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SOCIAL IMPACT BONDS 2.0?

SOCIAL IMPACT BONDS 2.0: THE FIRST TEN YEARS, THE NEXT TEN YEARS





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. This transformed landscape makes now a timely moment to think again about Social Impact Bonds and their future development. The Policy Evaluation and Research Unit at Manchester Metropolitan University and the Price Center for Social Innovation at the University of Southern California have therefore commissioned a series of briefings from leading thinkers in the field.

The briefings can all be downloaded from <https://mmuperu.co.uk/blog/projects/social-impact-bonds-2-0/> and from <https://socialinnovation.usc.edu/sibs2-0/>

SOCIAL IMPACT BONDS 2.0: THE FIRST TEN YEARS, THE NEXT TEN YEARS

A series of briefings from leading thinkers and actors suggest that, after ten years, SIBs have yet to reach their full potential. But the same people believe that SIBs could play important roles in public service reform and in ensuring that marginalised people are not left behind in the aftermath of the Covid Pandemic. However, to achieve their potential, SIBs must be re-configured to become a catalyst for innovation, driving public sector reform and addressing new social and economic needs.

Susan Baines and **Chris Fox** of Manchester Metropolitan University and **Gary Painter** of the University of Southern California are the series editors for Social Impact Bonds 2.0. They are focussing SIBs on life satisfaction and innovation when higher public spending, alone, falls short of achieving goals.

The first Social Impact Bonds (SIBs), also known as 'pay for success contracts' were launched about ten years ago. Since the first SIB was launched in UK, over 200 have been developed worldwide. Much has happened since, including the COVID-19 pandemic. These events have 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, growing housing insecurity, and loneliness across the generations. This transformed landscape makes now a critical moment to re-evaluate SIBs and their future development.

We, therefore, asked leading thinkers and actors in field to reflect on the first ten years of SIBs and consider the future of SIBs. Collectively, they have designed and managed more than 50 SIBs. They

have played leading roles in shaping policy on SIBs in the UK and US, both from within government departments and in leading consultancies and think tanks. They have undertaken detailed evaluation and research on at least a dozen SIBs in the UK, Europe and US, advised on the development of SIBs in other parts of the world and produced reviews that have touched virtually every SIB developed worldwide so far. They have also reviewed the research literature and edited special editions of academic journals focusing on SIBs.

In this briefing, we draw together their insights and sketch out how SIBs 2.0 could be a major driver of public service reform and help create innovative solutions for new and emerging social and economic challenges.

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 for details of relevant publications.

USCPrice 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.

SOCIAL IMPACT BONDS

Social Impact Bonds are a form of social outcomes-based commissioning where the finance needed to make the contract work comes, not from government or the service provider, but from third-party investors who provide up-front capital to organisations, often from the voluntary, community and social enterprise sector that deliver services. The investors then receive back their investment, plus a return, from local and/or central government if outcomes are achieved. Advocates have distinguished SIBs from other forms of social outcome-based payment by emphasising that they: are a catalyst for innovation in the design and delivery of front-line services; a driver of public sector transformation; bring new, socially motivated investors into public services by aligning social and financial returns on investment; and, minimise risk for service commissioners who pay only for agreed outcomes that are delivered. SIBs also minimise risk for smaller, third sector providers whose costs are covered by investors' up-front investment.

WHAT HAVE WE LEARNT FROM TEN YEARS OF SOCIAL IMPACT BONDS?

As Emily Gustafsson-Wright describes in her briefing, some 210 impact bonds have been contracted worldwide since they were initiated in 2010, and about a quarter of these have been completed, with almost all paying out. While the UK still accounts for the most SIBs, there are also a substantial number in the US, and Alec Fraser and Debra Hevenstone describe a number of European SIBs in their briefing. Meanwhile, experiments with SIBs in Japan, Singapore and Hong Kong are leading to new Asian SIB models that Chih Hoong Sin, in his briefing, characterises as focussed less on public service reform and more on supporting innovation at scale.

Many of our contributors tell inspirational stories about people and groups that SIBs have helped. Emily Gustafsson-Wright tells the moving story of a mother in Cleveland, Ohio, living in a shelter and trying to turn her life around so as to be reunited with her children. Meanwhile, in the UK, Mila Lukic and Andrew Levitt describe the challenges faced by young people leaving care and another SIB aimed at people living with severe asthma and diabetes in Grimsby.

