

Investors seek closer bond with society

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As investors warm to social impact bonds, private banks have a number of new vehicles in the pipeline

So-called social impact bonds (SIBs) are increasingly catching investors' imagination, as they promise to address social or environmental issues while offering returns commensurate to the success achieved.

Both private banks and other institutions, keen to capitalise on this opportunity, have been designing and launching new investment vehicles.

Last December, Bank of America Merrill Lynch in the US introduced a SIB, in partnership with New York State and non-profit organisation Social Finance, which raised \$13.5m (€10.1m). The proceeds are used to fund a five and a half year programme aiming to reduce recidivism and increase employment, providing formerly incarcerated individuals work experience and coaching.

Lombard Odier is currently developing a SIB to fight malaria, and unlike the large majority of SIBs, which are private/public partnerships, it aims to raise all funding from private investors.

"Grantors could be private companies for which it can be demonstrated that the cost of solving this illness is lower than the cost of not acting," explains Bertrand Gacon, head of impact investing and SRI at Lombard Odier. Labour intensive companies in particular would benefit from reducing the malaria rate, which would reduce work force absenteeism, he explains.

In June, the UBS Optimus Foundation and the Children's Investment Fund Foundation (CIFF) launched the first Development Impact Bond (DIB) in education, aimed at improving the quality of girls' education. DIB can be defined as an adaptation of the SIB to developing countries.

Capital made available by the UBS Optimus Foundation will go to Educate Girls, a non governmental organisation (NGO) operating in government-run schools in Rajasthan, India. CIFF will pay for social outcomes achieved by the programme.

Other SIBs launched over the past few years aim at addressing a variety of social issues, such as integrating young migrants into the marketplace in Belgium, or improving outcomes for the homeless in London, or supporting children in care, in a number of countries.

"These solutions can only work when issues are clearly measurable and performance indicators, which measure how successful the programme has been from a social point of view, are indisputable," says Mr Gacon at Lombard Odier. For example, recidivism has a clear, scientific cost for the society. However, these programmes can take several years before they come to an end, and before it is possible to assess whether they have been successful, he says.

"Social impact bonds are still an experiment," states Mario Marconi, global head of philanthropy and values-based investing at UBS Wealth Management. Generally, the formula that defines the social outcome, which defines the way

investors will be paid back by the government, which would see its costs reduced, is still unproven, he says. "We need a few more years to see what the outcome for social bonds will be."

BORN IN THE UK

SIBs were pioneered by the UK four years ago with the Peterborough pilot programme – designed to reduce social and financial costs associated with reoffending prisoners. These new investment vehicles generally draw on the capabilities of the public and private sector working together with impact investors, in order to address some of society's toughest issues.

SIBs are not a bond per se, but a form of outcomes-based contracts, or pay-for success programmes. Public sector commissioners, usually governments, commit to pay back investors' capital plus returns, only if pre-agreed social outcomes are achieved. In that respect they offer a fairly non traditional bond structure, and are likened to structured products rather than bonds.

Funding goes to selected non-profits who put in place social programmes to enable sustainable, long-term change. It is estimated there are fewer than 30 SIBs announced publicly in the world. The UK is a clear leader in this space with 15, according to the latest government report. A couple of SIBs have been launched in the rest of Europe and several in the US and Australia, with many more in the pipeline. ●

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