UNDERSTANDING SOCIAL IMPACT BONDS

LEED
BUILDING MORE & BETTER JOBS

OECD
BETTER POLICIES FOR BETTER LIVES

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Box 1. 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 by the public sector is indispensable for vulnerable groups and citizens. Therefore, SIBs could be more appropriate as a complementary and not core mechanism for social services delivery.

Introduction

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 services providers, the capacity to monitor and evaluate better outcomes, and 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 SIBs promises and pitfalls.[1] 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 their potential in an informed way.

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. It deliberately avoids delving into an exhaustive analysis of technical aspects that 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.

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

Definition

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-profit organisations, and investors to pay for the 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 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 outcomes. They are also known as Payment-for-Success bonds (USA) or Pay-for-Benefits bonds (Australia) (OECD, 2015; Brookings, 2015).

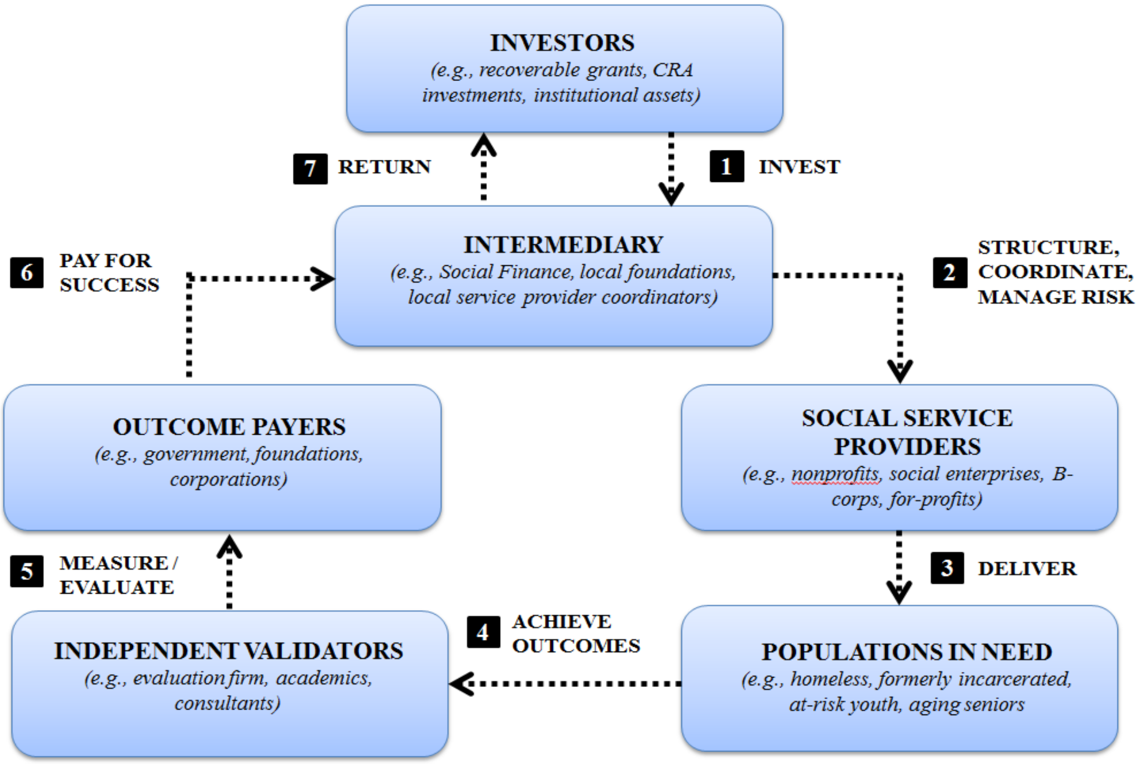
The principal stakeholders

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. 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 too, 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 ONE Service Peterborough 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

Apart from the principal stakeholders mentioned above, depending on the structure of the SIB (see below), additional actors may participate in the mechanism, such as 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 SIB structure 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

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.

