

Social Impact Bonds: Reconciling Theory and Emerging Practice



Presentation for ISIRC 2016

Kristen Pue, PhD student
University of Toronto Department of Political Science
kristen.pue@mail.utoronto.ca

With thanks to the Lupina Foundation

Introduction

➤ Background

- What are SIBs?
- Global Practice

➤ SIBs in Theory

- Cost Reduction
- Effectiveness of Service Provision
- Balance of Service Provision
- Innovation

➤ SIBs in Practice

- Innovation
- ICNPO Classification
- Service Provider Identity
- Risk Transfer
- Outcomes Payer Identity

What are Social Impact Bonds?

- Invented in 2010
- Three characteristics:
 - Preventative intervention
 - Outcomes-based contract
 - Risk transfer to investors
- A subset of “pay for success” or “payment by results” projects; also called “Social Bonds” or “Social Benefit Bonds”

Active	135
Pre-contract	77
Seeking investment	1
Implementation	42
Evaluation	15
Inactive	16
Completed	3
Lapsed or Discontinued	13
Total	151

SIBs by Region and Current Stage

Region	Project Initiated	Provider Selected	Investors Identified	Implementation Begun	Complete
Europe	105	45	42	41	1
North America	22	19	11	11	1
Oceania	7	7	2	2	0
Middle East	6	2	2	2	0
Africa	5	2	0	0	0
Latin America	4	1	1	1	1
Asia	2	2	2	2	0
Total	151	78	60	59	3



SIBs in Theory: Four Key Themes

Cost Reduction

For

1. SIBs will save governments money because they:
 - Include a logic of cashable savings; and
 - Transfer risk (and cost) of project failure to the private sector.
2. Using SIBs will help to develop the impact investment market, which will leverage private funds for public good.

Against

1. SIBs will be more expensive than traditional financing mechanisms because:
 1. They have high transaction costs;
 2. Investors will demand high rates of return; and
 3. They create a risk of costly litigation if results are disputed.

Effectiveness of Service Provision

For

1. Outcomes targets will make interventions more effective and encourage information sharing.
2. SIBs can support social projects with a longer time horizon. This will make service provision more effective because:
 - It creates funding stability for service providers; and
 - It makes it possible for service providers to scale interventions.

Against

1. SIBs will be less effective because the emphasis on measurement may undermine actual impact.
2. Because SIBs constitute a form of contracting out, they are less transparent and accountable than in-house public programs. In addition to undermining democracy, this will make service provision less effective because civil society will be less able to criticize SIB projects.

Balance of Service Provision

For

1. SIBs align political incentives to fund preventive interventions.

Against

1. SIBs will undermine the welfare state.
2. SIBs will result in less equitable service provision because investors and service providers will have incentives to “cream skim”.
3. SIBs will distort service provision.

Innovation

For

1. SIBs will encourage innovation through:
 - Introducing market forces (competition);
 - Transferring risk to the private sector, which is more risk accepting; and
 - Facilitating collaboration.

Against

1. SIBs will stifle innovation through:
 - Transferring risk to the private sector, which is more risk averse; and
 - Funding only large providers, which are less innovative.



