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Social Impact Bonds: An Update

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Growth and Sector of SIBs, 2010–2014¹

In an earlier paper (Loxley, 2013) it was argued that Social Impact Bonds (SIBs) are a recent innovation in the financing of social services and are becoming more popular with governments, service agencies and private and charitable financing bodies. It is difficult to gather precise information on SIBs but a scan of the literature and web sites suggests that there are now some

23 SIBs either being implemented or very close to implementation around the world.

Two thirds of them are located in the UK, the rest in the USA, Australia, the Netherlands and Canada. The average size of SIBs in the USA, however, is much larger than that in the UK so that the amount of money involved in total is greater than that of the UK.

TABLE 1² Social Impact Bonds 2010–2014

	Number					
	Total	Canada	UK	USA	Australia	Netherlands
2010	1		1			
2011	0		0	0	0	0
2012	13		12	1		
2013	6		1	2	2	1
2014	3	1	1	1		
	23	1	15	4	2	1

¹ This paper has benefitted greatly from comments by Shauna Mackinnon and Jesse Hajer. Financial support was provided by and by the Global Political Economy Research Fund of the Faculty of Arts, University of Manitoba. We also acknowledge the generous financial support of the Social Sciences and Humanities Research Council of Canada through the Manitoba Research Alliance grant: Partnering for Change – Community-based solutions for Aboriginal and inner-city poverty.

² The dates when SIBs actually commence should be treated cautiously as sometimes it refers to services actually commencing (e.g. projects in Peterborough, London, New South Wales), sometimes the contract being signed (e.g. Essex), sometimes the transaction being completed (e.g. IAAM) and sometimes merely the project being announced (e.g. New York Rikers Island, Massachusetts etc). The apparent lack of activity in 2011, therefore, should also be treated with caution.

TABLE 2 Social Impact Bonds 2010–2014

	Amount in Million US Dollars					Total
	Canada	UK	USA	Australia	Netherlands	
2010		7.7				7.7
2011		0.0				0.0
2012		28.5	9.6			38.1
2013		3.3	20.5	15.9	0.9	40.7
2014	0.92	15.0	27.0			43.0
	0.92	54.5	57.1	15.9	0.9	129.4

TABLE 3 Social Impact Bonds 2010–2014

Sector	No.	Canada	UK	USA	Australia	Netherlands	Total	% Total
Offenders	4		7.7	50.1			57.8	44.7%
Homelessness	1		7.6				7.6	5.9%
Children	6	0.92	23.3	7.0	6.5		37.8	29.2%
Employment	11		15.9			0.9	16.8	13.0%
Home Care	1				9.4		9.4	7.2%
	23	0.9	54.5	57.1	15.9	0.9	129.4	100.0%

In terms of the sector distribution of SIBs, the bulk measured by financing are to be found in the criminal justice field, aimed at reducing recidivism among ex-inmates. Four anti-recidivism projects account for 45% of total SIB financing, with most of this expenditure in the USA. Programs targeting children account for 29% of total financing. Projects seeking to reduce the number of children in care, increase adoption

rates and improve early childhood education are the main area of focus in the UK, though similar initiatives exist in the USA and Australia. Half of the existing SIB projects focus on increasing employment, especially for youth, but these account for only 13% of total funding, suggesting these types of initiatives are relatively less expensive or at a smaller scale than programs aimed at offenders or children.

The Development of 'Enabling Fields' for SIBs

There are at least 30 SIB proposals in the works (Burpee, 2013) and, despite the increase in SIB activity by value since 2012, the rate of implementation seems quite modest. Also, so far, only one has started in Canada. How do we explain this? The answer, we believe, lies in the need for prior development of background supports for these activities in terms of legislation, government policy, budgetary practices and institutions and lobbyists promoting and enabling SIBs. Heather Whiteside (2013) has analyzed the evolution of an 'enabling field' to explain the eventual rapid take-off of public-private partnerships (P3s) in Canada, and especially in the health field, despite strong evidence of poor performance of P3s in their ear-

ly days. Whiteside argues the penetration of the public sector by P3s can be understood as a specific form of commodification of public services by the private sector, a form of dispossession which benefits private capital at public expense.