Tim Gray, who designed the first, highly influential, homelessness SIB in the UK argues that we should recognise the value of SIBs in providing bespoke,

'Research suggests that, while SIBs have had some success in bringing social investment into public services and have, in the process, transferred risk away from service commissioners and third sector providers, their record on innovation is less clear.'

accountable, improved services for groups of people who deserve a much better, targeted approach than they have experienced in the past. Gray and several other contributors make clear that SIBs are about more than the notion of 'cashable savings'. Indeed, the impact bond that Gray describes was not designed primarily to save money.

However, the view from the field is not all positive. Robert Pollock is concerned that, in the UK, SIBs are "at risk of running out of steam". Debra Hevenstone and Alec Fraser observe of some European states that "early enthusiasm to make Social Impact Bonds work has waned" in the light of "high costs and a lack of transparency". Meanwhile, Emily Gustafsson-Wright notes that, in the US, the adoption of impact bonds slowed during the Trump administration. Focusing on the UK, which has the most experience to date of designing and implementing SIBs, Pollock argues:

"A decade on, SIBs have tinkered at the edges of public service delivery, but they have not yet achieved systemic change."

Research suggests that, while SIBs have had some success in bringing social investment into public services and have, in the process, transferred risk away from service commissioners and third sector providers, their record on innovation is less clear. SIBs have undoubtedly exhibited elements of financial innovation and often encouraged a greater emphasis on performance management and accountability within delivery organisations. However, they have yet to demonstrate that they are an effective model for fostering innovation in the design and delivery of services or for driving the wider transformation of public services.

Pollock suggests four lessons that explain why. First, SIBs are often not, by their nature, suited to scale because delivery consortia are typically local in their reach and effectiveness, although we have seen larger SIBs in other jurisdictions. Secondly it is hard to replicate the changed institutional relationships that SIBs often pioneer locally. Thirdly, SIB strengths lie in reaching marginalised groups, more than serving the mainstream. Finally, even if SIBs are effective at providing "value for money"



and better outcomes for beneficiaries, they generally expose the need to change the status quo – to spend public money differently – and this is a political challenge where SIBs can struggle, just as other attempts at system change have.

SO, WHERE NEXT FOR SIBS?

SIBs 2.0

How could SIBs evolve to deliver on their early promise? Both in our own work on SIBs and across the contributions to this series, we see a broad consensus on what needs to happen next. As

'we believe that the next wave of SIBs should put people at the heart of service design and delivery, diversify approaches to evaluation, emphasise continuous learning and reflect more on how learning can be translated into wider systems change.'

Robert Pollock puts it, the policy debate has become too focused on form rather than function.

"During these first 10 years of SIBs, we've looked into the finance mechanism for the secret source of their 'magic', when we should be investigating how the design and governance of outcomes contracts enhance response to user needs."

Thinking about the function of SIBs, our contributors see many opportunities for SIBs in the aftermath of Covid to "prevent the marginalised from being left behind" (Gustafsson-Wright), with continued work in areas such as homelessness, unemployment and long-term health conditions but with a greater emphasis on early intervention and prevention. Drawing on our own work and that of our contributors to think about the design and governance of SIBs, we believe that the next wave of SIBs should put people at the heart of service design and delivery, diversify approaches to evaluation, emphasise continuous learning and reflect more on how learning can be translated into wider systems change.

PUTTING PEOPLE AT THE HEART OF SIBS

Fox and colleagues argue in their briefing that greater social innovation in SIBs requires solutions to be co-created with people who access services and that resulting services need to adopt strengths-based approaches to working with people. Strengths-based services put people at the heart of interventions, supporting people to develop their capabilities and exercise agency. These are services that ask questions such as ‘what matters to people?’ and not ‘what is the matter with them?’ This in turn, as Mila Lukic and Andrew Levitt describe, leads to collaborative design in which diverse organisations, including community-led ones, come together to design solutions to pressing social needs. As Gray puts it: “We know that success can spring from strengths-based approaches, working across service boundaries, collaboration and determination.”

BUILDING IN LEARNING

Many SIBs in the US are accompanied by robust impact evaluation to ascertain whether or not outcomes achieved can be attributed to the SIB. However, this has not tended to be the focus in the UK and Europe. Hevenstone and Fraser detail a number of European SIBs where they felt that programmes did not attempt to measure impact as

robustly as they would have liked. They even hint at the possibility that local or national governments did not want to know whether documented impacts could be attributed to SIBs. There are good arguments for routinely incorporating robust impact evaluation in to the design and delivery of SIBs – several contributors to our briefing series emphasise the importance of accountability and learning for the success of SIBs. However, we also recognise that, sometimes, it can be difficult to build in traditional, counterfactual impact evaluations into SIBs for either technical or cost reasons. That said, we would also contend strongly that this is not a reason to give up on evaluation and learning. As Mila Lukic and Andrew Levitt argue, the key evaluation question is not whether the SIB worked or not, but teasing out the relative contribution of individual components of operational management and delivery to producing outcomes. This suggests that evaluations using methods such as Contribution Analysis and Qualitative Comparative Analysis might have potential.

