

## **Dr Chih Hoong Sin's Commentary on Professor Alex Nicholls' Keynote Speech at the Yokohama City Social Impact Forum, 22 April 2017**

### Introduction

I am absolutely delighted to be here in the wonderful city of Yokohama. The fact that the first free port in Japan was based here does not escape me. This openness to new ideas from around the world, and new ways of working, obviously persists in modern day Yokohama City, and this is to be applauded.

I am also really flattered to have been asked to provide a Commentary on Professor Nicholls' keynote speech, which I have found to be wonderfully wide-ranging. I find myself wanting to engage in all the different issues he has raised, but since I have been given only 10 minutes to say what I need to say, I will focus on 3 particular areas instead. They are:

1. The proliferation of SIBs worldwide and the implications for Japan.
2. Encouraging everyone to really explore the full creative potential of the idea represented by Social Impact Bonds (SIBs).
3. Constantly challenging ourselves to be clear about whose outcomes we're talking about.

### The proliferation of SIBs and the implications for Japan

Professor Nicholls has given an excellent overview of how the idea of SIB came about, how it developed in the UK, and how it has travelled internationally. We can understand why the idea of SIBs is attractive to governments.

Here in Japan, there is obviously interest in SIBs. Japan is one of the countries involved in the OECD's Social Impact Investment Taskforce. Professor Tsukamoto from Meiji University has been working with esteemed colleagues from a number of other universities on a five-year project funded by the Japanese Ministry for Education, Culture, Sports, Science and Technology (MEXT), while other Government departments in Japan have also expressed interest in developing SIBs. These include the Ministry of Economy, Trade and Industry (METI), the Ministry of Health, Labour and Welfare (MHLW), and the Cabinet Office.

This interest at the strategic level is welcomed. However, we know that high level commitment and interest does not necessarily translate into progress in reality. Indeed we can often be frustrated that the pace of progress does not match our aspiration.

I would make an observation that as SIBs travelled outside of the UK, each country has had to do considerable work to 'translate' the model so that it is workable within their specific national, regional and local contexts. This is response to the fact that the nature and composition of their social sectors may be different; the relationship between central and local governments can be different; the types of social investors may also be different, etc.

Here in Japan, I understand that you have found the experience of developing SIB pilots to be challenging. I have also heard some of you question whether they can be called 'real' SIB pilots. What I conclude is that you have been experiencing the process of 'translation' that I just talked about. You have been trying to find a way of making SIBs work in your specific political, economic, social and cultural context. The 'pains' you are and have been experiencing are therefore entirely to be expected.

At the same time, it is important not to forget that Yokohama City and its partners have demonstrated great leadership and vision in exploring a different way of delivery public services.

This shifts the focus onto what is important: the outcomes that matter to the people we serve. As we know, being a leader in innovation means that you will experience difficulties and challenges. Realistically, you need to expect these. However, even when things are tough, do not lose sight of the fact that you are doing something exciting and important. What is important is that you all learn from the experience.

During this act of translation, I would like to point out that governments can and should play a key role. Governments need to understand that it is not sufficient just to show high-level interest. Instead, it should consider taking a number of actions to really facilitate and stimulate growth in this area. Governments have a very important role to play, especially when we are talking about a form of innovation that is about public value, that is about social value, that is about trying to improve outcomes for some of the most vulnerable people in society, and is about trying to tackle some of the most entrenched social problems.

In the field of SIBs, we are familiar with governments as 'outcome payers', and they do that through a variety of approaches. Professor Nicholls has described some of these in the UK.

Governments can also set up infrastructure to support SIB development and also social investment more widely. I understand that Japan has recently passed the Dormant Bank Account Act. A portion of dormant bank accounts money will be transferred to a foundation independent from government who will act as a wholesaler model to create an ecosystem of Social Investment Intermediary Institutions who will invest into social sector organisations. This has been inspired by the model in the UK where we have set up Big Society Capital (BSC) to perform this role. Other countries have also been inspired by the BSC model including, Portugal, Israel and Italy.

However, these per se, may not be sufficient. Whether SIBs can take root and flourish depend on more than just the availability of money (both to pay for outcomes and to invest). I hear from social investors in the UK all the time that there is no shortage of money to invest. The blockage is in terms service providers lacking capacity or commissioners not coming forward. Contracting for outcomes is not easy! Defining, measuring and pricing outcomes is challenging. I understand that outcome metrics and measurement issues have been challenging here in Japan.

In the UK, the government has set up other infrastructure such as the Government Outcomes Lab, based at the Blavatnik School of Government, University of Oxford, to help commissioners with outcomes contracting. The Government has also investment significantly into developing a large (and growing) database that is freely available, helping to put financial values onto more than 600 different outcomes.

Over and above evidence and infrastructure, a range of legislation has been introduced in the UK that play a supportive or facilitative role. For example, the Social Investment Tax Relief (SITR) is intended to attract individual investors, as opposed to institutional investors. We also have the Public Services (Social Value) Act that makes it a statutory duty for public bodies in England and Wales to consider how they may improve local economic, social, and environmental outcomes when commissioning.

