



OUR HONG KONG  
FOUNDATION  
團結香港基金

# Financial Innovation for Social Impacts

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An advocacy report on  
Pay-for-Success

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# EXECUTIVE SUMMARY

## BACKGROUND

The Social Welfare Department (SWD) spends, on average, over 15% of the government budget every year. In 2017-2018, the Financial Secretary decided to increase the recurrent expenditure on welfare to \$73.3 billion, accounting for 19.8% of recurrent government expenditure. According to the long-term fiscal planning report published by the Financial Services and Treasury Bureau in 2013, the increasing expenditure on social welfare, education and healthcare would eventually lead to fiscal deficit in the year of 2029-30.

The services provided by the SWD also lacks outcome-based evaluation where change of attitudes, behaviours and conditions of targeted population are measured. However, of all the performance standards specified in the

Funding and Service Agreement (FSA) for each social service (see Appendix A), 733 out of 876 indicators are output-based, while only 143 of them are outcome-based.

On top of that, the current funding mechanism within the welfare sector, be it public or private, seems to focus a lot more on remedial services instead of the preventive counterparts that would result in long-term cost savings for the city.

Considering the challenging situation in Hong Kong, we suggest the government to collaborate with the private and third sector through Pay-for-Success (PFS), an innovative mechanism that would result in long-term cost savings.

## PAY-FOR-SUCCESS (PFS)

Prevalent in the US and UK, PFS is an alternative financial instrument utilised by governments or social enterprises to raise private funds for social projects. It is an outcome-based investment where financial return is dependent on the performance of social services.

Unlike most local social services where attentions are usually placed on remedial services, PFS focuses a lot more on preventive services, such as youth recidivism and homelessness, which would ameliorate the remediation costs and adverse social outcomes in the long run. There are major advantages in adopting the PFS:

### 1. Outcome-based evaluation

As mentioned, the financial return of PFS is dependent on the performance of the designated programme. Therefore, it is vital to have a measurable and direct outcome that could be monetised and show how they could lead to better social and economic well-being.

SIA is one of the outcome-based evaluation procedures to measure social, environmental and economic impacts of an intervention, project or policy. It is composed of two stages including evidence-based analysis of

outcomes and valuation of outcomes. The former confirms the existence of targeted changes among the beneficiaries whereas the latter is to convert the outcomes proved in the first stage into monetary values.

With the assistance of SIA where evaluation and valuation of outcomes are taken into account, the government can then assess whether or not the objectives of the social services are fulfilled, ultimately benefiting the targeted population and the community in general.

### 2. Risk sharing

The PFS structure enables the risk associated with financing a social service to be shared between the government and investors because the latter is the one who provides the capital upfront.

Should the service provider fail to achieve the targeted outcomes, the administration is not required to repay the interest, nor the principal, minimising the financial and execution risk for the public sector.

### 3. Long-term cost saving

As mentioned, the reasons why PFS could result in long-term cost savings for the government is because of their focus on preventive services. Early intervention targeted at children and youths who are at risk of developmental, emotional, social or behavioural problems could be useful

in preventing or minimising long-term problems as early as possible. Preventive healthcare services such as screening and testing are also seen as feasible measures in reducing chronic conditions, thus the long-term medical care expenses.

### 4. Mobilising private capital and developing social impact investment ecosystem

Private businesses can participate in PFS as an investor. It can deliver social impact and, at the same time, provide investors with potential

financial return. It provides another channel for private businesses for social impact investment.

## CHALLENGES

### 1. Complexity of contracts

Because of the unprecedented mechanism as well as the number of stakeholders involved in the PFS contracts, the development could get really complex. Social Finance, the first organisation to initiate PFS (or as known as Social Impact Bond) in the UK, invested '2.5 person-years of resources

and more than 300 hours of legal advice' on one single project.

Nonetheless, obviously one would expect that the executive resources required per deal would lower over time as more similar deals are executed.



## 2. Limited scope of impact investing in Hong Kong

Impact investment firms, who also tend to be the investor or intermediary in PFS contracts, are limited in Hong Kong. Given the lack of large scale examples of PFS in Hong Kong, we looked at some of the major efforts made by international organisation,

as well as both the UK and US governments. We believe that the Hong Kong government has a role in facilitating the impact investment market, which would ultimately build a demand for innovative financial instruments such as PFS.

## 3. Lack of financial motivations for Hong Kong government

The reason why PFS is prevalent among UK and the US is because both governments have been facing severe financial deficit. However, compared to Hong Kong where there are tens of

billions of dollars of budget surpluses each year, the local government might not have the incentives to tap into the private market.

## CONSIDERATIONS

Given the existing challenges, we have come up with a number of possible solutions for government to consider.

### 1. Encourage the use of Social Impact Assessment (SIA)

In order to effectively implement PFS, well-established databases for social impact assessments are essential. Government should also provide guideline similar to the Green Book from UK which outlined the procedure of social impact investment in detail.

There are two types of databases required, namely evidence database

and valuation database, each corresponding to the two stages of SIA. The SIA procedure in PFS mechanism could be simplified provided that these databases are readily available. Government should first embed SIA in its policy formulation, with result of policy evaluation and appraisal being pooled in the two databases.

## 2. Social Impact Investment Policy and standardisation of contracts for PFS

With reference to the New South Wales (NSW) Government, the Hong Kong government can establish a social impact investment policy to promote the measure of outcomes in social services and enhance prevention-based programmes. The Hong Kong government should also identify a department to pilot PFS programmes as soon as possible.

One of the biggest challenges of PFS is the complexity of the contracts. In order to make the drafting of legal documents for transactions more efficient and less costly, we recommend the government to facilitate the standardisation of the contracts that would be used for PFS.

## 3. Enhance Environmental, Social and Governance (ESG) reporting to facilitate impact investment in Hong Kong

In order to expand the current market for impact investment, we propose that Hong Kong Exchange and Clearing Limited (HKEx) includes a new aspect regarding impact investment in ESG reporting. Some suggested KPIs in this aspect may include social impacts

which will be created by the invested projects and the amount invested on these projects. By including a new aspect on impact investment in the ESG reporting guide, the impact investment market can be expanded.

## 4. Facilitate the development of social finance intermediaries

Unlike the UK and the US where investors and non-profits are more open to PFS, Hong Kong government has to take a rather top-down approach by coordinating with relevant

stakeholders in the impact investment ecosystem to come up with appropriate social finance intermediaries to handle the process.

CHAPTER 1

INTRODUCTION:  
TOWARDS A  
COLLABORATIVE  
SOCIETY



# 1

## INTRODUCTION: TOWARDS A COLLABORATIVE SOCIETY

### 1.1 Significance of cross-sector collaboration

Policy makers play a major role to remedy complex social problems such as unemployment and homelessness. However, in order to put forward a sustainable solution, the government has to adopt a collaborative and cross-sector leadership approach by utilising the characteristic strengths of businesses and non-profit organisation (Crosby & Bryson, 2010; Crosby & Bryson, 2007). This concept is also known as *collaborative governance* where people across the public agencies and private spheres are brought together to engage in consensus-oriented decision making

regarding public policies (Ansell & Gash, 2008). Principled engagement, shared motivation and capacity for joint action are the three basic components for a collaborative governance regime. (Emerson et al., 2011).

One of the key issues faced by the Hong Kong government is the growing demand for social welfare and social services. In this paper, we seek to unveil the importance of cross-sector collaboration by showing how the current service delivery approach pose financial strain to the public sector in the long run.

### 1.2 Background information of Social Welfare Department (SWD)

Ranging from Social Security to Rehabilitation Services, most social services are coordinated and implemented by the Social Welfare Department (SWD).

There are a total of 7 programme areas including (i) Family and Child Welfare, (ii) Social Security, (iii) Elderly, (iv) Rehabilitation and Medical Social Services, (v) Services for Young People, (vi) Services for Offenders and (vii) Community Development.

According to Table 1, the government has spent more than 15% on SWD from 2010-2016, contributing to the third

government expenditure compared to the Food and Health Bureau and the Education Bureau over the years. In the 2017-2018 budget, the Financial Secretary intended to increase the recurrent expenditure on social welfare to \$73.3billion, accounting for 19.8% of total recurrent government expenditure. Before going into details of possible solutions, we would first review the existing funding mechanism for social services.

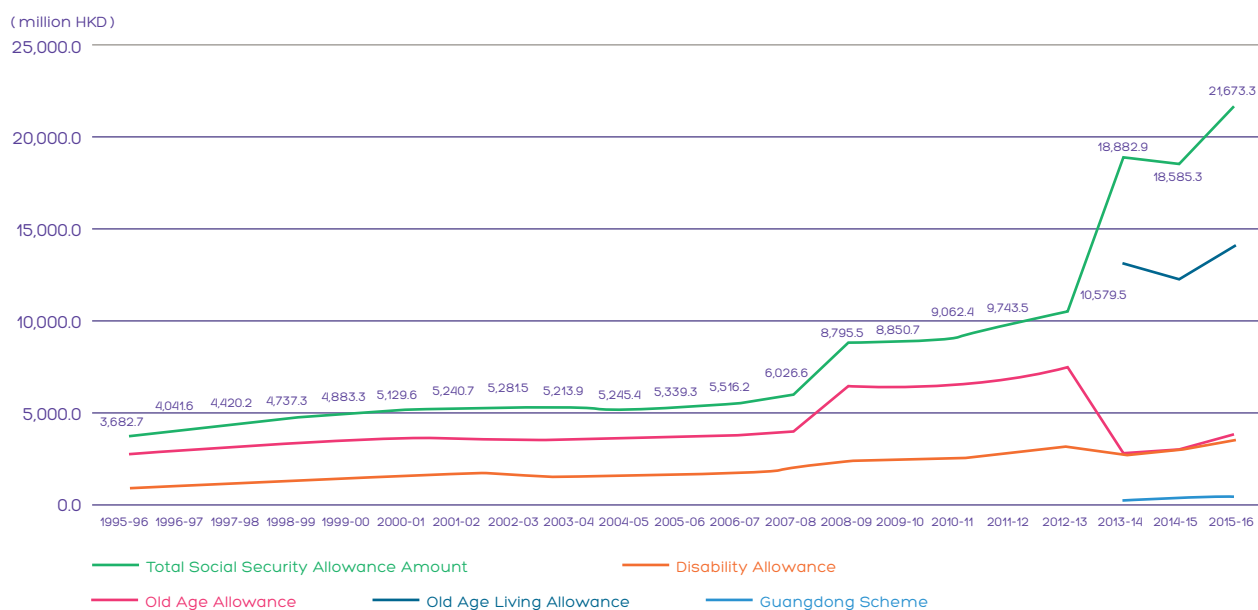
Moreover, the amount of social security allowance increased substantially in 2013-14 due to the Old Age Living Allowance.

Table 1. Government Expenditure on Social Welfare Department, Food and Health Bureau and Education Bureau from 2010-2016

Fiscal Year	Total Government Expenditure on General Revenue Account (million HKD)	Government Expenditure on Social Welfare Department (million HKD)	Government Expenditure on Food and Health Bureau (million HKD)	Government Expenditure on Education Bureau (million HKD)
2010-2011	242,671	39,368 (16.2%)	44,293 (18.3%)	55,109 (22.7%)
2011-2012	299,519	42,189 (14.2%)	49,390 (16.5%)	60,455 (20.2%)
2012-2013	306,140	44,477 (14.5%)	65,649 (21.4%)	70,440 (23.0%)
2013-2014	351,168	53,659 (15.3%)	59,262 (16.9%)	70,306 (20.0%)
2014-2015	321,691	56,143 (17.5%)	63,570 (19.8%)	69,131 (21.5%)
2015-2016	354,390	62,483 (17.6%)	76,400 (21.6%)	74,726 (21.1%)

Data Source: Audit Commission

Figure 1. Rise in Social Security Allowance Amount from year 1995-96 to 2015-16



Note 1: Effective from 1 January 2009, old age allowance was increased from HK\$625 to HK\$1000.  
 Note 2: Allowance is adjusted with the movement of the Social Security Assistance index of Prices.

Source: Census and Statistics Department

As shown in both Table 1 and Figure 1, despite the constant fiscal surplus, the Hong Kong government should

consider its financial practices due to the increasing expenditure from the ageing population.

### 1.3 Major government funding stream for social services

Under the current structure, subsidized social services are provided by the government or non-governmental organisation (NGOs). In order to be a service-providing unit, NGOs have to participate in a tendering process where proposals and service quality are evaluated. Once the NGO is selected, SWD would award them with a Funding and Service Agreement along with a Lump Sum Grant Agreement which would be explained in detail:

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#### Lump Sum Grant (LSG)

The LSG system was introduced in 2000-2001 to revamp the public funding and management in the welfare sector. Under the LSG system, salaries and personal emolument-related allowances, and other expenses are provided in a lump sum on an agency basis while rents and rates are subsidised on a reimbursement basis. NGOs now have greater autonomy and flexibility because they no longer need to follow the rigid staffing structures, levels of pay and staff qualifications imposed by SWD (Lump Grant Independent Review Committee, 2008, P.3).

