF Social Finance: About: Our Story](#)). The funds that are loaned to non-profits via SIFs feature terms that are more lenient and forgiving than those offered by traditional lenders like banks. This is important because for non-profits, finding reliable funding can be a challenge.

- Social Finance has used the privately-raised funds to provide multi-year funding to two non-profits with track records of achieving reductions in re-offending and will work closely with them to build out and scale their innovative models in an effort to meet the social outcome targets. [Mobilizing Private Capital for Public Good](#)
- Cash support for social ventures will partially be structured as zero-interest loans repayable on investment raised. [Breaking the Binary: Policy Guide to Scaling Social Innovation](#)
- For social investment funds the question of risks might be cast wider to encompass non-financial risks related to the investment objectives. [The Social Business Initiative: Promoting Social Investment Funds](#)
- Double bottom line funds will see continued growth and are ripe for further investigation. [Market for Social Impact Investing by Private Equity Funds Stands at \\$4 Billion in the United States](#)
- Social funds could stimulate the creation of new enterprises that use locally available raw materials and that generate employment for the local people. [Social Funds and Reaching the Poor Experiences and Future Directions](#)

Social Entrepreneurship and Social Purpose Businesses

Although there is no official definition, many would describe a social entrepreneur as someone who utilizes an entrepreneurial skill set to achieve social goals. Certain social entrepreneurs operate for profit businesses that, in addition to generating financial returns, aim to achieve positive social outcomes. A well-known example of such an individual is Blake Mycoskie, the founder of Toms Shoes, a for profit company that uses its revenue to provide shoes, medical care, clean water, and other services to the world's impoverished.

In 2012, Washington State created a new business classification called Social Purpose Corporation which allows for profit companies to formally include social goals and considerations into their articles of incorporation ([Social Purpose Corporations One Year Later](#)). This could signal a wider acceptance of social entrepreneurship and lead to the creation of similar business classifications in other states and countries.

- Some companies are offering some of their high potential employees the opportunity to take several months leave to work with social enterprises and development agencies. [Investing in Social Innovation: Harnessing the Potential of Partnership between Corporations and Social Entrepreneurs](#)
- There will be a convergence of sustainable development and corporate governance. [Sustainability, Environmental Pragmatism and the Triple Bottom Line: Good Question, Wrong Answer?](#)
- Social entrepreneurs will be one of the most important sources of innovation. [The Rise of the Social Entrepreneur](#)
- Social entrepreneurs will be a vital source of the wave of social innovation Britain needs to confront the new challenges faced by the welfare state. [The Rise of the Social Entrepreneur](#)
- Business-case arguments contend that firms which engage in CSR activities will be rewarded by the market in economic and financial terms. [The Business Case for Corporate Social Responsibility: A Review of Concepts, Research, and Practice](#)

Drivers

A combination of factors is enabling and influencing the development of Social Finance.

Limited Governmental Resources

In the aftermath of the global financial crises of 2007-2008, many countries slashed funding across the board. This means fewer resources were made available to fund social services. Making use of private funds through Social Financing could be key in bridging funding gaps for important social programs.

- GDP growth in East Asia and the Pacific is projected to recover slowly as global recovery takes time. [East Asia and Pacific Update](#)
- A "lost decade" for the world economy would risk the development gains achieved during the recent years. [On the brink: Fiscal Austerity Threatens a Global Recession](#)
- America's and Europe's local economies will need to adjust to new investment partners as well as to compete effectively for investment with established partners who may have greater choice and less capital to invest. [Recession, Recovery and Reinvestment : The Role of Local Economic Leadership in a Global Crisis](#)

- Recovering from a balance sheet recession will take a long time in a democracy. [The World in Balance Sheet Recession: Causes, Cure, and Politics](#)

Growing Demand for Social Services

According to the U.S. Bureau of Labor Statistics, increased demand for health care and social services will lead to a 19% increase in employment for social workers by 2022 ([Bureau of Labour Statistics: Occupational Handbook Outlook: Social Workers](#)). In Latin America, slow economic growth is driving the demand for social services such as improved schooling and cheaper public transportation ([Slow Latin America Growth Won't Meet Social Demand, IDB Says](#)). In Asia, as citizens become more affluent, they are demanding more social programs, from unemployment benefits to public pensions ([Rethinking the welfare state: Asia's Next Revolution](#)).

