OECD LEED expert seminar in cooperation with the netFWD

Social Impact Bonds: Promises & Pitfalls

15 April 2015

Summary Report

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Key Messages

- Significant attention has been paid over the last years to SIBs as a new way of financing social services. However, due to their nascent stage of development, there is still limited evidence on their results. Further research is needed in order to develop a robust evidence base about SIBs' traits and effects.
- SIBs are not a policy per se but just one instrument of the social impact investing market.
- The role of SIBs is not to replace traditional public service delivery and funding, but rather to complement them in areas where the costs to the public are substantial. Evidence will help to evaluate whether and under which conditions SIBs constitute a more appropriate delivery tool for social services than traditional mechanisms. They should therefore not be perceived as a silver bullet.
- It is important to understand how SIBs fit in the context of changes in the welfare, in the broader policy landscape and into the geographical and cultural contexts.
- SIBs and DIBs could strengthen the efficiency, effectiveness, and evaluation culture in public policy and development aid due to their strong focus on results (outcomes).
- Spurring process innovation by engaging and coordinating civil society and the public and private sectors may be one if the SIBs' positive effects.
- Prior to adopting SIBs, it is important to analyse the nature and degree of intensity of interaction among public institutions, service providers, impact investors and foundations. SIBs' financial side remains complicated and will require considerable capacity-building for all stakeholders involved in the mechanism.
- SIBs are most likely to be appropriate when there are identifiable and measurable target groups, and when there is a pool of knowledgeable investors willing to assume to risks of investing in such projects.
- SIBs may not be appropriate in situations where it is difficult to measure social results (outcomes). Such situations could include when multiple contributions and shifts in societal attitudes are necessary to achieve the required outcomes, or when investors must wait long periods to receive their returns.
- Although there is a strong emphasis on the role that SIBs can play in preventative interventions, in such circumstances it still remains important for the state to invest as well directly in long term approaches in order to mitigate social problems.
- To avoid perverse effects such as creaming, parking or cherry picking, caution should be used when identifying target groups, as well as when monitoring and measuring SIB and DIB results. Independent and robust evaluation is needed in any case, and might prevent these effects.
- Properly measuring social outcomes is a challenge, so it is important to ensure that all potential stakeholders in the commissioning ecosystem develop the necessary skills to understand and report on financial and social results (outcomes).

Introduction

As part of the “Tackling Disadvantage at a time of Limited Resources” project, the OECD LEED Programme organised an expert seminar in collaboration with the Development Centre’s Global Network of Foundations Working for Development (netFWD) on 15 April 2015 in Paris. The title of this seminar was “Social Impact Bonds: Promises and Pitfalls”. The aim was to develop a better understanding of the features, limitations and preliminary findings from the use of Social Impact Bonds (SIBs), and to a lesser extent, of Development Impact Bonds (DIBs) from a multidimensional and multi-stakeholder perspective. The structure of SIBs was presented through the in-depth analysis of a case study, while other examples covered topics such as how DIBs have been rolled out in developing countries by building on the features of SIBs. The key question of the impact of such innovative financial tools on the provision of the social services was addressed and debated.

The increase in use of SIBs and DIBs constitute a promising development in the social sector. It raises questions about the effectiveness of new and existing forms of social sector financing. However, due to their nascent stage of development, limited evidence is currently available on the results of SIBs and even less of DIBs for the agencies, investors and most of all for the clients, users and citizens. Acknowledging these limitations, however, should not undermine efforts to provide a thorough preliminary examination of the SIB mechanism and the findings gathered from some initial efforts.

Welcoming Remarks

The expert seminar was opened with the remarks of Sylvain Giguere, Head of the OECD LEED Division, and Federico Bonaglia, Senior Counsellor to the Director, OECD Development Centre. Chair of the day was Ms Antonella Noya, Senior Policy Analyst, OECD LEED Division.

Sylvain Giguere, Head of the OECD LEED Division

The OECD LEED Programme was among the first to bring SIBs to the attention of its Delegates during the 55th session of its Directing Committee in 2009, which was attended by Sir Ronald Cohen, one of the founding fathers of SIBs. In 2010, SIBs also featured as a promising social innovation in LEED’s flagship publication “SMEs, Entrepreneurship and Innovation (OECD, 2010, chapter 8). Since then, LEED’s reflection on SIBs has been constantly evolving and deepening.

