
Global Trends In Social Impact Bonds: Myths And Realities

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The name's Bond...

Social
Impact
Bond.

Overview

- SIBs represent a key social innovation in the delivery of public services
 - Part of a Payment-By-Results/Pay-For-Success revolution
- Major implications for modern welfare services
- Proliferation of SIBs around the world
- BUT relatively little hard analysis of their effects, impacts, pros and cons

Context: Social Impact Investment

IMPACT INVESTMENT: THE INVISIBLE HEART OF MARKETS

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Report of the
**SOCIAL IMPACT
INVESTMENT TASKFORCE**

Established under the UK's
presidency of the G8

15 September 2014



HIGH-LEVEL RECOMMENDATIONS

1

Set measurable impact objectives and track their achievement

2

Investors to consider three dimensions: risk, return and impact

3

Clarify fiduciary responsibilities of trustees: to allow trustees to consider social as well as financial return on their investments

4

Pay-for-success commissioning: governments should consider streamlining pay-for-success arrangements such as social impact bonds and adapting national ecosystems to support impact investment

5

Consider setting up an impact investment wholesaler funded with unclaimed assets to drive development of the impact investment sector

6

Boost social sector organisational capacity: governments and foundations to consider establishing capacity-building grants programmes

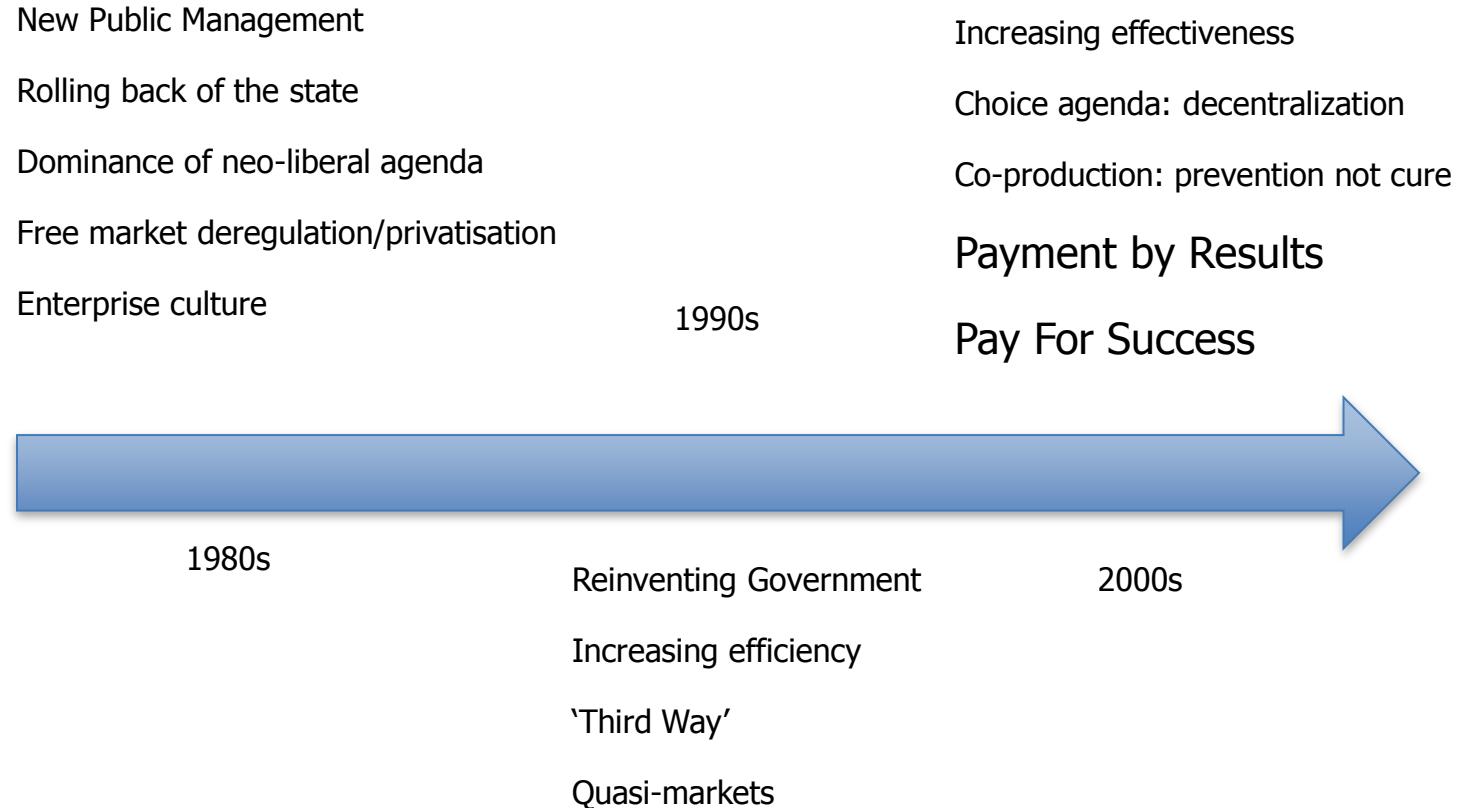
7

Give Profit-with-Purpose businesses the ability to lock-in mission: governments to provide appropriate legal forms or provisions for entrepreneurs and investors who wish to secure social mission into the future

8

Support impact investment's role in international development: governments to consider providing their development finance institutions with flexibility to increase impact investment efforts. Explore creation of an Impact Finance Facility to help attract early-stage capital, and a DIB Social Outcomes Fund to pay for successful development impact bonds.

Context: Policy Change



2015 Manifesto Pledge



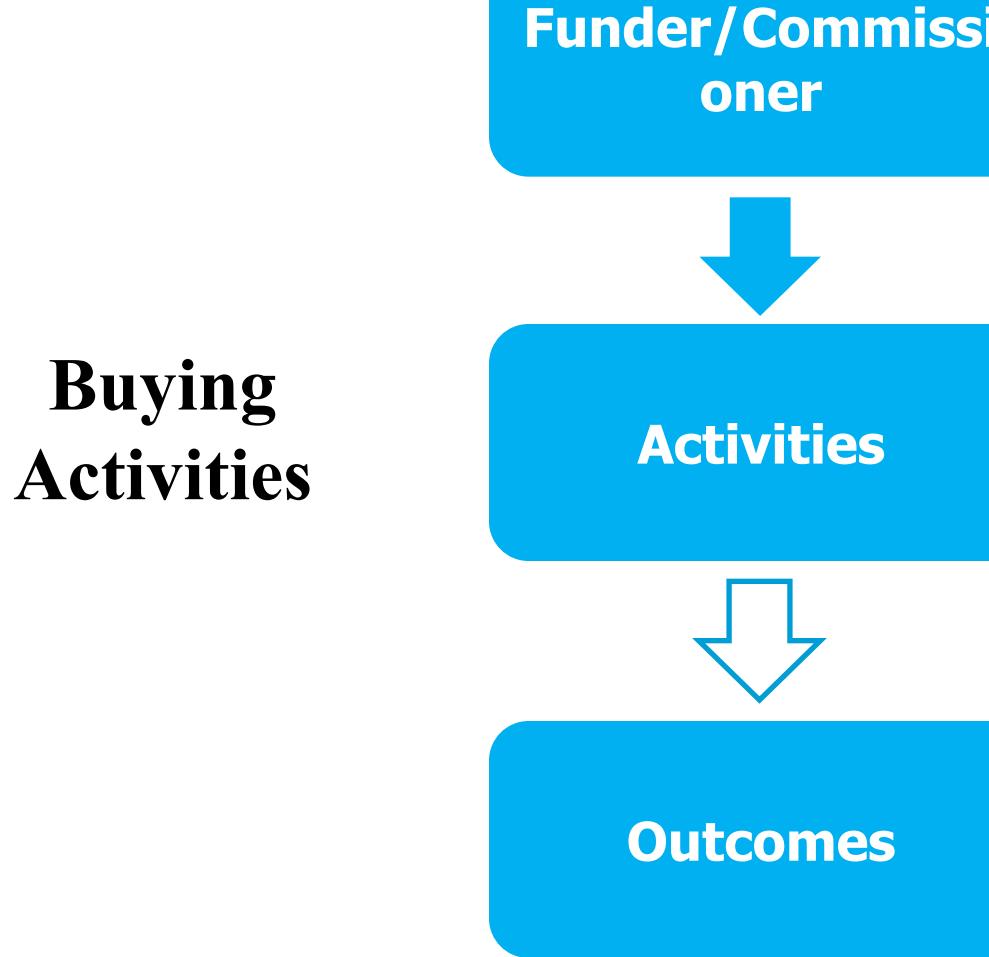
We will innovate in how we deliver public services

We have pioneered ways to deliver high-quality public services, including through getting the voluntary sector more involved. For example, our Work Programme has helped harness the talent and energy of charities to help people turn their lives around and find their way back into work. We will examine ways to build on this type of innovative approach in the future. We have also pioneered the use of social impact bonds and payment-by-results, and we will look to scale these up in the future, focusing on youth unemployment, mental health and homelessness.

PbR Policy Support (2010-2016)

- Peterborough Pilot SIB
- Social Outcomes Fund (£20 million)
- Commissioning Better Outcomes Fund (£40 million)
- DWP Innovation Fund (£30 million)
- Youth Engagement Fund (£16 million)
- Fair Chances Fund (£15 million)
- Life Chances Fund (£80 million): 'to grow the number and scale of SIBs' with a view to '**generating public sector efficiencies by delivering better outcomes...** and building a clear evidence base of what works' (Cabinet Office, 2016b: 1)