- One in three people in the world will live in a migrant 'slum' (low-income urban neighbourhood). [Breaking the Binary: Policy Guide to Scaling Social Innovation](#)
- An ageing European population will have direct consequences for the working population and social welfare systems, health services and pensions in terms of demand and expenditure. [Social Innovation: A Decade of Changes](#)
- The amount of money invested in training and certifying workers will need to rise as the growing Latin American middle class places more and more strain on health care systems in the region. [Latin America: Rising Incomes, Rising Demand for Health Care](#)
- There is a risk of lifetime earning losses for the generation of graduates joining the labour market in the recession. The situation may be worsened by the increased supply of graduates and lower returns to a degree for some graduates. [Recession Britain Findings from economic and social research](#)
- Urban investment gaps remain and are at risk of remaining for the medium term in the face of the global economic downturn. [Recession, Recovery and Reinvestment : The Role of Local Economic Leadership in a Global Crisis](#)
- The impact of the recession on children will be felt long after the recession itself is declared to be over. [Children of the Recession The Impact of the Economic Crisis on Child Well-Being in Rich Countries](#)
- High unemployment and fiscal restraint will remain the norm for the foreseeable future in many countries. [Children of the Recession The Impact of the Economic Crisis on Child Well-Being in Rich Countries](#)
- There will probably be increasing need and demand for social service support such as community health programs and property tax relief programs for seniors. [Staying on Track: Sustaining Toronto's Momentum After the Global Recession](#)

Increased Societal Engagement and Awareness

Today, people are more aware of social issues than ever before because of the internet and other communication technologies. Furthermore, the Millennial Generation, those born from roughly 1980 to 2000, highly value giving back to the global community by working for socially responsible organizations, volunteering, protesting for change, etc. Over the last decade, a series of protests from the Occupy Movement to the more recent protests in Hong Kong, demonstrate that people, especially the young, are willing to take action to create positive social change ([Young People and the Power of Protest](#)).

- With the appropriate leader created context and culture, sustainability will move from theory to common action, owned by the employees and not directed from above. [Corporate Social Responsibility and Sustainable Business](#)
- Significant capital could potentially be available to finance social innovation given the current and anticipated influx of new wealth donors and socially motivated investors. [The Social Purpose Capital Marketplace: An Opportunity for the Canadian Charitable Sector](#)
- Experiments in social innovation are expected to provide collective solutions to pressing needs (including policy needs) through new uses of ICT connectivity by and for smart citizens. [Social Innovation: A Decade of Changes](#)
- People will have the technology to communicate anytime and anywhere. [Investing in Social Innovation: Harnessing the Potential of Partnership Between Corporations and Social Entrepreneurs](#)
- One can expect more investors to take an active interest in the companies in which they are invested. [2012 Global Sustainable Investment Review](#)

Focus on Outcomes and Results

As stated in a 2014 report by The Beeck Center for Social Impact and Innovation, “governments at every level increasingly see an urgent need to identify and pay for desired outcomes, and not to pay for effort only. Across the nation and globally, effective ‘outcomes-based’ grant and contract models are now emerging,” compared to the typical government programs whose oversight primarily concerns meeting compliance standards ([Funding For Results: A Review of Government Outcomes-Based Agreements](#)).

- Initial pilots will probably focus on countries and/or sectors where either reliable data already exists. [Investing in Social Outcomes: Development Impact Bonds](#)
- The alignment of investors' financial returns to the achievement of social outcomes means that there is a strong incentive for investors to manage their investment risk by bringing discipline and rigor to performance management and outcome measurement. [Investing in Social Outcomes: Development Impact Bonds](#)
- Non-profits and social enterprises may need to upgrade their financial reporting and monitoring strategies so as to generate the type of comparative information potential investors expect to see in for-profit companies. [REDEFINING RETURNS: Social Finance Awareness and Opportunities in the Canadian Financial Sector](#)
- Renegotiating outcomes requires new information and potentially new data or measurement techniques and creates an opportunity to apply lessons learned. [Funding For Results: A Review of Government Outcomes-Based Agreements](#)
- Clarity of policy goals and desired social outcomes will maximize the potential for success of any agreement. [Funding For Results: A Review of Government Outcomes-Based Agreements](#)
- Investors expect intermediaries to provide ongoing performance management and implement midcourse corrections as needed. [Foundations for Social Impact Bonds: How and Why Philanthropy Is Catalyzing the Development of a New Market](#)
- In Europe by 2020, social impact measurement and comparison (covering economic, environmental and social issues) will become mainstream in the social economy. [Social Innovation: A Decade of Changes](#)

- For most enterprises in which philanthropists have invests, managers will face decisions in which they have to make trade-offs between financial returns and social impact. [Social Entrepreneurship: Shifting Power Dynamics](#)

The Future

The drivers outlined in the previous section largely influence the future of Social Financing. If these forces unfold in the most probable way, the baseline or expected future will emerge. However, there are a number of variables that could guide the development of Social Financing in different directions. This section will describe the baseline scenario and outline some of the variables that could potentially lead to alternate scenarios.

The Baseline Scenario

Over the next few decades, dealing with social challenges will continue to be a major concern for countries and regions of all shapes and sizes. As the world continues to recover from the global recession, the new normal for government institutions will be doing more with less. In the industrialized world, increasing inequality and aging populations will put a major strain on the social sector for both the young and old. People in emerging economies will demand access to social services once thought to be out of reach. In underdeveloped regions, epidemics, political instability, and harsh living conditions will create major humanitarian issues that the rest of the world will not be able to ignore.

