THE BROOKINGS INSTITUTION

THE GLOBAL POTENTIAL AND LIMITATIONS OF IMPACT BONDS

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PARTICIPANTS:

PANEL 1: THE POTENTIAL AND LIMITATION OF IMPACT BONDS ACROSS SECTORS AND GEOGRAPHIES

Opening Remarks:

MARTIN INDYK
Executive Vice President, The Brookings Institution

Keynote Address:

SIR RONALD COHEN
Chairman, Global Social Impact Investment Steering Group and The Portland Trust

Presentation:

EMILY GUSTAFSSON-WRIGHT
Fellow, Center for Universal Education, The Brookings Institution

Panelists:

TAMAR MANUELYAN-ATINC
Nonresident Senior Fellow, Center for Universal Education, The Brookings Institution

JIM SORENSON
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Managing Director and Co-Founder, KOIS Invest

TRACY PALANDIJAN
CEO and Co-Founder, Social Finance U.S.

Concluding Remarks:

MARTIN INDYK
Executive Vice President, The Brookings Institution

PANEL 2: IMPACT BONDS FOR EARLY CHILDHOOD DEVELOPMENT

Presentation:

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Fellow, Center for Universal Education, The Brookings Institution

Panelists:

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Concluding Remarks:

TAMAR MANUELYAN-ATINC
Nonresident Senior Fellow, Center for Universal Education, The Brookings Institution

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P R O C E E D I N G S

MR. INDYK: Good morning, everybody. Welcome to Brookings, to our webcast audience as well, welcome to this session. I understand that there are people from nine countries around the world who are tuning in this morning. I'm Martin Indyk, the executive vice president of Brookings. As you may have noticed, those of you who walked in our front doors this morning, and saw the banners, this is our Centennial year. Brookings is 100 years old this year. And we have been focusing on how we can revitalize our mission for the 21st Century. It is, put simply, the mission of improving governance. Our values, again, as they're on display outside, in-depth, independent quality research designed to generate ideas that impact the lives of people at the local, national, and global levels.

One of the things we've learned about carrying this mission into the 21st Century is that impact is often best achieved through partnerships, that the government alone cannot do an effective job and that is blindingly obvious, not just because of the gridlock we experience on a daily basis here in Washington, but because of the failure of governments around the world to meet the basic needs of their people. Partnerships with private and non-profit sectors who bring their special capabilities to bear with governments to meet the needs to the people is something that we feel is necessary to develop if the ideas that we generate through our in-depth research are to bear fruit in terms of making a difference in the lives of people.

Social impact bonds are a prime example of this kind of creative partnership designed to meet 21st Century problems. And that is why we've decided to focus on them in this conference today. It is, I'm reliably informed, the first conference of its kind in which we look at the role of social impact bonds across the world. And we're very glad to have a distinguished panel of experts who are working in this field to lend us their knowledge and experience for this purpose.

Brookings Center for Universal Education, directed by Rebecca Winthrop, housed in our program on global economics and development, CUE as we call it, its scholars have spent the past two years researching social impact bonds. This research stemmed from CUE's aim to better understand how to address the financing and delivery constraints faced in early childhood development in low and middle income countries. The first report published last July is entitled, "The Potential and Limitations of Impact Bonds." This one. Does everybody have this? The second report, just published, is entitled, "Using Impact Bonds to Achieve Early Childhood Development in Low and Middle Income Countries."

These reports are based on a comprehensive database that CUE has put together of every social impact bond that has been launched in every part of the planet. It's a unique resource which can be found online on our Brookings website. In today's event, we have the opportunity to share with you the key findings from their research and to hear from two distinguished panels who will share their own experiences from the ground in working with impact bonds and impact investing in the United States and around the world.

Emily Gustafsson-Wright, a fellow in CUE, and the person who has been leading this effort at Brookings will present the findings of her two reports. Emily is an applied micro-economist whose research is focused on understanding how social policy across the education, health and social protection sectors can better serve the needs of children in developing countries. Her previous professional experience includes working at the Human Development Network and the Latin American region of the World Bank and for the UNICEF Innocenti Research Center.

However, before Emily talks about her research, we have a very special treat for all of you this morning, and that is a keynote presentation from the person who first generated the idea of social impact bonds, Sir Ronald Cohen. I have the distinct pleasure of introducing Ronnie. I call him Ronnie because he is a close and longtime friend of mine, and also of Brookings. He provides generous support to Brookings for our work on promoting Israeli-Palestinian peace which is, as you might understand, those of you who know a little bit about me, can understand that that's where we first encountered each other.

That has been one of Sir Ronald's passions after his retirement as the head of Apax Partners where he had built a mighty reputation as the father of European venture capital. Through the Portland Trust, which he established after he retired from Apax, he's promoted pioneering and I can attest to untiring efforts to promote economic growth in the Palestinian territories as well as social programs in Israel. Alongside this philanthropic work, Sir Ronald put his deep knowledge and experience in the world of finance into creating the idea of social impact bonds.

In 2007, he co-founded Social Finance, which later came to develop the social impact bond mechanism and he was the first to pilot this tool in the United Kingdom in 2010. Social Finance U.S. helped bring social impact bonds to the U.S. market. Ronnie also co-founded Bridges Ventures, which is a specialist fund manager focused exclusively on sustainable and impact investment and was also the founding chair of Big Society Capital, the world's first social investment bank.

Currently, Sir Ronald leads the Global Social Impact Investment Steering Group, which brings together 13 member states plus the European Union to promote a common view of impact investment, encourage policy change, and facilitate knowledge exchange in national markets. That is precisely what we want to do today, and there's nobody better than Sir Ronald Cohen to lead off our effort this morning. I'd just like to reiterate in closing Brookings' commitment to independent research and underscore that all the views expressed today are solely of the speakers. Ladies and gentlemen, please welcome Sir Ronald Cohen.

(Applause)

MR. COHEN: Thank you very much, Martin. It's a great pleasure to be here with all of you, and an even greater pleasure because you're my host today. I have had the honor to work with Martin on some of the most intractable problems of our time and I'm glad to inform you all that impact investment is a much lesser challenge than peace in the Middle East. (Laughter) So I would like to try and give you in 20 minutes or so a perspective on what's happening in the world outside. I don't know how often, when you deal with governance, people come to preach revolution, Martin, but I'm really here to preach revolution.

And the reason for that is the one that brings us all here. Our primary concern is to help others and we are all in different stages of despondency about our ability to tackle serious social issues. When I first started to examine this question in 2000, when the British government asked me to look at the issue of poverty and what we could do about it because the British government felt then, and feels now, that we really haven't found a way of coping with poverty and all the implications and consequences that it has on people's lives.

And when I started to look at how our society deals with social issues, I discovered a number of rather strange things, which I'd like to share with you. The first one was that it was really philanthropists, not governments, which started to tackle social issues in the 19th Century and before. It was only by the 1930s when foundations already had the big tax advantages and had serious efforts underway to tackle social issues that governments began to feel that they needed to take greater responsibility for this.

By the 1940s, we have the welfare states in many parts of the world, and by 2016, we have the welfare states throwing their hands up in the air and saying we really don't know how we're going to cope. We don't see how we can bridge the gap between the costs of social services and the demand for them. And if you project it forward across the G8 countries or a greater number of countries across the world, that is a problem everywhere. And then when you begin to look at who is dealing with social issues alongside government, well, it's philanthropists and not-for-profit organizations. And what are the characteristics of not-for-profit organizations across the world? Two, nobody has any money and virtually nobody has any scale.

And so in 2000 already we began to propound the idea that it is rather strange that we've been able imaginatively to come up with a response to the needs of tech entrepreneurs and other entrepreneurs who needed patient capital, high risk capital in order to help them to transform our lives and we've still not found a way, or at least then we hadn't found a way, now we have, of connecting social entrepreneurs who want to devote their lives to improving those of others, connecting them to the capital markets and harnessing the forces of capital and entrepreneurship and innovation in tackling social issues in the same way that we had done for tech entrepreneurship.

So if you fast forward, as Martin was saying, to 2010, in 2010, the young people at Social Finance, Louise was part of the original team, came to me and said look, we met somebody in Birmingham dealing with the issue of prisoner reoffending and we think we can connect a reduction in the number of reoffenders and the financial return. I said wow, you found it. That's the key to the capital markets for social entrepreneurs. We've all assumed that we can't measure anything in the social area. And of course, it's very difficult to value an improvement in a prisoner's life who goes into a job and has a productive family life after that. It's difficult to do that. But it's not difficult to measure the number of prisoners going back relative to the year before or several years before, or a control group that has not been helped in the same sort of way.

And if you can connect it with a financial return, then you can do what happens in capital markets. You can allocate capital to those who can deliver real performance. And now you fast forward another five or six years, and there are 56 social impact bonds across the world. And we have Social

Finance in the audience and that third sector, two of the leading organizations here in the United States helping to launch social impact bonds.

And Social Finance launched two bonds last week, $30 million to deal with the consequences of teenage pregnancies in South Carolina and $12.5 million in Connecticut to deal with unstable families because of substance abuse. We've now got proof of concept across more than a dozen countries and more than a dozen social areas, homelessness, unemployed youth, adoption, foster parentage, even prevention of strokes, prevention of diabetes which is about to be announced. And of course, in the area of education, dropout rates from school, dropout rates from university, early learning and so on.

And I'm inspired by today's meeting. I have to thank Brookings and Emily for the excellent work they've done over the last few years to bring a focus to the discussion around social impact bonds and to bring objective evidence of their potential and their limitations.

Today, we're here to see whether we can expand the scale and scope of social impact bonds or development impact bonds where it's not the national government that's paying out on the achievement of outcomes, whether we can expand that scope to tackle major issues that have plagued society for centuries, really. And I would like to focus on education because it's really education that's brought Brookings to social impact bonds, not the other way around. It's from an analysis of what has been happening in the field of education and developing countries that Brookings have come to say well maybe we need new tools. Maybe we do need tools that encourage innovation and entrepreneurship and attract capital from capital markets. And it's logical that we should all think that way.

If you look at the new sustainable development goals set by the United Nations, estimates are that they require $3 to $4 trillion a year in order to have a chance of meeting them. The total amount of aid, of development aid is between $150 and $200 billion a year, a fraction of what is required. So it's already plainly obvious that we need to attract capital if we're going to be able to meet these goals. And if you look within education, there are 120 million primary school pupils who spent four years in primary school in developing countries and still can't read and write satisfactorily.

In Africa there are 58 million kids still out of primary school, 65 million adolescents still out of high school. How do we cope with this? Well, when governments were thinking about creating jobs in our developed economies, they thought everything needed to be done from the top. They needed to reorganize big industries, they needed to merge big companies. And then as small became beautiful and innovation characterized small, aggressive, ambitious, visionary young firms rather than the big, established institutionalized leaders, governments began to realize that growth was really bottom up, that you improved the competition between companies, the competitiveness of your economy, the growth rate of your economy from the bottom up.

And I think the same is going to be true with social issues. I think we're going to improve our ability to tackle social issues from the bottom up by giving entrepreneurs who can achieve measureable outcomes, and I have to say up front, not everything can be measured in the social space. I'm not suggesting that social impact bonds are a panacea that can be used to tackle every social issue. What I am suggesting is that wherever you can measure, they can be used. And there are at least a dozen areas and many more where you can measure accurately. And so by bringing measurement into the equation, by being able to pay for outcomes rather than for inputs where we prescribe everything that needs to be done, we open the door to innovation.

And when social entrepreneurs begin to deliver measurable performance, instead of raising a $10 million or a $30 million social impact bond, next time around, just like a business entrepreneur, they can raise a multiple of that. And so you begin to establish the same sort of potential for a social entrepreneur using a not-for-profit model that we have had in business. A not-for-profit organization can now create a balance sheet for the first time. Most are still dependent on grants, but grants which focus on the act of giving instead of achieving social outcomes having been able to do what we are seeing is being done today through social impact bonds.

When you begin to analyze an issue so that you can raise capital for it, $10 or $20 or $30 million for it, the depth of your analysis has no comparison with the analysis that goes into going and applying for a grant. You need to establish metrics, you need to show how you are going to achieve those metrics. You need to explain what management skills you have, so that investors have the confidence that you're going to be able to achieve them. And you begin to bring to the resolution of the social issue, skills that previously you would not have deployed.

So if I take the example of the prevention of type two diabetes social impact bond, which should be launched in Israel later in, let's say in March, so as not to jinx events, in order to be able to define the interventions and the metrics, we had to put together an advisory board of diabetes experts from across the world. We had to screen organizations that are capable of delivering the service and make sure that they buy the program, are going to live by the objectives, and that we have skills in order to be able to support them.

The depth of understanding of what is required in order to defer or prevent the onset of diabetes is huge. It's like setting up a business. And the assessment of how many can benefit by deferral or prevention is crucial to the launching of the bond. And there the general assessment is 50 percent. And so I want to explain today that when we're talking in terms of payment for outcomes, we're talking of something that is fundamental. We're not talking of something that is incidental. And that ties in with something else fundamental that is taking place in our society as a whole.

And the G8 task force, which I had the privilege to lead, enabled me to understand exactly what this fundamental change that's taking place exactly is. And if I can put it in a historical perspective, it is this. If in the 19th Century and before, we measured financial return, we measured risk and return, in the 21st Century we're already measuring risk return and impact. Only many people haven't realized it yet. Many believe that their own popularity is due to the nature of their activity. An electricity utility feels, why should we be popular?

But the reality is an electricity utility is considered to be unpopular because it overcharges poor customers. A bank is not necessarily unpopular. A bank is unpopular if it is judged to have negative impact. And when we begin to measure impact in the way that we're talking about doing through social impact bonds, we help to bring in this dimension of allocating resources according to things that are good for society and the environment and not just financial return. And over time, it exposes those who don't achieve impact or who achieve negative impact.

I just came from Stanford, where the endowment no longer invests in coal for heating because of pressure from the students, because that's considered to be a very negative impact on the environment. Less money will flow to companies who are in that area of business. Companies holding coal assets will see the value of those assets diminished. Their business models will be called into question. And over time, if I could look forward 10, 20, 30 years, we're going to see the money flow to those who can achieve a combination of financial and social or environmental returns. Investors will not be satisfied with just making a financial return. Just money, will in my view become a stigma. You have to provide more than just money, as an entrepreneur, as a business, as an individual.

And so what are the implications of this fundamental change? The implications are that investors are beginning to direct their money to areas that can deliver social impact. $55 trillion have signed up to the United Nations principals of responsible investment. Investors say we would like more than just a financial return. The question is can we manage to attract, to education say in Africa, to be more specific, capital that wouldn't go in today in the form of aid or grants. Aid we can forget about, governments don't have money for themselves, let alone for emerging countries. We're not going to see the amount of official aid increase.

But if we talk about grants, how many in the audience think that an additional $1 billion of grants is going to solve the education challenge in Africa? Would you raise your hands? Not a single one of you. Well, I have an alternative for you, which we've been working on together with Social Finance in the U.K., which is a piece of work being carried out by Social Finance on behalf of the global steering group, which I have the privilege of chairing, and the New International Commission on Education.

And the thought is let's contrast $1 billion of aid with $1 billion outcomes fund, professionally managed, setting metrics on dropout rates from primary school, secondary school, tertiary education, attainment levels in all of these, early learning, if we can manage to get the right metrics for it, and let us assume that this professionally managed outcomes fund is backed by commitment from official aid organizations, African governments, and some big foundations.

What's the impact of setting that up? The immediate impact is that there is an opportunity to raise $300 or $400 million in development impact bond funds, which will receive performance payments from the outcomes fund along the way and begin to change the way in which we address education, begin to innovate, begin to scale. How do these development impact bond funds work, very much like venture capital funds, each would be $100 million, professional management team, expert in education, looking for social entrepreneurs in Africa who are capable of innovating like Bridge Academy in Kenya. You could fund Bridge Academy's efforts across the whole of Africa through these development impact bond funds.

When they find an entrepreneur that is capable of doing that, they can go to the outcomes fund and sign a contract to pay on five, seven, ten years on the achievement of specific metrics. And all of a sudden, we've turned the challenge on its head. Instead of prescribing what needs to be done, and not measuring very much, we focus on paying for the outcome and we leave everything open to the entrepreneur. Go do it in the most effective way.

I believe that this $300 or $400 million of development impact bond money will flow, because as I have said, there is a realization that we need to create impact across the world. That those who are more fortunate have an obligation to help others, an obligation which sometimes they feel in prudential terms for the stability of the world or their countries, and sometimes they feel in moral terms, it doesn't matter which. But I can see foundations investing in it. I can see high net worth individuals, I can even see crowd funding participating in the setting up of these development impact bond funds.

And so my question to you is, how many of you believe the setting up and outcomes fund of this kind with matching development impact bond funds has a better potential than just $1 billion of aid? Would you raise your hands? Well, that's the overwhelming majority of you here. We're on to something which is very simple. It's very simple, but it's revolutionary. We have never been able to raise money from capital markets to achieve social ends. It's an evolution of thought which has come over the last three or four decades that we need to focus on impact, but it's a revolution in means of being able to raise capital and harnessing entrepreneurship and innovation. I look forward to leading the revolution with you all. Thank you.

(Applause)

MS. GUSTAFSSON-WRIGHT: Good morning, everyone. It is great to see such a full room. Also know that we have over 100 individuals participating in our webcast across nine countries, as Martin mentioned. Thank you Martin, and Sir Ronald for kicking off what I think will be a fantastic day. This will be the first ever, as Martin mentioned, public event looking globally at impact bonds. So before I begin the presentation, I'd like to express our appreciation to our funders of the research, the Bernard van Leer Foundation, who despite being a small family foundation working on early childhood development agreed to fund not only our study looking at the impacts -- of looking at impact bonds for early childhood, but also our study looking at the landscape of impact bonds more broadly when they understood how important this would be to multiple sectors across the globe as well as early childhood development.

In addition, I would like to thank all of the participants in the research process. To start, for both studies, we had an excellent advisory panel including Johannes Linn, who was our chair and who I believe is here in the room. I'd also like to thank the 130 plus individuals across five continents who we interviewed, some of them are here in the room as well. We absolutely could not have done it without you. I would also like to recognize my colleagues Tamar Manuelyan-Atinc and Sophie Gardiner. Tamar can be credited with instigating this research as part of our joint effort to better understand the barriers to scale and early childhood development and how we might address them. Sophie is my incredible research assistant and co-author on both of the reports and she has been absolutely incredible in this process.

Thanks also to the Center for Universal Education team, especially Katie Smith and Melen Hagos and Aline Pognonec who helped us with this event today. And thanks finally to our director, Rebecca Winthrop, who has been so incredibly supportive of our research.

So in the presentation, I will cover the main findings from our first landscape study and will cover these three broad areas. First defining the problem and the mechanism, and then I will talk a little bit about the impact bond market to date, and then finally the potential limitations of impact bonds. *Technical glitch*.

I couldn't do it without Sophie. All right. So first of all, defining the problem. So as both Martin and Sir Ronald mentioned, there are some enormous social challenges and tremendous costs associated with those facing the world today. In the United States, 7.8 million people are unemployed. This is expected to cost the U.S. government in unemployment benefits alone $36 billion this year. Half a million children are in foster care, which is costing both state and federal government $9 million annually. Globally, there are 134 million children and youth out of school globally in 2013, costing in the countries with the highest number of children out of school, up to ten percent of GDP. And approximately 207 (sic) cases of malaria, a preventable disease, and over 600,000 deaths in 2012, costing $12 billion globally in that year.