Creating Social Outcomes



Creating Social Outcomes

Funder/Commissi
oner

Buying
Outcomes



Outcomes

Social Impact Bond Model

Commissioner

£  £

Outcomes

Vulnerable cohort identified

Desired outcomes specified

Value of outcomes established

Outcomes contract created

Provider selected

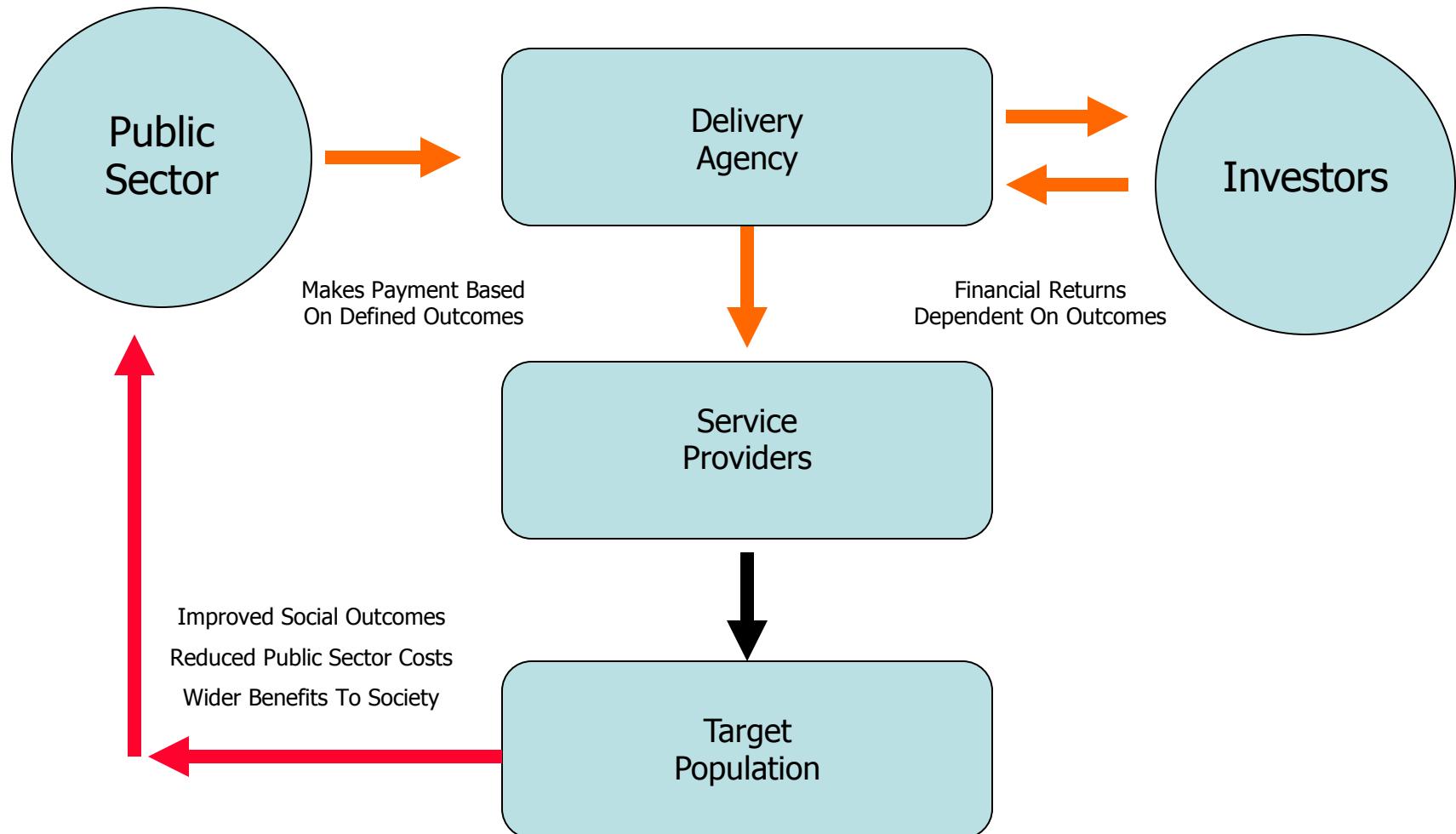
'Flexible' delivery of outcomes

Outcomes verified

Risk capital

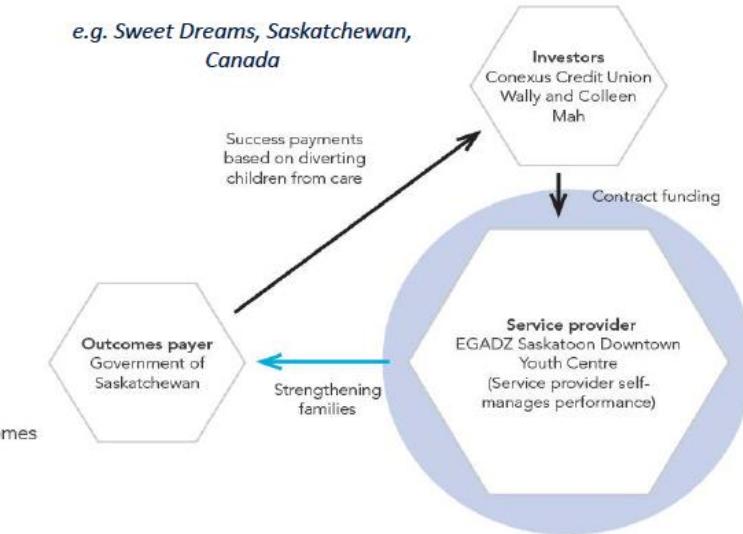
Delivery support

Social Impact Bond Model



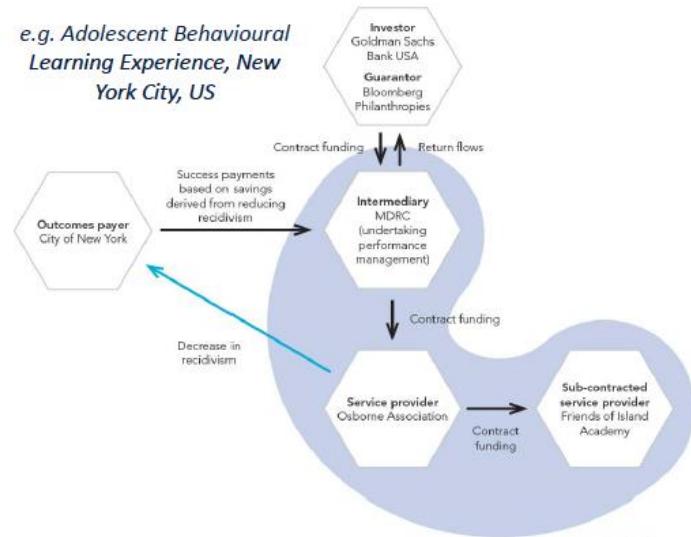
Social Impact Bond Models

e.g. Sweet Dreams, Saskatchewan, Canada



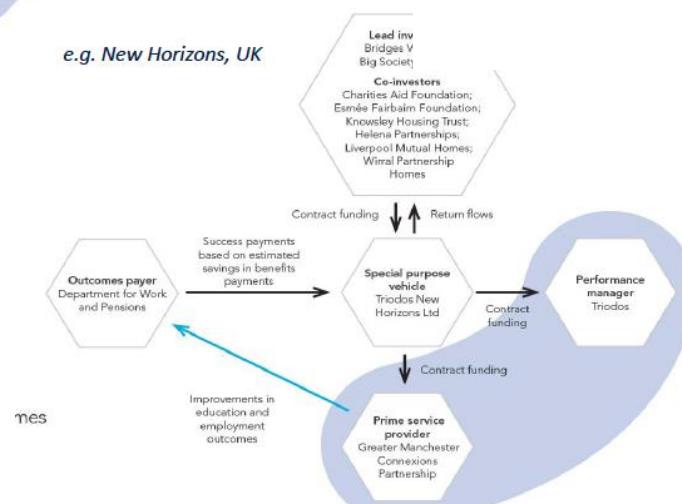
Direct

e.g. Adolescent Behavioural Learning Experience, New York City, US



Managed

e.g. New Horizons, UK



Intermediated

Bridges (2016)

Necessary Conditions For A SIB

- A 'social problem' for an identifiable population who are poorly served by current services
- There is a measurable social outcome
- There are investors willing to take some or all of the performance risk
- There is an ultimate payer who is prepared to pay for specific, evidenced, social outcomes that are either:
 - Cheaper than existing provision
 - Savings can be demonstrated and captured by the ultimate payer
 - Better than existing provision even if more expensive
 - Or both
- There are social sector service providers who can deliver effective services

Motivations

Government

A more cost effective solution

Transferring risk

Harnessing innovation

Measuring outcomes and pursuing evidence based interventions

Aligning interest across different levels of government – co-commissioning

Investors

Achieving blended returns – social and financial

Introducing a metric for impact

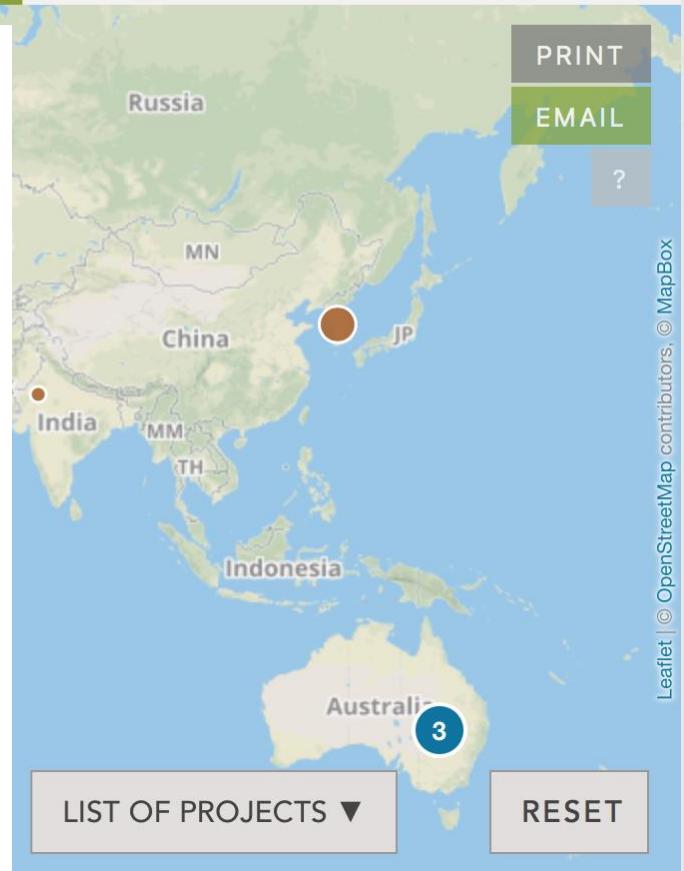
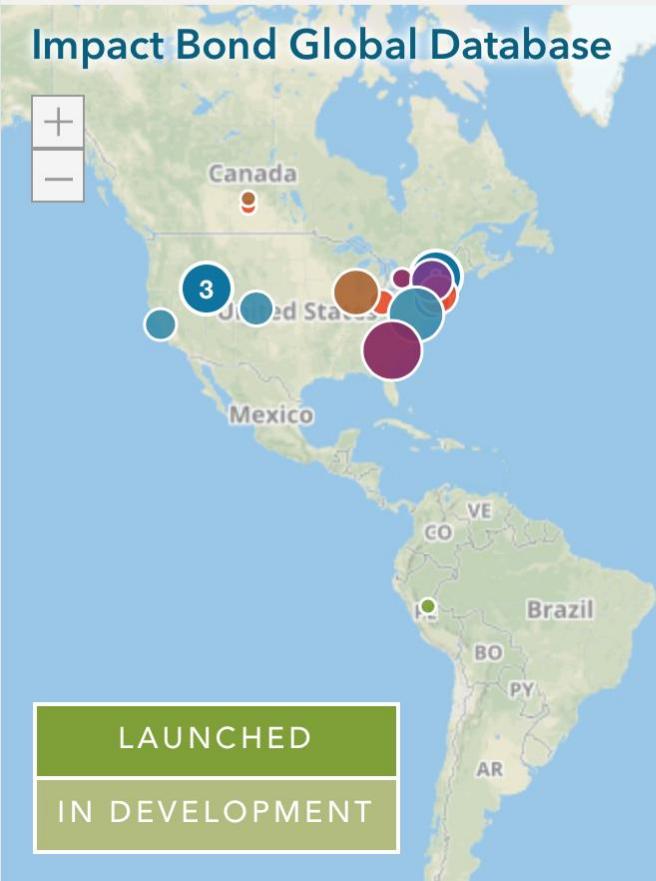
Enabling mission related investment