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## Funding and Service Agreement (FSA)

The FSA is a binding document between the SWD and respective service provider. It is composed of two sections: the Generic Section and Service-Specific Section.

For the purpose of this report, we focus on the latter section. Not only does the Service-Specific Section list out the definition of different services, it also lists out how the performance should be evaluated. Statistical reporting is one of the most significant parts of the evaluation process where service providers are required to submit statistics on their performance on a quarterly basis.

However, out of 876 performance indicators, over 80% (733) of them are output-based. (See Appendix A) The number of indicators of each programme ranges from 2 to 36, depending on the scope of service. Most of them focus on the yearly target of enrolment rate and number of training hours.

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## Service Quality Standards (SQSs)

SQS is based on 4 principles that define how the management and programmes are to be delivered by service providers.

There are 16 SQSs requirements with specific criteria and assessment indicators. Through reviewing document, interviewing with staff and service users, as well as observation, service providers are expected to attain the required level.

## 1.4 Other government funding

Apart from the LSG, SWD and other government departments have also initiated different funding schemes for service providers to run programmes for target groups.

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### Community Investment and Inclusion Fund (CIIF)

Established in 2002, the CIIF seeks to build social capital among individuals, families and organisation through (1) social capital development projects, (2) reciprocity between the public and other stakeholders, (3) a cross-sector collaborative platform and (4) mutual help network. (CIIF Secretariat, 2015)

The CIIF subsidised quite a number of projects, including (1) Family and Child Welfare, (2) Youth Development, (3) Elderly Support & Empowerment, (4) Social Integration, (5) Healthcare, (6) Community Capacity Building and (7) Cross-Generational Integration.

In 2016, a total of 16 applications with more than HKD30 million were approved. Most projects are conducted by existing NGOs like Tung Wah Groups of Hospitals or The Salvation Army. The duration of the programme lasts between 2-3 years, which is not as stable as those subsidised by the SWD.

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### Partnership Fund

In 2005, the government injected HKD200 million to the Partnership Fund (another HKD200 million in 2010 and HKD400 million in 2015) for the disadvantaged in the hope of incentivising the welfare sector to expand their network within the business sector and vice versa.



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### Child Development Fund (CDF)

Established in 2008, the CDF seeks to develop a tripartite, cross-sector collaboration among the administration, business sector and community groups for the sake of long-term development of future generations from disadvantaged backgrounds.

Over the course of 10 years, the administration has injected a total of HKD600 million to the CDF. As of 2017, it has already supported 88 NGOs and 57 schools for district-based projects, benefiting more than 13,500 children.

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### Social Innovation and Entrepreneurship Fund (SIE Fund)

Established by the Commission on Poverty in 2012, the SIE Fund intends to alleviate poverty and social exclusion by stimulating social innovation and social investment ecosystem. From idea incubation to implementation, the HKD500 million fund provides potential entrepreneurs with sufficient resources to create social impact and build social capital for the impoverished.

As of 2017, 59 ventures and 345 ideas have been funded and incubated respectively. These initiatives benefit a wide range of people such as low-income families, elderly, ex-offenders etc.

## 1.5 Private funding

Most, if not all, government funding in the previous section has defined the scope and targets of social services. Under this scenario, NGOs play a rather passive role by providing what the administration requires. However, should the NGOs aspire to develop

new and innovative services, they have to solicit donations or funding support from the private sector such as corporate philanthropy and foundations, which can be a burden to service providers.

## 1.6 Challenges

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### 1.6.1 Lack of outcome-based evaluation

The lack of outcome-based evaluation system is one of the key issues within the existing social services. Of all the FSA performance standards for each social service (see Appendix A), 733 out of 876 indicators are output-based, while only 143 of them are outcome-based. Whilst we are not demanding

the SWD to change their evaluation system completely, a greater focus on outcome-based indicators would better reflect the effectiveness of different social services by assessing the change of behaviour, attitude and conditions of the targeted population.

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### 1.6.2 Emphasis on remediation programme

Looking at the existing funding mechanism, be it public or private, the majority of the funds are dedicated to remediation such as residential care, rehabilitation or counselling services. This is especially prevalent within the business and philanthropy sector because these remedial programmes

could often result in direct benefits to the targeted population; whereas preventive services might sometimes only show impacts over time and might have less appeal to funders who prefer to have more direct, immediate and visible interventions.

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### 1.6.3 Long-term fiscal performance of Hong Kong government

On top of that, if one looks at Hong Kong's fiscal performance in the long run, the situation might be more alarming.

In June 2013, the Financial Secretary appointed the Working Group on Long-Term Fiscal Planning to investigate the fiscal health of Hong Kong in the long run. One of the major tasks of the working group is to project the fiscal position of the government up to 2041 with regards to the forecasts of demographic trends, economic growth

and other funding liabilities under the existing policies. (The Working Group on Long-Term Fiscal Planning, 2014)

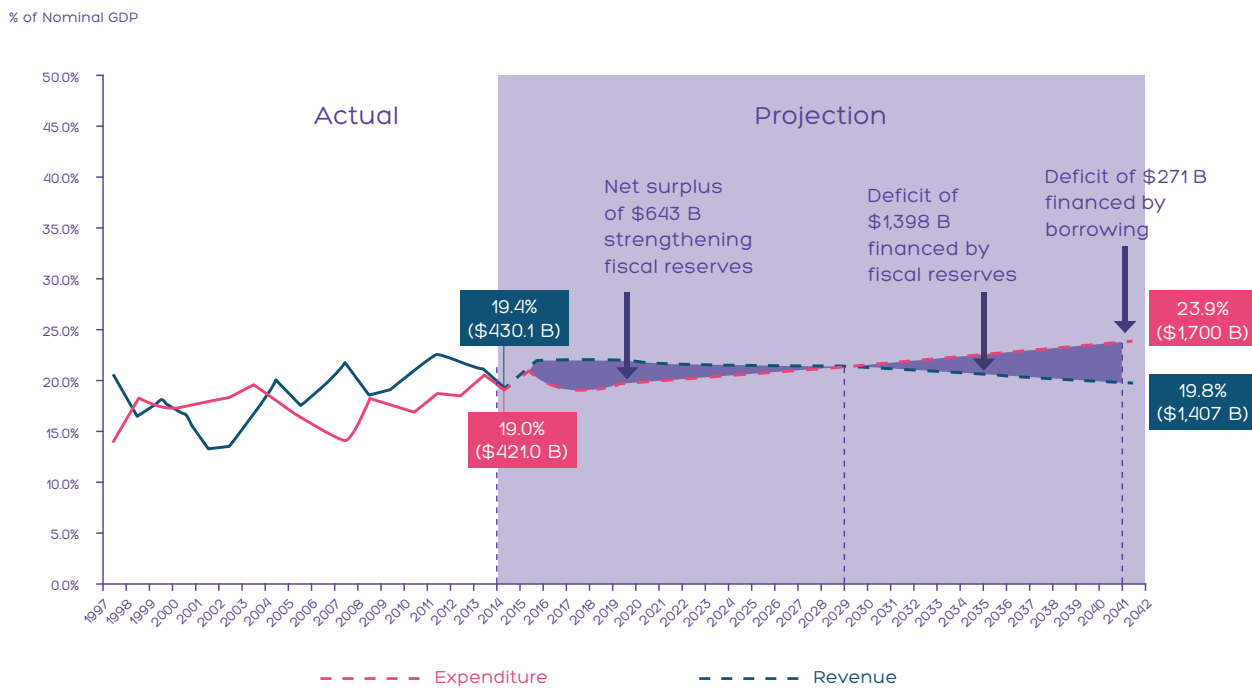
By looking at the recurrent expenditure requirements for the three principle areas including social welfare, education and health, four projection scenarios have been developed (The Working Group on Long-Term Fiscal Planning, 2014). For the purpose of the report, we would present the base case scenario with no service enhancement:

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#### Base case - No Service Enhancement scenario (see Figure 2)

Under the base case scenario, no policy changes and service improvements will be taken into account. Therefore, demographic changes and price changes are the determining variables in the recurrent expenditure. According to Figure 2, there would be a persistent decrease in revenue and the government would eventually face a structural deficit (i.e. underlying imbalance in government revenue and expenditure) from the year 2029-30.

Figure 2. Projection on revenue and expenditure under base case scenarios



Source: Financial Services and the Treasury Bureau (2014)

It is only a matter of time before the fiscal reserve gets used up. The current budget might not seem daunting to the government but the increasing recurrent expenditure on social welfare, education and health would eventually pose a fiscal strain to the government. It is high time that the government considered more forward-looking mechanisms in solving social problems.

Because of the aforementioned challenges, we suggest that the government implement Pay-for-Success (PFS), which involves collaboration between government, investors and non-profits, to help reduce the hefty cost of remediation and bring about social wellbeing in the long run.

To investigate the feasibility of the instrument, we would first understand the mechanism and the relevant stakeholders in Chapter 2, followed by the advantages of adopting such model in the public sector in Chapter 3; we would then, in Chapter 4, look into the leading countries that utilise PFS to gain insights from their experience. In Chapter 5, we attempt to localise the policy by showcasing the challenges faced by Hong Kong when it comes to the adoption of PFS. Finally, in Chapter 6, four policy considerations that are supported by analysis of legislation and social context will be presented.

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MECHANISM OF  
PAY-FOR-SUCCESS:  
A PREVENTION-  
ORIENTED APPROACH  
WITH RISK  
DIVERSIFICATION



# 2

## MECHANISM OF PAY-FOR-SUCCESS: A PREVENTION-ORIENTED APPROACH WITH RISK DIVERSIFICATION

Pay-For-Success (PFS), also known as Social Impact Bond (SIB) or Social Benefit Bond (SBB), is an alternative financial instrument that can be utilised by the government or social enterprises to raise private funds for social projects. It is an outcome-based investment where the financial return is dependent on the performance of the social service. The purpose of the PFS model is to generate cost savings for the administration via

financing preventive intervention. That is why the emphasis of these social projects is usually placed on prevention, instead of cure, alleviating hefty remediation costs and adverse social outcomes in the long run. They are used to address issues like recidivism, youth unemployment and homelessness. Further examples would be explained in the coming sections.

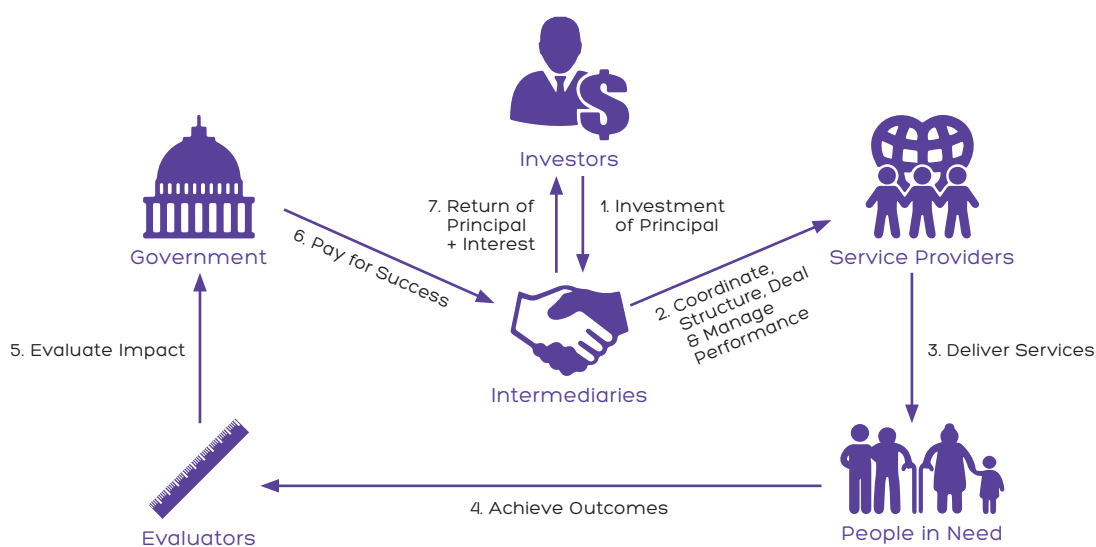
### Detail of PFS and stakeholders involved

Figure 3 showcased the basic mechanism of the PFS where five major parties are involved including (1) Government, (2) Intermediaries, (3) Investors, (4) Service Providers and (5) Evaluators.

The arrangements can be quite flexible, depending on the nature of the initiative.

