

**CENTRE FOR ENTREPRENEURSHIP, SMES AND LOCAL DEVELOPMENT  
Co-operative Action Programme on Local Economic and Employment Development**

**UNDERSTANDING SOCIAL IMPACT BONDS**

**67th Session  
Co-operative Action Programme on Local Economic and Employment  
Development (LEED)**

**9-10 November 2015  
OECD Conference Centre, 2 rue André Pascal, 75016 Paris, France**

*This document presents some of the key features and challenges of Social Impact Bonds (SIBs). It was prepared at the request of the Ministry of Labour, Employment, and Social and Solidarity Economy of the Grand Duchy of Luxembourg, within the framework of the Presidency of the European Union.*

*It is submitted to the Directing Committee for DISCUSSION and GUIDANCE.*

Antonella NOYA, Senior Policy Analyst (Social Innovations and Social Inclusion),  
antonella.noya@oecd.org, +(33-1) 45 24 78 95; Stellina GALITOPOULOU, Policy Analyst,  
stellina.galitopoulou@oecd.org, +(33-1) 45 24 91 92

**JT03385464**

Complete document available on OLIS in its original format  
*This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.*

## TABLE OF CONTENTS

1. Introduction.....	4
2. What exactly is a Social Impact Bond (SIB) and how do public, private and civil society stakeholders engage with it?.....	4
Why do stakeholders participate in SIBs? .....	10
3. Are there any requirements for a specific regulatory framework? If yes, for what purposes? Does a conducive regulatory environment play a role?.....	12
4. What is the process for setting-up a SIB? .....	16
5. In what policy areas can SIBs bring added value?.....	16
6. Are SIBs more appropriate for preventative or cure interventions? What factors influence such a decision? .....	17
7. What are potential costs and risks stemming from SIBs?.....	17
8. Which are the most appropriate methods and what are the hurdles that one faces when measuring and evaluating SIBs impact? .....	19
9. What are the returns of a SIB financially, socially or other, if any?.....	21
10. What happens if a SIB fails?.....	22
11. Conclusion .....	24
GLOSSARY .....	25
REFERENCES .....	28
ANNEX 1: LIST OF SIBS & DIBS AT IMPLEMENTATION AND DESIGN STAGE.....	30

### Figures

Figure 1. The Social Impact Bond (SIB) Mechanism.....	6
Figure 2. Regulatory considerations for SIBs stakeholders [under revision] .....	15

### Boxes

Key messages.....	3
Box 1. Sweet Dreams Supported Living Project, Saskatoon, Saskatchewan (Canada).....	8
Box 2. The Junior Code Academy SIB, Lisbon (Portugal).....	8
Box 3. Juvenile Justice Pay for Success Initiative, Commonwealth of Massachusetts, (USA).....	9

### Key messages

Social Impact bonds (SIBs) have attracted much attention in the aftermath of the financial crisis. They have been implemented in a number of countries as they seem to be an attractive proposition for financing the delivery of social services.

However, SIBs remain a fairly new financial instrument aiming at social impact with limited evidence regarding their results. Therefore, further analysis is needed in order to develop a robust evidence base.

SIBs are complex instruments. They involve multiple stakeholders coming from different sectors. Time, technical expertise and commitment to collaborate are indispensable in order to establish a SIB.

SIBs have been costly instruments so far. They have entailed significant transaction costs that stakeholders should consider before embarking on them. Policy makers should evaluate carefully what is the value added for implementing a SIB for a policy intervention compared to a more traditional approach. However, transaction costs are expected to drop as more SIBs develop and there is a streamlined process for establishing them.

Rigorous methodological design for identifying measurable social outcomes and appropriate target groups is of utmost importance in order to avoid perverse effects, such as “creaming”, “parking” or “cherry picking”.

SIBs may be an opportunity to nurture a culture of monitoring and evaluation in social service delivery. Independent and robust evaluation could benefit all stakeholders as it may identify what works well in SIBs and what does not as well as unintended consequences- positive or negative.

SIBs intend to roll over the risk from the government and the service providers to investors. Yet, capital protection and guarantee mechanisms as well as early termination clauses of the SIB contract may be in place mitigating the risk assumed by investors.

Ensuring continuity of social service delivery is indispensable for vulnerable groups and citizens. Therefore, SIBs could be more appropriate as a complementary and not core mechanism for social services delivery.

## 1. Introduction

1. Social Impact Bonds (SIBs) are spreading around the world and have been gathering increasingly the attention of governments and public authorities, investors, social services providers, researchers, and evaluators among others over the last years. At the same time, they have triggered debates, often controversial, around issues such as the delivery of social services and the quest for efficiency in doing so, the risk transfer from the public to private sector and what this entails for social providers, the capacity to monitor and evaluate better outcomes, the increasingly prevalent need to invest in preventative interventions with high returns in the long run. A number of these debates have been recently echoed during the OECD's experts seminar held in Paris in April 2015 on promises and pitfalls that SIBs present.<sup>1</sup> During the seminar it was also confirmed that SIBs tend to have strong proponents or strong opponents. Common ground among all, however, was the need for more evidence in order to assess in an informed way their potential.

2. With this in mind, and given its longstanding work in the field of social innovation and social entrepreneurship, the OECD LEED Programme has been tasked by the Ministry of Labour, Employment, and Social and Solidarity Economy of the Grand Duchy of Luxembourg, within the framework of the Presidency of the European Council, to prepare a concise, reader friendly report, whose main objective is to raise awareness and provide information about some of SIBs main features and challenges and inform policy making. In terms of methodology, this document is based on a literature review and discussions with a number of experts, including those who participated to the above mentioned OECD seminar. The design of this document is based on questions and answers. The questions raised here cover first line issues that need to be addressed when looking at SIBs as an innovative mechanism. It deliberately avoids delving into an exhaustive analysis of SIBs complex technicalities, which may vary across SIBs, depending on various factors, such as the policy area implemented, the country-specific context as well as the dynamics among the stakeholders.

3. This document was prepared by Stellina Galitopoulou, Policy Analyst, and Antonella Noya, Senior Policy Analyst, at the OECD LEED Programme. We are grateful to Jean-Christophe Burkel, Director, Union Luxembourgeoise de l'Economie Sociale et Solidaire (ULESS); Emma Disley, Associate Group Director, RAND Corporation Europe; Ulrich Grabenwarter, Head of Strategic Development-Equity, European Investment Fund; Jean-Michel Lecuyer, Directeur Général, Le Comptoir de l'Innovation, France; Nadine Muller, Responsible for the Social and Solidarity Economy, Ministry of Labour, Employment, and Social and Solidarity Economy of the Grand Duchy of Luxembourg who also supported this project; Raphaëlle Sebag, Consultant, Credit Cooperatif, France, for providing their valuable comments, remarks and feedback. This document benefited also from the discussions held during the OECD experts seminar in April 2015 and we are grateful to all participants for their contribution.

## 2. What exactly is a Social Impact Bond (SIB) and how do public, private and civil society stakeholders engage with it?

### *Definition*

4. A SIB is an innovative financing mechanism in which governments or commissioners enter into agreements with social service providers, such as social enterprises or non-profits, and investors to pay for delivery of pre-defined social outcomes (Social Finance, 2011; OECD, 2015). More precisely, a bond-issuing organisation raises funds from private-sector investors, charities or foundations. These funds are distributed to service providers to cover their operating costs. If the measurable outcomes agreed upfront

---

<sup>1</sup> <http://www.oecd.org/cfe/leed/sib-seminar-2015.htm>

are achieved, the government or the commissioner proceeds with payments to the bond-issuing organisation or the investors. 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) (OECD, 2015; Brookings, 2015).

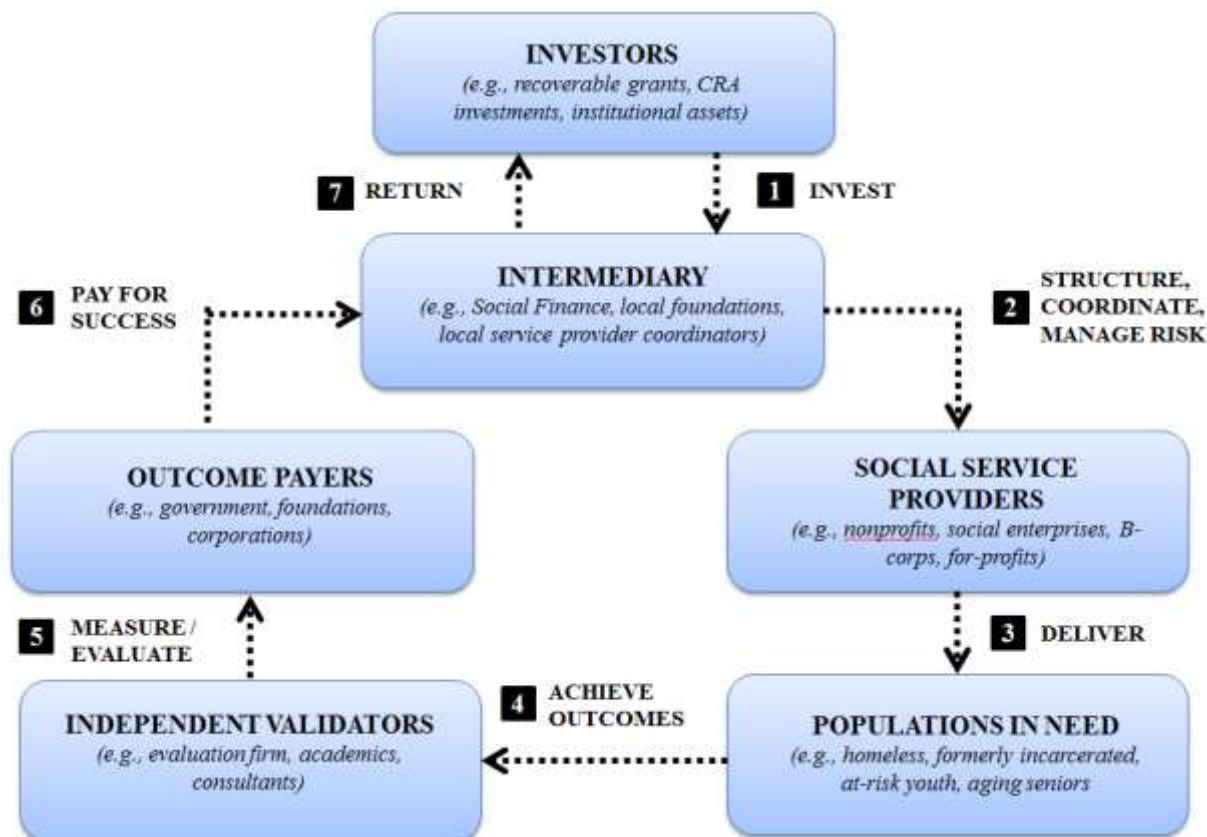
### *The principal stakeholders*

5. An *investor* provides funding for an intervention, which is used as working capital for a *service provider* that is responsible for the social services delivery, the attainment of agreed outcomes and potentially for the provision of data related to them. Outcomes measurement is a crucial step for the SIB process as, based on this, the payment to the investor coupled with agreed interest shall be released by the government or the commissioner. Therefore, the *government or commissioner* is the ultimate outcomes payer and may as well determine the outcomes metrics and payments terms. An *intermediary* is involved in some SIBs and it has a twofold role. First, it can act as convener of all stakeholders involved in the mechanism in order to strike an agreement regarding the transaction process. Second, it can be responsible for raising capital and structuring the deal. An *evaluator* may be used in some SIBs assessing the agreed outcomes and their impact. On a different note, the *beneficiaries* from a SIBs intervention shall be mentioned as they are the population in need and recipients of the intervention. SIBs may address smaller or larger groups of beneficiaries. For example, the Sweet Dreams SIB in Canada focuses on 22 beneficiaries-mothers and children, whereas the Peterborough One Service SIB in the UK on 3 000 male prisoners and the NYC ABLE Project for Incarcerated Youth on approximately 10 000 sentenced adolescents.

### *Additional actors*

6. Apart from the principal stakeholders mentioned above, depending on the structure of the SIB (see below) additional actors may participate in the mechanism. Subordinate investors, guarantors, grant makers, technical assistance providers, legal advisors, and researchers. It has to be noted that the roles of the stakeholders and of additional actors may vary according to the structure of SIBs as well as the specific terms appropriate to each deal. For instance, researchers can act as independent evaluators assessing whether the agreed outcomes are achieved. Another example is that a government could act both as outcomes payer and as evaluator by validating administrative data. Similarly, as noted by Gustaffson et al. (2015), services providers can also be investors. In the same spirit, intermediaries can also be investors, senior investors can also be subordinate investors, intermediaries can also be evaluators, and intermediaries can also be technical assistance providers.

Figure 1. The Social Impact Bond (SIB) Mechanism



Source: OECD adapted from Burand (2013)

### *Different models and structures of the mechanism*

7. Social Impact Bonds (SIBs) can have different models and structures depending on the composition and the dynamics among the actors involved, their functions, the process for structuring the deal and the accountability regarding the delivery of the expected outcomes.

8. Two models have emerged so far through which governments and others have sought to provide funding so far; the SIBs funds and the individual SIBs. The main difference between them is that the SIBs funds have the capacity to issue multiple contracts dealing with the same or similar social issues, whereas individual SIBs proceed to one payment contract at a time and they select among the structures presented below.

9. In the cases of SIBs funds, the government that commissions the SIB or another commissioner establishes a rate card for payments per outcome. The prices indicated in the rate card are based on thorough research that examines the cost savings or reduced remedial assistance, which each outcome can yield. Furthermore, in this model partnerships are often established between services providers, investors and intermediaries. These partnerships are bidding for contracts, which the funds provide, at a discount to the rate indicated in the rate card. Contracts are awarded to the selected bidders considering multiple factors among which is the discount indicated to their bid. Until now to our knowledge, three SIBs funds

have established; the Innovation Fund<sup>2</sup> by the Department of Work and Pensions, the Fair Chance Fund<sup>3</sup> by the Department for Communities and Local Government, and the Bridges SIBs Fund by Bridges Ventures.<sup>4</sup> They are all located at the UK. The activities of the Innovation Fund are centred on education and youth employment. It has launched ten SIBs in total in two rounds. The first round took place in April 2012 and included six SIBs and the second in November 2012 and included four SIBs. The Fair Chance Fund focuses on education, employment, housing and homelessness. Its activities started in December 2014 and since then it has launched seven SIBs. The Bridges SIBs Fund was launched in April 2013. It aims at improving life outcomes for children, young adults and elderly patients across the UK and has support fourteen SIBs to day.

10. Three main structures stand out from the individual SIBs implemented thus far; direct, intermediated, and managed.

### *Direct SIBs*

11. In a direct SIB, a delivery contract is signed between the outcomes-payer and service provider or a services provider-controlled special purpose vehicle and the service provider. In this case, the service provider is responsible for the implementation of the deal and the performance management. The intermediary is responsible to raising capital, structuring the deal and determining the feasibility of the deal (Goodall, 2014). Overall, under this structure the service provider holds the greatest amount of responsibility.

---

<sup>2</sup> [https://data.gov.uk/sib\\_knowledge\\_box/department-work-and-pensions-innovation-fund](https://data.gov.uk/sib_knowledge_box/department-work-and-pensions-innovation-fund)

<sup>3</sup> <https://www.gov.uk/government/publications/fair-chance-fund-full-bid-specification-and-application>

<sup>4</sup> <http://bridgesventures.com/social-sector-funds/social-impact-bond-fund/>

**Box 1. Sweet Dreams Supported Living Project, Saskatoon, Saskatchewan (Canada)<sup>5</sup>**

Sweet Dreams SIB implemented in Saskatchewan, Canada, is an example of the direct SIB structure. This is also an individual SIB model. The outcomes funder, the Government of Saskatchewan and the Ministry of Social Services, hold direct contracts with the investors, Conexus Credit Union and Wally and Collen Mah, and the service provider Saskatoon Downtown Youth Centre (EGADZ). The investors provided in May 2014 \$1 million CAD (approximately 670 000 EUR<sup>6</sup>) for a period of 60 months to the EGADZ in order offer to single mothers with children under the age of eight, who are at risk of requiring services from Child and Family Services, with affordable housing and support. At the same time, the mothers can complete their education, secure employment, or participate in pre-employment activities, such as life skills training and parenting classes. EGADZ manages its performance. The target group is 22 single mothers of children ages 0 to 12. The home for the Sweet Dreams SIB has also received funding from the Government of Canada's Homelessness Partnering Strategy (\$320 000 CAD, approximately 214 000 EUR<sup>7</sup>), the City of Saskatoon (\$140 000 CAD, approximately 94 000 EUR<sup>8</sup>), and other private donors (\$75 000 CAD, approximately 50 140 EUR<sup>9</sup>). The Saskatchewan Executive Council acted as an "intermediary" in the sense that it designed SIB outcomes measures and the contract, and raised investor capital.

***Intermediated SIBs***

12. An intermediated SIB foresees that the delivery contract is signed between the outcomes payer and the investor or an investor-controlled special purpose vehicle (SPV) or an intermediary, which identifies and contracts the service provider, supports the performance management process and refines the financial model (Goodall, 2014). In some instances, the intermediary can also invest in the SIB.

