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Goldman Sachs (B): Determining the Potential of Social Impact Bonds

“I think it’s distressing the degree to which a new industry has been built around social impact bonds before it’s ever been proven viable. We ought to work it to fruition . . . before we start promoting it.”¹

— William Alden

After considering the pros and cons of partnering with the City of New York in the Rikers project, Alicia Glen and her Goldman Sachs Urban Investment Group team decided to move forward with it, receiving Goldman board approval and joining a coalition of non-profits and the city. In an August 2, 2012 press release, the mayor’s office announced the initiative, stating, “New York City is continually seeking innovative new ways to tackle the most entrenched problems, and helping young people who land in jail stay out of trouble when they return home is one of the most difficult and important challenges we face. As the first city in the nation to launch a social impact bond, we are taking our efforts to new levels and we are eager to see the outcome of this groundbreaking initiative.”²

This social impact bond (SIB) created the Adolescent Behavioral Learning Experience (ABLE), which focused on personal responsibility, education, training, and counseling for ex-offenders. The ultimate goal was to sharply reduce recidivism rates in adolescents, which were at about 50% at the time the program was announced.³

As expected, the SIB involved multiple stakeholders, each contributing their core competency. The executed structure was as follows:

- Goldman Sachs funded the project’s delivery and operations through a \$9.6-million loan to MDRC.
- Bloomberg Philanthropies provided a \$7.2-million grant to MDRC to guarantee a portion of the loan, reducing the lender’s risk. Any money remaining after the four-year project would remain with MDRC for future SIBs. Bloomberg Philanthropies also provided a general operating support grant to MDRC.
- MDRC, through a contract with New York City, oversaw the day-to-day implementation of the project, managed the non-profit providers delivering the intervention (Osborne Association and Friends of Island Academy), and was responsible for any payments to Goldman Sachs.
- The Vera Institute of Justice, a third-party evaluator, determined whether the project achieved the targeted reductions in recidivism that payment was contingent upon.

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