

Social Impact Bonds: A Review of their Strengths and Weaknesses

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ABSTRACT

This article analyses social impact bonds as an innovative instrument to finance projects in the social or environmental fields. These are instruments that require the collaboration of different stakeholders (multi-stakeholder approach), which may generate a new approach to social or environmental problems. When successful, they could save resources for States. They attract private capital to finance societal projects, allowing them, simultaneously, competitive remuneration and an effective impact. Since their remuneration/reimbursement is based on outcomes, there is a risk transfer (at least partially) from the public sector to the private sector. However, difficulties in articulation between the different participants and in the correct measurement of results/outcomes may limit the scope (size and timeframe) of the projects involved, as well as distract NGOs from their mission. Due to the growing importance of Social and Sustainable Finance in financial markets and public policies, the detailed study of these new instruments is highly recommended.

Keywords: Social impact bonds; impact investors; social finance; social innovation

JEL Codes: G23, L31, O35

I. Introduction

THE TOPIC OF SOCIAL INNOVATION has received high visibility in the media, in the design of public policies (European Commission, 2013a, 2013b; Maduro, Pasi, Misuarca, 2018; Mello, Pinto and Pedro, 2021), the management of third sector organisations (NESTA, 2008), and academia (Weber, 2012; Eichler and Schwarz, 2019). However, it is still a topic which needs to be studied further, more specifically in terms of the concept, the practices and outcomes (Edwards-Schachter and Wallace, 2017; Marques, Morgan and Richardson, 2018; Galego, Moulart, Brans and Santinha, 2021). Its relevance has been growing since 2000 and will continue to gather momentum in the coming years, in

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the face of huge social and environmental challenges (Mulgan, 2018, 2019), in particular arising from the Covid-19 pandemic (OECD, 2020a). Furthermore, it has been attracting increasing attention from national and global policymakers, researchers, companies, investors and society at large (Dainiené and Dagiliené, 2016; Eichler and Schwartz, 2019; Portales, 2019).

One of the seminal definitions of social innovation (Besançon, Chochoy and Guyon, 2013) was presented in Canada as part of the redefinition of Quebec's science policy in 2001, and is based on the notion that (Government of Quebec, 2001, p. 33, our translation): "By "social innovation", we mean any new approach, practice or intervention, or any new product developed to improve a situation or solve a social problem and which has been adopted at the level of institutions, organisations, communities". Along the same vein, several authors (Baker and Mehmood, 2015; Edwards-Schachter and Wallace, 2017; Mulgan, 2019; Schmiedeknecht, 2020) connect social innovation to social/environmental objectives such as the United Nations Sustainable Development Goals (SDGs), the improvement of collective well-being, the involvement of the communities themselves and the necessary change in the economic model.

In this context, which places the community itself in charge of identifying problems and solutions, and which assumes that people have the necessary identification and resolution skills (Mulgan, 2006), innovative activities or services have emerged for the resolution of social problems, predominantly applied by non-profit organisations, in the fields of health, poverty alleviation, sustainable resource management, improving the level of education/literacy and/or social exclusion. These activities, services and programmes always comprise four fundamental elements that characterise social innovation, which are the people, the challenge (a problem that can be solved or presents an opportunity to be exploited), the process (how this challenge is dealt with) and the goal (challenge resolution to achieve greater well-being) (Dawson & Daniel, 2010).

The relevance of the topic and its growing importance in societies has been followed by important academic research (Weber, 2012, van der Have and Rubalcaba, 2016), with particular emphasis in recent years on new forms of financing and in particular on impact funds and social impact bonds (Rodin and Brandenburg, 2014).

