An Introduction to Impact Investing in Public Health

Introduction

This document provides health departments and health-promoting community organizations, nonprofits, and businesses a basic introduction to impact investing terms, concepts, examples, and resources. It is a starting point for exploring impact investments as a tool for health-promoting programs and enterprises to diversify their funding sources and improve sustainability.

What Are Impact Investments?

Impact investments are financial investments intended to generate both profit and positive social change that aligns with the investor's goals.

> ***Definition:*** *"Impact investing is an investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured."*[1]

Impact investments can support any sector, including health, education, energy, environment, finance, or housing, that aligns with the investor's goals. Philanthropic organizations, financial institutions, and individuals can engage in impact investing. These investments can be structured as loans, deposits, guarantees, equity, or real assets (e.g., buildings, equipment). They complement more familiar public health funding sources, such as cooperative agreements and grants.

Impact investments can be used to launch or expand a program or business. They also can help sustain an initiative by providing access to funds at different stages of implementation. When funds are repaid, investors can reinvest them, thereby increasing the potential for greater impact.

The Link to Public Health

Many socially minded investors fund initiatives in the health sector.[1(p.14)] Such initiatives might increase access to healthy foods, offer preventive health services, or create environmental changes, such as bicycle paths. Impact investments can provide the funding to launch, expand, and sustain programs and services that promote health. These investments also can advance health equity by extending the reach of preventive health services or health-promoting programs to vulnerable populations. Initiatives that demonstrate profitability while enhancing community health are good candidates for impact investments.

An example of a community health enterprise, mobile vendors sell produce in "food deserts," neighborhoods that lack convenient access to fresh, healthy food.

Photo: Green Carts Program, New York City Health Department

Participants in Impact Investing

Knowing who makes impact investments and who receives them helps in understanding the motivations and potential benefits related to this type of funding. The following section summarizes the four major groups of participants.

Community Health Enterprises

A community health enterprise is an organization or business that sells health-promoting products or services to generate revenue. Community health enterprises can be nonprofit organizations or for-profit businesses. To attract investors, health-promoting enterprises and programs must demonstrate that they will enhance community health *and* generate enough money to repay the investment.

Examples of community health enterprises include a corner store that sells fresh produce, a community health center that offers services in a rural setting, or an organization that rents bicycles. Playworks and Common Market Philadelphia are two health-promoting initiatives (see boxes, page 3) that have benefitted from impact investing.

Impact Investors

A variety of organizations make financial investments aimed at improving social, environmental, health, or other conditions while generating profit:

- **Charitable Foundations:** These include national foundations, such as Kresge, Rockefeller, Robert Wood Johnson, and W.K. Kellogg, as well as community foundations, such as The Greater Cincinnati Foundation, Oregon Community Foundation, and Colorado Health Foundation. These foundations are known for making philanthropic contributions or grants to programs that match their missions. Increasingly, however, charitable foundations are turning to impact investing as a way to sustain—and increase—their impact, by recapturing and reinvesting their funds over time.[2]
- **Community Development Financial Institutions (CDFIs):** A certified CDFI is a "specialized financial institution that works in market niches that are underserved by traditional financial institutions. CDFIs include regulated institutions, such as community development banks and credit unions, and nonregulated institutions, such as [those that provide] loans and venture capital funds."[3] They are located in hundreds of communities across the United States.
- **Impact Investment Firms:** These are specialized organizations that help design impact investment strategies, conduct research, structure contracts, and advise philanthropy and banking institutions. Some also make and manage impact investments—as opposed to conventional stock market investments—for foundations and financial institutions. More recently, even some of the larger, conventional investment firms, such as JPMorgan Chase and Goldman Sachs, are pursuing impact investment strategies.
- **Angel Investor Groups:** These are groups of people who pool their personal wealth to invest in enterprises with the potential for growth. They expect to create both profits and social improvements from their investments. In some cases, angel investors may be willing to accept a lower financial return in exchange for a strong, measurable social return.
- **Governments:** While most impact investors pursue social benefits along with financial return, some local or state governments pursue social benefits along with cost savings. Some local and state governments engage in impact investing by participating in social impact bonds (described later), in which they pay for social programs that generate an overall net savings to the government.