SIBs reflect the new public management trends focusing on specific objectives and performance. This gears behaviours towards greater efficiency while transferring in some instances risk from delivery agents and public sector authorities to the private sector. At the same time, there are a few challenges that have come along with this innovative mechanism, such as adopting a narrow approach regarding the implementation of social programmes or endangering their continuity and sustainability after the end of the SIB. Issues also exist regarding measurement, such as the incorrect attribution of results, or the distortion of results due to perverse effects including creaming, parking or cherry-picking.

Overall, LEED continues to be an active player in this field and remains abreast in its mission to shed light on thorny questions pertaining to SIBs, provide evidence-based responses and maintain an impartial and objective stance.

Federico Bonaglia, Senior Counsellor to the Director, OECD Development Centre

There are two reasons that bring CFE/LEED and Development Centre together. First, there is a common concern about social cohesion and inclusive growth objectives pursued by both developed and developing countries. Secondly, both organisations share a common mission to foster dialogue with non-state actors, such as foundations, NGOs, social enterprises, as illustrated by a recent joint contribution to the G20 Inclusive Business Initiative.

The OECD Global Network of Foundations Working for Development (netFWD) hosted at the Development Centre has rapidly recognised a growing and innovative contribution of philanthropic foundations to global development. netFWD is a platform where foundations can share their experiences and come together to think about their impact on development, how they can affect development policy and develop innovative development approaches. Indeed, several foundations (such as UBS, CIFF or Rockefeller Foundation) have taken the lead in the setting up of the very first pilot Development Impact Bonds (DIBs).

The discussion around innovative financing mechanisms, partnerships and ways of delivering social services is not new. From “pooling mechanisms for innovation” in order to respond to market failures, to “public-private partnerships” that engage private actors in service delivery in developing and fragile states, there is a clear signal that there is an ongoing transformation of the way social services are being delivered.

In addition, outcome-oriented instruments, such as SIBs and DIBs, have a major role in driving transparency and government accountability. At this stage, there is a clear need to address the issues of sometimes limited evaluation capacity and the lack of standardised, high quality data on the impact of social programmes in developing countries.

Session 1.SIBs: The state of play in OECD countries

SIBs have been increasingly gathering attention since their inception and initial implementation in 2010 in the UK. The session started with the presentation by Peter Ramsden, Managing Director Freiss Ltd. on the State of Play in SIBs in OECD countries in terms of definition, structures, policy scope and geographic diversity, and potential risks.

Definition

SIBs and DIBs are innovative financing mechanisms in which governments or donors respectively enter into agreements with service providers and investors to pay for delivery of pre-defined social results (outcomes)[1]. In reality, the term “bond” is more of a misnomer. In financial terms, SIBs are not real bonds but rather future contracts on social results. They are also known as Payment-for-Success bonds (USA) or Pay-for-Benefits bonds (Australia). More precisely, a bond-issuing organisation raises funds from private-sector investors. These funds are distributed to service providers to cover their operating costs. If the measurable social results agreed upfront are achieved, the government proceeds with payments to the bond-issuing organisation or the investors.

SIBs may also be considered as a social innovation. Their innovation stems from the coordination of various stakeholders, the integration and combination of services with the potential of scaling-up social impact. The focus on results (with special attention on defining outputs and indicators), coupled with the use of independent evaluators both throughout and after the contract, may induce a cultural shift towards efficiency and effectiveness on service delivery.

Structures

SIBs can have three different emerging structures depending on the type of interaction between the government or Commissioner and the contracted service provider. Each structure entails different requirements in terms of accountability and responsibility for management performance. In a *direct SIB*, a delivery contract is signed between the outcomes-payer and service provider. An *intermediated SIB* foresees that the delivery contract is signed between the outcomes payer and an investor-owned special purpose vehicle (SPV), which contracts the service provider, supports the performance management process and refines the financial model. A *managed SIB* is signed between the outcomes-payer and the prime contractor (usually an intermediary), who usually manages the entire process. Around one third of operational SIBs are direct, one quarter are managed and the remainder are intermediated.

[1] In order to be in line with the EU terminology, the common term “outcome” is replaced by “results” throughout the text.