Effectively, the issue of financing these projects arises, not least because their impact goes beyond financial/economic issues. That is, although it would be possible for some social innovation projects to be pursued by for-profit entities, for example, by the so-called "social enterprises" (OECD, 1999, 2017 and 2020b; Defourny and Nyssens, 2010; Bull and Ridley-Duff, 2019), as the remuneration of capital is not the main objective of these projects, innovative approaches to their funding are needed, namely through new instruments and different investors (Moore, Westley and Nicholls, 2012; Nicholls, Paton and Emerson, 2015; Maduro, Pasi and Misuraca, 2018; OECD, 2019; Shelby, 2021), and with new perspectives vis-à-vis the evaluation of their outcomes (Rodin and Brandenburg, 2014; Epstein and Yuthas, 2017).

Social impact bonds (SIBs) require careful analysis as they are a relatively new and complex instrument, often associated with innovative approaches to social problems, the remuneration of which is indexed to the measurement of results and aggregating

different stakeholders with very diverse profiles (Arena, Bengo, Calderini and Chiodo, 2016; FitzGerald, Fraser and Kinnitt, 2020). In addition to these innovative characteristics, Tan, Fraser, McHigh and Wraner (2021) consider that as it is a controversial public policy instrument, with ambiguous results in the face of alternatives, studying it from an academic perspective is even more necessary, advocating a multidisciplinary approach. Dey and Gibbon (2018, p. 377), in a similar vein, consider that "While enthusiasm for impact bonds as a financing mechanism to solve social and environmental problems continues unabated among governments and their networks of supporting organizations, wider opinion on the merits of impact bonds is far more divided. (...) While SIBs can deliver benefits to both public and private sectors in certain circumstances, initial studies suggest that the claims being made about impact bonds in overcoming societal problems may be exaggerated".

II. The relevance of SIBs

The SIBs emerged in 2010 as an innovative instrument to finance public or private projects in the social area (Hughes and Scherer, 2014; Wilson, 2014; Dey and Gibbon, 2018) and have since then attracted the attention of academics, policy makers and many investors. In academia, it is seen as a tool that is suitable to be incorporated into New Public Management (NPM) (Stark, 2002; Pendeven, 2019; Broccardo, Mazzuca and Frigotto, 2020; Pastore and Corvo, 2022), social finance and entrepreneurship (Nicholls et al, 2015) and the growing impact investing field (Bugg-Levine and Emerson, 2011; Rodin and Brandenburg, 2014; GIIN, 2020; Cohen, 2020; Agrawal and Hockerts, 2021; Shelby, 2021).

SIBs appear in a period of severe budgetary constraints, following the 2008 financial crisis (Jackson, 2013; Fraser, Tan, Lagarde and Mays, 2018) where, simultaneously, there were significant cuts in public expenditure and increases in social necessities (Del Giudice and Migliavacca, 2019). They were a creative means to decrease the gap between the scarcity of public resources and the surplus of private capital (Liang, Mansberger and Spieler, 2014) and replicate in the public sector some of the management practices of the private sector, namely outcome-based remuneration, an element much advocated by the NPM (Moynihan and Pandey, 2005).

In short, SIBs can be seen as a new model of public procurement that allows innovative investment in social or environmental areas (Leventhal, 2012; Jackson, 2013), with the contribution of private resources (Hughes and Scherer, 2014). These resources are then remunerated according to the outcomes obtained, with the rules defined before the project goes ahead. This outcome-based remuneration approach is one of the main differences from the traditional philanthropic resources allocated to the social economy (Pendeven, 2019).

They are mostly financed by capital from impact investors, that is, in a widely used classification (Rodin and Brandenburg, 2014; Gianoncelli et al, 2019), focused on impact first (i.e., looking at the social impact), compared to the more traditional investors (finance first, whose main objective is remuneration), so they aim to generate social or environmental impact and, simultaneously, financial remuneration (Basilio, 2019). As

Cohen (2020, p. 27) states, "They are part of a general shift (...) to a system whose model of decision-making introduces this new mindset of risk-return-impact, rather than risk-return". However, in parallel, there are also financial resources applied in SIBs from foundations, religious institutions and traditional investors, "mainstream investors" in the authors' words (Vecchi, Casalini, Cusumano and Leone, 2021).