Two models have emerged so far through which governments and others have sought to provide funding; the SIBs funds and the individual SIBs. The main difference between them is that 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.

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 SIBs 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 been established; the Innovation Fund[2] by the Department of Work and Pensions, the Fair Chance Fund[3] by the Department for Communities and Local Government, and the Bridges SIBs Fund by Bridges Ventures.[4] 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 supported fourteen SIBs to day.

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

Direct SIBs

In a direct SIB, a delivery contract is signed between the outcomes-payer and service provider or a services provider-controlled special purpose vehicle. 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.

Box 2. Sweet Dreams Supported Living Project, Saskatoon, Saskatchewan (Canada)[5]

Sweet Dreams SIB implemented in Saskatchewan, Canada, is an example of the direct SIB structure. This is also an individual SIB model. The outcomes funders, 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[6]) for a period of 60 months to the EGADZ to 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[7]), the City of Saskatoon ($140 000 CAD, approximately 94 000 EUR[8]), and other private donors ($75 000 CAD, approximately 50 140 EUR[9]). The Saskatchewan Executive Council acted as an "intermediary" in the sense that it designed the SIB outcomes measures, the contract, and raised investor capital.

Intermediated SIBs

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 3. The Junior Code Academy SIB, Lisbon (Portugal)[10]

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 it 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

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

Box 4. Juvenile Justice Pay for Success Initiative, Commonwealth of Massachusetts, USA[11]

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[12]). 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[13]) (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.*

It has to be noted that there are no specific rules indicating the responsibilities of each stakeholder 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, which 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?

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 the service 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 managed deals, only once a technical assistance provider with a service provider commenced the deal.

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

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 supporting process innovation in the public sector and, finally, better performance from services providers. Although SIBs can fall under this broad category, they differ is 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 that 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, although there might be mechanism to mitigate the investors' risk.

An evolving landscape: where are SIBs currently developing?

The first SIB implemented in the United Kingdom (UK) in 2010 aimed at decreasing recidivism. Since 2012, a sharp increase of interest in this mechanism has been observed. The majority of SIBs have been developed in the UK, followed by the US. Australia has developed two, Canada and South Korea one each. In continental Europe SIBs have been launched in Belgium, Germany, the Netherlands, Portugal, and Switzerland. 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 who -from different perspectives and capacities- aim at delivering social outcomes, while transferring the implementation risk from the public sector or service providers to private investors.

- SIBs are complex instruments, which 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?

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 may 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 preventive interventions can have a sound effect on citizens' well-being 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 may also generate savings across multiple authorities.

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 them (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.

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 of 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.

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 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.

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 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.

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 tacking a social challenge. Furthermore, participating in a SIB may facilitate the coordination with organisations working on overlapping problems.

Yet, 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 (OECD/European Commission, 2015). 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.

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).

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, intermediaries should be capable of committing in the long-term as well and not being disturbed by internal governance or financial issues (Social Finance, 2012). In fact, intermediaries may also run to a financial risk if part of their remuneration is tied to a SIB's performance. However, this is more of a success bonus as they are often financed through grants outside the SIB structure.

Overall, as SIBs market is rapidly evolving, the motivations of the stakeholders 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 in order SIBs to deliver a social service more effectively and efficiently than other interventions.

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

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 obligations 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

An enabling legal and policy environment matters for SIBs development. Based on a recent survey (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 GBP available for SIBs. In 2014, they also introduced legislation providing tax relief which applies to SIBs among others instruments and mechanisms (Social Investment Tax Relief) to funding social enterprises. Another example comes from Australia and the state of New South Wales that has implemented the 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

A conducive ecosystem requires also an enabling regulatory framework, which contributes to SIBs development. Conversely regulatory barriers may hinder this process. 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.