SIBs can also be characterized as having these properties and such an enabling field is likely required prior to any large expansion of SIB activity globally. There is, indeed, evidence of widespread activity in the development of necessary background supports for SIBs, including significant government subsidization directly through the guarantee of returns to private investors or indirectly through project grants, as outlined below.

Government Support for SIBs in the UK, USA, and Canada

UK

SIBs were pioneered in the UK, where their development has been supported significantly by government. The U.K. government has established two separate funds totalling £60 Million to support SIBs (U.K. Cabinet Office, 2013a) and Prime Minister Cameron used his presidency of G8 meetings in 2013 to profile SIBs and the broader concept of social impact investing (U.K. Cabinet Office, 2013b). A Centre for Social Impact Bonds has been established in the Cabinet Office and this has developed a tool-kit for those wishing to consider SIBs (Cabinet Office, 2014). This consists of a Template SIB Service Agreement Contract which would simplify and cheapen establishing contracts for SIBs and a cost-benefit guide and model to help proponents assess their proposals. In addition, there has recently been added a centralized database of unit costs covering crime, education and skills, employment and economy, fire, health, housing and social services against which SIB proposals can be

measured (New Economy, 2014). If experience with P3s is any guide, this toolkit is likely to be widely adopted in other countries.

USA

There has recently been a great flurry of activity with regard to facilitating and encouraging SIBs in the USA. Legislation to permit SIB pilot projects has been passed recently in Hawaii, New Jersey and Minnesota,³ while legislation is being considered in Maryland and Utah (Eames and Terranova, 2014). Pilot projects or feasibility studies are under way in California, Ohio, Oregon, Rhode Island and Washington DC. Formal Requests for Information for SIBs have been issued by the City of Denver, 2013, with interest in 'early childhood education, at risk youth, supportive housing and homelessness prevention' (ibid, p. 17); by Illinois in youth justice and employment; by Michigan for criminal justice and human services and by South Carolina for 'controlling costs

³ The Minnesota proposals are somewhat different from other SIBs in that the State would guarantee private funding but pay social service agencies only if predetermined outcome targets were met. Unlike other SIBs, the risk here lies entirely with the delivery agency and not with the private funders. It remains to be seen how delivery agencies are likely to respond to being exposed to such risks. See Perry, 2011.

and improving the health of mothers and babies enrolled in South Carolina's Medicaid Program' (Eames and Terranova, 2014, p. 21). Formal Requests for Proposals have been issued by Connecticut (substance abusers affiliated with the state's child welfare program); Massachusetts (chronic homelessness and juvenile justice.) and the State of New York (health care, child welfare, early childhood development and public service) (Eames and Terranova, 2014, pp. 17–20).

In terms of institutional encouragement and facilitation of SIBs in the US, the Harvard Kennedy School has established a Social Impact Bond Technical Assistance Lab, which assisted the Connecticut initiative.

An important factor in launching two of the earlier US SIBs was the presence of guarantees for the funders, with the Riker's Island SIB in New York obtaining a 75% funding guarantee by Bloomberg Philanthropies and the New York State SIB (youth justice) a 10% guarantee from Rockefeller Foundation (Finance for Good, March, 2014). Similar guarantees were important in the two Australian SIBs, though in these cases it was the government which provided a 75% and a 50% guarantee (ibid). Guarantees have not been used in the UK where, it is argued, the social financing landscape is more developed (Finance for Good, 2014).

Canada

In Canada, Alberta has recently introduced legislation which provides \$1 billion from the Alberta Heritage Trust Fund to create the Social Innovation Endowment Account, designed partly to fund the promotion and development of social impact bonds in Alberta (Acuña, 2014).

This follows the creation of Finance for Good in Alberta, a lobby group designed specifically to 'develop the necessary tools, networks, and processes to bring SIBs to Canada'. According to them, 'We are on the verge of a revolution in social service delivery' with SIBs allowing 'private sector champions to make profitable investments to enhance our community and save our government money' (Finance for Good, 2013).