So these challenges are daunting and governments are likely unable to, are going to unlikely to be able to respond to these alone. Over the last decade or so, we've seen some promising trends that can contribute to making some headway. These trends: so on the demand side, we've seen an increase in value for money, impact evaluations and results based financing and also state and non-state partnerships, PPPs, contracting of non-profits. And on the supply side, an increase in do-good capital, impact investing and corporate social responsibility.

Impact bonds I see as the confluence of these things, a confluence of impact investing, results based financing and public-private partnerships. A little bit on terminology. So, social impact bond is the term that was coined at the beginning of the development of impact bonds. The SIB, social impact bond, or SIB. Australia is using the term social benefit bond. But there are many who are critical of these terms since the mechanism actually isn't a bond, since there are no fixed returns guaranteed. So in the U.S., this has given rise to the term pay for success, a pay for success contract, or PFS.

And because we have a broad range of expertise in the audience and participating with us in the webcast, I'll just spend a couple of minutes explaining how impact bonds work. So you have this basic constellation of actors. You have investors, usually some mix of commercial or impact investors as well as philanthropic investors. You have an intermediary, social service provider, the population in need of course, an evaluator and an outcome funder. What happens is that the investors put up capital to fund a social service and that service is provided to a population in need, and after some time period, an evaluator evaluates whether or not outcomes have been achieved, and if they have then the outcome funder repays investors their principal plus some interest. If they haven't, then they do not pay.

In essence, what outcome funders are doing is paying for success. They've paid for the achievement of outcomes. This shifts the focus away from paying for services to paying for outcomes as Sir Ronald mentioned. In a social impact bond, the government is the outcome funder. In a development impact bond, a third party, like a foundation or a donor agency is the outcome funder.

When we started researching impact bonds, we came across these ten common claims in the early writings about impact bonds. It was said that impact bonds could crowd in private funding, invest in prevention, reduce risk for government, shift the focus to outcomes, achieve scale, foster innovation and delivery, sustain impact, build a culture of monitoring and evaluation, incentivize collaboration, and drive performance management. Remember these claims, I'll come back to them later when we look at how many of these claims stack up when we look at the first impact bonds in the world in the first five years.

So, the impact bond market today, what does it look like? As of this month, there are 56 social impact bonds and two development impact bonds. The first, as was mentioned, was established in the U.K. There are currently 31 in the U.K., there are two in Canada, 11 in the United States, just three were just recently announced in the last couple of weeks, there are eight in continental Europe and Finland, one in Israel, three in Australia and then one development impact bond for girls education in Rajasthan, India and then one development impact bond supporting cocoa and coffee growers in the Amazon region of Peru.

In addition to those impact bonds, there are about 60 in development in developed countries and about 30 in developing countries. So as you can see, there has been a steady rise in the impact bonds over time. There has been a particular jump in Europe over the last year. The orange-ish yellow bars represent -- those large jumps represent impact bond funds, which are being used in the United Kingdom, where multiple impact bond, individual impact bond transactions are included in a larger fund.

So I showed you that basic diagram of what an impact bond looks like and how it works. There are also some variations of this model and that is the U.K. fund. There are four impact bond funds in the U.K. And in this model, the outcome funder, the government, issues what’s called a rate card. And in this rate card, they say here are a set of outcomes we would like to see achieved, and here is how much we are willing to pay for them. Then individual groups of intermediaries, investors, service providers bid on those contracts. Here is an example of what that rate card looks like. This is the innovation fund in the U.K. For example, the department of works and pensions says we’d like to see entry into sustained employment. We’re willing to pay 1,000 pounds sterling per individual who entered into sustained employment.

This is what the distribution looks like across the sectors, across the first 56 plus the two DIBs. The majority were in job training and employment and the second largest was in social welfare. When we look at these deals, we see that the populations that are being reached are fairly niche, so very particular types of populations in a lot of them, and particularly those in Europe. You have employment programs for women affected by violence, employment programs for example for also refugees, homeless individuals, et cetera.

This graph shows the upfront capital commitment in the first 38 impact bonds as of last March. Our study cutoff day was exactly a year ago, and so this includes all of those first 38. So it's very difficult to tell about the amount of investment that is going into each of these impact bonds because they're structured a little bit differently. Some of them are structured differently than others. Some of them are structured more like equity, where the initial repayments go back into the social service. And so the initial amount of upfront capital is much smaller than in the other ones.

The most consistent way that we could tell this story was to show the upfront capital commitment. It's a little bit unfair to those ones that have, that are working more like equity. Here you can see that of the 25 of the first 38 impact bonds are between zero and $5 million, so pretty small. The largest was the SIB for homelessness in Massachusetts at $24.5 million. We have a recent announcement, which will be the largest to date, of $30 million in South Carolina, the one that was mentioned earlier.

To date, most of the impact bonds have also been fairly small in terms of their reach. This graph shows the number of beneficiaries reached in each of the deals. You can see the one to your far right is for India. That's the development impact bond in India, reaching 18,000 children. The stacked bars represent the impact bond funds in the U.K. So, in the SIBs that were contracted as of March, the caps on average annual returns range between three and 15 percent for senior investors, and with a median of about 7.5 percent.

There have been several payments made to date. For the first impact bond, the Peterborough Prison impact bond in the U.K., the first cohort didn't meet the threshold for the first payment, so no payment was made. But it appears to be on track for the second. And that will be coming up this summer. The Newpin social benefit bond in Australia yielded a 7.5 percent interest payment to investors in its first year, and 8.9 percent in the second.

The Rikers Island or New York City ABLE Project for incarcerated youth closed after three of the four years because it didn't meet the targets and outcome payments were therefore not made. Just recently, the Utah High Quality preschool program SIB has made payments to the senior investors of $238,000 for the first cohort of children who did not need remedial education.

So overall, overall trends in the market. We see most of the impact bonds in the social welfare in the employment areas. We see some fairly niche populations in terms of who is being served. We see services that have complex inputs and simple outputs, often not core government services. We see that they're fairly small in size, both in terms of investment and in numbers of individuals that are being reached. And then we see some variation in the deal structure. I mentioned the impact bond fund, for example.

We do see however, so most of these trends are still holding true with the additional 18 impact bonds that have been implemented in the last year. But we've seen more impact bonds for health and child welfare outcomes. We've seen some diversification in the investors. We've seen interest in the U.S. for the U.K. fund model, although that still has not been used. We also see increasing interest from bilateral and multilaterals. And we see some attempts to standardized contracting and reduce transactions costs.

So now, a little bit about the potential and limitations from our study. If you recall the ten common claims, where we see impact bonds really holding true to those claims is the shift in the focus to outcomes. We see governments and service providers really thinking about delivering outcomes as opposed to contracting services. We see private sector discipline coming in to drive performance management, and we see that they are incentivizing collaboration. So collaboration across both public and private sector as well as across government, across party lines.

We see that they are investing in prevention and that they are building a culture of monitoring and evaluation, so having to collect data to measure outcomes really is forcing the drive to collect data and monitor and evaluate. Some areas for potential improvement, as I said, we don't see to date, a lot of scale. We also don't see a lot of innovation in the delivery of social services: most of the impact bonds to date are interventions that have a fairly strong track record behind them. And then, in terms of crowding in private funding, I think it's a little bit soon to tell. What we see is that they are addressing a liquidity constraint. This may happen as we move forward, but we're not really seeing that to date. In terms of reducing risk for government, again, because I would say most of these transactions are not super risky, there is some evidence, there has been pretty strong evidence behind them. I wouldn't say that they've truly been reducing risk for government, however, I would say that the Rikers

Island is a very good example of that in that the government did not have to pay for outcomes that were not achieved. And then finally, it's a bit soon to say whether or not they're sustaining impact.

So where we see the highest potential in terms of services and impact bonds is where there are measurable outcomes with intrinsic and potentially extrinsic value, where adaptive learning and tying payments to outcome is likely to improve quality. Also where there is a relative proliferation of non-state providers, and finally, where current evidence of outcomes is insufficient for government or donors to bear the risk of outcome achievement, but sufficient for an investor.

What we've seen so far is that the majority of these impact bonds have not been so much in the pilot stage or at this large scale stage, but more in that mezzanine stage, potentially with funds like Sir Ronald was mentioning, we could achieve larger scale. There are some remaining critical issues for stakeholders to consider going forward. These critical issues fall into three categories: the selection of financing mechanisms, improving implementation practices and regulation of the market.

In the first category, the question is really about where are impact bonds the most appropriate. Where and when should they not be used, might there be other results based financing models or methods or other ways to achieve sustained and equitable high quality services. In the second category, there are questions around reducing transactions costs and around the best type of evaluation methodology for a given intervention and impact bonds goals. In the third category there are questions around how much control investors should have over service providers, how investor payment terms should be regulated and how their returns should be taxed.

That concludes this presentation. I would now like to invite Martin Indyk and Sir Ronald to the stage for a short moderated Q&A.

(Applause)

MR. INDYK: Thanks very much, Emily. We only have a short time for questions at this point and then we are going to move into the panel and then there will be more time for questions and Emily wanted me to keep the questions at the moment on broad range issues. But I have to start with one for you, Sir Ronald. And that is when you see Emily's presentation of the challenges involved, what's your reaction to those?

MR. COHEN: I think it's a very good objective view of what's going on. Now, the only thing I would say is if you think of the average size of a venture capital investment at the beginning of venture capital, $5 million is a lot of money. And $30 million is a lot of money for a business. And I think the scaling up that is beginning to take place now is evidence of social entrepreneurs who want to help more beneficiaries and who have the ability to do so. And that is the big challenge really, just as the tech revolution was about tech entrepreneurs, the social revolution is going to be about social entrepreneurs. But we are seeing evidence of that, and you're going to create role models that others then will emulate because it will not look so difficult. And then if you--

MS. GUSTAFSSON-WRIGHT: I think that's true. I mean, I guess the difference if you look at some of the numbers that I mentioned and also that you mentioned in your keynote, those are large numbers. So in terms of our social challenges, we have a lot to tackle.

MR. INDYK: So is the Rajasthan bond a breakthrough in that regard, in terms of its size and its ambitions?

MS. GUSTAFSSON-WRIGHT: So in absolute terms, it is large, relative to the other impact bonds. In relative terms in India, it's fairly small. We have Michael Eddy in the audience who is from Instiglio who has been closely involved in putting that deal together. And you know, again, it's small but it's a step in the right direction and I think it also can serve as a demonstration to government and to others looking into this space.

MR. INDYK: Okay. Let's go to the audience. I'll ask you please to wait for the microphone, identify yourself and make sure you ask a question, please. Let's go to the gentleman on this row with the two fingers up.

SPEAKER: Thank you. My name is Karl (inaudible). I work on these things in a Scandinavian context and hence my question is, let me start. One of the successes I've seen in my part of the world in these issues has been a very high degree of trust, which has allowed government at different levels to attack these issues at a very early stage, often way before you get to anything that could conceivably mesh it along lines that are meshed here. Say, for example, early childhood education or interventions in troubled social areas. I wonder how you think about what I see as a possible tension between on the one hand, that trust based model and on the other hand, this sort of verifiable outcome based model and how potentially by rethinking how you evaluate and think about what success means, you could approach some kind of synthesis there.

MR. COHEN: I think there are some things that are only going to be done by government or by grounds, because nobody can agree that the metrics are sufficiently representative of what's been achieved. There is a particular need in the area of early education to get to an understanding of what are reliable metrics, crucially important across the world, governments are, the U.K. government has also set up a foundation, which is giving grants for this. But, if it can be reflected in attainment to primary school seven years later, and you focus on years one, two, three, that's capable of measurement.

I think we're going to feel our way in the development of metrics. Many people are focusing on that. When you've got three social impact bonds in one area, that means three people have signed off on a sets of metrics which are improving all the way along. And I think imaginative people are going to come along and say here is an intervention, here are the metrics for it. And they are sufficiently close. They don't need 100 percent accuracy, 90 percent accuracy will do. But they are sufficiently close that investors will agree to put money up for them and governments or others will agree to pay.

MR. INDYK: Do you want to comment on that, or we'll take another question?

MS. GUSTAFSSON-WRIGHT: We can take another question, yes.

MR. INDYK: Yes, please. Yes, sir, do you have the microphone. Put your hand up, oh, there. Good, thank you.

SPEAKER: David Wilcox, ReachScale. I'd like to just read four data points and then ask you to respond. 30 to 40 years into the social enterprise movement, we do not have a single continentally scaled social enterprise. So we don't have a single globally scaled enterprise. And they already mentioned that 25 of the 38 bonds in the original study served less than 1,000 people. The knowledge about scale, if you were to look globally and ask yourself where should we be seeing scalable impact bonds, they should be coming out of India. We track two dozen organizations that are serving more than a half million people. (Achaea patra) a million four, Agastya, a million three. We don't have those things surfacing and in fact I've talked to those two dozen folks and only one of them is considering social impact bonds as a viable scale means. And last but not least, we just announced at the SDJs, I think kind of without realizing it, that we need trillions of dollars of high impact modest return businesses whereas most of the work is being done on high profit, no impact or non-profit. What is it in the design or the approach that we have, based on that data that suggests we need to change something or adjust the thinking around how to attract capital such that those four goals could be accomplished together as they're not currently being accomplished?

MR. INDYK: Simple question. (Laughter)

MR. COHEN: Excellent question. The first thing is you'll be glad to know I'll be India in three weeks' time where there is a big impact investment conference. And I have focused on the funding of not-for-profit, but profit with purpose businesses which have measurable objectives and monitor the achievement of those objectives in the social, environmental area and report on them alongside their financial returns, also a very important dimension. In India, interestingly, the emphasis has been on businesses delivering social good rather than NGOs and it's one of the things I hope to understand better.

I think the answer to the scale question is that the capital is there, but the entrepreneurs need to rise up and say we want to do it. Look at Bridge Academy with 400 schools now in Kenya, moving into different countries. Here is an entrepreneurial team that says, you know, we have the ambition to do a hell of a lot more, we think we can roll it out. And the initial investment in Apple was a quarter of a million dollars. That didn't sound like a big amount of money to create a $600 billion company down the line.

So we're at the very early stage. We've actually moved from a period of persuasion in 2010, '11, '12, to now a period of evidence, which we've seen analyzed and we're poised to scale. The answer to your question is it depends on entrepreneurs now. I think the mechanisms exist. They don't need to be social impact bonds if there are other mechanisms, if government decides that it prefers to go to pay for success contracts, that's fine by me. If businesses decide they want to raise venture capital to achieve measurable social objectives, that's also fine. What we have to guard against is impact washing.

MR. INDYK: Impact?

MR. COHEN: Impact washing, like greenwashing. We have to guard against people who are doing investment with impact as opposed to impact investment and calling it impact investment, because everybody creates impact, good or bad. A business that creates jobs in India creates impact, and in India, where there are high levels of unemployment and all the rest of it, I would call that impact investing because it's in an area of need.

But in a developed economy just creating jobs as a byproduct of creating a business isn't going to solve social issues. It's not going to bring innovation to the tackling of social issues. And it's that innovation that we have to focus on. And part of the reason that you haven't seen much revolution coming from the innovation is that in raising capital you have to give some evidence to investors at this very early stage that the intervention is likely to work. We'll shift to backing entrepreneurs who look credible with a new intervention that we're not sure is going to work, but that we have a hunch is going to work. And I think the innovation that is emerging from say the Peterborough bond, is no less important than tech innovation was.

MR. INDYK: Tell us, those of us who don't know, what is a Peterborough bond?

MR. COHEN: Okay. The Peterborough bond was the first social impact bond that dealt with the young prisoners at the Peterborough Prison. And for the first time, as a result of four organizations sharing the $5 million pounds from that bond, four not-for-profits, we began to discover that each of them was focusing on a different bit of the chain to achieve the outcome, prisoner in prison, prisoner out of the gate, prisoner getting into a job, prisoner staying in a job. Nobody was responsible for the outcome, just the reshaping of the effort, of the business model, if you like, to achieve the aim was crucially important.

But the other very important thing is for the first time, we began to understand that 40 percent of the prisoners have an accommodation problem. They don't know where they're going to stay, 30 percent have insufficient money in their pockets to make it to the first paycheck, 18 percent have a drug habit, 25 percent have family problems. And then you begin to assess this and Social Finance, Louise Savell is in the audience, came to a probability of reoffending if met at the gate of the prison versus not being met at the gate by one of these four organizations. That is also innovation. So I think we will see the Microsofts and the Apples of this sector, in education, in health. There will be entrepreneurs who will make their mark at a global scale in tackling social issues, but it's going to come down the line. We're in year five of measurable impact investment.

MR. INDYK: What's the role of government in this?

MR. COHEN: The role of government is crucial in this. In the first place, government has to be a partner in creating an ecosystem that supports this, just as it had to do for entrepreneurship before that. So in the U.K., government allowed us to take £400 million of bank accounts that had been separated from their owners for 15 years or more, and help persuade the leading banks to add another £200 million. So we have £600 million of equity in a social investment bank called Big Society Capital, which I was privileged to cofound and to chair, funding impact investment organizations, 31 of them.

We have tax breaks. If you invest in a social impact bond or any other form of funding to a not-for-profit, you can offset the investment against your income. If you have a loss, you can offset it against your income too. It becomes equivalent, if it fails, to a philanthropic donation. If it succeeds you get your money back, you get interest, you pay tax on the interest and you can reinvest it. It's created an outcomes fund, you have a SIB Act here making its way through Congress. We're keeping our fingers crossed that it may come through. Jim Sorenson and Tracy Palandjian and I were talking about it this morning. With a bit of luck, it will come through in the next few months.

What does this mean? It means there's £100 million in the U.K. The different government departments could bid for social outcome, for social outcome payments. The Education Ministry can say I would like to have a social impact bond to deal with early learning, will you pay for it, like the outcomes fund I'm talking about for education. The U.K. government has created a £100 million foundation to give grants and loans to not-for-profit organizations willing to raise impact finance.

All of these things are part of the ecosystem for this to take off. That's one aspect. The second thing which requires a big, big change of mindset, and this is where Brookings could play a major role, is that government is used to specify inputs and paying for them. You will visit the prisoner three times a week at these times and I'll pay you for it. It's not focused on outcomes. When you begin to focus on outcomes, you have to accept that there's an element of risk of failure, but you're not going to pay for it. What's happening now is government is focusing on making sure the impact bond is successful and trying to specify and (caveling) over every penny or every cent. When what government should be doing is saying let's give investors a good deal. Let's pay seven to ten percent on this if it represents a fraction of the saving that we have, and that's a statistic that we should look at for your future presentation. Like the Peterborough bond, the cost of intervention which government paid for if successful, was one-third of the saving to government in the first year, in the first year.

MR. INDYK: The savings that came from not having to look after the prisoners?

MR. COHEN: From not having to bring them through the law courts into prisons. So, government makes a big saving, because government focuses on remedying social ills, not preventing them. The cost of prevention is a lot less. I tried to find out what the amount of going to prevention in the National Health System is in the U.K. Somebody said to me 0.5 percent. That's true across the world. Governments don't have money for prevention, even though it's a fraction of the cost. And that's where social impact bonds or other pay for success mechanisms are so powerful.

If you can prevent diabetes for 50 percent, prevent or postpone for 50 percent of the people who are pre-diabetic today, and I think there are 500 million or 600 million in the world, and you prevent amputations and blindness, and at the same time you reduce absenteeism and have a more productive labor force, you know, you begin to improve people's lives and the economy at the same time.