Detailed responsibilities of stakeholders are explained down below:

Figure 3. Mechanism of PFSs



Source: Brookings Institute (2015)



## 2.1 Government/Outcome funder

In most cases, government departments are usually the outcome funders where they pay the investors with principal and interests, depending on the performance of the projects.

The design of each PFS is unique to each social problem. For example, the design of a youth-targeted PFS could be vastly different from that of the elderly. Therefore, before the actual implementation of the project,

a feasibility study has to be conducted by the government or intermediary so as to identify a particular social problem and whether or not it is suitable for PFS.

Depending on the targeted population, different government departments, such as the Social Welfare Department, Labour Department and Correctional Services, could potentially take part in the process.

## 2.2 Intermediaries

Having done the initial research on the particular social problem, intermediaries would then start structuring the deal by defining the scope of intervention, outcome metrics and evaluation methodology.

Intermediary plays a vital role in connecting all the parties together. Not only does it have to liaise with investors for programme funding, they also have to negotiate with all the parties regarding the arrangement of contracts to make sure the projects can be smoothly administered.

In certain cases, intermediary has to shoulder the responsibilities in choosing and managing the service provider with a track record of successful intervention regarding the designated social problem.

Given the wide range of work, an intermediary is expected to have a solid foundation on community or impact investment as well as an extensive network of potential investors.

## 2.3 Investors

Private capital is the foundation for PFS. Investors like banks, foundations or impact investment firms are to provide capital for service providers to run the designated social programme. To most investors, this is considered as a 'high risk, high return' investment. The financial return of this asset ranges from 3% - 13.5%. Yet, if the evaluators deem that the service provider has

failed to meet the predetermined goals of the project, the maximum potential loss could get up to 100%, which is a major loss for investors.

Having said that, there are several benefits for investors to pour resources into PFS which would be addressed in Chapter 3.

## 2.4 Guarantors

A guarantor is a third party providing a loan guarantee, covering from 9% to 75% of capital, to lower the risks of investors. Bloomberg Philanthropies

and The Rockefeller Foundation were two examples of guarantors of PFSs in US (United Nations Development Programme, 2017).

## 2.5 Service providers

With the private capital and contracts in place, service providers (or non-profits) would then use the fund to operate the social programme for for the targeted population. Under the

PFS structure, they have to focus on preventive services rather than the traditional remedial services to achieve cost-savings for the government in the long run.

## 2.6 Evaluators

Independent evaluators ensure an unbiased evaluation of a PFS programme. Evaluators' role is to assess whether the targets have been achieved according to the terms and conditions of the contract. Should the service provider fail to achieve the targeted outcomes, the investors will not be repaid, and vice versa.

Because of its unique role in the system, evaluators are funded directly by government (or other outcome payer), instead of the intermediary. Regardless of the outcome, the government pays the evaluator, which is a critical factor to the success and failure of the programmes.

## 2.7 Example

To better illustrate the responsibilities of each party, we would use the first PFS in the US - 'NYC ABLE Project for Incarcerated Youth' as an example. The ABLE program was launched in 2012 by the City of New York that aims to reduce the incarceration

rate among adolescents at Rikers Island through evidence-based intervention with a focus of personal responsibility and decision-making. (City of New York, 2012) There are 7 participating organisations in this project:

- 
- Government/Outcome Funder - The Department of Correction;
  - Intermediary - MDRC;
  - Investor - Goldman Sachs;
  - Guarantor - Bloomberg Philanthropies;
  - Service Providers - Osborne Association and Friends of Island Academy; and
  - Evaluator - The Vera Institute of Justice.

Based on the agreement made between the first 3 parties, Goldman Sachs could only receive its loan back if the re-admission rate is reduced by 10% or more. If the reduction rate

goes beyond 11%, Goldman Sachs would receive a financial return that is consistent with typical community development lending. (See Table 2)

Table 2. Payment structure and long-term savings for the NYC ABLE project

Reduction in re-incarceration rate	City payment to MDRC (in USD)	Projected long-term city net savings* (in USD)
≥20.0%	\$11,712,000	\$20,500,000
≥16.0%	\$10,944,000	\$11,700,000
≥13.0%	\$10,368,000	\$7,200,000
≥12.5%	\$10,272,000	\$6,400,000
≥12.0%	\$10,176,000	\$5,600,000
≥11.0%	\$10,080,000	\$1,700,000
≥10.0% (breakeven)	\$9,600,000	≥\$1,000,000

Source: The City of New York

\* Savings after repayment and continued funding for programme delivery.

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CHAPTER 3

MOTIVES  
AND  
ADVANTAGES

The background features a series of overlapping triangles in various shades of purple, from dark to light. A prominent white triangle points from the top left towards the bottom right, creating a strong diagonal element. The overall aesthetic is modern and minimalist.

# 3

## MOTIVES AND ADVANTAGES

### 3.1 Outcome-based evaluation

Under the structure of PFS, it is vital to have a measurable and direct outcome that could lead to better economic or social well-being. For example, in the case of NEET (Not in Education, Employment or Training), the number of youths getting back to school or work for more than 6 months would be a feasible outcome. The importance of outcome is tied to its potential cost savings for government, which is the ultimate goal for PFS. That is why not only do the outcomes have to be direct and measurable, they have to be monetised and calculated by the government for financing purposes.

To scale successful interventions and achieve outcomes are the biggest motivations for service providers.

Under the current social welfare system, the evaluation method is largely output-oriented where number of people served or hours of services provided are measured. However, whether or not these proxies could lead to long-term changes is unknown. An outcome-based evaluation approach under PFS could eliminate the aforementioned issue.

Here is when the role of evaluators comes in. Regarding the PFS cash flow, the amount of payment to investors by government is essentially dependent on the impacts of the social project. The evaluation of the impacts can be done through an assessment process called Social Impact Assessment (SIA).

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#### 3.1.1 Methodology of Social Impact Assessment (SIA)

SIA is an evidence-based procedure to evaluate social, environmental and economic impacts of an intervention, project or policies. The UK government has a long history of employing SIA as a mandatory approach in their policy formulation.

Based on the literature review in OHKF's report "Social Innovation for A Better Hong Kong" (OHKF, 2016),

there are two main stages in SIA, (i) evidence-based analysis of outcomes and (ii) valuation of outcomes.

(i) Evidence-based analysis of outcomes is a procedure to confirm existence of targeted changes on the beneficiaries. Counter-factual analysis, such as randomised control trial and quasi-experiment, is essential in this stage.

According to the Brookings Institute (2015), there are 4 common types of evaluation methods, depending on the

outcome metrics and the extent of stakeholder engagement:

- 
- (1) Validated Administrative Data : Records, which are related to carrying out non-statistical programmes, are usually regarded as administrative data.
  - (2) Historical Comparison: Statistical comparison between the actual outcome and historical baseline.
  - (3) Quasi-experiment : Based on the pre-intervention characteristics of the treatment group, quasi-experiment compares the treatment group with another group with highly similar characteristics.
  - (4) Randomised Control Trial (RCT): In RCT, participants are randomly selected into a control group and an experimental group, while the latter group will be treated with the intervention.

(ii) Valuation of outcomes is to convert the outcomes proved in the first stage into monetary values. Some of the outcomes may have market prices which make them as a ready input. For other outcomes with no market prices available, valuation techniques have to be employed to estimate the outcomes' values. (Figure 4) There are three commonly used approaches to measure non-market outcomes, namely stated preference approach, revealed preference approach, and subjective wellbeing approach.

Stated preference and subjective wellbeing approach tend to focus on valuing psychological wellbeing, while revealed preference focus more on cost-saving which is more appropriate for PFS. Therefore, we will focus on revealed preference in the following discussions.

In revealed preference, the values are revealed from price changes of other market outcomes, but not directly from stakeholders. Typical methods include:

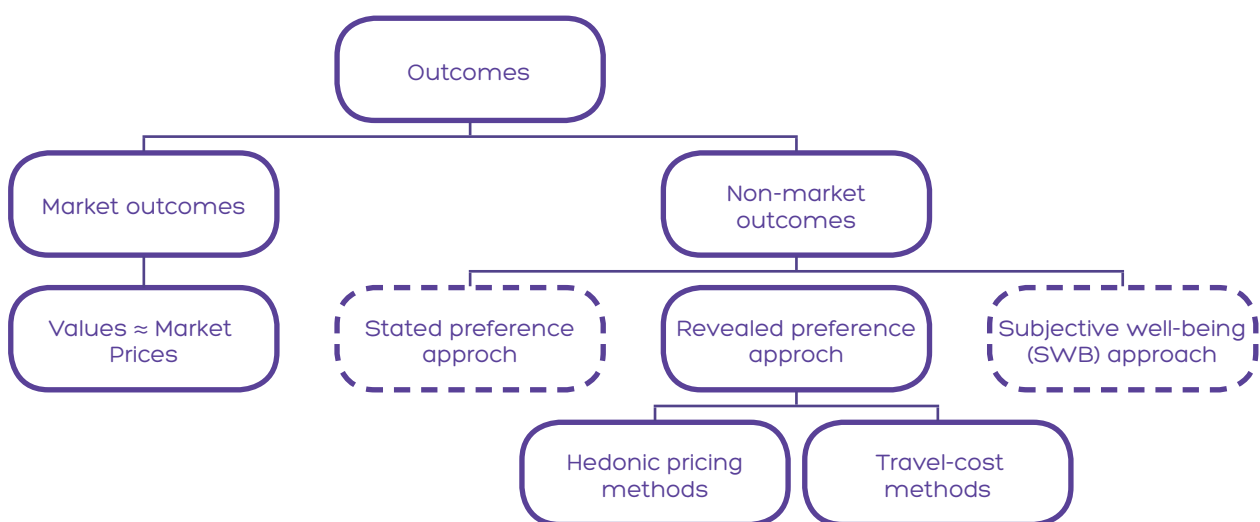
- 
- Hedonic pricing method: Values of non-market outcomes are revealed by the changes in consumption behavioural for relevant market outcomes.
  - Travel-cost method: Value of using a site is estimated by cost of visiting the site and other factors like income, age and gender of an individual as well as price of other sites available etc .

Revealed preference is particularly important to PFS. One of the benefits of PFS is long-term cost savings, which will be discussed in detail in section 3.3. By using revealed preference, the targeted non-market outcomes of a social project can be monetised in terms of the costs of government services. This means the long-term cost saving through the social project in the PFS can be estimated more accurately using revealed preference. For example, in a breast cancer screening project, which is developed to detect early incidence, the potential outcomes could be the number of early stage breast cancer patients detected and then treated. These identified cases of early stage cancer can be treated timely and their survival rates can be enhanced.

From the government’s perspective, the monetary value of number of life-years saved can be revealed from treatment costs for intermediate stage or terminal stage cancers in public hospitals. Cost saved from other potential social services, such as mitigation of chronic diseases, care services for disabilities, reoffending rate reduction, etc. can be estimated by revealed preference. Indirect and long-term economic benefits of this type of programmes can also be deduced.

This type of valuation techniques for market outcomes and non-market outcomes are summarised in this step. For reference, Figure 4 is a hierarchical map showing these techniques.

Figure 4. Valuation techniques suitable for PFS



Source: Our Hong Kong Foundation



The introduction of PFS propels the need and development of SIA in Hong Kong, which can also enhance the

policy formulation procedures in other areas.

### 3.2 Risk sharing

One of the major advantages for the government to launch PFS is risk sharing. As mentioned in the previous section, the current social service mechanism has no guarantee or any outcome-based evaluation where the impacts on targeted population could be captured. Therefore, when government agencies devote the resources upfront, a huge financial risk will be created. And without proper outcome-based assessment, the government would never know whether the resources are well-spent.

PFS enables the risk associated with financing a social service to be shared between government and investors because the latter is the one who provides the capital upfront. Should the service provider fail to achieve the targeted outcomes, the administration is not required to repay the interest, nor the principal, minimising the financial and execution risk for the public sector. Referring to the example in Chapter 2, if the readmission rate is lower than 10%, Goldman Sachs will lose all its initial US\$ 9.6 million investment. In this case Goldman Sachs has taken up part of the risk for public sector.

Apart from the government, outcome-based evaluation benefits service providers and even the general public.

As mentioned in Chapter 1, in order to qualify for the LSG scheme, service providers have to sign the FSA along with the SQS that ensure targets are met by these organisations. However, the assessment matrix is largely focused on the governance and managerial arrangements instead of the positive changes of the targeted population. Under the PFS structure, instead of focusing on the number of people who participated in these programmes, service providers could devote more efforts and resources in developing innovative and workable interventions that leads to long-term behavioral changes among the targeted population, which is the ultimate goal of PFS.

Having witnessed the improvements from the social service sector, the public, especially taxpayers, would understand their money is well-spent on the people in need.

