

Social impact bonds: the story so far

This Guide draws on Mike Steketee's article for Inside Story, "[Will social impact bonds change the world?](#)" (October 2016)

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Social impact bonds, or SIBs, are a mechanism for using private investment funds to finance social programs. [According](#) to the Centre for Social Impact at the University of NSW, "A SIB restructures the relationships between government agencies, not-for-profit service delivery organisations and social investors such as charitable foundations and high-net-worth individuals." In practice, according to the Centre:

the bond-issuing organisation raises capital from investors based on a contract with government to deliver improved social outcomes that generate future government costs savings. These savings are used to pay investors a reward in addition to the repayment of the principal, if the agreed outcomes are achieved.

Pioneered in Britain six years ago, SIBs have spread rapidly, with sixty launched in fifteen countries. But the evidence on their performance so far is mixed:

- In April 2013, researchers at the Harvard Kennedy School's Social Impact Bond Technical Assistance Lab reported on [Social Impact Bonds: Lessons Learned So Far](#). On the basis of two years' experience providing assistance in creating SIBs, they outlined a series of lessons, "focusing in particular on topics where our thinking has changed since our initial analysis of the model." Their article also describes "key unanswered questions" about the SIB model.
- The OECD has published several reports and papers on SIBs over the past few years. [Social Impact Investment: Building the Evidence Base](#) (January 2015) provides a framework for assessing the social impact investment market and focuses on the need for a solid evidence. [Social Impact Bonds: State of Play and Lessons Learnt](#) (May 2016) describes where and in what fields SIBs are developing. It looks at whether SIBs are "scaling up social innovations" and examines the roles of the various participants in the schemes and the use of evaluation and monitoring systems.
- Another recent OECD working paper, [Understanding Social Benefit Bonds](#), concludes: "Overall, while SIBs have achieved interesting results in some policy areas and triggered debates that can help reflect on how social services are being financed and delivered,

additional knowledge and sound evidence need to be generated in order to reduce controversies around SIBs. The jury is still out.”

- The UK National Audit Office looked at British SIBs in its June 2015 report, [Outcome-Based Payment Schemes: Government’s Use of Payment by Results](#). It found that the world’s first bond, designed to reduce reoffending rates among prisoners on short-term sentences at Peterborough Jail in Britain, was judged by the government to have been a success, achieving an 11 per cent reduction in reoffending rates at a time when the national figure went up by 10 per cent.

Australian state government-initiated bonds

In Australia, Barry O’Farrell’s Coalition government in New South Wales was the first to announce a trial of the bonds in 2011, when his treasurer, Mike Baird, acted on a report commissioned by the former Labor government. By mid 2016, Baird’s government was running two bonds aimed at reducing the rate of foster and institutional care for children. In July 2016, it announced a third designed to reduce reoffending rates among ex-prisoners.

The first two NSW bonds are:

- **Newpin** (the new parent and infant network), launched in 2013, aims to help fostered children aged five years or younger return home and also to prevent the removal of those at risk of entering out-of-home care. The program is run by Uniting, the social welfare arm of the Uniting Church in NSW and the ACT, and is partly funded by \$7 million raised from fifty-nine investors. Payments to investors are based on the number of children successfully restored to the care of their families for at least a year.
- **Resilient Families**, run by the Benevolent Society, receives referrals from the Department of Family and Community Services of families with at least one child under six (including unborn children) assessed as being at risk of significant harm. Under the program, caseworkers aim to visit families in their homes at least twice a week during an initial period of intensive support that also includes a twenty-four-hour call line.

These two projects are examined in more detail in [“Will social impact bonds change the world?”](#)

Two detailed reports on the NSW scheme have been released:

- Early in the NSW process, the Centre for Social Impact released a [Report on the NSW Government Social Impact Bond Pilot](#) (February 2011), quoted at the beginning of this Topic Guide, which examined whether the SIB concept was feasible for New South Wales. The CSI held detailed discussions with non-profit organisations, social investors, philanthropists and government agencies. The overarching conclusions were that the SIB concept was considered feasible and that NSW had the necessary ingredients for success, although there was much work to be done to deliver a SIB pilot.
- In February 2014, KPMG released its [Evaluation of the Joint Development Phase of the NSW Social Benefit Bonds Trial](#), which “documents the planning and development of Australia’s first social benefit bonds and considers what has been achieved and what can

be learnt so far.” The report found that SIBs are viable in NSW, that they have produced positive outcomes and that, if future bonds are to be developed, “capacity needs to be developed within government, in NGOs and within financial intermediaries, to develop future bonds, improve data and contracting capacity, and develop and catalyse the social impact market.”

NSW premier Mike Baird has indicated that he plans to introduce two new social impact investments each year aimed at increasing access to early childhood education, encouraging more permanent foster care (including through adoptions), and using a new Aboriginal Centre for Excellence to help Indigenous children in western Sydney make the post-school transition. The government is also exploring four other areas – homelessness among veterans, waste management, the road toll and domestic violence – though it is also looking at potentially less complex alternatives to bonds such as government or private grants paid on the basis of outcomes.

