

SOCIAL IMPACT BONDS 2.0?

# CAN IMPACT BONDS HELP TO CURE 'SOCIAL LONG COVID'?





**The first Social Impact Bonds were launched about ten years ago. Much has happened since. Economic and social upheavals followed the 2008 financial crisis. Then came the COVID-19 pandemic.**

**These events compounded new and increasing social needs including ageing populations, the rise of long-term health conditions such as diabetes, high rates of unemployment for young people, a mental health epidemic, plus loneliness across the generations and homelessness. This transformed landscape makes now a timely moment to think again about Social Impact Bonds and their future development.**

**This series of briefings on the future of Social Impact Bonds has been produced by the Policy Evaluation and Research Unit at Manchester Metropolitan University and the Price Center for Social Innovation at the University of Southern California. The series editors are Professor Chris Fox and Professor Susan Baines from the Policy Evaluation and Research Unit and Professor Gary Painter from the Price Center for Social Innovation.**

# CAN IMPACT BONDS HELP TO CURE ‘SOCIAL LONG COVID’?

*Impact Bonds, integrating multiple services for complex individual needs, could prevent the marginalised from being left behind.*

Impact bonds provide policy options for cash-strapped governments to help disadvantaged people to recover from the pandemic, says **Emily Gustafsson-Wright** of the Brookings Institution.

One of the most interesting impact bonds in the world is a US project that seeks to reunite children with their parents who are experiencing homelessness. It suggests how this mechanism might help address the social and economic effects of the pandemic – amid constrained public resources, impact bonds could provide cost-effective ways to help individuals, facing a multitude of challenges, to get back on their feet via tailored services from the right mix of service providers.

One of the project’s clients – a homeless mother and her three young children, in Cleveland, Ohio – illustrates how impact bonds could work during pandemic recovery. Back in 2015, Courtney, 28, was living in a shelter and struggling to manage mental health issues and substance abuse. As a result, her children were placed in foster care and Courtney had virtually given up hope of being allowed to look after them herself. Meanwhile, the county, charged with protecting the children in safe, healthy surroundings, had little incentive to reunite the family. Yet, given the right support, staying together

would have been best for mother and children – and less costly for the county.

Fortunately for everyone, the county had signed up to engage in a Social Impact Bond (SIB). It promised to repay private investors for successful reunification of children with their caregivers who had experienced homelessness but only after the caregivers received the help that they needed to turn their lives around.

In Courtney’s case, this SIB galvanised a broad group of services to meet regularly, and successfully help her to turn her life around. They provided tailored support to tackle her substance abuse, classes in financial management to deal with debts, family counselling to address mental health issues plus backing to find a home for her family. Soon, Courtney was able to care for her children, all under the same roof, to enrol them in supportive school environments and to break a cycle of dependency on the foster care system – all at a much-reduced cost to the county.

## PERU Policy Evaluation & Research Unit

The Policy Evaluation and Research Unit at Manchester Metropolitan University is a multi-disciplinary team of evaluators, economists, sociologists and criminologists. We specialise in evaluating policies, programmes and projects and advising national and local policy-makers on the development of evidence-informed policy. We have a long-standing interest in social investment and Social Impact Bonds. See [www.mmuperu.co.uk](http://www.mmuperu.co.uk) for details of relevant publications.

## USC Price Sol Price Center for Social Innovation

The Sol Price School of Public Policy at the University of Southern California is a leading urban planning, public policy, public administration and health policy and management school. The Sol Price Center for Social Innovation is located within the School and develops ideas and illuminates strategies to improve the quality of life for people in low-income, urban communities.

**‘Recovery from the pandemic will need collaborative, multi-pronged supports to get people back on their feet during very difficult times.’**

### COVID’S CHALLENGE

Recovery from the pandemic – and the social challenges it has generated – will feature many people facing circumstances like Courtney’s. These individuals will need collaborative, multi-pronged supports to get them up and running again during difficult times. Their needs are likely to be in areas where SIBs have been successfully tried such as employment and job training, homelessness and education.

Governments must ensure that nobody is left behind, but public finances will be tight, particularly in the first few years as our economies recover. Impact bonds offer a way to address this liquidity constraint since investors provide the working capital for service delivery. Also contracts last, on average, three to five years, giving governments breathing space before having to make payments. After this period of time, economies should be recovering and individuals, such as those benefitting from these social programs, may be more able to contribute to the tax base. Furthermore, governments pay only if programs have achieved results, ensuring that limited budgets are being used effectively.