VCSE Organisations

Accessing PbR contracts and scaling interventions

Receiving a committed, multi-year funding stream

Working with consistent goals and support to build evidence base

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IMPACT BONDS

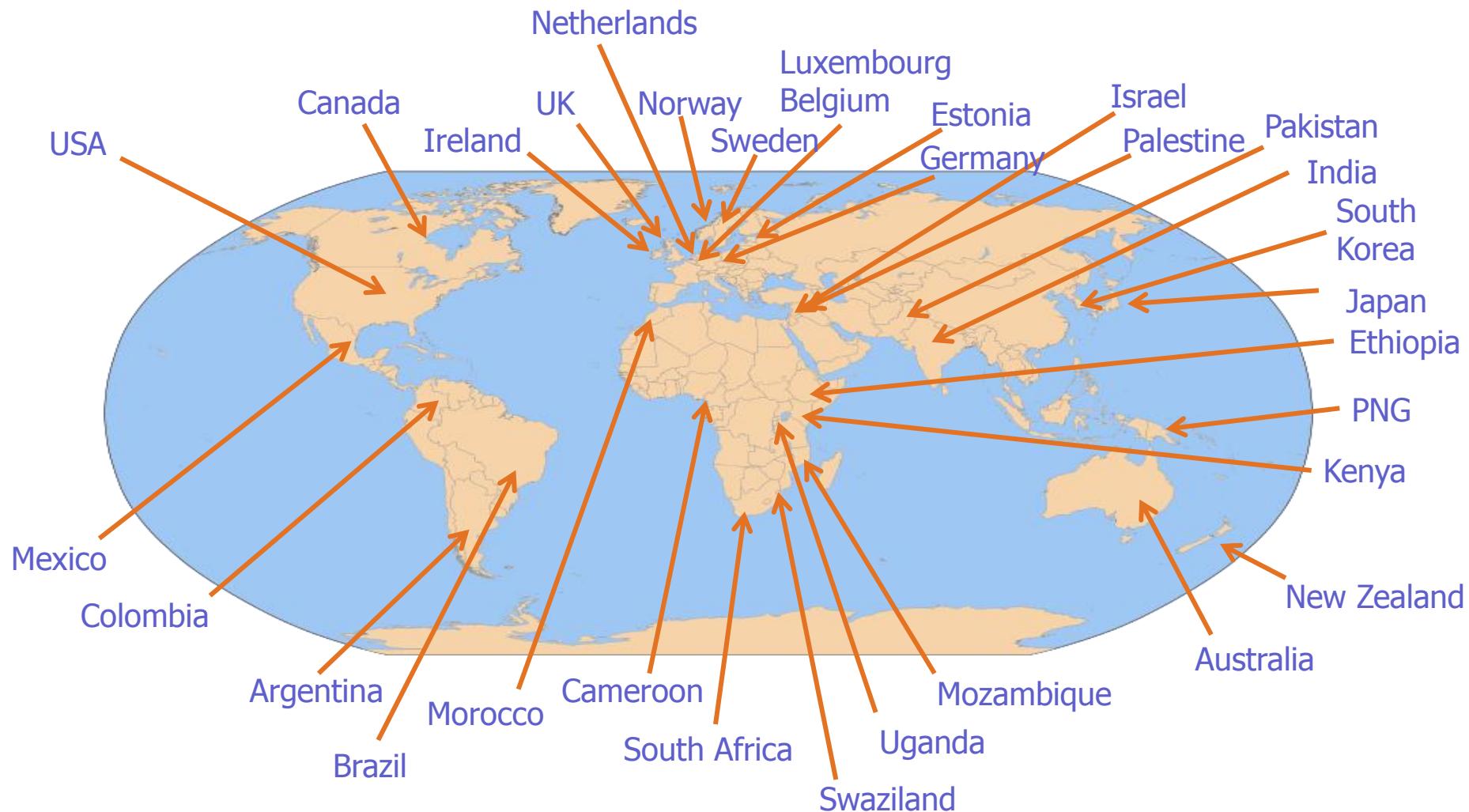
\$278M

CAPITAL RAISED

106,551

LIVES TOUCHED

SIBs Under Development 2017





横浜を共に創る 共創推進室

Policy Bureau > Cowound promotion room > Trust such as Yokohama-shi social impact bond (SIB) model composition



About cowound Main business outline Past approach Lists such as guidelines



#yokohama_kyoso

横浜市 共創推進室
@yokohama_kyoso

【社会福祉法人×企業×大学×横浜市】民間事業者と横浜市が連携し、子どもが安心して過ごせる居場所づくりを通じて、社会的インパクト評価モデル事業に取り組みます。
city.yokohama.jp/ne/news/press/...
#yokohama_kyoso @GoldmanSac hs



26 Oct

Open call for participants type proposal

Yokohama-shi social impact bond (SIB) model composition trust

Social impact bond (following "SIB") is developed in the U.K. in 2010 and in late years is structure of social problem solution by citizen cooperation spreading out led by Europe and America.

In addition, in the country, introduction examination and proof of SIB are performed now in the field of various public services in country and other cities.

Therefore we carry out this commissioned business for the purpose of devising composition of model (*) of SIB contributing to society problem and measures to "poverty of child" that it is and operational start and evaluation plan of SIB to demonstrate about utilization possibility of future SIB as one of the technique of new citizen cooperation in Yokohama-shi.

*This SIB model means structure except expense deferred payment (fund repayment to investors) from administration based on evaluation that is one element of the structure from full-scale SIB.

Title	Yokohama-shi social impact bond (SIB) model composition trust
In participation intention proposal book final day	Afternoon of Friday, July 29, 2016 5:00
In written inquiry presentation final day	Afternoon of Friday, August 12, 2016 5:00
In proposal presentation final day	Afternoon of Wednesday, August 31, 2016 5:00
Ordering section	Yokohama-shi Policy Bureau cowound promotion room cowound promotion section



PROSPERIDAD SOCIAL

APC

TODOS POR UN NUEVO PAÍS

BID FOMIN

Fundación CORONA

MONTE DE PIEDAD Y Caja de Pensiones para la Vejez y de Ahorros

Fundación

Bolívar

Davivienda

Sommerische Edelsteine AG
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Confederación Suiza
Embajada de Suiza en Colombia
Departamento Federal de Asuntos Económicos
Instituto e Investigación IIEI
Instituto de Estudio para Asuntos Económicos SICO

Colombia Workforce SIB



- March 2017 first SIB in a developing country
 - Targets skills training and employment support to vulnerable, unemployed individuals in Bogotá, Cali, and Pereira
- Will support a range of employment measures for 514 vulnerable individuals
- Particularly targeted at high school graduates between 18 and 40 years old, who:
 - Are not formally employed at the start of the program
 - Score below 41.74 on SISBEN (a poverty measure)
 - Are registered in Red Unidos (the extreme poor)
 - Are victims of displacement due to the armed conflict
 - Have not previously participated in Prosperidad Social's similar employment programs.

Colombia Workforce SIB



- Colombian Government's Department of Social Prosperity (Prosperidad Social) will provide just under half of the 2.2 billion Colombian pesos (approximately \$765,200) in outcome funds
 - Government of Switzerland will fund the remaining portion through its State Secretariat for Economic Affairs (SECO)
- Investors are a coalition of foundations including Fundación Corona, Fundación Bolívar Davivienda and Fundación Mario Santo Domingo
 - Fundación Corona serves as the contract manager with several service providers
- Instiglio advised on the design
- Deloitte Consulting will verify the outcome metrics

Colombia Workforce SIB



Outcome metrics	1) Job placement 2) 3 month job retention 3) 6 month job retention
Evaluation Method	Validated administrative data from the Ministry of Health from health registry of full-time employees required to contribute to mandatory health insurance or pension program. If there is a discrepancy between administrative data and what the intermediary reports, an alternative verification method will be applied, using copies of employment contracts or other official proof of employment.
Payment schedule and amounts	50 percent of outcome payment per capita: job placement (maximum of 514 individuals) 50 percent of outcome payment per capita: 3 month retention (maximum of 514 individuals) 10 percent bonus payment: job retention of 6 months. * It is not possible to achieve >50 percent of payment with only job placement.
2017	Scenario 1: Outcome targets achieved by the end of 2017 are equal or below 1 billion Colombian pesos, the government repays investors. Scenario 2: If the outcome targets meet or exceed 1 billion Colombian pesos, IDB/MIF also starts paying at the end of 2017. The government will only pay for results verified in 2017.
2018	All payments to come from the IDB/MIF using SECO's contribution (up to 1.2 billion Colombian pesos).
Maximum return (nominal)	8 percent

DIBs



- Peru
 - Sustainable coffee and cocoa production
- India
 - Rajasthan girls education

- Launched in 2015 to support 99 farms in indigenous communities in the Peruvian Amazon region to restore their growing plots and improve on yields of coffee and cocoa
- Investor was Schmidt Family Foundation
- Outcome payer was Common Fund for Commodities (up to \$110,000)
- Service deliverer was Rainforest Foundation UK
- The independent verifier, KIT, appraised on the field the results achieved by the project

- Impact indicator 1: Increase sales by >20%
 - 75% achieved
- Impact indicator 2: Increase cocoa productivity to 600 kg/ha or more
 - 15% achieved
- Impact indicator 3: Sell > 35 MT of cocoa
 - Sold 47.4 MT of cocoa
- Impact indicator 4: >40 farmers installing 0.5 ha of improved coffee varieties
 - 62 farmers installed 0.5 ha of improved coffee varieties

Rajasthan DIB

- Launched in 2015 to finance services in 166 schools provided by Educate Girls
 - To improve enrollment, retention, and learning outcomes for girls (and boys)
- Train a team of community volunteers ages 18 to 30 to make door-to-door visits encouraging families to enroll their girls in school and to deliver curriculum enhancement in public school classrooms
- Volunteers were present in over 8,000 villages and 12,500 schools in Rajasthan

- Investor was UBS Optimus Foundation who provided \$238,000 in working capital to fund the service delivery
- The Children's Investment Fund Foundation serves as the outcome funder
 - To pay 43.16 Swiss francs (\$44.37) for each unit of improved learning and 910.14 francs (\$935.64) for every percentage point increase in the enrollment of girls out of school
- ID Insight evaluated the improvement in learning of girls and boys in the treatment schools in comparison to a control group
- Instiglio provided technical assistance to all parties during the design of the DIB

Rajasthan DIB: Year 1 Results



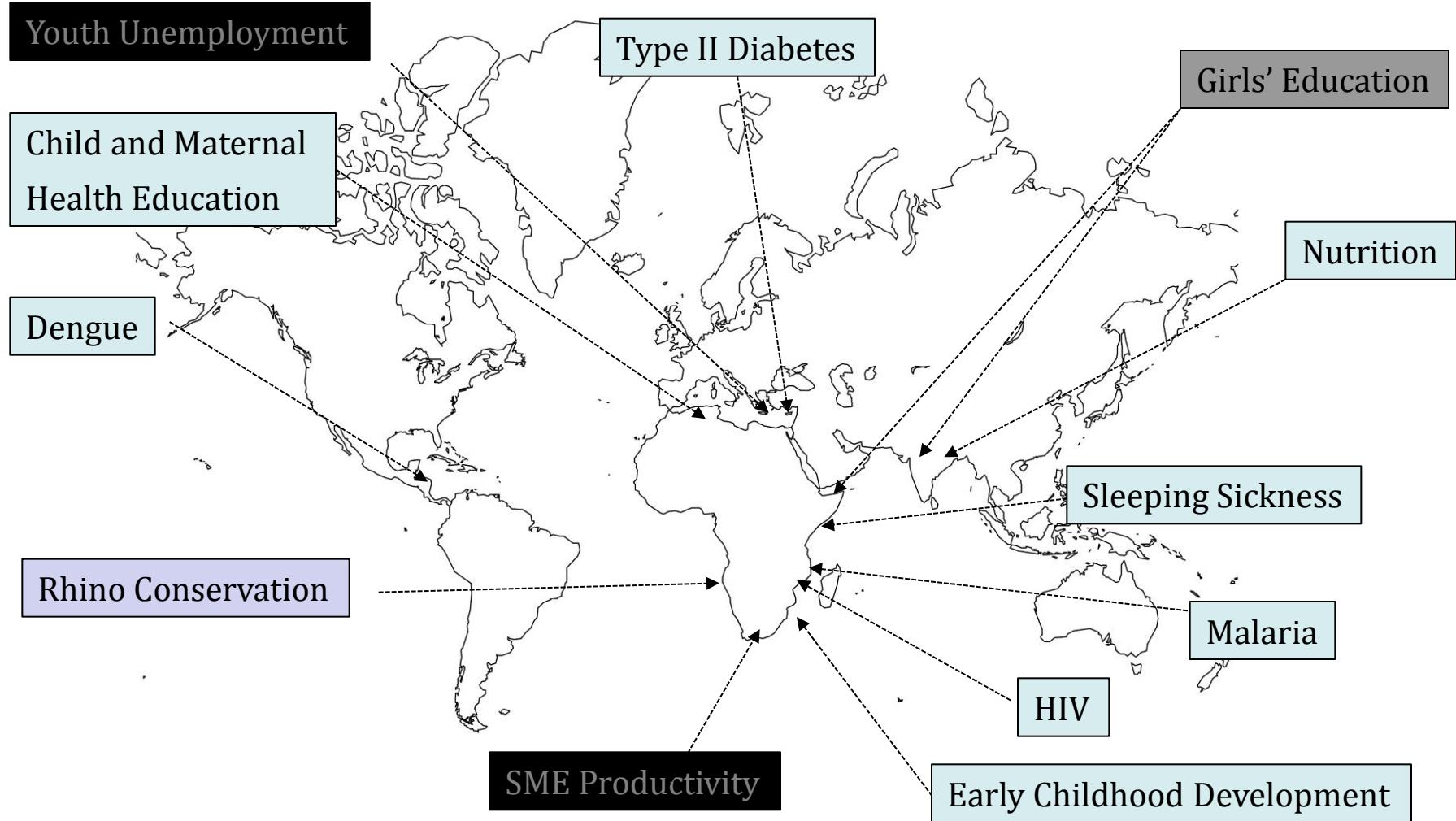
	Metric	Target (equivalent to 10% IRR)	Year-one result	Progress towards target
Enrollment	Girls that were out of school at the baseline that enroll in grades 2-8 at least once over three years	79%	44%	Currently 42% of target (estimated) ¹
	Total out of school girls at baseline			
Learning	Levels of improvement on the ASER test in Hindi, English, and Math ² for boys and girls, in comparison to a control group	5592 levels (average of 0.73 levels across 7,632 students)	1537 levels (resulting from a 23% improvement in learning in comparison to the control across approximately 3,000 students ³)	Currently 27% of target

¹Contingent on how many new out of school girls are identified each year. This estimate is based on the assumption that 108 girls will be identified each year.