Policy scope & Geographical diversity[2]

The policy scope of SIBs spans across various areas such as family and childcare, education and employment for vulnerable social groups, homelessness and recidivism. Several developed and developing countries have implemented SIBs and DIBs respectively. Australia, Belgium, Canada, Germany, Portugal, USA, India, Colombia and of course the UK are few among others. Yet in this geographical scope the number of SIBs and DIBs implemented is very limited, the sole exception being the UK, which has a rich background of SIB implementation..

Perspectives on risk

When engaging in SIBs, each stakeholder faces different risks. For the *Commissioner*, the main risk is the failure to deliver a procured service. When a service provider is procured for outputs, the risk is shared. When the Commissioner pays for outcomes/results, the risk is transferred to the service provider.

From the *service provider* perspective – mostly social enterprises – the risk is based on the payment-by-results contract. If the service provider finances part of the contract from its own resources, he fully assumes the risk. If he uses a bank loan, the risk is shared with the bank. Finally, if he engages an investor who will be repaid if the results are achieved, then the SIB transfers the risks to the investor.

The *investor*, depending on the SIB structure, assumes on his end different degrees of risk. In a *direct SIB*, the service provider carries the risk if results are not achieved, as the investor is lending funds and is repaid first with the loan secured against the enterprise's assets (or unsecured if SPV). In an *intermediated SIB*, the risk is shared within the SPV among investors and the repayment depends on the SIB's structure. In a *managed SIB*, as in a direct one, investors carry the risk but at the same time, they have gains if results are achieved or exceeded.

Session 2.A deep dive into the London Street Impact SIB

During the second session of the day, the London Street Impact SIB tackling rough sleeping was discussed. The purpose of this session was to deepen the audience's understanding of the SIB mechanism in practice by giving the floor to all stakeholders involved in the process: the government represented by Tamsyn Roberts, Head of the Centre for SIBs The Cabinet Office, UK and Tim Gray, Homelessness & Support, Department for Communities and Local Government (DCLG); the service provider by Mike McCall, Executive Director of Housing and Support St Mungo's Broadway; the investor by Richard O'Brien, Investment Manager, CAF Venturesome; and last but not least the corporate finance adviser by Whitni Thomas, Investor Relations Manager, Triodos Bank, UK.

This SIB targeted a cohort of 831 rough sleepers in London. Rough sleepers are defined as those seen sleeping rough and/or stayed in London rough sleeping hostel in the last three months; and seen rough sleeping at least six times over the last two years. Rough sleepers are a difficult target group to engage with as they often have deep-seated problems. In this cohort, 48% had an alcohol support need, 29% a substance misuse need, and 44% a mental health support need. During this SIB's launch, 151 service providers operated in London, and its design therefore placed emphasis on the non-duplication of existing efforts.

The intervention provided a budget to support a personalised approach. It used a navigator, who acted as a single point of contact for the clients and the services working with them. Key workers supported the client (the homeless in this case) starting with individualised assessment through the network of provision necessary to address and sustain their support needs over time. The ultimate goal was to break the homelessness cycle and render the client resilient and independent. In a nutshell, it was an

[2] Source: Instiglio, http://www.instiglio.org/en/sibs-worldwide/ , accessed 6 July 2015

assertive, holistic, and personalised approach aimed at providing housing and treatment responses, both physical and mental.

London Street Impact, a multi-level SIB, engaged both the national and London governments to assist in the SIB's set-up. The cohort was split between two service providers, Thames Reach and Support St Mungo's Broadway, who were procured through a tender process delivering against an identical payment-by-results contract but financed in different ways. The Greater London Authority (GLA) has held a contract directly with Thames Reach. The contract for the second half of the cohort is with a SPV, which includes the provider (St Mungo's) as well as intermediary Triodos and investors. A SPV or an intermediary structure fences the risk that a SIB entails in case of no attainment of agreed results. Triodos Bank advised on the structure of the SIB and contributed in striking a balance between the interests of the social enterprise, charities and investors. It also worked with the commissioner in order to help implement a payment-by-results contract. CAF Venturesome, with a small number of investors, provided loan finance of £650,000 in working capital to the SPV with a rate of return of 6.5%. St Mungo's also invested £237,000 in the SPV.

Discussion

Triodos Bank considered the sole fact of engaging all stakeholders in the SIB structure an initial success. It was also highlighted that it is crucial for the success of SIBs that investors are comfortable with the charity sector and are engaged with the topic treated. Conversely, the equity provided by St Mungo's and its experts' knowledge about investments also made a difference.