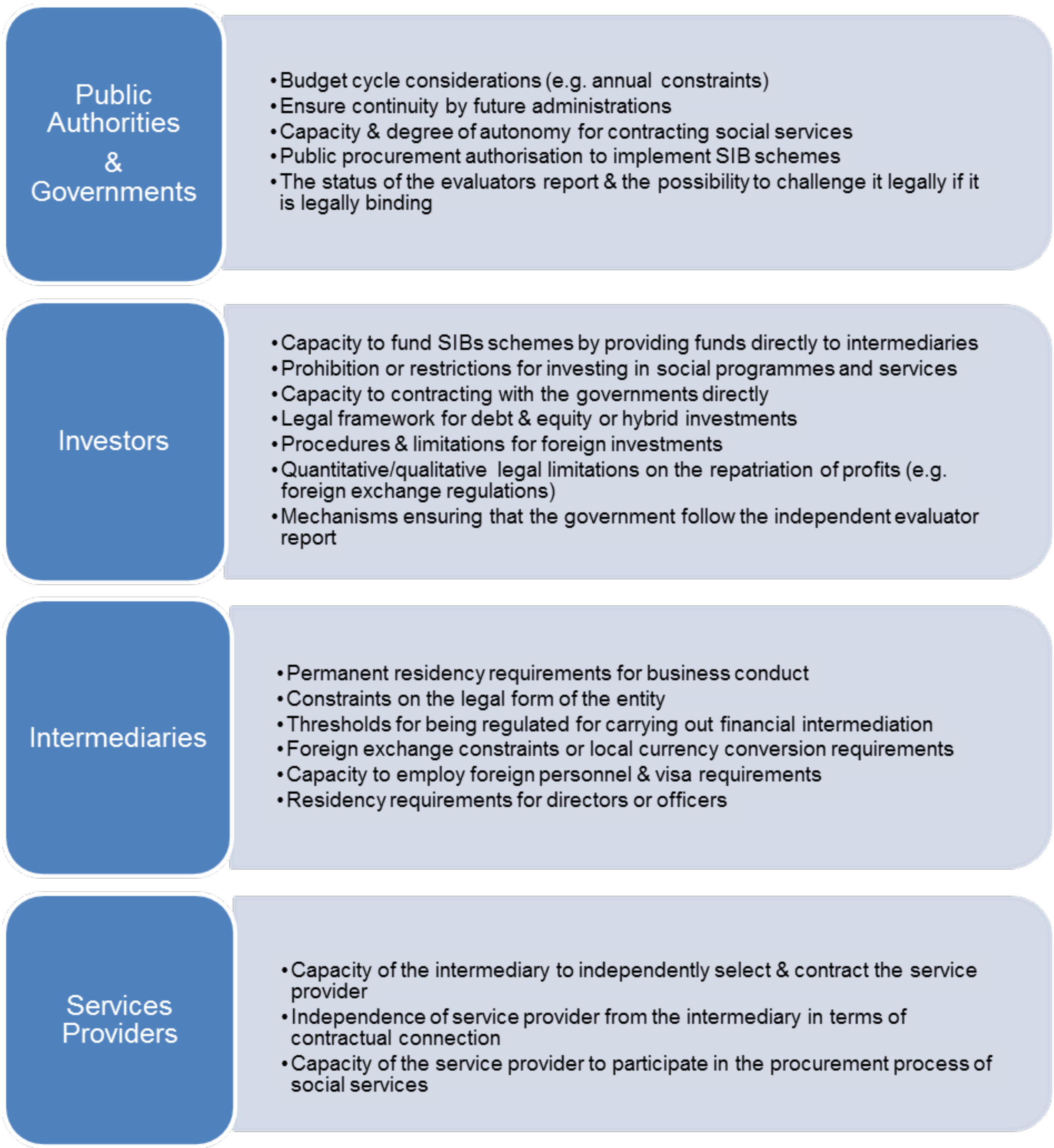
Government authorities have to examine two main areas: budget and contracting. As SIBs are multiyear investments, government as the outcome funder needs to be able to spread appropriated funds throughout the fiscal years and to issue success-based payments (Liebman et al., 2013; Centre for Global Development & 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 service 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, when the Treasury Department issued 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). 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.

Investors, on their end, should consider three 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 offering 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).