One of the things that impact investment is helping to do is to shine a very bright spotlight on social issues. When Janet Yellen, head of the Fed, spoke in Washington and said we have eight percent less able bodied people employed in the United States and the main reason is prisons, I'm not saying it's directly related to the social impact bonds that were launched, but certainly those social impact bonds have helped to bring attention to these social issues.

So to cut a long story short, a lot needs to be done in innovating. We are at the beginning of the road. I want to see social impact bonds or other ways of funding that affect millions of people at a time, and I think we'll get there. But like the tech revolution, it's going to take 20 or 30 years for it to come to its peak.

MR. INDYK: Do we have time for another question or do we need to wrap up?

MS. GUSTAFSSON-WRIGHT: One last quick question.

MR. INDYK: Okay. Down in the back there, yes, please.

MR. WIGGINS: Thank you. Good morning, gentlemen. My name is Todd Wiggins. My site is called MeetMEDC. But I thought about this and I thought maybe I should call it MeetMEGlobally because what you're doing is extraordinary, especially when you look at the fact that we're in a political year and we have more problems than solutions. So my hat's off to you because you could just go somewhere and vacation and yet you're trying to do these wonderful things I think in an interest of benefiting other people so I thank you for that.

MR. INDYK: He also vacations.

MS. GUSTAFSSON-WRIGHT: So could I, probably to not as glamorous places as Sir Ronald.

MR. WIGGINS: My first question is can I get a loan? My second question is can you give me one example of something that you've been able to do in the past where you've really impacted with these ideas and actually got a thank you out of it and saw something constructive.

MR. COHEN: I mean you cast your bread upon the waters, and you don't expect many thank yous, but I would say that the work that's going on on unemployed youth today in the U.K., where several social impact bonds have been launched, some of which have been re-commissioned, after paying out, are bringing thank yous. Iain Duncan Smith, the minister for works and pensions sees this as a very powerful tool. But if you don't have governments believing in it, it's not going to take off and you're not going to have very many thank yous. So I think the effort of the national advisory board of the G8 task force, which is led by Darren Walker of the Ford Foundation now, has managed to deliver the change in the Department of Labor guidance on pension fund trustees making impact investments, enabling them to do that. It's also got treasury guidance to the trustees of foundations to make impact investments.

If we can manage to get the SIB Act, I guess it will be called the Pay For Success Act over here, and by the way, a SIB by any other name would smell as sweet. I'm perfectly happy to have it called anything people like. If we can manage to get the SIB Act through, then I think we've begin to set a precedent for the next administration to pick this up and say look, now let's really try to scale it. But what's exciting is it's getting picked up in different parts of the world, as Emily showed us. Japan is releasing unclaimed assets from banks, $800 million worth, the U.K. passed legislation to tell trustees of foundations you have to achieve a satisfactory return on your foundation assets, but it's not just a financial return. It can be a combination of financial, social, and environmental.

I think it's early for us to say that we have changed the lives of millions of people. We're just changing the lives of thousands of people at this evidence building stage. But the purpose of this meeting is to talk about things that can change the lives of millions of people in Africa and elsewhere.

MS. GUSTAFSSON-WRIGHT: Impact bonds are really a means to an end. It's not the mechanism itself, but it's a way of shifting the focus to outcomes, shining the light on that focused outcomes and shining the light on the kinds of preventive services, like early childhood development that will have such great impact.

MR. COHEN: If I can make just a last comment, Emily. The reason social impact bonds are so important in my view, it's different from a pay for success government contract in the sense that if you are a not-for-profit that delivered under a government contract, it's very difficult for you to take that and raise more money. A social impact bond, where you say I paid seven percent on my bond, and I had ten investors and you can speak to them, gives you a currency that enables you to raise more money. And I do think that social impact bond is only part of the total, less quasi equity, there's uncollateralized debt, there's collateralized debt. There will be other pay for success instruments invented.

But I do think it is a very, very powerful tool. It's the equivalent of venture capital. It's the equivalent of venture for tech entrepreneurs. And you will have impact venture funds that just give straight equity for profit with purpose companies. But for a not-for-profit, it's the equivalent of venture capital.

MR. INDYK: Well, we will have a chance to dig down into this with our next panel and the discussion after that. You've cast your bread on the waters here, Sir Ronald and I think we can all owe you a debt of gratitude, so thank you.

(Applause)

MR. INDYK: Please stay in your seats. The next panel is going to--

MS. GUSTAFSSON-WRIGHT: Before that, we'll have a quick coffee break so you can stretch your legs, have some coffee, tea right outside, and then come back here in about, if you can come back in about ten minutes, that would be great.

MR. INDYK: Right. We'll start at 11:00 o'clock.

MS. GUSTAFSSON-WRIGHT: Yeah.

MR. INDYK: Thank you. Great. Thank you.

MR. COHEN: Thank you very much. That was great. Well done, Emily, very nice.

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MS. MANUELYAN-ATINC: Thank you very much. My name is Tamara Manuelyan-Atinc and I'm a Senior Nonresident Fellow here at the Brookings Institution. And as Emily mentioned I've had the pleasure of working with her and Sophie on this venture which started off with our interest in early childhood development and brought us into looking at social impact bonds more broadly.

We had a fantastic start to the day. I thought the presentation from Emily and Sir Ronald, both keynote remarks and responses to the questions from the floor really got us a very good start on the issues that social impact bonds and the social challenges that we're all interested in tackling bring.

So we're going to go into a little bit more depth in this area now. And to do that I have a fantastic panel as you see. And what I'm going to do is I'm going to introduce them rather quickly. I think you have the full bios in front of you. Then I'll be asking each of them a question to respond do. We'll do a second round and possibly a third round, depending on how efficient they are in responding to the questions, and then I'd like to leave some time to take questions from the floor at the end of the session.

So, to start the introductions, Mayor Ben McAdams, AKA our favorite mayor, as he's known in the Brookings halls. Mayor McAdams was sworn into office at Salt Lake County about three years ago, January 6, 2013. And during his tenure at Salt Lake he has championed education, helping the county become the first in the country to partner with the private sector to offer greater access to high quality preschool for low income children. And we will be hearing more about that both in this panel, but also in the afternoon panel that focuses on early childhood development as a topic. Mayor McAdams is a graduate of the University of Utah and Columbia Law School. After graduating from law school he worked as a corporate finance attorney with firms in New York and Salt Lake City. So he has got that unique combination of having the financial literacy and the political instincts and acumen to bridge those worlds.

Next to him is Jim Sorenson, James Lee Sorenson. He's a world renowned entrepreneur, business leader, social innovator, and impact investor. He serves as President of the Sorenson Impact Foundation. In 2012 Mr. Sorenson contributed $13 million to the University of Utah for the creation of the James Lee Sorenson Impact Center that has done a great deal to spur development and impact bonds in the U.S. Mr. Sorenson was instrumental in developing several new industry categories, including digital compression software that helped usher in the online video revolution at Sorenson Media and video relay services that transformed opportunities for deaf and hard of hearing individuals through Sorenson Communications.

Thanks for being here.

Next to him is Tracy Palandjian. Tracy is the CEO of Social Finance U.S., which she co-founded in January 2011 to develop the pay for success market in the United States. Prior to Social Finance, Tracy was a managing director for 11 years at the Parthenon Group where she established and led the nonprofit practice and worked with foundation and NGOs. Tracy also worked at Wellington Management Company and McKinsey. She is the author of "Investing for Impact: Case Studies Across Asset Classes". She is vice chair of the U.S. National Advisory Board to Global Impact Investment Steering Group, the G8 task force that Sir Ronald mentioned. She graduated from Harvard College and has an MBA from the Harvard Business School.

Thanks for being here, Tracy.

And last, but not least, Francois de Borchgrave. I've been practicing that. He is co-founder of KOIS Invest and brings more than 12 years of experience in private equity investments, with a specific focus on impact investing in the last 6 years. Prior to KOIS he founded an internet startup for business services and he worked within large corporates in the technology sector. In addition, Francois is co-founder of Toolbox, a nonprofit that provides management services to NGOs and was a volunteer for several NGOs, including Mother Theresa and Operation Thermos. He lectures on social entrepreneurship at Solvay Brussels School of Business, which is also his alma mater. And he too has an MBA from Harvard Business School. So much for diversity on the panel. (Laughter)

So I'm going to start with you, Mayor. You were the catalyst, the champion, the final sort of deal closer for the first social impact bond in Utah for preschool education, and the first preschool in the word. We're going to get into the specifics of early childhood development, what about the field may put it in good stead or post challenges for social impact bonds in the afternoon, but for this panel, can you tell us the story of what motivated you and your colleagues to go for a social impact bond and how you convinced your detractors, of which I understand there were quite a few?

MR. McADAMS: Yes, absolutely. Well, a lot of the work of crafting our social impact bond on preschool started with Voices for Utah Children. And I saw Janice Dubno here who was with Voices at the time who really did a lot of the early thinking on this, and the United Way of Salt Lake. And really it was similar to the story that Sir Ronald Cohen talked about, about we started calculating what we were spending on failure, what failure was costing us and trying to quantify, you know, what prevention would cost. And looking at this gap between prevention and remedial, it was so much cheaper in early education. The State of Utah will spend $2700 per child per year on remedial education -- and many of those kids we believe don't need remedial education, but for the fact that they've fallen behind for so many years and then that was necessary, and often times very ineffective. They would never catch up to their peers. And so we then looked at preschool and the ability of preschool to help to keep them at grade level, to reduce and eliminate the achievement gap. And the cost of preschool when compared to the annual cost of ongoing special education made it really pretty clear that that's what we should be doing, investing in prevention through preschool and early education, and that there were some potential cost savings down the road.

So the United Way of Salt Lake partnering with Voices for Utah Children took this proposal to the State of Utah. And there were skeptics, anywhere from legislators I think who in all fairness are presented with a lot winning proposals that you need to fund at this certain intervention because, you know, we can -- and you could eliminate taxes with every one of those that came up that would save dollars down the road. So there is some skepticism at that level. The notion of a social impact bond was new and so some maybe lacked understanding about how it would work, would we really see private capital coming in to invest in this? And then there were just those who were concerned that preschool was yet another -- these are more of the conservative voices saying that preschool is just yet another government program that was intruding on family life and what families should be doing.

So when we took that proposition I was -- I'm on the Board of the United Way of Salt Lake -- we took that to the legislature and it failed that year. And I had just been elected mayor. And you referenced my background in corporate finance. I had done a lot of bond issuances and capital raising in the developing world, in Latin America, and recognized this as really innovative, but actually something that we in the capital markets have been doing for many, many years to finance. A lot of my work had been in rolling out new technologies in Latin America, like cell phones and cell towers, and raising capital to provide access to technology to low income individuals. And it wasn't really too dissimilar to what was already being done in other contexts. And so when it failed to receive support at the state legislature I was newly elected as Mayor and went to the United Way and said -- now the county doesn't fund special education, but what we do fund is juvenile justice programs, after school programs. A lot of the next steps in the line of the consequences of failure, because special education isn't the only consequence. There are many dominos that fall after that. We run a jail -- there's a large connection between early education failing and jail and crime.

And so we saw all these dominos that would affect our balance sheet down the line and said I would be interested in seeing this get off the ground. Stepping forward with the county as a payer -- we had other outcome funders who stepped in at that time as well and said this is something we're willing to invest in. And we launched the transaction that year without the State of Utah's support, got it off the ground, and 600 kids enrolled in our program that year. And then we took it back to the state legislature the following year. And because we had a program that was working we were able to put to rest some of the concerns about whether investors would step forward and were able to take legislators into see a program that was working, what it was accomplishing. What we found is that also it bridged this partisan divide and this skepticism for a new program because people were able to see that it was outcome focused, what it was doing, and what it looked like in practice. And so we took it back to the state legislature the following year and they passed it. And now the State of Utah is funding this social impact bond. The county funded the first year and the remaining years are funded by the State of Utah.

MS. MANUELYAN-ATINC: It's been two and a half years now that this impact bond has been under implementation and it reached its first pay-out phase as Emily mentioned in October of last year. We'll get into that a little bit later, but can you tell us about the impacts of this transaction, not only in the context of the transaction itself, but potentially broader changes it may have triggered in Salt Lake or Utah actually? And what you have learned from this initial transaction that you have then taken into the three other impact bonds I understand are being currently designed in Utah?

MR. McADAMS: Right. Well, I think first of all one of the things that we learned, this was precedent setting in Utah. And I think in many cases in government, because we did something that really we should have been doing all along, but that is that we stated a hypothesis and how we were concluding a certain population that we were focusing on. So we had made a hypothesis that three and four year old kids who scored two standard deviations below the mean on the Peabody Picture Vocabulary Test, to be very technical, that those kids -- that was a predictor for likely Special-Ed need in the future. That if there were no intervention those kids who scored below a certain threshold were going to need special ed. So we projected that and then we put these kids in a high quality preschool program, an evidence based program, and then the hypothesis was that we would come back and measure starting in first grade when these kids were administered a statewide standardized test. Every first grader in the State of Utah is administered this test to determine whether they would need Special-Ed, and that we would determine at that point if Special-Ed was avoided, that would be our payment trigger.

So a few things that I think were revolutionary. First of all stating a hypothesis and an outcome in how we were going to measure it. Contrasting that to I think most other programs that we fund in government throughout the world, you kind of have a belief and a hope and then you jump into it. So we stated a hypothesis that may or may not be perfect, but we have a starting off point to measure that. So that notion of stating a hypothesis and an outcome and measurement and holding ourselves accountable to that has started to permeate other aspects of county government, and I would stay state government as we look at other programs that we're investing in and asking ourselves, you know, this program that we hope and think is doing good things, how do we know that. Is it appropriately targeted, do we have cream in the population we're targeting, or is there a more narrow way we can hone in on the population we want to affect? And what are the outcomes that aren't being measured today, how do we measure them and move towards more of government services and programming being delivered in a targeted way that has measurable outcomes?

And that led to -- last year where I've stated a policy, and this is now becoming practice in Salt Lake County, that no new programming -- we will not spend on new programs that are not rigorously evaluated, which is again inexcusable that we were not doing it previously, but a pretty landmark policy for us to adopt moving forward. And then the fact that this data driven, outcome focused governance is really -- I'm a Democrat in Utah -- aren't many of us in Utah (laughter) -- so data and evidence is bridging a partisan divide. We're getting stuff done, we're coming together because nobody wants to waste government dollars, nobody wants to have an individual in a program that we promise will have an outcome and doesn't. The human cost is too high, not to mention the taxpayer cost of investing in programs that under perform.

And so we're finding a path forward of partisan divide as well and moving forward in investing in the human capital of our community.

MS. MANUELYAN-ATINC: Excellent. Great example of how results focus has really helped bring people together and put the focus on where it needs to be, improving the lives of children.

Mr. Sorenson, you've done quite a bit to support the development of the social impact bond market in the U.S. You've also been involved in impact investing globally. I want to ask you, as an investor, what is it that has gotten you interested in impact investing and social impact bonds in particular? And Sir Ronald touched upon this a little bit, but it would be interesting to get your viewpoint as well, what do you see as the drivers of the rise in impact investing that we're seeing globally?

MR. SORENSON: I think to answer that I'll give you just a little bit of background in my life and what brought me to this point. I think like many impact investors before investing in businesses that address social problems I was an entrepreneur, I was a venture investor, and had grown up really in that world, a world where I saw the power of new ventures and entrepreneurs in terms of creating scalable, self-sustaining businesses that really became fairly sizeable ventures and achieved great success. I think one of the successes that I had as an entrepreneur was truly an impact business even though the term hadn't been coined and I had an intention purpose behind it. But it addressed really a very underprivileged population of the deaf and enabling them to communicate with the hearing over the internet through remote sign language interpreters. And it really changed their capabilities and the opportunities that they had and the employment landscape for them. And seeing that, this was a business that was able to scale because it was profitable, because it was self-sustaining, to reach not only thousands but really millions of people within a relatively short period of time illustrated to me the power of a different approach to dealing with social problems and that of scalable, self-sustaining, you know, business oriented, free market oriented enterprises that were driven by entrepreneurs.

And I started at that point in time wanting to give back. It was a time where I wanted to focus on some of the challenges that we face in the world, but was not satisfied with typical philanthropy which to me was mostly fairly inefficient. It lacked accountability and didn't seem to really move the needle much. And so I started looking for different models that were really addressing social problems, but in a more scalable, self-sustaining way. And I found microfinance initially and started providing grant assistance to organizations that were building that activity, and then ultimately as an investor, and saw really a phenomenon occur there where the better microfinance institutions were able to grow and grow quite rapidly and scale to where they were -- they had millions of customers as opposed to just, you know, a few hundred thousand that you might see in typical NGO or government based programs.

And I really felt like I was onto something there and started looking for other business models and other sectors and other geographies where for profit entities or scalable nonprofits could generate more impact. And of course this whole field of impact investing was emerging at this time. And as I continued in looking for these opportunities, both as an early stage investor, but I think also interested in wanting to help build the field, I noticed that there was really a lack of an ecosystem. And I looked at what could be done and how I could participate in helping to address some of the very early stage -- the pioneering gap is what we call it -- and I've been involved in experiential education programs at the University of Utah, and had been able to help the students there raise the largest student run venture fund, where students really got the classical education in the processes and the various activities to underwrite a venture investment and through that experience learned that they did pretty good work. It was a tremendous experience for them in helping to shape their careers and form the directions in their lives. And I decided to take that to the next level in establishing an impact focused educational experience for the students at the University of Utah with the Sorenson Global Impact Investing Center where their focus would be on helping to facilitate impact investing by providing that very early stage assistance to social entrepreneurs to early stage funders to foundations in helping in the due diligence, the market research. And from that grew the policy innovation activities that the University was fortunate in winning a White House SIF Grant a little over a year ago, and now has become a very important part of what we do at the Center. We're working with about 10 different state and local governments, primarily in the western United States, and about a dozen service providers in the early stage technical analysis and feasibility for setting up these pay for success initiatives.

As I kind of went through that journey and as I became aware of social impact bonds and the great work that Sir Ronald Cohen had pioneered in the UK, it was just a natural fit. I mean this became yet another investment that could be made that helped to satisfy the interest that I had in impact investing. It was clearly based on outcomes. There was accountability. It made all the sense in the world in terms of delivery of social service in a much better way, a much more effective and efficient way in delivering results. So I was looking for opportunities and Merrill Lynch brought the one that Social Finance did on recidivism and I invested, my foundation did, in that one. And then I became aware of the one in the State of Utah that had failed the first time. I thought gee, why did that fail, this is the best idea that I can think of for us to be able to be dealing with some of these problems that are in the State. So I got on board and used whatever influence I could to help it become successful and pass when it did the next year.

I have since become involved in helping to support and hopefully get across the finish line the federal legislation that we're focused on now for the fund here (audio interruption).

So this has become an area along with participating by investing, helping to educate the next generation and create awareness in the investment community as well as in helping to influence good policy. These are the main focus areas that I'm involved in right now and the Center has really been involved in.

MS. MANUELYAN-ATINC: Thanks. Just a quick follow up. I know you work globally, so I wanted to ask you what you think are going to be the biggest challenges of taking impact investing and impact bonds to the developing world. What does your experience tell you?