SIBs in Practice 2010-2016: Initial Findings

Innovation

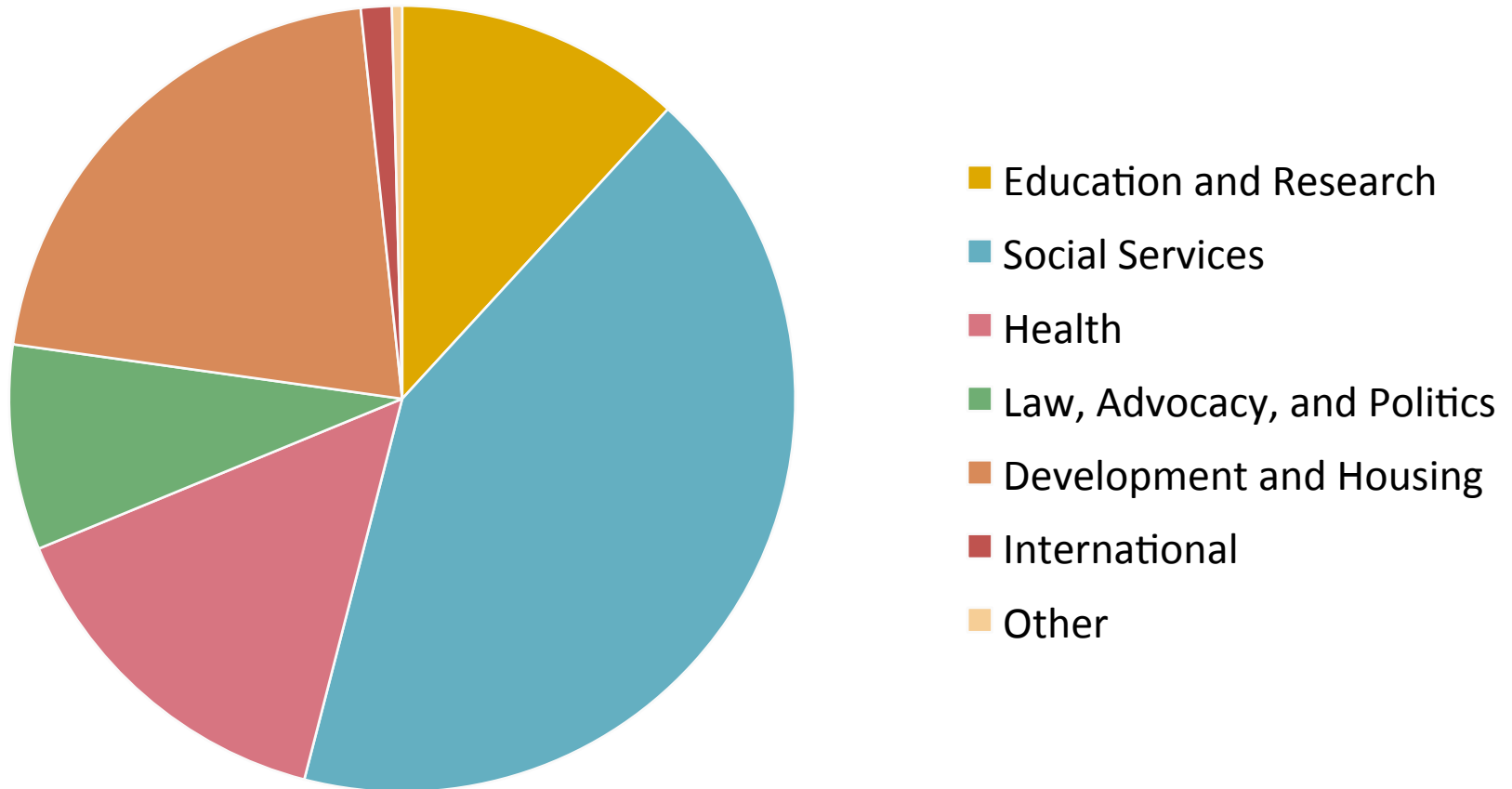
Innovation is not a consistent strength of SIBs.