²Students can score between 1 and 5 for English and Math and between 1 and 6 for Hindi

³The learning levels also include levels achieved by girls out of school at baseline, who are assumed to be at level 0 at baseline.

DIB Pipeline (2017)





August 23, 2016 2:00 am JST

Japan development agency to issue social impact bonds

TOKYO -- Some 20 billion yen (\$199 million) in social impact bonds will be issued by the government-affiliated Japan International Cooperation Agency as early as September, a move that could give momentum in the country to socially conscious investment.

So-called ESG investing -- a strategy focusing on environmental, social and corporate governance issues -- has taken off in the U.S. and Europe. ESG investment worldwide is said to be in the tens of trillions of dollars.

The International Capital Market Association, an industry group comprising major global financial institutions, set out guidelines for social bonds in June, and the JICA bonds will be the first in Japan to adhere to the rules.

JICA is close to obtaining certification from a third-party think tank that its upcoming offering meets these conditions. The money raised will be used to help fund projects in developing countries, such as ones in Myanmar's Thilawa Special Economic Zone and geothermal power facilities in Kenya.

The yen-denominated offering will consist of two 10 billion yen tranches with maturities of 10 years and 20 to 30 years. Nomura Securities, Daiwa Securities and Mitsubishi UFJ Morgan Stanley Securities will be among the lead managers. The bonds will be sold to insurers and other domestic institutional investors.

Market data

Nikkei 225	16,519.29	+114.28	+0.70%
DJIA	18,212.48	+177.71	+0.99%
Hang Seng	23,335.59	+144.95	+0.63%
USD/JPY	101.82	-0.62	-0.61%
USD/CNY	6.67	±0.00	±0.00%

Data delayed by at least 15 minutes.

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SIB Overview Reports



B | Global Economy
and Development
at BROOKINGS

The Potential and Limitations of Impact Bonds

LESSONS FROM THE FIRST FIVE YEARS OF
EXPERIENCE WORLDWIDE

Emily Gustafsson-Wright
Sophie Gardiner
Vidya Putcha

JULY 2015

bridgeventures.com

Choosing Social Impact Bonds

A Practitioner's Guide



Bridges
Impact™

Bank of America
Merrill Lynch

SOCIAL IMPACT BONDS

The Early Years

July 2016

SOCIAL
FINANCE

Report
by the Comptroller
and Auditor General

Cross-government

Outcome-based payment
schemes: government's
use of payment by results

NAO
National Audit Office

HC 88 SESSION 2015-16 19 JUNE 2015

SIB Market Scoping Reports

A photograph of a man with dark hair and a beard, wearing a maroon t-shirt and an apron, smiling while working on a bicycle seat in a workshop setting.

ABN-AMRO

Social Impact Bonds – October 2015

Opportunities and challenges in the Netherlands

Context and prospects
Can SIBs break through in the Netherlands

Case studies
From youth unemployment to health care – structure, outcomes and lessons learned

Recommendations
Key words: collaboration, creating value, transparency, focus on results

A photograph of an ambulance with its lights on at night. The scene is dimly lit, with the ambulance's red and blue lights being the primary light source.

RESEARCH SERIES

FINANCING FOR DEVELOPMENT

BREAKING THE DEADLOCK

A SOCIAL IMPACT INVESTMENT LENS ON REDUCING COSTS OF ROAD TRAUMA AND UNLOCKING CAPITAL FOR ROAD SAFETY

SOCIAL FINANCE Impact Strategist FIA FOUNDATION

Final Policy Paper: Exploration of Social Impact Bonds for SME Development

April 3, 2014

BRITISH CENTRE FOR SOCIAL INNOVATION | GRADUATE BUSINESS SCHOOL | SOCIAL FINANCE G:GENESIS

SIBs Regional Analysis



11 Social Benefit Bonds, Australia

Review and Refine Policy

Overview

Geography: Australia

Toolkit step: Review and Refine Policy

In Brief: The Australian experience in New South Wales to adapt the United Kingdom's Social Impact Bond (SIB) model demonstrates the need to review and refine the SIB model to include a process from planning, design and implementation to evaluation. SIBs have been highlighted as a new product to fund social enterprise and an alternative approach to the government's provision of social services.

However, for the purposes of demonstrating the Framework component of evaluating social innovation, this does not focus on specific SIB innovations; instead the case seeks to understand what is required to adapt and iterate such a policy, providing several insights for policymakers in other countries, including:

- Strive for simplicity but recognize that often the "devil is in the details"
- Set distinct milestones, continually creating opportunity for review
- Acknowledge the risks associated with being the first

The study concluded that SIBs would be viable in New South Wales, but that developing a "deep and iterative engagement between the host non-profit organizations and NSW Government is a critical step in the development of the pilot SIB".⁴

¹ <http://www.socialtraders.com.au/sites/www.socialtraders.com.au/files/Lee%20Lem%20-%20Social%20Impact%20Bonds.pdf>
² <http://www.americanprogress.org/issues/economy/news/2012/11/05/43834/new-york-city-and-massachusetts-to-launch-the-first-social-impact-bond-program-in-the-united-states/>
³ http://ec.europa.eu/enterprise/newsroom/cf_getdocument.cfm?doc_id=7048_p49
⁴ http://www.portlandtrust.org/sites/default/files/projectdocs/social_finance_israel_1_2_page_nov_12.pdf
⁵ http://www.horizons.gc.ca/doc/2011_0061_Jagdevsingh_e.pdf
⁶ http://www.csu.edu.au/assets/assets/006073/02007/SIBReport_on_the_NSW_Social_Impact_Bond_Pilot.pdf

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SIB Impact Analysis



SOCIAL INVESTMENT INSIGHTS SERIES

June 2014

Social Impact Bonds: Lessons Learned

Social Impact Bonds were first developed in 2010 with the launch of the Peterborough Social Impact Bond. Since then, there have been 16 more Social Impact Bonds commissioned in the UK aimed at improving outcomes in areas such as education, employment or training, adoption, children in care, homelessness and reoffending. As the market continues to develop, and commissioners and investors are becoming increasingly interested in the potential of Social Impact Bonds, this report draws together Big Society Capital's experience as a social investor in these programmes to date.

Author: Daria Kuznetsova & Jenna Palumbo



Qualitative Evaluation of the London Homelessness Social Impact Bond: First Interim Report

September 2014
Department for Communities and Local Government



The payment by results Social Impact Bond pilot at HMP Peterborough: final process evaluation report

Emma Disley, Chris Giacomantonio, Kristy Kruithof and Megan Sim
RAND Europe

Ministry of Justice Analytical Series
2015



Evaluation of the Essex Multi-Systemic Therapy Social Impact Bond

Interim evaluation report
8 November 2014
Version 2

CLASSIFICATION OPEN

SIB Critiques



PAYING FOR SUCCESS?

THE INNOVATION, OUTCOMES AND CHALLENGES OF SOCIAL IMPACT BONDS

Dan Gregory, Common Capital
May 2015



COMMON CAPITAL

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Print ISSN 1759-8273 • Online ISSN 1759-8281 • <http://dx.doi.org/10.1332/204674313X13812372137921>

research

Social impact bonds: a wolf in sheep's clothing?

Neil McHugh, neil.mchugh@gcu.ac.uk,¹
Stephen Sinclair,¹ Michael Roy,¹ Leslie Huckfield,^{1,2} Cam Donaldson¹

This article provides a rounded critique of social impact bonds (SIBs): a newly developed and innovative financial investment model, developed in the UK and starting to spread internationally that could transform the provision of social services. Although SIBs have the potential to influence delivery by all providers, this article raises three concerns about their possible effects – in relation to their potential outcomes, unintended consequences for the UK third sector, and governance – and then reflects on SIBs as the latest manifestation of the ideological shift which the UK third sector is undergoing.

Keywords: social impact bonds • social investment • social services • third sector

Introduction

In the UK, the financial crisis of 2008 has led to policies of reduced public spending associated with deficit and debt reduction (Taylor-Gooby and Stoker, 2011). This has been accompanied by demand for more 'efficient' use of scarce public resources and an acceleration of previous policies regarding outsourcing funding for, and provision of, social services. Third sector organisations have been identified, along with conventional private sector companies, as potential outsourcing routes, on the assumption that they are capable of being more innovative and responsive than their public sector counterparts (Allen, 2009; Millar, 2012).

However, if the provision of social services is to be transformed in this way, it is considered that alternative forms and sources of finance have to be found or created. One such newly developed and innovative financial investment model, social impact bonds (SIBs), will be critiqued here.

SIBs represent a departure from traditional financing routes for third sector organisations and public services delivery. SIBs are a form of Payment by Results (PbR) but extend this by harnessing social investment from capital markets to meet needs arising from budget cuts (Social Investment Task Force, 2010).

The term 'social investment' in this context refers to a monetary investment in a social policy initiative, providing the investor with a financial return while delivering public welfare services (Kingston and Bolton, 2004; Mulgan et al, 2010). The social investment market in the UK was estimated to be worth £190 million in 2010 (Cabinet Office, 2013), although it is gathering momentum and political support, as illustrated by the establishment of a social investment bank in the UK, Big Society Capital (BSC).³ BSC is an independent financial institution funded through an

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Stanford SOCIAL
INNOVATION REVIEW

Up For Debate
The Payoff of Pay-for-Success
By V. Kasturi Rangan & Lisa A. Chase

With Responses From
George Overholser and Tracy Palandjian & Jeff Shumway

Stanford Social Innovation Review
Fall 2015

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SIB Academic Research



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(Volume 8, Issue 2/2014), pp. xxx-xxx
URL: <http://www.reaser.eu>
e-mail: olines@reaser.eu

Challenges for European Welfare Systems A Research Agenda on Social Impact Bonds

Giulio Pasi¹

¹ Institute for Advanced Study of Pavia

Abstract. First, the Social Business Initiative of the European Commission and then the G8 Social Impact Investment Taskforce: these are meaningful indicators of a novelty overlooking the scene of European public policies. While many advocate the numerous benefits that social finance, and especially Social Impact Bonds (SIB), will bring in the welfare systems, it seems useful to point out a considerable and comprehensible confusion. The confusion of the intentions at issue and the difficulties inherent in first trials, require due care in developing a particular research agenda. SIBs are a financial innovation that can bring together seemingly contrary forces that turn out to be uniquely capable of producing new life forms when taking advantage of their interdependences: through a complex partnership between investors, social service providers and public administrations. SIBs develop a contractual structure that provides reimbursement and remuneration of investments by virtue of potential savings related to the social outcomes reached by social service providers. Therefore, at the same time SIB may act as leverage for social service providers, a tool for the sustainability of public services and as a catalyst for social innovation. The implementation of such financial instruments requires a number of important changes to deal with them from the point of view of its economic features and the related legal issues. The model goals this paper aims to pursue are: (i) find the socio-economic rationale of SIBs, (ii) outline an introductory and theoretically acceptable framework for the study of SIBs, (iii) indicate a possible agenda of the crucial and outstanding problems to be addressed. In other words, the aim of this paper is to sketch a possible road map to meet the challenges that Europe is facing, in the belief that an essential contribution will come from socio-economic research.

Keywords: social impact bonds, social finance, impact investing, project financing, public-private partnership, welfare system, social service, public policy.

JEL Codes: G23, G42, K12, K23, L31, L32.

1. Introduction

First, the Social Business Initiative of the European Commission and then the G8 Social Impact Investment Taskforce: these are meaningful indicators of a novelty overlooking the scene of European public policies. While many advocate the numerous benefits that social finance, and especially Social Impact Bond (SIB), will bring in the welfare systems, it seems useful to point out a considerable and comprehensible confusion. On a general level we can identify at least two reasons that characterize the current state-of-the-art.