St Mungo's highlighted that SIBs, like other payment-by-results mechanisms, may motivate staff as their performance could be evidenced by results, providing them with a sense of achievement. However, care should be taken to ensure that the opposite effect does not occur, where staff members are discouraged because results are not attained, or because they are captured in a non-concrete fashion. Provisions to avoid this could include deploying more experienced staff with better remuneration, although the benefits of this should be weighed against the additional time and monetary costs incurred.

Session 3.SIBs and DIBs from around the world

Although the majority of SIBs have been issued either in the UK or the US, several other developed and developing countries have implemented them as well. In this session, SIBs were presented and discussed from the Netherlands by Tjalling de Vries, Programme Manager of SIBs, City of Rotterdam, and Portugal by Luis Jeronimo, Project manager, Gulbenkian Foundation, as well as a DIB from Rwanda by Shannon Milroy, Co-founder, YBank. Last but not least, Dharmendra Kanani, Fellow & Policy Director, European Foundation Centre addressed key considerations regarding SIBs and DIBs development based on his long-lasting experience.

The Rotterdam Businezzclub SIB, the Netherlands

The Rotterdam Buzinezzclub SIB was established in March 2014 with a focus on youth unemployment and entrepreneurship. This SIB was developed in association with the Municipality of Rotterdam, the social investor Start Foundation and ABN AMRO (which contributed together €680K), Deloitte and Ortec Finance for (interim) monitoring and evaluation. The programme supports 160 youths aged between 17 and 27 over a period of 4-6 months to starting their own companies, find paid employment or a suitable study. Most of them do not have any basic qualifications, are often facing debt issues and have a difficult background.

The SIB agreement stipulates that the municipality pays back the investors and the implementing party using yields based on the benefits it saves as a result, measured against a reduced benefit duration. The yield can amount to as much as 12% annually. The quicker the youths leave the programme successfully, the greater the yield for the investor. The Buzinezzclub also runs a risk if the youths are not placed (no cure, less pay), and just like the investors, earns more if they are placed more quickly than agreed (quicker cure, more pay). The Rotterdam case is exceptional because the reintegration company also generates a yield if the programme books success.

The Junior Code Academy SIB, Portugal

The Junior Code Academy SIB was the first of its kind to be launched in Portugal. It targets 65 young students aged 8-9 who are in the third year of primary school. The initial SIB pilot was launched in February 2015 and aims at improving the cognitive and non-cognitive skills – including school performance – of students through computer programming. At the pilot stage, it is crucial to collect the evidence stemming from such an approach in order to inform policy-making, learn from an outcomes-based contract environment and potentially convince more stakeholders to "buy-in" to the SIB model.

The SIB intervention model identified three public schools in Lisbon. One class per school participates in the programme (treatment group), and another acts as a control group. Two-hour classes have been offered on a weekly basis from January 2015 to December 2015 throughout the calendar year. The impact of these computer programming classes will be measured based on the students' improved school performance in Portuguese, mathematics, logical thinking and problem solving compared to the control group.

The municipality of Lisbon transferred the risk of the pilot project to the Calouste Gulbenkian Foundation, which provided as upfront funding the amount of €120K, and will be reimbursed if the project achieves the agreed-upon results. The results will be assessed by an independent evaluator – the Nova School of Business and Economics.

YBank DIB, Rwanda & USA

YBank presented the initial steps to develop a Development Impact Bond (DIB) in Rwanda in collaboration with the University of Kigali. The objectives of the DIB will be to improve health outcomes for adolescents living with HIV, develop tools to support innovative financing in adolescent health, and improve the efficiency of the Rwandan health care system. The intervention approach will be based on using financial incentives to improve medication adherence and life-long habits, create support through peer mentoring to maintain adherence and psychological well-being, and provide young people with life-skills training to invest their savings and plan their future livelihoods.

The financial model will engage private investors, corporate support and large NGOs. The performance payers are expected to be donors to the Rwandan health care system, and the Guarantor will be organisations interested in stimulating innovative financing. The DIB's duration is expected to be 5 years with an intermediate payment at 2 years. The results indicators regarding the programme performance management will be the increased adherence to antiretroviral therapy measured using regular viral load counts compared to control group, and the cost saving will emanate from the reduction in hospitalisations and reduction in the number of adolescents that fail first line therapy.