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 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.

For ***social service 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 1. Regulatory considerations for SIBs stakeholders



Source: OECD adapted from Instiglio (2015)

- Providing a conducive ecosystem and a sound regulatory framework iare essential steps 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 to be more specific to some countries than others.

What is the process for setting-up a SIB?

SIBs deal development

Since SIBs deal development has not mainstreamed yet, each process is unique. The duration to develop the SIB deal has varied 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.

The ***feasibility study*** aims at identifying the social challenge, which the SIB will address, and based on specific criteria at assessing whether this would be possible or not. Although the criteria used to assess the feasibility of the SIB can vary across the deals, there are few common considerations. The first one is the capacity of the stakeholders involved in the SIB 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 in such a timeframe. 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.

Structuring the deal is the second step for a SIB. During this stage, raising capital from investors (individual or funds), grant makers, and senior or subordinated lenders is key. At the same time, determining the intervention, the outcomes 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. What has to be highlighted here is the assessment or evidence of the capacity of the service provider to deliver the outcomes (Tomkinson, 2015). Last step is the negotiation and the finalising of the contracts including decisions about the responsibility of the performance management.

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. ***Measurement and evaluation*** of the outcomes using the agreed metrics is a challenging element. 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.

Other elements for consideration

Political leadership, commitment, and support play a crucial role in establishing, in 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 public authorities.

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

In what policy areas can SIBs bring added value?

SIBs might provide an opportunity to address problems where existing public policy interventions are not achieving the desired , social outcomes.,. The potential scope for SIBs depends on the structure of a country's welfare state, civil society, and private sector. SIBs seem more appropriate when there are investors available, who are ready to assume the relevant risks and are familiar with non-profits, social enterprises and social policies . There must also be authorities ready to collaborate with multiple stakeholders and assume, on their end, the costs that SIBs entail, for example for developing 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 interventions with measurable outcomes and identifiable target groups.

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 that can be easily identified, when there are measurable outcomes, and when investors are familiar with non – profits, social enterprises and social policies .

Are SIBs more appropriate for preventive or cure interventions? What factors influence such a decision?

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 such 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 (Heckman et al., 2010; Reynolds & Temple, 2009).

To date, the majority of SIBs -apart from one- has been focusing on prevention, for example, 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. In such cases, however, the outcomes are manifested in long run most of the time.

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

What are potential costs and risks stemming from SIBs?

Costs

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 the payments 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 crucial is simply because the core of the SIB deal is based on the following information; the necessary investment amount, the intervention mechanism, the procurement process and the selection of the social service provider.

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 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 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 services have been provided in most instances pro bono or on a very low cost so far. Service 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.

For structuring their finance model, sophisticated and centrally commissioned SIBs by the respective funds 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, for individual SIBs there is a floor (estimated cost of the intervention) and a ceiling (estimated cost and saving) for the amounts discussed. A balanced price per outcome is usually struck between these two ends. Efficiency and capacity to price fairly the expected results comes with experience. However, during the first implementations of SIBs in certain cases governments paid too much or too little for attained outcomes.

Risks & challenges

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 a 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 quite challenging in some cases.

Although one of the main discourses around SIBs is that they transfer the government risk to the investors, governments may also encounter unintended risks or perverse effects in this process, especially when they impact the most vulnerable beneficiaries. As SIBs are contingent upon performance, social service providers, investors or intermediaries (always depending on the structure of the SIB) may select unilaterally beneficiaries that are more likely to achieve the expected outcomes and leave outside the cohort the most challenging cases ("cherry picking"). Similar phenomena are also known as "cream skimming" and "parking". "Cream skimming" refers to including only the highest achievers in the group, while "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 such cases, the government -apart from its responsibility to protect these vulnerable groups- has to face high costs by acting as the "safety net funder".

Examining this issue from a different 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 entail. Still, these costs are expected to drop as the process of establishing them becomes streamlined.

- They should ensure avoiding unintended consequences that may occur and may exclude or even harm some beneficiaries.