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Vol. **, No. **, ** 2016, pp. **-**

Narratives of Promise, Narratives of Caution: A Review of the Literature on Social Impact Bonds

Alec Fraser, Stefanie Tan, Mylene Lagarde and Nicholas Mays

Policy Innovation Research Unit, Department of Health Services Research & Policy,
London School of Hygiene & Tropical Medicine, London, UK

Abstract

Social Impact Bonds (SIBs) are a new mechanism for delivering public services. This article revisits the emerging SIB literature in high-income settings. It identifies three distinct narratives: a public sector reform narrative; a financial sector reform narrative; and a cautionary narrative. These are analyzed relative to three themes: public versus private values; outcomes contracting; and risk allocation. The first two narratives are complementary and offer a 'win-win' portrayal of SIBs. The third narrative challenges this dominant commentary by highlighting potential risks. There is limited empirical evidence on active SIBs to support these narratives. SIBs may have the potential to align public and private interests while improving outcomes for people affected by entrenched social problems, but this is yet to be established and appears less probable than the third more cautionary narrative. More empirical research is needed to consider the potential risks, drawbacks, benefits and alternatives of SIBs in different settings.

Keywords

Social Impact Bonds; Public sector reform; Outcomes-based performance management; Social entrepreneurship

Introduction

Social Impact Bonds (SIBs) are a new mechanism for the delivery of public services. SIBs usually involve four different parties: commissioners – normally central or local government bodies responsible for ensuring relevant services are made available to target populations; service providers who will deliver the services commissioned; external investors who cover (all or some of) the upfront costs of service provision, in exchange for a commitment by commissioners to re-pay their initial investment plus a return if pre-defined target outcomes are

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Accounting, Organizations and Society 35 (2010) 63–82

Contents lists available at ScienceDirect

Accounting, Organizations and Society

Journal homepage: www.elsevier.com/locate/aos



Social impact bonds: The securitization of the homeless

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ABSTRACT

This paper examines the recent phenomenon of social impact bonds (SIBs). Social impact bonds are an attempt to marketize/financialize certain contemporary, intractable "social problems", such as homelessness and criminal recidivism. SIBs rely on a vast array of accounting techniques including budgets, leases and financial derivatives to monetize these problems and make them amenable to the potentially powerful and problematic art of "disseminating" to enact government policy. This paper contains a case study of the most recent in a series of SIBs, the London Homelessness SIB, focusing on St Mungo's, a London-based charitable foundation that was one of two service providers (charities) funded by the SIB. The case study is intended to enable a critical reflection on the rationalities that underpin the SIB. For this purpose, the paper begins by defining the concept of SIBs and then moves on to examine the SIBs thoroughly. It is found that in fact constructed upon an assumption that there is no such thing as a social problem, only individuals who fall. The SIB transforms all participants in the bond, except perhaps the homeless themselves, into entrepreneurs. The homeless are listed "failed entrepreneurs" who become securitized into the potential future cash flows of investors.

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1. Introduction

They are casting their problems at society. And you know, there's no such thing as society. There are individual men and women and then there are families. And no government can do anything except through people, and people must look after themselves first. It is our duty to look after ourselves and then, also, to look after our neighbours.

— Margaret Thatcher, 23 September 1987, in an interview for Woman's Own

This paper examines the technologies and rationales of social impact bonds (SIBs), which could be regarded as the next step in the marketization of public service delivery. SIBs have burst onto the public financing scene with astonishing rapidity and near simultaneously in governments around the world. They have been initiated in the United Kingdom (UK Cabinet Office, 2012), Australia (New Government, 2012) and the United States (Government of Massachusetts, 2012), and are being explored in Canada (Government of Canada, 2012), New Zealand (Government of New Zealand, 2012), and elsewhere (Social Finance, 2012). Social impact bonds are intended to make government funding of social services contingent on the achievement of contractual performance measures that are attached to named individuals. For instance, a service for reintegrating ex-prisoners into society might be paid based on specific reductions in individual offenders' likelihood of reoffending. The funds provide the capital financing for the social services deemed necessary to "correct" the failed individual in the hope of lucrative returns, and so hopefully bear the risk of non-performance. Proponents of SIBs claim they promote innovation in social services and bring market forces to bear on service providers previously funded by traditional government grants (Deloitte, 2012; Social Finance, 2009; UK Cabinet Office, 2012).

Our focus is the London Homelessness SIB, sponsored by the Greater London Authority (GLA).¹ This SIB is the most recent in a series promoted by the UK government. It was constructed under

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E-mail address: cgraham@schulich.yorku.ca (C. Graham).

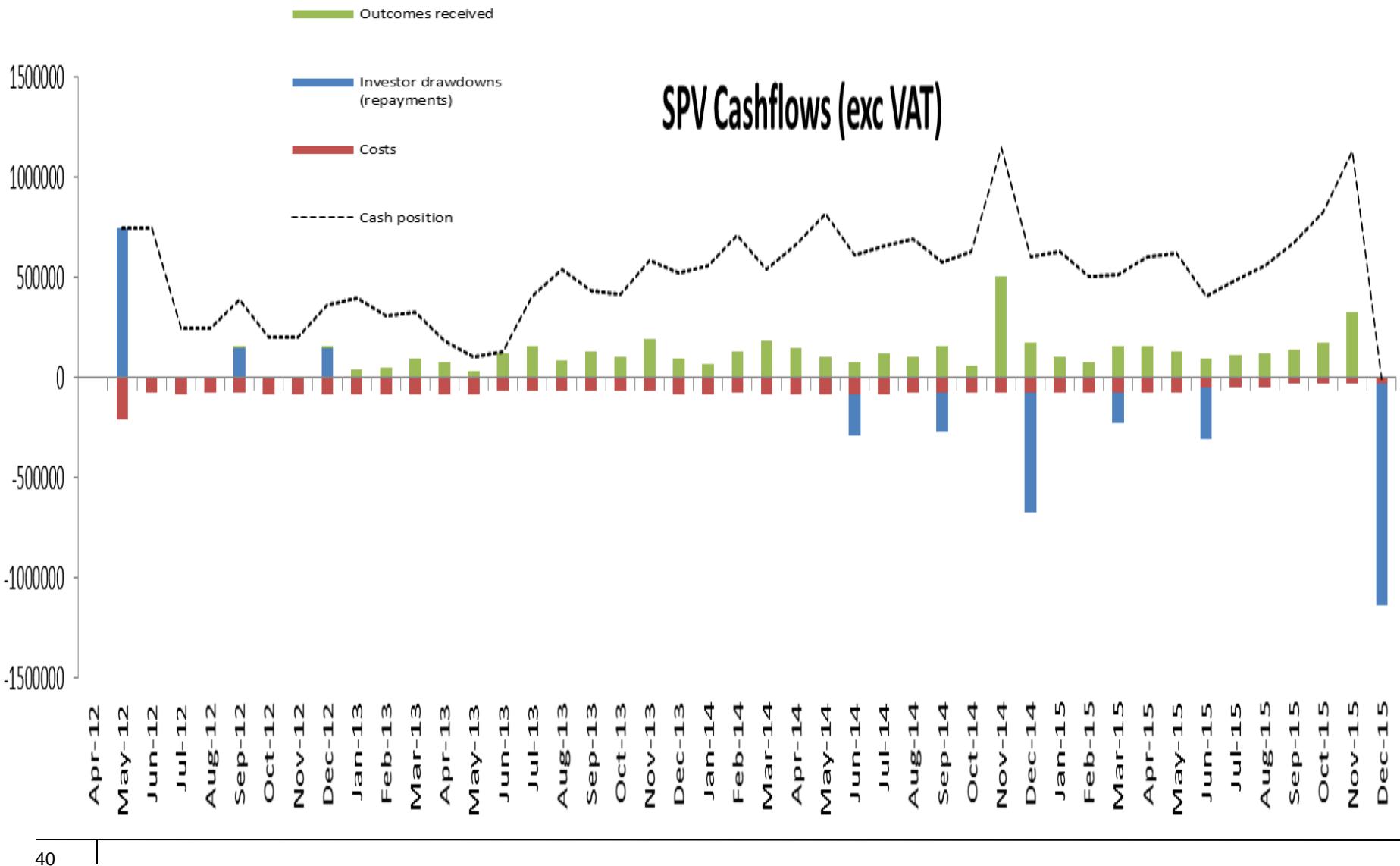
Four 'Myths'

- SIBs deliver superior social outcomes
- SIBs save public money
- SIBs allow social investors to make money
- SIBs establish social impact measurement best practice

Superior Social Outcomes?

- Peterborough Pilot SIB
- 7th August 2014 overall reduction for cohort 1 announced:
 - - 8.4% (142 reconvictions per 100 prisoners at HMP Peterborough v 155 reconvictions per 100 prisoners in the control group)
 - <10% threshold required for investors to receive payment for cohort 1
 - **But** positive contribution towards the *average* figure of 7.5% across whole SIB required for final payment

DWP Youth Unemployment



Career Connect



Winner

"It feels an entirely different programme to previous programmes. We focus on how many recruits are needed and the percentage conversion rate to outcomes, but in greater detail and depth and with a higher-quality evidence base. We now have a scaled, more impactful programme, with tools to forward forecast."

Joe Linnane, Programme Manager



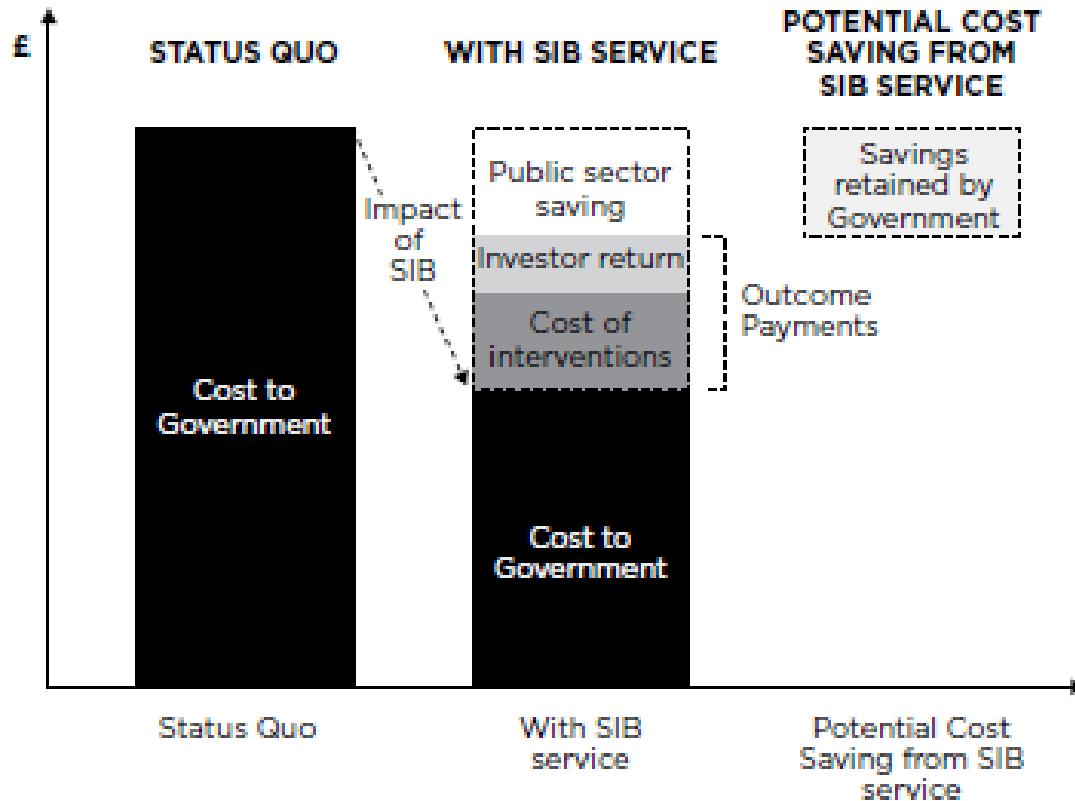
Superior Social Outcomes?