Key Considerations for SIBs & DIBs

Private sector & Public service delivery

SIBs and DIBs raise a profound question regarding the role of private markets and public service delivery mechanisms. Ideally, a combination of the best traits of both, such as efficiency and focus on results on the one side and social sensibility and ethos from the other, could trigger a behavioural change in the delivery of social services, both in times of crisis and market failures as well as in times of growth.

Measurement

Social service areas where the outcomes can be measured in financial terms and that are also costly for the government seem to be the most appropriate space where a SIB can have added value.

Furthermore, successful SIB transactions require a careful definition of their scope, both in human and financial terms as well as knowledge and understanding of the track record, capacity, capability and the skill base of delivery partner/s. This can be achieved by an appropriate planning phase that includes discussions on expectations of different stakeholders, and ways to address potential change in circumstances, underperformance, or a reduced rate of return.

Policy coherence & Transparency

Financial literacy at local level is a crucial component when deciding about the SIB contract structure and pricing expected results. Oversight, frequent and transparent communication should not be underestimated either when it comes to performance management. Last but not least, policy or objective coherence can be crucial – i.e. ensuring that everyone wants the same change and that the SIB fits with wider strategic developments locally, sub-regionally, and or even nationally. A part from investing directly in specific SIB transactions, funders can also play an important role in building markets for SIBs and supporting capacity among key market participants, such as government officilas and service providers.

Session 4.Working Groups: Exploring and making the most of SIBs & DIBs

During session 4, participants were divided in working groups based on their preferences and expertise in order to engage in technical discussions addressing four key aspects regarding SIBs and DIBs. Towards the end of the session, all groups resumed in plenary and one representative from each team represented the key finding from the discussions.

Group A. Scope

Despite their innovative features and their capacity to adjust, SIBs and DIBs are not a silver bullet for social policies. Some fields are more appropriate for this type of investment than others.

Appropriate fields

SIBs may provide an opportunity to address problems in areas where there are gaps or difficulties in achieving results, resulting in a public policy or market failure. The degree of intervention of such a mechanism depends on the structure of a country's welfare state, civil society, and private sector. SIBs are appropriate when there are investors available who are ready to assume the relevant risks, and who are familiar with charities and social issues. There must also be authorities ready to collaborate with multiple stakeholders and assume on their end the costs that SIBs entail, such as feasibility studies. SIBs are also appropriate for organisations that have developed delivering capacities and expertise, but at the same time they cannot go to scale. SIBs are an appropriate tool for financing and intervention with measurable outcomes and identifiable target groups.

Challenging elements

There are three main hurdles to the proper usage of SIBs; timescales and measurement, externalities and continuity, and coordination. In terms of timescales, SIBs duration may vary from 3 to 10 years, or theoretically even more. By design, SIBs do not have specific timescale constraints. In some cases, they may even invest for a longer period of time than governments would do in targeted interventions. Yet, long-term timescales may interest the investors less. As returns are tied to results achieved, the longer the investment, the higher the risk of compromising SIBs' attribution effect. This challenge may be addressed by establishing intermediate outputs tied to limited investments returns.

When social outcomes are difficult to define and measure, SIBs may not be an appropriate tool. Data paucity is a barrier for SIBs development Political considerations should not be neglected here either. SIBs can be a highly political issue that can advance when there is political impetus. However, this means that political figures may also favour shorter timescales for SIBs to be proved effective, in order to justify their efforts and harness the benefits of positive public opinion.

Externalities may occur through the implementation of SIBs, for instance they could potentially disrupt the market of social services provision by replacing or dismantling existing services. Ensuring sustainability and continuity of the service delivery after the end of the SIB is crucial. Coordination among multiple stakeholders in complex environments where savings accrue for all is fundamental as many practicalities may slow down the functioning of the mechanism.

Group B. Measurement

Defining the target group

Definition of a target group often varies depending on whether one is aiming to prevent a social issue or address an existing one. It is often more challenging to define a target group when the commissioner is aiming to act preventively, for example pre-empt a young person entering unemployment. The lack of clear definition of the target group can often lead to confusion about who is eligible to participate in the programme and might lead to perverse incentives of "cherry picking" participants.

When selecting the target group the following issues need to be considered:

- *Ensuring results from outcome measurement are statistically significant*: the size of the outcome target for the SIB (for example, to achieve a 10% reduction in homelessness) might affect the size of the target group that would be needed to show a statistically significant effect.
- *Length of time needed to recruit the target group*: the through-put of clients will determine how quickly the target group can be achieved (for example in the Peterborough SIB, it took around 19 months for the first 1,000 men to be released from the prison). This might have effects for how long investors need to wait for the opportunity for an outcome payment.
- *Costs of service provision*: the number of service users in the target group will determine how much up-front funding is needed to deliver the intervention.