MR. SORENSON: Well, I think that I would tend to agree with Ronald on this. I think entrepreneurs are going to be key to this. I believe that governments play an enormous role. I'd like to see the United States government more proactive like the UK is. It would help to move the needle I think in an enormous way. I think service provider capacity is another constraint. We've got to have more service providers and they've got to be investment ready. In other words, investors have got to feel confident in investing in the service providers. These are all areas. I think the money is out there. I think there is interest in this and the money is out there if we can help to align those. I'd love to see tax policy help to create incentives like the low income tax housing has done in low income. I mean that's a great example of if you align the incentives that it can really help to drive scale.

MS. MANUELYAN-ATINC: Great. Thank you very much. Tracy, you've been a participant and a thoughtful observer of this market, having written a book about it. I wanted to ask you, from the inception of the first social impact bond now five years ago, the Peterborough Prison one, how has thinking and practice evolved? You famously have coined the phrase, if you have seen one SIB you have only seen one SIB. (Laughter) And it is quoted in the report as well. But we're seeing some patterns over time, and they are certainly differences across countries as well. So I wanted to get you to reflect on that, how has the market evolved and perhaps touch upon the difference that you see in the two most mature markets, the U.S. and the UK. How and why are they different and, you know, what scope there is actually for learning from each other, especially as countries are evolving in different dimensions.

MS. PALANDJIAN: That's an excellent question to, Tamar; thank you. Well, we feel really lucky first of all that we're part of a global network that Ronnie has founded. Three sister organizations around the world and that the UK, the U.S. and the Israeli organizations could really come together and learn from one another and cross pollinate has been just a great privilege to help continue to build this field.

I'll answer the question at a very, very high level in comparing the U.S. and the UK markets, and then maybe we can get a little bit deeper into some of the more nuanced differences. So at a very, very high level there is tremendous alignment and a lot of similarities between these two markets. First of all, the broad principles underlying the tool, you know, Emily put them up elegantly earlier, investing upstream around prevention, promoting interventions that are about individual opportunity, bringing very uncommon actors together to collaborate deeply to solve social problems, the participation of private funding. All these very high level principles and features are still very much intact in the expressions that are being borne out on the ground. In addition we see a great degree of alignment around converging into several social issue areas. Obviously the roots of the tool in criminal justice, but very much now expanding into employment, health, education, homelessness, et cetera. And not least, one of the most exciting features of the tool is the ongoing bipartisan embrace. And the Mayor discussed this and it's not an accident that this movement when Ronnie got it started was developed under the labor party and then the conservative party not only embraced it, but completely took it to a whole new level. And it's also the same as we're experiencing in this country, very much balanced red and blue states pursuing this tool, you know, from Utah to South Carolina to Massachusetts and New York. We feel quite optimistic that it will stay a balanced tool. And the White House has been a tremendous partner as well.

Where we're seeing more differences between the two markets I think is a reflection of the context and the ecosystem of these two distinct markets. So, first of all, in the United States we have a much more developed philanthropic community, we have $700 billion of foundation assets, foundations give out $50 billion a year, and it's also a very generous country. So every year $250 billion gets given away. And as a result we also have a more developed social sector. We're seeing perhaps larger -- yes, maybe not the kind of scale that an earlier member of the audience mentioned, but, you know, we're seeing providers that are working in multi states, and not only working in multi states with a great operational track record, but organizations with an evidence base. Some of them have even been courageous enough to take on randomized control trials to measure their own effectiveness of their program. And of course the foundation sector has played a tremendous role in investing in R&D, capacity building, building an evidence base so that we have this very strong social sector.

So as a result it's not an accident that a lot of the projects now -- 10 or so in the United States -- are more or less focused on a single provider platform, scaling up an existing evidence-based provider, taking it to a new level. And quite different from say the first one in Peterborough, which is comingling of different service providers and really innovating on the fly, which is also very, very exciting. What we're also seeing in the United States, perhaps with already a strong set of voices around evidence based policy making, that many of our projects are using the highest level of evaluation rigor to determine investor payments. And I see that that evaluation methodology in the deal construction to be quite different from our UK colleagues' experience. That may also be a reason why some of these projects are taking 18-24 months, 30 months -- Ben, you can jump in -- to develop because it's hard to articulate an operating plan to take into account the control group and how those participants are going to be enrolled and randomization of such.

So those are I think from a U.S. perspective some of the differences. And in a way while the U.S. is more developed in some aspects, as I mentioned, the UK is also more developed in other aspects. The UK government has funded a wholesale social investment bank, very much the hard work of Ron and the Social Investment Task Force over the last 10 years to create big society capital. It's been a huge player in the ecosystem in the UK. The idea of having pooled vehicles. Bridges runs a very successful SIB fund in the UK, also very much ahead of its curve. And then finally, and Emily mentioned this earlier, the idea of using a rate card approach. It's not an intuitive term, but it is a really efficient and elegant way to price social outcomes. And that is no accident that the UK, while in dollar terms the market is much smaller, in terms of the number of deals they have, is really advanced.

So those are some of the differences that I see, but I think it's healthy to be in this experimentation phase. And I think it's healthy that, you know, if you've seen one SIB, you've only seen one SIB because we're only in year five of obviously a much longer arc of how this field is going to develop. So it is not only a revolution, it is also an evolution. And I think it's important to think about how we continue to learn from these experiments and evolve and refine and take it to the next level.

MS. MANUELYAN-ATINC: Thanks. I think these are very thoughtful comments. Just a follow up, is it fair to say -- certainly it's been my observation, but maybe there has also been evolution in this -- that cost saving has been a more important motivator in the U.S. than is the case in the UK? Do you see that changing as well?

MS. PALANDJIAN: Well, the Mayor has a beautiful speech on this, but I am seeing governments price outcomes in many different ways. Yes, one dimension is cashable savings versus value to society. Another dimension is whether you can capture this economic value within the investment timeframe. So for a lot of the work that we do, the benefits go way beyond the five to six to seven year time horizon of the investment. And then the third dimension that we always work with government partners, is what we call the savings or value to different levels of government. A lot of the health applications, Medicaid, in New York State, you know, 50 cents go to the feds, 38 cents go to the state, 12 cents go to the city. So it's beyond just savings and value. And the beauty is in the eye of the beholder. It all depends on how sitting mayors and governors want to approach this. And I feel hope that the world view is getting more and more expansive in thinking about these three dimensions.

MS. MANUELYAN-ATINC: Thank you, Tracy. So let's go to the continent now. Francois, you've been involved in a small SIB in Belgium that focuses on migrant employment. But you're also actively looking for opportunities in the developing world. And one of your efforts seems to be near fruition, and that has to do with your involvement with the International Committee for the Red Cross, putting together a transaction for the distribution and the physical therapy associated with prosthetic limbs for populations that have suffered from conflict and mines, et cetera. This is likely to be the largest impact bond to date and would cover multiple countries as well.

Can you tell us a little bit about the concept of this impact bond and why you decided that an impact bond made sense for this particular program?

MR. DE BORCHGRAVE: Sure. Thank you. So basically, as you mentioned, the impact bond is about the financing of rehabilitation centers for people who have blown up on mines and lost an arm or a leg on mines in post conflict countries. It's been conflicts like Afghanistan, Yemen, Congo, Mali, and so on. And the concept is to finance the construction of such centers in those -- I mean what you have imagine are very fragile environments. And not only build the centers but also staff them, train the staff, and ensure that the staff has good productivity, they're really good at not only placing prosthesis on these patients, but also making sure that these patients then get a new start on a good life. Getting to education for kids, or getting to employment for adults.

What you are to know is that basically disabled people in these environments are amongst I would say the poorest people in these environments. They don't have access to jobs, they don't have access to education. And only 10 percent of the people with disabilities, with physical disabilities, have, I would say, treatment that allows them to go further into (audio interruption).
So it's really about building these centers in these fragile environments. And the concept of the bond is to look at the productivity of the rehabilitation practitioners, so the doctors putting the prosthesis, how productive they are compared to a control group of other centers, of the International Red Cross, so historical centers, to see how innovative these centers have been able to be, how they have been able to improve the productivity compared to what the norm is today in terms of processes.

And so beyond the building, the training, the staffing, there is also introduction of a lot of processes, technological innovations, process innovations, such as basically financing the transport for people to come to the center, sending by text message reminders for people to come for their treatment, allowing patients to give their feedback, allowing practitioners to really share the best practices among the different centers, to really come up with state of the art processes and methods for these centers.

Now, to your second question about why it made sense to do that under a SIB instrument, it really comes down to what Sir Ronald referred to early on as the entrepreneurs looking to raise capital to expand what they think they're good at. And in this case it's really a SIB that has been initiated not by a government, not by a development aid agency, but by the International Red Cross as actually the operator of the impact bond. And the reason why they decided to launch this bond was basically to tap into new sources of funding, to fund their growth. And why did they have the need, or why do they have the need to tap into new sources of funding? Again, to what has been said early on today, the budgets of western governments who are big donors to the Red Cross are obviously shrinking because of needs for what's happening, for example, in Europe with the migrants' crisis in Europe. The whole budgetary constraints in Europe just because of the financial crisis. So they see that down the line there's going to be -- there's a huge risk of reduction of the nations that they're going to receive from (inaudible) donors. And basically they want to open up new sources of funding, to tap into new sources of funding, and by structuring things into a SIB structure you kind of allow other sorts of donors to come in, people who are reluctant or who don't trust these very fragile environments, which are the environments in which the Red Cross operates, like Afghanistan and Yemen. And donors who don't really trust that the money they're going to give to the Red Cross is going to actually lead to results. Well, a SIB is a good way to kind of show the commitment from the organization that these donors only have to pay if the results are coming in at the end of the line. So that's really I would say the reasoning behind this DIB structuring.

Obviously for the beneficiaries as well on the grounds for the people who receive these prosthesis, the fact of structuring things as a DIB allows also for the ICRC as an organization internally to change towards becoming more performance centric and really focusing their team on delivering results efficiently, making sure that people who need prosthesis get them faster, get them cheaper. And where there is a better quality of outcome, they have, I would say ,a better next step in life.

So basically that's the reasoning.

MS. MANUELYAN-ATINC: In this transaction you have the benefit of working with a service provider that has a solid reputation, which is wonderful. What's been the biggest challenge you assign the transaction?

MR. DE BORCHGRAVE: I'm going to say so far the biggest challenge has been really identifying the right data to measure, and being able to collect that data in these very fragile and extreme environments. Indeed we are lucky to work with a very established and very professional organization, maybe one of the most professional organizations in that field, but really getting data from the field from far places in conflict or post conflict areas in these countries is something that's challenging. So it's taken a lot of time; we've succeeded in doing that, but that's what has taken the most time I would say.

MS. MANUELYAN-ATINC: That's a very good segue into the second round of questions that I wanted to enter into now, which is about how important it is in designing a SIB to have the right indicator for the payment. The indicators need to be clearly meaningful, as Emily mentioned, for the payers. They should be unambiguous so that you can actually be confident that yes, outcomes have been achieved and can trigger the payment, and they can be measured in the relative near-term so the investors don't have to wait a lifetime before they get their money back.

So a related area is then the impact evaluation strategy that surrounds the release of the payment. In the U.S., as we mentioned, there have been two transactions so far that have reached payment space, that stage. Emily mentioned the Rikers Island one where the transaction was not successful and therefore the investor was not repaid. And we have the Utah preschool one where the transaction was enormously successful and payment was made, but it was so successful that it generated some controversy about how that could be. Did we select the right indicators, are we paying for something that would have happened in any place, in any case?

So with sort of that in mind I wanted to ask primarily the Mayor and Tracy, but I invite as well Jim and Francois to reflect on it, when is it okay simply to measure the outcome of interest, and when is it important to have a counterfactual so that you can actually attribute the outcomes to the program that's being funded? In the Rikers Island case there was a counterfactual. In the Utah preschool case there wasn't one.

Let me start with you, Mayor.

MR. McADAMS: Well, I would say the time that we were developing the underpinning of our pay for success, I would say it probably started just with what advocates will often say, an ounce of prevention is worth a pound of cure, and don't dig further into it. At the time we were developing our SIB there wasn't a name for it. In fact I don't think -- Janice is nodding -- I don't think we had even been aware of the UK model as we were developing this and looking to monetize this differential between the intervention and the outcome. We developed something that -- and so we hit payment for the first time with our first cohort last fall. And we had predicted that of the 600 kids in the program there were 100 that were our sample for payment. Of the 100 that we had predicted would need special ed beginning in first grade, the number actually needing special ed when they went through the statewide standardized test was 1. So we were 99 point something percent successful, which we were very happy with. But it did invite some criticism of those who said was our predictor accurate, was our predictor generous. We didn't have a randomized control trial, so we don't know what the kids who weren't accepted in the program looked like.

And so I would say we welcome that criticism. We structured something that we felt was going to be good for our community. We then went out and solicited investor interest and received investor interest. And now we can look at that and say we, I think, with a high degree of confidence believe that there is a strong correlation between scoring below the threshold on the standardized Peabody Picture Vocabulary Test and Special-Ed. But is that correlation perfect? Not necessarily. It's the best that we had. And remember that we're moving from a government that doesn't articulate a hypothesis and doesn't measure. We moved to something that we thought was pretty good.

Can we iterate and can we tighten up that nexus? I think we're certainly looking to do that, but overall the movement to an articulated hypothesis and measured outcome was revolutionary on Utah and something that we're very proud of. And we look to iterate and improve along the way.

I do look back and I ask myself should we have done a randomized control trial, should the counterfactual have been established in this case? And I think there is some value in that. In our case I believe that it probably would have been preclusive to us even pulling off the transaction. The State of Utah wasn't willing to do it. This was new, this was innovative, and structuring a randomized control trial at that time probably would have prevented us from going forward. But as we move forward and as we scale up, I think that is certainly something that would bring value to our transaction as we look to tighten the nexus of our prediction with the outcome and just get a better investment as we move forward.

MS. MANUELYAN-ATINC: Tracy, do you have thoughts on this? When does one really have to have a counterfactual? Keeping in mind as you're doing an impact evaluation strategy, if you need to have a counterfactual you really need to follow the particular model and cannot deviate from it.

And we've talked about one of the benefits of social impact bonds is actually allowing for some flexibility for service provider to change the input mix and do things differently, which is hard to do when you set out an impact evaluation strategy from the start.

MS. PALANDJIAN: I don't think that the field has a clean answer and the field should not have a clean answer because ultimately the entity that should make that call is the government. The government is commissioning this work, the government is purchasing these outcomes. So what are the goals of government. Some mayor might want to really scale this program and begin to have a population level type of result, kind of impact. Some mayor or governors might be interested in building evidence. Some mayors and governors might be interested in pay for outcomes and, you know, whether it's attributable impact is a second order question.

So depending on the goals of government, I think that all of us in the field should be mindful of producing transactions that are about providing a solution to our government partner. Because sometimes depending on which question you're trying to solve, some of these could be at odds. So if it's about scale, it's about achieving population level impact. By definition it would be very hard to have a comparison group, a control group, right.

And I'll just also answer the question in a different way. Look at Nurse Family Partnership. This is the provider partner that we are working with in South Carolina to implement a statewide program for first time Medicaid eligible mothers. NFP has a 40 year track record of incubating this fantastic intervention which basically pairs a trained nurse, a registered nurse, with a low income mother, follows the mother from when she is pregnant until the child's second birthday. And over six randomized control trials, six RCTs, the effectiveness on the mother and the child's health and well-being are just solidly documented.

So when we went to South Carolina I think reasonable people would say, you know what, do you really need an RCT to determine investor payments? Probably not, but South Carolina's goal -- now again, what does your customer want -- Governor Haley's goal is to actually test a slightly modified NFP intervention. In this case we are testing a different dosage, potentially a lower cost model to delivering NFP. And as a result, because the government wants to learn from whether a modified intervention could produce the same types of effects on the mom and the child, we will be using an RCT to determine investor payments, in this case done by J-PAL out of MIT.

I would also emphasize that, you know, Emily had that beautiful spectrum paying for inputs, paying for outputs, and paying for outcomes, and then Tamara you just extended the line to saying paying for outcomes with a counterfactual. And I think we should all be mindful that the status quo is just paying for inputs, right. Dave Wilkinson in the back loves to talk about the federal level of spending, right, $800 billion at the federal level. If you count states and local government it's even much larger. $800 billion being spent -- Dave, just a shout out to you -- spent on social services, and “Moneyball” for Government ascertained that less than 1 percent produced results, at least verified results. And we just have a lot of middle ground between the current state and this highly customized, beautiful, elegant, highly rigorous state, and, you know, if the goal is to get to scale we need to be a lot more forgiving in the middle ground.

I would also cite one more statistic, which is basically summing some of the bar charts in Emily's wonderful presentation of the 10 or so deals in the United States, we're only touching 18,000 people over 4 to 5 years. The scale of our social challenges are far greater than 18,000 people and so we just need to think about not having perfect be the enemy of the good.

MS. MANUELYAN-ATINC: Thank you. Francois?

MR. DE BORCHGRAVE: Maybe I would add one thing to what has been said and to which I agree, is the fact that in all circumstances what you need is to be able to at least show that the savings that the government has been doing through the success of the SIB far surpasses the cost of the SIB itself. So at least you aren’t opened up to criticism that the government has overpaid for things that they've received. At least there has been enough financial savings being done. And that's really what we've implemented in the SIB that we've done in Belgium. In the case of full success, the cost to the government of the whole program is only 10 percent of the whole savings that they would make by achieving the social results. So I think when you start seeing that, you kind of shut down the criticism.

MS. MANUELYAN-ATINC: That brings us to the conversation we had earlier about monetizable savings versus value that you may not be able to capture in budgetary savings. And I think it is important to keep that in mind. You know, we're going to talk about early childhood development in the afternoon, but the benefits of investing young means that not only kids do better in school but they are likely to have better jobs, higher earnings, and you're not going to be able to capture that whole chain in terms of reduced budgetary spending. But that's a tremendous boost to the economy which adds value in and of itself. So I think that's an important area to keep in mind.

Thank you. Very good comments. I think this is work for us at Brookings to think about depending on, as you said, Tracy, what the goals are, the evaluation strategy needs to reflect that. So to think about in what case, what kinds of objectives drive what kind of evaluation strategies and provide some guidance on that.

I have one last question to all of you, and this is meant to be a speed round, so I would appreciate it if you would be speedy. And then we will open it up to the floor.

So I want to come back to the question of scale that we already discussed earlier on and Sir Ronald talked about it. And Emily mentioned that we have seen rapid development of the market, and as she said but it still remains a niche activity, both in terms of size and the types of populations that are being served. So can the market reach a scale that makes a dent in the important social challenges of our times?

Sir Ronald is a revolutionary, and by definition therefore optimistic, but I want to the thoughts of the panel on that question, can this reach scale and what is needed for that to happen?

Let's just go down the line.

MR. McADAMS: I think it can reach scale. I think that the promise of pay for success is gathering evidence and evidence and data is compelling. So what we're seeing in Utah in our early education, so 600 kids in a program, the demand for low income early education is about 50 times that I would say. So it is measurable, 1/50th of our demand is something commendable, but we have a long way to go. But the conversation has shifted from whether this is an appropriate activity, to how are we going to do this? It's glaringly obvious I think to people on both sides of the political spectrum to say this is something that needs to happen, how are we going to do it, how are we going to assure that it's rigorously evaluated, that it's focused on outcomes, that it's high quality. But our conversation in Utah has shifted. And that I think first of all is a scale up technique. Whether or not we do a SIB 50 times the magnitude of our current one, or the learning from the SIB informs our scale up is yet to be seen, but the impact of going to scale is already being seen in our community.