**Box 2. The Junior Code Academy SIB, Lisbon (Portugal)<sup>10</sup>**

The Junior Code Academy SIB, Portugal, illustrates the intermediated structure and is an individual model. The Municipality of Lisbon, which is responsible for managing the primary education system, is the outcomes funder and the Code Academy assumes the role of service provider. Calouste Gulbenkian Foundation invested 120 000 EUR in January 2015 and the Social Investment Lab is the intermediary. The latter has been responsible for analysing the social challenge, assisting in identifying outcomes metrics and evaluation methods, structuring the SIB and developing the financial model, raising capital, and assisting Code Academy in performance management and operations. The target group sums up to 65 students in total in 3 schools in Lisbon as of now and will run for an initial period of 20 months. The aim of the Junior Code Academy SIB is to tackle primary school grade repetition and drop-out and to generate evidence about the impact of computer programming in cognitive skills, including school performance and problem solving ability, in order to inform public policy.

***Managed SIBs***

13. A managed SIB is signed between the outcomes-payer and the prime contractor (usually an intermediary) or an intermediary-controlled special purpose vehicle, who usually manages the entire process. The process is similar to the intermediated SIB, in terms of the activities of the intermediary

<sup>5</sup> <https://www.saskatchewan.ca/government/news-and-media/2014/may/12/social-impact-bond>

<sup>6</sup> Exchange rate from the month of the signature of the contract (May 2014)

<sup>7</sup> Exchange rate from the month of the signature of the contract (May 2014)

<sup>8</sup> Exchange rate from the month of the signature of the contract (May 2014)

<sup>9</sup> Exchange rate from the month of the signature of the contract (May 2014)

<sup>10</sup> <http://investimentosocial.pt/o-laboratorio/titulos-de-impacto-social/>



(Goodall, 2014). The main difference with the intermediated structure seems to be that the intermediaries have not invested in SIBs directly. Given the adaptability and the flexibility of the SIB structure, it is hard to make clear and neat distinctions among them.

**Box 3. Juvenile Justice Pay for Success Initiative, Commonwealth of Massachusetts, (USA)<sup>11</sup>**

The Juvenile Justice Pay for Success Initiative is a managed SIB. It has been implemented since January 2014 aiming at reducing recidivism and increasing employment through intensive street outreach and targeted life skills, education, and employment programming. Its target group is 929 at-risk young men aged 17 to 23 who are in the probation system or exiting the juvenile justice system. The duration of this SIB is 84 months. The outcomes funders are the Commonwealth of Massachusetts (Chelsea, Boston, and Springfield areas) and the US Department of Labour and they receive technical assistance by the Harvard Kennedy School (SIB Lab). Roca Inc., a non-profit organisation, is the service provider. This SIB involves multiple investors and the total amount raised is \$8 million USD (approximately 6 million EUR<sup>12</sup>). The senior investor is Goldman Sachs, through its Social Impact Fund, the subordinate investors the Kresge Foundation and Living Cities, and the philanthropic grantors Laura and John Arnold Foundation, New Profit Inc., and the Boston Foundation. Third Sector Capital Partners acts as the intermediary and prime contractor. It is responsible for arranging project funding, overseeing project implementation, distributing funding to Roca and managing repayment to funders. It is worth noting that Third Sector Capital Partners is deferring \$50 000 USD (approximately 36 710 EUR<sup>13</sup>) (15%) of its management fees; it will only be paid that portion of its fees if results are achieved. New Profit Inc., a national venture philanthropy fund will also provide additional management support. The Juvenile Justice Pay for Success Initiative is an individual SIB, but it is also part of the Massachusetts Social Innovation Financing Trust Fund.

14. It has to be noted that there is no specific rules indicating the responsibilities of each stakeholders and, therefore, variations emerge across SIBs. According to a recent study by Brookings Institution (Gustaffson-Wright et al., 2015), all SIBs examined in it and implemented at the US are managed whereas all the SIBs at the UK, where the SIB market is more advanced, are intermediated or direct, except for two. This observation could be potentially explained by the degree of maturity of the social impact investing market is clearly a factor to be considered here (OECD, 2014). Still, further research could be conducted in this area in order to shed more light.

***Who initiates the deal?***

15. In the majority of existing SIBs, regardless of their structure, the government initiated the process to set-up the mechanism (Gustaffson- Wright, 2015). Yet, the first ever SIB was initiated by an intermediary, Social Finance (Disley et al., 2011). As the market is still nascent and the deal development allows for some flexibility, there have been few deviations from this process. In direct deals, there were a couple of cases that the intermediary or services providers brought to the attention of the government cases for SIBs doing this way the first step. Similarly, in intermediated deals the intermediary also contributed to initiate a SIB deal through the identification of service providers according to the feasibility criteria. Lastly, in a managed deal, only once a technical assistance provider with a service provider commenced the deal.

<sup>11</sup> <http://www.payforsuccess.org/sites/default/files/ma-jj-pfs-fact-sheet.pdf>

<sup>12</sup> Exchange rate from the month of the signature of the contract (January 2014)

<sup>13</sup> Exchange rate from the month of the signature of the contract (January 2014)

***Is it different from payment-by-results contracts? If yes, in which ways?***

16. SIBs are considered a subset of payments-by-results, pay-for-performance or results-based financing mechanisms. The basic idea behind these schemes is that they link funding to results, while providing incentives for innovation in the public sector and better performance from services providers. Although SIBs can fall under this broad category, they differ in four points. First, SIBs involve private sector investors establishing a wider stakeholder platform and focusing on their effective cooperation and coordination. Second, they focus on outcomes rather than results or outputs. Third, they allow for up-front funding for the interventions, which enables service providers to focus their efforts on the service delivery rather than on fundraising. This is particularly valuable for small or medium size social service providers, who may otherwise face hurdles in accessing private capital. It has to be highlighted, however, that in reality a SIB contract may foresee annual instalments of funds or other payment schedules tied to outputs or specific milestones. Last but not least, SIBs transfer the implementation risk from the public sector or the service providers, which they would have been otherwise unable to bear, to the private sector.

***An evolving landscape: where are currently SIBs developing?***

17. The first SIB implemented in the United Kingdom (UK) in 2010 aimed at decreasing recidivism. Since then, a sharp increase of interest in this mechanism has been observed since 2012 until and now. The majority of SIBs have been developed in the UK, followed by the US. Australia has developed two and Canada one. In continental Europe SIBs have been launched in Belgium, Germany, the Netherlands, and Portugal. Although outside the scope of this study, it has to be noted that developing countries, philanthropists and international donors have expressed their interest in this mechanism as well developed in the form of Development Impact Bonds (DIBs). Compared to SIBs, even less DIBs have been developed. In fact, only one DIB has been implemented to date in India for girls education. Still, a couple more are on the pipeline in Africa.

- SIBs involve a number of stakeholders, which- from different perspectives and capacities- aim at delivering social outcomes, while transferring the implementation risk from the public sector or the service providers to the private investors.
- SIBs are complex instruments that require technical expertise, time and funds in order to be established. Therefore policy makers should carefully evaluate whether an intervention is better served by a SIB or by a different approach.

***Why do stakeholders participate in SIBs?***

18. ***Governments and public authorities*** can be attracted by the outcome focus in areas difficult to reach combined with cost-savings, accountability of taxpayer funds and value-for-money. Another strong incentive is that SIBs might provide the governments with the capacity to invest more in preventive programmes and social interventions, especially when remedial (or “symptoms driven”) interventions may seem more urgent and with immediate results. Investing in preventative interventions can have a sound effect on the well-being of the citizens while yielding savings in the medium and long-term, as it will be discussed below. Moreover, although public authorities are keen on participating in SIBs in times of budgetary constraints, they may also experience as a ripple effect an efficiency increase in their service delivery and savings in their budgets even in times of growth. Last but not least, SIBs can enhance cross-sector and cross-authority cooperation breaking the silos and providing integrated solutions to long-term challenges. This collaborative process might generate savings across multiple authorities as well.

19. It has to be noted, at the same time, that governments and public authorities should conduct cost-benefit analysis or preliminary assessments regarding whether engaging in a SIB is a value-for-money

option for it (Liebman et al., 2013). They would also need to consider the fact of paying back the investors with an interest rate. To this end, they need to foresee and include this kind of expenditure in future budgets.

20. A growing interest among *investors*- institutions and individuals- for blended value or double bottom line investments- meaning doing good while having moderate returns on investment- has led them to engage in SIBs. Investor institutions, particularly, have an additional incentive as they were tasked to specifically represent the interest of their investor clients in social returns. Investors, such as foundations or other organisations that provide grants as part of their CSR programmes or community involvement, view SIBs as an opportunity to recycle grants after the end the project and scale social benefits (OECD, 2014b). This means that they can recycle the return of their investment to another programme in case of successful implementation of the SIB (Gustaffson-Wright et al., 2015). Also, publicity and visibility should not be underestimated as motivations for participating SIBs. Interestingly enough, a survey conducted by Brookings Institution (Gustaffson-Wright et al., 2015) demonstrated that investors are more triggered to invest in a SIB if it is the first implemented in the country or in a sector as it has higher chances to offer them greater visibility.

21. Another incentive for investors is government's guarantee to pay them if the agreed outcomes are achieved. However, this can be a double edged sword. Despite government's guarantee, which reassures the return on investment in case of success, the risk is centred on whether the outcomes will be attained on the first place. Therefore, investors' main disincentive is the complete capital loss in case of a SIB's failure. Still, depending on the structure of the SIB even this risk can be mitigated by securitising, for instance, a percentage of the amount invested regardless of the outcomes attained. On this point, it has to be noted that there is a large spectrum of investors participating in SIBs that have varying degrees of risk appetite.

22. Simultaneously, there is always the possibility that the government might not be able to pay back the investors even if the agreed outcomes are attained. This may occur, for instance, in case of government policy change or in face of a financial crisis. This is a reputational risk and potential negative credit rating in case of such failure. In this scenario, guarantees could be provided to investors in the form of full or partial protection of principal or guarantee of outcome payments in the event that payments are not honoured by an outcomes funder. The guarantees should be considered in light of the risk transfer to the investor, however, which is one of the incentives for the government to develop a SIB in the first place. Last but not least, all stakeholders and public authorities particularly should ensure that beneficiaries are not harmed in case of a SIB failure as underscored in other parts of this note.

23. Access to growth capital to scale up operations is a key incentive for *social services providers*. Access to long-term stable and predictable revenue stream without labour-intensive fundraising allows them to focus on the implementation of their programmes, invest on preventive operations, and deliver in the most effective and efficient way their services (Social Finance, 2012; Gustaffson-Wright et al., 2015). As a result, they have the opportunity to develop a culture of monitoring and evaluation while focusing on tackling a social challenge. Furthermore, participating in a SIB may facilitate the coordination with organisations working on overlapping problems.

24. Simultaneously, as above mentioned, depending on the SIBs structure, social services providers may be funded on annual- basis or based on specific milestones. Therefore, long-term financial stability, which is crucial for social services providers and especially for social enterprises, is not always ensured. Furthermore, there is always the risk of non- delivering the agreed outcomes. SIBs can put significant burden on social service providers regarding performance management and measuring outcomes as not all of them have sufficient capacity to assume these responsibilities. Even more so to scale them up. Finally,

social service providers may also suffer reputational harm, which affects them in securing funding in the future from potential donors.

25. *Intermediaries*' motivation varies according to the mandate that they have. Similarly to investors, they view SIBs as an opportunity to test innovative financial models addressing social problems and achieving outcomes. According to the Brookings Institution, their motivation depends on the stage of maturity of the SIB market (Gustaffson-Wright et al., 2015).

26. As intermediaries may steward the other stakeholders during all the stages of SIBs development and implementation, they could put the full process at risk under few circumstances. For example, SIBs require a long-term commitment in order to structure the deal, raise capital, implement the programme and evaluate the results. That being said, the intermediary should be capable of committing in the long-term as well, not being disturbed by internal governance or financial issues (Social Finance, 2012). In addition, they may also run to a financial risk in case their also tied part of their remuneration on SIB's performance. However, this is more of a success bonus as they are often financed through grants outside the SIB structure.

27. Overall, as SIBs is a rapidly evolving market, the motivations of the stakeholder may change throughout the time. For example, if SIBs become more mainstream and, hence, less innovative, a decline of the motivation to participate in them could occur. At the same, new incentives may emerge. For instance, the will to refine and improve the existing model (Gustaffson-Wright et al., 2015). The same applies to the visibility argument. In this case, although SIBs may become less visible, attention could be focused on the outcomes achieved or not, and if yes, in what ways.

- The various stakeholders participating in a SIB have different interests and incentives. It is important that all these align in a coherent and not conflicting way for SIBs to deliver a social service more effectively and efficiently than other interventions.

### **3. Are there any requirements for a specific regulatory framework? If yes, for what purposes? Does a conducive regulatory environment play a role?**

28. SIBs introduce sometimes new rules of engagement for their stakeholders and may reform older practices, especially when it comes to understanding how to structure the legal relations among them. Moreover, SIBs implementation can be hindered by regulatory barriers and, consequently, trigger financial and social costs. This part will offer a first, non-exhaustive approach on some handy elements on these topics that may be of use for policy-makers.

#### ***Policy Ecosystem***

29. An enabling legal and policy environment matters for SIBs development. Based on a recent survey conducted by Brookings Institutions (Gustaffson-Wright et al., 2015), 87% of the respondents indicated that government support is very important. A government can create a conducive ecosystem for SIBs by introducing support for a particular service in a policy framework or a strategy document. For instance, the UK, which has issued the majority of SIBs, has one of the most developed ecosystems. The Centre for Social Impact Bonds has been established in the Prime Minister's Cabinet Office as part of the Social Investment Finance Team and launched the Social Outcomes Fund in November 2012 with £20 million available for SIBs. In 2014, they also introduced legislation providing tax relief (Social Investment Tax Relief) to funding social enterprises. Another example comes from Australia and the state of New South Wales, which has implemented as Social Impact Investment Policy in 2015. The policy provided incentives for increasing social impact investment transactions, removing barriers, growing the market and building the capacity of the market actors.

### **Regulatory Framework**

30. A conducive ecosystem requires also an enabling regulatory framework, which contributes to SIBs development. Conversely regulatory barriers may hinder this process. Interested countries can check whether they have an appropriate regulatory environment by noting few considerations presented below. Regulation impacts the activities of all stakeholders engaged in a SIB mechanism; government authorities, investors, intermediaries, and services providers.

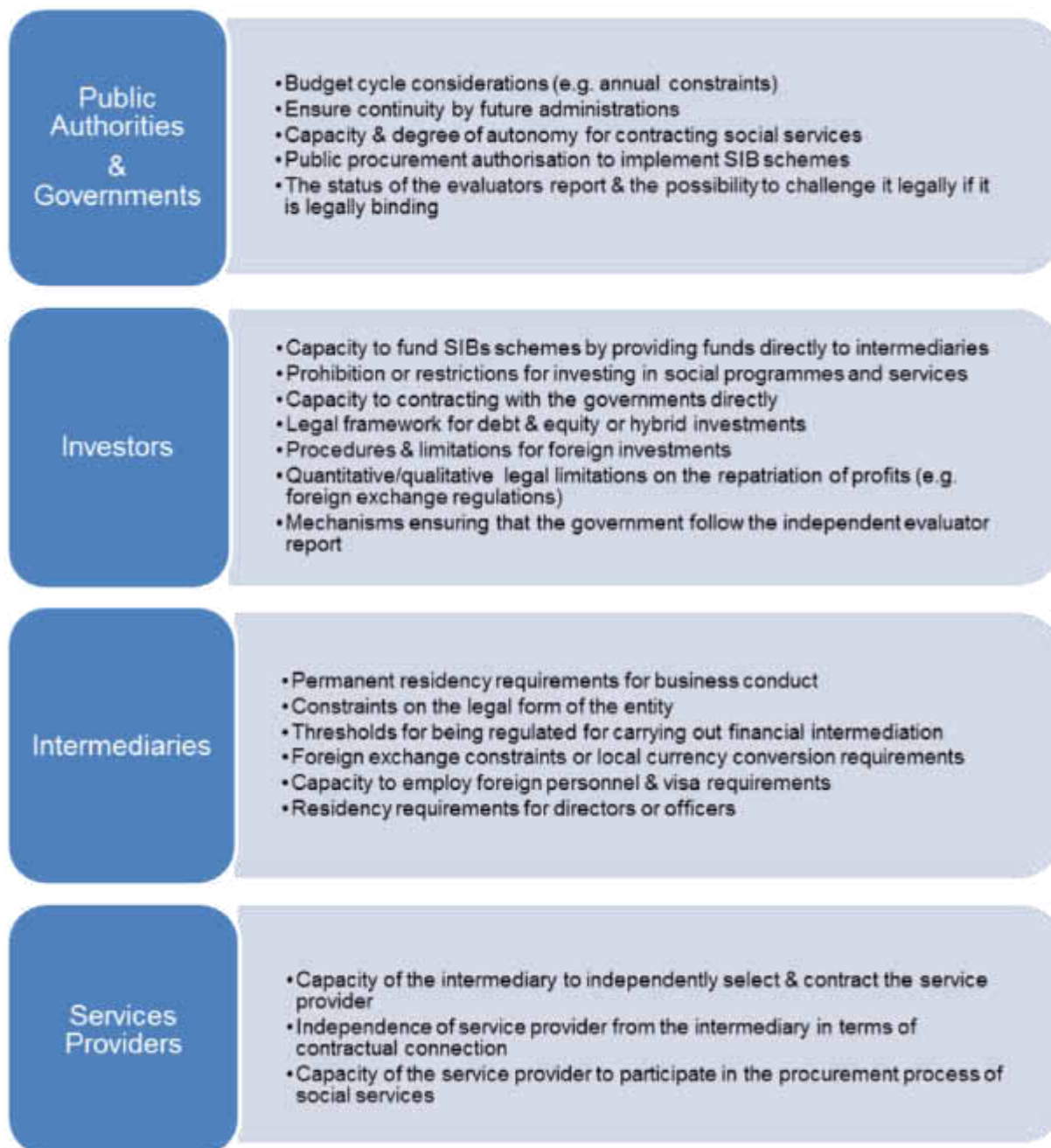
31. **Government authorities** have to examine two main areas: budget and contracting. As SIBs are multiyear investments, government as outcome funder need to be able to spread appropriated funds throughout the fiscal years and issue success-based payments (Liebman et al., 2013; Centre for Global Development & Social Finance, 2013). This can be a challenge as the usual path is to tie fiscal expenditures on a yearly basis. It is worth considering whether is possible and if there are mechanisms in place to ensure future payments committing also future administrations and ensuring that the SIB is not contingent upon political fluctuation. Secondly, it is worth examining to what extent are the government authorities capable of directing funds to intermediaries in a transaction and autonomous for contracting social services providers. Public procurement rules worth special clarification and, particularly, the capacity of the government to engage with an intermediary or other stakeholders during the implementation of a SIB (Instiglio, 2014). For example, in Australia- New South Wales where the Treasury Department issues the first SIB Request for Proposals included- apart from the standard bidding information- a new part requesting information regarding target population, location of the intervention, programme referrals, evaluation, payment triggers, cash flows in different performance scenarios as well as details regarding the intervention and the investment structure (Social Finance, 2012). Moreover, and for the intermediary to have the capacity to decide, such as selecting service provider, facilitates significantly the SIB deal. Last but not least, it should be considered the possibility of the government to challenge the evaluators' results as the payment of the SIB is contingent upon them.