Impact bonds can also bring other benefits to the fabric of society which are harder to measure – the strengthening of social services systems through the enhancement of data collection, performance management and collaboration; the development of more sensitive, flexible services for future cohorts as well as capacity building within the non-state organisations that deliver many impact bonds.

### IMPACT BONDS CAN BUILD RESILIENCE

The pandemic should remind us about a key initial rationale for SIBs – to provide preventive interventions, early on, to avert bad outcomes in the future, with savings building up, long-term, through the lifetimes of individuals.

We know that adversity during childhood is linked to multiple health conditions, shorter lifespans and other poor social outcomes later in life. COVID-19 has demonstrated this starkly – the disease has disproportionately struck down adults with preventable underlying conditions. The pandemic has exposed societal failures to build resilience during childhood. Impact bonds could provide a

mechanism for addressing these failures to enhance resilience among marginalised people before the next crisis, whether it springs from another pandemic, climate change or some other source.

Up until now, impact bonds have focussed mainly on youths and adults. However, there is plenty of evidence that investing in the early years development maximises social returns in the long term, be it in terms of health outcomes, access to jobs, lower school drop-out rates or reduced criminality.

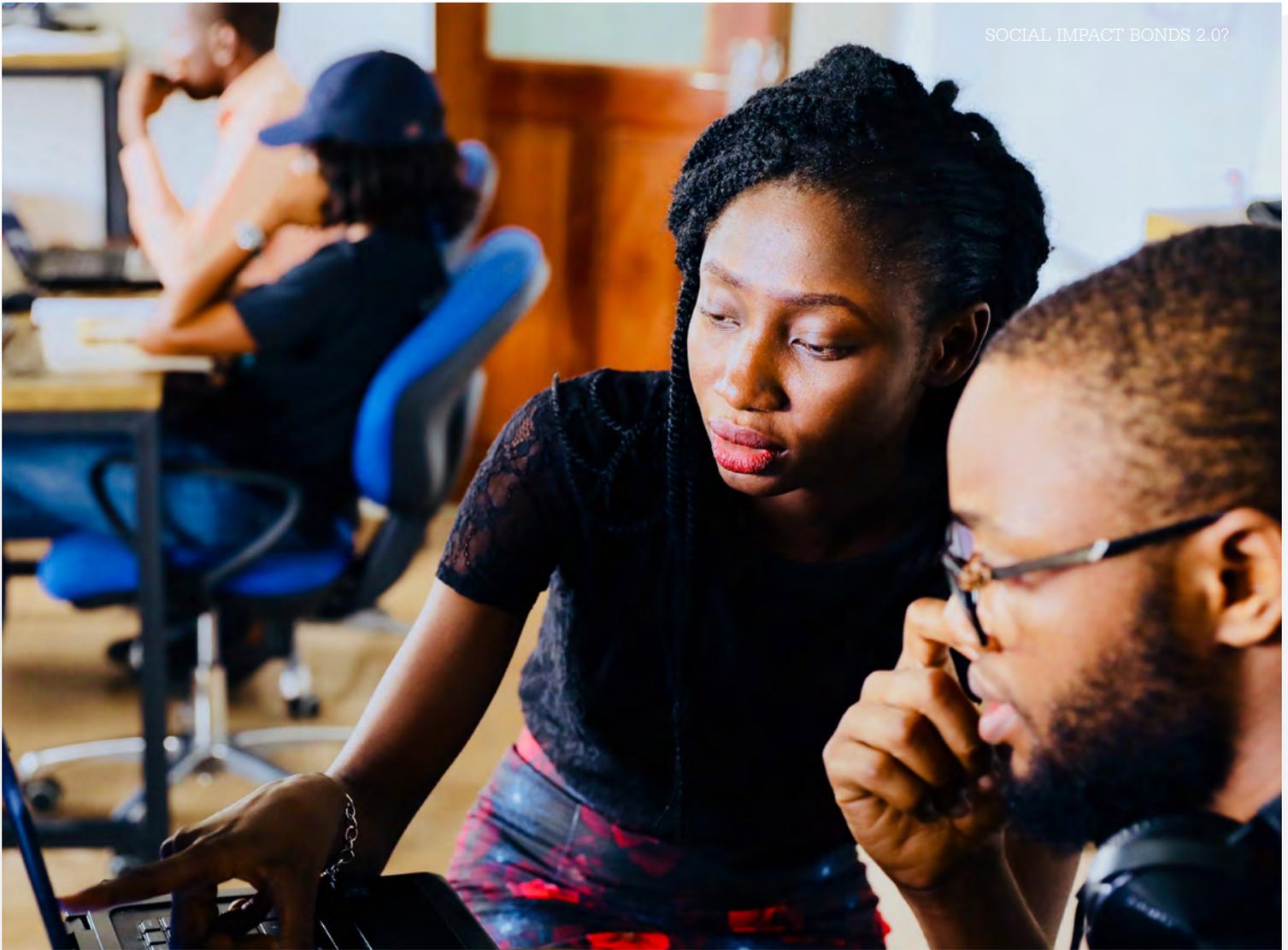
Many of these benefits become apparent only decades later. However, there are proxies for those long-term outcomes that investors could consider and which would assure governments of the longer term gains. Early childhood development, which covers a wide range of often poorly coordinated services – ranging from infant immunisations to education and social protection – could benefit from using impact bonds to integrate provision around vulnerable individuals.

