SOCIAL YIELD OPTION NOTES (SYON = SIB + L3C)

The SYON is a new Impact Vehicle that combines the contingent return model of a social impact bond with the legal flexibility of the low-profit limited liability company (L3C) in an established capital market structure, Liquid Yield Option Notes. This new financial instrument allows participants with different financial return expectations to participate in the same vehicle, one that ultimately can be tradeable. Its features include optionality to convert to a grant to lower the marginal cost of capital for the enterprise or a mission related investment with higher returns to attract additional capital, assuming the enterprise is successful enough to support higher returns. By using established LLC law, the SYON dramatically simplifies the structure and eases transferability.

Social Impact Bonds: SIBs capture the value to societies of preventing negative externalities – society benefits in material ways if fewer parolees become recidivists, necessitating fewer prisons and guards or if health care interventions decline. The savings realized can be used to reward the interventions that work; and investors in those interventions can make a return.

Legal Structures: The L3C approach creates a simple new LLC form – one which allows different players to take different social and economic returns out of the structure. Each player as per their participation continues to be regulated at their current tax and compliance level. Their collaboration in the LLC has to adhere to the social mission laid out by the Program Related Investment code of the IRS.

Benefits to the Stakeholders:

Government: Pays out of the savings it makes on a social intervention; Cost neutral to positive for the Treasury.
Investors: Return on money + liquidity as opposed to a grant.
Social Sector: Ease of funding, focus on social mission rather than fundraising annually.
Corporate: New vehicle for corporates to enter philanthropic market.

DEVELOPMENTS

United States
- The Obama administration has placed a line of $100m in the US budget for Social Impact Bonds.
- Commonwealth of Massachusetts recent RFP on Prison structures and homelessness
- Interest in California for a SIB to address prison overcrowding

Worldwide
- Since the launch of the UK prison bond in Peterborough, there are a further four projects in process with UK government domestically and one with DFID - and more are being considered.
- There are a number of projects now in design or launch phase in Canada (Health), Latin America (Public Safety), Netherlands (Health in Africa)

HOW IT WORKS - A cash flow tied to the achievement of social objectives

1. An implementer creates an L3C to issue a SYON based on its ability to achieve future savings or benefits by meeting social goals according to an agreement with government/donors.
2. Investors fund the most qualified solution providers by purchasing SYON’s from L3C’s they believe can accomplish the goal, injecting competition to the goal.
3. Outcomes of the intervention are measured by an Independent auditor and reported to Public Sector.
4. The Government (or donor) pays out returns based on level of contractual outcome achieved. Quicker the impact, higher the return.
5. Just like regular bonds, the instruments can be traded in a secondary market, bringing added liquidity to social services.