MS. MANUELYAN-ATINC: Great.

MR. SORENSON: Like Ronald I'm an optimist. And I believe it can scaled up, and I believe that both by attracting outside capital and the markets, but I think also in creating better practices inside government where there is more evidence based contracting. They're doing a better job. I think that clearly for the capital markets you need efficiency. Ultimately you need to get these to the point where they're tradable and then you really engage the capital markets. I think clearly service provider capacity is an important element to being able to scale this up and I think the collaboration and what we learned -- we're in the early innings of this and we see a number of similar initiatives that are using different approaches. And as we learn from one another and take the best practices and focus on innovation, I think we really have the opportunity to scale and ultimately really move the needle.

MS. MANUELYAN-ATINC: Tracy, feel free to say ditto. (Laughter)

MS. PALANDJIAN: I'm an optimist too; I wouldn't be spending so much time with Ronnie otherwise. I think that if the end is scale the current phase is really about research. We're really using a research lens to look at the projects, hence highly artisanal. To get to scale we need to shift that lens to either just government buying more smartly through evidenced based policy making, or if it's through a social impact bond all the players in the ecosystem need to shift from that research lens into a public finance lens, to thinking about reaching scale.

MR. DE BORCHGRAVE: I come from a country where there has been only one SIB in continental Europe where there has been little number. I think at this stage really, what needs to shift is the mentality of governments. And really be ready in the social democracies to go into pay for performance and have some involvement of the private sector into the provision of social goods. And that's a clear difficulty at this moment in continental Europe. So that needs to change. I mean there are some, I believe, accounting issues I think that need to change as well at government level because technically the SIBs have to be accounted for in the first year when they contracted, even though it's let's say a five year program. For a lot of governments, especially in Europe where you have tightening of budgets, it's a big constraint. So I would say these two and that's where we see the blockage today.

MS. MANUELYAN-ATINC: Thank you very much. So we're ready now to hear from the floor. We started 15 minutes late so I'm going to call that back. So we have 20-25 minutes in this session.

Yes, please. Please introduce yourself very briefly and let's hear a question.

MS. HOWELL: I'm Embry Howell and I work at the Urban Institute in the Health Policy Center in Maternal and Child Health. I'm very familiar with the Nurse Family Partnership. I was concerned this morning that there was not discussion of the quality of evaluations because I think your whole enterprise depends on that. If they're not credible you will be paying for things that you shouldn't be paying for. And I did see the Utah evaluation, I did have some thoughts about it, regression to the mean and so on. But in terms of how you are going to go about that. For example, you talked about $1 million being a rather large investment. If we looked at seven percent for evaluation, which is kind of a rough guideline, you would only have a $70,000 evaluation and you could not do a randomized experiment, or even a quasi-experimental design.

So think it's a very critical part. I guess that's a comment and not a question and I know it has been discussed. But especially if you're looking at prevention and the long timeframe involved it's a very critical thing.

MS. MANUELYAN-ATINC: Why don't we take a few more.

MS. CHEROW: Hi, Evenly Cherow, Global Partners United. It's very exciting to be here at Brookings and hear two projects that are devoted to addressing the needs of the one billion people with disabilities, that we're trying to implement the UN treaty on the rights of people with disabilities. The funding has been miniscule over the years from donors. And so I was excited to be coming here today to hear about early child development and impact investment vehicles, and now I'm hearing about these exciting projects. Much of the money has gone to people with physical disabilities over the years because it's easier to count as an outcome and impact. You can count prosthesis. Very little has been done in deafness. So I'm excited to hear, but I would hope that there would be some thought around with these kinds of finance vehicles how you might work within innovative social entrepreneurs to look at apply tele-rehabilitation strategies as you began to discuss, and scaling with unique financing instruments. And I'm hearing you beginning to do that and I'm very excited. I think the community of people who are working on this will be thrilled to hear about your efforts.

Thank you.

MS. MANUELYAN-ATINC: There was one more in the back.

MR. HOPE: Thanks very much. My name is Thomas Hope; I'm a Senior Researcher at the American Institute for Research. First of all I wholeheartedly agree with the comments about the quality of evaluation being crucial for these kinds of things, as in like -- I myself am responsible currently for a randomized control trial for early childhood development intervention in Bangladesh, and I think in these kinds of circumstances it's crucial to know whether intervention really works in improving the outcomes, or whether it's some other factor that confounds these results or not.

In addition to that I think it's also crucial to know that when we look at indicators some of these may be validated in the U.S., and particularly for early childhood development outcomes many of these outcomes are not validated in developing countries. We are lucky in Bangladesh to be working, for example, with the (inaudible) because it is validated in the context of Bangladesh, but in many other developing countries this is certainly not the case. And that would be probably even harder for interventions where measurement is even more cumbersome.

MS. MANUELYAN-ATINC: There was one in the front. And we'll take one here and then we'll turn to the panel.

MS. PHILLIPS: Hi, everyone. Andi Phillips from Goldman Sachs. And I come to a lot of these events and I am always inspired and always learn something. So thank you to you all.

My question is about sort of back to this issue of getting to scale. It seems to me that what we know is we need social entrepreneurs, whether they work at for profits or nonprofits. I don't care, but we need those folks who are actually on the ground doing the work, providing the services. We need investors who want to make those up front investments. And I think we're all excited by the new availability of capital in this space.

The third leg of the stool is government. And having been involved pretty early on in the Utah deal and having the pleasure of working with a visionary leader like Mayor Ben McAdams, what I also know is that Ben is one and there are government folks across the country, across the globe, that need to sort of figure out this new way of doing business. And I would never be critical of those folks, because those are the folks on the ground as well. And I know more about how that works in this country than in other places, but what I know is they are sitting there at their desks and they're worried about following the rules, and they're worried about compliance. And they're sort of beholden to legislation and administrative rules. Yet in order for these new mechanisms to scale we need them to do business differently.

I'm curious, and I think Tracy was just so eloquent on this point about who gets to decide, and I absolutely agree with you that government gets to decide. Contrary to the article about the Salt Lake transaction, we at Goldman Sachs did not decide on that metric. (Laughter) So I think we did it the right way. But how do we make that cultural change in government as well as the sort of operating environment change necessary to enable those folks to do business differently as this critical third leg?

MS. MANUELYAN-ATINC: Great. Well, thank you. A great set of comments and questions. Why don't we take those. I think the question or comment around disability, Mr. Sorenson and Francois, you might both want to comment on that. Quite a few comments around the importance of evaluations, rigorous impact evaluations, but how do you pay for those, especially when the transactions are so small. And lastly on mindset in government. Once strategy is cloning you, Mayor, but I guess that's not practical or ethical, so beyond that what other strategies are there on your mind here in the panel.

So why don't we start at that end. Francois.

MR. DE BORCHGRAVE: Actually on the disability, I heard this as a comment rather than as a question, so I don't know very much how to answer that. It's a topic that's very dear to my heart because I have a three year old son who is totally disabled. So if I can think of ways to develop solutions through such instruments, I mean believe that that's something I do regularly. But I must say I didn't understand the specific question more than as a comment.

MS. MANUELYAN-ATINC: I think part of the question was around tackling things that are easily visible, physical impairment, than other that might be -- you didn't mention it, but mental disability certainly came to mind as being a particularly difficult one.

MR. DE BORCHGRAVE: On the visibility, the thing is it actually comes back to your comment, the lady from Goldman Sachs or Imprint before -- no? Goldman Sachs? Okay. And it's basically what do the governments decide or where do you have either governments or outcome funders who are ready to launch a SIB or a DIB in an actual thematic. I think for social investors you'll find people who are willing to deploy their capital into instruments that make sense with the right social impact. In terms of service providers, operators, you clearly have very good ones in the disability domain. I think it really comes down to who is willing as a government to step into that. And maybe because it's not really visible it doesn't get the necessary attention from government, whether it's true social impact bond or other ways of funding. But, yes, I would put the answer there.

MS. MANUELYAN-ATINC: Thanks. Tracy?

MS. PALANDJIAN: Both of those questions are again ones that we wrestle with all the time when we design these projects. And yes we keep in mind what government wants to achieve. But we also have to keep in mind what the providers are comfortable with. And sometimes a randomized design program is very, very hard for the service provider, especially if the point of randomization occurs at the service provider.

And I also want to just separate two kinds of evaluation. I think folks tend to conflate them. One is whether an intervention has gone through evaluation before, such as NFP, which has gone through six randomized control trials. Center for Employment Opportunities had an RCT done by MDRC before they took scale funding in the New York State SIB. By the way, both of those SIBs that were launching, South Carolina with NFP and New York with CEO, both are using RCTs to determine investor payments. So there is evaluation that the service provider or the intervention has gone through, and then there is a separate question of whether you use that same evaluation methodology to determine investor payments. And those things are separate. And as I mentioned before reasonable people could come to the conclusion that NFP after six RCTs could perhaps just be measured upon when you do a SIB deal. So that is something that we think a lot about.

And the last point I would raise is that you've got to think about the individuals too. In fact there has been a lot of thoughtful discussion around whether it's actually ethical to randomize people. No one could argue that right now these people are not getting services. So if many people are getting services the control group is no worse off, but there are also very strong voices that randomization is ethically difficult. So I think, again, there are many ways to do these projects and a lot of middle ground and we're still experiment.

Last point, foundations. They have been incredibly helpful in funding RCTs alongside the projects. In Santa Clara, the Arnold Foundation is doing that. And other projects, foundations have funded side by side evaluations.

MR. SORENSON: What was the question? (Laughter)

MS. MANUELYAN-ATINC: Whichever question you feel comfortable responding to, but perhaps on the disability question since you've developed actually tools for the hard of hearing.

MR. SORENSON: I think I'm going to address Andi's question if that's okay.

MS. MANUELYAN-ATINC: And that was the second one I was going to suggest.

MR. SORENSON: Having watched what's happened in Utah since the first early childhood program, it's been very interesting because I think there's a much greater awareness there, we're seeing legislation for early childhood education. I'm a little concerned about it because there is not the rigor and the evaluation attached to it, but there is kind of the presumption, well this is working so we need to put more state resources to it. And also I had the opportunity to meet with the manager of the state budgets and we're really focused on staking some of the block grants that the state receives and working out through the Center measurements for how to make them more accountable. So this has all evolved because of the new thinking and the awareness. And also seeing the number of state and local governments now in the west that are looking at Utah, looking at other states that have started these initiatives, and the early feasibility work that's being done in the Center on many different applications that are new opportunities now for pay for success initiatives.

So I think there really is a growth that's occurring and an interest. And we're going to continue to see this. It was interesting to see when the paper first came out you had 38 that you were evaluating, now you've got 56. So I mean just in that period of time -- and to hear of one in Israel on Type 2 Diabetes is really -- that's really exciting. So a lot of great things happening.

MS. MANUELYAN-ATINC: Mayor, on changing mindsets in government.

MR. McADAMS: I wanted to talk quickly about evaluations. I think randomized control trials are an important part of the process. Maybe not in every transaction. I alluded that in our transaction we weren't talking about whether we established a counterfactual or not, our conversation was whether to do it or not. And some on my council were saying forget this pay for success concept, let's just fund the preschool program. And I probably could have got the funding through my counsel to fund a few hundred slots in preschool, but it would have never scaled up. People promise all the time that this is an ounce of prevention worth a pound of cure, but they never go to scale. I could have gotten 300 slots and that's what we'd be talking about now, and instead we're talking about going to scale.

So randomized control trial has its place. I think you can't not let a deal go forward because you've got only the highest bar of evaluations acceptable. What I see happening now with ours is a more rigorous evaluation coming in and looking at our preschool program. We're looking at two additional SIBs, one in homelessness and one in recidivism. And for both of these we are looking at a randomized control trial. So I think rigorous evaluation is important, but it's not every deal or not every deal every year will be rigorously evaluated.

As far as I think scaling and leadership, what I've seen happening is it is contagious. So we are seeing other people within my administration looking for outcomes. We're seeing this at the state legislature. I have a bill up this moment being debated in our legislature about homelessness funding. And I saw on Twitter before I came up here one of the legislators saying well we're going to want to know what your outcomes are in homelessness. And I thought (laughter) you're questioning me on outcomes, but it is permeating government, it is permeating philanthropy and giving. And I think what's going to happen is this culture and ethic of outcomes and data driven intervention is going to be an expectation. And if a mayor wants to get funding from a foundation they're going to have to show what their outcomes are, and then they'll start that learning curve. Foundations are now -- there is a lot of peer pressure. I presented last week to a donors forum about what we're doing, and they're then comparing notes about how they evaluate outcomes of their grantees. And so I think a culture is developing and an expectation is developing that's going to move this forward. So I would say if you're not there, if you're thinking about this, you better be on the leading edge or you're going to be left behind and you're not going to find yourself eligible for grant funds in the near future.

MS. MANUELYAN-ATINC: Thank you. So I'm going to bring this panel to a close I'm afraid, but I want to thank you all for the wonderful conversation. I don't know if it sounded revolutionary, but it certainly sounded highly optimistic. So thank you, everybody. (Applause)

MR. INDYK: Let me add my thanks for a fascinating panel. I have to say, listening to you all I feel a little jealous that the areas of research that we tend to be focused on at Brookings are not quantifiable or measurable in the way that you're talking about. And I fear, precisely as the mayor just said, that as donors and philanthropists start to get excited about this in a tangible way that it might even crowd out the funding for those of us who are doing qualitative work that isn't quite as measurable. (Laughter) That would be a good thing I think overall. It might be for us, but it would be a sign of the success of the work that you are all pioneering here. So I congratulate you all.

I think that there is an important role for Brookings as evidenced today in convening people who have experience and expertise and interest in trying to promote social impact bonds. The role of research here in collating and analyzing and developing best practices, the kind of thing that the Center on Universal Education has started to do under Emily's pioneering work in this regard, I think is very important. Brookings as an institution is committed to keeping that going and deepening it so that as the whole effort gains momentum we have a way of monitoring, analyzing, and interpreting the results, and, as I said, developing practices. We can do it in our institution, across programs. Education for instance is not just something that we do in the Global Economy and Development program, but across two other research programs. So it's a challenge for us to develop a collaborative approach to see where social impact bonds could apply in other areas, not just of education but other places where we're doing research. And that's something we are going to pursue as well.

This concludes our morning session. I want to add my thanks again to Sir Ronald Cohen and to the panelists for their really interesting presentations and interventions.

You're all invited to have what Emily is referring to as a networking lunch. Outside the food is available. You can hang out there, or there are two rooms upstairs that are also available for you to sit and eat and talk in greater comfort.

We're going to come back here at 1:30 for the second session which is focusing on impact bonds for early childhood development. We hope you'll have some lunch, stay around for that, and enjoy the rest of the afternoon for this very important work.

Thank you all very much. (Applause)

PANEL 2

MS. GUSTAFSSON-WRIGHT: My PFS friends at the back of the room, please find your seats.

Great. Thank you. So, I would like to welcome you to the second session of today's events. In this session we will hone in on the application of impact bonds to early childhood development.

First, I will present the findings from our second report, which is available outside, or was available outside, and entitled: “Using Impact Bonds to Achieve Early Childhood Development, Outcomes in Low and Middle-Income Countries.” After my presentation we'll hear from an excellent panel with experience working on impact bonds, globally in the early childhood sector, moderated by Tamar.

So, in that presentation I will cover four main areas. First, the question of why impact bonds for early childhood development; second, I will give an overview of the current landscape of impact bonds in ECD sector; and finally I will touch upon some of the remaining questions that we consider to be important when designing impact bonds for early childhood development.

So first, why impact bonds for early childhood development? To begin with, what do we mean when we say early childhood? So, ECD spans a range of interventions across health education, social protection, nutrition, modern sanitation programs, and across the spectrum of age from conception to transition into primary school. As you can see from this chart, this includes a large number of interventions, such as maternal and child health, interventions, parenting programs, preschool programs, just to name a few.

So, why impact bonds for ECD? First of all there is a pressing need to improve access to quality ECD services. In developing countries, 10 to 20 percent of pregnant women are malnourished, 165 million children are chronically malnourished worldwide, and only 17 percent of children in low-income countries are enrolled in pre-primary school.

Two, we have the evidence that early childhood interventions have the potential to dramatically improve outcomes, and maternal health program in Argentina, for example, reduced low birth rate by 23 percent. The well-known Jamaica program providing parental training in early stimulation increased earnings by 25 percent, and reduced crime by 30 percent in adults who had participated in this program as infants. That’s just astonishing.

Pre-school education improved cognitive development in a program in Mozambique by 87 percent. Despite this evidence, ECD is not reaching the necessary scale. The following four constraints are a large part of the reason why they aren’t reaching scale, I believe, around lack of financing, low quality in capacity, gaps in knowledge, and insufficient political support.

To reach new targets by 2030, spending on pre-primary education for low-income countries and for middle-income countries will need to increase six fold between 2012 and 2030. The funding gap for reproductive maternal, newborn, child and adolescent health was $33.3 billion in 2015, and high burden, low, in low- and middle-income countries.

Impact bonds could provide fund capital, addressing liquidity constraints, not necessarily provide additional funding, as the outcome funder ends up paying, however, they could leverage public capital. A recent study from the Inter-American Development Bank found that in six countries, on average, only between 50 and 65 percent of time in preschool classrooms is spent on instruction.

This is well below the good practice benchmark of 85 percent. This means that even in the best performing countries in the region, a full day of instruction is lost per week, relative to the good practice benchmark. In every country in the region between 8 and 14 percent of time is lost because teachers are physically absent from the classroom altogether.

Impact bonds could change the focus to outcomes leading to performance management, and monitoring and evaluation, allowing for innovative combinations of services to maximize impact, and by creating accountability for government programs. So, while some of the evidence is very strong, they is still a lot of room to build upon this evidence, and in all of the developing world only 25 unique ECD programs have been rigorously evaluated for their effect on later-life outcomes.

Impact bonds could foster innovation and experimentation delivery, could facilitate data collection on what works, and could allow flexibility in service delivery for adaptive learning. In low-income countries, average spending on pre-primary education was only 0.3 percent of budgets, and 1.3 percent in low- and middle-income countries in 2012; clearly demonstrating insufficient political support.

Impact bonds could motivate politicians through guaranteed value for money, could allow the outcome funder to connect preventive programs with long-term outcomes and potential cost savings, and could demonstrate value through private sector engagement. Impact bonds are particularly well suited to the sector in theory; impact bonds provided from capital to preventative services, often to non-state providers and tied payments to outcomes.

ECD interventions deliver meaningful outcomes and prevent higher costs down the road.

Many ECD services are provided by non-state actors, and there's some evidence that tying payments to outcomes in ECD improves the quality of services. Some ECD services have complex inputs and relatively simple outcomes which is something that we've seen in the impact bond market to date.

So what does the global landscape of impact bond for early childhood look like so far? There are currently nine social impact bonds that serve young children globally. There are five in the U.S., two of those are for pre-school education, two are focused on keeping families together, and one is the social impact bond for parenting and health support.

There are two early childhood SIBs in Australia, both focusing on keeping families together, there is one in Canada, also focused on the same topic, and one in the U.K. for adoption. There are at least three impact bonds in the works for early childhood development in low- and middle-income, in Cameroon, South Africa, and India. And we'll get to hear more about those in the panel discussion coming.