32. **Investors**, on their end, consider two areas: funding opportunities, procurement and taxation. Firstly, it has to be examined whether there is a regulatory framework and, if yes, if it allows donors or investors to fund social services and SIB schemes directly or through intermediaries. If yes, a next step is to test whether there are any limits regarding the amounts to be provided as well as the financial vehicles providing them. Second, as SIBs can be hybrid investments with debt and equity components as well as stakeholders that may be located outside the country, it is worth exploring whether there is a specific regulation targeting these types of mechanisms and whether there are quantitative or qualitative legal limits on the repatriation of profits (Instiglio, 2014). Third, regulation can also facilitate a SIB transaction by providing incentives to investors that provide capital, such as contract protection transparency in the proceedings and tax benefits. For the latter, an example could be tax breaks for investments with social impact (Liebman et al., 2013; Social Finance, 2012).

33. For **intermediaries**, the two main issues are residence requirements and vehicle legal identity. On the one side, it has to be examined whether the regulation requires that the intermediary has to have commercial or permanent presence in the jurisdiction that provides only its advice. In case it is more heavily involved in the process by managing investor's funds, for instance, it has be clarified whether it needs to do so through a specific type of legal entity, for example a limited liability company or branch. Also, under this scenario does specific regulation apply above a specific threshold of managed funds? On the other side, movement of people and residence requirements are important elements for the operations of the intermediary. An example could be whether it is possible for the intermediary to use foreign personnel in its operations in the jurisdiction, and if yes, what are the types of visa provided and any other specific requirements. On the same note, it is useful to know whether there is nationality or residence requirement for the director/s of the intermediary.

34. For *social services providers* the key questions to consider are the following. Firstly, whether do they have to have a specific legal form in order to provide social services and if there are regulations limiting their field of activity. Second, whether they have the capacity to be contracted by intermediaries. Third, whether there is a risk that the employees of the social service provider considered that they are under the authority of the intermediary when it subcontracts them. This risk may be more pertinent in some jurisdictions than in others as it depends on the relevant labour law and/or contracts regulation. It may be mitigated by introducing a clause in the contract between the intermediary and the services provider. This clause would stipulate that the staff of the services provider at no time will be considered employees of the intermediary.

Figure 2. Regulatory considerations for SIBs stakeholders [under revision]



Source: OECD adapted from Instiglio (2015)

- Providing a conducive ecosystem and a sound regulatory framework is an essential step in the establishment of SIBs, as they need to work into specific national contexts.
- The level and depth of experience in payment-by-results contracts and performance management methods by all stakeholders need to be considered. This expertise seems more specific to some countries than others.

#### 4. What is the process for setting-up a SIB?

##### *SIBs deal development*

35. Since SIBs deal development has not mainstreamed yet, each process is unique. The duration to develop the SIB deal has lasted so far from six months to three years. Based on common practice, five stages have been identified; feasibility study, structuring the deal, implementation, evaluation of outcomes and repayment.

36. The *feasibility study* aims at identifying the social challenge that the SIB will address and based on specific criteria at assessing whether is possible or not. Although the criteria used to assess the feasibility of the SIB can vary across the deals, there are raise few common considerations. The first one is the capacity to identify measurable outcomes for the selected social challenge and evidence of success of achieving them. Then, it has to be determined what would be a reasonable time horizon based on previous experience for achieving similar outcomes as well as on the willingness of the outcomes funders to commit funds and receive the payments. Political and legal conditions should be taken into consideration in this endeavour. Political commitment and support for the services provided are crucial for fulfilling SIBs mission. This can be demonstrated through government strategy documents or policy frameworks for instance (Gustaffson-Wright et al., 2015). Legal conditions are also very important as they may equally enable or hinder the development and implementation of a SIB as abovementioned.

37. *Structuring the deal* is the second step for a SIB. During this stage raising capital from investors-individual or funds, grant makers, senior or subordinated lenders is key. At the same time, determining the intervention, the outcome metrics and evaluation methodology based on the feasibility study should be decided. Procuring a service provider should also be defined at this stage. There are several ways that this can happen (Tomkinson, 2015). What has to be highlighted here is the assessment or evidence of the capacity of the service provider to deliver the outcomes. Last but not least, there is the negotiation and the finalising of the contracts including deciding about the responsibility of the performance management.

38. The *implementation* phase of the SIBs entails the provision of social services by the selected providers and the management of their performance in most cases. *Evaluation* and deciding on the metrics of it is a challenging element of the deal development. Below, we discuss in more detail the methods of outcomes measurement and evaluation. Finally, once the evaluation is completed and the SIBs outcomes assessed, the *repayment process* can be initiated accordingly or not depending on the results.

39. Other elements for consideration

40. Political leadership, commitment, and support play a crucial role in establishing, on the first place, and developing thereafter a SIB market. As this process requires particular efforts and time in terms of learning, coordinating with multiple stakeholders and implementing in the span of multiple years, a dedicated leadership can galvanise and sustain these efforts. The cases of the UK and the US illustrate this point. As SIBs are long-term investments, it is important that they serve and are in line with the strategic and policy priorities as well as performance goals of the public authorities.

- Costs and benefits of engaging with SIBs should be analysed before starting a deal.

#### 5. In what policy areas can SIBs bring added value?

41. SIBs might provide an opportunity to address problems in areas where there are gaps or difficulties in achieving social outcomes, 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. Moreover, SIBs seem more appropriate when there are investors available, who are ready to



assume the relevant risks and are familiar with charities, social enterprises 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 might also be appropriate for organisations that have developed delivering capacities and expertise, but at the same time cannot go to scale. Still, this requires multi-annual funding. Finally and most importantly, SIBs seem to be an appropriate tool for financing and intervention with measurable outcomes and identifiable target groups.

42. So far, SIBs implementation has spanned across various policy areas, such as social welfare, education, criminal justice and recidivism, and employment. More precisely, social welfare SIBs have addressed issues such as homelessness, adoption and long-term foster care, family strengthening to avoid foster-care, support for disadvantaged youth.

- SIBs seem more appropriate for policy areas in which there are target groups which can be easily identified, when there are measurable outcomes, and when investors are familiar with charities, social enterprises and social issues.

## **6. Are SIBs more appropriate for preventative or cure interventions? What factors influence such a decision?**

43. Much discussion has been revolved around whether SIBs are more appropriate or stimulating for preventive or remedial interventions. Considering the fact that budgetary constraints hampers oftentimes preventive investments from governments, emphasis has been placed on the potential of SIBs for programmes with preventive nature. This is of particular importance for governments for two reasons. The first, evidently, is that it aims at improving the well-being of their citizens in the long-term. The second one, and closely linked to the first one, is that it may prosper “cashable savings” or “cost avoidance” for the government in the short and long-run as it will be explained below. Overall, the positive effect of prevention can be harnessed not only by the governments but also by the beneficiaries and the services providers. For instance, based on robust evidence, early childhood interventions can have high financial and social returns on investment.

44. So far, the majority of SIBs apart from one have been focused on prevention, for example, preventing from returning to prison or being unemployed or remaining homeless. Still, it needs to be stressed that prevention can be a highly relative term and these interventions could also be considered remedial in the sense that ex-offenders, unemployed or homeless are treated for an existing problem. In fact, pure preventive interventions may address beforehand certain factors that can have an impact on the beneficiary and avert him from falling into conditions, such as the ones presented before, on the first place. In such cases, however, the outcomes are manifested in long run most of the times.

- Although there is a strong emphasis on the role that SIBs can play in preventative interventions, it remains important for the public authorities to address directly them.

## **7. What are potential costs and risks stemming from SIBs?**

### *Costs*

45. A SIB arrangement includes short and long run standard costs. The upfront investment amount carried by the investors is considered a short run cost and its conditional payback by the outcome funders with a modest rate of return upon the success of the programme a long-run one. The key element for this process is determining the outcome metrics and payment schedule. The outcome metrics are discussed in detail below. The pricing of the agreed outcomes and the payment systems will be presented briefly here. The reason that this is key is simply because on this information is based the core of the SIB deal; the

necessary investment amount, the intervention mechanism, the procurement process and the selection of the social service provider.

46. Apart from the abovementioned standard costs, there are also associated or transaction costs. These costs may concern intermediaries' fees, legal and evaluation expenses. They can be either part of or additional to the SIB deal. As there is not at all or very limited precedent on the deal development, these costs may vary significantly across SIBs. On this point, it has to be noted that there is very limited information about these transaction costs as well. Intermediaries can charge a closing fee or a success fee included in the budget of the SIB contract. They can also be paid for their technical assistance for structuring the deal or for performance management during the implementation phase. Setting up the mechanism can be funded by the intermediaries themselves or through external grants. Legal fees have been provided in most instances pro bono or on a very low cost so far. Services providers may, also, receive bonuses if they achieve more than expected outcomes. Some argue that as SIBs become more mainstream and their development processes streamline, it is likely that a market around standard and associated costs will be developed. Some transaction costs will be reduced due to process standardisation while others, which were offered pro bono, may start charging fees. Until this point, however, SIBs may actually entail more costs, which are not widely known and anticipated, than traditional commissioning.

47. 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, 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 & challenges***

48. The lack of precedent in SIBs development and implementation has been the main challenge for the stakeholders. Deciding on technical aspects without previous experience and adopting a learning-by-doing approach is time consuming endeavour which may also entail financial costs. For example, structuring the SIB deal legally and examining whether the regulatory framework will not block any part of this complex mechanism throughout its implementation has been a challenge.

49. Although one of the main discourses around SIBs is that they transfer the government risk to the investors, governments may also encounter unintended risks in this process, especially when they impact the most vulnerable beneficiaries. As SIBs are contingent upon performance, if social services providers, investors or intermediaries (always depending on the structure of the SIB) select unilaterally the beneficiaries that are more likely to achieve the expected outcomes and leave outside the cohort the most challenging cases ("cherry picking"). Similar phenomena are known as "cream skimming" and "parking". "Cream skimming" refers to including only the highest achievers in the group. "Parking" refers to excluding the hardest to reach. Further, when investors withdraw from the SIB earlier than expected, they leave the beneficiaries without services. In all cases, the government- apart from its responsibility to protect these vulnerable groups- has to face high costs by acting as the "safety net funder".

50. Examining this issue from another angle, unintended risks may also emerge from events that are out of the control of the stakeholders and impact the outcomes payment to the investor. Therefore, the contract should include dedicated clauses regulating how payments will be settled under such circumstances. For instance, a case could be that both the government as outcomes payer and the investor decide to stall investment flows under force majeure circumstances or agree on a political risk mitigation

clause (Centre for Global Development & Social Finance, 2013). Introducing this kind of clauses to the SIB deal allows the investor to assess, price, monitor and manage the investment.

- Stakeholders should be aware of the transaction and associated costs that SIBs entails. Still, these costs are expected to drop as the process of establishing them becomes streamlined.
- They should ensure to avoid unintended consequences that may occur and may exclude or even harm some beneficiaries.

## **8. Which are the most appropriate methods and what are the hurdles that one faces when measuring and evaluating SIBs impact?**

51. Outcomes measurement and evaluation are key issues for SIBs. On the one side, measurement looks at the agreed outcome metric, using agreed data sets and records whether or not or to what extent the outcome was achieved. It is also closely linked to the payment of the “bond” and the fulfilment of the terms of the agreement. Therefore, it is an indispensable element to the process. Similarly to other elements in SIBs, outcomes measurement methods and respective payments structures vary across the agreements. Evaluation, on the other side, is of great importance as it takes a broader stance. It examines how the SIB was implemented and operated, it assesses the reasons why the outcomes were or were not met (including asking questions about causality). Importantly, an evaluation can examine unintended consequences – both positive and negative and may be able to explore the different levels of impact, such as whether changes in outcomes resulted from the SIB-funded intervention, the focus on outcomes, or the SIB mechanism itself (Disley et al., 2011).

52. Before we discuss the main caveats regarding the outcomes measurement and evaluation, it is worth presenting briefly the payments structures tied to them. In some SIBs, outcomes are priced-oftentimes in rate cards- and are paid per participant on a monthly, quarterly or yearly basis.<sup>14</sup> In such cases, validated administrative data offered either by the service provider or the government is a common source for determining outcome payments. Another form is when the outcomes are measured for the group participating in a SIB against a control group. The payments in this case are made based on the percentage change of the outcome measure in a number of intervals fixed in the contract (Disley et al., 2011; Gustaffson-Wright et al., 2015). This is a more challenging measurement process. In some cases, it may combine outcomes at individual and group level against the control group, use comparison to a historical baseline or randomised control trials.

### ***Measurement caveats***

53. The *definition and selection of the target group* has to be made with great caution. This depends on whether the mission of the SIB is to be preventative or curative. It is important to have a robust design and clarifying who is eligible to participate in the target group and receive the treatment in order to avoid any perverse effect as mentioned above, such as “cherry picking”, “cream skimming”, or “parking”. In this endeavour, there are four main considerations to be made. Firstly, the size of the target group may be connected to the level of outcome that has to be attained (for example, 10% of reduction in homelessness), if the SIB is to be successful (Disley et al., 2011). This is important for illustrating whether the intervention has statistically significant effect or not. Secondly, in order to have a robust sample or target group may require a significant amount of time and this may affect the period of time that an investor can wait until he receives an outcome payment. For instance, in the Peterborough One Service SIB it took around 19 months to for the first 1,000 men to be released from the prison (Disley et al., 2011). Thirdly, the size of the

---

<sup>14</sup> It has been observed that in some of these cases, the success is mainly measured by outputs (completion of an activity) rather than outcomes (the impact of the activity on the beneficiary (Gustaffson-Wright et al., 2015).

sample is closely linked as well to the funding required for the intervention (OECD, 2015). Finally, in case of using a randomised control trial, the 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.

54. **Measuring the progress of a SIB intervention** can be a challenging process. Depending on the outcome that needs to be captured and measured, several tools have been identified. The more straightforward is to employ hard outcome measures capturing reduced service use. In this case, it is clear for all stakeholders which data is relevant. For example, in the Peterborough One Service 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). At the same time, hard outcomes may be visible in the medium to long-term. As a complement to this approach, soft outcomes could provide an earlier indication of whether an intervention is effective or not. That being said, wider and long-term impact should not be neglected. The most appropriate way to measure this is an evaluation, even if outside the scope of the SIB or the willingness of the government or commissioner to fund them.

55. Whether we are talking about hard outcomes, soft outcomes or longer-term outcomes there may be a choice between **binary or frequency measures**. A *frequency outcomes 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 outcomes 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 (OECD, 2015).

56. **Attribution** is a significant challenge for SIBs similarly to other social interventions. The main hurdles for attribution are the **deadweight** (outcomes that would have been achieved if there was no intervention) and **competing services** (support provided by other providers outside the SIB either to the target or to control groups or both) (Disley et al., 2011). Preventative interventions, for example on early years, require particular attention in the methodological design in order to attribute properly the SIBs effects. Attribution is also important for identifying an appropriate exit strategy at the end of the SIB (OECD, 2015). To this end, understanding the wider impact of SIB on three different levels is of utmost importance. At the level of the intervention, it has to be examined whether it was solely the intervention that created the impact. At the level of an outcome based contract, it should be discussed whether it was the focus on outcomes the driver behind success or failure or if this had an impact at all. Last but not least, at the level of SIB it worth inquiring on was whether the SIB structure and investor involvement had an effect on the delivery of social services or not.

57. Although **control groups** and **propensity score matching (PSM)** are often used to **measure changing context** due to their robustness and the increasing confidence that an outcome is actually caused by the SIB-funded intervention, they also have some drawbacks that were presented above (difficulty for appropriate control groups, technical complexity, attribution among). To this end, two alternative approaches could be easier and less costly to implement despite the fact that they are less robust.

58. The first one could be to use **before and after measures within the target group**. In this case, one compares the outcomes before the SIB funded intervention is implemented with those after the intervention within the same group. This type of approach is not specific to SIBs, as it is often used also in evaluate and measure the effects of any policy intervention. The limitation of this approach is the difficulty to establish causality and isolate the effects of the SIB.