In March, 2014, the Government of Ontario's Ministry of Economic Development, Trade and Employment made a call for SIB ideas that would provide 'innovative, prevention-oriented solutions in housing, youth-at-risk or 'improving employment opportunities for persons facing barriers' (Ontario, March 21, 2014). SIBs had earlier been promoted by the Drummond Report (2012) and by the Social Enterprise Strategy for Ontario (2013). The Ministry will support promising ideas through workshops and the provision of expert advice.⁴ New Brunswick also announced its interest in pursuing SIBs in its 2013 Throne Speech (Finance for Good, 2013). Interest in SIBs has been expressed in BC with regard to Aboriginal out-of-home care; in Alberta regarding Homelessness and in Nova Scotia in the areas of literacy and early childhood education (Gill, 2013).

Recently, Saskatchewan announced its first SIB, a \$1million project to provide assisted living to young single mothers at risk in Saskatoon, designed to reduce the number of children taken into care (Hill, 2014). Half the money will be advanced by the Conexus Credit Union in Regina, matched by a contribution from two private individuals in Saskatoon. This is a five year project which will return the original investment and a 5% return to the funders if 22 children remain

⁴ CCEDNET carried this news on its web site without any critical comment, raising the question of whether or not CCEDNET itself is becoming part of the 'enabling field' for SIBs in Canada. In response, Mike Toye, the Executive Director stresses that CCEDNET does not have a formal policy position on SIBs and that its 'limited capacity is directed towards making sure our members and audience are at least aware of what's going on and have the information available to make up their own minds' (personal communication, May 7, 2014).

Multiple domains	45
Youth	21
Health	15
Aboriginal people	13
Housing/Homelessness	13
People with disabilities	11
Public safety	6
Unemployed	5
Seniors	4
New Canadians	4
Other	17
Total	154

with their mothers for six months after leaving the Sweet Dreams assisted living home. The return will be pro-rated if 17 to 21 children stay with their mothers and nothing, neither the original investment nor the return, will be paid if fewer than 17 children remain with their mothers.

While there has been no official expression of interest in SIBs in Manitoba, some interest in examining their adoption has been expressed by the Boldness Project on early childhood development in Winnipeg. The Province has provided 50% of the funding for the \$1 million Boldness Project, the balance of the funding coming from the McConnell Foundation. The Province has also created an Early Childhood Development Innovation Fund, administered by the United Way and the Boldness Project is its first initiative. One of experts funded by McConnell, Ian Gill from Vancouver, is an active proponent of SIBs claiming that, among other attractions, they ‘Free(s) service providers from government meddling’ (Gill, 2013). Gill initially stated quite categorically that SIBs would be a component of the Boldness Project (ibid). He sees SIBs as ‘a tool for communities themselves to co-design and co-deliver interventions (and) eventually, a way for communities to invest in their own outcomes’ (ibid). More recently he has stressed that the Boldness Project is seeking ‘Further business

and philanthropic support...to grow the ECD Innovation Fund and to examine the potential to achieve improved ECD outcomes, including cost savings, through new financial structures such as social-impact bonds’ (Bonneville, 2014). His most recent presentation, however, is less categorical and avoids explicitly mentioning SIBs referring, instead, to social finance and to ‘investors’ without mentioning the specific form of such finance and investment (Gill, 2014). The local head of the project, a highly respected member of the Winnipeg Aboriginal and social service community, has also made it clear in personal communication that there is no prior assumption that the Boldness Project will be pursuing SIBs.

This apparent backing off from SIBs may perhaps reflect the lack of enthusiasm for them by the Provincial government.

The McConnell Foundation appears to be taking a lead in enabling SIBs, both by direct finance of projects and by funding an Impact Finance Lab run by the MaRS Centre for Impact Investing which will work with ‘governments, nonprofit organizations and investors to build ecosystem’s capacity to undertake outcomes finance in Canada’ (MaRS Centre, 2014).

At the federal level, as noted in the earlier report, Human Resources and Skills Development Canada (HRSDC) had expressed an interest

in SIBs. In November, 2012, it put out a call for innovative ideas in Social Financing, including SIBs. It received over 150 concept papers, an unspecified number of which, but 'many', contained proposals for SIBs. Proposals came from all over the country, with just over a half from BC and a further 20% from Ontario. The vast majority of proposals, or 72% were submitted by non-profit or charitable organizations and 13% by the private sector. Proposals were received for many sectors of the economy, but mainly for youth, health, Aboriginal People, housing and homelessness and people with disabilities.