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

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 to assess whether or not or to what extent outcomes were 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).

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 as abovementioned- and are paid per participant on a monthly, quarterly or yearly basis.[14] 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, compare to a historical baseline or use randomised control trials.

Measurement caveats

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 a 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 One Service Peterborough SIB it took around 19 months for the first 1,000 men to be released from the prison (Disley et al., 2011). Thirdly, the size of the 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.

Measuring the progress of a SIB intervention can be a daunting task. 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 Prison SIB the outcome is “reduced reconviction events”, and it is easy to identify what data already collected nationally are relevant (in the UK Police National Database). 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.

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).

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.

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 other). To this end, two alternative approaches could be easier and less costly to implement despite the fact that they can be less robust.

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.

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, or drug use. An outcome measure for a SIB can compare the predicted reoffending with actual reoffending rate, and assume than any change was due to the SIB. The downside is that predictions can be inaccurate, and such a measure would not allow firm conclusions to be drawn about whether the SIB caused the change (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.

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

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

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, 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.

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 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).

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 ones (Liebman et al., 2013).

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.

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 even 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 of 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).[15] 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.

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?

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.

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 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

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 service 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 social service provision (Liebman et al., 2013).

Failure in financial terms

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 ONE Service Peterborough 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.

Conclusion

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.

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.

Although less complicated and less costly means of financing social services already exist, SIBs may prove to yield specific advantages. For example, they can 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.

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 (26 May 2016) 54 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.

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.

Furthermore, despite the variety of stakeholders participating in SIBs, it has to be noted that larger social enterprises or social service 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.

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

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

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[16])

Deadweight

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

Development Impact Bonds (DIBs)

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

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[17])

Market failure

Market failure is a general term describing situations in which market outcomes are not Pareto efficient. Market failure provides a rational for government intervention. (Source: OECD, 2014; OECD Glossary of Statistical Terms[18])

Outcomes

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

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; Word Bank Results Terminology website[19])

Propensity Score Matching (PSM)

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[20])

Rate card

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

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)

Special Purpose Vehicle (SPV)

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)

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[1] http://www.oecd.org/cfe/leed/sib-seminar-2015.htm

[2] https://data.gov.uk/sib_knowledge_box/department-work-and-pensions-innovation-fund

[3] https://www.gov.uk/government/publications/fair-chance-fund-full-bid-specification-and-application

[4] http://bridgesventures.com/social-sector-funds/social-impact-bond-fund/

[5] https://www.saskatchewan.ca/government/news-and-media/2014/may/12/social-impact-bond

[6] Exchange rate from the month of the signature of the contract (May 2014)

[7] Exchange rate from the month of the signature of the contract (May 2014)

[8] Exchange rate from the month of the signature of the contract (May 2014)

[9] Exchange rate from the month of the signature of the contract (May 2014)

[10] http://investimentosocial.pt/o-laboratorio/titulos-de-impacto-social/

[11] http://www.payforsuccess.org/sites/default/files/ma-jj-pfs-fact-sheet.pdf

[12] Exchange rate from the month of the signature of the contract (January 2014)

[13] Exchange rate from the month of the signature of the contract (January 2014)

[14] 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).

[15] 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

[16] https://data.gov.uk/sib_knowledge_box/glossary#capital

[17] https://data.gov.uk/sib_knowledge_box/glossary#capital

[18] https://stats.oecd.org/glossary/

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

Stage of Development	Country	Location	Social Issue	Outcome Payer	Contract Duration (Years)
Implementation	Australia	New South Wales	Intensive Family Support Services	New South Wales Government	5
Implementation	Australia	New South Wales	New Parent Support & Infant Family Support	New South Wales Government	7
Implementation	Austria		Female Victims of Domestic Violence	Ministry of Social Affairs	3
Implementation	Belgium	Brussels	Unemployment among Youth Migrants	Actiris, Brussels Agency for Employment	2
Implementation	Canada	Saskatchewan	Support Living Home for at-risk Single Mothers	Government of Saskatchewan	5
Implementation	Finland		Workplace Absenteeism	Public Sector Employer	3
Implementation	Germany	Augsburg	Education & Employment for Young People	Bavarian State Ministry of Labour & Social Affairs, Family & Integration	2
Implementation	India	Rajastan	Education (Girls)	Children Investment Fund Foundation	3
Implementation	Ireland	Dublin	Homelessness	Dublin City Council	1
Implementation	Israel		Reducing Type II Diabetes in High-Risk	National Insurance Institute, 2 Israeli Health Maintenance	

