Creating Economic Space for Social Innovation

The CRESSI project explores the economic underpinnings of social innovation with a particular focus on how policy and practice can enhance the lives of the most marginalized and disempowered citizens in society.

CRESSI Practitioner Seminar on:

Social Impact Bonds: Opportunities and Challenges for Social Innovation

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CRESSI Deliverable 6.4

"Creating Economic Space for Social Innovation" (CRESSI) has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 613261.

Social Impact Bonds: Opportunities & Challenges for Social Innovation

On 25th February 2016, CRESSI partners at the University of Oxford facilitated a practitioner seminar on social impact bonds as part of the Euclid Network Summit in Zagreb, Croatia. This was a European conference organized to capture the latest trends in skills and knowledge for social impact. It sought to facilitate knowledge exchange and improve foresight on emerging developments and skills affecting people, finance and impact in the civil society sector. A wide range of third sector leaders, social entrepreneurs, policymakers, as well as representatives from think tanks and those working within the broader social impact and civil society sector attended the event.

A total of 61 stakeholders attended the practitioner seminar seeking to learn more about social impact bonds as a potential mechanism by which to finance social innovation and social impact. These delegates represented a wide range of high-profile stakeholders and organisations including ACEVO, European Commission, DG Employment, Social Affairs and Social Inclusion, Ebanka, Pioneers Post, European Federation for Living, Shelter Foundation, Croatian Employment Services, ZMAG, Third Sector Catalonia, ERTSE Foundation, City Office for Economy, Labour and Enterprises, SEG Holding and Smart Kolektiv.

Sameera Mehra from Charities Aid Foundation chaired the practitioner seminar and introduced the objectives of the session. CRESSI project partners then presented findings from their recent research on social impact bonds, including the opportunities and challenges they pose for social innovation and those working within the civil society sector. This research is part of a broader programme of work examining a range of policy agendas that are relatively idiosyncratic to their institutional context and policy regime. For the UK case, CRESSI partners are examining social impact bonds and their capacity to foster social innovation capable of tackling marginalisation.

This is the first of three practitioner seminars seeking to disseminate research findings to the civil society sector, but also to incorporate their input into the research process. A précis of the critical input received during the seminar is included at the end of this document. First though, below is a summary of the presentation delivered during the practitioner seminar. An electronic copy of the presentation is also available [here].

Introduction

The presentation critically explored the purported benefits and risks of social impact bonds as a policy instrument designed to promote public service reform, scale social investment and tackle social exclusion. In many respects, social impact bonds represent a commitment to embed social innovation in social policy that is relatively idiosyncratic to the UK context. There are currently a relatively small number of social impact bonds across Europe. However, as an emerging policy field, the number of contracts is growing and at a fast rate. Currently, over half of all worldwide social impact bonds are operational or in the design phase in Europe, with the principle majority of these located in the UK.

Social impact bonds are essentially payment-by-results contracts that leverage private social investment to cover the up-front expenditure associated with costly social and welfare services. Capitalising on the expertise and skills of civil society organisations and social enterprises, service interventions tend to be preventative in nature and focus on achieving one or more specified social outcomes. These outcomes are intended to focus on tackling the causes of social exclusion and thereby reducing long-term public expenditure in key policy domains. The theoretical cost-savings accrued by the public sector are used to fund the service and cover the dividends paid to private social investors. Rather than paying for service inputs or outputs, contracts pay for pre-defined outcomes associated with a range of objective and subjective metrics that dictate both the amount received by service providers, but also the rate of return received by private social investors.

Social impact bonds are not only changing the way civil society organisations realise their social mission, they also represent a concerted commitment to transform the landscape and ethos of public sector commissioning. Independently of social impact bonds, the notion of outcome-based payments and contracting is gaining terrain and has received significant institutional support at both the EU and domestic level.

To a great extent, the growth of social impact bonds can be seen as a continuation of a broader trend towards welfare pluralism in the UK. Successive rounds of public service reform have sought to enhance the effectiveness and efficiency of social and welfare services. Arguably, social impact bonds are at the current apex of outcome-based public sector commissioning that seeks to encourage innovative and dynamic services capable of delivering the best social results and value for money possible. Having said that, particular features unique to the social impact bond model also represent a novel development or change in approach to the mixed economy of welfare. Nicholls and Tomkinson (2013) point to three 'new' elements that make SIBS unique: the length of contracts, outcome-based payments and private investment in social and welfare services.