Social Service Organizations

Social service organizations are usually nonprofits that deliver valuable services to vulnerable populations but do not generate revenue like community health enterprises. They may, however, generate cost *savings* to the government by reducing reliance on publicly funded programs.

For instance, in California, an in-home asthma intervention program measurably reduces emergency room visits and hospitalizations for low-income asthma sufferers. The program also produces significant cost savings to the health system.[4] Organizations that can demonstrate such savings are candidates for a type of impact investment, called "social impact bonds," which are repaid from the government savings they generate.

Public Health Departments

Local or state public health departments may play an important role as a partner to community health enterprises. Health departments can provide valuable health data and local knowledge to help guide community health enterprises toward serving the populations of greatest need or those experiencing health disparities. They can convene key partners and help impact investors identify potential enterprises or programs to support.

Types of Impact Investments

Conventional impact investments and *social impact bonds* are the two major types of impact investing that support community health enterprises and health-promoting social programs. They provide money needed to launch, grow, or sustain health-promoting programs, but do so through different mechanisms.

Conventional Impact Investments

These commitments of money—from foundations, institutional investor organizations, or angel investor groups—are designed to generate both a health benefit and a financial return. The important distinction here is that repayment and earnings to investors come from the *revenues* generated by the community health enterprise.

Community health enterprises usually use the invested money for start-up funding, coverage of revenue gaps, or expansion of programs or services. Intermediaries, such as CDFIs or impact investment firms, can help fund or structure these as loans, loan guarantees, cash deposits, equity investments, or other investment products. The following two examples summarize how conventional impact investments work.

Example 1

Community Health Enterprise: *Playworks is a nonprofit that provides trained staff to deliver structured activities during recess and after-school programs at public schools serving low-income communities.*

Impact: *The Playworks program supports learning and strengthens the development of children by providing safe, healthy, and inclusive play that emphasizes conflict resolution, leadership, and teamwork.*

Revenue: *Participating schools pay Playworks for its services and programming.*

Funding Need: *Playworks needed money to expand its program and to cover staffing, administrative, and material expenses incurred before the start of the school year, when schools begin paying for services.*

A Playworks staff member engages school children in fun physical activity.

Photo: Playworks

Impact Investment: *One PacificCoast Bank (a CDFI) and RSF Social Finance (an impact-driven financial services organization) provided loans to help expand the Playworks program and bridge the gap between the program's operating expenses and school payments.*

Repayment: *Playworks will pay down the loan over time, with payments it receives from participating schools. The Robert Wood Johnson Foundation promised to repay the loans if Playworks couldn't.*[5]

Example 2

***Community Health Enterprise**: Common Market Philadelphia (CMP) is a nonprofit wholesale distributor of local farm food to public and private schools, hospitals, universities, grocery stores, and workplaces.*

***Impact:** CMP supports local family farms, increases the public's access to local vegetables and fruits, and employs local people.*

***Revenue:** CMP generates revenue by selling seasonal fruits and vegetables, grocery items, dairy, eggs, and meat to many of the largest institutions in the Philadelphia area.*

***Funding Need:** To increase its impact, CMP needed more delivery trucks, increased space for sorting and distribution, and more staff.*

***Impact Investment:** CMP received impact investments—in the form of loans, from a mixture of foundations and The Reinvestment Fund (a CDFI)—to expand its operation and purchase needed equipment.*

Common Market received impact investments from local foundations to expand its operations and purchase needed facility and equipment.

Photo: Common Market Philadelphia

***Repayment:** Over the course of the loan period, investor organizations will receive repayment plus a modest percentage of CMP's revenues.*

Social Impact Bonds

Also known as "pay-for-success financing," social impact bonds are typically contracts between the government, investors, and a social service organization to deliver social benefits. Unlike conventional impact investments, repayment to investors does not come from program revenues, since social programs typically don't make money. Instead, repayment comes from the government savings generated by an intervention. The investors raise money to fund a social service program that has demonstrated success. The government then repays the original investment plus a modest premium, but only if an independent evaluator determines that performance targets were achieved. Ideally, these repayments are made from the government savings generated by the program's effectiveness.