It may be timely to have a debate about the types of supportive mechanisms that should be put in place here in Japan, and also to clarify who might be best placed to do what in order for SIBs to flourish here.

Pushing at the creative potential of SIBs

I know that SIBs can be quite complicated. I have put up a diagram taken from the Bank of America Merrill Lynch and Bridges Ventures (now Bridges Fund Management) report: *Choosing a Social Impact Bond*. I like it because it is simple, and it reminds us that at its very heart, a SIB only needs the following components: (1) someone willing to pay for outcomes; (2) someone willing to invest; and (3) someone willing and able to deliver an intervention that is likely to generate desired outcomes.

Put these three together, and we have the logic that:

- We do not pay for failure.
- By linking financial return directly to social impact, the model incentivises everyone to work together and 'pull in the same direction'.
- It gives social sector organisations greater opportunities for participating in outcomes contracting when they may not have been willing or able to do so in the past because of the risks involved.
- We introduce a new group of players (i.e. the social investors), who have the money, who are socially minded, and who have higher risk appetites.

We can therefore see why SIBs are so attractive to so many governments across the world.

However, that was the intention and aspiration. In reality, I would argue that the versions of SIBs we currently have do not always live up to the full creative potential of the initial idea. Why do I say this? There are at least four reasons.

#### *Outcome payer*

In the UK, we have become a bit lazy with terminology. We have swapped the word 'commissioner' for 'outcome payer'. However, there is a risk that this prevents us from thinking more creatively about who an 'outcome payer' may be. If we do this, then we have to be honest with ourselves about whether SIBs really draw in new and/or different sources of money. After all, if 'outcome payers' are only ever going to be public service commissioners, then the funds to pay investors still ultimately come from direct taxation.

#### *Transaction costs*

In the SIB field, we constantly hear about how SIBs have 'high transaction costs'. My challenge to the market is that we should not simply accept current 'high' transaction costs. Instead, let us use our creative energies to try to 'design these out'. Evidence tells us that this is possible. For example, we know that commercial interests of intermediaries can sometimes lead to models of SIBs that are disproportionately expensive. We also know that in trying to minimise risks to themselves, parties may draw up unnecessarily complex contracts that lead to higher ongoing costs of management. We have found this out in our evaluation of the Essex SIB, for example, and have also demonstrated how these can be designed out with time.

#### *Risks*

The SIB model is supposed to involve a group of new players, called 'social investors', who are socially minded and have a higher risk appetite. However, over half of SIBs in the USA have over half of their values guaranteed by philanthropic organisations. There are also examples of SIBs where social investors transfer risk onto service providers where part of the capital provided to providers takes the form of debt rather than revenue. We must therefore be clear about who bears what risks,

and also question whether the current ways of working are necessarily attracting the 'right' types of players into the market.

### *Savings*

While SIBs are about 'social outcomes', these have a tendency to be expressed in terms of savings. I think this is unnecessarily limiting. Instead we should draw attention to the issue of 'outcomes for whom?', and to think about outcomes more broadly.

There are different ways for thinking about outcomes. We can have outcomes for individuals, and these may relate to individual well-being. There are also outcomes for groups, and these may relate to social well-being, reducing inequalities, etc. There are then outcomes for the system, and these may relate to policy priorities, economic benefits, financial savings.

It is important to note that better outcomes for individuals may not always lead to savings for the system, at least in the short to medium term. For example, we may be working with a group of people who are socially isolated and a range of unmet needs. Improving their wellbeing can mean putting them in touch with relevant services. This may therefore increase system costs in the short term, but it is still the right thing to do.

If SIBs are only ever about financial savings, then the types of outcomes we talk about are mainly system-level outcomes. However, I would argue that it is important to ask the people we are trying to serve what success looks and feels like to them. If we never do this, then what messages are we conveying about the purpose of SIBs? Whose interest do they serve?

Thankfully, there are already examples of SIBs that are not just about financial savings. For instance, the Lisbon SIB has an outcome around improved logical thinking. This does not have any direct link to financial savings, but is still valued. There are also other SIBs that include metrics on system outcomes as well as individual outcomes. The Newcastle Ways to Wellness SIB is one such example. I have also been supporting the Northern, Eastern and Western Devon Clinical Commissioning Group in developing a SIB to tackle alcohol dependency, and this has a combination of system and individual-level outcomes.

### Conclusion

To conclude, I would really urge everyone to keep pushing SIBs to fulfil its creative potential. We have only just scratched the surface of what SIBs can do. We should treat it as a creative idea to be moulded to help us achieve better social outcomes. In the process of doing so, we must not lose sight of what meaningful social outcomes look like. SIBs should not simply be a technical exercise. It must be made to work for securing better outcomes for the people we serve.

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