59. 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 that 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 (OECD, 2015).

- SIBs may be an opportunity to nurture a culture of monitoring and evaluation in social services delivery.
- Outcomes measurement is a key element for SIBs. Yet, it requires sound technical skills for the design and the implementation of a robust methodology.
- All stakeholders may benefit from an evaluation process as it can examine unintended consequences – both positive and negative- and may be able to explore the different levels of impact, such as whether changes in outcomes resulted from the SIB-funded intervention, the focus on outcomes, or the SIB mechanism itself.

## 9. What are the returns of a SIB financially, socially or other, if any?

60. If a SIB is successfully implemented and achieves the agreed outcomes, it can yield financial, social and other returns.

61. A successful SIB intervention may prosper *financial returns* for the government authorities. As the outcomes achieved should be monetisable, this allows the government to identify the savings gained in the budget. There are two dimensions that need to be clarified here; timescale and government level. In terms of timescale, we distinguish between short and long-term. Evidently, in the short-term savings are made because the government uses investors' capital to fund an already existing or completely new intervention filling a service gap in this case. In the long-run, the government may enjoy savings by reducing its budget to treat a specific social issue simply because the population in need has been decreased as a result of a preventive SIB intervention.

62. Regarding the government level, financial returns can be observed at national, regional and/or local level. This depends on how the government decides to capture and treat the accruing savings. On this point, the “wrong pockets” challenge has been raised in some SIBs. This phenomenon occurs when one government authority participates in a SIB and acts as the outcomes funder, whereas another one harnesses all the benefits and savings (Kohli et al., 2015). This can occur horizontally and vertically. Vertically is when this inconsistency occurs among different government levels. An illustration of this phenomenon is the Junior Code Academy SIB in Portugal, where the outcome funder is the municipality of Lisbon whereas the national government accrues savings from fewer students repeating grades (OECD, 2015). Horizontally occurs when there is inconsistency among government agencies at the same level. The Rotterdam Buzinezzclub SIB implemented in the Netherlands reflects both “wrong pockets” issues (OECD, 2015). Vertically because, again, there has been the savings inconsistency between the municipality of Rotterdam and the national government, and horizontally because of it between the Ministry of Education and the Ministry of Social Services (Gustaffson-Wright, 2015; Liebman et al., 2013).

63. SIBs can also trigger capital recycling. In this process, the payments from the government to the SIB programme or SPV during the intervention are used to continue funding service provision. At the end of the programme, investors or service providers as investors receive what remains in the programme. However, if capital is being recycled in this way, less capital is required upfront and investors can make smaller though riskier investments. These investments have higher risk because the programme does not begin with the capital it needs to run the service throughout the SIB; it must achieve each year sufficient outcomes to fund the following (Liebman et al., 2013).

64. SIBs may also yield returns to investors if the outcomes are attained. As previously mentioned, investors assume a significant amount of risk when participating in a SIB mechanism, which could be mitigated, for example, by the use of guarantees by philanthropic organisations. Therefore, financial returns to the investors with the commonly agreed interest rate in a foreseen timeline is another important element of this mechanism.

65. Some claim that SIBs could potentially take *social returns* to scale due to their capacity to gather significant financial resources and cross-fertilise the know-how of some of its stakeholders to manage them. The access to growth capital that a SIB can offer can be of particular interest to social services providers, such as social enterprises or non-profits, which operate at small scale due to limited funds and capacity and not by choice. Furthermore, SIBs by building an evidence base may encourage government authorities to finance or increase their support to social interventions that they might have overlooked in the past. By embarking on such an endeavour, larger segments of population in need can be reached-potentially in other areas-, improving infrastructure or inspiring a monitoring and evaluation culture. Still, evidence so far suggests that SIBs have been reaching a relatively limited number of beneficiaries. According to a recent study by Brookings Institution (Gustaffson-Wright, 2015) among the 38 SIBs that it examined, 25 of them serve populations less than 1.000 beneficiaries. Of course, scaling- particularly in terms of number of beneficiaries- is not the ultimate aim of SIBs in principle. Therefore, when scaling occurs, it can be viewed as a ripple effect. Moreover, scaling is a relative term and can have multiple interpretations and should not be measured only in quantitative (number of beneficiaries, for example) but also in qualitative terms (depth of impact).<sup>15</sup> That being said, it should be underscored that SIBs are one among other tools of impact investing market (OECD, 2014a). Given the scale and severity of social needs globally and locally, we should not overestimate SIBs capacity to address them.

66. Another common proposition is that SIBs can spur *social innovation*. SIBs can be viewed as an innovative way of delivering social services or to a new segment of population or in specific new service setting or in a new geography and in combination with other interventions. Hence, there may be various ways in which SIBs can potentially spur social innovation. However, the predominant innovative element still remains the structure of the SIB mechanism per se. On a final note, SIBs may foster a monitoring and evaluation culture between services providers and government authorities through the demand for better data. Yet, it has to be underscored that this can be a double-edged sword particularly for the services providers as some may be more motivated and try to develop further this competencies whereas others may be intimidated or even be excluded due to their limited capacity (OECD/European Commission, 2015).

- SIBs may yield financial returns in the form of savings to the government authorities as well as social returns by scaling-up social programmes and services. Both financial and social returns may also arise by using SIBs in preventative interventions.
- SIBs may foster social innovation and, in particular, on the ways services are provided.

## 10. What happens if a SIB fails?

67. This is a question that is not often addressed in the policy debate. Although scarce evidence hinders us from drawing any robust conclusions at this stage, it is still worth discussing it.

68. A first element that needs to be discussed is *when actually a SIB fails*. An initial and intuitive response is when it does not achieve the outcomes agreed upfront. However, “failure” can also be a relative term. For example, positive outcomes may be attained, but below the agreed threshold. Moreover, positive

---

<sup>15</sup> For further analysis regarding scaling look at OECD (forthcoming), *Scaling the impact of social enterprises: Policies for social entrepreneurship*, OECD/European Commission, Luxembourg: Publications Office of the European Union

externalities may occur despite the failure of the SIB. For instance, service providers may benefit from being immersed into a monitoring and evaluation culture when delivering their social services. A programme that is not working, is not effective, and is not good use of resources as it should be can be discontinued and this is something that rarely occurs in public policy. Ending such a programme could allow for resources to be invested differently or in another programme, which may yield better outcomes. Additionally, some SIBs may allow for developing the evidence-based on which interventions work and how (Disley and Rubin, 2014). This can trigger a mindset transformation (OECD, 2015).

### ***Failure in social terms & the role of the government***

69. In case of failure to attain the agreed outcomes, service providers can cease their operations phasing out the intervention and leaving the beneficiaries without services. Two points have to be raised here. The first one is that in such a scenario, first and foremost, harming the beneficiaries must be avoided at any cost. Therefore, ending a programme, which is doing more harm than good to the beneficiaries, may be a preferable option. The second one is the continuation and sustainability of the SIB programme by the government despite its failure in terms of the contract due to other positive or potential outcomes and externalities. Clearly, solely relying on SIBs for social services provision is a high risk enterprise particularly in case of failure. Imagine, for instance, the complete cease of prisons or day-care centres at the end or the failure of a SIB. Therefore, SIBs could be more appropriate for supplementary rather than core services (Liebman et al., 2013).

### ***Failure in financial terms***

70. In *financial terms*, failure translates to complete loss of the invested capital. For instance, non-recoverable grants are not repaid. However, this is not always that straightforward. As SIBs are high risk investments, investors and intermediaries may have in place capital protection mechanisms and investment guarantees. Therefore, they may harness the returns on their investment regardless of the SIBs outcomes. The extent to which the investment in covered varies across SIBs. Early termination clauses is another strategy for mitigating investors' risk in case of expected failure of the SIB. In fact, most SIBs may have some clauses releasing the contracting parties in case of incapacity to fulfil their obligations (Gustaffson-Wright et al., 2015). For example, in the New York City SIB on criminal justice, the SIB terminated prematurely only three years after it started due as it did not meet the targets agreed by this time. The Peterborough One Service SIB was also discontinued earlier, after two years of implementation. This occurred due to a change in government policy that introduced a programme (a new payment by results service) overlapping with the Peterborough SIB-funded service. Consequently, the investors in this case missed an outcome payment in the final year of the SIB (Disley et al., 2011; Gustaffson-Wright et al., 2015). Government policy change may also entail risks and financial losses for the investors.

- SIBs may be a risky endeavour due to lack of precedent and may entail “failures” in financial and social terms. Still, “failure” can be a relative term.
- Although, financial failure is on the first line, mechanisms mitigating the risk for the investors have already been in place.
- The government also carries risk as it may need to step in and ensure the continuity of social services in case of a SIB failure. Therefore, it may be more appropriate to view SIBs as complementary rather than a core mechanism for social services delivery.

## 11. Conclusion

71. In times of budgetary constraints combined with aggravating social challenges, SIBs have emerged as an innovative financing mechanism representing a complementary approach to traditional social policy interventions, notably in areas where there are government and market failures.

72. SIBs are an example of experimentation in financial models for public service delivery and have raised a number of questions regarding the use of public funds, transparency, accountability, as well as challenges brought by the use of private funds for social services.

73. Although less complicated and less costly means of financing social services already exist, SIBs may prove to yield specific advantages. For example, they may represent a more effective way to deliver social services due to their focus on monitoring and measuring social outcomes. Still, more analysis is needed in this respect comparing the impact of traditional social policy tools for delivering services and SIBs.

74. Evaluation can be a useful avenue for assessing the strong and weak points of each SIB as well as illustrating causality for its impact (meaning which ones from the expected outcomes or any unintended ones were caused by the SIB). However, it is not a mandatory part of the mechanism and has not been widely used. Until the cut-off date of this report 45 SIBs have been implemented to our knowledge, very few completed and even less evaluated. This underscores the problem of data paucity combined with qualitative analysis that would allow drawing further conclusions regarding the effectiveness of SIBs.

75. The potential of SIBs to enhance socially innovative responses to people's needs also deserves to be further analysed. The main social innovations in delivery appear to be up to now about scaling up already existing models and better coordinating stakeholders.

76. Furthermore, despite the variety of stakeholders participating in SIBs, it has to be noted that larger social enterprises or social services providers have been mostly benefited from this structure while smaller ones remain at the margin due to their limited capacity to respond to the necessary requirements.

77. Overall, while SIBs have achieved interesting results in some policy areas and triggered debates that can help reflect on how social services are being financed and delivered, additional knowledge and sound evidence need to be generated in order to reduce controversies around SIBs. The jury is still out.



## GLOSSARY

### *Administrative data*

78. Administrative data refers to information collected primarily for administrative (not research) purposes. This type of data is collected by government departments and other organisations for the purposes of registration, transaction and record keeping, usually during the delivery of a service.

### *Binary outcomes measures*

79. A binary outcome measure is one that provides a “yes/no” answer. It is also a measure that may split participants into two mutually exclusive states, one the desired state, one the undesired state. Often represented as a rate or proportion. Examples of binary measures include: whether or not a child dropped out of school, whether an individual reoffended or not within 12 months of discharge from prison, etc. (Source: Centre for Global Development & Social Finance, 2013; Cabinet Office online SIBs Knowledge Box<sup>16</sup>)

### *Deadweight*

80. Deadweight is the change in outcomes that would have resulted without intervention.

### *Development Impact Bonds (DIBs)*

81. Development Impact Bonds (DIBs) are a variation on Social Impact Bonds (SIBs), which have been implemented in the UK, the US, and countries. The main difference between a SIB and a DIB is the outcomes funder. For a SIB, the outcomes funder is most of the times the government whereas for a DIB is usually a donor (Source: Instiglio, 2014).

### *Frequency outcomes measures*

82. A frequency outcome measure (or a measure of ‘distance travelled’) is one that measures the number of times that an event occurs within a given period and captures the extent of improvement using a counts or scales. Examples of frequency outcome measures are: number of days in the year that a child attends school, the number of conviction events associated with an individual within 12 months of discharge from prison, the number of times that a community purchases chlorine for water treatment over a certain time period, etc. (Source: Centre for Global Development & Social Finance, 2013; Cabinet Office online SIBs Knowledge Box<sup>17</sup>)

---

<sup>16</sup> [https://data.gov.uk/sib\\_knowledge\\_box/glossary#capital](https://data.gov.uk/sib_knowledge_box/glossary#capital)

<sup>17</sup> [https://data.gov.uk/sib\\_knowledge\\_box/glossary#capital](https://data.gov.uk/sib_knowledge_box/glossary#capital)

### *Market Failure*

83. Market failure is a general term describing situations in which market outcomes are not Pareto efficient. Market failure provides a rationale for government intervention. (Source: OECD, 2014; OECD Glossary of Statistical Terms<sup>18</sup>)

### *Outcomes*

84. There are different ways to define outcomes, depending on the case at hand. For example, the World Bank defines project outcomes as the uptake, adoption or use of project outputs by the project beneficiaries. Depending on the horizon over which outcomes are measured, an intermediate Outcome may be used, which specifies a result proximate to an intended final outcome, but likely more achievable in the lifetime of a project. Example: Teachers use the new teaching methods (intermediate outcome) to improve learning among students (final outcome). (Source: Centre for Global Development & Social Finance, 2013)

### *Outputs*

85. Outputs are the supply-side deliverables, including the events, products, capital goods or services that result from a project's inputs (i.e. construction of a school). The key distinction between an output (a specific good or service) and an outcome is that an output typically is a change in the supply of goods and services (supply side), while an outcome typically reflects changes in the utilisation of goods and services (demand side). Outputs are often intended to lead to outcomes/impact. (Source: Centre for Global Development & Social Finance, 2013; World Bank Results Terminology website<sup>19</sup>)

### *Propensity Score Matching (PSM)*

86. Propensity-score matching (PSM) is a quasi-experimental option used to estimate the difference in outcomes between beneficiaries and non-beneficiaries that is attributable to a particular program. (Source: Better Evaluation website<sup>20</sup>)

### *Rate card*

87. It is a list of outcomes and prices that the investors are willing to pay for each outcome. The prices are calculated based on extensive research regarding the cost savings stemming from reduced remedial assistance. (Source: Gustaffson-Wright et al., 2015)

### *Social Enterprises*

88. Any private entity conducted in the public interest, organised with an entrepreneurial strategy but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, which has the capacity of bringing innovative solutions to the problems of social exclusion and unemployment (Source: OECD, 1999)

---

<sup>18</sup> <https://stats.oecd.org/glossary/>

<sup>19</sup> [http://siteresources.worldbank.org/INTISPMA/Resources/383704-1184250322738/3986044-1250881992889/04\\_WorldBank\\_Results\\_Terminology.pdf](http://siteresources.worldbank.org/INTISPMA/Resources/383704-1184250322738/3986044-1250881992889/04_WorldBank_Results_Terminology.pdf)

<sup>20</sup> [http://betterevaluation.org/evaluation-options/propensity\\_scores](http://betterevaluation.org/evaluation-options/propensity_scores)

*Special Purpose Vehicle (SPV)*

89. A SPV is a legal entity (usually a limited company) that is created solely for a particular financial transaction or to fulfil a specific contractual objective. SPVs can be viewed as a method of disaggregating the risks of an underlying pool of exposures held by the SPV and reallocating them to investors willing to take on those risks. (Source: Cabinet Office online SIBs Knowledge Box; PwC, 2011)

## REFERENCES

- Belinsky, M., Eddy, M., Lohmann, J. and G. Michael (2014), “The application of Social Impact Bonds to universal health- care initiatives in South-East Asia”. *WHO South-East Asia Journal of Public Health*, Vol. 3/3-4, pp. 219- 225
- Burand, D. (2013), Globalising Social Finance: “How Social Impact Bonds and Social Impact Performance Guarantees can Scale Development”, *Journal of Law & Business*, Vol. 2013/9, pp. 447-502
- Centre for Global Development & Social Finance (2013), “Investing in Social Outcomes: Development Impact Bonds”, The report of the Development Impact Bond working group, <http://www.cgdev.org/sites/default/files/investing-in-social-outcomes-development-impact-bonds.pdf>
- Disley, E., Rubin, J., Scraggs, E., Burrowes, N. and Culley, D. (2011) *Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough*. London: Ministry of Justice.
- Disley, E. and Rubin, J. (2014), *Phase 2 report from the payment by results Social Impact Bond pilot at HMP Peterborough*. London: Ministry of Justice, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/325738/peterborough-phase-2-pilot-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325738/peterborough-phase-2-pilot-report.pdf)
- Goodall, E. (2014), *Choosing Social Impact Bonds: A practitioner’s guide*, Bridges Ventures, [http://www.bridgesventures.com/wp-content/uploads/2014/10/ChoosingSocialImpactBonds\\_APractitionersGuide.pdf](http://www.bridgesventures.com/wp-content/uploads/2014/10/ChoosingSocialImpactBonds_APractitionersGuide.pdf)
- Gustafsson-Wright, E., Gardiner, S. and V. Putcha (2015), *Potential and Limitations of Impact Bonds: Lessons from the First Five Years of Experience Worldwide*, Global Economy and Development Program, Brookings Institution, <http://www.brookings.edu/~media/Research/Files/Reports/2015/07/social-impact-bonds-potential-limitations/Impact-Bondsweb.pdf?la=en>
- Instiglio (2014), *A legal roadmap for Social Impact Bonds in developing countries*, Instiglio, Thomson Reuters Foundation and Baker & McKenzie, <http://www.instiglio.org/wp-content/uploads/2015/02/Legal-Road-Map-for-SIBs-in-Developing-Countries.pdf>
- Kohli, J., Golden, M., Coletti, J. and L. Bo’sher (2015), *From Cashable Savings to Public Value: Pricing Program Outcomes in Pay for Success*, Center for American Progress, <https://cdn.americanprogress.org/wp-content/uploads/2015/08/31113147/PayForSuccess-brief.pdf>
- OECD (1999), *Social Enterprises*, OECD Publishing, doi: 10.1787/9789264055087-en
- OECD (2014a), *Social Impact Investment: Building the Evidence Base*, Paris: OECD Publishing, <http://www.oecd.org/sti/ind/social-impact-investment.pdf>