As shown in Figure 1 (Appendix I), the SIB model combines different agents with different roles and expectations (Ormiston, Moran, Castellás and Tomkinson, 2020), with the aim of bringing benefits to a target population (or region).

The first SIB originated in the United Kingdom in 2010 and was designed to reduce the recidivism of prisoners in a penitentiary unit in Peterborough (Nicholls and Tomkinson, 2013, Shinckus, 2018; Toussaint, 2018; Ford and White III, 2020). It emerged as part of an initiative by David Cameron (Big Society Initiative), leader of the Conservative Party, based on the assumption that new information technologies and innovations in public sector management would enable greater control by citizens and the transfer of activities and/or supervision of public services to the private sector and/or civil society (Pendeven, 2019).

The SIB model has been applied in other contexts and countries (Tan et al, 2021) and by December 2022 some 273 SIBs had been contracted in 38 countries (Indigo, 2022), with the most represented sectors being employment/vocational qualification (27% of SIBs), childhood/family well-being (18%), health (17% of SIBs), education (16% of SIBs) and housing (14% of SIBs).

If for some it is a promising approach to the resolution of social problems, aggregating different funders, with different analyses and project management practices (Mulgan, Reeder, Aylott and Bo'sher, 2011; Butler, Bloom and Rudd, 2013; Cohen, 2018), others are filled with scepticism and doubt, and are associated for example to the risks of financialisation of public policies and the social sector (McHugh, Sinclair, Roy, Huckfield and Donaldson, 2013; Dowling and Harvie, 2014). If for Cohen (2018, p. 17), "One of the transformational tools of the impact revolution is the Social Impact Bond (...)", for Dowling and Harvie (idem, p. 879), in this way "(...) the government seeks to determine the wider benefits of a service when those benefits cannot be easily quantified in the standard monetary terms".

It should be pointed out that, as most SIBs are financing projects that are not yet completed, it is difficult to properly evaluate this financing instrument, although there have been some studies analysing its implementation, especially in the United Kingdom and the United States (Tan et al, 2015; Bengo and Calderini, 2016; Van Es, Houben and Nijeholt, 2016; Neyland, 2018). This situation has made it difficult to identify successful examples that can be replicated (Bloomgarden, Eddy and Levey, 2014), as well as conduct comparative studies between SIBs implemented in various countries, which would allow identify the relevance of political, legal, institutional and cultural frameworks in SIBs launch (e.g Chiapello and Knoll (2020) and Hajer (2020), highlight the importance of liberal governments in launching SIBs) and their results.

III. Main characteristics

This financial instrument has been described as an expression of social innovation in the area of public policy and finance, capable of integrating the public, private and social sectors in the same project (Callanan, Law and Mendonca, 2012), using methods associated with the private sector (Mulgan et al, 2011; Liebman, 2011; Warner, 2013), and attracting private capital to the social area, thus enabling the reinforcement of public policies (Arena et al, 2016; Dowling, 2017).

Chamaki, Jenkins and Hasemi (2019) consider that four conditions are necessary for SIBs to be considered eligible for a project: (a) the existence of savings that offset the cost of capital and transaction costs associated with the contract, (b) the possibility of a clear and appropriate measurement of outcomes, (c) the possibility of achieving outcomes that allow private investors to assume the risk and obtain remuneration and (d) the existence of contracts that clearly define the responsibilities of each stakeholder (and in particular of the public entity, the service provider and the investors). If these conditions are fulfilled, this form of financing may allow the State to save resources by transferring risk to the private sector and to explore innovative approaches in the social (and/or environmental) area, which can then be replicated on a larger scale.

It should be noted that the international name (bond) is not the most appropriate (Fraser et al, 2018) because, unlike a traditional financial bond, when it comes to SIBs, investors' remuneration is not pre-determined, but depends on the performance of the project, so it is a form of financing closer to equity products and, therefore, there is more inherent risk. As stated by the Chartered Global Management Accountant (CGMA) and the Association of International Certified Professional Accountants (CIPFA) (CGMA and CIPFA, 2018, p. 14): "A social impact bond (SIB) is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of financial interest to a public service commissioner, such as improved health or public safety. If the social outcome improves, the commissioner repays the investors their initial investment plus a return for the financial risks they took. If the social outcomes do not improve above an agreed threshold, the investors stand to lose their investment". That is, if the performance is not achieved, the investor is neither reimbursed nor remunerated (if this remuneration is stipulated in the contract), having, in practice, applied the resources in a merely philanthropic way (Cohen, 2020).