- Essex MST SIB
 - Exceeding pre-defined targets and national average
 - Difficulty in comparison and attribution
- Merseyside New Horizons
 - Achieved at least 4,700 positive outcomes for service users
 - Exceeding educational attainment target
 - Only absence of service against which to compare SIB
- The London Homelessness SIB
 - Exceeded in securing stable accommodation and full-time employment
 - Under-performed in: reducing rough sleeping (against baseline); reconnection; qualifications; volunteering and part-time work

Superior Social Outcomes?

- Economic underpinnings of SIBs *require* social outcomes achieved to be better or greater than those secured through existing service interventions
 - Service delivery innovation
- Often aimed at failing or non-existent service provision
 - Capacity to produce *improved* social outcomes remains largely speculative (Ronicle et al., 2014)
- Rigour of evidence?

Saving Public Money



Social Finance (2013)

Save Public Money?

- Fundamental assumption under austerity
 - Is it really just postponing costs?
 - NPV may *still* mean a saving
- Realizing savings is difficult
 - Social Outcomes Fund
- Some SIBs *increase* costs
 - GLA homelessness SIB
- Very high transaction costs
 - Who pays?

Making Money For Investors?



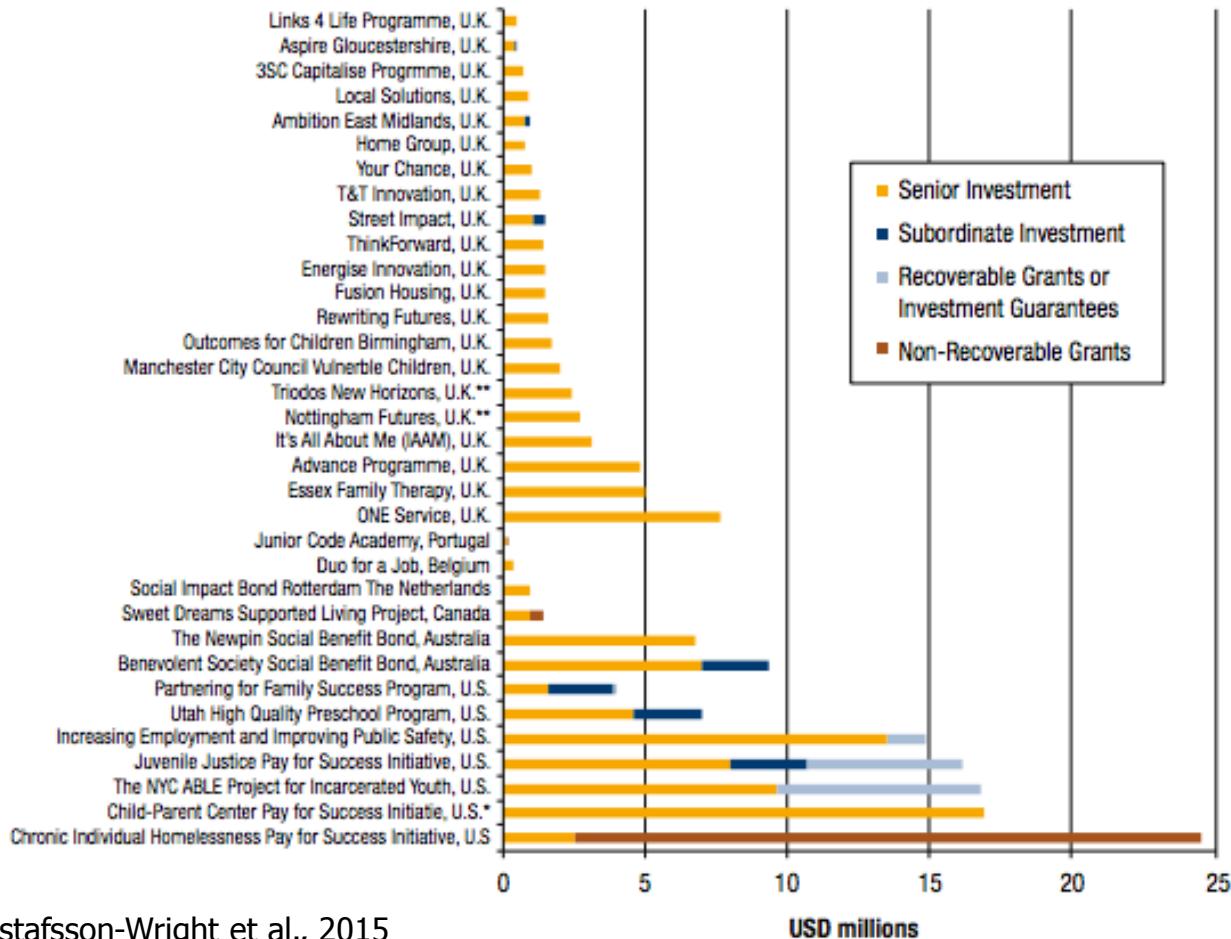
- Some evidence of real returns
- Timings of draw-down and payback critical
- Risk and return models vary
- Losses too

Example Investors

	Essex: Children on the Edge of Care	Merseyside: New Horizons	London: Rough Sleepers	
			Street Impact	Thames Reach Ace
Target Population	380 young people (11-16) on the edge of care or custody	3,900 disadvantaged young people (14-19) who are, or are at risk of becoming, not in education, employment or training (NEET)	831 individuals that have been observed "bedded down" at least six times in the past two years. Identified through Combined Homeless and Information Network (CHAIN) database.	
Intervention	2 Multi Systemic Therapy (MST) Teams	Interventions include group sessions, 1-2-1 coaching, 'mental toughness' training, signposting to provision, access to ring-fenced job interviews and links to employers. Carried out on partner premises and in schools.	Tailored interventions based on circumstances of individual. Longer-term interaction and support to assist beneficiaries into stable accommodation, thereby improving health, training and employment outcomes.	
Public Sector Commissioner	Essex County Council	Department for Work and Pensions (via Innovation Fund)	Greater London Authority (and funded by Department for Communities and Local Government)	
Service Provider	Action for Children	Greater Merseyside Connexions Partnership	St Mungo's Broadway	Thames Reach
SIB Intermediary	Social Finance Ltd	Triodos Bank UK	Triodos Bank UK	N/A
Special Purpose Vehicle	Children's Support Services Ltd	Triodos New Horizons Ltd	Street Impact Ltd	N/A
Investors and/or Funders	Bridges Ventures Social Entrepreneurs Fund (27%), Big Society Capital (27%), Barrow Cadbury Trust, Tudor Trust, Esmee Fairbairn Foundation, King Baudouin Foundation, Charities Aid Foundation, Social Venture Fund (8%), David Burnett	Bridges Ventures, Big Society Capital, Esmee Fairbairn Foundation, Charities Aid Foundation, Knowsley Housing Trust, Helena Partnerships, Liverpool Mutual Homes, Wirral Partnership Homes	CAF Venturesome, the Orp Foundation, St. Mungo's Broadway and other individuals	Big Issue Invest, Department of Health Social Enterprise Fund, Thames Reach and other individuals
Contract	5 year service delivery period and a 3 year period for tracking of final outcomes	3 year service delivery contract	3 year service delivery period and a further year for tracking of final outcomes	
Social investment	Initial investment of £3.1 million, growing to a potential £5.9 million	Initial investment of £1.5 million, growing up to £4.5 million	Initial investment of £887,000, growing up to £2.4 million	Unknown but growing up to £2.4 million
Payment Metric(s)	Total days adolescents from a treated cohort spend in residential care, measured over 30-day time periods.	Re-engagement with education, achieving educational qualifications, starting and sustaining employment and/or training.	Transition into accommodation, initial and sustained reconnection (repatriation), training and education outcomes, starting and sustaining employment, reduced use of accident and emergency services.	

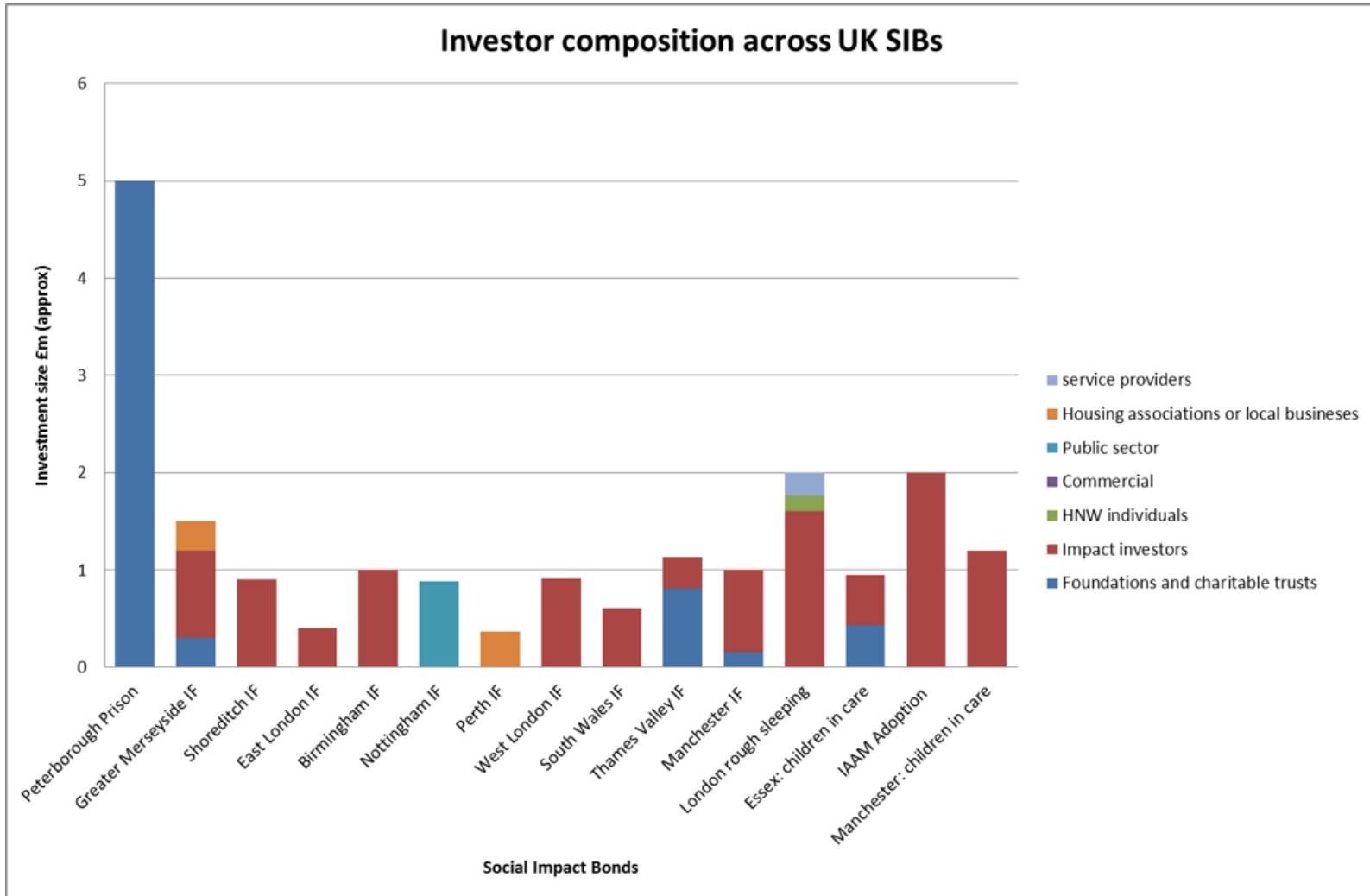
Investment Types

Figure 7. Upfront Capital Commitment in SIBs



Source: Gustafsson-Wright et al., 2015

Who Are The Investors?



Who Are The Investors?