- OECD netFWD (2014b), *Venture Philanthropy in Development: Dynamics, Challenges and Lessons in the Search for Greater Impact*, OECD Development Centre, Paris,  
<http://www.oecd.org/dev/Venture%20Philanthropy%20in%20Development-BAT-24022014-indd5%2011%20mars.pdf>
- OECD (2015), “Social Impact Bonds-Promises and Pitfalls”, Summary Report of the OECD Experts Seminar, Paris, 15 April 2015, France,  
<http://www.oecd.org/cfe/leed/SIBsExpertSeminar-SummaryReport-FINAL.pdf>
- OECD/European Union (2015), *Policy Brief on Social Impact Measurement for Social Enterprises: Policies for Social Entrepreneurship*, OECD/European Commission, Luxembourg: Publications Office of the European Union,  
<http://www.oecd.org/industry/Policy-Brief-social-impact.pdf>
- OECD (forthcoming), *Scaling the Impact of Social Enterprises: Policies for Social Entrepreneurship*, OECD/European Commission, Luxembourg: Publications Office of the European Union
- PwC (2011), *The next chapter: Creating an understanding of Special Purpose Vehicles*,  
<https://www.pwc.com/gx/en/banking-capital-markets/publications/assets/pdf/next-chapter-creating-understanding-of-spvs.pdf>
- Social Finance (2012), *A New Tool for Scaling Impact: How Social Impact Bonds can Mobilise Private Capital to Advance Social Good*,  
<http://www.socialfinanceus.org/sites/socialfinanceus.org/files/small.SocialFinanceWPSingleFINAL.pdf>
- Social Finance (2011), *A Technical Guide to Developing Social Impact Bonds*,  
<http://www.socialfinance.org.uk/wp-content/uploads/2014/07/Technical-Guide-to-Commissioning-Social-Impact-Bonds.pdf>

## ANNEX 1: LIST OF SIBS &amp; DIBS AT IMPLEMENTATION AND DESIGN STAGE

Stage of Development	Country	Location	Social Issue	Outcome Payer	Contract Duration (Years)
<b>Implementation</b>	Australia	New South Wales	Intensive Family Support Services	New South Wales Government	5
<b>Implementation</b>	Australia	New South Wales	New Parent Support & Infant Family Support	New South Wales Government	7
<b>Implementation</b>	Belgium	Brussels	Unemployment among youth migrants	Actiris, Brussels Agency for Employment	2
<b>Implementation</b>	Canada	Saskatchewan	Support living home for at-risk single mothers	Government of Saskatchewan	5
<b>Implementation</b>	Germany	Augsburg	Education & Employment for young people	Bavarian State Ministry of Labour & Social Affairs, Family & Integration	2
<b>Implementation</b>	India	Rajasthan	Education (Girls)	Children Investment Fund Foundation	3
<b>Implementation</b>	Ireland	Dublin	Homelessness	Dublin City Council	1
<b>Implementation</b>	Netherlands	Rotterdam	Youth Employment	Municipality of Rotterdam	2
<b>Implementation</b>	Netherlands	Utrecht	Youth Employment	Municipality of Utrecht	4
<b>Implementation</b>	Peru	Peruvian Amazon Region	Cocoa & Coffee	The Common Fund for Commodities	

<b>Implementation</b>	Portugal	Lisbon	School Performance	Lisbon Council	1
<b>Implementation</b>	Switzerland	Bern	Integration of refugees into job market	The Canton of Bern-Department of Health & Welfare	5
<b>Implementation</b>	South Korea	Seoul	Child Welfare	Department of Women & Family Policy, Office of Children & Young People, Seoul Metropolitan Government	3
<b>Implementation</b>	UK	Peterborough	Recidivism	Ministry of Justice	8
<b>Implementation</b>	UK	Essex Council	Foster Care	Essex County Council	5
<b>Implementation</b>	UK	Greater Merseyside	Workforce Development	Department of Work & Pensions	3
<b>Implementation</b>	UK	Shoreditch, London	Workforce Development	Department of Work & Pensions	3
<b>Implementation</b>	UK	Stratford, Canning Town, Royal Docks (Newham), Cathall (Waltham Forest)	Workforce Development	Department of Work & Pensions	3
<b>Implementation</b>	UK	West Midlands (Birmingham)	Workforce Development	Department of Work & Pensions	3
<b>Implementation</b>	UK	Nottingham City	Workforce Development	Department of Work & Pensions	3
<b>Implementation</b>	UK	Perthshire & Kinross, Scotland	Workforce Development	Department of Work & Pensions	3
<b>Implementation</b>	UK	West London (Brent, Ealing, Hammersmith & Fulham, Hounslow, Westminster, & Haringey)	Workforce Development	Department of Work & Pensions	3

<b>Implementation</b>	UK	Thames Valley (South West England)	Workforce Development	Department of Work & Pensions	3
<b>Implementation</b>	UK	Greater Manchester (Manchester, Salford, Bolton, Oldham, Tameside)	Workforce Development	Department of Work & Pensions	3
<b>Implementation</b>	UK	Cardiff & New Port	Workforce Development	Department of Work & Pensions	3
<b>Implementation</b>	UK	North West England	Workforce Development	Department of Work & Pensions	3
<b>Implementation</b>	UK	London	Homelessness	Greater London Authority, funded by Department for Communities & Local Government (DCLG)	3
<b>Implementation</b>	UK	Wales	Foster Care	Cardiff	3
<b>Implementation</b>	UK	Country-wide	Adoption	Local authorities & Social Outcomes Fund	10
<b>Implementation</b>	UK	Newcastle	Long-term health conditions	NHS NWCCG, Big Lottery Fund & Cabinet Office's Social Outcomes Fund	7
<b>Implementation</b>	UK	Greenwich, Manchester, Oldham and Rochdale	Youth Homelessness NEETs	Department of Communities and local Government, and the Cabinet Office's Social Outcomes Fund	3
<b>Implementation</b>	UK	Kirklees, Calderdale & Wakefield	Youth Homelessness NEETs	Department of Communities and local Government, and the Cabinet Office's Social Outcomes Fund	3



<b>Implementation</b>	UK	Liverpool & Knowsley	Youth Homelessness NEETs	Department of Communities and local Government, and the Cabinet Office's Social Outcomes Fund	3
<b>Implementation</b>	UK	Gloucestershire, Tewkesbury, Forest of Dean, Stroud, Cheltenham, Gloucester City and Cotswold	Youth Homelessness NEETs	Department of Communities and local Government, and the Cabinet Office's Social Outcomes Fund	3
<b>Implementation</b>	UK	Birmingham, Coventry, Solihull, Walsall and Wyre Forest	Youth Homelessness NEETs	Department of Communities and local Government, and the Cabinet Office's Social Outcomes Fund	3
<b>Implementation</b>	UK	Leicester, Leicestershire, Derby and Derbyshire	Youth Homelessness NEETs	Department of Communities and local Government, and the Cabinet Office's Social Outcomes Fund	3
<b>Implementation</b>	UK	Worcestershire	Elderly	Clinical Commissioning Group & the Cabinet Office	
<b>Implementation</b>	USA	Chicago	Early Childhood Development	Chicago Public Schools & City of Chicago	17
<b>Implementation</b>	USA	Massachusetts	Recidivism	Commonwealth of Massachusetts	7
<b>Implementation</b>	USA	New York City	Recidivism	New York City	4
<b>Implementation</b>	USA	New York State	Employment for former incarcerated	US Dept. of Labour and NY State	5.5
<b>Implementation</b>	USA	Salt Lake City	Early Childhood Development	United Way of Salt Lake, Salt Lake County (first year) and State of Utah	12

<b>Implementation</b>	USA	Cuyahoga county, Ohio	Housing & Child Welfare		5
<b>Implementation</b>	USA	Massachusetts	Homelessness	Commonwealth of Massachusetts	6
<b>Implementation</b>	USA	Fresno, California	Asthma Management	California Endowment	2
<b>Design</b>	Australia	South Australia	Homelessness	Government of South Australia	
<b>Design</b>	Chile	Santiago	Reducing Recidivism		
<b>Design</b>	Colombia	Bogota	Youth Unemployment		
<b>Design</b>	Costa Rica	San José	Water Conservation	Board of Education	
<b>Design</b>	Israel		Workforce development for ultraorthodox Jews		
<b>Design</b>	Israel		Workforce development for Arab citizens of Israel		
<b>Design</b>	Israel		Reducing Type II Diabetes in high-risk pre-diabetics		
<b>Design</b>	Israel		Reducing dropout rates from higher education		
<b>Design</b>	Israel		Recidivism		
<b>Design</b>	New Zealand		Employment service to People with Mental Health Conditions		

<b>Design</b>	Rwanda		HIV/ adolescent healthcare	Ybank	
<b>Design</b>	Uganda		Sleeping sickness		8
<b>Design</b>	UK	Greater Merseyside	Youth Engagement	Cabinet Office, Department of Work & Pensions, & Ministry of Justice	
<b>Design</b>	UK	London	Youth Engagement	Cabinet Office, Department of Work & Pensions, & Ministry of Justice	
<b>Design</b>	UK	Sheffield	Youth Engagement	Cabinet Office, Department of Work & Pensions, & Ministry of Justice	
<b>Design</b>	UK	Greater Manchester	Youth Engagement	Cabinet Office, Department of Work & Pensions, & Ministry of Justice	
<b>Design</b>	UK	North East	Long-term health conditions	Cabinet Office	
<b>Design</b>	UK		Children at the age of care	Cabinet Office	
<b>Design</b>	UK	London & West Midlands	Mental Illness	Cabinet Office	
<b>Design</b>	UK	West Midlands, Birmingham, Wolverhampton & Sandwell	Gangs-related crime		3 to 5
<b>Design</b>	UK	Worcestershire	Elderly	Clinical Commissioning Groups & the Cabinet Office	
<b>Design</b>	USA	Massachusetts, Michigan, New York, Utah and Tennessee	Asthma Management		

<b>Design</b>	USA	Santa Clara County, California	Mental Health		7
<b>Design</b>	USA	Illinois	Child Welfare	State of Illinois	
<b>Design</b>	USA	Massachusetts	Adult Basic Education	Commonwealth of Massachusetts	
<b>Design</b>	USA	Colorado	Homelessness		
<b>Design</b>	USA	Santa Clara County, California	Homelessness		6
<b>Design</b>	USA	South Carolina	Child & Maternal Health	South Carolina Department of Health	
<b>Design</b>	USA	New York State	Child & Maternal Health for People in Poverty	New York State	4
<b>Design</b>	USA	Richmond, California	Rehabilitating & Repairing Abandoned Residential Properties	Richmond City Council	
<b>Design</b>	USA	Salt Lake, Utah	Maternal & Child Health	Salt Lake County	
<b>Design</b>	USA	Salt Lake, Utah	Criminal Justice/ Recidivism	Salt Lake County	
<b>Design</b>	South Africa	Western Cape	Early Childhood Development	Western Cape Government & Treasury	

Note: This list includes SIBs identified until the cut-off date of this paper upon data availability (28 October 2015). It also includes few DIBs.

Source: OECD adapted from Instiglio SIBs world map (<http://www.instiglio.org/en/sibs-worldwide/>)

**CENTRE FOR ENTREPRENEURSHIP, SMES AND LOCAL DEVELOPMENT**  
**Co-operative Action Programme on Local Economic and Employment Development**

**SOCIAL IMPACT BONDS: STATE OF PLAY & LESSONS LEARNT**

**67th Session**  
**Co-operative Action Programme on Local Economic and Employment**  
**Development (LEED)**

**9-10 November 2015**  
**OECD Conference Centre, 2 rue André Pascal, 75016 Paris, France**

*This document presents the functioning of SIBs, outlines their implementation in various country and policy contexts, and reports on lessons that can be learnt from the experience so far. It was prepared by Mr Peter Ramsden, Freiss Ltd, under the supervision and coordination of the Secretariat.*

*It is submitted to the Directing Committee for DISCUSSION and GUIDANCE.*

Antonella NOYA, Senior Policy Analyst (Social Innovations and Social Inclusion),  
antonella.noya@oecd.org, +(33-1) 45 24 78 95;  
Stellina GALITOPOULOU, Policy Analyst, stellina.galitopoulou@oecd.org, +(33-1) 45 24 91 92

**JT03385632**

Complete document available on OLIS in its original format  
*This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.*

## TABLE OF CONTENTS

1. Introduction.....	3
2. The geography, scope and spread of SIBs .....	7
3. Social Innovation and Partnership in SIBs .....	11
4. Evaluation, monitoring and outcomes .....	14
5. Main messages.....	19
6. Conclusions.....	22
REFERENCES .....	23

### Tables

Table 1: Rate card for the UK Innovation Fund .....	7
Table 2: SIBs implemented worldwide by country and region/city .....	9
Table 3: The Thematic Scope of SIBs by country .....	10
Table 4: How risk is transferred in the three models of SIBs .....	17

### Figures

Figure 2: Trends of SIBs launched in the UK and the rest of the world.....	8
Figure 3: Social innovation spiral: from ideas to scaling.....	12

### Boxes

Box 1: The Peterborough One Service SIB .....	4
Box 2: Rwanda: Support to young people with HIV led by Y-Bank.org .....	11

## 1. Introduction

1. Social Impact Bonds (SIBs) have spread around the globe in the past five years. At a time of pressure on public budgets following the economic crisis, a financing mechanism for social policies that promises to mitigate the public sector risk, increase effectiveness and pay for services now while requiring public contributions later, is likely to attract attention. Few policy tools have been disseminated so far and so fast. Since the first one, which was launched in 2010, 43 SIBs have been set up in 11 countries representing an investment of over 200 million EUR.

2. The backing for SIBs was illustrated by the launch of Social Impact Investing Task Force 2013 as part of the agenda of the G8 summit under the UK Presidency. The first meeting chaired by Sir Ronald Cohen took place in the White House the same year. In June of 2014, the Pope expressed his support for social impact investment saying: “It is urgent that governments throughout the world commit themselves to developing an international framework capable of promoting a market of high impact investments and thus to combating an economy which excludes and discards”.<sup>1</sup> SIBs were the centrepiece of the final report<sup>2</sup> of the Social Impact Investing Task Force because they combine three core elements in a single tool: entrepreneurship, innovation and investment.

3. Public welfare expenditures seek to achieve social impact. For a variety of reasons, not all such expenditures succeed. The enduring nature of poverty, recidivism, homelessness, unemployment and other intractable social problems suggests that a greater variety of approaches might be helpful. In this regard, social impact investing seeks to marry social with financial returns (OECD, 2014a). Furthermore, social impact investing- exemplified by SIBs- opens up the world of social impact to private sector investors as well as other funders and offers the prospect for social enterprises and civil society organisations to become a more significant part of the delivery system. In practice, most SIBs have been developed in policy environments where ready cashable savings can be realised through improved performance of a non-statutory service. These are usually areas in which conventional approaches have not worked well. At the same time, they are often in areas that are complementary to existing statutory provision rather than as replacements for provision.

4. A SIB can be defined as “a contract with the public sector or governing authority, whereby it pays for better social outcomes in certain areas and passes on part of the savings achieved to investors”.<sup>3</sup> Brookings Institution in a major study of SIBs (Gustaffson-Wright et al., 2015) defines them as: “a mechanism that harnesses private capital for social services and encourages outcome achievement by making repayment contingent upon success”.

5. This paper sets out to explore the current state of play of SIBs. Section 2 presents their geography and thematic scope. Section 3 asks whether SIBs are scaling up social innovations and examines the roles of the different actors and in particular the role of commissioners, investors and service delivery organisations. Section 4 examines the focus SIBs place on outcomes and the use of evaluation, and comments on monitoring systems and where the risk is placed. It also discusses whether the reward mechanism of the contract is able to deepen the focus on results throughout the delivery chain. The final section brings together some main messages.

---

<sup>1</sup> <http://www.socialimpactinvestment.org>

<sup>2</sup> Social Impact Investing Taskforce (September 2014), *Impact investing: the invisible heart of markets: harnessing the power of entrepreneurship, innovation and capital for the public good.*  
<http://www.socialimpactinvestment.org>

<sup>3</sup> <http://www.investopedia.com/terms/s/social-impact-bond.asp#ixzz3h60T8ntj>

6. The paper was written following an experts meeting organised by the OECD in Paris on April 15<sup>th</sup> 2015.<sup>4</sup> This meeting included contributions from a number of SIBs such as the Junior Code Academy in Lisbon, London's Street Impact and Rotterdam as well as contributions from evaluators and support organisations. We are grateful to all participants and speakers for these valuable contributions and exchanges from which this document benefited greatly. Other desk research was based on published materials, evaluations and websites of SIBs as well as of support organisations.