In line with Fraser et al (2018), three important elements should be mentioned for the study of SIBs: (a) on the one hand, the need to articulate in their design, implementation and evaluation, different agents with different characteristics and motivations, (b) on the other hand, the fact of introducing (more) traditional private management instruments into social interventions/public policies and, finally, (c) the issue of sharing the risk of the intervention among the different participants. These three issues will now be discussed.

A. Integration of different actors

SIBs are a contract that bring together different actors or in other words, it is a "multi-stakeholder arrangement" (Agrawal and Hockerts, 2021) used to prevent or resolve a

social problem, thus requiring the collaboration of different entities in the design of an innovative solution:

- the State (local or central administration, responsible for providing a specific service to a given population);
- private investors (who want to invest in the provision of the service in exchange for specified remuneration, if the desired and contracted outcomes are achieved);
- the service provider (which can be non-profit organisations (NPOs and NGOs) or organisations with profit and mission, as referred to by Cohen (2018), "profit with purpose businesses", or social enterprises);
- the independent evaluator (who is responsible for measuring the outcomes of the intervention and comparing them with the pre-defined objectives).

Shiefler and Adib (2016) examine the roles and difficulties associated with these different players, considering that experience, knowledge and integration with and in the community are the determining aspects for effective implementation and operationalisation of SIBs. Other authors (Haffar, 2014; Epstein and Yuthas, 2017, Fraser et al, 2018) highlight the role of evaluators, as well as the role of expert/intermediary consultants, in this model. The latter because they can bring together different stakeholders, with different missions, management practices and purposes in a complex model, as well as help define the performance indicators (Warner, 2013; Basilio, 2021); the former, because the proper evaluation of the outcomes is a condition for the remuneration to be fair and the model to be credible (Burand, 2013), as in some cases, it is not easy to measure the (true) social impact of the projects (Mulgan, 2010; Antadze and Westley, 2012; Epstein and Yuthas, 2017; Rotheroe, 2020; Fox and Morris, 2021). Ormiston et al (2020) look at the expectations of different stakeholders, highlighting the importance of private investors, who in some instances may limit the desirable innovative role of service providers (a view already referred to by Edmiston and Nicholls, 2018).

Three additional issues need to be mentioned:

- i. On the one hand, the difficulty of articulation should be considered, given the classic asymmetry of information between the various players, which therefore, may lead to high transaction costs, often underestimated in the opinion of Huckfield (2020:167) ("(...) it is very difficult to trace the cost of promotional activities, evaluation reports, contract negotiation, policy entrepreneurs, and legal and economic consultants involved in SIB construction");
- ii. On the contrary, although innovation and the benefits may result from collaboration between a diversity of stakeholders who are involved in the projects, and some authors even refer to SIBs as a win-win instrument (Chamaki et al, 2019), they have, as already mentioned, different interests and expectations (Ormiston et al, 2020), which makes the whole set-up of the operation, where information asymmetry is significant, very important;
- iii. Finally, it is essential to guarantee the independence of evaluators (similar to external auditors in enterprises, a central problem in corporate governance (Mallin, 2018; Tricker, 2019)). Evaluators have to analyse whether or not public policy objectives (transposed into measurable indicators), have been achieved, in

order to determine if investors should be reimbursed, and thus the need to be technically robust and independent. This requirement to create measurable impact indicators may favour projects whose impacts are easier to measure over others that are more complex but have a greater impact (OECD, 2016a).