■ Demonstrate ■ Transplant ■ New Collaboration ■ Scale



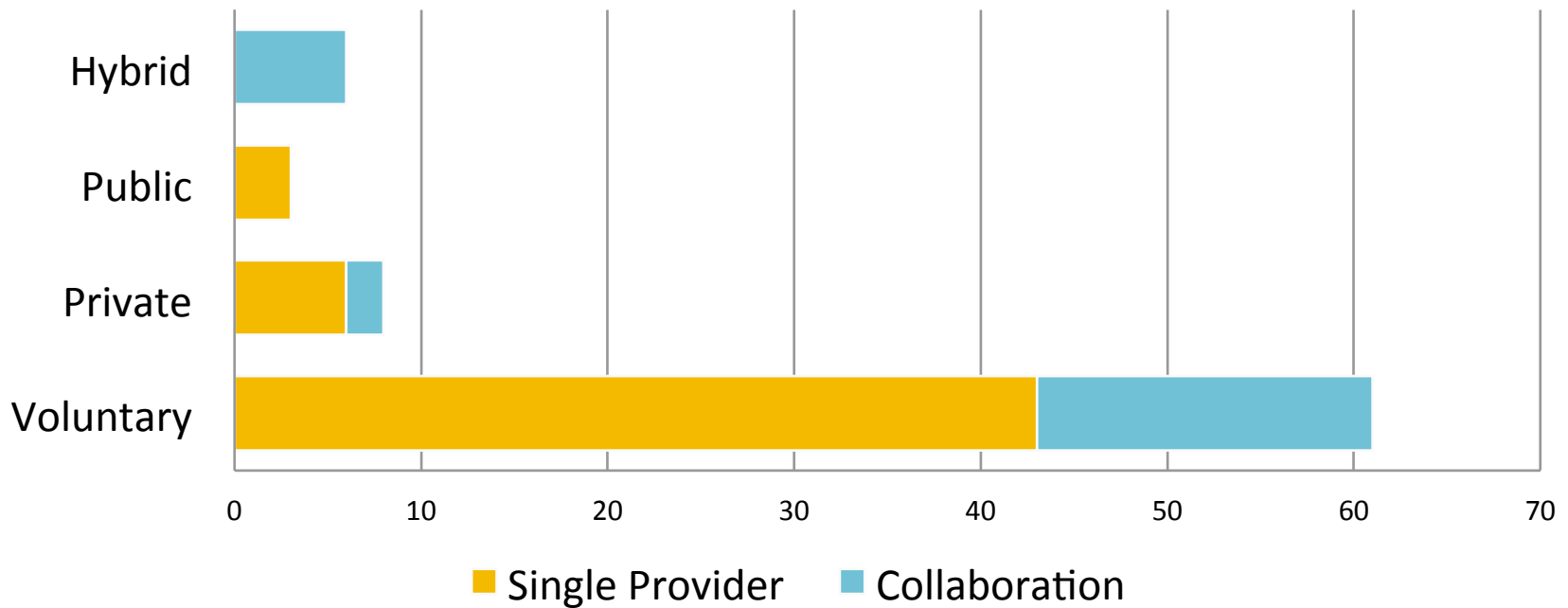
Demonstrate	Experience: Provider + Jurisdiction (Not Service)
Transplant	Experience: Provider + Service (Not Jurisdiction) Experience: Service + Jurisdiction (Not Provider)
New Collaboration	New Coalition of Service Providers
Scale	Experience: Provider + Service + Jurisdiction

SIB Projects by ICNPO Classification



There may be a trade-off between the cost effectiveness and innovativeness of SIBs.

Service Provider Identity



Most SIBs fund a single voluntary sector service provider, but there is a sizable body of collaborative and hybrid governance .

Financing: Risk Transfer

Risk transfer is not a prominent component of SIBs, in practice.