So, what are some of the key considerations for impact bonds in the early childhood space? There are some challenges that are particularly stark for early childhood development. First of all, a lack of political urgency, given a long-time horizon view that early childhood is the parents' rather than the government's responsibility. Also the so-called wrong pocket problem, so that when the cost of providing services and the potential cost avoidance may not be held by the same agency.

And third, around defining outcomes; it could be difficult given the long-time horizon that I mentioned, as well as the lack of low-cost open access tools to use for measurement of outcomes, in particular in developing countries. So, what's needed? On the outcomes metric side, outcomes will be needed that are meaningful, meaningful means that they have some kind of intrinsic value; for example, reduced infant mortality rate, or extrinsic value, like, for example, increase lifelong earnings.

Also meaningful outcomes would be those kinds of outcomes that capture a range of potential impact or cost avoidance across the lifetime of an individual. Measurable outcomes are considered meaningful, so meaning within a timeframe that is appealing to investors, and to outcome funders, that are low-cost and there's capacity to implement, that are simple and accurate, and resistant to manipulation.

Then they also need to be evidence-backed, so there needs to be sufficient evidence that the outcome can be achieved through available interventions, and they can be attributed to the intervention. A recent World Bank Review of impact bonds -- sorry -- of impact evaluations of early childhood programs in developing countries, identified 55 impact evaluations in developing countries of 25 unique programs, which, considering the size of a number of developing countries and programs, is a very small number.

But what the evidence does show us, is that the intervention area with the strongest evidence of impact is in early stimulation, which has impact across nearly every outcome domain, and across the age spectrum from age 6 to adulthood. The outcome domains with the strongest evidence behind them are cognitive development, language development, social, emotional, and schooling outcomes.

There are some critical issues to consider going forward with impact bonds for early childhood development. It's critical that for impact bonds for early childhood, the outcomes are chosen carefully so that the setup doesn't result in harmful, unintended consequences for children. Better measurement tools that are inexpensive and open source, and in particularly in the developing world as I mentioned, that can be used to measure meaningful outcomes will be needed.

There is also more work to be done around the cost of interventions, and the cost of inaction. How do you price outcomes? Overall, I think there's promise for the use of impact bonds for early childhood development, but it will be important for ECD experts to be part of this conversation moving forward. So, thank you very much. That concludes my presentation. I would now like to welcome our panelists and moderator, up to the stage for our second panel. (Applause)

For those of you who are participating online, I know we've gotten a lot of questions, both of my presentations will be available, on the Brookings website.

MS. MANUELYAN-ATINC: Anybody in the room who wasn't here this morning? Great. Just in case we have people that have joined us online now, I'll still introduce myself very quickly. I'm Tamar Manuelyan-Atinc, I am a nonresident senior fellow at the Brookings Institution, and I'm going to be moderating this panel. So, you'll have more of me, just like you've had more of Emily today.

I'm going to be -- made a presentation from the findings of her report. I'm looking at the application of impact bonds to early childhood development, and raised a number of questions about whether or not it makes sense, with aspects of early childhood development interventions, may or may not be good candidates for impact bonds.

We would like to take that conversation a little bit further with this panel, and I have the pleasure of having people on the panel that are working directly on transactions that have to do with early childhood development. So, let me introduce them to you, and we'll do the same thing that we did in the last panel, with me asking some questions at the beginning, and hopefully having a little bit more time this time, for questions from the floor.

So, Caroline Whistler; Caroline is the Co-Founder of Third Sector Capital Partners with two others. She did that after completing a Fulbright Fellowship in Brazil, researching nonprofit sustainability. Prior to Third Sector she worked at Nonprofit Finance Fund Capital Partners, and Caroline has led the completion of the Cuyahoga, Ohio, in Santa Clara, California, Projects for Third Sector, and we are going to be hearing more about them, and she leads the Government Advisory and Project Construction Engagements for the firms.

In 2015 she was named in the Chronicle of Philanthropies for the under-40 list, in recognition of her leading role advancing Pay for Success in the United States. Congratulations, and thank you for being here.

Next is Peter Vanderwa.; Peter Vanderwal has been leading Palladium's work on development impact bonds for close to two years. He has been working as a development professional for almost 20 years, with development agencies in Australia, the UK, and the U.S., focusing primarily in the health sector, and predominantly in Sub-Saharan Africa, South and Southeast Asia, and the Pacific.

Since 2007, Peter has been working on a range of innovative financing initiatives including results-based financing for service delivery in PNG and Cambodia, and performance-based grant mechanisms for the public sector in the Fiji Islands. His academic background is in psychology and criminology, I'm assuming those come in handy somehow in your work today.

MR. VANDERWAL: On a day-to-day basis.

MS. MANUELYAN-ATINC: Peter is going to be talking about a transaction that they are in the process of concluding in the State of Rajasthan, and we are going to have the pleasure of hearing from the Mission Director, of the Indian Ministry of Health and Family Welfare's National Health Mission in the State of Rajasthan, by video.

We are going to be hearing from Shri Naveen Jain. Mr. Jain served as the Commissioner of the Employment Guarantee Scheme previously, as well as Secretary of the Higher Education Department for the State. Mr. Jain has degrees in business finance, and public policy.

And last, Louise Savell. We already heard from Sir Ronald how instrumental she has been in the development of the impact bond market in the UK. Louise cofounded Social Finance in 2007, she is Director, and jointly leads Social Finance's International Development team, and has led impact bond development work across a range of sector in geographies including for sleeping sickness in Uganda, early childhood development in South Africa and Cameroon, and we are going to hear more about those; and energy access in South Asia.

She has also led the development of impact bonds in the UK in the fields of homelessness, youth employment, and health. Before joining Social Finance, Louise led the Eastern European programs of ARK, where she worked to accelerate the reforms of child welfare systems towards family-based care, in Bulgaria and Romania. All right, welcome.

MS. SAVELL: Thank you.

MS. MANUELYAN-ATINC: So, I'm going to start with Caroline, Caroline, if I may? We heard from Emily's presentation as I said, looking at the features of early childhood development as a field, some of them make it a good candidate for social impact bonds, but others pose some challenges. You have been working in this area in the U.S., can you tell us your experience with impact bonds for early childhood development in the U.S., and what you see as the investor, as well as government interest in this field?

MS. WHISTLER: Excellent, yes, Tamar; and thank you. So, as Emily mentioned there have been 11 social impact bonds launched in the U.S., and five of those have been involving early childhood development. So more than any other issue area, which is awesome. Now, there is also more than a dozen feasibilities that are underway, and we at Third Sector have been involved in over 10 of those ranging from health care outcomes, to education outcomes, to child welfare.

And so maybe to give a little bit more color to this, I'd like to take you all to Cleveland, where we launched the first project in early childhood development in Cuyahoga County; and so in that county they were wrestling with an issue where they had reduced the homeless population, and reduced child welfare, but they looked at their data and found, wow, of the families that come into the homelessness shelter system, many of them could be single moms, or fathers, and they actually have children in the child welfare system.

And those children are staying 30 percent longer than those otherwise, they are staying for five years or more. They are staying within the system and graduating into homelessness, justice system, et cetera. They said, we want to solve this problem, and help keep families together in Cuyahoga County. So, they said, we want to use this Pay for Success approach to see if we could do a social impact bond as a way to break down the silos between homelessness and child welfare, and make this happen.

Okay, great. We've got our government champion on board, which I think you've heard of other folks mention as well, is one of the biggest barriers. We said, we are committed to this, but now, what do we pay for? If what we want to do is keep families together, what are the outcomes that we are going to focus on, knowing that we need to reduce children involvement in the child welfare system, and also reduce homelessness to keep families together?

And so I think this is one of the first major problems that the early childhood development encounters is that sometimes you do not have the outcomes that you want to measure, to ensure family stability, perhaps, maybe aren't directly connected to savings or value, or even data that the county government has access to, and they are trying to do a county rebel project.

And so while they looked across the spectrum and say, wow, we could look at health outcomes, we could look at justice outcomes, education, et cetera, the County of Cuyahoga settled in on child welfare outcomes and reducing days in foster care as their main metric, because that was something that they could track. They actually had data access and availability. It was also something that the county paid for large part.

And so while they were interested in health care outcomes in education, that wasn't necessarily hitting their budget, and so often talk about, as Emily referenced, the wrong pockets problem, where they are intervening with families and early childhood, you may influence a multitude of outcomes but depending on who your government champion is, you may only have access to a sliver of those dollars to actually reimburse and pay for outcomes in that contract.

So that's why in Cuyahoga they said, we know and we want to impact families across a variety of outcome areas, we are going to focus for payment on this particular Pay for Success contract around what we can measure, which is child welfare days, and how that can serve as a proxy both for potential savings for the county but also for family stability over time. And so that was one of the big things that Cuyahoga tackled as to, okay, what do we pay for and how do we measure it?

And then they started saying, okay, well, if we want to do this project, who out there is actually going to be able to provide some kind of combination of housing services, and child welfare case management services to keep families together? There is no evidence base right now for that particular type of intervention given the outcome that we are looking to track.

And so I think that's another issue for early childhood development which could be a mismatch between areas where you have evidence-base strongly developed for reduced preterm births, or reduced ER visits, but that, again, may not match up with who you are working with at the government level, and in this case a county that said, well, we don't have access to those Medicaid dollars.

We maybe can't even have access to tracking that data so, again, we are looking at, in Cuyahoga structuring, okay, we want to reduce foster care days, we think we can do this, we've got a strong provider, but actually developing more than innovative program in that case, which combined critical time intervention, evidence-based on the homeless side, with trauma therapies on the foster care side, to bring it together.

So that's another challenge for early childhood development, could be a potential mismatch, and the need from the outcomes that you can track, or that you have an evidence base for, and what the government is willing to pay for. In this particular case, the county was willing to go out and procure for a more innovative program. And they recognized that it would be more innovative to structure a rigorous evaluation RCT to measure the impact and evidence of that program, because they wanted to build the evidence base in this particular case for something that they cared about, reducing foster-care days.

So I think the third and largest, and potentially largest challenge for a lot of folks to deal with is, okay, how are we going to pay for it now? Say, we actually do this contract, the provider knocks it out of the park and reduces foster-care days, where do we, in Cuyahoga County find the dollars to pay back for this early childhood development intervention? And for Cuyahoga County they settled on the Health and Human Services Levy.

So this was a new appropriation that the government was bringing forward, new resources to invest in early childhood development with the goal that it would, hopefully, reduce their childcare, child welfare cost in the long run. But they had to go to a new appropriation with a property tax levy in order to find those dollars and appropriate it a million a year. I think that's another huge issue for the early childhood development space depending on which government you are talking to, they may not be investing in early childhood development at all.

They may not be investing in home visiting, they may get paid for Pre-K. So how do you think about and convince governments to make a new appropriation in that case? Or, do you think about building out a multitude of outcomes looking at several outcomes that maybe meet the governments where they are at are interesting proxies for where they already have budgets?

And I think the child welfare case in Cuyahoga is one of those where you could potentially, they went for a new appropriation in this round, they are spending millions in child welfare cost every year, and so one of the challenges for early childhood development, I think is, can you think about, not just new appropriations, but looking at existing dollars that go out the door for government every year, and seeing if that could turned into a performance driven way?

So, in sum, that's the Cuyahoga experience. I think that Pay for Success and the social impact bonds concept really opened up a conversation to help the government decide what is the best use of our next incremental dollar, which was a critical piece to opening up this project and flexibility.

MS. MANUELYAN-ATINC: It's great to hear a real live example and the issues that came up as you were struggling to develop it. Since it is an innovative service delivery platform that hasn't been tested before, it hasn't been really demonstrated to have success; is it being looked at, sort of, in two phases? This is a pilot phase, we'll learn from it, and then if it's successful, we'll expand scale. Is that at all part of the conversation?

MS. WHISTLER: Great question. Cuyahoga was also the first project where we acknowledged, this is the first time these two spaces are coming together. So we actually were fortunate to get a (inaudible) pilot funding for a year to test the operational pieces of, can folks actually do business in this way, can government get those referrals? And then the capital that is invested in this project is coming largely from community development financial institutions as well as program-related investments from foundations.

So they, eyes wide open, realize that this is a more innovative program at first, and while it's return-seeking, it's definitely impacting first. I think that the ramp up and pilot concept is one early childhood development, or really best practice overall, we are seeing in implementing across all our projects as well.

MS. MANUELYAN-ATINC: Great. And an entirely separate question taking you out of the U.S., but staying in the Americas. I understand that you are working, or will be working with the Inter-American Development Bank on scoping out the potential for impact bonds in Latin America. I don't know if you've already started the work, but if you have any sense already about how the market looks, and what looks promising, it will be great to hear.

MS. WHISTLER: Absolutely! So, end of the year we are fortunate to receive a master services contract with Business Ventures and the Inter-American Development Bank, and so we've just started scoping out and having conversations with multiple countries in Latin America. It's been really interesting. A lot of the same issues come up. Do you have a government champion, someone who has recently gotten into office who wants to make performance-driven contracts in one of their top priorities? And so we are still assessing out that area?

Also, what are their priorities? What are their social service priorities, and I think in Latin America, it's been interesting, and while early childhood development has not been top of the list, employment has absolutely risen to the top of the list. There are some with nutrition, a little bit on diabetes as well, but certainly in Mexico and Argentina, probably (inaudible), but that that's been one of the major focus areas. And then I think in Brazil they are also looking at education as well, but not necessarily early childhood development.

So, early days, but same issues of government champion, do you have data, you can only contract for what you can measure, all right. So where is the data, what's the service provider landscape looking like, and is there really a willingness of budget to pay?

MS. MANUELYAN-ATINC: Thanks, Caroline. Peter, you've been leading an effort at Palladium to develop an impact bond in Rajasthan, India; and this will be the second one in the State of Rajasthan. The first one, as Emily mentioned, was for girls' education in the same state. The impact bond that you are developing with Palladium focuses on maternal and child's health.

Can you give us a short description of the program, the proposed impact bond? Then we will hear from the Mission Director for Health, through a taped message, to get the government perspective from him, and then I'll ask you a few more questions.

MR. VANDERWAL: Sure. Thanks, Tamar. And thanks to the Brookings Institution for putting today on, invaluable. The work that we are doing, I mean, there's a lot of similarities I see, what makes a good impact, on like a few that works well. The work that we are doing in Rajasthan is through non-state actors, so it's mobilizing a network of facilities through a franchise called Ujwal, which is a brand which we've developed since 2002 in a number of states in Northern and Northwestern India.

It has four major components, enhancing access to services, private services, enhancing access to commodities, quality assurance, both public and private, working in that nexus, and then community demand generation. So in a nutshell that's it. I mean there's some complexity -- because we are talking about a state-wide intervention of 68 million people in Rajasthan, the sorts of impact targets that we are looking at.

Quite frankly it's almost incomprehensible, inconceivable in the sort of scale that we are talking about that, you know, forecasting through calculator such as the Marie Stopes International impact tool; the ability to add an additional 13 percent reduction in maternal mortality, 20 percent reduction in infant mortality through these private sector initiatives. Of course, I'm sure we'll have many questions later on about attribution and how we came to those figures, but those are the broad levels, the sort of targets, that we are talking about.

Chunking that up from a lower level, obviously, there's a lot of issues around what we can measure and what proxies can tell us for things further up the theory of change, so quality of care indicators, number of ANC visits, institutional deliveries, and then perhaps some of the potentially more controversial -- and we can come back to that, perhaps, later on, and during the questions; indicators around family planning as well.

MS. MANUELYAN-ATINC: Good. So, we are going to hear from the director, Shri Naveen Jain. It's a five-minute video; he is going to introduce the State of Rajasthan, tell us about the situation for maternal and child health, and the motivations from the perspective of the State for entering into this impact bond transaction. Are we ready? (Video Playing)

MR. JAIN: Hello Friends; namaste, to all of you from the State of Rajasthan, India. Firstly, I would like to extend my gratitude to Martin Indyk, executive vice president, Brookings Institution; Rebecca Winthrop, director and senior fellow, Brookings Institution; and Peter Vanderwal, innovative financing leader, Palladium.

I would have liked the opportunity to attend this event, I got the invitation also and I was very much interested in attending such a vast gathering in order to know more about the impact bonds which are probably very popular now; but due to my career commitments and schedule of my state, governments, as well as assembly session, I'm not able to join you. Still I will start with sharing a brief background on the State of Rajasthan.

Rajasthan is, geographically, the largest state of India, with 10 percent of the county is total land, and it is around 342,000 square kilometers, and has a 68 million population, with a rich cultural heritage. The state has topographical diversity; we have 34 districts, because in India, states are divided into various districts, so we have 34 units of districts. Out of them, 14 are either tribal, desert, or they are varied in more districts.

And let me assure this gathering that state government is committed to improve these states' eerie productive maternal and child health statistics, and we are working along with the Government of India to make progress towards the Sustainable Development Goals. Rajasthan has made significant progress in the reduction of maternal mortality rate. We were at 318 per 100,000 live births in 2007-09 according to a survey, a number which has gone down to 244 in 2013, but still we have a long way to go, even taking these amazing figures into account.

And then when we talk of infant mortality rate, it was 60/1,000 in 2010, and now we are at about 47, and we understand which states we need to cover to reach the vulnerable populations and head therefore towards improved health indicators. Let me tell you, the State of Rajasthan has been very instrumental in inviting investments, private sector participation, in all sectors, including the health care sector. And recently we hosted a very big event. I will say a global kind of event, the (inaudible) Rajasthan where we invited new strategies and partnerships, and impact bond is quite an in-thing, like we can go for impact bonds also looking at the (inaudible) of all of state government.

Some of our success will be PPP initiatives including contracting out mothers to improve the functionality of primary health centers. We have already invited bids for nearly 200 centers, through e-auction to ensure transparency. Then we have deployed around 200 mobile medical units, and mobile medical events, to take care of health care in very remote areas where we are unable to establish a permanent health center.

We are also doing a lot of private partnership in diagnostic facilities. Recently we have made the very conscious decision to invite the private sector where we are not in a position to establish our own government facilities. So, in this way, we are very much for the contribution of private sector in our health care development, and I am sure that the impact bond is the logical extension of the work that we're putting in getting PPPs in place.

But I just started this committee to work with the leveraging of the private sector to enhance flexibility and allow services to be provided outside of that public sector. Now, in my opinion, an impact bond mechanism is required to incentivize public health programs, so we can tie funds to results. So far, we are not able to see what we are spending and what we are getting. I think impact bonds will start that particular mindset even in -- even in our government sector, and that is very much required.

And then it will make public money more effective, because measurable results will be demanded, which will bring greater transparency in the use of public funds. It will also bring accountability among service providers, and the risk and achievement of results lies with the service providers who raise their own funds. So this model will create a mechanism for coordinating development, private sector investments, unless there are non-government service providers who are working on (inaudible) plus activities, and an intermediary Palladium Board external technical assistance to manage the mechanism.

So, in my opinion, if you all join to do something for the state of Rajasthan we will welcome you, and we are hosting an event in Jaipur on March 10, 2016, where we can discuss this further. We need a lot of ideas. We need a lot of innovations, we are already working on some ideas and innovations, and then, you know, give your inputs and goal ideas so that we can forward the cause of the Sustainable Development Goals. And while I am sad I couldn't physically attend this event at Brookings, I'm very much here in spirit, and I hope that soon, I will be able to see many of you in Rajasthan.