Made constantly aware of the world's pressing social problems by an unrelenting steam of real time media, it will become readily apparent to people from all walks of life, especially the young, that the current system for solving social problems is not sufficient. This will help to create a new breed of philanthropically minded individuals, the pioneers of Social Financing, who will look for new ways to solve social challenges using tools from the business world.

Initially, only a small number of investors, entrepreneurs, and government institutions will actively engage in Social Financing ventures. There will be many examples of governments experimenting with Social Impact Bonds without success and Social Purpose Businesses that fail. However, by applying proven business techniques and using the most current data collection technologies and practices, Social Financing ventures will become less and less risky over the next few decades. Once the possibility to reliably create entities and make investments that focus on both creating positive social change and making a profit is demonstrated, Social Financing will become mainstream.

By 2040, traditional social service organizations will share a significant amount of their burden with stakeholders from the Social Financing arena. Individuals who are looking to invest their savings will consider options like Social Investment Funds alongside the more traditional options available today. The Millennial generation will hold great power in the business world and their preference for working for companies that do good will have reshaped many business practices. Although there will always be humanitarian disasters and social challenges, the once emerging field of Social Financing will make these issues more manageable and overall, create a better world.

Potential Variables

The following indicators illustrate concerns or variables that could lead to alternative futures. Organizations interested in the future of Social Financing should monitor changes related to these areas.

- Social entrepreneurs may get emotionally attached to their organizations and risk focusing on sustaining the organization more than solving the problems of society. [A Positive Theory of Social Entrepreneurship](#)
- Philanthropists investing in enterprises will have to grapple with how their support can create the most beneficial impact relative to the resources expended. [Social Entrepreneurship: Shifting Power Dynamics](#)
- There is an overall lack of awareness and understanding regarding community investment opportunities on the part of potential investors. [The Social Purpose Capital Marketplace: An Opportunity for the Canadian Charitable Sector](#)
- The use of NPOs to carry on social enterprise activities that are designed to generate self-sustaining revenue is considerably more risky in that it cannot be assured that the NPO will maintain its tax-exempt status. [Social Enterprise in Canada: Structural Options](#)
- Potential investors will need to be assured of the government's commitment to the project. [Social Impact Bonds: A Guide for State and Local Governments](#)
- Service providers will need to understand that accessing the PFS opportunity is only possible by thorough, thoughtful and dedicated feasibility work. [Case Study: Preparing for a Pay for Success Opportunity](#)
- Anyone who does promote innovations risks upsetting powerful vested interests. [Social Innovation What it is, Why it Matters and How it Can Be Accelerated](#)
- There needs to be an enthusiastic lead government agency that is capable of managing the project as well as a high likelihood that sufficient provider capacity and investor interest will emerge. [Winning Social Innovation Fund Applications Suggest Substantial Growth Ahead for Pay-for-Success Funding](#)
- Accessing private capital markets in a responsible manner will require a sound contractual environment as well as credible monetary, fiscal, and exchange-rate policies. [Innovative Financing for Development](#)
- Ensuring social investment funds are offered to or made available to retail investors could be key to ensuring the success of a retail approach. [The Social Business Initiative: Promoting Social Investment Funds](#)

Questions

- If Social Financing ventures focus primarily on projects with successful track records, could this present a barrier to new programs/ideas before they have an opportunity to demonstrate results? If so, this could discourage innovation and deter investors from solving certain social problems.
- Although Social Financing appears to be a stable trend with growing interest from the business community, what would happen if this interest suddenly shifted or went away all together? Governments and non-profits engaging in Social Financing will want to develop contingency plans to confront this possibility.
- Could organizations offer overly risky or crooked Social Impact Bonds to the public? If a corrupt organization does this on a large scale or this practice receives substantial media coverage, it could severely damage the Social Financing sector. To prevent this, stakeholders will want to ensure sufficient regulation and other checks and balances are put in place.
- In countries with stable governments, investors will be relatively assured that any Social Financing agreement they enter into will a government entity will be relatively secure.

However, in many of the places where people could get the most benefit from social programs, stable governments and regimes don't exist. What can be done to ensure that people in the most impoverished areas of the globe benefit from Social Financing?

- How will the Social Financing community police phony Social Entrepreneurs and Social Purpose Businesses that are over exaggerating their efforts for marketing purposes? Although, there will always be people who take advantage of popular movements, the transparency gained by modern communication technologies may help with this potential problem. Furthermore, if these businesses and entrepreneurs are not harming legitimate Social Financing operations, maybe they don't need policing.
- In addition to providing individuals with real time access to events happening all around the world, modern technologies also offer a wide array of entertainment and ways for people to lose themselves. What happens if future generations focus more on escapism and less on interacting with the global community?