			Prediabetics	organisations (Clalit, Laumit)	
Implementation	Israel	Tel Aviv	Reducing Drop-Out Rates from Higher Education		8
Implementation	Netherlands	Rotterdam	Youth Employment	Municipality of Rotterdam	2
Implementation	Netherlands	Utrecht	Youth Employment	Municipality of Utrecht	4
Implementation	Peru	Peruvian Amazon Region	Cocoa & Coffee	The Common Fund for Commodities	
Implementation	Portugal	Lisbon	School Performance	Lisbon Council	1
Implementation	Switzerland	Bern	Integration of refugees into job market	The Canton of Bern-Department of Health & Welfare	5
Implementation	South Korea	Seoul	Child Welfare	Department of Women & Family Policy, Office of Children & Young People, Seoul Metropolitan Government	3
Implementation	UK	Peterborough	Recidivism	Ministry of Justice	8
Implementation	UK	Essex Council	Foster Care	Essex County Council	5
Implementation	UK	Greater Merseyside	Workforce Development	Department of Work & Pensions	3
Implementation	UK	Shoreditch, London	Workforce Development	Department of Work & Pensions	3
Implementation	UK	Stratford, Canning Town, Royal Docks (Newham), Cathall (Waltham	Workforce Development	Department of Work & Pensions	3

		Forest)			
Implementation	UK	West Midlands (Birmingham)	Workforce Development	Department of Work & Pensions	3
Implementation	UK	Nottingham City	Workforce Development	Department of Work & Pensions	3
Implementation	UK	Perthshire & Kinross, Scotland	Workforce Development	Department of Work & Pensions	3
Implementation	UK	West London (Brent, Ealing, Hammersmith & Fulham, Hounslow, Westminster, & Haringey)	Workforce Development	Department of Work & Pensions	3
Implementation	UK	Thames Valley (South West England)	Workforce Development	Department of Work & Pensions	3
Implementation	UK	Greater Manchester (Manchester, Salford, Bolton, Oldham, Tameside)	Workforce Development	Department of Work & Pensions	3
Implementation	UK	Cardiff & New Port	Workforce Development	Department of Work & Pensions	3
Implementation	UK	North West England	Workforce Development	Department of Work & Pensions	3
Implementation	UK	London	Homelessness	Greater London Authority, funded by Department for Communities & Local Government (DCLG)	3
Implementation	UK	Wales	Foster Care	Cardiff	3
Implementation	UK	Country-wide	Adoption	Local authorities & Social Outcomes Fund	10
Implementation	UK	Newcastle	Long-term health	NHS NWCCG, Big Lottery Fund & Cabinet	7

			conditions	Office's Social Outcomes Fund	
Implementation	UK	Greenwich, Manchester, Oldham and Rochdale	Youth Homelessness NEETs	Department of Communities and local Government, and the Cabinet Office's Social Outcomes Fund	3
Implementation	UK	Kirklees, Calderdale & Wakefield	Youth Homelessness NEETs	Department of Communities and local Government, and the Cabinet Office's Social Outcomes Fund	3
Implementation	UK	Liverpool & Knowsley	Youth Homelessness NEETs	Department of Communities and local Government, and the Cabinet Office's Social Outcomes Fund	3
Implementation	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
Implementation	UK	Newcastle, Northumberland, South Tyneside, Gateshead, Durham, Sunderland	Youth Homelessness NEETs	Department of Communities and local Government, and the Cabinet Office's Social Outcomes Fund	3
Implementation	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
Implementation	UK	Leicester, Leicestershire, Derby and Derbyshire	Youth Homelessness NEETs	Department of Communities and local Government, and the Cabinet Office's Social Outcomes Fund	3

