Successful Public-Private Impact Investments

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Discussion Overview

• What is impact investing?
• What is evidence?
• What standards should be applied to these transactions?
Impact Investing

Impact Investing in Context

• How do ideas about investments in reducing road trauma fit into the broader constructs of disruption, impact, innovation, scaling and evidence-based prevention practices?

• What are the most important innovations in the impact investment space?

• How can they be improved within the context and deal construction?
Why implement socially beneficial programs?

• Reduces search costs to socially minded investors
• Makes deal parameters explicit;
  • Defines costs and benefits
  • Defines time frame
• Lowers costs of deal construction
• Quantifies returns, reducing risk
• Ben and Jerry’s example
What does the impact investment spectrum include?

At the conventional end of the spectrum:

• Traditional equity transactions in socially minded public corporation
• Private corporate social responsibility (CSR)
• Private foundations
What does the impact investment spectrum include?

In the middle of the spectrum:

• Public/Private Partnerships (PPP)
  • Traditional bonds
  • Performance Based Budgeting/Programming
  • Limited application of bond concept in PPP to:
    • traditionally bonded activities (transportation, housing)
    • non-traditionally bonded activities (social welfare)
    • non-traditional benefits
    • SIBs, pay for success, DIBs
• Benefits corporations
• Next?
What does the impact investment spectrum include?

At the middle of the spectrum:

• Benefits corporations
  • Publicly traded
  • Privately –held
  • Profit excluded from the triple bottom-line
• Next?

Key take away: we are inventing this space in real-time, innovating from theory and scaling proven practices.
Evidence in Impact Transactions

Regardless of the intervention, evidence about capital requirements, inputs, outcomes and risk are intrinsic. Here, they are made explicit.

1. What is evidence?
2. Where can it be found?
3. Who decides if it is strong?
Definitions of Evidence

• For scientists- double-blind randomized control trials, or randomized control trials
• For social scientists – RCTs, or, valid and reliable quasi-experiments
• For policymakers:
  • benefits>costs
  • tangible>intangible
  • proximate>distal
Where can strong evidence be found?

- Scholarly (quantitative) literature:
  - Hypothesis tests, and
  - Theory

- Applied (qualitative) literature:
  - Case studies
  - Ethnographies

- Logic/conjecture
How do different types of evidence affect the transaction?

There is an evidence trade-off.

• Strong extant quantitative evidence lowers need for evidence testing as part of the transaction.
  • Fidelity to best practice, or, output measurement may be sufficient.

• More limited existing evidence requires strong evaluation.
  • Replication or scaling interventions with a qualitative evidence-based generally requires RCT level evidence.

Key takeaway: Greater uncertainty increases the price impact investors will demand for a transaction.
Which determines which source is best?

• Who decides if evidence is strong?
  • Intermediary interprets
  • Other partners individually and collaboratively adjudicate

Key takeaway: Greater uncertainty increases the price impact investors will demand for a transaction.
What projects are amenable to impact investments?

1. Mechanical interventions
   • Cause and effect are clear
     • Transportation
     • Health
     • Prison?
   • Challenge is to Scale
What projects are amenable to impact investments?

2. Behavioral interventions
   • Cause and effect are more difficult to measure
     • Prophylactic measures (Helmets)
     • Aggression (Forcing off-road)
     • Prison (job training, substance abuse, etc.)
What do these projects have in common as impact investments?

Prevention is the common theme

- Primary
- Secondary
- Tertiary
What deals merit an impact investment? Key is understanding and monetizing benefits

Theme: there are three types of costs and benefits:
  • Financial
  • Human
  • Hidden

Deep scholarly tradition and establishing grounds for selection.
Understanding and monetizing costs and benefits - Fiscal

• Fiscal Costs include:
  • Project -management, materials, construction, supervision
  • Budget

• Fiscal benefits (public)
  • Prevention oriented:
    • Averted future transportation costs
    • Averted future health and welfare costs
Understanding and monetizing costs and benefits – Human and Hidden

Human costs are mainly taxes, but these are a transfer.

Human benefits are mainly private and tangible (monetizeable) costs and benefits, including:
- Averted (prevented) tangible losses (medical care, work, etc.)
- Faster transportation (tangible)

Hidden benefits are mainly intangible human (private) costs and benefits
- Personal averted (prevented) intangible loss (trauma, pain, and suffering)
- Family averted (prevented) intangible loss
- Community averted (prevented) intangible loss
What standard should be applied to choose human and hidden benefits?

First, option, choose only those impact investments that are Pareto optimal.

• What is Pareto Optimality?
  • Who is Pareto?
  • At least one winner, no losers;
    • Lowest hanging fruit;
    • Difficult to scale;
    • Difficult to innovate;
    • Focuses solely on financial costs;
What standard should be applied to choose human and hidden benefits?

- Second option, choose only those impact investments that satisfy the Kaldor-Hicks standard.

- Kaldor-Hicks were 20th century economists
  - Advocated for programs where the winners could compensate the losers
    - Sum up all costs and benefits
    - Choose investment where benefits exceed the costs
      - Necessary and sufficient for those benefits to accrue, not necessary for those benefits to be distributed;
What costs and benefits are chosen if a Kaldor-Hicks standard is selected?

- Compensates according to financial, human and hidden costs and benefits
  - Fiscal Costs include:
    - Project management, materials, construction, supervision
    - Budget
  - Benefits include:
    - Fiscal (public)
    - Human (private benefits)
    - Hidden (private benefits)
  - Fiscal benefits (public)
    - Prevention oriented:
      - Averted future transportation costs
      - Averted future health and welfare costs
  - Human benefits (private)
    - Averted tangible losses (medical care, work, etc.)
  - Hidden benefits (private)
    - Personal averted intangible loss (trauma, pain, and suffering)
    - Family averted intangible loss
    - Community averted intangible loss
Conclusion

• Impact Investing is an evolving construct. Provides options for investments that are optimized in a variety of contexts.
  • PPP that apply bond principles are the tip of the spear

• Evidence must be a core component of any investment
  • Stronger prior research facilitates less expensive deals and deal construction

• A broader standard for inclusion of costs and benefits (Such as Kaldor-Hicks) maximizes social welfare.
Questions? Comments?

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