### 3.3 Long-term cost savings

The implementation of PFS could potentially lead to long-term savings on the cost of social services for society as a whole. In most cases, PFS is usually conducted on preventive programmes such as helping NEET youth or juvenile offenders to get back to the mainstream society.

There is a strong reason why most projects in UK and US targeted youths. Early intervention (EI) is particularly useful in preventing or minimising long-term problems as early as possible (Feldman, 2004). It usually targets children and youths who are at risk of developmental, emotional, social or behavioral problems.

EI programmes are usually categorised in three folds: (1) Primary Intervention - intervene with universal or targeted population to prevent anticipated problem from happening; (2) Secondary Intervention - Intervene with at-risk population to weed out early signs and prevent more acute problems; and (3) Tertiary prevention - intervene with an affected population to alleviate current behavioral issues and prevent its re-occurrence (Feldman, 2004). Programmes funded by PFS are usually considered as secondary or tertiary prevention where focus is placed on youths who are

already convicted or at a disadvantaged position. It is believed that EI would bring about meaningful and long-term impact to the targeted population, their families, and of course, the society, which is also the premise of PFS.

Take recidivism as an example. The cost of jailing a person in the U.S. ranges from \$19,000 to \$26,000 per annum. It is a huge financial burden for state governments because the total cost of prison to taxpayers was USD39 billion. (Henrichson & Delaney, 2012) Also, considering the rate of reoffending can be as high as 50%, the use of PFS allows government, intermediaries or service providers to come up with successful intervention programmes, especially at an early stage, to reduce public expense on remediation services in the future.

Apart from behavioral problems, preventive healthcare services, another potential area for PFS programmes, could also bring upon long-term cost savings for the government.

According to the Center for Disease Control and Prevention (2010), 70% of deaths in the US are caused by chronic conditions such as cardiovascular diseases, asthma,

diabetes and cancer. Most of these diseases can often be delayed or even be avoided by altering one's health behavior such as limiting alcohol consumption or increasing physical activity (Raghupathi & Raghupathi, 2017; Institute of Medicine, 2011). Apart from chronic diseases, infections or influenza also requires preventive measures (Institute of Medicine, 2011).

Screening, testing, counselling, immunisation, preventive medication and preventive treatments are all considered preventive intervention.

(Institute of Medicine, 2011; National Business Group on Health, 2005) It is found that the increased use of clinical preventive services such as obesity screening and breast cancer screening could save at least 2 million life years annually (Maciosek et al., 2010).

It would be of great benefit for our society to adopt preventive-based social services. Not only does it correct individual behaviors but it also contributes to city or national-level well-being in the long run.

### 3.4 Mobilising private capital and developing social impact investment ecosystem

Private businesses can participate in PFS as an investor. PFS allows them to deliver social impacts, while, at the same time, provide them with financial return. The fund obtained from the investors will be used to support a particular social programme in delivering a social impacts. Unlike traditional investment where the

return is based on the revenue generated from the programme, PFS allows private business to invest in programmes which cannot generate revenue itself, but can help government in public cost saving. It essentially opens up channels for private businesses for social impact investment.

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CHAPTER 4

OVERSEAS  
CASE STUDIES  
FOR PFS

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# 4

## OVERSEAS CASE STUDIES FOR PFS

Developed countries like the UK, the US and Australia have already implemented PFS into their public finance system with favourable results. Their experience can serve as a reference for the Hong Kong government.

### 4.1 The United Kingdom

The United Kingdom is the home to the first-ever PFS, or SIB as they call. In 2010, Social Finance, a financial intermediary, submitted a proposal to Ministry of Justice on a preventive programme, One Service, targeting recidivism for 3,000 offenders who serve short prison sentences (less than 12 months) at HMP Peterborough. They were able to raise £5 million from 10 foundations.

The contract was awarded to four organisations, including St. Giles Trust, Ormiston Children and Families Trust, YMCA and SOVA. The first two placed emphasis on the immediate needs, such as accommodation, medical services and family support, of offenders and their family members before and after the release. The latter two then assign volunteers to support the targeted group over the subsequent amount of time along with the long-term objectives. (Social Finance, 2011)

In the following section, we will cover the characteristics of each country in terms of their approach in developing PFS. An overview of their PFS deals can be seen in Appendix B.

Even though the UK has yet to implement investment policy regarding Social Impact Bond, the Office for Civil Society established The Centre for Social Impact Bond which aims to catalyse the development of PFS. The organisation strives to provide guidance, share information regarding outcome-based contracts and work with service providers, academia and other relevant stakeholders.

In July 2016, the Centre partnered with Blavatnik School of Government at University of Oxford on a project called Government Outcomes Lab (GO Lab) where academic research and practitioner engagements are used to (i) enhance the understanding and existing research on outcome-based commissioning, and (ii) evaluate the effectiveness of such model vis-à-vis the alternatives to support related authorities that intend to utilise the outcome-based model.

On top of that, the Centre spared no effort in developing a variety of funding schemes for different types of SIB projects:

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## 4.1.1 Funding Schemes

Over the course of 7 years, the UK government has participated in more than 30 PFS projects. To ensure the projects are properly financed, six funding schemes were established:

(i) Innovation Fund: Developed by the Department for Work and Pensions in 2011, the GBP30 million fund intended to address issues faced by disadvantaged youth that are aged 14 and over by re-engaging them with education, training and employment.

(ii) Youth Engagement Fund: Co-established by Department for Work and Pension as well as the Cabinet Office, the GBP16 million fund is to tackle the attainment gap and decrease the number of young people who become NEET by improving their employability and reducing their dependency on benefits in the long run. (Cabinet Office, 2014)

(iii) Fair Chance Fund: A GBP15 million fund that would be channelled to tackle youth homelessness in the UK. The funding, comprised of GBP10 million from the Department for Communities and Local Government (DCLG) and GBP5 million from the Department for Digital, Culture, Media and Sport (DCMS), is being distributed in the form of SIBs between seven new projects. (Department for Communities and Local Government, 2014)

(iv) Social Outcomes Fund and Commissioning Better Outcomes Fund: Established by the Cabinet Office and Big Lottery Fund in 2013,

the GBP60 million fund would jointly support the development of SIB. The former (GBP20 million) intended to foster innovative approaches in tackling complex issues using outcome-based commissioning whereas the latter ( GBP40 million) is to enhance the lives of marginalised population.

(v) Life Chance Fund: In 2015, the UK government poured GBP80 million to Life Chance Fund for locally commissioned SIB projects. It aims to help the marginalised population, such as elderlies and disabled, to lead a happy and productive life. (Cabinet Office, 2016)

(vi) The Rough Sleeping Prevention Fund: Announced by Prime Minister Theresa May and Communities Secretary Sajid Javid in 2016, the GBP10 million outcome fund for Social Impact Bonds targets long-term homelessness by developing a holistic and multi-agency approach in local areas. (Cabinet Office, 2016)

Apart from these funding schemes, the Cabinet Office developed the 'Social Investment Tax Relief' (SITR) where eligible investments could lead to deductions of up to 30% of the cost of the investment from investors' income tax liability. In order to claim the tax reduction, investors have to opt for accredited social impact contractors as defined in the Guidance Document released in early 2016.

## 4.2 The United States

The US comes close second when it comes to the introduction of PFS.

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### 4.2.1 First PFS in the States

The first PFS - The NYC ABLE Project for incarcerated youth is introduced in 2013. Launched by the New York City Department of Correction, the programme aimed to lower the recidivism rate among 10,000 detained and sentenced adolescents at Rikers Island Prison through cognitive behavioural therapy services. MDRC, the

intermediary, raised a total of USD16.8 million from Goldman Sachs (USD9.6 million) and Bloomberg Philanthropies (USD7.2 million). However, based on the evaluation of Vera Institute of Justice, the pre-defined targets were not achieved and the programme had to be discontinued in 2015. (Olson & Phillips, 2013)

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### 4.2.2 Federal participation

Having said that, the Obama Administration spared no efforts in promoting PFS. In Fiscal Year 2014, former US President proposed a USD300 million PFS incentive fund to be managed by the Department of Treasury to support public-private partnerships within cities and states.

An extra USD 195 million was also proposed to support PFS programmes led by three federal departments: Department of Labor, Department of Justice and Department of Education. (Office of Economic Development Finance, 2014)

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### 4.2.3 State participation

One of the characteristics of the US PFS projects is the involvement of State government. Contrary to the case of the UK where projects are often managed by the Cabinet Office, different states in the US would initiate

their own projects. Up till now, four States have already passed their own legislation on PFS or Social Investment, including California, Connecticut, Massachusetts and Minnesota.



### **California - Public Social Service under the Welfare and Institutions Code**

Specified under the California Welfare and Institutions Code, the State Department of Health Care Services and the countries contracting with the department on 'Health Home Programme' (a Medicaid health home that serves patients with multiple chronic conditions which includes physical health, behavioral health, and community-based long-term services) 'may enter into risk-sharing and social impact bond programmes' under the agreements under the article for Health Homes for Medi-Cal Enrolees.

### **Connecticut - Social Innovation Investment Enterprise: Social Innovation Account**

This Bill allows the Secretary of the Office of Policy and Management to enter outcome-based performance contract with a social innovation investment enterprise (intermediary) where performance standards for preventive social programmes would be established for non-profit service providers. Investors in the social investment vehicle (investment product) shall receive an interest / return of their investment only if the standards are met. (Connecticut General Statutes, 2015)

The payment towards investors should be drawn from the Social Innovation Account where the Secretary could 'apply for and accept gifts, grants or donations' from the public or private domain.

### **Massachusetts - Social Innovation Financing Trust Fund**

Established under the General Laws, the Social Innovation Financing Trust Fund intends to fund PFS to improve outcomes and reduce cost for government services. The PFS contracts can cost up to USD50 million and are 'backed by full faith and credit' of the Commonwealth of Massachusetts.

The Secretary of Administration and Finance, as a trustee of the fund, should manage the fund and provide annual report on all the PFS contracts to the House and Senate committees. (General Court of the Commonwealth and Massachusetts, 2012)

## Minnesota - Pay-for-Performance Act

In 2011, the Pay-for-Performance Act specified the implementation of a pilot programme to showcase the feasibility of using 'appropriation bonds' to pay for certain government services based on the outcomes for the people served.

There would be an oversight committee, composed of commissioners of the Department of Human Services, Employment and Economic Development, Administration, as well as a representative of a non-profit organisation, with experience in performance contracting, to administer and implement the pilot.

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### 4.2.4 Participation of investment banks

The participation of investment banks is another feature of PFS in the US. Unlike the UK and Australia where projects are usually funded by family foundations or impact investing firms, a number of the PFS initiatives in the US are funded by Goldman Sachs, one

of the largest investment banks in the country. From 2012 to 2014, the firm has already invested more than USD20 million on four PFS initiatives. Table 3 would provide further details on investment banks' participation in PFS.

Table 3. Investment banks' participation in PFS in the US

Year	Project Name	Investors (amount invested in USD million)	Total Amount (in USD million)	Outcome Metric
2012	New York City ABLE Project for Incarcerated Youth	Goldman Sachs (9.6) , Bloomberg (7.2)	16.8	<ul style="list-style-type: none"> <li>Decrease in readmission rate to prison</li> </ul>
2013	Utah High Quality Preschool Program	Goldman Sachs (4.6) , J.B. Pritzker (2.4)	7	<ul style="list-style-type: none"> <li>Years of special education (remedial education) avoided</li> </ul>
2013	Rochester and New York City - Increasing Employment and Improving Public Safety	Private placement served by Bank of America Merrill Lynch (13.5) and Rockefeller Foundation (1.32)	14.82	<ul style="list-style-type: none"> <li>Employment</li> <li>Average number of days incarcerated</li> </ul>
2014	The Massachusetts Juvenile Justice Pay-for-Success Initiative	Goldman Sachs (8) , Kresge Foundation and Living Cities (2.66), Others (5.45)	16.1	<ul style="list-style-type: none"> <li>Decrease in incarceration</li> <li>Number of quarters that a participant is employed as compared to similar young men who are not in the programme</li> </ul>
2014	Chicago Child-Parent Center Pay-for-Success	Goldman Sachs and Northern Trust Corp.	16.9	<ul style="list-style-type: none"> <li>Decrease in special education</li> </ul>
2016	Connecticut Family Stability Pay-for-Success Project	BNP Paribas, QBE Insurance Group Ltd, Reinvestment Fund, Doris Duke Charitable Foundation, Laura and John Arnold Foundation, Nonprofit Finance Fund, Two Family Foundation	11.2	<ul style="list-style-type: none"> <li>Prevented out-of-home placements</li> <li>Prevented referrals to Department of Child and Family (DCF)</li> <li>Reduction in substance use</li> <li>Successful Family-based Recovery enrolment</li> </ul>

Source: Brookings Institute (2015), Social Finance

## 4.3 Australia

The development of PFS, or SBB as they call, in Australia is not as rapid as that in the UK and the US.