Measuring progress

A range of tools are used for measuring progress including:

- *Hard outcome measures around reduced service use*. This is the cleanest measure of progress relative to what the commissioner expected from a comparator cohort group. Its advantage is that all parties can understand which data are relevant. For example, in the Peterborough Prison SIB the outcome is 'reduced reconviction events', and it is easy to identify what data already collected nationally are relevant (in the UK Police National Database).
- *Softer, often self- reported measures to capture distance travelled*. For example in a SIB aimed at long-term conditions where the hard outcome is only seen after 3 years through reduced hospital use, a wellbeing outcome, which is used to capture progress and provide investors with indication of whether the programme is working.
- *Longer term, related outcomes are usually measured through an evaluation.* These are outcomes that a commissioner would not be willing to pay for, but are important to measure in order to understand the wider impact.

Whether we are talking about hard outcomes, soft outcomes or longer-term outcomes there may be a choice between *binary* or *frequency* measure. A *frequency measure* can provide an incentive for providers to keep working with a service user – for example, even if they have reoffended once, in order to prevent further reoffending. A *binary measure* might incentivise 'parking' – where the provider decides not to work with an offender if they have reoffended once, because they are counted as a 'failure' according to the outcome metric.

Tackling the problems of attribution

SIBs face several challenges when it comes to attribution, such as *deadweight* (outcomes that would have been achieved if there was no intervention) and *competing services* (support provided by other providers outside the SIB). For instance, in areas where the beneficiary group receives statutory provision, it is necessary to create outcome metrics that enable the government to isolate the effect of

SIB funded interventions from existing statutory services. Attribution is particularly difficult with preventative interventions (for example for kids 0-5 to improve life chances later on in life). Additionally, there are three different levels at which it is important to examine SIBs impact in order to help guide the commissioner in their exit strategy around the SIBs:

- At the level of the intervention – was it solely the intervention that created the impact?
- At the level of an outcome based contract – was the focus on outcomes the driver behind success or failure?
- At the level of SIB – was it the SIB structure and investor involvement that led to improved delivery?

Measuring the changing context

Control groups and *propensity score matching (PSM)* are often used to measure changing context. When implemented well, these have the advantage of being robust approaches (increasing confidence that an outcome is actually caused by the SIB-funded intervention), but also have some drawbacks.

Firstly, *technical complexity*: statisticians and other experts may need to be involved in designing the approach and carrying it out, which increases costs.

Secondly, *identification of an appropriate control group* that is effectively identical or very similar to the treatment group, which receives the SIB-funded intervention, is essential for achieving a robust comparison and quite difficult.

Thirdly, *the difficulty of knowing if the control group is receiving other services* – it is important for the attribution effects to be clear whether SIB-funded services are being compared to no services, or some existing services, to fully understand what the impact is.

There are two alternative approaches, which may be less robust, but could be easier and less costly to implement. The first one is to use before and after measures within the target group which means comparing the outcomes before the SIB funded intervention is implemented with those after the intervention. This type of approach is not specific to SIBs but it is often used also in evaluate and measure the effects of any policy intervention. The downside of this approach is the difficulty to isolate the effects of the SIB and consequently establish whether it caused the change or other factors might have an impact on the outcome.

The second alternative could be to *compare predicted outcome measures before and after within the target group*. For example, in relation to reoffending, existing and validated risk assessment tools allow professionals to assess the risk of future reoffending, taking into account factors such as previous offences, age, drug use etc. An outcome measure for a SIB can compare the predicted reoffending with actual reoffending rate, and assume than any change was due to the SIB. The downside is that predictions can be inaccurate, and such a measure would not allow firm conclusions to be drawn about whether the SIB caused the change.

Group C. Finance

Models & Options for structuring finance

SIBs are part of the Payment-by-Results contracts with a success fee and with up-front capital, but not all Payment-by-Results contracts are SIBs. They are also equity and a new way of valorising dormant capital or recycling capital (for instance, when recycle back payments to investors). SIBs are presented as a driver for cost efficiency and DIBs for aid effectiveness; however, there is no concrete evidence about this effect so far.

