FROM VISIONS OF PROMISE TO SIGNS OF STRUGGLE

EXPLORING SOCIAL IMPACT BONDS AND THE FUNDING OF SOCIAL SERVICES IN CANADA, THE US, AND THE UK

FINAL RESEARCH REPORT - EXECUTIVE SUMMARY

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MAY 2019

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EXECUTIVE SUMMARY

Since the launch of the first pilot in Peterborough prison in 2010, the social impact bond (SIB) has received a great deal of attention, both positive and negative. For advocates, it is an opportunity to bring the capital and expertise of the financial sector to bear in addressing society's most intractable social problems. For critics, the model has failed to deliver on key promises and represents a slippery slope towards the privatization and marketization of the social sector. Informed by these competing positions, discussions around SIBs have become mired in an increasingly polarized debate. Funded by a grant from the Social Sciences and Humanities Research Council of Canada (SSHRC), this report is the result of a three-year study which sought to stake out more of a middle ground in the great SIB debate and to explore the complexities and nuances of SIBs as a way of funding social services and driving capital towards 'outcomes' rather than 'outputs.' This study was also comparative in nature drawing from insights and lessons from three key national contexts: Canada, the US, and the UK. The research itself consisted of interviews with those directly involved in the design and execution of SIBs, including SIB specialists, government, providers, and investors, as well as those working in the neighboring fields of social investment (or impact investing) and venture philanthropy. A total of 196 interviews were conducted between June, 2016 and October, 2018 in Canada (54), the US (68), and the UK (74), primarily in the cities of Toronto, Boston, and London.

A key finding of this study is that the reality of the SIB market is quite different than the way it is portrayed by advocates and critics alike. Rather than the growing role of investors and private capital in the delivery of social services, and a market that is poised to continue to grow and expand, the reality is that SIBs have struggled to take hold. Despite outward optimism, many of those involved with SIBs in all three countries expressed a sense of uncertainty and, in some cases, downright skepticism as to the future of the market. While the number of deals continues to grow, the pace of growth is slower than many expected and the size of individual deals and the value of the market as a whole remains quite small especially when compared to related markets in social investment, impact investing, and public services. In examining the reasons for this slower than expected growth, the research uncovered a series of challenges, barriers, and limits which have varied across the three national contexts, revealing the unique agendas, actors, and interests that have shaped each of these respective SIB markets.

At the same time, these challenges reflect a more fundamental set of tensions between the parties to these deals. The SIB model holds out the promise of a win-win-win scenario in which the interests of investors, providers, and government are all aligned around a common value proposition. However, this research found that the circumstances in which this alignment of interests is possible, and may be sustained through project development and launch, are much more limited than is often acknowledged. Governments are looking to transfer the risk of these deals to investors while achieving real cost savings and only paying for outcomes that are directly attributable to interventions. Investors want to maximize their returns (no matter how modest) and minimize their risks and are interested in earlier, more output-based indicators that will generate cashflow and allow them to decide whether to remain invested or trigger exit clauses. And providers, the agencies delivering these services, are often ambivalent appreciating the infusion of longer-term and more flexible capital, but often lacking the capacity to participate in these transactions or struggling to see their value given the demands and expense of the model. SIB specialists also have their own interests seeking to grow and scale the market and to develop sustainable business models that will provide for their own long-term financial future.

In view of these challenges and tensions, which are in many respects intractable and not easily overcome, the report concludes that SIBs are, and are likely to remain, a relatively small, niche market. Assuming that this is indeed the case, it then poses the question of what this market should look like moving forward. For their part, SIB specialists have engaged in various forms of innovation, expanding and stretching the SIB model and developing new service lines. This is especially evident in the US “SIB space” where several key advisory firms have moved away from the effort to engage private capital and have instead focused on applying some of the core principles of PFS (e.g. performance management; continuous improvement; and new forms of data analysis) in a bid to improve the effectiveness of existing government contracting systems and spending streams. In cases where mobilizing private capital remains a key interest, SIB specialists have adopted more standardized and streamlined forms of contracting (e.g. rate cards) as a route to greater scale and a way to attract a wider range of investors.

However, rather than ‘scaling up,’ stretching the definition of SIBs and PFS and expanding the market but potentially losing what is distinct and most valuable about SIBs, the report suggests that we might be better off ‘scaling back’ and returning something more akin to the original Peterborough model. Here SIBs could be reserved for programs that are truly innovative, preventative, and experimental with an emphasis on systems-level change. Given the inherently risky nature of these types of projects, this would essentially be a philanthropic market with ‘investments’ being used to test program models and their ability to work in the context of local public services. Any returns could then be reinvested in programs and providers. The report details a series of principles which might guide these SIBs of the future. At the same time, in recognizing the limits of the SIB market, there is a need to explore other solutions to the funding challenges faced by the nonprofit sector. A frequent refrain of SIB specialists is that SIBs are only one tool in the toolbox. However, with SIBs consuming considerable attention, time, and resources, limited attention has been devoted to what these other tools might look like. There is thus a need to continue to innovate and to look for other options and approaches that might be better suited to the larger number of small and medium-sized nonprofits that are doing excellent work but which continue to struggle in the current funding environment. Thus, the report places SIBs in their appropriate context, recognizing their limits, exploring their implications, and ultimately offering a slightly different vision of the future of (and beyond) SIBs.