In 2013, the New South Wales government pioneered Australia's first two SBB in the hope of bettering the service delivery and helping people at risk.

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### 4.3.1 Newpin

Launched by the Family and Community Services, the first SBB pilot: the Newpin bond where centre-based family therapy programmes are given to more than 700 families (around 1,400 children) (with at least one child who has been under 'out of home care' or at risk of serious harm) for 18 months.

Social Ventures Australia (SVA), the intermediary, was able to raise AUD7 million for the 7.25-year project from 59 investors, ranging from high-net-

worth (HNW) individuals to trusts and foundations.

The SVA would publish annual investors' reports to track the progress of the project. In 2016, the organisation saw a great success in the project where 130 children were able to return to their families under the service of Unitingcare Burnside. Investors received a 12.5% per annum financial return as well. (Social Ventures Australia, 2016)

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### 4.3.2 Benevolent Society

Benevolent Society SBB is the second pilot concerning the same social issue as Newpin. The SBB supports the Benevolent Society's Resilient Families programme, where they work with up to 400 families with children (under 6) at risk of significant harm by the end

of 2018. It helps parents move onto a pathway where they feel empowered to keep their children safe.

Benevolent Society, being both the intermediary and service provider, was able to raise AUD10 million from

Westpac Banking Corporation and the Commonwealth Bank of Australia for the 5-year long project.

According to the latest investors' report, the organisation saw a 21% decrease in out-of-home care entries

from the intervention group compared to the control group. Investors were able to receive a 6% to 10% financial return. (The Benevolent Society, 2016)

For the information of more recent SBB developed by the Australian government, please refer to Appendix B.

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### 4.3.3 Social Impact Investment Policy

Having seen the success of the pilots, the NSW government decided to establish a Social Impact Investment Policy to increase the social impact investment transactions. To achieve this goal, a dedicated office of social impact investment has been established with the joint effort of Department of Premier and Cabinet and the Treasury. Their work would be supervised by the NSW Social Impact

Investment Expert Advisory Group, composed of both government and non-government professionals.

The office would also collaborate with government departments and key players, such as service providers and investors, work smoothly along the development process. (NSW Government, 2015)

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### 4.3.4 Lesson Learned

The diversified funding streams in the UK, participation of investment banks in the US as well as the implementation of social impact investment policy in Australia can serve as a reference to the Hong Kong

government when it comes to the implementation and development of PFS. However, the difference in social context might affect how Hong Kong adopts the aforementioned mechanism.

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CHAPTER 5

# CHALLENGES



# 5

## CHALLENGES

While there are a number of potential benefits to Hong Kong as discussed in Chapter 3 and successful foreign cases

laid out in Chapter 4, implementing PFS comes with challenges which will be discussed in this chapter.

### 5.1 Complexity of contracts

One of the biggest hurdles in implementing PFS is the extensive amount of financial and human resources involved in the negotiation process. Unlike regular financial instruments, such as bonds, where precedent mechanism has already been established, the development of each PFS project and contract require extensive stakeholder engagement. Considering the number of people who are involved, the contracting procedure could get really complex. According

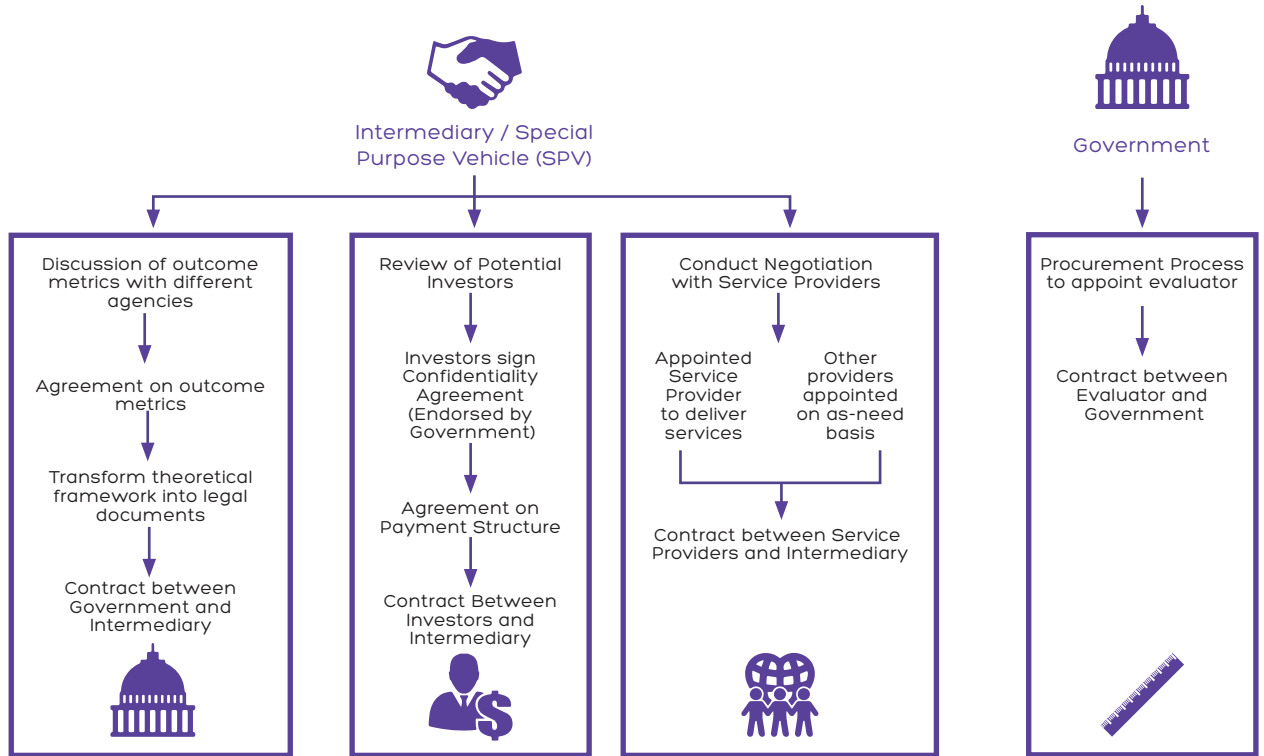
to the evaluation report published by the Cabinet Office on the performance of the Peterborough project, Social Finance invested '2.5 person-years of resources and more than 300 hours of legal advice' (2011, P.15) to develop a single PFS project.

If we take a closer look at the contractual arrangements in Figure 5, it is discovered that at least 4 separate types of contracts have to be signed under the PFS structure:

- 
- Government and Intermediary
  - Investors and Intermediary
  - Service Providers and Intermediary
  - Government and Evaluators



Figure 5. Reference for PFS Contractual Arrangement



Data Source: Disley et al. (2011)

## 5.2 Limited scope of impact investing in Hong Kong

Impact Investment consists of a wide range of financial instruments such as equity and loans that seeks financial return but also attempts to achieve measurable social return. (OECD, 2015).

As shown in the Figure 6, impact investment is neither traditional investments with considerable financial return nor charitable grants where no financial return is expected. It aims to deliver social impacts, while, obtaining financial return at the same time.

The scope of the impact investing is not quite developed. RS Group is one of the leading institutes in impact investing. As of 2015, its investment in Hong Kong/China accounts for just 5.8% of its portfolio. The North American and European counterparts account for 40.8% and 30.3% respectively. (RS Group 2016). Lack of investment opportunities can be one of the factors explaining the small share of portfolio in Hong Kong. Apart from investment opportunities, investors in Hong Kong or China also lack interest in this kind

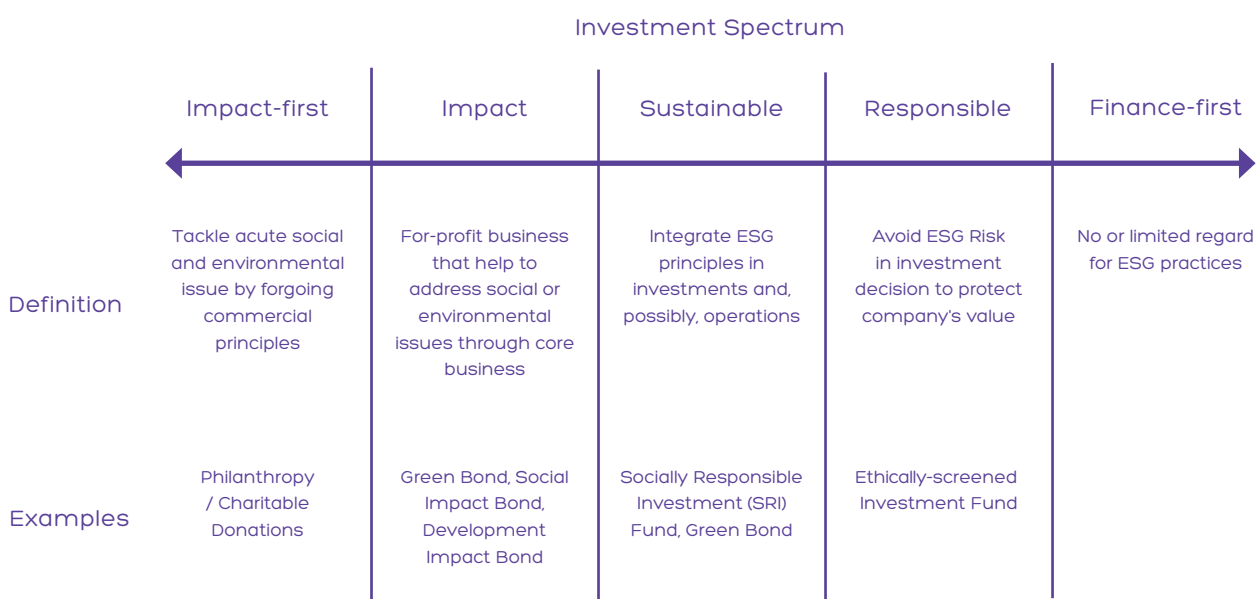
of investment. Out of 1,821 signatories of the United Nations Principles for Responsible Investment (UNPRI), 1,103 and 343 of them are from Europe and US respectively, only 8 are from China and 20 are from Hong Kong.

We believe that our government can catalyse the impact investment market through public policies, which would ultimately build a demand for innovative financial instruments such as PFS. A recent report published by the Asia Community Ventures in 2014 suggested the Hong Kong government to embrace the *Impact Investing Policy Collaborative (IIPC) London Principles* in

policy design and leverage its position as an international financial centre to build a social finance and innovation hub for China and the rest of Asia. (Alto & Wong, 2014).

In 2014, Pacific Community Ventures and the Kennedy School of Harvard University published a report titled *Impact Investing Policy in 2014: A Snapshot of Global Activity*. By looking at different examples across the globe, especially the UK and the US, the authors highlighted the role of public policy in facilitating, initiating and supporting the impact investment markets.

Figure 6. Investment Ecosystem



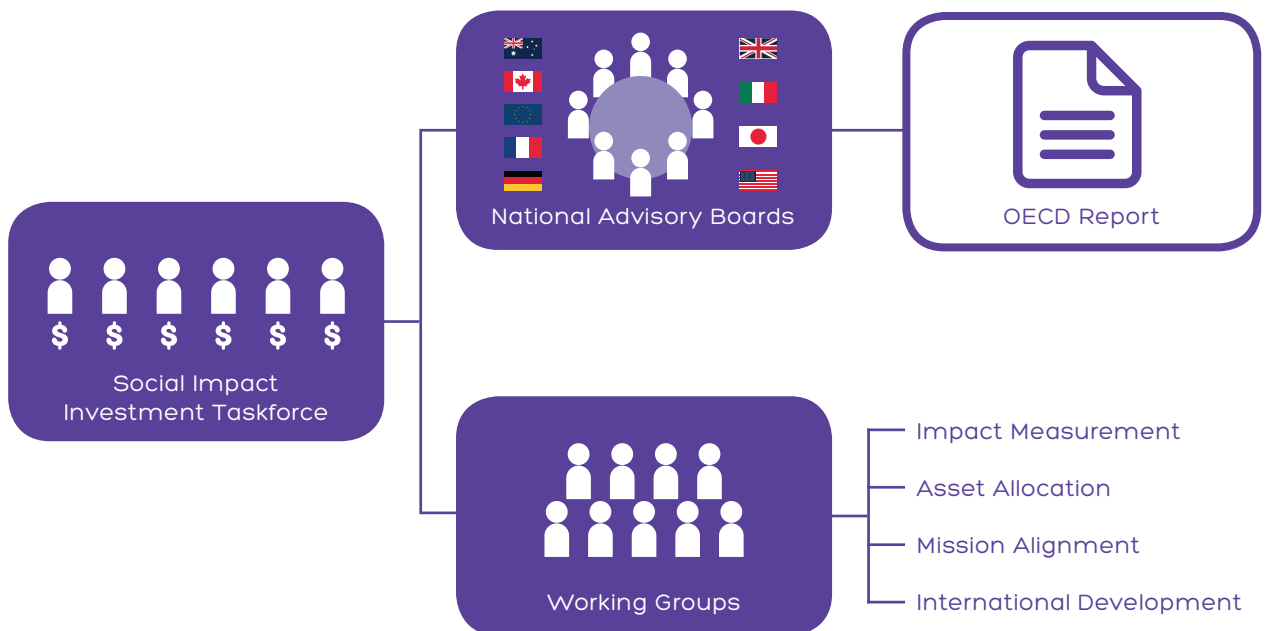
Source: OECD, Bridges Venture

### 5.2.1 International collaboration

In 2013, David Cameron, former Prime Minister of the United Kingdom announced the establishment of G8 Social Impact Investment Taskforce (SIIF) at the G8 Social Impact Investment Forum in the hope of

catalysing the impact investment market. Participating countries include the UK, Canada, European Union, France, Germany, Italy, Japan and the US.

