

Trading Social Impact

Social finance is trading social impact for investor return, bringing a new source of capital to publicly and charitably-funded human services. Taxpayers and donors spend billions each year funding services as a public good, helping people in need change their lives. Every non-profit service provider plans improvements in their services; few gain access to the capital they need.

Measuring impact is essential to trade between funders and investors. Few service providers, however, measure every outcome of every client in service; few measure the cost per outcome and whether that cost is rising or falling; and fewer still measure the outcomes that clients achieve that are attributable to the effect of the services they receive. Impact measures the monetary value of service, assuring funders and investors of the value of a public good.

Social impact is the measure of outcomes achieved by clients in service, attributable to the effect of the services they receive.

The Situation

Social finance, currently, trades social impact measured in client exits from service, or ***exit outcomes***. Clients reach out for help, for example, to regain employment, or to refrain from reoffending. Exiting social assistance, like exiting offending, reduces the cost of care and maintenance services. If 10% of clients normally exit social assistance each year, and the cost of maintaining a client on social assistance is \$5,500 per year, services that increase social impact from 100 to 200 per 1,000 clients save \$550,000, or 10% of the cost of their social assistance for a year. Similarly, if 10% of released inmates normally stop reoffending, and the cost of incarceration is \$115,000 per year, services that increase social impact from 100 to 200 per 1,000 released inmates save \$11,500,000, or 10% of the cost of their incarceration for a year.

The value of exit outcomes, however, is less certain. If the cost of remedial services and the cost of evaluating social impact is greater than current program savings, repaying investors with return for a 10% increase in social impact can add to funder cost. If the attrition rate in social impact, once services are terminated, is 50% per year, for example, funder savings in future years, from which to recoup immediate losses, evaporate quickly. On the other hand, if extra-service factors, like employment opportunities in a local economy, have greater impact on client reemployment than services themselves, investors can lose their money. Even if services are effective in preparing clients for successful exits, exit savings are less than certain.

Measuring Social Impact

There are many more outcomes achieved by clients in human services than exit outcomes. Each client brings to service their individual mix of barriers to achieving a program goal of employment or stopping reoffending. There are many such needs, like administering their meds, acquiring transportation,

completing education, acquiring work skills, rebuilding family relationships, managing an addiction, acquiring life skills, and many, many others. Some clients need to overcome one barrier; many need help with several. Clients overcoming their barriers are more likely to achieve successful exits from care and maintenance programs. While exit outcomes can be as much the result of extra-service opportunities as service effect, helping clients overcome their barriers prepares them to take advantage of exit opportunities whenever they appear. The measure of social impact in human services includes both client and exit outcomes.

The impact of **client outcomes**, unlike exit outcomes, is solely a function of the efficiency and effect of services. For example, a service provider enabling 100 client outcomes with \$1 million in service funding and 200 with \$2 million has increased outcomes by 100%, but the rate of impact remains the same. Every service provider has a baseline rate of impact in client outcomes and can change that rate from period to period. The difference between the current and baseline rates is the measure of the impact and value of services. A service provider increasing the rate of social impact in client outcomes from 100 to 200 per \$1 million in service funding doubles the value of service.

Exit outcomes, like client outcomes, can be measured continuously as services are rendered. Every caseload contains clients achieving client outcomes, and others who are not. Both those with and those without client outcomes can achieve exit outcomes. The baseline measure of social impact in exit outcomes in any caseload is the ratio of exits of clients without client outcomes. If 8% of clients without and 18% of clients with client outcomes achieve exit outcomes, the effective rate of exit outcomes of services rendered is 10%.

The social impact of human services can be measured continuously in client and exit outcomes as services are being delivered.

Trading Social Impact

Measuring social impact, service providers can forecast increases in social impact in client and exit outcomes in their plans for improving service performance. Investors can assess their forecasts to decide which social capital ventures to fund. With ventures generating increases in social impact, investors can trade impact with funders, delivering assured savings to funders for investment returns.

A community-based, non-profit applied a social capital investment of \$1.2 million to increase social impact. The agency increased social impact in client outcomes from 118 to 177 per \$1 million in service funding, and enabled 550 exit outcomes attributable to the effect of service. Together, the increase in social impact of client outcomes, with the corresponding level of exit outcomes added \$8.3 million in value - \$3 million in diversions from service, and \$5.3 million in performance improvements - to the provider's services. If the funder had paid 20¢ per \$1 of assured savings, investors would have earned a return of 40¢ per \$1, while the funder earned 400¢ per \$1.

Conclusion

Social finance, using a complete measure of the social impact of human services, and measuring impact in real time, can create a viable market for ***trading social impact*** that can bring social capital to human service providers, doubling the value of a public good.