Implementation	UK	Worcestershire	Elderly	Clinical Commissioning Group & the Cabinet Office	
Implementation	USA	Chicago	Early Childhood Development	Chicago Public Schools & City of Chicago	17
Implementation	USA	Massachusetts	Recidivism	Commonwealth of Massachusetts	7
Implementation	USA	New York City	Recidivism	New York City	4
Implementation	USA	New York State	Employment for former incarcerated	US Dept. of Labour and NY State	5.5
Implementation	USA	Salt Lake City	Early Childhood Development	United Way of Salt Lake, Salt Lake County (first year) and State of Utah	12
Implementation	USA	Cuyahoga county, Ohio	Housing & Child Welfare		5
Implementation	USA	Massachusetts	Homelessness	Commonwealth of Massachusetts	6
Implementation	USA	Fresno, California	Asthma Management	California Endowment	2
Implementation	USA	Denver	Homelessness	City and County of Denver	5
Implementation	USA	Santa Clara County, California	Homelessness	County of Santa Clara	6
Implementation	USA	South Carolina	Child & Maternal Health	State of South Carolina	4
Implementation	USA	Connecticut	Family Stability, Substance Abuse	Connecticut Department of Children and Families	4.5
Design	Australia	South Australia	Homelessness	Government of South Australia	

Design	Chile	Santiago	Reducing Recidivism		
Design	Colombia	Bogota	Youth Unemployment		
Design	Costa Rica	San José	Water Conservation	Board of Education	
Design	Finland		Employment of Immigrants		
Design	Israel		Workforce Development for Ultraorthodox Jews		
Design	Israel		Workforce Development for Arab Citizens of Israel		
Design	Israel		Recidivism		
Design	Mexico	Jalisco	Poor Female Household Head		
Design	New Zealand		Employment Service to People with Mental Health Conditions		
Design	Palestine		Youth Employment	World Bank	
Design	Rwanda		HIV Adolescent healthcare	Ybank	
Design	South Africa	Western Cape	Early Childhood Development	Western Cape Government & Treasury	
Design	Uganda		Sleeping sickness		8
Design	UK	Greater Merseyside	Youth Engagement	Cabinet Office, Department of Work & Pensions, & Ministry of	

				Justice	
Design	UK	London	Youth Engagement	Cabinet Office, Department of Work & Pensions, & Ministry of Justice	
Design	UK	Sheffield	Youth Engagement	Cabinet Office, Department of Work & Pensions, & Ministry of Justice	
Design	UK	Greater Manchester	Youth Engagement	Cabinet Office, Department of Work & Pensions, & Ministry of Justice	
Design	UK	North East	Long-term health conditions	Cabinet Office	
Design	UK		Children at the age of care	Cabinet Office	
Design	UK	London & West Midlands	Mental Illness	Cabinet Office	
Design	UK	West Midlands, Birmingham, Wolverhampton & Sandwell	Gangs-related crime		3 to 5
Design	UK	Worcestershire	Elderly	Clinical Commissioning Groups & the Cabinet Office	
Design	USA	Massachusetts, Michigan, New York, Utah and Tennessee	Asthma Management		
Design	USA	Santa Clara County, California	Mental Health		7
Design	USA	Illinois	Child Welfare	State of Illinois	
Design	USA	Massachusetts	Adult Basic	Commonwealth of	

			Education	Massachusetts	
Design	USA	Colorado	Homelessness		
Design	USA	Santa Clara County, California	Homelessness		6
Design	USA	Salt Lake, Utah	Maternal & Child Health	Salt Lake County	
Design	USA	Salt Lake, Utah	Criminal Justice/ Recidivism	Salt Lake County	

Note: This list includes SIBs identified until the cut-off date of this paper upon data availability (30 October 2015). It also includes few DIBs.

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