	Full	Partial	Little	None
Frequency	14	22	7	19
Percentage	22%	35%	11%	30%



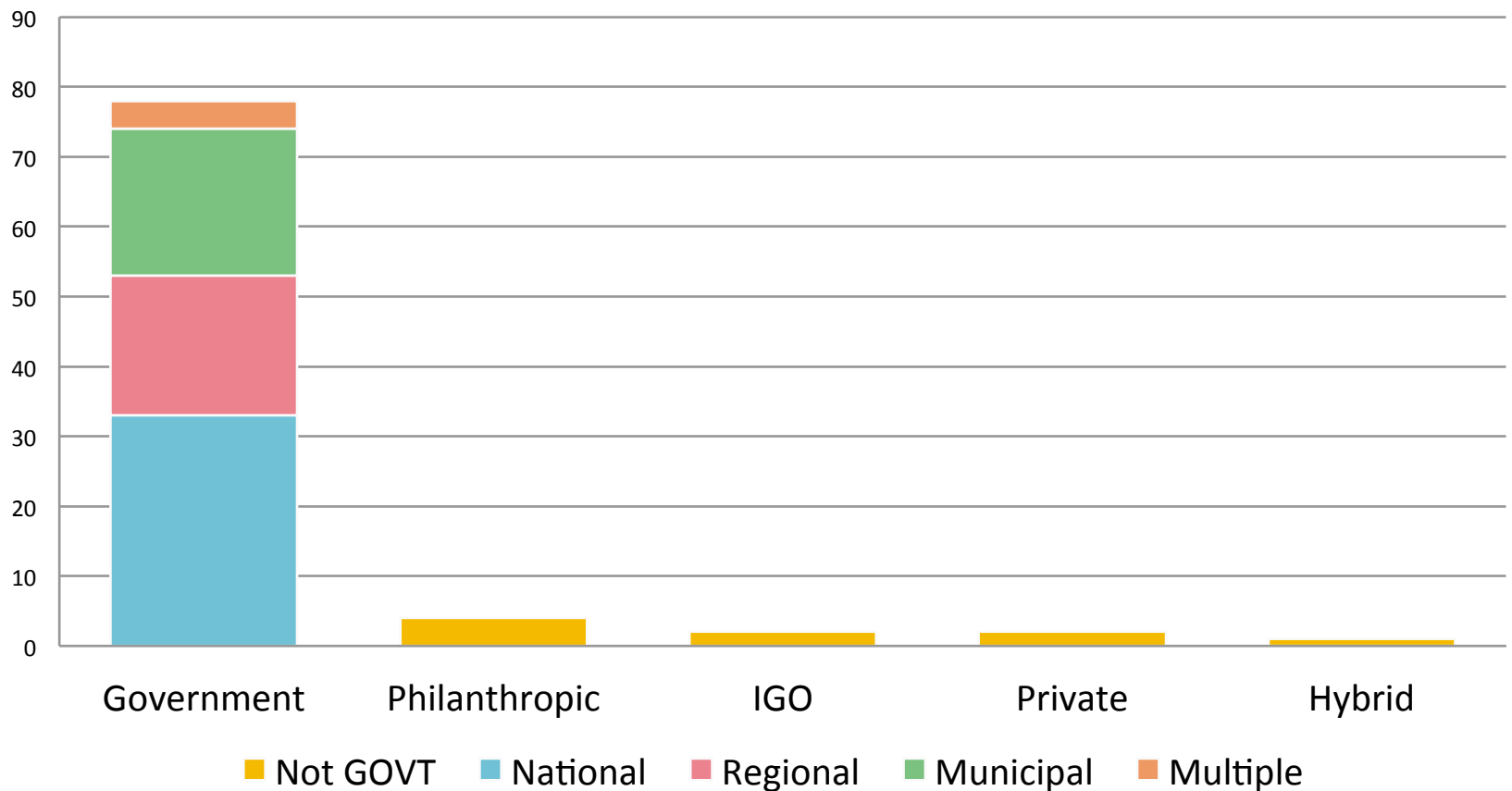
■ Full

■ Partial

■ Little

■ None

Outcomes Payer Identity





Questions

Service Provider Identity

	Service Provider Identity	Frequency
Voluntary	Total	61
	Single Nonprofit Provider	43
	Nonprofit Collaboration	18
Private	Total	8
	Single For-profit Provider	6
	For-profit Collaboration	2
Public	Total	3
	Single Government Provider	3
Hybrid	Total	6
	Nonprofit – Government Hybrid	4
	Nonprofit – For-profit Hybrid	2
	For-profit – Government Hybrid	0
	Nonprofit – For-profit – Government Hybrid	0

Outcomes Payer Identity