Labor governments in Victoria, Queensland and South Australia have all announced pilot programs, or have plans to do so, in areas including drug and alcohol treatment programs, homelessness, prisoner reoffending, and out-of-home care for Indigenous children. Victorian green bonds, issued by the state government in July 2016 at a coupon rate of 1.75 per cent, are an example of a less complex way of attracting private investment without a financial intermediary; seventeen investors, including insurance and funds-management companies, [contributed](#) \$300 million in a little over a day.

National developments

In June 2015, social services minister (now treasurer) Scott Morrison [said](#) that governments would get smaller in proportion to the size of the social challenges of the future, while “the non-government sector, the community, the private sector, will have to get bigger when it comes to addressing these challenges.” This must involve private capital, he went on: “What I am basically saying is that welfare must become a good deal for investors – for private investors.” He was “very keen” to explore social impact bonds because “they have great potential for helping improve people’s lives while increasing public sector accountability.”

A spokeswoman for Morrison’s successor in the portfolio, Christian Porter, told *Inside Story* that the Coalition is exploring ways to develop a social impact investment market in Australia: “The government is open to looking at where social impact bonds might be a good fit in delivering outcomes for Australian communities.” But in a [speech](#) last year, Porter also sounded a note of caution; referring to various initiatives to increase housing affordability, including South Australian trials of social impact bonds directed at homelessness, he observed that success had been “mixed” and “few projects have been able to scale up to the level of supply needed to make a real difference...”

Labor is on board, at least in principle. “I am really interested in how to encourage and support the not-for-profit sector as they try to think of new ways of doing things,” shadow families and social services minister Jenny Macklin told Mike Steketee. “The good thing about social impact bonds is that people are trying out a new idea. At the moment I think

there is still a lot of work to be done to see whether or not they will be effective. We need proper evaluation and a strong evidence base.”

In other developments:

- The 2015 [McClure report](#) on welfare reform recommended expanding outcomes-based social investment models, including social impact bonds, or SIBs.
- The 2016–17 federal budget included \$96 million for a Try, Test and Learn Fund, which will invite bids from inside and outside government for innovative solutions to the problem of long-term welfare dependency among working-age people. Under its “investment” approach to social security, based on the [New Zealand model](#), the government has commissioned an actuarial analysis, similar to that used by the insurance industry, to identify groups of people at risk of long-term dependency. Young carers, young parents and young students will be the initial priorities for funding.

Do SIBs save money?

While the savings to government from social impact bonds have the potential to significantly outweigh the costs of investor returns, administrative complexity and failed programs, the evidence to date is unclear. For each child who avoids going into out-of-home care, the NSW government saves between \$30,000 and \$45,000 a year, according to one official [calculation](#), as well as gaining future welfare benefits, lower health costs and less crime. But the calculations are difficult to make: restoring a child to a family doesn’t guarantee he or she will have better life outcomes.

Overseas experience suggests that savings are not always as large as anticipated. The UK National Audit Office [reported](#) in 2015 that a £3 billion Work Programme contract cost just 2 per cent less than would otherwise be expected. While that program isn’t financed through a social impact bond, it operates on the same principle: the government contracts with service providers to pay on the basis of the results achieved in finding work for long-term unemployed or those in danger of entering their ranks.

An OECD [report](#) warns of the risk of manipulating programs focused on outcomes: “It may be possible to game the results by selecting clients that are easiest to reach... while leaving those that would be most expensive without service.” Indeed, this was the experience in Australia with the Job Network, created when the Howard government privatised the Commonwealth Employment Service.

As a result, some in the welfare sector are wary of social impact bonds. As one policy adviser put it to me, an organisation committed to assisting the most disadvantaged, though not necessarily in the cheapest way, could be driven out by operators who promise quick, cheap results. In this race to the bottom, “it is very hard to see what the countervailing forces are, especially in a market environment where you set people up as competitors.”

The next steps?

“SIBs are complex instruments,” write the authors of the OECD working paper, [Understanding Social Benefit Bonds](#):

Policy makers should evaluate carefully what is the value added for implementing a SIB for a policy intervention compared to a more traditional approach. However, transaction costs are expected to drop as more SIBs develop and there is a streamlined process for establishing them.

Rigorous methodological design for identifying measurable social outcomes and appropriate target groups is of utmost importance in order to avoid perverse effects, such as “creaming”, “parking” or “cherry picking.” SIBs may be an opportunity to nurture a culture of monitoring and evaluation in social service delivery...

Ensuring continuity of social service delivery by the public sector is indispensable for vulnerable groups and citizens. Therefore, SIBs could be more appropriate as a complementary and not core mechanism for social services delivery.

Or, as Mike Steketee [writes](#):

All of this means that the question of whether social impact bonds can change the world, as Mike Baird believes, is still very much open. They may have a role in testing new approaches, but until there is much clearer evidence of net savings to taxpayers, it would be a courageous government that used them to run large programs. •

APO’s most up-to-date listing of reports and articles on social impact bonds is here: <http://apo.org.au/tags/social-impact-bonds>