B. Public and private management

SIBs are a challenge to the (more) traditional form of service delivery by the state and non-profit organisations/non-governmental organisations (NPOs/NGOs) because of their design, funding and the way they are evaluated, and therefore, as already highlighted, are referred to as a significant instrument of social innovation (Moore, Westley and Nicholls, 2012; Young, 2015).

First of all, as previously indicated, they require coordination between the different players and, in particular, between the State/public administration and the remaining actors (service provider entity, funding consortium/investors and evaluators), making their development complex, with long negotiation procedures and raising complex legal, fiscal and bureaucratic issues (Schiefler and Adib, 2016). The complexity is the result of a large number of partners involved, with different expectations, making their articulation and the negotiation process (probably) longer, than a policy and/or intervention defined autonomously by Public Administration, and executed by its services.

One of the practices transferred from the private to the public sector is that of paying for services based on project performance and results (Maduro et al, 2018; Fox and Morris, 2021; Vecchi et al, 2021), and not as was traditional, based on inputs/resources employed (OECD, 2016b). In practice, SIBs have been designed taking into account the contrast between what would be the results expected by a traditional policy and those that are expected with this innovative approach. With this differential, there is the possibility of saving public resources and remunerating private investors, which is why SIBs emerged in the context of strong fiscal crises (Dodd and Moody, 2011). Thus, these metrics - which should include sustainable medium and long-term results - are defined in advance, which raises technical challenges (Cox, 2011; Burand, 2013; Sinclair, Mchugh and Roy, 2021). Furthermore, the payments, which are conceptually based on the savings to the public treasury arising from the intervention, are dependent on these outcomes, so the proper monitoring and evaluation of projects is of particular importance. Therefore, SIBs are always associated with mechanisms to measure the outcomes of service providers (usually NGOs or NPOs; Liebman, 2011; Clifford and Jung, 2017), requiring greater levels of transparency between the state and these providers (Stoesz, 2014; Edmiston and Nicholls, 2018; Tan et al, 2021) which, according to Warner (2013), is not always the case.

Another factor addressed by the literature as a benefit of SIBs is the possibility of contributing to processes of cultural change in favour of social entrepreneurship (Mair and Milligan, 2012; Nicholls, 2013), which are then "appropriated" by public policies. From 2014 onwards, the contributions of SIBs to cultural changes related to social entrepreneurship have been analysed by the Global Steering Group on Impact Investing in its studies assessing the benefits of SIBs (Nicholls, 2013; GIIN, 2020). Thus we have

an externality of this instrument, by encouraging the development of new entrepreneurial projects in the social area, in line with Phillips et al (2015).

C. Risk allocation

SIBs can also be seen as financial innovation, where private capital is remunerated for its investment in social innovation (Cooper, Graham and O'Dwyer, 2013). As SIB payments are linked to outcomes, in this model, the risk of failure of a social intervention is transferred from the government to private actors, since investments in SIBs will only be paid if the pre-defined outcomes are achieved (Mulgan et al, 2011; Callanan et al, 2012; Burand, 2013; Pauly and Swanson, 2014). In this light, "Social impact bonds (SIBs) allow governments to try out new social services on a no-win, no-fee basis, bringing in non-government investors to provide funding and transfer risk" (CGMA and CIPFA, 2018, p. 14). This is a perspective also advocated by Tan et al (2021, p. 2) when they mention that it is a, "(...) risk-free way to experiment with innovative or untested policy interventions where private, philanthropic or social investors provide up-front financing for service delivery that is only reimbursed by government if outcomes are met". It should also be mentioned that this transfer of risk to private investors increases the required remuneration (other than philanthropic investors), which reduces the savings provided by the project, in comparison to the traditional government policy (since it is financed with State resources). However, this interpretation of the transfer of risk to the private sector is contested, since, in the end, the responsibility always lies with the State, not only reputationally, but as a guarantor of social intervention, even in case of failure, an aspect mentioned by some of the authors critical of this instrument (Arena et al, 2016).