Figure 7. Structure of the G8 Social Impact Investment Taskforce



Source: Pacific Community Ventures and Kennedy School of Harvard University

They published a report on Impact Investment in 2014 to advocate for a paradigm shift in the capital market. Instead of just looking at risk and return, impact should also be taken into account to ensure that finance could build a healthy society. (Social

Impact Investment Taskforce, 2014)

Because of the increase in membership, the Global Social Impact Investment Steering Group was formed in 2015 to continue the work of G8 SIIF.

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## 5.2.2 The United Kingdom

In 2000, the UK Social Investment Forum, in partnership with the New Economics Foundation and the Development Trusts Association established the Social Investment Task Force to focus on community development finance to tackle the needs of impoverished communities. Their long-term goal is to move UK away from a culture of dependence and philanthropy and replace it with entrepreneurship and empowerment among the community. (Social Investment Task Force, 2000)

Led by Sir Richard Cohen, co-founder of Social Finance and Big Society Capital, the task force published a report on social impact investment with four major recommendations: (1) Community Investment Tax Relief, (2) First Community Development Venture Capital Fund, (3) Encourage trusts and foundations to invest in

community development finance, and (4) Support community development financial institutions. (Social Investment Task Force, 2000)

As of 2015, social investment in the UK has reached GBP1,500 million and two-thirds of the amount was invested in charities and social enterprises (Big Society Capital, 2016). Even though it is considered small by the UK government, a large number of social organisations showed strong interest in such form of investment. To better the current impact investment scene, the UK National Advisory Board intended to devote time and resources in expanding the demand by improving the capacity of social organisations as well as transforming the culture of government procurement so that more opportunities are opened up to social organisations in need of investments (Henry & Craig, 2013).

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## 5.2.3 The United States

Starting from the 1950s, the US government has already begun their work on impact investment. They have achieved several breakthroughs in recent years, especially under the Obama Administration. The expansion

of Small Business Investment Company Impact Fund and the establishment of the Office of Social Innovation and Civic Participation are two of the major efforts made in recent years.

## Small Business Investment Company (SBIC) Impact Fund

As part of the Start-Up America Initiative, former President Obama announced a new federal fund for impact investment back in 2011. Originally developed in 1958, the SBIC Impact Fund aims to support small business investment companies that maximise financial return while achieving tangible social, economic and environmental impact.

The SBIC would raise funds from institutional investors and private equity fund managers while providing license and capital to fund managers who operate SBIC under the scheme. These organisations either have to (1) reside in low or moderate income (LMI) areas or (2) be identified as federal priority sectors.

## Office of Social Innovation and Civic Participation

Founded by former President Obama in 2009, the Office of Social Innovation aims to achieve better outcomes for individual and communities by devoting limited resources for greater impact.

By collaborating with private and third sector, the office hopes to (1) increase data availability and analytics, (2) devote resources on innovative mechanism e.g. Pay-for-Success, as well as (3) incentivise outcome-based achievements and build capacity of service providers.

## Social Innovation Fund

Under the Corporation for National and Community Service, the Social Innovation Fund (SIF) combines federal and private funding to provide grantees, which are usually community-based organisations, to aid the cause of youth development, economic opportunity and healthy future.

### 5.3 Lack of financial motivations for Hong Kong government

The reason why PFS is prevalent among the UK and the US is the severe financial deficit faced by the government of both countries. According to Table 4 and Table 5 , the amount of deficit of both UK and US government could hit as high as GBP98.7 billion and USD1.29 trillion respectively. In order for them to finance existing social service programmes without putting extra strain on their budget, pulling in private resources would be the best option.

Regarding Hong Kong where there are tens of billions of dollars of budget surplus each year (see Table 6), the local government might not have the incentives to initiate financial instrument for social services. Looking at the current fiscal situation, there might not be any immediate financial need for the government to incorporate private funding into social service programmes.

Table 4. UK Financial Budget

Year	Budget Surplus/(Deficit) (GBP billion)
2010-2011	(98.7)
2011-2012	(92)
2012-2013	(91.9)
2013-2014	(71.6)
2014-2015	(57.0)
2015-2016	(40.1)

Data Source: HM Treasury

Table 5. US Financial Budget

Year	Budget Surplus/(Deficit) (USD billion)
2010-2011	(1,294)
2011-2012	(1,300)
2012-2013	(1,087)
2013-2014	(680)
2014-2015	(485)
2015-2016	(438)
2016-2017	(585)

Data Source: The White House

Table 6. Hong Kong Financial Budget

Year	Budget Surplus/(Deficit) (HKD billion)
2010-2011	75.1
2011-2012	73.7
2012-2013	64.8
2013-2014	21.8
2014-2015	72.8
2015-2016	14.4

Data Source: The Treasury

Despite the aforementioned challenges, we believe the long-term benefits of having PFS far outweighs the administrative and compliance costs. Not only will it open up the impact investment market, it will also potentially reduce the structural deficit

predicted by the government in 2013. In the following chapter, we will present four policy considerations to help government overcome the challenges and incentivise the stakeholders for PFS.

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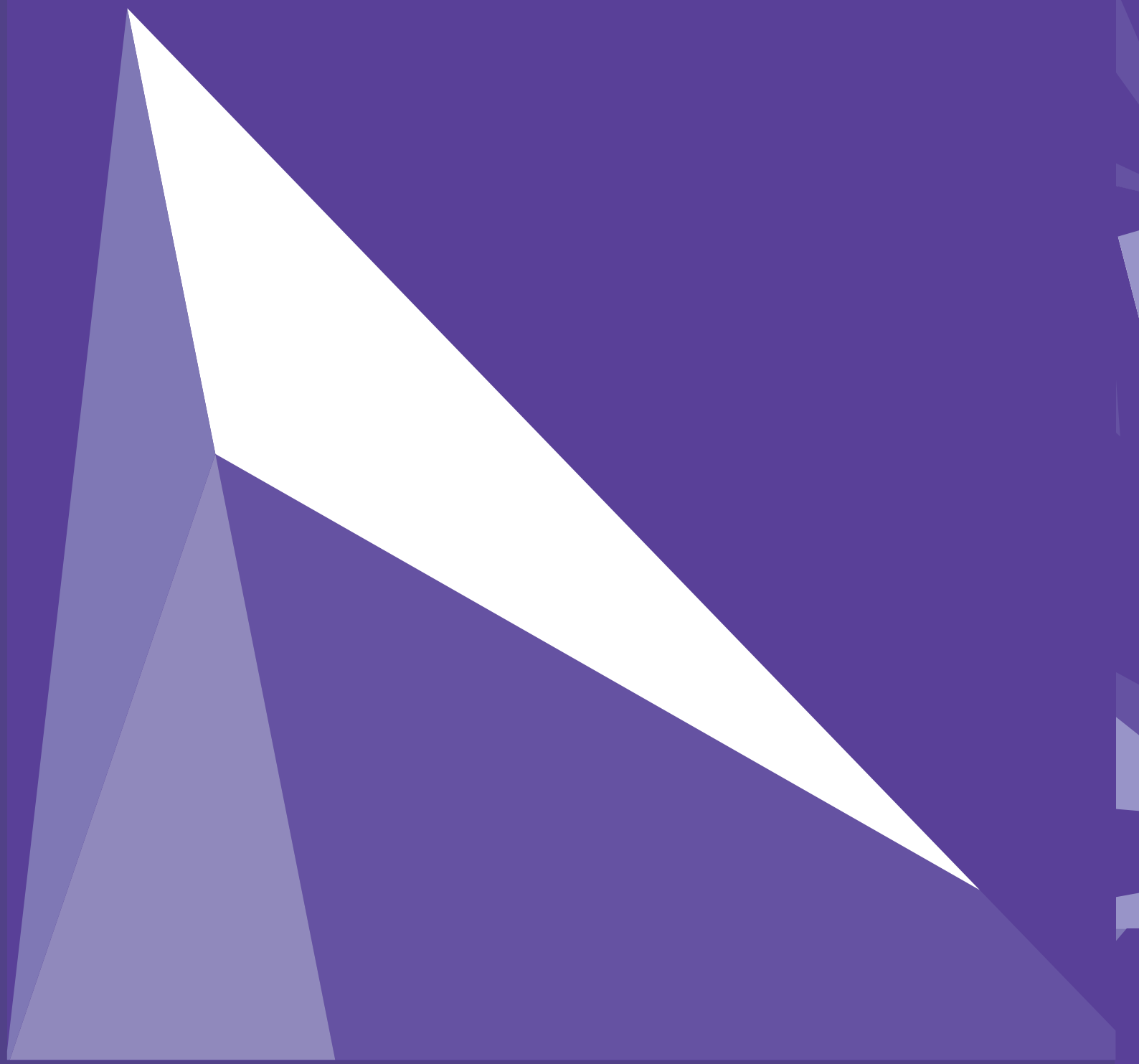
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CHAPTER 6

# CONSIDERATIONS



# 6

## CONSIDERATIONS

### 6.1 Encourage the use of Social Impact Assessment (SIA)

In order to implement PFS effectively, well-established social value database is essential. There are two types of data required for the database, which is the evidence database and valuation database for social impact, corresponding to the two stages of SIA. The SIA procedure in PFS could be simplified provided that the databases are available. The content of evidence is related to the proof of existence of social impacts from different types of interventions; while valuation database provides the monetary values of the proved impacts.

Let's take the social value database in the US as an example. According to the Washington State Institute for Public Policy (WSIPP, 2017), the annual cost incurred with one more case of type 2 diabetes case was estimated to be around USD2,418. If the US government plans to implement a PFS programme in which the targeted outcomes are reducing number of type 2 diabetes patients, the step of valuation of outcomes can be simplified because the monetary value of per unit outcome of the project is already available.

However, the social value data available overseas may not be applicable to Hong Kong. Currently,

in the health and medical aspect, research studies are mainly carried out at the Li Ka Shing Faculty of Medicine, the University of Hong Kong and the Faculty of Medicine, the Chinese University of Hong Kong. Both centres build registry systems for those clinical studies in local sites respectively. By the end of July, over 2500 clinical studies have been registered in either HKU Clinical Trials Centre or CUHK Centre for Clinical Research and Biostatistics (HKU Clinical Trials Registry, 2017 & CCRB Clinical Trials Registry, CUHK, 2017). Although these studies usually provide evidence-based analysis of health outcomes (e.g. the five-year survival rates for cancer patients), a centralised and comprehensive database integrating the results of these clinical studies is not well-established. Interested parties may need to go through a detailed process of literature review and summarise the results by themselves.

While these studies provide clinical evidence stating whether a drug, procedure or medical device is effective in achieving a health outcome, the monetary value of the health outcome (e.g. the cost saving for government if survival rate of a cancer patient is increased by 5%) is seldom the point of interests.

Having considered the current situation in Hong Kong, the Hong Kong government could build a social value for evidence and valuation of social impacts in the hope of accurately estimating the associated government cost saving via PFS.

The consideration echoes OHKF's previous report "Social Innovation for a Better Hong Kong". In order to establish the above databases, government should firstly employ SIA in its policy formulation processes and establish guideline similar to the Green Book in UK. The evidence and values of policy impacts can then be accumulated to form the databases.

Moreover, government is also advised to set up evidence-advisory units like What Work Centers (WWCs) in the UK. WWCs, a network of centres evaluating and reviewing existing policies, were established in 2013. Each centre is regarded as an independent advisory unit to the government. Non-government professionals from different policy aspects like economists and social scientists are invited to collaborate on researches in public policy and make suggestions based on their findings and evidence.