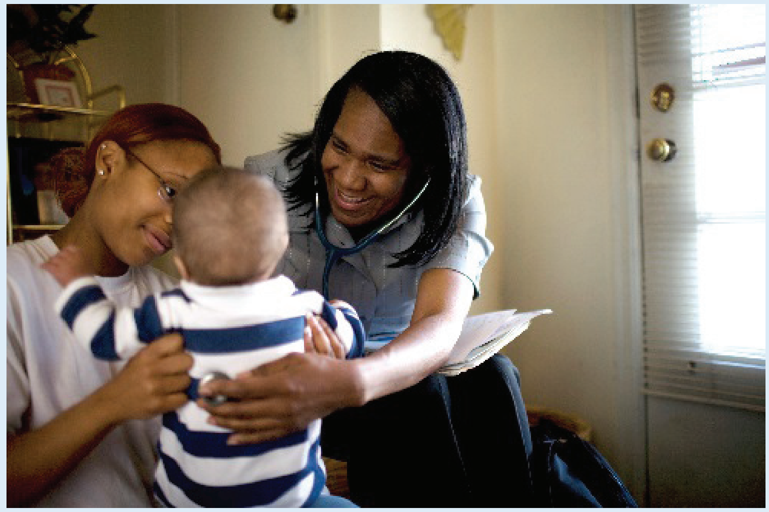
Social impact bonds can be structured in different ways, but common elements include the following.

- Private or philanthropic financing.
- Thorough measurement of program performance targets or goals, validated by an independent evaluation.
- Success-based payments by the government to investors, but only if measures are achieved.

Social impact bonds shift risk from the government to the investors. If the intervention does not achieve the outcomes, then investors may lose their money, but the government does not. Social service programs that cost less than the government savings they generate are good candidates for social impact bonds. Example 3 describes a social impact bond currently under development in South Carolina.

Example 3

Social Service Organization: *The Nurse-Family Partnership of South Carolina is a nonprofit that partners low-income, first-time moms with maternity and child health nurses to support healthy pregnancies and improve children's health and development.*



A nurse home visitor meets with a first-time mom as part of the Nurse-Family Partnership program.

Photo: Nurse-Family Partnership

Impact: *Rigorous evaluation shows the Nurse-Family Partnership program produces fewer preterm births, fewer injury-related visits to the emergency room, kindergarten readiness, reductions in child maltreatment, and more economically independent mothers.*

Savings: *A majority of the savings the Nurse-Family Partnership generates come from Medicaid. A reduction in preterm birth rates also is associated with other longer-term benefits that reduce the need for costly remedial services to treat medical, behavioral, and academic problems. Cost-benefit analysis suggests the social benefits of the program far exceed its costs.*[6]

Funding Need: *Many eligible mothers do not have access to Nurse-Family Partnership services. Funding is needed to expand the program and reach a greater portion of the eligible population to improve health outcomes for high-risk children.*[6]

Impact Investment: *This project is in the development phase. Philanthropic and/or private investors are needed to support this program's expansion. Investors in this project seek a modest financial return and a measurable social impact.*

Repayment: *Specific health outcome improvements or cost savings must receive validation by an independent evaluator. South Carolina will repay the investment, plus a premium, but only if the program achieves the measures of success established in the contract.*

Conclusion

While impact investments hold great promise, they currently complement more conventional funding sources, such as cooperative agreements and grants in public health. Impact investing is still evolving, but opportunities already exist for health-promoting organizations to attract such investments to launch and sustain their programs. Several organizations provide more detailed information about impact investments. The following resources provide a starting point for further reading and consideration.

Resources

Website addresses of nonfederal organizations are provided solely as a service to readers. Provision of an address does not constitute an endorsement of this organization by the Centers for Disease Control and Prevention (CDC) or the federal government, and no endorsement should be inferred. CDC is not responsible for content contained on the web pages of other organizations.

Impact Investing

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Social Impact Bonds

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Disclaimer

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