Would a Social Impact Bond by any other name smell as sweet? Stretching the model and why it might matter

The much-vaunted Social Impact Bond (SIB) approach is typically understood as a form of public service arrangement where *social investment* backs the voluntary sector's delivery of *outcomes contracts.* This straightforward definition conceals considerable variation across programmes adopting the SIB moniker. Broadly, the promise of the SIB approach lies in the improved achievement of social outcomes derived from linking payment to performance yet experience suggests that there is considerable stretchiness in the model (Ronicle et al., 2016). In practice SIBs may neither be *socially* backed nor *impact* oriented.

There has been considerable softening away from the quintessential or textbook SIB on four key dimensions:

1. The degree to which payment is tied to impact;
2. The nature of the working capital;
3. The social intent of the provider organisation;
4. The performance management approach. (See Figure 1)

This variation is more than a technocratic subtlety or foible but seems likely to have very real effects on the functioning of these SIB projects and their ability to live up to the promises allied to this commissioning approach.

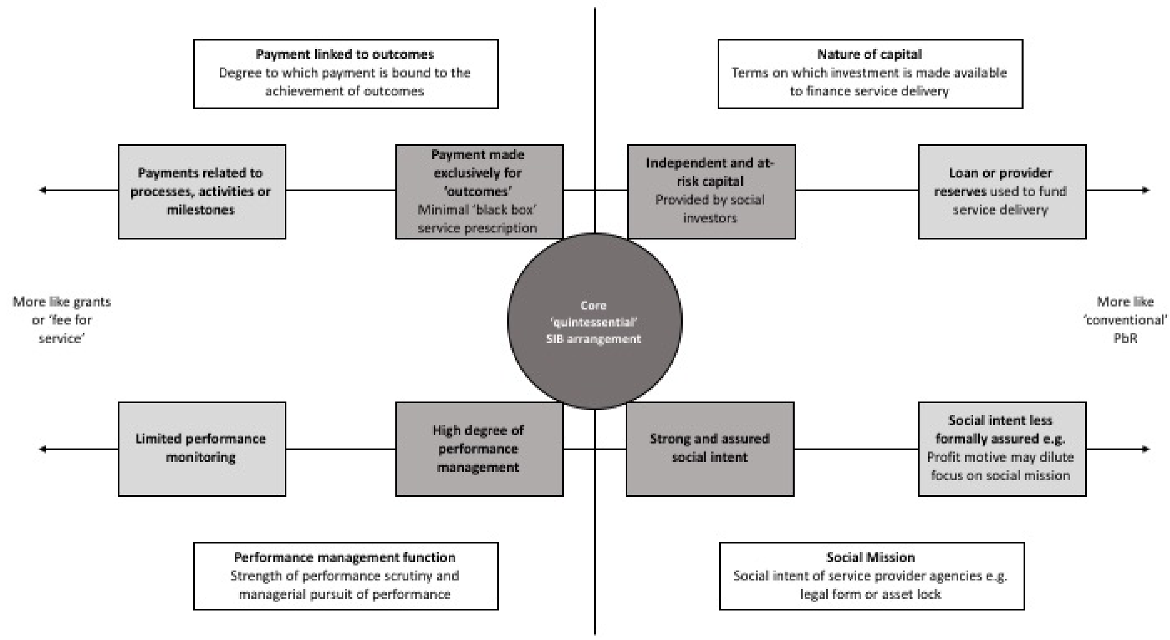

Figure 1: Dimensions of variation in Social Impact Bonds; adapted from Carter et al., 2018.

In defining SIBs, a key question to be considered is what marks SIBs as distinctive either from fee-for-service contracts or traditional grant-based approaches to delivery arrangements (left-hand axes in Figure 1)? And what, if anything, makes them different from the larger-scale 'conventional' Payment-by-Results approach (as embodied in the UK context by national schemes such as the Work Programme and Transforming Rehabilitation. Seen in right-hand axes in Figure 1)?

In the archetype SIB payments are made purely for outcomes; the capital provided by investors is (voluntarily and knowingly) wholly at risk; providers are charities or otherwise give strong assurance of their social mission; and there is a strong, dedicated, performance management function (Roberts, 2013; Disley et al., 2015). In practice UK SIBs stretch beyond this 'textbook' specification, broadening our understanding of what constitutes a SIB.