The government should consider collaborating with universities to set up evidence-advisory units. These units have two functions (i) conduct evidence-based analysis of project outcomes to produce evidence database and (ii) valuation of the outcomes to build valuation database. Specifically, revealed preference can be used in the valuation stage to estimate the cost savings for the government. Moreover, a centralised database gathering these data should be well-established. Related parties can, then, conveniently estimate the monetary benefit of projects' targeted outcomes. Government should also increase its senior officials' awareness of SIA.

## 6.2 Social impact investment policy and standardisation of contracts

With reference to the NSW Government, the Hong Kong government can establish a social impact investment policy and identify a department to pilot PFS programmes as soon as possible. The policy should also outline a standard for PFS contracts to lower the cost for legal procedures.

Both UK and Australian government have developed their own sample contracts for SIB/SBB. (Cabinet Office & Department for Culture, Media and Sports, 2017; NSW Treasury, 2015) Take the New South Wales government as an example, with the help of the NSW Crown Solicitor's office and King & Wood Mallesons, the Office of Social Impact Investment succeeded in standardising a total of 11 legal documents for their Social Benefit Bond programmes.

Ranging from Implementation Deed to Direct Agreement, the authority guides the related parties through different stages of the PFS. Here is some information of the selected sample contracts (NSW Treasury, 2015):

**Implementation Deed:** It sets out the contractual agreement between relevant government departments and stakeholders for providing services and issuing bonds.

**Information Memorandum:** A sample document for potential

investors regarding the information of service providers (and, if applicable, intermediary), proposed programme and the terms and conditions of the bond.

**Deed Poll:** A contract that demonstrates service providers and intermediaries' legal position to the investors and will perform its obligations throughout the programme.

**Trust Deed:** A contract that creates a charitable trust, which could be a special purpose vehicle for the programme.

**Management Deed:** An agreement that lists out the management of special purpose vehicle/intermediary.

**Direct Agreement:** A direct legal agreement between the government department and service providers.

As complicated as it seems, standardised contracts would expedite the development of PFS because it reduces the number of legal hours and amount of human resources spent on contract design and negotiation. Should the Hong Kong government implement the PFS for social service programmes, complementing it with standardised legal documents would mitigate the process for all the related parties.

## 6.3 Enhancing Environmental, Social and Governance (ESG) reporting for impact investment

As discussed in chapter 5, limited scope of impact investment remained one of the barriers for implementing PFS. There is only a few impact investment firms in the city like RS Group and Social Ventures HK. Demand for PFS is limited due to the lack of impact investment opportunities.

It is necessary to encourage impact investments before a successful PFS is implemented.

In this regard, the HKEx could consider including impact investment as one of the aspects in the ESG reporting requirement.

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### 6.3.1 ESG Reporting requirement

According to the Main Board Listing Rules of the HKEx, listed companies must disclose ESG information annually in compliance with the HKEx Environmental, Social and Governance Reporting Guide (ESG Reporting Guide) (HKEx, 2017). The ESG reporting guide consists of two disclosure obligations: (i) 'comply or explain' provisions and (ii) recommended disclosures.

Currently, the guide comprises two areas (environmental and social) as listed in Table 7. Let's use the community investment aspect as an example. Listed firms in HKEx are

required to disclose their policies on community engagement to show their understanding on the needs of the communities. Otherwise they have to give an explanation to justify their non-disclosure acts.

On the other hand, key performance indicators to be published are only recommended to be disclosed. According to a survey on 'ESG Reporting of Hong Kong Listed Companies' conducted by the BDO Hong Kong, around 44% of companies disclose data in the aspect of community investment (BDO Hong Kong, 2017).

Table 7. Areas and aspects in ESG reporting guide

Subject Area A - Environment	Subject Area B - Social
A1 - Emissions	B1 - Employment
A2- Use of resources	B2 - Health and safety
A3 - The environment and natural resources	B3 - Development and training
	B4 - Labour standards
	B5 - Supply Chain Management
	B6 - Product responsibility
	B7 - Anti-corruption
	B8 - Community investment

Source: Environmental, Social and Governance Reporting Guide, HKEx

### 6.3.2 Including impact investment as an aspect in ESG reporting guide

In order to expand the current market for impact investment, we propose that the government includes a new aspect regarding impact investment in ESG reporting.

For example, in ‘comply or explain’ provisions, listed companies are required to disclose policies on investing in for-profit projects and companies in which social or

environmental issues are addressed in their business models. Some recommended KPIs in this aspect may include social impacts which will be created by the invested projects and the amount invested in these projects. By including impact investment in the ESG reporting guide, the impact investment market can be expanded because of following reasons.

- 
- Raise awareness on impact investment

If more information on impact investment is disclosed in the market, stakeholders (e.g. public, individual investors, fund managers etc.) may start to realise the importance and opportunities of impact investment.

- incentivise listed companies to increase impact investments

According to the consultation paper on review of the ESG reporting guide released by HKEx in 2015, there was a greater demand for non-financial information in the market. This means that companies are expected to release more information in a broader area. If an aspect of impact investment is included in the ESG report, listed firms have incentives to make efforts on impact investments and publish these information with the aim of attracting more investors.

## 6.4 Facilitate the development of social finance intermediaries

As mentioned in section 5.2, Hong Kong has a rather limited scope of impact investors, who, oftentimes, act as intermediaries for PFS contracts. Given the extensive responsibilities of an intermediary, it is almost infeasible to push forward PFS in the city without it. In this case, we suggest the government to take the lead by encouraging investors and non-profits to step into PFS deals.

Unlike UK and the US where numerous organisations were ready for PFS, Hong Kong government has to take the initiative to facilitate the collaboration between both investors and non-profits.

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# CONCLUSION

Given the current climate within the social welfare sector where attention is usually placed on remedial services, we suggest the government implement Pay-for-Success (PFS), an innovative yet practical financial instrument, to alleviate the increasing expenditure on social services and to fill in the existing service gaps by engaging the private sector.

Not only will it bring about long-term cost savings for the government, the PFS will also strengthen the assessment processes by taking outcomes into account. The participation of the private sector also means that the government does not have to bear all the financial risk should the programme fail.

To better the long-term fiscal performance of the Hong Kong government, a collaborative approach towards social problems is essential. We believe Pay-for-Success would be a viable solution where the government, the private sector and the third sector can come together to better the lives of our people.

## APPENDIX A

### Overview of performance standards of social services

Table A1. Elderly Services Performance Standards

Elderly Services Performance Standards		
Name	Output-based Indicators	Outcome-based Indicators
Care and Attention Homes	3	0
Combined Homes	3	0
Day Care Centres for Elderly	4	0
Day Care Centre/Unit for the Elderly	5	1
Dementia Supplement	-	-
District Elderly Community Centre (DECC)	11	6
District Elderly Community Centre cum Day Care Unit	15	7
District Elderly Community Centre cum Day Care Unit and Neighbourhood Elderly Centre	26	15
Emergency Placement (under residential care homes for the elderly)	-	-
Holiday Centre for the Elderly cum Day Care Unit	7	2
Infirmiry Care Supplement (Under residential care)	-	-
Infirmiry Unit (Under care and attention home)	-	-
Integrated Home Care Services	12	0
Neighbourhood Elderly Centre (NEC)	9	6
Nursing Homes	3	0
Respite Service	2	0
<b>Total</b>	<b>100</b>	<b>37</b>

Source: Social and Welfare Department

Table A2. Family and Child Welfare Performance Standards

Family and Child Welfare Performance Standards		
Name	Output-based Indicators	Outcome-based Indicators
Agency-based Enhancement of Professional Staff Support Services in RCH	2	0
Child Care Centre	4	0
Children's Home	3	0
Children's Reception Centre	4	0
Community Education on Prevention of Child Abuse	5	2
Cross-boundary and Inter-country Casework Service	7	7
Emergency/Short-term Care in Small Group Home	4	0
Enhancing Support to People in Financial Distress	4	0
Family Aide	3	0
Family Crisis Support Centre	6	3
Family Life Education	4	0
Family Support Activities in Occasional Child Care Service Unit	1	0
Foster Care	6	3
Foster Care (Emergency)	7	3
Hotline and Outreaching Service Team	5	4
Integrated Family Service Center	5	4
Integrated Service for Street Sleepers	7	4
Inter-country Adoption Service	5	0
Multi-purpose Crisis Intervention and Support Centre	9	2
Occasional Child Care Service in Pre-primary institution	1	0
Occasional Child Care Service with Family Support Activities in Pre-primary Institutions	1	0
Residential Care	5	0
Residential Nursery	5	0
Service for Abused Women - Refuge Centre for Women	8	0
Small Group Home	3	0
Suicide Crisis Intervention Centre	12	5
Temporary Shelter/Hostel for Street Sleepers	2	0
Victim Support Programme for Victims of Family Violence	9	2
Web-Engagement Service Attached to Suicide Crisis Intervention Centre	2	0
<b>Total</b>	<b>139</b>	<b>39</b>

Source: Social and Welfare Department

Table A3. Rehabilitation Services Performance Standards

Rehabilitation Services Performance Standards		
Name	Output-based Indicators	Outcome-based Indicators
Additional Allocation to Social and Recreational Centre for the Disabled (S&RC), Additional Service in S&RC and Sign Language Interpretation Services attached to S&RC	8	0
Additional Service in Social and Recreational Centres for the Disabled (Additional Allocation commenced in October 2001)	4	0
Administration of the Support Programme for Employees with Disabilities	2	0
Agency-based Occupational Therapy Service	3	0
Agency-based Special Child Care Centre Service for Hearing Impaired Children	3	0
Care and Attention Home for Severely Disabled Persons	2	0
Care & Attention Homes for the Aged Blind	3	0
Commercial-hired Transport Service for People with Disabilities	1	0
Community Rehabilitation Day Centre	9	3
Community Rehabilitation Network	5	0
Day Activity Centres	4	0
Day Activity Centre and Hostel for Severely Mentally Handicapped Persons	6	0
Day Activity Centre cum Hostel	6	0
Day Care Service for Persons with Severe Disabilities Attached to Care and Attention Home for Severely Disabled Persons	2	0
Dementia Supplement for Elderly with Disabilities	-	-
District Support Centre for Persons with Disabilities	13	6
District-based Speech Therapy Team for Integrated Programme in Kindergarten-cum-Child Care Centre	5	0
Early Education & Training Centre	6	0
Extended Care Programme	2	0

### Rehabilitation Services Performance Standards (Cont'd)

Name	Output-based Indicators	Outcome-based Indicators
Extended Integrated Services to the Hearing Impaired At the Sub-base of Multi-service Centre for the Deaf	5	1
Extended Service in Rehabilitation and Training Centre for the Visually Impaired	4	0
Factory for the Blind	2	0
Halfway House	2	0
Home Care Service for Persons with Severe Disabilities	4	2
Hostel for Moderately Mentally Handicapped	2	0
Hostel for Severely Mentally Handicapped	2	0
Hostel for Severely Physically Handicapped Persons	2	0
Hostel for Severely Physically Handicapped Persons with Mental Handicap	2	0
Infirmary Care Supplement for Aged Blind Persons	-	-
Infirmary Units for Aged Blind Persons	-	-
Integrated Community Centre for Mental Wellness	10	3
Integrated Programme in Kindergarten-cum-Child Care Centre	2	0
Integrated Rehabilitation Services Centre	-	-
Integrated Service for Mildly Mentally Handicapped Children In Small Group Home	-	-
Integrated Support Service for Persons with Severe Physical Disabilities	11	2
Integrated Vocational Rehabilitation Services Centre	3	0
Integrated Vocational Rehabilitation Services Centre (with Special Provision for Commercial-hired Transport Service)	4	0
Integrated Vocational Training Centre	3	1
Integrated Vocational Training Centre (with residential service)	5	2
Long Stay Care Home	2	0
Multi-service Centre for Hearing Impaired Persons	3	0
Occasional Child Care Service for Disabled Children	1	0

Rehabilitation Services Performance Standards (Cont'd)