***SIBs are a subset of payment by results contracts***

7. The essential ingredient for a SIB is normally some type of payment by results contract (known as payment for success in US and payment for benefits in Australia).<sup>5</sup> In these contracts, instead of governments paying for inputs at the outset of the contract, they pay for results at the end or at stages during the contract. This shift from outputs to outcomes is important because it changes from paying for an activity to paying for an achievement of policy objectives measured by outcome indicators. A SIB adds a financial circuit to the payment- by- results model that enables the service delivery organisation (typically a social enterprise) to be paid up-front during the contract while the investors are only paid at the end or at milestones. It addresses an inherent problem to payment- by- results contracts whereby only those bidders with deep pockets can afford to wait until results are achieved for their payment. Depending on the structure, these payments can be made annually or over a longer period of time. In SIBs to date, this period has been from 1 to 17 years with the median at 3. Their size in terms of investment raised has ranged from around 0.5 million to 20 million EUR. The number of service users reached has spanned from twenty two to many thousands.

**Box 1: The Peterborough One Service SIB**

The first SIB was aimed at reducing recidivism at Peterborough Prison over a five year term involving three cohorts of prisoners serving sentences of less than 12 months. This group of prisoners was known to have high offending rates compared to longer term prisoners and existing probation services were not targeted at them. In this sense, this SIB was backing a new service.

The Peterborough One Service SIB was structured as a payment by results contract issued by the Ministry of Justice which would pay up to 13.5% of the original investment, if the rate of reoffending events was reduced by more than 7.5% across all three cohorts compared to average figures across the entire prison estate. To trigger a payment for a single cohort, the reoffending rate would have to decrease by 10%. The contract for delivering services (the One Service) was sublet by the Social Finance intermediary organisation to a number of organisations including St Giles Trust and Ormiston Trust, who were paid up-front on a fee for service basis.

This SIB was intended to run over three cohorts of prisoners but was suspended after the second cohort. The reason was that the government introduced a general policy called "Transforming Rehabilitation" covering all prisons utilising a payment by results contract with an estimated value of £3 billion GBP, which outsourced this function. The payment to investors will depend on results for the second cohort for which figures will be available in 2016.

The Peterborough One Service SIB has been subject to two evaluations by the Rand Corporation Europe (Disley and Rubin, 2014) commissioned by the Department of Justice. Analysis of the results for the first cohort showed that the SIB had achieved an 8.6% reduction of the reoffending rate. This will be enough to trigger a payment, if similar rates are demonstrated for the second cohort. However, this was not enough to trigger a payment based on this cohort alone. The structure is shown in figure 1 below.

<sup>4</sup> <http://www.oecd.org/cfe/leed/sib-seminar-2015.htm>

<sup>5</sup> In Australia the corresponding bonds are called Social Benefit Bonds, and in the US as Payment for Success Bonds. In this paper all are referred to as Social Impact Bonds (SIBs) for ease of discussion.



Figure 1: Organisational &amp; contract structure underlying the Peterborough SIB



Source: Disley and Rubin, 2014

### What do we mean by a SIB?

8. Two definitions of SIBs were provided above. However, the use of the term ‘bond’ used for SIBs is somewhat of a misnomer. In financial circles “a bond also known as a fixed-income security, is a debt instrument created for the purpose of raising capital. It is essentially a loan agreement between the bond issuer and an investor, in which the bond issuer is obligated to pay a specified amount of money at specified future dates”.<sup>6</sup>

9. Bonds are used by governments at all levels and by corporations to raise money. In contrast, SIBs are not a pure debt investment because the return is contingent on the performance of the service providers in achieving specified social outcomes. Therefore, they are riskier because if these social outcomes are not achieved, the investor can lose its investment. In this sense, they are more like equity investments.

10. The Centre for SIBs<sup>7</sup>, a part of the UK Cabinet Office, examines whether there are the following four criteria in place in order to determine if an investment can be termed a SIB:

- a contract is signed between a commissioner and a legally separate entity (“the delivery agency”)
- a particular social outcome or outcomes which, if achieved by the delivery agency, will activate a payment or payments from the commissioner
- there is at least one investor that is, also, a legally separate entity from the delivery agency and the commissioner

<sup>6</sup> <http://www.investinganswers.com/financial-dictionary/economics/capital-5749>

<sup>7</sup> Centre for Social Impact Bonds <http://blogs.cabinetoffice.gov.uk/socialimpactbonds/about-sib/>

- some or all of the financial risk of non-delivery of outcomes sits with the investor

11. Not all SIBs discussed here and elsewhere satisfy this definition on all four counts, for example by having a separate investor, or by defining what appears to be outputs as outcomes. However, these four criteria are helpful in characterising SIBs.

***Three are three main structures and two types of SIBs***

12. Bridges Community Ventures (Goodall, 2014) argues that there are three main structures being used to structure SIBs:

- Direct in which the contract is signed between the commissioner and the service provider or with a special purpose vehicle set up and controlled by the service provider.
- Intermediated in which the contract is signed between the commissioner and a special purpose vehicle.
- Managed in which the contract is signed between the commissioner and an intermediary or an intermediary managed special purpose vehicle.

13. Not all SIBs fall neatly into these three categories, but overall this typology is a useful way of distinguishing between different management structures.

14. SIBs can also be divided into two broad approaches depending on how the payments relate to outcomes (Gustaffson-Wright et al., 2015): SIB funds and individual SIBs. In the first type, governments set up social impact bond funds to finance several SIBs. Here, the normal practice is to use a rate card that defines the maximum payment for each type of outcome. Service providers bid by offering a discount against these figures. Contracts are awarded based on price and other quality criteria. An example is given below in figure 4 for the UK Department of Work and Pensions (DWP) Innovation Fund, which supports young people not in education, employment or training (NEETs). This approach was also used for the London Street Impact SIB discussed below, in which two contracts were signed with different service providers covering North and South London.<sup>8</sup> Rate cards require considerable effort by government to calculate the cashable savings and to relate these to the cost of service delivery based on historic contract figures. To assist in this process, the UK has set up a unit cost database.<sup>9</sup> However, the prices in rate cards are normally set by calculating savings to public budgets if outcomes are achieved rather than by input costs.

15. In the individual transaction impact bond model, which has been used for the other UK examples and for all of the USA and Australian SIBs, the price for the outcome is normally determined by an open call.

---

<sup>8</sup> The two service providers St Mungo's Broadway and Thames Reach both cover the central area of Westminster where large numbers of rough sleepers are to be found.

<sup>9</sup> See unit cost database at [http://neweconomymanchester.com/stories/832-unit\\_cost\\_database](http://neweconomymanchester.com/stories/832-unit_cost_database)

**Table 1: Rate card for the UK Innovation Fund**

Outcome	Rate
Improved attitude towards school	£700 GBP
Improved behaviour	£1300 GBP
Improved attendance	£1400 GBP
Entry Level Qualification	£900 GBP
NVQ level 1 or equivalent	£1100 GBP
NVQ level 2 or equivalent	£3300 GBP
NVQ level 3 or equivalent	£5100 GBP
Entry into employment	£3500 GBP
Sustained employment	£2000 GBP
Maximum amount payable per individual over 3 years	£ 11,700 GBP

Source: Department of Work and Pensions website<sup>10</sup>

## 2. The geography, scope and spread of SIBs

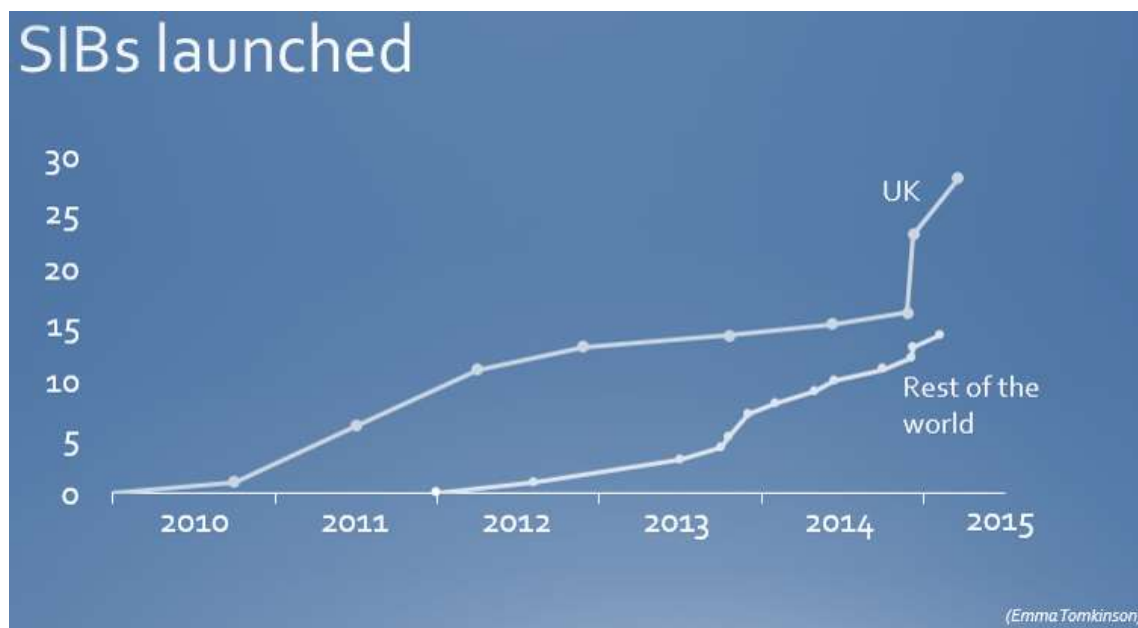
### *The Geography of SIBs*

16. SIBs have spread around the world – particularly among OECD countries. By mid-2015, there were approximately 43 of SIBs launched with at least a further 30 in development (Instiglio database, 2015). SIBs offer a buy-now pay-later promise and may be attractive to governments trying to trim their budgets. They have been taken up most enthusiastically in countries in which significant parts of the welfare state have already been privatised, such as the UK, the US and Australia. In countries that retain a more public sector ethos, including the rest of the EU and Canada, the uptake has been more modest.

17. A growing number of SIBs is being initiated by city administrations and local or regional authorities, but to-date the majority has been conceived and launched by national or state governments.

<sup>10</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/212328/hmg\\_g8\\_factsheet.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/212328/hmg_g8_factsheet.pdf)

Figure 2: Trends of SIBs launched in the UK and the rest of the world



Source: Emma Tomkinson SIBs blog<sup>11</sup>

18. As illustrated by figure 3 above, the UK has set up more than half of the SIBs that exist worldwide. The figure for the UK is so large because it has used a SIB fund model to roll out most of them. In 2012, ten of their SIBs were started as a result of two calls for proposals by the UK DWP Innovation Fund. After the UK, the second country is the US with eight SIBs launched and more in the pipeline. Within the rest of the EU, Germany Portugal, Belgium has one SIB each and the Netherlands has two. Switzerland has launched one SIB as well.

19. The summary of SIBs, which have been launched and financed, is rapidly changing. Three lists are worthy of mention: the Canadian SIBs Tracker website<sup>12</sup>, the map of SIBs on the Social Finance website that has now been transferred to the Centre for SIBs<sup>13</sup>, and the database of Instiglio<sup>14</sup>, which appears to be the most up-to-date of the three. Some differences between the databases arise because of definitions of what is a SIB and whether they are in the design or implementation phase. Emma Tomkinson also maintains a blog with a world map and other material with an emphasis on Australia<sup>15</sup>. A recent Brookings study (Gustaffson-Wright et al., 2015) surveyed most of these SIBs. They concluded that there were 43 SIBs in developed countries and analysed 38 of them based on data availability as of April 2015. The tables prepared below were based on combinations of these sources.

<sup>11</sup> <http://emmatomkinson.com/category/world-map/>

<sup>12</sup> SIB tracker website at <http://financeforgood.ca/social-impact-bond-resources/sib-tracker/>

<sup>13</sup> Centre for SIBs world map [https://data.gov.uk/sib\\_knowledge\\_box/map](https://data.gov.uk/sib_knowledge_box/map)

<sup>14</sup> <http://www.instiglio.org/en/projects/>

<sup>15</sup> <http://emmatomkinson.com/category/world-map/>

**Table 2: SIBs implemented worldwide by country and region/city**

Country	Number	Location
Australia	2	New South Wales
Belgium	1	National
Canada	1	Saskatoon, Saskatchewan
Germany	1	Augsburg, Bavaria
Ireland	1	Dublin
Netherlands	2	Rotterdam, Utrecht
Portugal	1	Lisbon
South Korea	1	Seoul
Switzerland	1	Bern
UK	24	Multiple
US	8	Multiple
<b>Total</b>	<b>43</b>	

Source: OECD adapted from tables in Gustaffson Wright et al., 2015; Instiglio website & SIBs tracker website

### ***Cities, sub-national authorities and SIBs***

20. Cities and sub-national authorities (counties, states) are playing a major role in the development and the delivery of SIBs. Sometimes cities act as a delivery partner in SIBs that have been led by the central government. For example, in some of the DWP sponsored Innovation Fund SIBs involved Manchester, Cardiff, Newport, Nottingham, Liverpool and London.

21. More recently, some sub-national authorities have acted as the commissioner responsible for the outcome payments and procurement. Examples involving federal states include New York, Utah, Massachusetts and New South Wales. Examples involving cities include the Chicago pre-school education SIB, London and Street Impact SIB (see box 2 below). Other independent SIBs set up by cities include Manchester, Birmingham, Nottingham, Cardiff, and Rotterdam and Augsburg. This growing interest of cities reflects both their need to seek out new forms of finance as well as their interest in innovating in service delivery (Gustaffson et al., 2015).

22. Foundations have worked closely with cities in setting up SIBs. For instance, the Lisbon Junior Code Academy SIB was set up with financial and technical support from the Gulbenkian Foundation. Furthermore, the Youth Employment SIB in Augsburg was set up with assistance from the Benckiser Foundation. Several of the UK city-led SIBs have received technical support from Social Finance, which also acts as an intermediary and was itself set up with the support of the Big Lottery Fund.

### ***SIBs are mainly focusing on employment, social care and recidivism***

23. The scope of SIBs sees youth and employment dominating the picture in terms of numbers. Seventeen of the British SIB pilots are focusing on youth unemployment and homelessness among NEETs while six others in Europe and the USA address youth unemployment issues. Four SIBs across countries have focused on recidivism; the reduction of reoffending among short term prisoner populations. The largest SIB investment made to date was to reduce recidivism in Massachusetts (US) at \$23 million USD, the first SIB was in Peterborough Prison (UK) and the first SIB in the US at Ryker's Island Prison in New

York. FiveSIBs address foster care, foster care avoidance, adoption and support for vulnerable single mothers, which show that social care is an important and growing field (see table 3 below).

**Table 3: The Thematic Scope of SIBs by country**

Country	Number	Thematic Scope
Australia	2	Family care & foster care avoidance
Belgium	1	Young migrants employment
Canada	1	Housing for vulnerable single mothers
Germany	1	Youth employment
Ireland	1	Homelessness
Netherlands	2	Youth employment
Portugal	1	School performance
South Korea	1	Child welfare
Switzerland	1	Integration of refugees in the labour market
UK	24	Youth unemployment (11), youth-homelessness-NEETs (6), foster care (2), recidivism (1), adoption (1), homelessness (1), long-term health conditions (1), elderly (1)
US	8	Recidivism (2), early childhood development (2), employment for former incarcerated (1), family & foster care (1), homelessness (1), housing & child welfare (1), asthma management (1)
<b>Total</b>	<b>43</b>	

Source: OECD adapted from SIBs tracker website & Instiglio website

### *Development Impact Bonds implemented in developing countries*

24. SIBs in developing countries have been called Development Impact Bonds (DIBs). The situation regarding DIBs is at an earlier stage with many in the pipeline, but not launched yet. The first DIB was launched in 2014 and was recorded by the Instiglio database. It focused on girls' education and implemented in Rajasthan, India, where 40% of girls drop out of school before the fifth grade in the State.<sup>16</sup> This DIB has the aim of increasing the enrolment of girls and to improve children learning outcomes.

25. DIBs are being considered in Brazil, Chile, Colombia, Mexico, Pakistan, Swaziland, and Uganda. Internet searches suggest that there are plans for DIBs to reduce the incidence of malaria in Mozambique and India, as well as the adolescent HIV regime in Rwanda (see box 2 below). The National Audit Office (NAO) reported in 2014 that the Mozambique project on malaria had not used a payment by results method because the number of bed nets had been used as the outcome indicator. According to NAO, these are an output not an outcome.

<sup>16</sup> <http://www.instiglio.org/en/girls-education-india/>

**Box 2: Rwanda: Support to young people with HIV led by Y-Bank.org**

This DIB is still in its design phase and will be overseen by the Rwanda Biomedical Centre, which is a government agency for health research. The challenge this DIB will address is that adolescents are the group least likely to consistently take anti-retroviral medication. The delivery model is based on a triple therapy using clinical practice, peer support and financial incentives for transport costs in order to encourage young people to attend monthly clinics. A reduced viral load would be the main indicator used to measure success with financial returns through reduced hospitalisations. It is intended to be launched in 2016 and run until 2021.