Payment contingent on outcomes?

Under the original articulation of SIBs the payment mechanism is closely bound to a robust quantitative impact evaluation. Payments are only made when the outcomes achieved by beneficiaries receiving the SIB-backed service are significantly better than what would have happened in the absence of the intervention.

Though the US has held firm to the application of robust experimental (RCTs) and quasi-experimental impact evaluation methodologies the UK has seen considerable dilution (see GO Lab Impact Bond project database for a list of outcome validation methods). The majority of UK SIBs use validated administrative data to release outcome payments with no payment linked to performance above a formal estimate the counterfactual. 'Outcomes' are reported rather than impact formally assessed.

The adoption of seemingly less robust outcome assessment approaches gives less assurance that payment is expressly aligned to the achievement of impact but concomitantly lowers the costs of working capital since payments made are nearer term (and therefore enable recycling of funds within a project) or more predictable (e.g. payment tied to fixed assessment sessions) or both.

Research to date is not able to provide insight as to the appropriate balance to be achieved between the robustness of the outcome metric(s) and pragmatic considerations around data availability, costs and timing of payment.

Nature of capital used to fund services

In the quintessential SIB, the key appeal for voluntary sector provider organisations is that they themselves are not required to bear the financial risk of a Payment-by-Results contract. Here the capital required to deliver services is provided by independent, socially motivated investors. This social investment capital fully shoulders the risk of non-delivery of outcomes in pursuit of 'blended' returns: financial *and* social.

In practice, some deals have deliberately been constructed to enable voluntary sector providers to share in holding financial risk and upside. Under such approaches, the working capital may be provided as a loan which must be repaid (with interest) irrespective of performance and where the provider is therefore at risk if successful outcomes are not achieved (Ronicle et al., forthcoming).

This flexibility in SIB financing arrangements, combined with the absence of a clear definition of social investors, suggests that there is no clear distinction between a 'SIB' vis-à-vis more mainstream Payment-by-Results arrangements, where no formal consideration is made for the availability working capital.

Performance management function

The performance management function is not typically described as an aspect of SIB specification. Nevertheless, a common refrain in terms of what *operationally* marks SIBs as distinctive to other service arrangements is the heightened attention paid to monitoring and managing performance (Ronicle et al., 2016). In practice, the adoption of a SIB leads to heightened demands for performance data (Fraser et al., 2018). Projects often bring in additional staff to undertake one or more parts of a performance management cycle – data collection, data synthesis, and data-informed change.

Despite the mixed empirical evidence of clear benefits over costs, there remains much enthusiasm amongst those adopting SIBs for the improvements resulting from the adoption of enhanced performance management regimes (Ronicle et al., Forthcoming). What is less clear is how such management approaches mould and shift in response to other points of variation in SIB design.

Social intent of service providers

Under the textbook SIB, services are delivered by charitable organisations where pro-social mission is formally enshrined in the legal form. In the UK, there is a longstanding trend for policy-makers to valorise the involvement of smaller, perhaps more nimble, voluntary sector organisations due to their perceived ability to provide innovative services and better engage and support 'harder to help' groups. In practice, a number of projects which call themselves SIBs feature delivery organisations from the private sector (e.g. Core Assets in Birmingham), as well as the public sector.

While a reliance on social motivations has been used to defend against the perverse incentives of outcomes contracts in some SIBs (Carter, 2019) there is limited evidence underpinning sectoral differences in public service delivery and a concern that voluntary sector organisations may succumb to financial pressures under contracted arrangements (Rees and Mullins, 2016).

Would a SIB by any other name smell as sweet?

In twisting and shifting the formulation of SIBs we may be unwittingly moving away from the textbook SIB towards more conventional models of public service arrangement. By linking payments to outputs rather than outcomes might we unravel the core logic of the SIB mechanism? With social purpose less assured might financial returns take precedent over social benefit? In moving away from the quintessential model those experimenting with the approach may be straying from what marks a SIB as distinctive and potentially undermining its potency as a tool for service improvement.

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