For structuring their finance model, sophisticated and centrally commissioned SIBs usually publish a "rate card" outlining all possible results and how much the investor would pay for these. The service provider, on its end, (social enterprise, charity, NGOs.) explains which outcomes would be feasible to achieve based on the proposed amounts. Oftentimes, there is a floor (estimated cost of the intervention) and a ceiling (estimated cost and saving) for the amounts discussed. A balanced price per result is usually struck between these two extremes. Efficiency and capacity to price fairly the expected results have come with experience. However, during the first implementations of SIBs in certain cases governments paid too much or too little for attained results.

Risks

SIBs are risky investments in multiple levels. In terms of financial risk, the investor carries 100% of the risk of the investment, and if the agreed results are not attained, he absorbs all losses. Service providers (social enterprises, NGOs, charities) usually set-up SPVs in case they assume part of the risk. SIBs should also include in their contract that fence the investment in case of political risk and instability. The possibility of launching SIBs in the retail market engaging massive shareholders and/or involving standard deposits hides risks. On this point there are two streams of thought. On the one side, some argue that if a financial product’s design and structure are sufficiently sophisticated and of high enough quality, it could potentially reach mass retail level. On the other side, some note that SIBs entail too much risk for the general public market, and are thus not suitable for retail beyond philanthropy and specialised investors.

Set-up time & Costs

Set-up time for a SIB varies between six months to two and a half years. The cost amount varies. The Commissioner assumes the greatest part of the set-up cost and the delivering partners a less significant one. Initial efforts to develop the SIB market and assume any relevant cost were subsidised. For instance, the Big Lottery Fund, through a blended approach, significantly subsidised Social Finance at the beginning. Nowadays, Social Finance is mostly sustainable as it charges fees for its advisory services to the Commissioner as well as a performance fee if the SIB’s results are achieved. Yet, SIBs are still sometimes a loss-leading activity for them.

Market development & Capacity-building

SIBs trigger the development of a new marketplace and may bring about a cultural shift within organisations. If Service Providers desire to work within payment-by-results frameworks such as SIBs, capacity-building activities are critical as active performance-based management could render their interventions more efficient.

Group D. Social Innovation

Spurring social innovation

SIBs can provide flexible space that encourages innovation as they allow the individual stakeholders to be rewarded financially for their efforts in a more virtuous system. For example, they can be useful at the prototyping or testing stage of the innovation cycle, such as in Lisbon SIB. In a nutshell, SIB contracts are allowing this phase of the innovation spiral to be delivered. However, ample evidence suggests that the predominant field of innovation for SIBs is in the design of the financial model and the process of delivering services and going to scale.

Shortcoming of SIBs innovative traits

Shortcomings of SIBs’ innovative traits were also highlighted during the discussion. Firstly, although SIBs strive to provide evidence of innovation and effectiveness, there is a difference between being effective and being able to illustrate it with hard evidence. SIBs may overlook positive effects that are challenging to quantify. In addition, the requirement for a certain amount of organisational capacity pinpoints to the fact the SIBs are not suitable for small service providers, such as small NGOs, regardless of how innovative their approach or the mechanism structure may be. Finally, it is difficult to put in place a SIB and to fully harness its innovative potential in the absence of pre-existing bonds of trust between the public authority, the provider and the investor.

Session 5.The Debate: Will SIBs change social policy for the better?

During session 5 a key question was raised: Will SIBs change social policy for the better? The session started with a debate between Andrew Levitt, Bridges Venture, UK arguing for, and Dan Gregory, Common Capital, UK, arguing against. The debate was followed by a discussion and conclusions by Arianne Rodert, Valentina Caimi and Jean-Michel Lecuyer.

The case for SIBs

Andrew Levitt argued that SIBs can change social policy for the better. Against the backdrop of increasing public finance constraints, rising demand for social services and poor outcomes of social services delivery, SIBs can play a catalytic role. SIBs are a more efficient use of scarce resources as they provide discipline, focusing social enterprises on results and not on inputs. They also save public money and bring private sector capital and expertise into management and delivery of complex social interventions. As an example to support his statement, he used the IAAM adoption programme, which aims at assisting children deemed hard to be placed by virtue of being older (4+ years), or of an ethnic minority or part of a sibling group in a stable family environment.