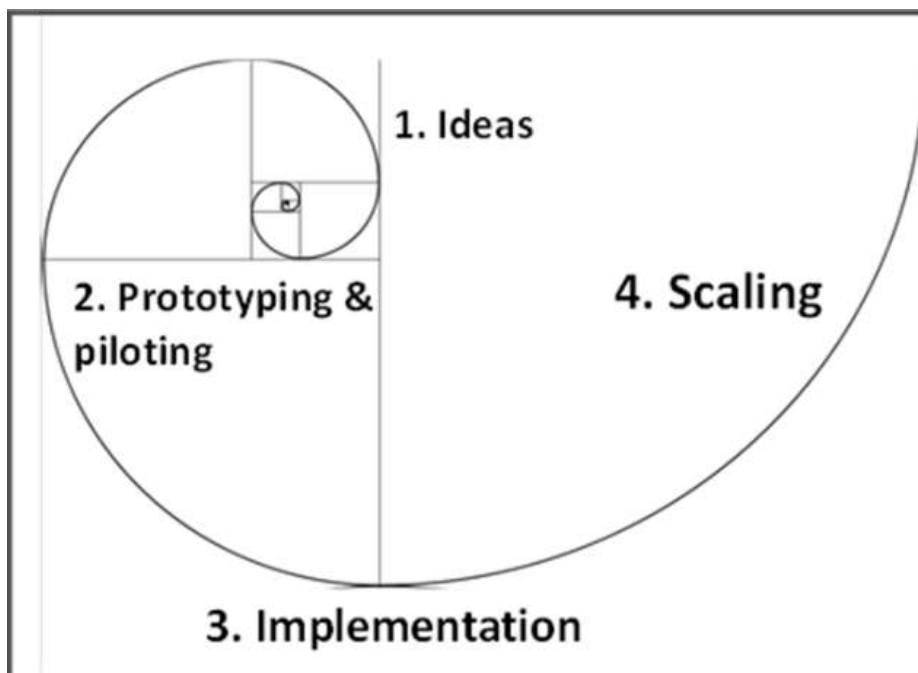
Source: Y-Bank.org contribution at the OECD experts meeting, 15 April 2015

### **3. Social Innovation and Partnership in SIBs**

26. This section asks whether SIBs stimulate social innovation in the delivery model and at what stage of this process innovation takes place. Geoff Mulgan and the Young Foundation (O’Sullivan 2013) have used the social innovation spiral in figure 3 below to illustrate that as social innovations become more developed and mainstream, they become larger. Whereas pilots and prototypes are inevitably small, they need to be implemented at scale until they become the dominant paradigm through system change. Not all social innovations will reach system change. Although many SIBs are interested in scaling, there is also space for smaller ones. For instance, the Sweet Dreams Supported Living Project, a SIB implemented in Saskatoon, Saskatchewan, Canada, aims to work with 22 clients.

27. It could be argued that SIBs are a social innovation in their own right. They appear also to encourage social innovations through some of their structural aspects – particularly through coordination and integration of services. A key advantage of the payment by results contracts appears to be that whereas the outcome indicators are included in the contracts, the outputs required to achieve them are not specified. This contrasts with the belt and braces approach in many modern funding programmes in which outputs and outcomes are required. Because outputs relate directly to inputs, the specification of outputs risks locking the service provider into a particular mode of delivery. The advantage of only specifying outcomes is that more freedom is given to the service provider to innovate. However, this also comes with risks. It may be possible for the service provider or intermediary to game the system.

Figure 3: Social innovation spiral: from ideas to scaling



Source: O'Sullivan et al., 2013

28. In two SIBs, project level evaluations are available: the Peterborough One Service and the London Street Impact. The practices deployed were already known, but they had not been applied at scale or in holistic or integrated combination. While SIBs themselves can be considered to be in a pilot phase, their intervention approaches seem more often to be at the implementation and scaling part of the spiral rather than the earlier ideas and piloting part. It seems that in these cases the SIB was an opportunity either to implement a full scale model (e.g. the Peterborough One Service SIB with a whole prison) or to scale up in order to cover a wider area and work with more clients, as for example in the case of the London Street Impact SIB, which covered the whole London. In the American recidivism examples, the Rikers Island SIB sought to test a known technique across a whole juvenile offender institution. In this event, the pilot “failed”, but by testing a known approach in a new setting provided a valuable service (see the section 4 on outcomes below). In the case of the Massachusetts Juvenile Justice SIB, it provided an opportunity to scale across the whole State.

29. In Peterborough SIB, a complex integrated delivery service model was developed for the One Service. The original approach centred on the St Giles Trust and its “through the door” approach (support in the prison and after release). This was combined with a service provided by the Ormiston Trust, which supported prisoner families back at home. Other elements were found to be lacking and so Mind - a charity dealing with mental health issues - was brought in by Social Finance part-way through to deliver mental health support to clients. In addition, a drop-in service was set up and courses delivered on maintaining family ties while in prison. Much of the innovation was in the packaging, coordination and integration of services. The role of navigator which was part of the One Service approach was mirrored in the use of coaches and key workers in many of the other SIBs. Fragmentation of existing systems was overcome through a relationship based method of support using a single contact person. This challenges one critique of SIBs that they are too instrumental and mechanistic. It appears that for the service user, the opposite may be the case. Often SIBs are bringing together existing services that are already being delivered through rigid departmental siloes that lacked coordination.



*The combination of partners is part of the innovation*

30. A bewildering array of partners that might be involved in a SIB as illustrated above in figure 1, for instance, for the Peterborough One Service SIB. This complexity compares to a typical bilateral contract between a commissioner and service provider. This complexity can have impact on costs, especially when setting up the SIB. Goldman Sachs reported that the contracts for the Massachusetts Juvenile Justice SIB, one of the largest in the world involving multiple investors and delivery partners, took 1100 hours of consultant time (Gustaffson Wright et al., 2015). The three core partners in any SIB are:

- Commissioners (also known as outcome payers) who are outsourcing a service and pay when agreed outcomes are achieved.
- Investors who provide finance – usually through a special purpose vehicle.
- Service providers who deliver the service to the end user or client.

31. Other actors are frequently involved as well including:

- Intermediaries that may structure the deal, manage the relations between partners and the service providers' performance.
- Evaluators who verify that the outcomes have been achieved.
- Lawyers to draw up contracts.

32. The complexity of partnerships, especially on the delivery side, is one argument for the use of intermediaries to coordinate and manage the performance of the service delivery partners on behalf of the investors. This was the role of Social Finance in the Peterborough One Service SIB. Coordination extends beyond the partners that are being paid for services and may include many other agencies that work with the target group whether on a statutory or non-statutory basis. This extra coordination and the synergies that can be achieved appear to be one advantage of the SIBs, but are not exclusive to them.. Integrated and joined up approaches have been at the core of approaches to tackle intractable urban problems by the city-to-city peer learning URBACT programme. Many of their local action plans have addressed similar inclusion-related themes to the first generation of SIBs, such as Roma Inclusion (Romanet), school dropout (PREVENT), and working with young people (My Generation)<sup>17</sup>.

33. When it comes to investors, SIBs in the US and Australia have had more success in raising private finance, with Goldman Sachs in the US investing in four SIBs. Many of these deals with private sector investors have been underwritten either by guarantees (e.g. Bloomberg Philanthropies in the US) or by tiered investment structures both in the US and Australia. Outside of the US and Australia, most of the investors have been foundations operating within the spirit of venture philanthropy and other social impact investors (OECD, 2014a; OECD, 2014b). Some social impact investors have set up specific SIB funds. An example is Bridges Ventures whose SIB fund has invested in eleven SIBs in the UK.

34. To-date only one investor has lost its investment. Goldman Sachs lost 7.2 million USD after the termination of the SIB contract at Rikers Island, but it appears to be relatively sanguine about this loss. This may have been because they had a 75% guarantee with Bloomberg Philanthropies, which paid out 6 million USD to Goldman Sachs.

---

<sup>17</sup> See URBACT networks at <http://urbact.eu>

35. The majority of service provision has been from third sector organisations, either structured as charities or as social enterprises or as both. Charities, such as St Mungo's Broadway, have reported high levels of satisfaction ("the best funding we have ever had") as it has been provided for a longer period of time, focused more on results and allowed for more flexibility in the delivery model.<sup>18</sup> The service providers appear to be mainly medium sized (50-250 employees) or large (>250 employees) organisations. For example, St Mungo's Broadway employs 1700 people in the UK.

36. Front-line staff working on London Street Impact SIB were positive about the way finance had influenced the delivery model that they were in charge of implementing it. They reported being motivated by the outcomes focus and the flexibility to find solutions that had not been available in previous projects, which had a more rigid output- related delivery. They appear to have bought into the outcomes indicators and saw them as a good proxy for the transformation that they have been trying to achieve with their clients under other more restrictive funding mechanisms.

37. The most innovative SIBs co-produce solutions with service users to ensure that the service is relevant and focused. In the London Street Impact SIB, the clients or service users have reported on the value of the care that they receive (St Mungo's Broadway, 2014). Their personal accounts and those of front-line staff testify to the need for quality, long-term relationships between clients and key workers, who are able to develop sustained wrap-around solutions that were not possible in output driven funding models. In the client case-histories, these relationships have clearly been central to transforming their lives. The ability to provide wrap-around tailored support to the individual is very important, given that the dominant model in the sector is one of unstable and often dangerous hostel provision rather than of a "housing first", which was the model used by the London Street Impact SIB.

38. It seems possible that private sector providers could bid to deliver some of these SIB contracts depending on how the invitations to tender are structured. Indeed it is curious that so many of the SIBs are being delivered by social enterprises or enterprising charities, whereas most pure payment by results are delivered by private sector prime contractors with social enterprises and charities playing minor sub-contracting roles in both bids and contract delivery. SIBs have been used by mainly larger social enterprises to increase their funding in a payment by results market dominated by a small coterie of well organised private sector contractors.

#### **4. Evaluation, monitoring and outcomes**

39. Advocates of SIBs place great emphasis on the robustness of the outcomes. Because of the way that payments are linked to outcomes, it is perhaps inevitable that great care has been taken in drawing up contracts and in defining indicators to measure results. From the two SIBs for which detailed interim evaluations were available (Peterborough One Service and London Street Impact), it is possible to say that in these cases the level of evaluation at project level is equivalent to that of social experiments and that the use of randomised control groups in the Peterborough One Service case reflect best practice guidelines. The two SIBs described above use the following indicators:

- Peterborough One Service SIB focuses on the reduction in the frequency of reconviction events within 12 months after discharge. The mean number is compared with an equivalent matched comparison group. The evaluators use a propensity scoring method based on regression analysis with specific predictive variables from the whole prison population (e.g. demography, male/female, age, historic offences, convictions, sentences)
- London Street Impact SIB uses a rate card designed by the Department of Communities of Local Government and the Greater London Authority made up of five weighted indicators (ICF GHK,

---

<sup>18</sup> Comment by Mike McCall at the OECD experts meeting on SIBs, 15 April 2015 Paris

2014). Payments are made on the basis of these outcomes and in proportion to following the weighting:

- Rough sleeping (reduction below a specific target): 25% of weighting
- Accommodation (tenancies held for over 12 months): 40% of weighting
- Sustained reconnections (six months minimum reconnection with country of origin): 25% of weighting
- Health (reduction in A&E visits): 5% of weighting (this indicator proved to be unverifiable because of health service confidentiality of patients)
- Work (sustained volunteer, part time, full time work at three months and at six months): 5% of weighting

40. There is a strong focus on evaluation among SIBs. Some of the evaluations are being carried out at project level (e.g. Peterborough One Service, London Street Impact, and other US or Australian examples). Other evaluations are being done for whole social impact funds (e.g. the ten projects launched in 2012 for the DWP Innovation Fund). However, not all SIBs are evaluated.

41. There is considerable experience in the EU and national funding schemes regarding programme level evaluation. A good example is the EU Structural Funds, where the fund regulations require programmes to be evaluated ex-ante, interim and ex-post. In the new programme period, a shift has been made towards results that will assess the progress made on achieving objectives. However, there is a lack of follow-through at the project or individual contract level, because no equivalent requirements are made even for relatively large revenue projects.

42. It would appear that SIB commissioners are focusing more on project level evaluation than is typical. These evaluations are often also independent of the service providers because the commissioner of the service is the funder and needs to verify the outcomes before a payment can be made. However, such external evaluations may be of less use to service delivery organisation for improving performance in service delivery. In some cases, third party funding has been raised to pay for these evaluations (e.g. in the Child-Parent Centre Pay for Success SIB in Chicago the Finnegan Foundation supports part of the costs). Finally, the evaluations have been published, which is a good practice but not a universal one. Although difficult to estimate, it is likely that a higher level of resource is going into the drawing up of indicators, reporting, monitoring and evaluation. This could be a lesson for other conventionally funded projects; improvements in efficiency and effectiveness could occur, if similar efforts were made to improve measurement.

43. SIBs typically have a monitoring framework based on quarterly board meetings of the special purpose vehicle or intermediate managing agent. However, this will vary according to local circumstances. At these meetings, the service delivery body is required to report progress on the outcome indicators and other aspects of performance management. The board is able to ask questions concerning progress and find out whether delivery targets have been met or not and why this is the case. This level of scrutiny and supervision is more independent, verifiable, and intensive, than is common in many other projects. Such scrutiny of indicators compares favourably with the somewhat mechanical completion of output forms required by many national and EU programmes.

44. There may be a pilot effect – similar to the Hawthorne effect<sup>19</sup> - whereby because of the increased interest that a SIB generates more resources are applied to measurement and evaluation. This has an impact on staff motivation and subsequent attainment of outcomes. It may derive from the fact that agencies have been subsidised to work on SIBs with Social Finance being the most well-known example. In the private sector, there have been considerable pro bono contributions.

45. The questions that meta-evaluations of SIBs would need to ask is whether this additional cost of measurement is proportional, whether it detracts from or enhances service delivery, and whether other types of project funding might benefit from a similar level of investment in measurement. Both SIBs and social experiments<sup>20</sup> have opened up major questions about the need for more project level evaluations to be carried out at the instigation of funders rather than as internal exercises by service delivery organisations, which are prone to hush up the findings when negative for fear of turning off other donors. The recent collapse of UK charity “Kids Company” has raised many questions about the need for external evaluation as well as financial probity and working capital.

46. The main advantage of payment by results contracts in general and, perhaps of SIBs in particular, is that they can draw a more direct link between outcomes and payments. This can lead to cashable savings on outsourced services. However, these are not always as large as anticipated. According to National Audit Office (2014), the use of a £3 billion GBP payment by results contract for the Work Programme, achieved in 2014 costs that were 2% below what was expected.<sup>21</sup> The programme appears to have worked well for those receiving job seekers allowance, but less well for those hard to reach groups including for those with disabilities.

47. There is a fear that this strong focus on results can change the public service ethos or lead to a narrow mechanical determinism in service delivery. It may be possible to game the results by selecting clients that are easiest to reach (“cream skimming”) while leaving those that would be most expensive without service (“parking”). Evaluation studies on some of the first SIBs, such as London Street Impact and Peterborough One Service, have not found these practices. However, in both cases these services were being delivered by dedicated social enterprise organisations demonstrating a strong organisational ethos. It is not possible to say whether this absence of “gaming” is the result of “good” organisations delivering the service or an intrinsic aspect of the way that these contract results were specified.

48. Some social enterprises appear to like this form of instrument because they provide more financial continuity and flexibility. Both problems exist with many output-based or project finance from national, federal or EU programmes. The flexibility allows a more holistic approach. The duration and the continuity allow forward planning. It is worth noting that in both intermediate and managed SIBs, the charities and social enterprises delivering the service are not normally themselves held to payment by results in contracts with the special purpose vehicle or an intermediary representing the investors. However, the service providers are held to account by very tight monitoring by either the special purpose vehicle or the investors.

---

<sup>19</sup> The Hawthorne effect is named after experiments at the Cicero works in Illinois where productivity of workers improved because of the very act of measurement and observation. [https://en.wikipedia.org/wiki/Hawthorne\\_effect](https://en.wikipedia.org/wiki/Hawthorne_effect) Pilots are particularly prone as they often involve more intensive management and measurement.

<sup>20</sup> Social Experiments are a sub group of social innovations in which efficiency and effectiveness of new approaches is measured carefully, often against a randomised control group. See for example <http://ec.europa.eu/social/BlobServlet?docId=7100&langId=en>

<sup>21</sup> <https://www.google.com/maps/place/Thiais/@48.7604484,2.3868855,11z/data=!4m2!3m1!1s0x47e6746c1d65f8d5:0x40b82c3688b37b0?hl=en-GB>

### *The risks and returns to investors*

49. Managing risk is at the centre of the SIB models. The key is that risk is transferred from commissioners to their contractors. The three different models place risk in a different way because the contracts are held by different parties. Table 4 below illustrates how risk is dealt within the three main models: direct, intermediated and managed. However, while financial risk may be mitigated, there are continued moral risks to commissioners in all three models.

**Table 4: How risk is transferred in the three models of SIBs**

	Risk to commissioner	Risk to service provider	Risk to intermediary	Risk and return to investors
Direct SIB	No financial risk  Savings achieved if outcomes are positive  Moral/reputational risk in case of poor performance	Risk of non-payment for not achieving outcomes	No intermediary	Risk: The lender would lose its capital if the social enterprise was to go into liquidation and there was insufficient collateral to repay the loan  Return: commercial loan (x over base rate)
Intermediated SIB	No financial risk  Savings achieved if outcomes positive  Moral/reputational risk in case of poor performance	Fee for service paid by intermediary usually on quarterly basis.  Risk of termination in case of poor performance	Special purpose vehicle (This is a shell company with limited liability that protects investors)	Investors carry the main financial risk if the special purpose vehicle fails to deliver  Investors accrue main return if outcomes exceed threshold
Managed SIB	No financial risk  Savings achieved if outcomes positive  Moral/reputational risk in case of poor performance	Fee for service paid by management organisation on quarterly basis.	Financial risk borne by the management organisation and by investors in the special purpose vehicle, which is controlled by management organisation.	Investors carry main risk  Investors accrue main return if outcomes exceed threshold

Source: adapted from Goodall, 2014

50. The harsh terms of the original SIB at Peterborough, whereby bondholders would lose their original investment if floor targets for outcomes were not achieved, have often been mitigated. This has been done in two distinct ways either by the use of guarantees or by setting tiers for investors in the SIB.

