transformative social innovation theory

Are Social Impact Bonds a Viable Resource for Social Innovations?

A Brief Discussion Paper

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Abstract
Sustainable resources in support of social innovations face a number of barriers including insufficient funding for preventative initiatives by government; the challenges in substantiating the effectiveness of innovations; the financial risks association with innovation; and the lack of up-front financial investments needed to support the innovation (Liebman, 2011). Social Impact Bonds (SIBs) are a funding method being utilized to address these barriers with the potential to support social innovations designed to tackle complex and costly social challenges. SIB involvement ought to be carefully considered under certain conditions as a potential feature of a social innovation's sustainability funding strategy, strategically supplementing current revenue sources, improving funding diversification and as a partner in contributing to broad collective actions to address pressing community social challenges.

Keywords
Financial innovation; blended finance; public-private finance; cross-governmental finance; complex societal challenges; innovative solutions; financial risk management; preventive initiatives; preventive infrastructure; prevention; cost-saving; pay-for-performance; effective welfare services

Research Highlights

- Social Impact Bonds (SIBs) are innovative public-private funding instruments. They are responses to the financing barriers, challenges and risks associated with addressing complex and costly social challenges in novel ways.
- SIBs open opportunities to overcome barriers in public funding arising, inter alia, from compartmentalised structures, stop-start policy changes, and financial risk aversion
- SIB involvement can strategically supplement current revenue sources of social innovation organisations and help diversify funding
- SIBs can contribute to more broadly-based collective actions to address pressing community social challenges
- Under certain conditions, SIB involvement should be considered by social innovation organisations as a potential feature of a sustainability funding strategy

1. Introduction

Sustainable resources in support of social innovations face a number of barriers including insufficient funding for preventative initiatives by government; the challenges in substantiating the effectiveness of innovations; the financial risks association with innovation; and the lack of up-front financial investments needed to support the innovation (Liebman, 2011). Social Impact Bonds (SIBs) are a funding method being utilized to address these barriers with the potential to support social innovations designed to tackle complex and costly social challenges.

2. What is a Social Impact Bond?

A Social Impact Bond is a public-private partnership which funds effective social services through a performance-based contract. Social Impact Bonds enable government entities to partner with high-performing service providers by using private investment to develop, coordinate, or expand effective programs and underwrite the risks. If, following measurement and evaluation, the program achieves predetermined outcomes and performance metrics, then the outcomes payer (usually government) pays the original investment with some premium. However, if the program does not achieve its expected results, the payer does not pay for unmet metrics and outcomes. Social Impact Bonds are often used synonymously with the term Pay for Success (PFS) (Dear et al., 2016). Since the early pilot in the prisons of Peterborough (UK) in 2010, the concept of Social Impact Bond has generated significant interest in Europe and the US. Projects in the most advanced stages of planning are within the corrections/criminal justice realm but more governments are now directing their attention towards other areas such as early childhood, preventive healthcare, homelessness, and substance abuse, as potential issue areas to address with PFS contracts (Dermine, 2014; Leibman, 2014).

3. What Initiatives have the Greatest Potential for Inclusion in SIB Funding Schemes?

To manage risks and encourage investments, most SIB initiatives to date have focused on initiatives that reduce program costs to government and include programs that have shown evidence as "proven" programs. Other characteristics of initiatives that have historically had the greatest potential for inclusion within the sphere of Social Impact Bonds (Liebman, 2011) include:

- Working with a well-defined treatment population
- Projects seeking to accomplish measurable outcomes
- The ability to identify a reliable comparison group or counterfactual
- Projects that can scale up quickly and have shorter time frames to deliver social impact

4. Are social innovations a good fit for inclusion within SIB funding schemes?

Because of their focus on identified high need target groups for inclusion (e.g., seniors, youth involved in juvenile justice), involvement in social impact bond schemes may be a viable option for time banks and other social innovations to consider. Within this structure, organizations incorporating time banks could provide cost-effective services alongside other service providers in support of target groups to enhance engagement, as an after-care service for individuals leaving formal care or as a supplemental service to address social isolation, assist with community integration or provide special supports to address poverty related challenges. Organizations supporting social innovations like Time banks could also benefit from readiness-related investments that are increasingly being considered to supplement formal SIB funding. These investments are designed to increase the capacity and infrastructure of providers to contribute to and succeed in a performance based environment. Investments may support, for example, development of internal financial and data systems; establishment of standards, measures and tools to ensure that projects are implementing services with quality and evaluability assessments to prepare organizations for inclusion in rigorous research designs (Hughes, & Scherer, 2014; Leibman, 2014; Non-Profit Finance Fund, 2016; Rothschild, 2013; Wilson, Silva & Ricardson, 2015), all areas in which most social innovation organizations, including time banks, currently lack capacity. For example, in the UK, a £10m programme supported by Big Lottery funding is offering voluntary organizations on a competitive basis support in better understanding and accessing social investment opportunities as well as investment readiness support to help scale up activities. Time Banks UK, the umbrella group for time banking, received a preliminary grant of £28,500 to support the first stage of the investment readiness process.

There are challenges and limitations to time bank and other social innovations taking on a significant role within SIB funded initiatives. First, many social innovations including time banks, struggle with financial sustainability within communities in which they are operating. Requiring them to scale up operations in new communities would be especially challenging (see Weaver et al., 2016). Without significant financial backing, time banks will likely be limited to participating in SIB projects where they are currently operating and only in those instances where time banks have achieved sufficient levels of financial stability. Second, social innovations often do not have a clear method of measuring outcomes or impacts resulting from their activities as well as costs of services, all essential components of social impact bond financing. Third, organizations supporting social innovations are often not in positions where they are able to take on financial risk should outcomes not be accomplished per contractual agreement. Therefore, social innovation participation in SIBs for the most part, be limited to those instances where contractual models do not require financial risk for the service provider. Lastly, organizations supporting social innovations often do not have the infrastructure to take on a significant management or administrative role in SIB projects. As a result, organizations sponsoring social innovations will be limited to providing specialized services, working within a service provider coalition or in partnership with a local or regional multi-service high capacity service provider that serve as "program intermediaries", managing service provision and providing training and oversight of initiatives (Azemati et al., 2013; Nonprofit Finance Fund, 2015; Social Finance, 2011).

5. Are there other issues that social innovations ought to consider before participating in SIB schemes?

As noted above, participation in SIB schemes as a sub-grantee requires significant levels of institutional investment, of time, resources and energy. Areas of investment include staffing for rapid scaling of programming, preparation to undergo rigorous evaluation, commitment to work in partnership with other service providers, building infrastructure to be able to track costs and outcomes, cultivating a performance management ethos in the organization, and a commitment to attract private investors (Nonprofit Finance Fund, 2016). Social innovations will likely to be consumed by the institutional requirements of SIB involvement in adopting required strategies and actions necessary to succeed in a performance based environment. This adaptation will present challenges to maintaining sufficient integrity of initial vision, risking loss of autonomy in core strategic decision-making areas. Therefore, social innovations ought to consider inclusion in SIB schemes cautiously, limiting involvement as a niche service provider receiving funding for the provision of specific targeted services and except in cases of mature sites with evidence of sufficient capacity and financial sustainability, without subject to financial risk taking conditions as part of a contractual agreement.

6. Conclusion

Consistent with the theme of this paper, SIB involvement ought to be carefully considered under certain conditions as a potential feature of a social innovation's sustainability funding strategy, strategically supplementing current revenue sources, improving funding diversification and as a partner in contributing to broad collective actions to address pressing community social challenges (Weaver at al., 2017).

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