MS. MANUELYAN-ATINC: So, in terms of, you know, what you need to have in place to have a social impact bond, the box on government commitment, it's a tick.

MR. VANDERWAL: Yes. I was going to say that, at lunchtime, you know, we were talking about some of the potential role for an involved Brookings Institution, the alignment with government, we are talking specifically about India, and I was thinking, well, really, you know, it's been such a long journey to get them on board, but so necessary for its ongoing sustainability.

MS. MANUELYAN-ATINC: Yes. No, you can certainly hear his commitment and I think -- we would agree for the right reasons, I think. Large public sector capacity is limited, and we're very much interested in leveraging the private sector, to bring in funding and managerial expertise. The outcome focus helps, and it also bring accountability. So, it sounds great. I understand where he's coming from. Where are you coming from; is the question that I wanted to ask you? What is the draw from your perspective as an investor and I guess, potential intermediary as well, in this?

MR. VANDERWAL: Sure. I mean, there's a number of different elements; first of all in terms of the technical side of the intervention, not only is it an important emotive issue, of moms' babies, this is of course important, we all know that, but the economic return for investing is here. You know, we've run through these calculations, the entire cost of the bond where we are calculating if all goes well, highest level of targets achieved, et cetera, GBP of $25 million, $36 million, $38 million, depending on the exchange rate.

Now the savings, the large-spend savings to the health system calculate at GBP 128 million, and direct savings to the health system, just over the five-year period, GBP 17 million, so it's obviously an extremely good value for money intervention as well. From Palladian's perspective, the impact bonds mechanism is the most cogent articulation of where we see ourselves playing.

Sir Ronald noted this shift in expectations from having a purely financial bottom line return to then, sort of, having financial plus, a little bit, to now having the impact return, that's what we actually see ourselves operating in, an impact economy where it's no longer about inputs by any means.

It's very much about bringing together private capital, private interest for public good. And this tool just -- it really does encapsulate all of those elements to it.

So, our interest in the impact bond space was certainly driven; we worked predominantly for the U.K., the Australian and the American governments, and there was an emerging dialogue around, well, how can we really tilt the focus to results. We got results-based financing, great. How can we get that almost nirvanic ideal of mobilizing private capital?

This one tool happens to do two of those major strategic objectives in one. For us it was very much a matter of, well, we've got the global footprint. We operate in 90 countries around the world. We have a large portfolio of 125 or so long-term programs. We could wait and see how this marketplace develops, but we just believed in it enough to say, okay, we are going to do a field of dream style and build it, and we did, and that's what we've done with all of it.

We have a pipeline of half-a-dozen of these throughout the world, and we identified what the attributes of the mechanism needed to be, but also what the geopolitical, social, cultural operating environment needed to be, and we synthesized down to half-a-dozen of these designs, for which we are now building the coalition of investors and commissioners and service providers, not so much service providers, because that was one of the filters we needed to know the operating environment and have worked there with on-the-ground service provider partners already. We are building that coalition and bringing it, as you say, to market to make a deal.

MS. MANUELYAN-ATINC: You've been working on this, I think for about 18 months. What's been the most time-consuming and challenging aspects of it?

MR. VANDERWAL: Completely back to government again. I mean, the technical intervention we knew very well. As I say, we've been working on it since 2002, although this has evolved in order to make it more commercially sustainable for the franchisee's post fund. So, post this five-year intervention there won't actually be a need for further ongoing investment in this space. I have to -- I've lost my train of thought there. Where was I?

MS. MANUELYAN-ATINC: The most challenging during the last 18 months as you were developing this.

MR. VANDERWAL: Yes -- No, certainly. Nine months now, May or June, I think, was when we first started interacting with governments, and you get the folder created and then the folder gets sent up, and then down, and then sideways, and then legal has to have a look at it, and then financial has to have a look at it, and meanwhile, you know, you are a little bit constrained, because you can't move forward with all of the other elements until you have that block firmly secured, so painful but necessary.

MS. MANUELYAN-ATINC: Yes. Thank you. Louise?

MS. SAVELL: Yes.

MS. MANUELYAN-ATINC: You've been working among others with a fantastic team that many of us had the pleasure of meeting, the Bertha Center at the University of Cape Town, in South Africa, to develop an impact bond in the area of early childhood development that cuts actually across sectors. Can you tell us how far the Western Cape, the early childhood development project has evolved? Where it stands now? And how the thinking of the team has evolved as you've responded to the existing constraints in the local context?

MS. SAVELL: Thank you. So, yes, we at Social Finance U.K. have been working with the Bertha Center in Western Cape Government for just over a year now. And I guess the genesis of the project, the focus of the project has very much been around starting by understanding the priorities and needs of the Western Cape Government. And really building from their existing spending, through the ECD outcomes in priority township populations, to help them look at, not just how could more funding be put to bear in township communities but actually, how the funding that they are spending at the moment, could be deployed more effectively; so, to Caroline's point.

And that's been an exciting starting point for use, but not without its challenges, I think it's fair to say. We've been working at the Western Cape level, with two departments, the Department for Social Development, and the Department of Health. As Tamar mentioned, they've really been asking to look across the ECD spectrum that Emily laid out earlier, all the way through from pregnancy to five years.

And between the two departments, that fairly neatly segments in terms of the Department of Health that focuses on the first 1,000 days; pregnancy through to roughly two years. And then the Department of Social Development, that is much more interested in the cognitive development, the socio, emotional, modes of development of children before they go into the school system.

We had initially, I think it's fair to say, envisaged what we would do is put out requests for proposals that we would look at -- or ask providers to look at services that span that range. I think what's become clear actually is that that's going to be fairly complicated. So, we are currently expecting there to be two sets of social impact bond contracts going into the market in the Western Cape, one of which is focused around really those first 1,000-day outcomes. And all the way through from antenatal checkups, pregnant mother to child transmission of HIV, rates of breastfeeding, immunization uptake, those kinds of outcomes for very young babies.

And then the Department for Social Development who we are working with to look at measures of cognitive development, socio emotional, emoted development, and really kind of looking at more, that school readiness aspect.

MS. MANUELYAN-ATINC: And can you talk a little bit about the service provider scene, because I know you've made the decision to go for a rate card. Tell us what went into that decision.

MS. SAVELL: There are -- Ray Crosby referred to in this morning's session, and Emily, you flashed up an example of how they've been used in the U.K. around improving employment outcomes for disadvantaged young people. I think rate cards really bring a couple of advantages. The first is that they allow government to use all the thinking that they've done around: what outcomes do we want to commission, which target population that we care about; and to use that as the basis to procure multiple impact on contracts.

So, by putting out into the market a clear definition of a target population and a set of outcomes that they care about achieving, it enables multiple providers to bid into that. And that's been important in the South Africa context, because actually many of the providers only work in one or two townships. There are very few providers that work across the reach.

I think the second element that certainly has been important in the U.K. context around rate cards, has been an element of price competition. So, the U.K. Government has tended to put rate cards into the market, specifying not only a set of outcomes, but also for each outcome, this is the maximum that we will pay for that. And part of their scoring process for the proposals that have come through is then being based on, well, how far away from that cap, if you like, have providers been prepared to move.

That works well, I think, in context where the target population that you are looking at is fairly similar across geographies. In the Western Cape, actually what we found is that from one township to another the needs, the baseline levels of outcomes are quite different. In some communities, fetal alcohol syndrome is a big issue, in other communities not so much. And we are still working through with the Western Cape Government. I think it's fair to say, to what extent that means we are going to be able to really put out into market a kind of price attached to each outcome that we are looking at on the rate card, versus to what extent we are going to have to play that through a little bit more, specifically with providers in specific townships.

MS. MANUELYAN-ATINC: Very interesting. Thank you. I have a second round of questions; I think addressed to all of you. Many of the impact bonds that are already concluded are being developed in low- and middle-income countries, are planning to have, or have a third party that supplements, or provide full outcome funding. I just wanted to ask, and we touched upon it a little bit, but what are some of the most common challenges as you are trying to make a case for government to become and outcome funder, what are the issues that arise?

And not just for the government, from the government perspective, but potentially also for the investor; you know, is there an issue with having the government as an outcome funder in many of these low- and middle-income countries from the investor's perspective? And I guess, I'm curious also, in terms of thinking about the evolution of the field. Do you see government interest picking up in being an outcome funder as success is demonstrated? So, is that sort of the issue at the outset for this is relatively new, and there's some risk aversions for getting involved from the outset? Let me stop there. Caroline?

MS. WHISTLER: I think we are in a bit -- most of our work is in the U.S. --

MS. MANUELYAN-ATINC: Yes.

MS. WHISTLER: -- and we at Third Sector prioritize working from Government as a step one, or working from -- with our end payer, as either the first step or a very close second step, because you can't contract for outcomes if you don’t have someone willing to pay for those. So, we very specifically focus on trying to get to that government payer, but it's hard, even in the U.S., and so some of the strategies that we have employed, thankfully, with help from the U.S. Federal Government, we received a Social Innovation Fund Grant so we could actually host competitions for governments to respond.

And it's interesting. It's not a lot of resources that's needed to provide to them, to give them the capacity to think about feasibility. But that little bit of money can actually get a lot of government interest, and you can build that buy-in through a feasibility process, that takes a little bit of time, but ensures that you have a government in here, on the hook, sort of, for that sustainability. Because one of the major challenges for them is, how do we even think about changing our contracting? Can you help me walk through this?

I know we need to change the way we do business, can you help me do that? Consistently, it's how are we going to pay for this? Is it going to be this new appropriation or existing spending streams? Help me think through that. Help me think through the wrong pockets if it's federal money, or local money, or if I need to look to the other partners. And then in some cases if the government -- if it's a new intervention, and they haven't seen that intervention before, governments may say, look, we want to see a pilot first, and then our strategy there is to say, okay, fine, but your part, you are included in the conversation from the beginning with an expectation that you pick up this pilot at the end of the day, it's not a bridge to nowhere, if you will, but you are involving them at the beginning of the conversation.

The last two things I'll just say quickly, is that one of the ways to overcome government challenges and engagement, including them in the conversation, incentives, acknowledge that, you know, what are the incentives of these government parties? What is your government's champion's three main goals for their time in office? And can you align; make this pay for success for social impact on project, part of what they are trying to do?

Do they want to build stronger evidence bases in evaluation? Can you use this to do public-private partnerships to potentially expand the five resources with some grant capital, to help them do business? Understand the incentives of the folks you are working with at the government level, and educate and align what you are doing towards that, and also invest in them.

Again, governments can't -- it's not a light switch that you flip and all of a sudden they are going to be able to do performance-based contracting, no problem. There is a level of investment that's needed in the capacity of government entities, or your NPRs, to be able to procure and contract for outcomes, and measure them in an ongoing way, and to interact with investors, right? In a way that meets their expectations, and so I think that's another thing that we strive to bring to the table, to ensure that that funding stream and that commitment are there over the long term.

MS. MANUELYAN-ATINC: When we look at third party payers, development impact bonds, it seems to me from the perspective of third party outcome funder; this is actually a wonderful proposition, because most likely those funders were providing grants without really knowing how well their funding was being used. Right now, this proposition is potential recycling of their grants, with actually at much higher likelihood, but at least they are not on the hook for paying if outcomes are not achieved.

What concerns me about that set up is the sustainability of the effort. How do we get away from the issues that we've encountered with development aid, so that it's not actually owned by the government? I guess part of the same question is, if it is a third party payer, and perhaps it's a mix, you have government and a third party payer involved at the same time, how do you ensure the sustainability of the effort, so it's not a one-off? Peter?

MR. VANDERWAL: I was reflecting how similar my experience in India is, with your experience here in the states. It certainly is a matter of bringing government along gently and developing the evidence base as you go along. So the way we've structured it is exactly as you are intimating here. We had third party funders, or we are proposing third party funders to take on the initial three years of activities.

And then the government is committing to come on board in the latter part of the program. Seeing the proof of concept, and then I laugh because I don't actually believe the investors exist. This is a really big element, it's like, really, who is going to come and pay for that? And so this has actually been extending the negotiation period with government quite significantly, because they show the investors, and they say, well, we need the commissioners.

You know, and it's the chicken and egg story the whole way through. But the government is there, and this isn't unusual for state-level governments to be doing some sort of results-based payment. Not at this level, but it's not an unfamiliar concept, and there's a real eagerness, I think, under the Modi-led government to actually come on board and to push this envelope, push the performance, push the results emphasis. So it's really just our big problem, and the reason why we are not saying, immediately, yes, come on board guys, it's because there are those administrative, bureaucratic hurdles, inherent in any government, but particular, perhaps pronounced which we need to work through, and our very first step seems like the smallest thing ever.

But it's huge, and it's getting one line for these outcomes based in the project and implementation plan, and the tool that they use for budgetary allocation. We suspect we may actually be able to do that in this fiscal cycle, and we'll find out next week, at this meeting that Naveen alluded to on the 10th. But it's the administrivia which is the impediment, not the commitment, certainly at the higher level.

I mean, you mentioned what it's like for investors to see government, particularly sub-national government in India, paying the commissioner, and of course it's a concern, certainly. And so, we are putting in enhancements, we are talking about performance guarantees, payment guarantees, working with PRI funds, first-loss positions, all sorts of things to basically, you know, this is nascent market building.

This is really about creating a comfortable enough ecosystem for everyone to jump in, boots and all, and then, slush around a little bit, and it will be tightened over the course of this five years. There's no doubt about it. The lessons that we will share -- that we are all sharing right now, go towards a much tighter product downstream, but certainly I feel the need for a few leaps of faith at the moment.

And I'll just round that off by saying that the biggest impediment, if we hadn't been lucky enough to find a private sector player who is global and using CSR funds to say, here are some funds, we are serious about this. There's no fit for process procurement mechanisms in any of the international donors at present. So, we wouldn't be able to have gone through our usual route, which is, the U.S., Australian and U.K. governments to do that.

This is how it sort of fills the dream style. We thought; great, wonderful tool, we will do everything we possibly can to make this a reality and then we'll see whether it can actually be a reality.

MS. MANUELYAN-ATINC: A leap of faith, as you said. Louise?

MS. SAVELL: Thanks, Tamar. Yes, I think from our point of view the absolute foundation for this is ensuring that the impact bond is targeting government priority populations and outcomes in the first place. And everything else builds from that. Having said that, I think it would be disingenuous to pretend that we are working on ECD impact bonds in both South Africa and Cameroon at the moment. And in both cases I think the fact that we are, in the South Africa case, looking to find more funders for their outcomes commitments. And in the Cameroon case, working with them to build a case for their World Bank Labor Financing facility to support the payments of outcomes has been an enormously helpful piece.

In getting them interested in, I guess, going through the pain of starting this approach to contracting in the first place. So that's been very important. In terms of your question around what kind of investors and how do investors feel about government payments, I think it really depends on who the investors are, and which country you are talking about. In some context, for instance, we're not in the ECD space but we are doing some work to develop an impact bond in Palestine at the moment.

There, it's very likely that the investors will be Palestinian, so actually they have a very different view on the counterparty risk of government that maybe international investors would. In the South Africa case, you know, we are expecting a different situation -- and the outcome funding to come from local South African CSR and business that are well established.

Again, that provides as a degree assurance to investors. In the Cameroon case, the World Bank, ultimately, would be sitting behind the outcome payments. And, you know, we have yet to decide exactly how the funding is channeled, and whether it goes literally to government budgets, or if it's held in trust. Well, I think either way, it's clear that the Cameroon Government does not want to annoy the World Bank to the extent that that might threaten future access to funding. So I think all of these things, you know, context by context, can serve to reassure investors.

MS. MANUELYAN-ATINC: Thank you. I have one last question. And that is, if you could get ECD experts, researchers, the broad ECD community to do anything for you that would be helpful for the development of future transactions; what would that be? And are some sub-sectors, given the large number of programs and interventions we saw, that Emily showed, are some of them more amenable; easier to do, to an impact bond than others? Let's start with Louise, and come here.

MS. SAVELL: Yes. I think, to take the second-half of your question first, I think the answer almost certainly, yes. I think the health help comes in the first 1,000 days, the kind of pregnancy through to two years are much easier in a lot of ways to measure, and the tools of the measurement approaches are a lot better established. Once you get into school readiness, and I guess early learning, the measures around that, and particularly the timing around the measures of that, and I think some of this was being picked up in this morning's session around the Utah SIB.

You know, when can you actually measure the impact of some of those early interventions around school readiness? I think it's a really key question. From my point of view I think what will be really helpful is for these communities to continue to develop standardize metrics around that, and to develop the sector's understanding of what good practice looks like, but also then, to calibrate those metrics, for low- and middle-income countries, because it's great if you have a tool that works in the U.S. or the U.K., but actually you do need to know how that's going to work in the South African context, or an Indian context; and it isn't always quite the same.

MS. MANUELYAN-ATINC: Great. Peter?

MR. VANDERWAL: I mean, look, I totally echo all those comments, Louise, about data and metrics, and when we need and evidence base first of all. The other higher-level comment that I'd really say is, we run the risk, because it's such complicated mechanisms, plural, that we are dealing with here, we run the risk of compromising to the point of ineffectuality. And so I would say, against that leap of faith, of taking the risk, don't water these mechanisms down to fit your entire various stakeholder groups to the extent that you are losing the efficacy.

The final point and this is really sort of a minor donors which is probably always a dangerous thing to do. It's sort of agnosticism, I guess, when it comes to the specific types of interventions, rather than having, you know, your particular organization's menu of activities. I mean, that really sort of undermines the very ethos of what this could be.

MS. MANUELYAN-ATINC: Caroline?

MS. WHISTLER: I agree with both of those comments. I think the last thing that I would add a little bit differently is that the ECD community, I think, can inspire government. At the end of the day, you have thought folks who have very limited budgets to invest in prevention, and so, how can you create a narrative, showcase the examples that have already been done, because thankfully, we've got 56 of them now, which is great.

But how can you tell the story about what goes into each of those projects, what are the standards or components that could be applied, that can inspire those public sector leaders to realize, hey, I want to spend my next dollar on early childhood development, versus any other choices out there? And I think we have an opportunity now, because there are some examples to think about, what are the scalable pieces of those, how can you show that to government in a way that it will be easier for them to pick up those models, and to scale those forward?

And one particular bright spot that we've seen, again, I think we are still limited by what we can measure of course, as Louise said, and that governments are often on shorter timelines than we would like, but one thing that comes in the early childhood development space, you saw that in the five in the U.S., at least two of them were in child welfare, and more about keeping families together.

I think there's something to this multi-generational model of both families -- and parents as well as kids that can help you access additional outcomes that are important to government and bring them together and help them realize that this is about healthy kids and healthy families and healthy communities.

MS. MANUELYAN-ATINC: Thank you. Okay. We have about 25 minutes, so let's open it up, please, for questions, comments. Oh, good, lots of comments. I'm going to start in the back with Eliza, and work up here, and then go over to the right side.

MS. ERICKSON: Thanks for a great discussion. My name is Eliza Erikson, from the Omidyar Network. And we've been spending a lot of time talking about the setup and design of transactions, and how you get all stakeholders on board. I'm wondering, what if you have loud success through the transactions, the outcomes are amazing, the payments are made. What's the theory of change on scale up, particularly if you have non-state service providers; they prove the case, say, for a thousand kids?