On reporting on these proposals, the Minister specifically described proposals for SIBs in the fields of supportive housing for people with mental disabilities, employment and training for Aboriginal youth, savings by low

income families for post-secondary education, group homes for seniors, and mentorship programs for immigrant professionals (HRSDC, May 2013, pp 18–23)

The government promises follow-up action to connect 'great ideas with social finance partners', building 'on the Call's momentum by taking several steps to bring players together, incentivize leveraging, encourage new partnerships and stimulate innovative ideas for addressing social and economic challenges' (ibid, p. 27). It is apparent, therefore, that the federal government intends to be very active in promoting SIBs, playing a key role in their development. The criteria it lays down for supporting SIB projects are that 'they must be proven, more beneficial than the existing program and both scalable and replicable' (Ibid, p.22)

Performance to Date

Only six SIBs have been completed and there is information on outcomes for only two of them, but this does not deter proponents from waxing eloquent about the success of the approach. Thus, Matthew Burpee, CFO of Finance for Good Ltd, concludes that the results from UK SIBs targeting youth education and prisoner recidivism 'are incredibly promising and appear to suggest that the SIB model is an effective way to drive positive social outcomes' (Burpee, 2013). At the same time he acknowledges that 'Obviously it is dangerous to imply correlation between a program targeting youth education and another targeting adult recidivism; similarly, one must be cautious not to conclude too much from such a small sample size'. No mention here of possible selection bias in these two projects, or of whether or not these results could have been achieved using improved conventional delivery methods. This rah rah approach of Finance for Good is reminiscent of the uncritical approval of P3s by the Canadian Council on Public-Private Partnerships, but it is likely to become an important part of creating an SIB enabling environment.

What makes this positive evaluation of the SIB approach doubly suspect is that it appears to be premature, at least in the case of Peterborough. A recent independent assessment of the Peterborough trial, widely considered to be the model SIB, concluded that 'despite a 8.39% reduction in

the number of reconvictions in Cohort 1 when compared to the Comparison Group, the reduction was insufficient with regard to the terms set out in the contract between the Ministry of Justice and the Social Impact Bond partnership to be considered an Outcome, thus did not trigger payment (Jolliffe and Hedderman, August, 2014, p. 27). In short, targets were not met.

It should be noted, however, that if the average reconviction rate falls by at least 7.5 per cent across the first and second cohorts, then investors will get their money back in 2016. Initially, there were supposed to be three cohorts, but the third one will not proceed as the experiment was cancelled by the Ministry of Justice with effect from June 2015. The SIB is replaced by a national program for short-term offenders called Transforming Rehabilitation. The pilot will, therefore, last only three years and not the seven years originally planned (Pay For Success Learning Hub, 2014). As Ainsworth has argued, 'the pricing structure for the first SIB was inevitably pretty finger-in-the-air, because no one quite knew what could be achieved. In order to tempt government into putting up the money, the first SIB made some stretching promises. And even then the Big Lottery Fund had to promise to put up much of the cash to pay for it. As far as I can see, future SIBs have been priced in a way that's more generous to the investor, and indeed, several of them have already paid out'.

Growing Skepticism about SIBs?

The movement to promote SIBs has generated some negative reactions, especially in Alberta. David MacDonald (2013) has argued that “There is no free lunch with the social impact bond model. Make no mistake: The government always pays. Even if the project misses its targets, investors will be paid off so that they’ll pony up for next year’s bond. Otherwise, the house of cards collapses’.

He points out that the Alberta College of Social Workers is opposed to SIBs, because they “allow financial institutions to turn human suffering and conditions into commodities” and

quotes its president, Lori Sigurdson: “We don’t want people to profit from the misery of others. The motive becomes profit, not service. The primary responsibility of government is to support vulnerable and marginalized people.”

Awareness of SIBs is not as high elsewhere in Canada. Reactionary governments are likely to promote SIBs to undermine the public sector and promote the privatization of public services (Joy and Shields, 2013), while social service agencies are still likely to be attracted to SIBs because of the guaranteed funding they offer.

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