


SOCIAL IMPACT BONDS 2.0?

SIBS GROWTH IN EUROPE MAY REFLECT POLITICS AND LACK OF ACCOUNTABILITY





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.

SIBS GROWTH IN EUROPE MAY REFLECT POLITICS AND LACK OF ACCOUNTABILITY

Making the initial SIBs work in new territories overrode concerns such as transparency and cost-efficacy. However, some are sceptical about pursuing the innovation

Debra Hevenstone and **Alec Fraser** set out findings from their study of early SIBs in Germany, Switzerland, the Netherlands, and the United Kingdom

Early enthusiasm to make Social Impact Bonds (SIBs) work has waned in some European states. This is particularly true in Switzerland and Germany where political accountability and sufficient conventional public financing have made it difficult to justify or ignore the costs of taking initial experiments further.

In contrast, in the UK, there are well established, centrally administered, outcomes funds which encourage SIB use by topping up local service funding. There, SIBs thrive, less vulnerable to political scrutiny. Their costs are more easily obscured and trumped by central government's commitment to experimentation and service delivery reform. The European Union's programme of SIBs and Development Impact Bonds may, likewise, prove less blighted by SIB-scepticism as these programmes are also paid from distant sources that are removed from the gaze of taxpayers.

Our research has taken a close look at some of the first SIB-financed projects in Switzerland, Germany, and the Netherlands and also at a SIB in the United

Kingdom – where the approach is much more embedded. These SIBs all concerned Active Labour Market Programmes (ALMPs) – the most popular field for SIBs. Subsequently, enthusiasm for SIBs has diminished in at least two of these countries.

FOCUS ON SIB SUCCESS

One of our cases was halted early, but the other programmes went to full term. In all but one of our cases, we found a focus on ensuring that the SIB-financed programmes were completed and that returns were paid out. In some of our cases, informants suggested that contract design was biased towards success, and that contracts were designed to be low risk.

From an academic point of view, we felt that many of these programmes did not attempt to measure impact as robustly as we might have liked. In some cases, we found examples of targets being adjusted mid-programme – usually for pragmatic reasons – but, nevertheless, this could have made it easier to achieve desired outcomes.

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.

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.

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In one of our cases, a randomised control trial approach was dropped in favour of spending more money on social services, with replacement evaluation strategies setting aside the goal of measuring impact.

These findings might imply impropriety, but the reality is probably more complicated. In each of these sites, there was a genuine desire to show that the initial SIBs could be made to work. Everyone involved – even those doubtful of SIBs’ long-term value – wanted to avoid failure of such high-profile, controversial projects. Apart from one case, contracts appeared to be rather generous and quite forgiving in our view. In some of the projects, informants suggested there was cherry-picking of users likely to succeed – although other informants suggested such actions were not “gaming” but rather part of the programme design. Tests and targets were perceived to be more about completion and delivery than impact in some cases.

Some choices that reduced transparency – like cancelling a randomised controlled trial as we saw in one case or opting for a process rather than an impact evaluation in another case – might be understandable in their respective contexts. The loss to evaluation was possibly to the users’ gain. However, in more than one case, local or national governments rejected evaluators’ offers of additional impact analyses, or cost-effective impact estimation strategies drawing on existing data. Instead, they favoured “evaluations” that were really audits checking whether a given number of people got a job and which did not estimate a counterfactual impact. We would hesitate to say that governments actively did not want to know impacts. We found multiple instances of confusion about what an “impact”, in the academic sense, amounts to. Stakeholders were ready to attribute any employment as the effect of a programme.

SIB EFFECTS

In the febrile, politicised atmosphere around SIBs, it wasn’t easy for us to test for the Holy Grail: SIB effects. Initially, we contacted almost 40 ALMP SIBs in search of programme data on providers’ SIB and non-SIB programmes that could be linked with government administrative data. Our

exhaustive trawl gained usable quantitative data from just two sites – one in Switzerland and one in the Netherlands. It is likely that neither are “representative” SIBs.

Notably, we found some measurable SIB effects: in both cases, more people got into better jobs and were on fewer benefits. However, these effects do not seem to be specific to SIB mechanisms. In one case, the funding per client increased dramatically with SIB funding, allowing extra support such as one-on-one language tutoring. In another case, the provider adopted more traditional and accepted ALMP strategies once the programme had received SIB funding. Increasing funding and adopting best-practices, as described in a well-researched body of academic literature, are changes that could easily have occurred without SIB financing.