The case against SIBs

Dan Gregory made a more sceptical case. He argued that SIBs will not change social policy very much and, if they do, this may not be for the better. Despite the hype around SIBs, their potential may be limited by because of issues relating to cost, complexity and future popularity. Firstly, SIB-like models are not so new. Similar energy-saving models were implemented during the 70s. Moreover, as abovementioned, SIBs are just a type of payment-by-results contract, which in their own capacity have been contested by some. That being said, other types of contract, such as alliance contracts, should be not overlooked.

Dan Gregory also raised some concerns regarding cost issues. In some cases, public agencies need to join budgets in order to set up a SIB, and this may be time consuming and complex. Lack of clarity regarding whether future or unintended costs are included in the balance sheet, such as impact on the labour market, was another criticism. Therefore, financing costs may be higher than government borrowing. In some cases, such as in the UK, the government even carries significant taxpayer and transaction costs, as it pays for investment readiness, for results achieved, and for tax breaks. SIBs have high monitoring and evaluation costs as well, in order to deliver longer term and more stable financing that can be achieved through smarter commissioning and better management. In a few cases, such as in the US, the risk is not shared appropriately. In fact, investor risk appears to be almost entirely underwritten by others. Lengthy and costly procurement process may also discourage non tender-ready services providers from bidding and, consequently, disrupt a fair and open competitive process.

The complexity of setting up the mechanism, as well as of measuring and attributing outcomes, are two more negative aspects of SIBs. Perverse effects, such as creaming, gaming, parking and cherrypicking may also be triggered by SIBs. The financialisation or commodification[3] of social services and results as well as the intensification of contractual and transactional approaches of them can undermine and erode reciprocal trust-based relationships and public services ethos. Ideological hurdles also may rise, such as turning-not-for-profits into for-profits through an intermediary.

[3] The assignment of economic value to social services and outcome not previously considered in economic terms

Discussion & Concluding remarks

SIBs need to be put into broader context

As new global and local challenges emerge, society is changing along with the welfare system. In some instances, the existing social welfare system is patchy or even non-existent and does not deliver the social services in an optimum or efficient way. There is a need to motivate all stakeholders to innovate. SIBs need to be put into the broader context of changes in the welfare system and broader political landscape. At the same time, the social enterprise sector needs to build its capacity to address these challenges and participate in these mechanisms.

Furthermore, SIBs need to be put into geographical and cultural context. They cannot be adopted without considering the nature and degree of intensity of interaction among public institutions, service providers, and investors. Moreover, one should consider the level and depth of experience in payment-by-results contracts and performance management methods by all stakeholders as this has been specific to some countries. For instance, in the European Union, there are 29 SIBs in the United Kingdom (and to be precise in England), and one experiment each in the Netherlands, Germany, Belgium and Portugal. It is unlikely that they could be implemented in the short- run in countries with limited experience in payment-by-results schemes or with strong welfare-state tradition.

SIBs are an instrument, not a policy

A fundamental question has been rising during the last few years: Apart from being possible, is it desirable to implement payment-by-results models for social policy delivery? A SIB is just one instrument that delivers social policy within the panorama of social impact investing and of a broader financial toolbox for the social sector. Clearly, they do not constitute or even formulate policies. They should not be used to replace public budgets to finance social services. They can be used, however, in some cases to mobilise additional resources, test interventions and perhaps to promote innovations, where public funding is not available.

Enhancing evaluation & transparency

SIBs are an opportunity to build evidence and enhance transparency. All SIBs include results monitoring, but not always evaluation. This is an important aspect as there is a significant distinction between them. On the one hand, results monitoring looks at agreed metrics, data sets and record-capturing to decide whether results were achieved or not. On the other hand, evaluation examines how a SIB was implemented and operated. It explores the reasons why results were attained or not. Importantly, evaluation also examines unintended consequences from implementing SIBs, and may identify the different degrees of impact. Consequently, SIBs could inform public policy on which interventions may work and which may not, under the condition that they are carefully designed.

Financial & evidence literacy

As results and evidence are tied to payments, financial- and evidence-literacy among all the potential players in the commissioning ecosystem are essential when addressing SIBs and DIBs. These include the commissioners themselves – mostly in parts of the public sector and in local government, the service delivery bodies – generally made up of social enterprises, and the evaluators. In many countries, a new breed of intermediaries will be required that can navigate this territory. Last but not least, the involvement and empowerment of the users is crucial if we are to render these processes inclusive.