UK IF:
Teens and
Toddlers



Charities Aid
Foundation

US:
Utah High
Quality
Preschool
Program



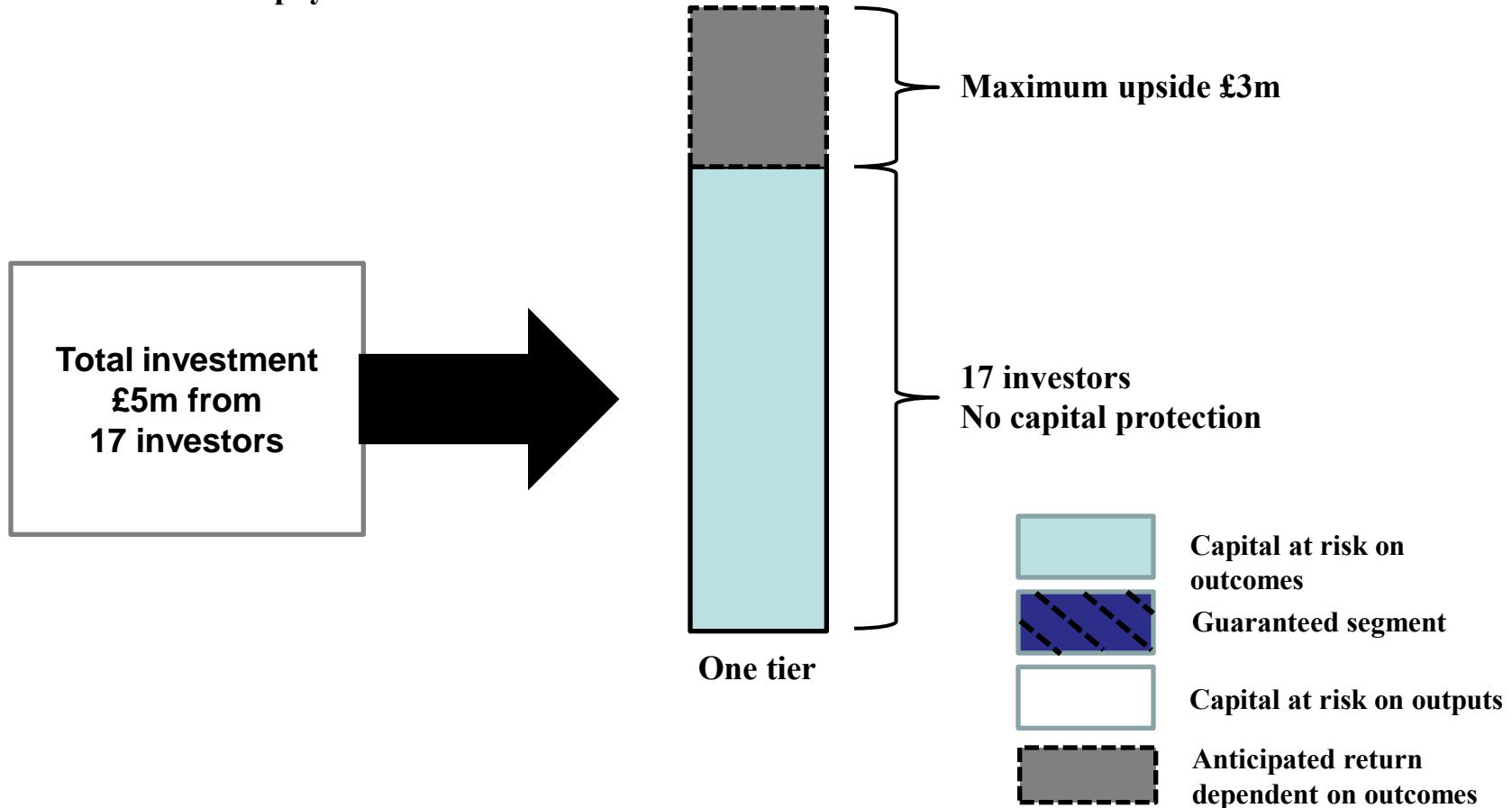
J.B. PRITZKER

Risk: Peterborough

Return of capital dependent upon outcomes

100% capital at risk – £5m

Max. outcome payment – £8m



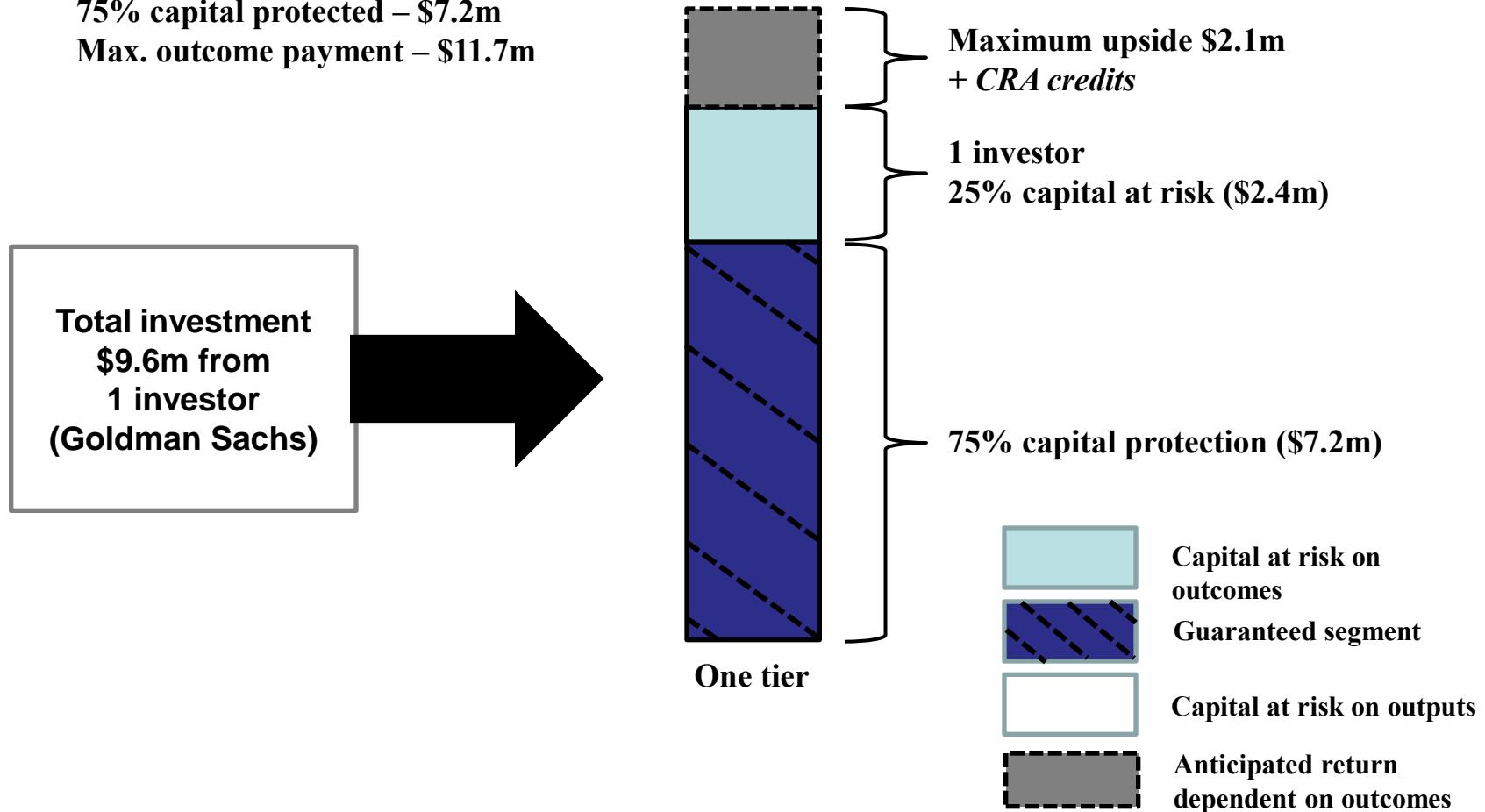
Risk: Rikers Island

Part capital guarantee

25% capital at risk – \$2.4m

75% capital protected – \$7.2m

Max. outcome payment – \$11.7m

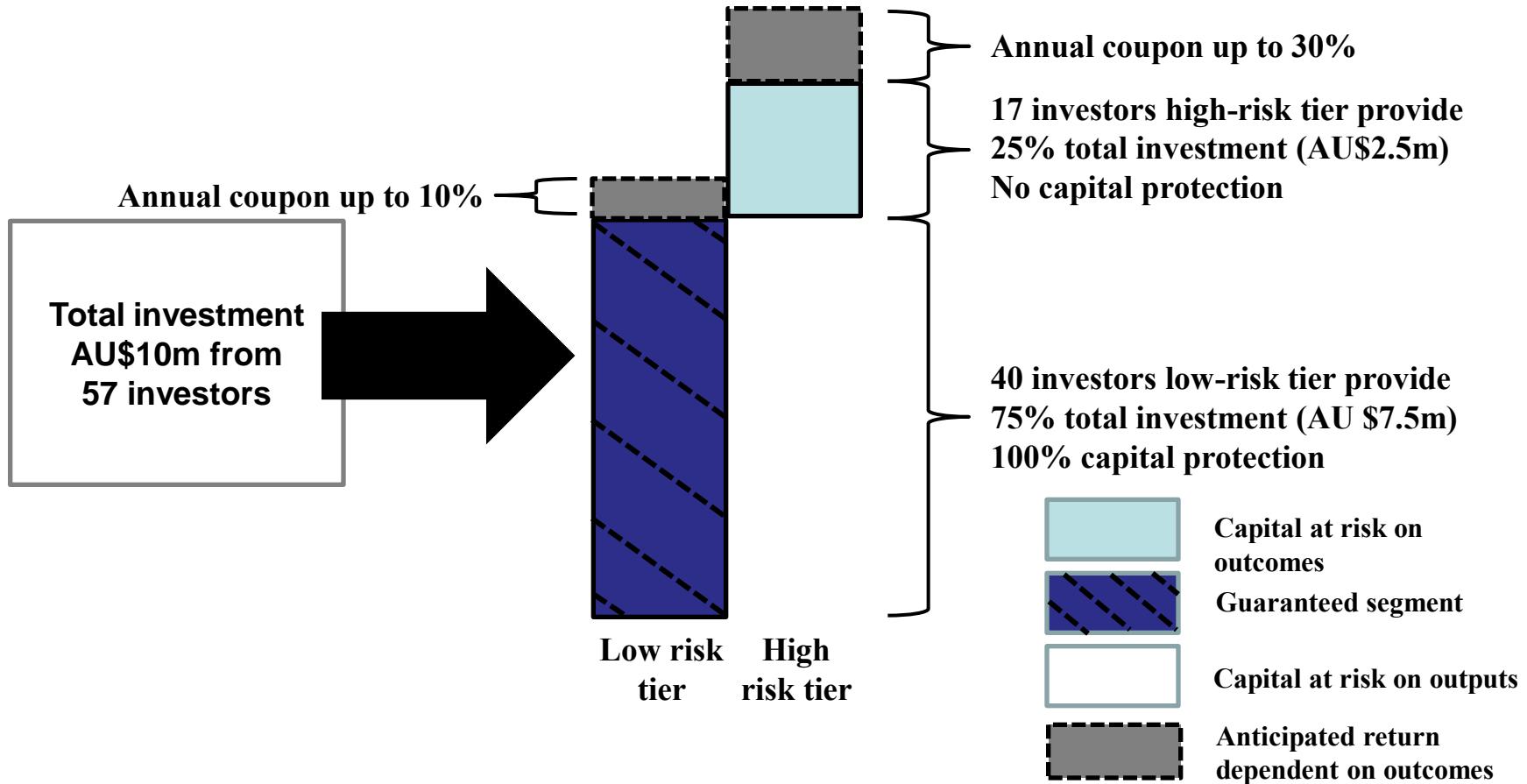


Risk: NSW

Two Tiers of investors, different level of capital protection

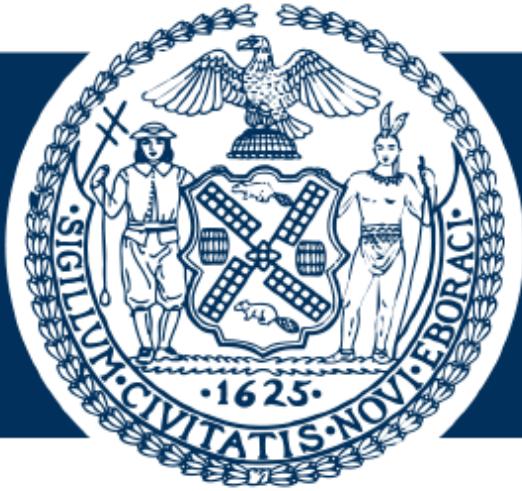
High-risk tier 100% capital at risk – AU\$2.5m

Lower-risk tier 100% capital protected – AU\$7.5m





Essex County Council



Bringing Social Impact Bonds to New York City

The City of New York

Michael R. Bloomberg
Mayor

Guardian sustainable business

Social enterprise
blog

Social impact bonds: is the dream over?

