

September 2021

OVERVIEW

In May 2018, NPX and The Last Mile (TLM) launched the first-ever Impact Security, a results-based financing structure used to fund a coding-focused workforce development program inside San Quentin prison.

NPX is a company transforming the way nonprofits are funded by explicitly linking capital with results. The Last Mile is a nonprofit organization that prepares incarcerated individuals for successful re-entry to society.

The Impact Security is a proprietary financial product, developed by NPX and Anna Pinedo, Partner and Co-Leader of the Global Capital Markets practice at Mayer Brown, that allows a nonprofit to issue performance-based debt to investors and make required payments on the debt over time with donations explicitly linked to outcomes achieved.

The deal successfully concluded in April 2021. TLM achieved 113% of its impact target, resulting in maximum return for investors and results-based payments for donors.

PROGRAM OVERVIEW

TLM used the capital to launch TLM Works, the first-ever web development shop inside a U.S. prison. Tech companies, startups, nonprofits and governments outsource coding work to TLM Works. TLM Works' participants are hired and paid to do the work, allowing them to build a portfolio of experience while in prison that can lead to a job outside of prison. Work is a critical driver in reducing recidivism.

STRUCTURE

NPX raised \$800,000 from 11 investors (seeking financial return) and \$900,000 from 16 donors. The \$800,000 investment capital provided TLM Works with the upfront working capital needed to run the program. As TLM made measurable progress towards its impact goal of “participant hours worked”, the donor fund disbursed funding capped at \$900,000 to TLM to repay investors.

The impact metric “participant hours worked” was selected because it is predictive and proximate to the ultimate goal of reducing recidivism and it is quantifiable and within TLM’s control.

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- **Predictive & proximate:** The more hours worked, the more experience gained. Having a portfolio of work in coding is critical to landing a full-time job in this field. Additionally, the more hours worked, the more income and savings generated by participants and the more savings for the government (40% of every dollar earned in prison is paid to the government in the form of room and board and restitution funds). The combination of work and savings are a critical antidote to recidivism.
- **Quantifiable & controllable:** Hours worked is a quantifiable and verifiable metric tracked through TLM's payroll. Additionally, it is within TLM's control and not reliant on outside factors.

IMPACT OF COVID

San Quentin State Prison, where TLM Works operates, faced one of the most devastating COVID-19 outbreaks in the country. Throughout the pandemic, more than 70% of the residents have been infected. The prison went into "lockdown" for months and TLM Works could not operate. Additionally many of the prisoners were released early, including many of the TLM Works participants.

Instead of terminating the deal, which would have prematurely ended potential outcomes, resulting in job loss among participants and financial loss among investors, NPX worked with TLM and the 27 investors and donors on a new approach.

The results of this collaborative process were:

- Extending the term length by 1 year
- Expanding the impact metric to include both hours worked inside San Quentin and hours worked by returned citizens on the same TLM Works projects post-release

By expanding the definition of the impact metric, while staying true to the ultimate goal of reducing recidivism, TLM Works was able to continue to operate and exceed the impact target.

RESULTS

The deal resulted in the following:

- 20,298 participant hours worked vs. 18,000 goal
- \$16-\$20/hour paid, 55x average prison wage
- 89% of TLM alumni are employed -- hiring companies include Slack, Dropbox, Square, Zoom, Snap, Pilot, Checkr, Datastax, Plaid, Affirm, VMWare, Chan Zuckerberg Initiative and others

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LEARNINGS

We've learned an incredible amount through this collaborative field-building work, below are four key takeaways:

- 1. New funding was mobilized for TLM.** The financing model brought in net new funding to TLM. Most investors had never funded criminal justice reform -- either because too few investment opportunities existed or because their philanthropic mandates were too narrow. This funding model created a new avenue for investors to participate. The deal also brought in new donors who saw the opportunity to provide catalytic capital to build the field of results-based financing.
- 2. Linking funding with results changed the behavior of all parties -- nonprofits, donors and investors.** Incentivizing impact changes behavior. Here's what we saw across the three stakeholders:
 - Investors: invested risk capital into a nonprofit with returns correlated to impact
 - Donors: made data-drive grants to TLM *after* impact was achieved
 - Nonprofits: 4-year funding runway and a focus on outcomes allowed TLM to optimize program and financial decisions for long-term impact
- 3. Focusing on impact instead of activities led to a better outcome.** COVID-19 upended TLM Works' plans and operations. Because all stakeholders were tethered to the same end goal -- more hours worked and ultimately lower recidivism -- the 27 stakeholders could identify and agree on a new way to achieve the same impact.
- 4. Exceptional alignment across funders allowed TLM to be more efficient.** The combination of a pooled funding mechanism across 27 donors and investors, alignment around one impact metric and a four-year funding runway allowed TLM to eliminate most reporting and fundraising costs, so they could focus on creating impact. This design limited TLM's administrative work to one metric reported on one timeline for 27 funders -- not 27 metrics on 27 timelines.

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DEAL HIGHLIGHTS

PARAMETERS	TERMS / RESULTS
Year launched	2018
Term	4 Years - achieved impact targets early
Geography	California
Investment Amount	\$800,000
Results-Based Donor Funds / Maximum Investor Payout	\$900,000
Impact Metric	Participant Hours Worked
Impact Metric Results	20,298.5 Hours Worked vs. 18,000 Target
Other Outcomes	Paid \$16-\$20/hour, 55x average prison wage 89% of TLM alumni are employed -- hiring companies include Slack, Dropbox, Square, Zoom, Snap, Pilot, Checkr, Datastax, Plaid, Affirm, VMWare, Chan Zuckerberg Initiative and others
Annual Return	5.3%
Donors	Devon & Pete Briger, Camilla & Matt Field, Lulie & Gordon Gund, Hall Capital Partners Charitable Fund, Mimi & Pete Hathaway, Krishnan Shah Family Foundation, Lobeck Taylor Family Foundation, Amy & Drew McKnight, Perkins Hunter Foundation David Pottruck, Joanna Rees & John Hamm, The San Francisco Foundation, Virgin Unite, Alexandra & Spencer Wells, Yagan Family Foundation, Anonymous Donor
Investors	The Chockstone Fund, Kate Harbin Clammer, Bradley & Chris James, David Keller, Montcalm TCR on behalf of their clients, Anna & Mason Morfit, Mark Newhouse, Duncan Niederauer, Omidyar Network, Ted Williams, Joe Wolf
Legal	Mayer Brown, LLP
Impact Auditor	BPM, LLC