The elevated role of private actors and organisations in both the funding and control of social and welfare services introduces new degrees of complexity into the mixed economy of welfare. Whilst the mere presence of private actors in the delivery, funding and control of welfare services does not amount to social innovation or privatisation, their increased presence offers a number of opportunities and constraints for tackling marginalisation. Within the context of welfare austerity, social impact bonds represent a unique opportunity to cover up-front expenditure associated with costly social and welfare services. At a time of unprecedented cuts to departmental budgets and front-line services in the UK, the significant public investments committed to SIBs demonstrate a concerted effort to modernise public services (Cabinet Office, 2010; Cabinet Office, 2011).

The presentation outlined what these developments mean for future activity and capacity within the social innovation sector. In particular, this practitioner seminar considered some of the opportunities and challenges these developments raise for civil society organisations and social enterprises. The attempt to embed an entrepreneurial approach in social purpose organisations has had a number of unique and unintended effects. These effects point to new operational tensions between impact measurement, service innovation and risk aversion. This session elaborated on how the implementation of social impact bonds affects the capacity, operation and social mission of third sector service providers.

The presentation was based on research examining three key social impact bonds in the UK context. This entailed desk-based research of independent and stakeholder documentation as well as qualitative interviews with EU and domestic policymakers, public sector commissioners, social finance intermediaries, service providers and service users. A total of 40 interviews were undertaken to explore stakeholder experiences of and perspectives on SIBs. A more detailed write-up of the research findings will be available in due course. For the moment however, the key opportunities and challenges identified are summarized below.

Opportunities

Social impact bonds represent a number of prospective benefits for fostering social innovation. Interventions funded through the social impact bond model tend to focus on enhancing the outcomes of target populations with highly complex needs most vulnerable to social exclusion and policy failure. In this respect, civil society organisations are offered a funding stream and mechanism by which to realize and pursue their social mission that had previously not been available. At least in the UK context, it needs to be borne in mind, that these 'additional' forms of private capital are being introduced alongside significant cuts to funding for civil society and third sector organisations. Perhaps then, it is more accurate to suggest that social impact bonds offer an *alternative* funding mechanism within a broader context of restrictions to third sector funding in the UK.

The introduction of private capital in outcome-based commissioning has the theoretical capacity to displace institutional, financial and reputational risk away from public commissioners and towards private social investors. In doing so, this seems to have made it possible to establish costly and experimental service interventions that would otherwise not be funded through traditional public sector procurement. In this regard, social impact bonds can be seen as capitalizing on the skills, experience and knowledge of third sector providers to offer up-front funding for service innovations.

For civil society organisations engaged in social impact bonds, the emphasis on social outcomes, rather than service processes in public sector commissioning seems to be changing the way 'we think and do our social mission'. A number of the practitioners and service provider organisations felt that the move towards a focus on social outcomes had induced an organisational change in the way they worked with service users. Outcome-based payment metrics gave some practitioners a greater degree of freedom in assisting servicer users with their individual needs and were able to tailor their support and interventions in a way that centred on the needs, desires and opportunities of service users. The emphasis on preventative, holistic support services was a key factor in contributing towards the value and impact of services. The length of the contracts secured also enabled practitioners to work with service users for a much longer period of time than they would normally be able to given resource constraints. A number of civil society organisations spontaneously identified the length and regularity of interaction between practitioners and service users as a key service innovation that supported their social mission and enabled them to produce the best results possible. At least for the three social impact bonds under consideration, this appears to have resulted in a significant improvement in the welfare outcomes of service users.

Whilst some civil society organisations were ambivalent about the nature and extent of the requirement to collect data on the outcomes of servicer users, some also felt that this increased the responsiveness of their service. The regularity with which data was collected and analysed on service provision encouraged a critical, reflexive and real-time consideration of its impact. As a result, questions were regularly raised, both internally and externally, about different aspects of service provision with regards to what was working well, what was working less well and what organisational and service lessons might be taken from this. The introduction of outcome-based payment metrics also resulted in new data collection and management systems that were not previously in place within these civil society organisations. In this respect, the social impact bonds equipped service providers with an evidence base to demonstrate the value of their operation through evidenced effects and enhanced social metrics (Nicholls and Tomkinson, 2013). This seemed to be particularly important for building a demonstrable track record within a broader context and move towards outcome-based commissioning.

Finally, the social impact bond model necessitates an effective system of coordination between a range of cross-sectoral stakeholders. In certain instances, this opened up opportunities for collaboration between individuals and organisations that extended beyond the social impact bond. In these cases, the social impact bond supported the development of local and national partnerships that, in turn, enhanced the capacity of the civil society organisations involved.