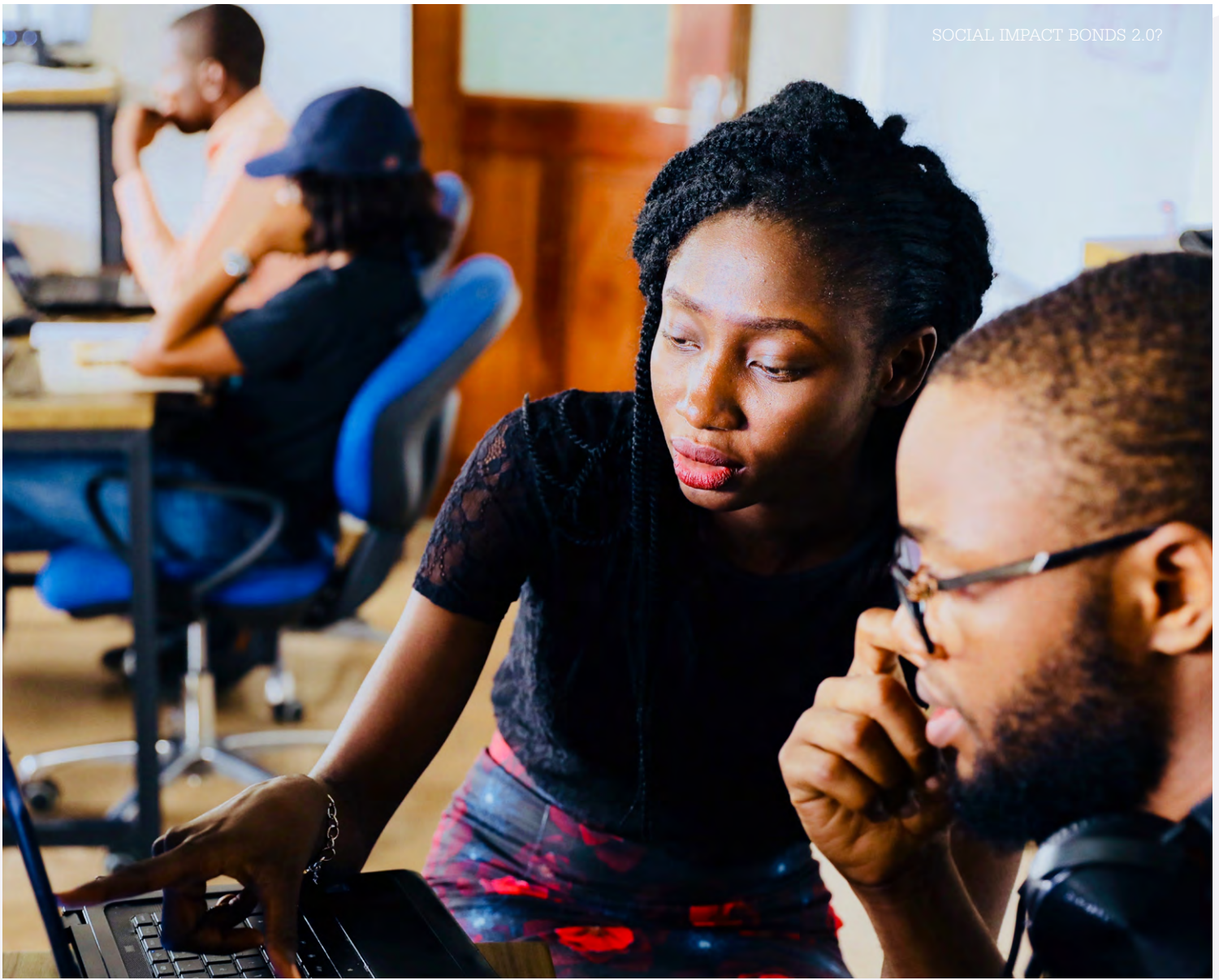
So, while we can say that we found a SIB effect, it seems that there are other, simpler or cheaper, ways to achieve the same.

FINANCIAL ACCOUNTABILITY IMPACTS SIB ENTHUSIASM

Across our cases, it seems that high costs and a lack of transparency are broadly acceptable during first national SIB attempts. However, in the long run, depending on the political context, such features can prove to be unacceptable. In some cases, where central SIBs funded local services that usually did not receive central financing, many parties saw SIBs as “free money” and they were happy to overlook SIBs’ flaws. However, on programmes with different levels of government funding, services were concerned about additional costs. In contrast, when SIBs used local funding for local projects, there was a willingness to discontinue projects and/or a reluctance to fund future SIBs. Sufficient traditional financing for social policy projects further weakened interest.

The willingness to offer high returns – and reactions to those returns – differed dramatically across our sites. Each project faced criticisms around making money from disadvantaged people. However, only in some contexts were politicians careful to offer rates of return just slightly above government bond rates. These were enough to attract investors to experiment, but they were unlikely to lead to a SIB infrastructure in which investors could achieve satisfactory outcomes over the longer term.

In other contexts, returns lacked transparency and far outpaced the returns available on the best-performing emerging markets, and with less risk. These high pay-outs did not seem to dampen policy enthusiasm – potentially because the pay-outs occurred in contexts where central governments paid for services usually funded locally.



The social service providers of these SIB-financed ALMPs were distinct from other stakeholders in uniformly expressing unenthusiastic views about SIBs, regardless of the political context. When asked to describe their ideal contract, none described a SIB, and many were sceptical of the SIB model. Rather, their wish-list was for: stable, long-term funding; flexibility to tailor solutions to clients; and holistic interventions spanning the goals of multiple government agencies.

THE FUTURE FOR EUROPEAN SIBs

Whither European SIBs? Based on what we have seen in our study, we suggest the following: SIBs may be of interest where political leaders and

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other stakeholders desire market-oriented, public service delivery reform – we found evidence for this across the UK, Netherlands, Germany and Switzerland. However, we think that SIB growth is likely to be rooted mainly in political contexts where outcomes payments are taken from a different level of government than that which normally funds services, i.e., in contexts that may obscure political accountability such as we continue to see in the UK, and potentially we may increasingly see at the EU level.

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'Public-private partnerships in Social Impact Bonds: facilitating competition or hindering transparency?' by Debra Hevenstone & Matthias von Bergen, is published in Public Money & Management, Volume 40, 2020 – Issue 3.

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'Backing what works? Social Impact Bonds and evidence-informed policy and practice' by Alec Fraser, Stefanie Tan, Annette Boaz & Nicholas Mays, is published in Public Money & Management, Volume 40, 2020 – Issue 3.

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March 2021