What is the next phase of scale up? Is it through a network of non-state providers? Are we talking about government deployment of these interventions, and do you worry about quality and integrity of that implementation at such large scale? So, trying to move us to the second-phase post-transaction, what's sort of the theory of change here, and what are perhaps some of the opportunities and challenges? Thank you.

MS. MANUELYAN-ATINC: Over here, back here, just move up. Oh, the gentleman right there?

MR. MUKHERJEE: Thank you. Anit Mukherjee from Center for Global Development. I had been working in Rajasthan for about four years before moving to Washington, D.C. A very wonderful place, a lot of history, and also about 50 percent malnutrition, and 44 percent stunting, so I'd be curious to hear how your numbers came about, so probably it's a very low base, and that's how you are projecting in the future.

The second point, how are you coordinating with what Naveen manages, which is the big, national program for delivery of health services? So, you said, non-state actors, to my mind they've not yet done a full contracting out of their national health system, money. And the third one is, if the government is coming in after three years, then it's kind of convenient because the election would be in two years-time. So, what if they lose the election and then you are stuck with a government which is not as investor friendly?

MS. MANUELYAN-ATINC: Well take one more, here, and then we'll turn to the panel. And then I'll take the right side.

MR PASHA: Thank you. Rabeen Pasha, founder of Middle East Young Entrepreneurs Dreams, working in Iraq, and in prior lives I've worked in the Health International Development Public-Private Partnerships, so this is really interesting to me from both sides. I look into places like the Middle East, and of course putting aside all the fragility, the lack of ability of trust of investors, and getting their money back.

Issues of ecosystem and legal frameworks, but as we think of building systems and applying these frameworks, and I think you mentioned something in West Bank and Gaza, potentially, happening; and other places in Latin America, and specifically for employment. What has been -- what are some of the lessons learned and ways that you engage government in that broader long-term partnerships?

I mean, specifically I would see, that potentially you have some philanthropic and other development funders coming into a partnership in the beginning in a pilot, governments are interested, and actually, you know, making sure that the beneficiaries see those results, and for them to invest in it, but how do you convince them that in the case that the government was not able pay back that investment, you know, what are some of the innovative ways that you'd be able to convince investors to go into it without higher -- you know, extremely high interest rates, and return on investment, and being able to actually put their money in, so they can get it back?

MS. MANUELYAN-ATINC: Okay. One, we'll take those. Peter, you probably weren’t counting on have someone in the audience --

MR. VANDERWAL: From Rajasthan.

MS. MANUELYAN-ATINC: -- who knows so much about Rajasthan. So, please, if you would take that question.

MR. VANDERWAL: Sure.

MS. MANUELYAN-ATINC: And then I think the other two we can have the entire panel react to.

MR. VANDERWAL: Thank you, sir. I mean, the data that we use is actual government data, so particularly the SRS and the AHS data, although there is a DHS happening as we speak, and so that data will be available as well. So, I hope everyone knows these acronyms.

SPEAKER: Don’t worry about it.

MR. VANDERWAL: Okay. So the data that we are using is population-wide government statistics.

MS. MANUELYAN-ATINC: Demographic Health Survey.

MR. VANDERWAL: The Demographic Heath Survey, Sample Registration System, and Annual Health Survey, respectively, for the last three acronyms. So that’s where we are getting from, and you’re right, the progress so far, I mean, look, great progress is being made, but incredibly low starting points, so particularly, we are talking about maternal mortality, you know, it's started off in 2007 around 350, I think, now down to about 244. We are hoping to be able to get that down by 2020 to about 130 per 100,000; so, yes, a significant acceleration there.

That’s where we get the data, and so it's our team in Delhi and Jaipur who are working through this, really, happy to make that connection, just because there is a wealth of information there, and some new analysis that we've been doing as well, which is really interesting.

In terms of how we are working with government, they are involved in the overarching governance of the mechanism steering the work that we are doing, and so of course 100 percent embedded within the policy framework of the government of Rajasthan, so we have taken a very definite approach of working with non-state actors, with working with the private sector. There are all those interfaces. I mean, the PPP legislation which was just passed last year, is fantastic in that it puts the structure in place for reimbursement of a basket of services, but it's not particularly functional right now.

So, in terms of submitting claims and having their funds dispersed back to the private clinics it can take a long time, or potentially forever. So we are working -- we are going to be placing a TA Unit, I think Naveen mentioned that as well, within his national health mission, to strengthen that PPP infrastructure, and the systems and the processes needed for that to run smoothly.

And there's so many touch points that we are going to need to continue to be working through with Naveen and his team. As well as, you know, particularly in the quality assurance, the accreditation side of things, that’s all hand-in-hand with government. But the last point frankly frightens me greatly; in the 2018 election, yes, it's possible, the government will change.

A very clear example of the dangers, two weeks ago I was going up to meet the Principal Secretary of Health, Mukesh Sharma, and we were sitting down to talk in detail about the Memorandum of Understanding, and it was at that key meeting, it was like, it's got to happen, and it's got to work. And I get a Skype message the night before as I'm travelling somewhere, and it says, there's been a reshuffle of the Indian Administrative Service in Rajasthan. Oh! Now remember, I was bringing the kids home from school. I pulled the car over, I called up the office in Delhi. What's happened, what's going on?

No, it's okay. Mukesh Sharma, and Naveen Jain, they retained their portfolios, and I was sort of sweating. Okay, a couple of deep breaths. It's all right kids. And then we moved on. But it's a major challenge, it's a major risk, and we are totally cognizant of it, yes. Thank you.

MS. MANUELYAN-ATINC: All right. The question of scale, which we debated quite a bit in the morning but, rightfully, it comes up again, so if you would respond and provide some comments on that, and then a question around how to generate the government's interest. And then we talked about that quite a bit as well. Go ahead, additional thoughts.

MS. WHISTLER: I'm happy to comment a bit on the scale question. This is something we think about a lot at Third Sector, we've now launched three of our own, and have multiple in development of these projects. We are like, okay, so what's the end game here? Say, it is successful or if it isn't, what happens next? And I think we really split the innovation that's happening here into two pieces. One is the financing side of things, and the other is the performance-based contracting side.

And for us at Third Sector, we are most interested in continuing this performance-based feedback loop within government and how they allocated their resources. And so for us, here is what would not be good, is if you have a program go through and either it doesn't work, and so we throw the baby out with the bathwater, and we never do anything with that intervention again. Or the program does work, and we say, okay, great. Call the policy lever and everybody gets the equivalent of head-start in 2015 again, without questioning, or without measuring in an ongoing way, whether or not we are hitting either the proxy metrics or in a more rigorous evaluation the results we need for different communities.

So I think for us, we are like, okay, first step, you've got to preserve that ongoing performance feedback loop in the contracting. But what I think is really exciting, is if you do find programs that work, you can work with governments, and you already have folks thinking, we've been working in their contracting shops. They can roll out what those metrics were from the first contract in different ways, and other providers can compete to be successful in those particular metrics.

You could also evolve and say, hey, it's not just about what works in terms of moving a metric. It's about what works for who, when and where. And you can start to think about how can we let government use their data to more appropriately match different demographics, and different types of populations with a suite of services; so, more of a late-card type approach, or other types of evaluation that you can use in that way. So I think for us, what we are most excited about, it's not like, let's find a silver bullet and pull the policy lever, but how can we embed this idea of ongoing performance measurement, as part of -- every contract of the government, does for social services.

And I think really, that we view with our clients, every contract is an opportunity to measure and to use data to actually inform, whether or not you are generating measurable results for communities and that's just the opportunity we want to scale on that side. If you want to hit the financing side of the innovation, too, you can do that as well.

MS. MANUELYAN-ATINC: Unless you have something to add, I'm going to take --

MS. SAVELL: I do have something to add.

MS. MANUELYAN-ATINC: Okay.

MS. SAVELL: Which is that, I think partially agree with you. I do agree that the kind of ongoing performance monitoring I think is really important. I do think there's a difference between examples where you start an impact on program, and you learn, actually when we started this program, we didn't know what worked and for whom. At the end of this program, we do know what works, and for whom. And more to the point, that doesn't vary across the places that we've implemented.

Actually that's a pretty consistent result. I think where the results are pretty consistent, it may be entirely appropriate and more cost-effective for government to adopt it as a policy mechanism, and roll it out, either themselves or just contract it in a different way. I think where, what you are finding is that intervention A leads to affect B in some context. So for some populations, but not for others, then retaining that outcomes-based element to the contracting I think is going to be an important piece on an ongoing basis. So I think, I would just nuance that a little bit.

In relation to your question which I think was about, how do you de-risk impact fund investment in context, where actually government may not be a reliable counterparty. We at Social Finance have been starting to do some very early thinking around potentially using structured bonds, where what you are doing is, raising $100 but, you know, putting 90 percent of that into something that's fairly safe in terms of an investment return, and using the 10, to invest in impact bonds.

So, if you like, investors also are taking that performance-bases risk, but it's a much smaller percentage of their investment that they are using to do that. I'm happy to discuss a bit more, if that helps.

MS. MANUELYAN-ATINC: Thank you. I'm going to take some question on this side. I have one, two, three, and that will do it. Let's start here, yes, you.

MS. ROSENTHAL: Hi. I'm Dana Archie Rosenthal from the Nonprofit Finance Fund. I have a question about rate cards, and I don't think this is specific to the early childhood development space, but I think to Peter's point it is an emotive space, and there's obviously the questions of the sensitivity of subjects. So, I'm curious, in your experience with the rate cards, how the rates that are set, by government taking into account what it costs the service provider to deliver a high quality service particularly to a high-need, or vulnerable population.

MR. SCOTT: Hi. Nathaniel Scott, from USAID. It's been a very interesting day, I don't want to paint myself too much of a skeptic here, but a couple of, maybe, challenging questions. This really doesn't add too much more resources to the equation, unless the project fails. Can you talk a little bit more about that? We are engaging private sector financers, but it's actually governments or donors who are paying at the end of the day. The second thing is that there's a pretty complicated structure here as well, with three different organizations with profit and overhead that are included, first the finance and the implementing partner and then the person who is helping structure the deal.

And the last point is, is there a risk here that we are in the international space, kind of overlooking the local organizations who we are trying to work with in favor of multinational organizations who could get results much faster, and much easier?

SPEAKER: When I asked my earlier question, to Sir Ronald Cohen, that SIBs are more oriented towards nonprofits, and that there needed to be other mechanisms for the more sustainable solutions. But with the announcement of the sustainable development goals, that's really a completely artificial silo that we actually have to very rapidly bust down, and begin to cross over.

So, I just came back from the two countries that you've referenced with the examples, and I'm just going to pick one country, with some examples. I'd love to hear about how you think you would engage with these people in the other areas. If you are already engaging with them that's great, or what has to change so that we can break down those silos, and get the more sustainable models involved in as many of the solutions as possible.

So, for example, in Rajasthan, some, over 1000 villages have an organization in them called Ekal, which runs single-teacher schools. They run 53,000 of them across India, they are going to reach 100,000 schools in the next four to five years. They also have a complete set of agricultural interventions to ensure that stunting isn't a problem, and that the kids get properly fed, and that the parents not only produce enough food for their children, but they produce enough food to export out of the village.

So, Ekal is an amazing model that isn't a nonprofit, it isn't a for-profit, but all of the interventions are owned by the villagers. So it would not fit into a normal social impact bond model in the natural way, but it is much more sustainable that the nonprofit models. Also, in over a thousand villages in Rajasthan, there are some looms with women working them to produce rugs with Jaipur Rugs, and Jaipur employs 38,000 women across 10 states, and every village where Jaipur Rugs has a loom, they have a set of interventions to work on the same problems you are talking about.

Anything you would want to leverage in those villages would be much more effectively leveraged by working with Jaipur than it could ever be leveraged in another other way. How is it that those -- and Jaipur is a straight for profit, they would in no way, shape or from show up at any kinds of discussions about a social impact bonds, ever -- how is it that those sustainable interventions and partners end up at the table with the ability for you to funnel resources to them, which will save you a lot of money on your ultimate goal achievement, and will also naturally work better in the villages because they are already there?

MS. MANUELYAN-ATINC: Okay. Why don't we take those? A diversity of questions, one specifically on the rate cards, Louise you can take that. Question, skepticism around whether or not social impact bonds can actually bring in additional funding to the sector, which is something we've addressed directly in the report. I guess whether it's a social impact bond or a development impact bond also makes a difference, so perhaps one of you can take that one, as well as the transaction cost and overheads involved in putting together this complex structure.

And last then, I'm going to paraphrase in my own words, and hope I get the essence of the question. That there a large number of nonprofit or for-profit service providers in many places that do good work, and that would benefit from getting additional financing. Is a social impact bond a good fit for scaling up the impact of these organizations? Let's start with you, Caroline.

MS. WHISTLER: I would like to take the question around the expanding of the pie. I think for the private sector we've been involved with in the U.S. at least, we acknowledge that the financing is a means to an end, and it's financing, it's not funding. And so it's not necessarily expanding the pie. But one of the reasons why we engage in this work is because we are interested in accelerating impact, and right now in public sector spending, at least, again, 1 percent is evidence-based people throwing money over the fence with flying bond, we don't actually know the results we are getting.

And so our bet is that actually you don't necessarily need to expand the pie, but you need to understand what you are spending, and make sure that you are allocating those resources with results. I think one of the -- the bet that we are making is that, yes, those upfront transaction costs are expensive for those first deals, and working with the state or a county to this first performance-based contract is costly. But the knowledge that they will have as to what their resources are actually buying them in terms of impact for communities, is worth it for that contract in itself, but also that's a philosophy that they need to take to their other contracting for this to be a longer-term shift. And that is, you may now have to spend more money to get higher levels of impact, if you actually know that you are aligning what you are spending with programs that measurably improve the lives of people.

MS. MANUELYAN-ATINC: I'm just going to add my own view on this, if I may, using the prerogative of the moderator. I completely agree with the importance of doing more with the existing funding, but I think there is a case to be made that if you are able to be more accountable, more transparent and you can achieve good outcomes, there may be a case for strengthening that social contract with the taxpayers, and the government, and therefore actually be able to generate higher government revenues because good things are being done with the tax dollars that have been mobilized.

I think the same goes for external funding. We know many donors have fiscal constraints but part of the issue is a skepticism around the outcomes that are achieved with the funding that's provided. Again, arguably if you have demonstrably better outcomes, the case for mobilizing more external funding might be easier. Peter?

MR. VANDERWAL: I thought I'd address the question about sustainability of the local organization. Our on-the-ground partner that we've been working with since 2002, slightly longer in fact, is the Hindustan Latex Factory Family Planning Trust, HLFPPT, and they are the trust arm of what's called a public sector undertaking, which is partly state-owned. So, a semi-privatized arm of government, and they have the largest social marketing organization in the world.

Just by sheer numbers, and they have a workforce which is right at that, down through to sub-districts, and so they are the ones who take a huge amount of that weight in terms the local interface in that sustainability angle, because post this bond, there won't be further funding. The franchisees, through their franchise fees, will continue to pay to HLFPPT, to have this (inaudible) brand, and which we'll continue to provide through HLFPPT; the quality assurance mechanisms, the branding, et cetera, the continued professional developments, so, very strongly Indian-oriented in that regard.

This model also mobilizes an army of community entrepreneurs, predominantly female community members who provide the role of -- not just information, and generating that demand for services, and understanding knowledge of the need for these services, but they also have a micro enterprise component. They are taking family planning and other -- hygiene and nutrition, fast-moving consumer good products, and they are selling it at that last mile, so that they have their own finance stream coming in outside of the referral structure.

All that aside, I'm very happy to work with all organizations who have that cold-face interface, if you will. And it's not that we are taking this intervention with all services providers for the five years already locked in. There will be procurements during the course of the program, to bring on board others who can provide the particular, specific services required, and that is done through an open, competitive procurement process.

In the local media, the state media, and the national media we put out notices, and we run very open, very transparent procurement processes. As such, they wouldn't need to be interested in this notion of a social impact bond, all they need to be interested in is the scope of work. I'll be really happy to continue the conversation offline as well.

MS. MANUELYAN-ATINC: Yes. Some of this conversation, maybe we can continue just after the session, but certainly in terms of the development -- the impact bonds that I'm familiar with under construction or that been already signed, all the service providers are local. It's not international NGOs that are coming in to deliver the services.

MS. SAVELL: Yes. And just to build on that, I think it's one of the key features, if you will, of this kind of outcomes-based contract, it's because they are not prescriptive about the interventions. If you learn through delivery that a component that you haven't foreseen is needed, you have that flexibility of budget to adopt the program bringing new service providers in and manage them to jointly deliver.

So, I think that it's actually an opportunity rather than a threat, in terms of local organizations participating in that. Certainly what we've found in much our U.K. work, to take your question about rate cards, yes is the short answer. I think in the U.K. there have been instances where the cap -- the top rate of payment that was put in into the market -- has limited to some extent the ability of providers to work.

I think to the U.K. Government's credit, in some subsequent procurement rounds they've taken provider and intermediary feedback on board, and have adjusted those rates, but it is an important piece. Rate cards don't, by themselves, imply that you necessarily have a kind or pre-post evaluation, but the way that they've been used in the U.K. today, that's mostly been what's happened.

And I think part of what the market is struggling with in the U.K., is that the government hasn't been particularly transparent around the counterfactual they've been using. There are assumptions around what would have happened to that population in the event that the interventions haven't been delivered, so that's something that certainly we are pushing for at the moment.

And then just to pick up one point, on there. Does it increase the size of the pie? And I think Caroline and Tamar both need really compelling arguments to actually link through this kind of mechanism, you can really strengthen the causal link between being spent and impact being achieved, then potentially, your case for advocating for more resources for the pie to get bigger is strengthened.

Also, payment by results are a new concept in the international development sector, but I think when we look at what impact bonds or Pay for Success contracts potentially bring to the party, what they enable you to do is to move to genuinely outcomes-based contracts, possibly in a way that hasn't been possible previously, where actually a lot of pay for results contracts to date have had a small proportion of the contract, 5 or 10 percent based on outcomes. But actually a lot that's still being based on inputs that now output.

And what that does essentially is give almost the worse of both worlds. You are still prescribing and monitoring all the inputs and outputs, but from a provider point of view, you are taking risks on outcomes as well. I think what access to third party investment enables you to do as an outcome funder is to really shift that balance of risk, and say, well, actually, we are not having to try and provide the pre-financing for these services and the incentivized outcomes, we can just focus on paying for outcomes, and let other investors take the risk around how those are delivered and whether the impact is achieved.

And just to then pick up on your point, Tamar, is this for nonprofit, or for-profit agencies?

I guess, from our point of view the point is that for-profits quite often will have other sources of revenue or could potentially cross subsidize their activities, so they don't know a third-party provider of investment to take the outcomes risk. Most non-profits won't have access to kind of pre-financing, and I think that's why this kind of mechanism has been particularly important for the nonprofit section.

MS. MANUELYAN-ATINC: Thank you very much. I think you'll agree with me, this has been a very rich conversation. I want to very warmly thank the panel for your contributions, and to the Director, in his absence, for an eloquent presentation of the opportunities in Rajasthan. People, take him up on his offer to host you in Jaipur. And thank you very much, for engaging so strongly, and for all your comments and questions. (Applause) Do you want to wrap up?

MS. GUSTAFSSON-WRIGHT: Thank you all for coming. I think it has been a really great day. I really appreciate all of your comments and participation. If you would like to learn more, visit our website, get in touch with us, and we will be happy to continue our conversation. Thanks again to the panelists. Thank you, Tamar.

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