Name	Output-based Indicators	Outcome-based Indicators
On the Job Training Programme for People with Disabilities	2	3
Parents/Relatives Resource Centre (PRC) for Disabled Persons	7	0
Parents/Relatives Resource Centre (PRC) for Mentally Ill Persons	7	0
Professional Support Team to Parents/Relatives Resource Centre	7	2
Rehabilitation and Training Centre for the Visually Impaired	4	0
Residential Special Child Care Centre	4	0
Residential Special Child Care Centre cum Early Education and Training Centre	8	0
Residential Special Child Care Centre for Visually Impaired Children	4	0
Sheltered Workshop	2	0
Sheltered Workshop cum Hostel for Moderately Mentally Handicapped Persons	4	0
Small Group Home for Mildly Mentally Handicapped Children [SGH(MMHC)]	3	0
Social and Recreational Centres for the Disabled	2	0
Social and Recreational Centres for the Disabled (with Provision of Sign Language Interpretation Services)	4	0
Special Child Care Centre	3	0
Special Child Care Centre cum Early Education & Training Centre	7	0
Special Children Home for Mildly Mentally Handicapped Children	3	0
Special Provision Programme for Autistic Children in Special Child Care Centre	2	0
Sunnyway - On the Job Training Programme for Young People with Disabilities	2	3
Supported Employment	3	0
Supported Hostel	2	0
Transitional Care and Support Centre for Tetraplegic Patients	11	2
Visiting Medical Practitioner Scheme	5	0
Work Extension Programme	2	0
<b>Total</b>	<b>251</b>	<b>30</b>

Source: Social and Welfare Department

Table A4. Youth and Correctional Services Performance Standard

Youth and Correctional Services Performance Standards		
Name	Output-based Indicators	Outcome-based Indicators
Back-up Shelter Service for Young Night Drifters	1	0
Boys' Homes/Girls' Homes*	4	0
Boys' Hostel / Girls' Hostel	3	0
Care and Support Networking Team	5	4
Centre for Drug Counselling	8	4
Children and Youth Centres	5	0
Children and Youth Centres with Reading/Study Rooms	5	0
Children Centres	5	0
Children Centres with Reading/Study Rooms	5	0
Community Centre	7	0
Counselling Centre for Psychotropic Substance Abusers	13	5
Crisis Residential Service for Youth-at-Risk	4	2
District Youth Outreaching Social Work Teams	5	2
Family Support Networking Team (FSNT)	3	2
Half-way House Service for Ex-drug Abusers	2	1
Hotline Service for Youth-at-Risk	3	0
Integrated Children and Youth Services Centres (ICYSCs)	5	0
Integrated Children and Youth Services Centres with Community Support Service Scheme	9	4
Integrated Children and Youth Services Centres with Services for Young Night Drifter	9	3
Neighbourhood Level Community Development Projects	4	0
Non-medical Voluntary Drug Treatment and Rehabilitation Services	5	4
On-site Medical Support Service at Centre for Drug Counselling	6	1
Residential Service for Young Probationers	5	2
School Social Work	4	0
Services for Ex-offenders and Discharged Prisoners	36	0
Youth Centres	5	0
Youth Centres with Reading/Study Rooms	5	0
Youth Outreaching Teams	7	3
<b>Total</b>	<b>178</b>	<b>37</b>

Source: Social and Welfare Department

Table A5. Other Services Performance Standards

Other Services Performance Standards		
Name	Output-based Indicators	Outcome-based Indicators
Agency-based Clinical Psychological Service and Central Psychological Support Service	3	0
Clinical Psychological Service In Case Work Setting in SWD & NGO	3	0
Family Support Programme	2	0
Multi-programme Integrated Service (Type 1)	15	0
Multi-programme Integrated Service (Type 2)	19	0
Multi-programme Integrated Service (Type 3)	5	0
Relief and Assistance	1	0
Service Coordination and Development	17	0
<b>Total</b>	<b>65</b>	<b>0</b>

Source: Social and Welfare Department



## APPENDIX B

### Overview of PFS deals in the world

Table B1. Overview of PFS deals in the world

Programme Name	Country	Year	Social Issue	Deal Size (in USD million)	Intermediary	Number of Investors
ONE Service	United Kingdom	2010	Prison Recidivism	7.61	Social Finance UK	10
Triodos New Horizons	United Kingdom	2012	Unemployment	2.4	Triodos Bank UK	8
Think Forward	United Kingdom	2012	Unemployment	1.4	ThinkForward by Impetus-Private Equity Foundation	2
Links 4 Life Programme	United Kingdom	2012	Unemployment	0.444	Stratford Development Partnership	2
Advance Programme	United Kingdom	2012	Unemployment	4.8	Advanced personnel Management UK Ltd.	1
Nottingham Futures	United Kingdom	2012	Unemployment	2.72	Nottingham City Council	1
Living Balance	United Kingdom	2012	Unemployment	Not publicly available	Indigo Project Solutions	14 organizations and individuals
T&T Innovation	United Kingdom	2012	Unemployment	1.28	Social Finance UK	5
3SC Capitalise Programme	United Kingdom	2012	Unemployment	0.676	3SC	2
Energise Innovation	United Kingdom	2012	Unemployment	1.45	Social Finance UK	6
Prevista	United Kingdom	2012	Unemployment	Not publicly available	Prevista	Not publicly available
Street Impact	United Kingdom	2012	Homelessness	1.05	Triodos Bank UK	2 organizations and individuals
Thames Reach Ace	United Kingdom	2012	Homelessness	Not publicly available	Social Finance UK	2 organizations and individuals
Essex Family Therapy	United Kingdom	2012	Children at risk of requiring out-of-home care	4.99	Social Finance UK	8
It's All About Me	United Kingdom	2013	Barriers to adoption	3.1	IAAM Scheme	2
Local Solutions	United Kingdom	2014	Youth homelessness	0.86	Social Finance UK	Not publicly available
Your Chance	United Kingdom	2014	Youth homelessness	0.97	Social Finance UK	Not publicly available
Home Group	United Kingdom	2014	Youth homelessness	0.779	Numbers4Good	1
Fusion Housing	United Kingdom	2014	Youth homelessness	1.47	Numbers4Good	2

Table B1. Overview of PFS deals in the world (Cont'd)

Programme Name	Country	Year	Social Issue	Deal Size (in USD million)	Intermediary	Number of Investors
Ambition East Midlands	United Kingdom	2014	Youth homelessness	0.75	Triodos Bank UK	5
Aspire Gloucestershire	United Kingdom	2014	Youth homelessness	0.39	Triodos Bank UK	3
Rewriting Futures	United Kingdom	2014	Youth homelessness	1.61	Social Finance UK	Not publicly available
Manchester City Council Vulnerable Children	United Kingdom	2014	Barriers to family reunification or long-term foster care placement	2.01	Manchester City Council	1
Outcomes for Children Birmingham	United Kingdom	2014	Barriers to adoption	1.69	N/A	1
Way to Wellness	United Kingdom	2015	Long term health conditions	3.99	NewCastle West CCG	1
Mental Toughness Program	United Kingdom	2015	Behavioral, mental health and wellbeing issues	Not publicly available	N/A	1
Future Shapers	United Kingdom	2015	Youth Unemployment	Not publicly available	Triodos Bank UK	1
Reconnections Worcestershire	United Kingdom	2015	Social Isolation	2.66	Social Finance	3
Mental Health and Employment Partnership	United Kingdom	2016	Mental Health	Not publicly available	Social Finance	1
Turning the Tide Program	United Kingdom	2017	Childcare	Not publicly available	N/A	1
NYC ABLE Project for Incarcerated Youth	United States	2012	Prison Recidivism	9.6	MDRC	1
Utah High Quality Preschool Program	United States	2013	Limited access to Early Childhood Education	4.6	United Way of Salt Lake	2
Increasing Employment and Improving Public Safety	United States	2013	Prison Recidivism	14.82	Social Finance US	46
Juvenile Justice Pay for Success Initiative	United States	2014	Prison Recidivism	16.11	Third Sector Capital Partners	6

Programme Name	Country	Year	Social Issue	Deal Size (in USD million)	Intermediary	Number of Investors
Child-Parent Center Pay for Success Initiative	United States	2014	Limited access to Early Childhood Education	Not publicly available	IFF	4
Partnering for Family Success Program	United States	2014	Family homelessness and child welfare	4	Third Sector Capital Partners, Enterprise Community Partners Inc.	6
Chronic Individual Homelessness Pay for Success Initiative	United States	2014	Homelessness	2.5	The Massachusetts Alliance	3
Critical Time Intervention	United States	2015	Child welfare and family homelessness	5	Third Sector Capital Partners Inc. Enterprise	5
Welcome Home Project	United States	2015	Homelessness	10.63	Third Sector Capital Partners Inc. Enterprise	7
Nurse-Family Partnership Program	United States	2016	Early childhood development	9.97	Social Finance US	8
Housing First & ACT Program Colorado	United States	2016	Homelessness	15.15	Social Impact Solutions	9
The Connecticut Family Stability Pay-for-Success Project	United States	2016	Family stability	14.8	Social Finance US	7
The Criminal Justice REACH Project	United States	2016	Recidivism	5.95	Third Sector Capital Partners Inc.	7
The Homes Not Jail Program	United States	2016	Homelessness	5.5	Third Sector Capital Partners Inc.	7
The Massachusetts Pathways to Economic Advancement Project	United States	2017	Immigrant and refugee employment	15	Social Finance US	35
The Women in Recovery program	United States	2017	Female Incarceration	2	N/A	1
Newpin Social Benefit Bond	Australia	2013	Unhealthy family environments for children	6.73	Social Ventures Australia	59

Table B1. Overview of PFS deals in the world (Cont'd)

Programme Name	Country	Year	Social Issue	Deal Size (in USD million)	Intermediary	Number of Investors
Benevolent Society Social Benefit Bond	Australia	2013	Unhealthy family environments for children	9.32	Westpac Institutional bank, Commonwealth Bank of Australia	47
Aspire Program	Australia	2016	Homelessness	13.39	Social Ventures Australia	4
TRACC Intervention Program	Australia	2016	Parolee re-offending	Not publicly available	N/A	2
Resolve Program	Australia	2017	Mental health	17.1	Social Ventures Australia	Not publicly available
Economic and social empowerment for women affected by violence	Austria	2015	Domestic violence	0.94	Juvat gemeinutzige GmbH	5
Duo for a Job	Belgium	2014	Migrant unemployment	0.34	Kois Invest	Not publicly available
Sweet Dreams	Canada	2014	Child and family welfare	104	Saskatchewan Executive Council & Saskatchewan Ministry of Social Services	2
Mother Teresa Middle School Social Impact Bond	Canada	2016	Education	1.28	N/A	1
Community Hypertension Prevention Initiative	Canada	2016	Chronic disease	Not publicly available	MaRS Centre for Impact Investing	10
Epiqus Occupational Well-being	Finland	2015	Occupational wellness	Not publicly available	Epiqus	3
EIF Social Impact Bond	Finland	2017	Migrant and refugee employment	13	SITRA	1
Adie Social Impact Bond	France	2017	Unemployment	1.77	BNP Paribas	5
IMPACT Academy Social Impact Bond	France	2017	Job creation	1.18	N/A	1
Augsburg Social Impact Bond	Germany	2013	Youth unemployment	0.35	Juvat gemeinnützige GmbH	4

Programme Name	Country	Year	Social Issue	Deal Size (in USD million)	Intermediary	Number of Investors
Educate Girls Development Impact Bond	India	2015	Women education	0.31	Instiglio	1
Haifa & Tel Aviv Social Impact Bond	Israel	2015	University drop-outs	3	Social Finance Israel	3
Israeli Diabetes Social Impact Bond	Israel	2016	Chronic Disease	Not publicly available	Social Finance Israel	Not publicly available
Buzinezzclub Social Impact Bond Rotterdam	Netherlands	2013	Youth unemployment	1	The Social Impact Bond Rotterdam Foundation	2
The Colour Kitchen	Netherlands	2015	Youth unemployment	Not publicly available	N/A	2
Workplace Rotterdam South Social Impact Bond	Netherlands	2015	Youth unemployment	Not publicly available	Deloitte, Social Impact Finance	1
Buzinezzclub Social Impact Bond Utrecht	Netherlands	2015	Youth unemployment	Not publicly available	N/A	2
The Work-Wise Direct Consortium	Netherlands	2016	Recidivism	1.54	Social Impact	3
Buzinezzclub Social Impact Bond Eindhoven	Netherlands	2016	Youth unemployment	Not publicly available	N/A	3
BOAS Werkt Social Impact Bond	Netherlands	2016	Unemployment	1.65	N/A	3
APM Workcare Social Impact Bond	New Zealand	2017	Mental health and employment	Not publicly available	N/A	4
Asháninka Social Impact Bond	Peru	2015	Indigenous livelihoods	Not publicly available	N/A	1
The 'Junior Code Academy' Social Impact Bond	Portugal	2015	Computer literacy	Not publicly available	Laboratório de Investimento Social	1
Borderline Intellectual Functioning (BIF) Social Impact Bond	South Korea	2016	Education	1.26	Pan-Impact Korea LLC	3
SEK Social Impact Bond	Sweden	2016	Education	1.47	N/A	1
Caritas Perspektive	Switzerland	2015	Migrant and refugee employment	0.3	Invethos AG	-

Source: Brookings Institute (2015), Social Finance

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