As the government announces its first Sib is to have its funding model reconfigured, we ask five experts what the future holds

- Sponsored: social investment - how can you get involved?
- We weren't achieving potential before social impact bond, says charity
- British social impact investing has left the US playing catch-up

Claudia Cahalane

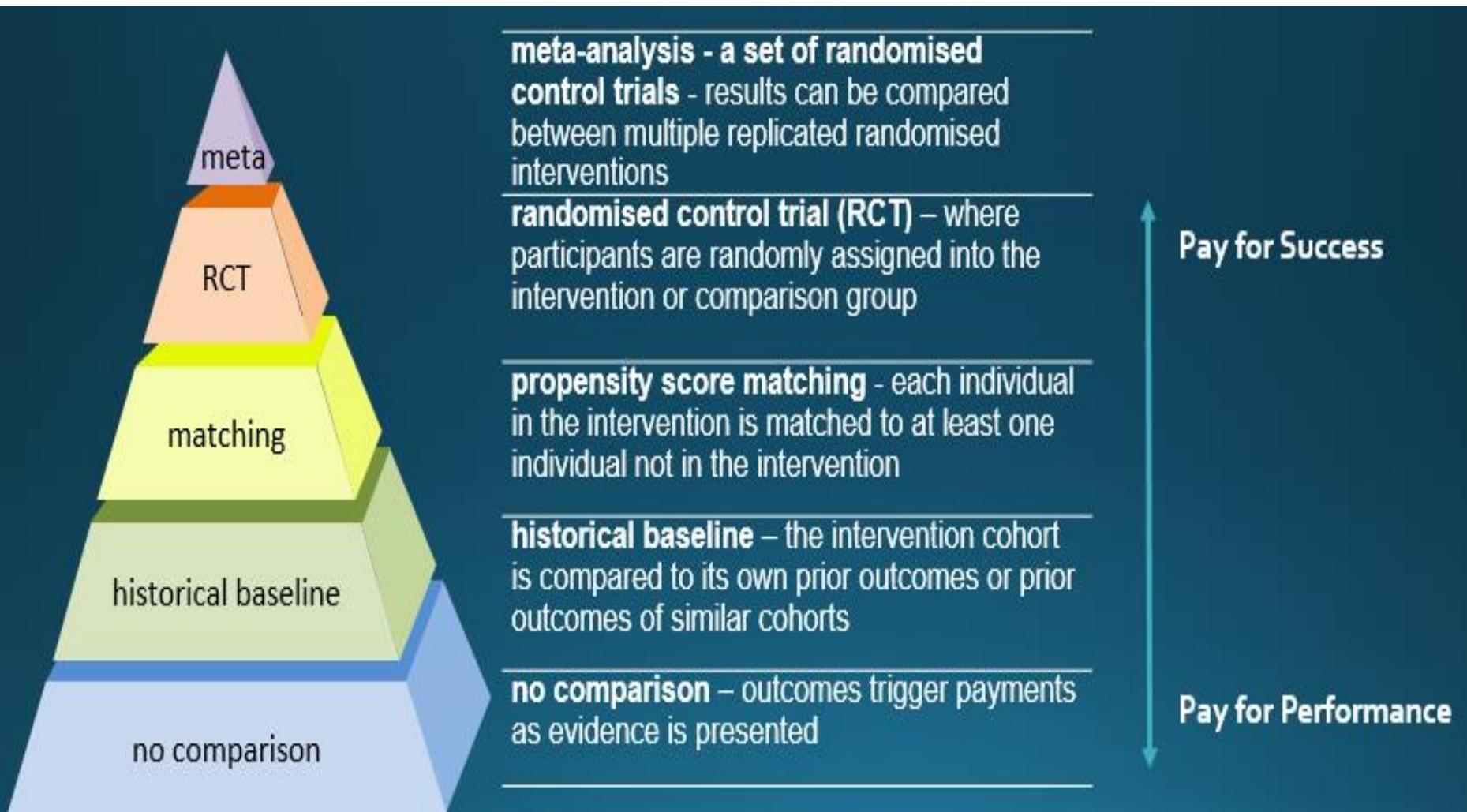
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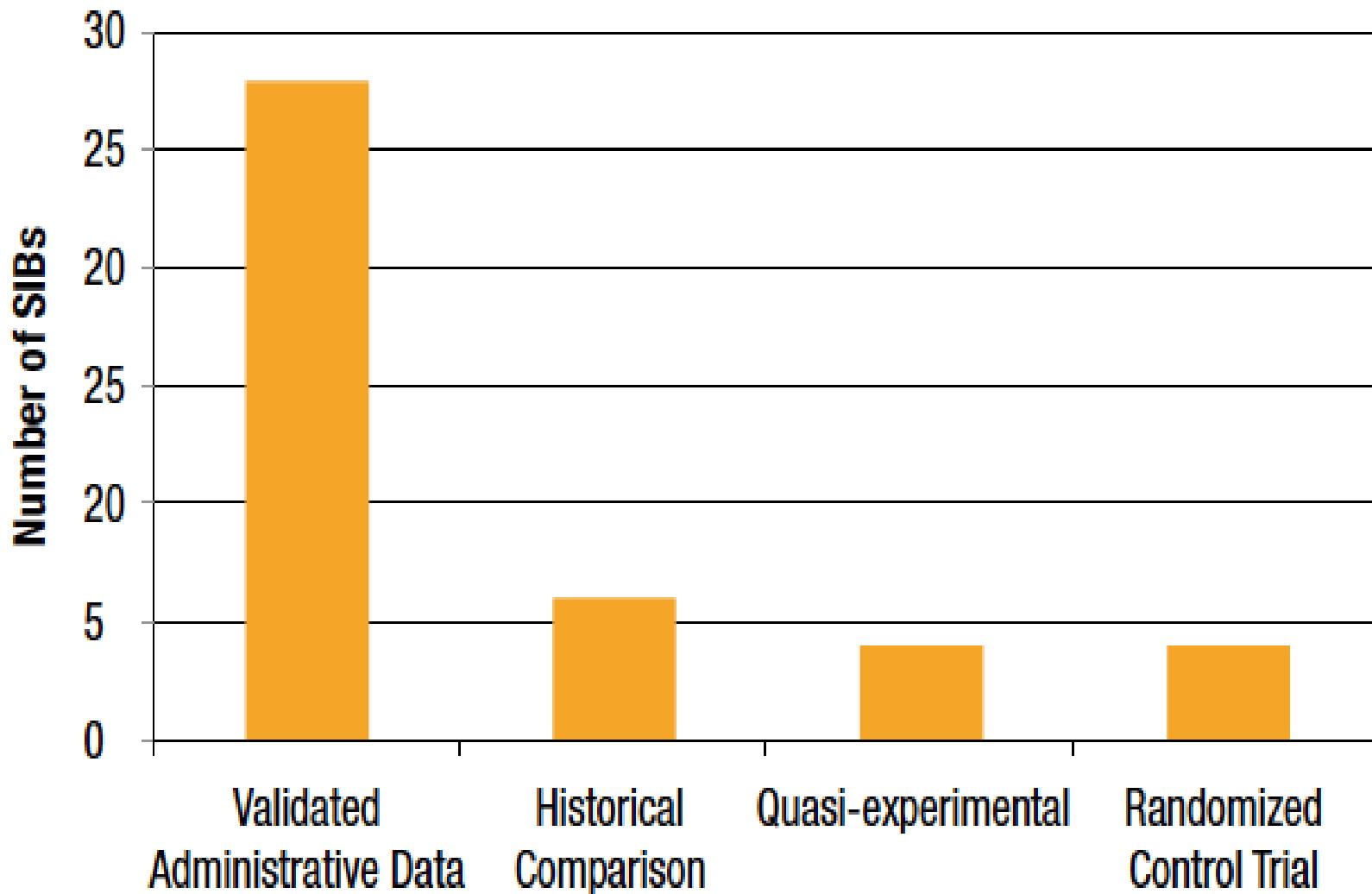
Best Social Impact Metrics?



Peterborough Pilot RCT

- The number of reconviction events compared to similar control group of short-sentenced male prisoners from across the UK drawn from the Police National Computer database
- 10:1 control group established to measure deadweight effects

Figure 10. Evaluation Methods Used in SIBs



Source: Authors' research.

Note: The evaluation method for the NYC ABLE Project for Incarcerated Youth SIB and Child-Parent Center Pay for Success Initiative are not publicly available.

Best Social Impact Metrics?



- Metrics vary
- Rigour varies
- Qualitative analysis is stronger than quantitative to date
- Emergent metrics and data sets may have value as externalities of SIBs

Four SIB 'Realities' (+ Caveats)

- Additional private funding for welfare programmes
 - Transfer from public to private funding?
- Exploit Net Present *Social*/Value
 - Focus resources towards prevention/early interventions
- Co-operation across sectors
 - Align interests of beneficiaries, service providers, statutory bodies and private capital
- Help build social finance market
 - But too small a market currently

Four Persistent SIB Critiques

- Allocate risk and return unfairly
- Do not provide exit models for service providers
- Undermine the role of the state
 - Privatizing social outcomes
- Profiteer on the backs of the most vulnerable
 - DIBs and a new colonialism?

NAO Report 2015

16 While supporters argue that by its nature PbR offers value for money, PbR contracts are hard to get right, which makes them risky and costly for commissioners. If PbR can deliver the benefits its supporters claim – such as innovative solutions to intractable problems – then the increased cost and risk may be justified, but this requires credible evidence. Without such evidence, commissioners may be using PbR in circumstances to which it is ill-suited, with a consequent negative impact on value for money.



Home

Social impact bonds (SIBs) are a new tool that can enable organisations to deliver outcomes contracts. They do this by giving them access to tailored project finance, along with additional management support from socially-minded investors.

There are now 32 Social Impact Bonds across the UK, supporting tens of thousands of beneficiaries in areas like youth unemployment, mental health and homelessness. Find out how more about how SIBs work [here](#).

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Blavatnik School of Government

A new programme, jointly funded by the UK Cabinet Office, researching innovative public sector commissioning to achieve better social outcomes.

News



Government Outcomes Lab Official Launch
Monday, July 04 2016



Panel on 'Unleashing Social Impact' at COGC 2016
Friday, May 20 2016



BSG enters prestigious partnership with the UK Cabinet Office
Wednesday, March 23

All News

12 The Peterborough Pilot Social Impact Bond

Alex Nicholls and Emma Tomkinson

Introduction

Social Impact Bonds (SIBs) have become one of the most talked-about elements within the social finance market. Today there are multiple examples of SIBs under development across the globe and they have been highlighted in high-level policy briefings and in the work of the (G8) Social Impact Investing Taskforce. In 2014, the UK government announced that 'approved' SIBs would attract Social Investment Tax Relief. This chapter presents an in-depth case study of the world's first SIB in order to highlight the opportunities and challenges of the model.¹

This case study² will examine the emergence, development, and global variations of a new financing mechanism for welfare services, the SIB. The case will define SIBs in their historical context and will explore the first pilot SIB in Peterborough in the UK in detail. In addition, it will consider innovations introduced by other examples from the UK, Australia, and the USA. Conclusions will set out the key innovations and contributions of the SIB form and will also consider obstacles and considerations in terms of the future expansion and development of this novel contractual model. Specifically, this case aims to enhance the reader's knowledge about:

- How an environment of government reform encourages the development of new contracting models.
- How social purpose organizations and social enterprises that deliver welfare services are involved in new relationships with government.
- How innovative social finance investment opportunities grow the social finance market.

¹ The case was intended to be used as the basis for class discussion rather than to illustrate the optimum contracting or financing model. Information in this case was collected from a site visit, interviews, presentations, and public sources. This case study was developed with support from the Saïd Business School Partnership. The purpose of the partnership is to inspire future leaders to make a positive difference to society. <http://www.saidbusinessschool.org.uk/case-studies>.

² This case was made possible through the generous cooperation of Social Finance Ltd. The authors also gratefully acknowledge the valuable comments contributed by Dan Gregory.

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