### OUTLOOK FOR THE FUTURE

Since they were initiated in 2010, some 210 impact bonds have been contracted worldwide, in over 35 countries, including 27 US projects, as of 1 March 2021. About a quarter of these have been completed, with almost all paying out. The vast majority of these impact bonds are SIBs, with only 13 Development Impact Bonds (DIBs), designed for developing countries with pay-outs coming from donors rather than domestic governments. So, there has been steady growth, but it’s not been spectacular. In the US, adoption of impact bonds slowed somewhat during the Trump administration, but interest may pick up under the Biden Administration, which is likely to continue the focus on evidence-based funding that was championed under President Obama. There is pending legislation in the US that would support SIB financing.

Many impact bonds have taken a long time to develop. However, we are seeing increased speed in set-up, especially for repeat actors. It would make sense for those repeat actors, having knowledge and templates, to think about how to best invest during this period of crisis to reach those who are most in need. Given that funding needs to get rapidly to individuals who are suffering, those new to the field might consider engaging with those already experienced in using this tool with the goal of speeding up the design phase.

Greater scale and potentially impact could also be achieved through the use of outcomes funds which pool funding from governments or donors to pay for outcomes, either for a particular sector or potentially a geographical region. While we are still, likely, some distance away from impact bonds becoming



popular among commercial investors, they offer the chance for impact investors to inject catalytic capital into measurable social good.

#### **WHERE WILL SIBS BE FOUND?**

Looking forward, we can likely expect to see more impact bonds in the employment sector (which currently constitute 30 per cent of the impact bond market globally) which would be welcome in the wake of the pandemic. There is also an enormous opportunity however, for impact bonds to improve the coordination and integration of multiple social services and to tailor them to beneficiaries' needs such as we saw with the impact bond project serving Courtney and her family. Investing in our youngest citizens, making them more resilient to future shocks and avoiding costly remedial measures in the future, would also be a promising avenue for the mechanism. Impact bonds that build

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environmental resilience would also be welcome as it is highly probable that our future will be plagued by environmental shocks.

Healthcare systems will be faced with treating the lingering, complex set of ailments that continue to trouble many of those who have been ill. Impact bonds may be able to provide cures for 'Social Long COVID' by integrating cost-effective solutions for the broader problems endured by the pandemic's victims.

**Emily Gustafsson-Wright is a senior fellow at the Center for Universal Education at the Brookings Institution and the premier thought-leader and convener in the emerging field of social and development impact bonds and has written 14 publications on this cutting-edge topic. Her current focus on effective delivery of social services including education and health interventions has consolidated her role as a global expert on innovative financing mechanisms more broadly, including payment by results, public-private partnerships and impact investing.**

*'Measuring the success of impact bonds', by Emily Gustafsson-Wright, was published in September 2020 by the Brookings Institution. It is a series of five policy briefs evaluating evidence across five dimensions of success, ranging from impact bond growth trajectory to considering the costs and benefits of impact bonds.*

<https://www.brookings.edu/multi-chapter-report/measuring-the-success-of-impact-bonds/>

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