51. These early SIBs except in the US and Australia have tended to rely on social impact investors, such as foundations and other specialists that already lend to social economy organisations (OECD, 2014a; OECD, 2014b). Most SIBs have been structured in a way that if a particular threshold of outcomes is not reached, the investor loses its investment. As a result, few private sector investors are prepared to take such a risk on an untried product and so various solutions have been found to underwrite the risk.

- Big Lottery Fund contributed £6.25 million GBP to the Peterborough One Service SIB as a guarantee to the 17 investors.
- The Goldman Sachs investment in Rikers Island SIB was guaranteed at 75% by the Bloomberg Philanthropies. This guarantee fund paid out \$6 million USD as the SIB failed to achieve its targets and evaluations showed that the version of cognitive behavioural therapy deployed had not made a statistically significant contribution to reducing recidivism.
- The Utah fund had \$2.4 million USD of subordinated debt provided by the Pritzker Foundation and \$4.6 million USD from Goldman Sachs for the High Quality Preschool Programme.
- The \$16.9 million USD funded the Child-Parent Centre Pay for Success SIB in Chicago was structured with tiered funding in which the Pritzker Foundation provided subordinated debt of \$4 million USD, Goldman Sachs \$7.4 million USD and Northern Trust Corporation \$5.4 million USD from its community development portfolio.
- The Benevolent Society Social Benefit SIB in Australia used tiered financing to structure the deal. The first tier of 2.5 million AUD had no protection for investors of their principle and paid a higher rate of return up to 30%. The second tier of 7.5 million AUD protected investors and paid a lower rate of return. Perhaps counter-intuitively the first tier had more subscribers than the second.<sup>22</sup>

52. In payment by results contracts it is common to include an element of fee for service as this guarantees the contractors some income even if their interventions do not achieve result targets. This mix between fee for service incentives and payments for results needs to be carefully judged and is easy for commissioning bodies to get it wrong. When using both mixed approaches and pure payment by results the incentive structure may need to be piloted in order to avoid being too severe or too generous. For the moment, most of the SIBs contracts focus exclusively on outcomes. However, this situation is likely to change as payment for service may be a way of providing an implicit guarantee to investors. This could in turn encourage more private sector investors.

53. An example that combines payment for service with payment by results is the Child-Parent Centre Pay for Success SIB at Chicago.<sup>23</sup> The outcomes indicators are the decrease in need for special education services from kindergarten to 12<sup>th</sup> grade, the increase in kindergarten readiness and increase in 3<sup>rd</sup> grade reading scores. One of the two commissioners, Chicago Public Schools, will pay out \$9 100 USD annually compounding at a rate of 1.0% for each student that avoids special education after attending the Child- Parent Centre programme. The payment for service element is \$ 2 900 USD for each student that is

---

<sup>22</sup> Source Emma Tomkinson A stream of social consciousness blog <http://emmatomkinson.com/>

<sup>23</sup> <http://www.payforsuccess.org/sites/default/files/chicago-sib-fact-sheet.pdf>

prepared for kindergarten after attending the Child-Parent Centre. There is also a payment for increases in 3<sup>rd</sup> grade reading scores of \$750 USD for each student that scores above the national average on the nationally administered reading test. The Child- Parent Centres have been running since 1986 and have been evaluated over a 20 year period using a longitudinal cohort study. Early intervention in pre-school as practiced in Chicago through these centres is a tried and tested social innovation. The SIB has enabled scaling up.

54. SIBs along with other result based financing mechanisms are subject to what Brookings (Gustaffson-Wright et al., 2015) calls the “wrong pocket problem” and what the Young Foundation ascribes to the lack of “virtuous financial circuits” (O’Sullivan et al., 2013). Brookings identifies two types: horizontal and vertical. Horizontal “wrong pockets” occur where one actor or entity at horizontal level benefits from savings achieved by another agency or department at the same level. An example is where one ministry spends money but the savings accrue to other ministries. In the Peterborough One Service SIB, the savings accrue to a variety of ministries including Justice, Communities and Local Government and the Treasury.

55. The “vertical wrong pocket” problem is where a national level agency benefits from an investment made at lower level. Local governments invest in local services – for example providing counselling, childcare and training to help NEETs or the long term unemployed into work- while the national or federal government gains most of the financial returns through reduced welfare payments and taxation of incomes. Some financial circuits suffer from both vertical and horizontal “wrong pockets”.

56. It is difficult to create alternative “virtuous financial circuits” without either devolving competences to the local level (as has been achieved in Denmark with active labour market policy) or centralising them to the national or state level but governments can help to overcome the problem with financial support. In both the US and the UK the use of social innovation funds, supported by the White House and the Cabinet Office respectively aim to offset this problem by complementing funding provided by a single ministry.

## **5. Main messages**

### ***SIBs are an attractive proposition in post-crisis Europe but also controversial***

57. For public authorities operating in a period after the crisis in the context of tight public sector budgets, SIBs represent an attractive option. They enable public authorities to strive for policy objectives in challenging fields while reducing the risk of non-delivery and non-performance.

58. There is something intrinsically appealing yet controversial about SIBs. They bring out strong opinions for and against. Their attraction lies in their neatness and completeness in combining finance, entrepreneurship, performance management, and a delivery mechanism in a single tool. Their direct linking of outcomes with financial incentives means that these are treated with great seriousness by all actors in the delivery chain. The engagement of the private sector as a financial partner carrying risk while using delivery models developed by the social sector succeeds in combining private sector investment and performance management with social impact. However, opponents of SIBs consider them to be another form of privatisation in which the profits for investors are gained from social problems. They are concerned that social enterprises involved in SIBs will be tarnished by the profit motive of the investors and even driven towards poor practice such as “cream skimming” or “cherry picking” clients in order to achieve performance targets.

***There is a strong argument for pilots and innovation in areas of policy failure or poor performance***

59. For the proponents of SIBs and the critics of existing public service delivery, SIB is a perfectly formed tool that can iron out the inefficiencies of non-performing public services. They point to the continued high levels of homelessness, young people unable to access the labour market, children going into care, recidivism, and years of delays in the adoption process. However, SIBs still rely on a commissioner to pay outcomes and so are ultimately dependent on the scale of public budgets for their success.

***The main social innovations in delivery are about scaling up existing models and better coordinating with other agencies***

60. The methods used by this first generation of SIBs were first developed by social enterprises as pilot social innovations. Some, such as the “through the door” model of the St Giles Trust or the Chicago pre-school model had already been independently evaluated and proved to be successful. It is possible that all they needed was a simplified funding model without the full panoply of a SIB.

***SIBs may be of more value in testing new social innovations than in scaling up***

61. A key question facing SIBs is whether they represent an alternative finance model for the long term, or they will tend to be used as an interim solution by public organisations seeking to test out new solution and mitigate their risk during this process. The alternative finance model is the route that the UK government has taken with payment by results with around £15 billion GBP being contracted in this way since 2010. The piloting approach, which was adopted by the New York City for the Rikers Island SIB, tested a version of cognitive behavioural therapy with juvenile offenders. There is no right and wrong between these two and perhaps they will continue to coexist.

***Commissioning, capacity building and creating a supportive framework***

62. There are many aspects of the policy system that can support the emergence and launch of SIBs. These include among others feasibility studies, support for guarantees, publication of unit costs, creation of social investment tax credits, and support for new intermediaries. The use of social clauses and smaller lot sizes can open up procurement contracts in general. However, this requires an active effort by all levels of government. Annual budget cycles in the public sector can make it difficult for them to commit to long term result payments in the future and some financial.

***The capacity needs for commissioners are significant***

63. Few public authorities currently have the skills required to draw up complex results based contracts that are required for SIBs. This is true whether they are designing a fund model using rate cards or individual transaction models. The call for tender needs to be specified in such a way to be generous enough to incentivise bidders while not over-rewarding success. Specific legal skills in drawing up contracts, accounting skills in calculating financial rates of return, and policy skills in achieving goals are all required and need to be integrated. Few investors have detailed understanding of the types of social outcomes that are needed to address complex social challenges or of the barriers that need to be overcome to achieve better results. People who look at the world through a financial lens may think that everything can be fixed through incentive structures. Focusing too much on narrow metrics may lead to unintended consequences and gaming in fields where cooperation and holistic approaches may be required. The considerable cost of capacity building, investment readiness and other measures to stimulate and support the SIB market may be daunting for national actors. There is a major opportunity for coordinated support and capacity building actions by the EU, charitable foundations and other philanthropic funders to develop the market for SIBs investments (OECD, 2014b).



***Greater transparency on pricing and unit costs would benefit all the public actors in Europe***

64. The creation of unit cost databases, similar to the ones produced by New Economy in the UK, would be a valuable exercise for all programme funders whether or not they plan to use SIBs. Transparency can drive down costs by comparing the cost of equivalent provision within a country or even between countries. Key organisations that may be able to drive an approach towards achieving more transparency over inputs, outputs, and outcomes would include charitable foundations, national ministries and managing authorities for the EU Structural Funds, where national level technical assistance resources could be deployed for this purpose.

***SIBs as a form of outsourcing***

65. SIBs are a subset of payment by results contracts and as such are a variant on an existing form of outsourcing. They permit the entry of social enterprises and charities into an existing market by investors providing up-front financing and working capital. However, the market for SIBs is relatively small compared to the much larger market for outsourcing. It is estimated that in the UK SIBs represent less than 0.5%<sup>24</sup> of the payment by results market that is calculated at 20 billion EUR (Comptroller and Auditor General, 2015).

***SIBs are most likely to benefit larger social enterprises***

66. For large social enterprises SIBs offer a gateway into the growing arena of payment by results contracts. However, the scale of their participation is likely to be modest. In developed payment by results markets, most of the contracts are won by large private sector service providers who may use social enterprises as window dressing. Smaller social enterprises are less likely to participate because of lack of working capital, capacity and infrastructure. However, some smaller social enterprises have succeeded in becoming part of SIBs (e.g. Saskatoon, Canada).

***For social enterprises a key aspect is more reliable multi- annual funding***

67. SIBs address two financing problems faced by social enterprises when bidding for contracts. The first is working capital. SIBs bring funding to the service delivery organisation from the start of the contract. The second is the continuity of funding over several years compared to annual funding cycles. However, this begs the question as to whether the real innovation of SIBs has been to offer social enterprise providers with more flexible and longer term funding that could have been achieved in other ways had governments wished.

***SIB contracts can be delivered by any provider***

68. SIBs are not a “chasse privée”<sup>25</sup> for social enterprises. The contracts can be made open to all comers. However, private sector service providers are less likely to use SIB models to raise capital as many will be able to finance their own bids either through working capital or through loans. In the future, social enterprises could find themselves providing sub-contracting services to larger prime contractors from the private sector as it happens in the other outsourcing markets.

---

<sup>24</sup> Author calculation estimating value of SIB investments in UK compared to £15 billion GBP of payment by results

<sup>25</sup> A “chasse privée” means a private hunting area

***The user of the service is unlikely to know that they are benefiting from a SIB, but many SIBs incorporate a relational model of care***

69. The users of service may never know whether the support they receive is the result of one type of contract or another. Their interaction is with the service provider and the key for them is whether the provider can deliver the holistic mix of service that they need to address their problem. Many SIBs appear to have opted for a navigator or relational model of support in which the service user is guided through the system.

***The thematic scope of SIBs is usually limited to those challenges that can demonstrate cashable savings***

70. Only selected policy problems can be addressed by a payment by results contract and only a proportion of these can be financed with a SIB. This inevitably limits the markets for SIBs. They are likely to be most relevant in policy areas where previous interventions have failed or at best achieved mixed results, where any cashable savings accrue to a limited number of departments or agencies and where the results can be clearly measured in a robust manner. They are also only likely to spread widely in countries with established contracting-out cultures.

## **6. Conclusions**

71. The cheapest way of financing public services is usually to pay for them directly because governments can raise funds either through general taxation or on bond markets at lower interest rates than private or third sector organisations. However, SIBs can be more effective as they combine stronger outcomes focus and better performance management. This allows them to yield significantly better results than traditional forms of public sector delivery. At the same time, the cashable savings must outweigh the higher cost of capital and considerable set up costs of a SIB.

72. SIBs attract passionate debates from both advocates and critics. The advocates argue that they are a way of enabling access to vast private sector investment resources. They also suggest that because of the strong connection between the investors and the social returns, SIBs are both more efficient and more effective than other forms of public investment in social challenges.

73. By mid-2015, no known SIBs had completed and published ex-post evaluations. There are some interim evaluations available. The Peterborough One Service SIB had two interim evaluations before its premature shut-down in 2015 and should produce a final evaluation in 2016. The London Street Impact SIB has published two interim evaluations and is expected to produce a final evaluation in late 2015. The lack of evaluations at this stage makes it difficult to draw any conclusions about whether SIBs are better than alternative approaches, but the interim evaluations made some useful comments about perverse incentives raised earlier in this report and, in particular, looked at issues around “creaming<sup>26</sup>” and “parking”, which do not appear to be major problems.

74. One issue that has been insufficiently addressed in the existing literature on SIBs is the high cost of policy failure of existing approaches in many policy fields, including some of those covered by the first generation of SIBs. Whether we look at recidivism, fostering and adoption, homelessness or NEETS, it is apparent that the status quo is often both expensive and ineffective. These policy failures do not mean that SIBs will perform better. Still, there needs to be a better understanding of why these policies are failing and, in particular, whether it is a systemic failure or a problem of poor design and short-term funding. The entry of SIBs into these policy environments may help to focus attention on what really works and why funding has not been directed towards those mechanisms that show promise and instead is captured by

---

<sup>26</sup> Creaming is also sometimes referred to as cream skimming

incumbent organisations that may be better at financing themselves than turning around the lives of their clients.

75. It is premature to judge whether SIBs have produced performance improvements. Evaluations will be needed to unpick whether better performance is the result of a better model of implementation or of improved management. In the Peterborough One Service case, the interim evaluation suggests that both improved coordination and the use of the proven “through the door model” were important factors. In the London Street Impact SIB, the social enterprise uses an adapted “housing first” model with more wrap-around support. Some of the improvement may well be down to the impact of increased measurement and observation on staff and clients involved in the pilots. Hawthorne effects are common in social situations.

76. SIBs illustrate the need for continued experimentation in financial models for public service delivery. They may not answer all the questions that they raise, but they have succeeded in asking some important questions about how public money is used to achieve social outcomes and what changes when private money is brought into the mix.

## REFERENCES

- Comptroller and Auditor General (2015), Outcome Based Payment Schemes: Governments Use of Payment by Results, National Audit Office <https://www.nao.org.uk/press-releases/outcome-based-payment-schemes-governments-use-of-payment-by-results-2/>
- Disley, E. and Rubin J. (2014), Phase 2 report from the payment by results Social Impact Bond pilot at HMP Peterborough Rand Corporation Evaluations, Rand Research Reports <http://www.rand.org/randeuropa/research/projects/social-impact-bonds.html> Goodall, E. (2014), Choosing Social Impact Bonds: a Practitioners Guide, Bridges Impact + for Bridges Ventures <http://bridgesventures.com/choosing-social-impact-bonds-practitioners-guide/>
- ICF GHK (2014), Qualitative Evaluation of the London Homelessness Social Impact Bond. First Interim report, Department of Communities and Local Government [https://www.london.gov.uk/sites/default/files/Qualitative\\_Evaluation\\_of\\_the\\_London\\_Homelessness\\_SIB.pdf](https://www.london.gov.uk/sites/default/files/Qualitative_Evaluation_of_the_London_Homelessness_SIB.pdf)
- Gustafsson-Wright, E., Gardiner, S. and V. Putcha (2015), Potential and Limitations of Impact Bonds: Lessons from the First Five Years of Experience Worldwide, Global Economy and Development Program, Brookings Institution, <http://www.brookings.edu/~media/Research/Files/Reports/2015/07/social-impact-bonds-potential-limitations/Impact-Bondsweb.pdf?la=en>
- O’ Sullivan, C., Mulgan, G., Norman, W., Ramsden, P., Tucker, S., and Vasconcelos, D (2011), Financing Social Impact: Funding Social Innovation in Europe; Mapping the Way Forward, Young Foundation for Social Innovation Europe <https://webgate.ec.europa.eu/socialinnovationeurope/en/directory/europe/news/finance-and-funding-social-innovation-europe>

CFE/LEED(2015)11

OECD (2014a), *Social Impact Investment: Building the Evidence Base*, Paris: OECD Publishing,  
<http://www.oecd.org/sti/ind/social-impact-investment.pdf>

OECD netFWD (2014b), *Venture Philanthropy in Development: Dynamics, Challenges and Lessons in the Search for Greater Impact*, OECD Development Centre, Paris,  
<http://www.oecd.org/dev/Venture%20Philanthropy%20in%20Development-BAT-24022014-indd5%2011%20mars.pdf>

OECD (2015), “Social Impact Bonds-Promises and Pitfalls”, Summary Report of the OECD Experts Seminar, Paris, 15 April 2015, France, <http://www.oecd.org/cfe/leed/SIBsExpertSeminar-SummaryReport-FINAL.pdf>

St. Mungo’s Broadway (2014), *Stories from the Street- Holistic Approaches to Lasting Recovery*,  
<http://www.mungosbroadway.org.uk/documents/6257/6257.pdf>

Social Impact Investing Taskforce (2014), *Impact investing: the Invisible Heart of Markets: Harnessing the Power of Entrepreneurship, Innovation and Capital for the Public Good*.  
<http://www.socialimpactinvestment.org/>