Challenges

Beyond their regularly cited benefits, social impact bonds also pose a number of risks and challenges. Despite claims that outcome-based payment metrics offer a greater degree of freedom, flexibility and autonomy for civil society organisations to deliver innovative welfare services, some of those interviewed felt that there was a significant degree of micro-management and intrusion into their day-to-day practices. In addition to the substantial requirements to collect new data on their service outcomes, civil society organisations also felt that they needed to invest an ‘excessive’ amount of time managing stakeholder relationships, collecting data on their service operations and adjusting their practice according to investor requests. Whilst this could be viewed as a necessary part of the process to embed an entrepreneurial approach in their operations, some service providers also felt that this actually detracted from their social focus and mission. As a result, organizational tensions occasionally arose between private social investors and service providers.

In spite of, or perhaps because of, the organisational tensions arising, stakeholders involved in social impact bonds often dedicated a disproportionate amount of their attention towards these contracts over other activities associated with their work portfolio. To encourage more private social investment into the sector, social finance stakeholders and policymakers often stated that it was particularly important for the first round of social impact bonds to work, or least to ‘be seen to work well’. To do so, stakeholders often dedicated more time and energy than would realistically be feasible for other social impact bonds in the future. Whilst there are inevitable ‘teething problems’ that may arise, there is also a danger that the increased time and effort committed to the early social impact bonds glosses over some of its limitations as a model of outcome-based commissioning for third sector organisations.

Many of those interviewed for this research emphasised the particularity of social impact bonds and that the model would not be an appropriate mechanism 'in all cases'. Without the willingness to let social impact bonds 'fail', there is a danger that social impact bonds are introduced in areas and circumstances where they are not well suited.

As previously stated, the 'alternative' private capital that social impact bonds offer to the sector needs to be understood within a broader context of cuts to third sector funding and public social services. A great deal of the funding previously committed to the third sector has been re-directed towards the development and support of social impact bonds in the UK. This poses a number of challenges to third sector organisations that have previously been reliant on public sector funding and contracts. As one senior civil servant observed 'either you play within these rules or you compromise your chance of sustainability'. The pressure and expectation to become 'investment ready' risks crowding out smaller players with valuable experience and expertise in tackling some of the more 'intractable social problems' that social impact bonds seek to address.

Finally, in certain instances, welfare outcomes achieved through the outcome-based service intervention were not sustained subsequent to the social impact bond contract. Without a continuity of service provision based on service inputs and outputs for certain marginalized populations, welfare outcomes were not sustained. This raises important questions about the legacy and long-term 'success' of social impact bonds. However, it also raises questions about the very notion of outcome-based commissioning and the projected cost-savings that they purport to engender for the public sector. With this in mind, social impact bonds, as a means of developing outcome-based commissioning run the danger of replacing service interventions based on service continuity and process that often legitimately *sustain* and *safeguard* the well-being of marginalized groups.

Summary of themes and questions raised by delegates

Having outlined the key research findings, the remainder of the seminar was assigned to fielding the responses and reactions of delegates. These delegates were likely to be affected by the development of social impact bonds and the more general move towards outcome-based commissioning in the future. With this in mind, this seminar brought together multiple stakeholders and practitioners to critically engage with social impact bonds as a social innovation policy. The following questions and themes emerged from, and subsequent to, the seminar:

- For the majority of the delegates attending, social impact bonds were a new initiative that they had either never heard of, or knew very little about. Some described social impact bonds as 'light years ahead' and 'third sector sci-fi'. Many expressed concern that they lacked the resources and knowledge to become 'investment ready'.
- Many struggled to understand how social impact bonds were financially sustainable for the sector and were ambivalent about whether this development represented a risk or opportunity.
- Whilst civil society organisations felt that the majority of the service interventions were of great value, many were nonetheless sceptical of the extent to which these interventions could be characterised as 'novel' or 'innovative'. Some readily cited examples of similar interventions and approaches that were funded without private capital or outcome-based commissioning. These were examples of historical, but also current cases of service intervention.

- Some organisations were enthusiastic about the need to adapt to a changing funding and commissioning landscape. These organisations emphasised the importance of exploring and embracing new financial tools, fundraising and investment mechanisms. One delegate felt that "NGO's should be managed as a business – just because my organisation is not-for-profit – this does not mean that my customers and stakeholders do not deserve the best product and service possible."
- On the other hand, others expressed concern about their future security and sustainability in light of restrictions to public funding. Whilst these delegates spoke positively about the need and opportunity to diversify their income streams, a number also felt that it was necessary to 'critically adapt' to capitalise on, but also critique, existing developments within the sector.
- One delegate highlighted that the principle innovation was that the resource-intensive service interventions would not otherwise have been funded. Another delegate contended that this 'hardly counted as a positive step forward' and felt that social impact bonds were threatening the already scarce funding available to the third sector.
- Some were sceptical about the extent to which social impact bonds would flourish in other parts of Europe, particularly with respect to institutional differences between welfare regimes and public procurement practices.

CRESSI project partners will, in due course, reflect upon these points before proceeding with the next phase of Work Package 6.

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