SYSTEMS CHANGE

How can SIBs bring about systems change, challenging traditional, deficit-based ways of working with people and using co-creation to create socially innovative services? One option is



to focus SIBs on scaling promising interventions from other contexts. Early proponents of SIBs argued that social investors might be individual philanthropists or a charitable trust, but, looking ahead, they saw the potential for private finance to replace philanthropic or public finance, thus creating a new asset class in which banks, pension funds and others might invest. Emily Gustafsson-Wright judges that we are still some distance away from SIBs becoming popular among commercial investors, although Chih Hoong Sin points out that Asian SIBs are operating at scale. For example, a new wave of Japanese SIBs is focusing on core government priorities, such as the roll-out of digital, technology-assisted healthcare, drawing new players into SIBs not seen elsewhere. However, Chih Hoong Sin is also clear that these Asian SIBs are hybrid models (for example, in Singapore, insurers replace social investors) and that important elements of the SIB approach including collaboration, flexibility and accountability can be undermined or even lost in such hybrids.

Gustafsson-Wright argues that greater scale, and potentially impact, could 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. However, others, such as Tim Gray are less concerned about scale, seeing the role of SIBs as demonstrating how to make a system work better and to capture learning that can then be taken to scale by more conventional means. This seems to us the more realistic strategy. If so, then building effective collaborations within complex systems seems to be the key to effecting systems change. Mila Lukic and Andrew Levitt, drawing on their experience of designing many SIBs and social outcomes-based contracts, argue that collaborative design means developing a project in true collaboration with the community involved – getting together with the real experts, namely those who use and deliver the service. It involves creating an environment in which multiple parties, who care about the same issue, can work together on joined-up services. Relationship building and recognising the importance of people in systems who do this is thus crucial to the new wave of SIBs.

CONCLUSION

Covid has changed the world and set us new challenges, but as Robert Pollock argues:

“In ways, we’ve spent the past 10 years preparing for this moment: learning how to help people with multiple challenges to get back on their feet by bringing together tax-funded services that often struggle to collaborate effectively on their behalf.”

In their briefing, Gary Painter and Megan Goulding echo Robert Pollock’s sentiments. They highlight opportunities that a decade of SIBs can offer in tackling issues that have been exacerbated by the pandemic, such as joblessness among African-Americans and problems for women in accessing the labour market. SIBs, they point out, offer ways and means to home in on – and to help resolve – these issues effectively.

In contributions to this series, we can see a new wave of SIBs emerging that put people at the heart of service design and delivery; create the conditions for learning; and encourage wider systems change. They are most visible in some more recent UK SIBs. By way of illustration, Fox et al evaluate four SIBs, managed by Bridges Outcomes Partnerships, to show how co-creation, strengths-based working and experimentation can be encouraged in SIB designs where interventions are not pre-specified, where ‘rate cards’ allow for multiple individual outcomes to be pursued, and where investment funds make it possible to vary the funding available for the contract in response to continuous experimentation and learning throughout.

If SIBs 2.0 are to be effective in the response to Covid and other shocks such as catastrophic weather events then, as Deborah Burand argues, it will be vital to build still more resilience into SIB relationships. These should include more granular conversations upfront with different parties about whether they have the capacities to plan for catastrophic, exogenous events.

The contributions in this series note that SIBs, to date, have been diverse in purpose. They include examples of how existing SIBs have fulfilled stakeholder goals related to public sector reform, risk sharing, testing early-stage innovation, and scaling promising practices. As SIBs enter their second decade, clarity of purpose will be important. SIBs must evolve to contain more inclusive practices. It will be very important that stakeholders using SIBs align their expectations with what SIBs can deliver, be it system change, new preventative interventions or scaling promising interventions.

Finally, as several of our contributors note, the role of government is important. In the UK, Robert Pollock sees the UK government’s Comprehensive Spending Review, due in Autumn 2021, as an opportunity to re-affirm and increase support for SIBs and other forms of outcomes-based commissioning. In the US, Emily Gustafsson-Wright suggests that interest in SIBs may pick up under President Biden’s administration. As ever with SIBs, the key to their development and usefulness goes beyond their sometimes complicated mechanics. It will also depend on the political commitment that stands behind them.

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April 2021