Thus, in this model, private investors have opportunities to obtain financial returns if the agreed indicators are met, that is, if the expected social impact is achieved, assuming part or all of the risk regarding the performance of the SIB (Rizzello and Carè, 2016). These investors, who combine social and financial benefit (Rodin and Brandenburg, 2014; Yang, Akhtar, Dessard and Seemann, 2019; Agrawal and Hockets, 2021), therefore invest in a remuneration model that can be considered closer to that of equity products (i.e., investments for which there is no pre-determined remuneration, but which depends on the overall performance of the organisation), than to investments in traditional bonds (debt securities with pre-defined remuneration and not linked to performance) (Bolton and Savell, 2010; Sinclair, McHugh, Huckfield, Roy and Donaldson, 2014). This remuneration should be linked to the savings or improved performance of the projects financed by SIBs compared to the traditional approach, although empirically Chamaki et al (2019) and Huckfield (2020) show several projects in the UK with very low (and even negative) values, due to the complexity of the instrument (Wilson, 2014; Clifford and Jung, 2017), and transaction costs (Edmiston and Nicholls, 2018).

SIBs are operating in different sectors, geographical regions and target populations, take on multiple forms and involve various players that need to be articulated, and there is no single formula to assess them (Dowling, 2017; Epstein and Yuthas, 2017). Thus, despite the good possibility of obtaining financial rewards, the absence of a model that can adequately predict and minimise uncertainty and risk may be one of the factors that have limited the interest of many investors (even impact investors) in SIBs (Scognamiglio, di Lorenzo, Sibillo and Trotta, 2019). In a similar vein, since risk is (at

least partially) transferred to investors, they will tend to prefer projects/initiatives with a higher probability of success, shorter timeframes and less uncertainty (Almeida and Santos, 2017), so there will always be projects and/or sectors that will be (almost) exclusively developed by public capital.

Alternatively, Butler et al (2013) and Brandstetter and Lehner (2015) suggest that the product risk analysis should be carried out within a larger portfolio, which could increase the financial viability/attractiveness of SIBs, on the assumption that there would be a low or negative correlation between social impact-oriented projects (on which SIBs are based) and traditional financial products, leading SIBs to contribute to portfolio risk reduction.

However, while on the one hand, these securities can contribute to portfolio risk diversification, their performance may not depend directly on the economic situation, but rather on the abilities of service providers to implement efficient and effective interventions (Schinckus, 2017). On the other hand, SIBs are not free from volatility and risk, which could be generated for example by speculation around portfolios based on these securities (Alijani and Kariotys, 2019).

IV. Constraints and difficulties

The potential of SIBs to contribute to the improvement of public policies, using innovative new approaches and saving public resources, has been a matter of ongoing debate (Edmiston and Nicholls, 2018), as there is still little evidence (Huckfield, 2020; Tan et al, 2021) or inconclusive findings are still being reported (Pauly and Swanson, 2017, Fraser et al, 2018; Chamaki et al, 2019). Thus, while for some it is a 'win-win' approach for all stakeholders, in line with a necessary public sector reform (Warner, 2013), for others (e.g., Huckfield, 2020; Sinclair et al, 2021), it is an inappropriate or highly risky instrument for social interventions.

The main criticism concerning SIBs can be classified into four categories: (a) changes in public policies, deviating from their traditional scope and organisation, (b) impact on NGO management, which may jeopardise their mission, (c) changes in the nature of the projects being developed and (d) risk of opportunistic profiteering by investors.

A. Impact on public policies

The employment of private management models in public policies in the social area, is seen by some authors as one of the main risks of this instrument. First of all, Berndt and Wirth (2018) consider that SIBs cannot be assumed to eliminate the boundaries between the state, the market and society (in their traditional philanthropic intervention), but are rather an example of the commodification of social policies (advocated by (idem, pag. 29) "(...)a well-known anti-Keynesian imagination of direct state intervention as being flawed and outmoded (...)", but lead to a (risky, in the authors' opinion) alteration of these boundaries. To study this shift, Fraser et al (2018) analyse the logic of public versus private services, considering that the values associated with public services (see for example Noordegraaf and Abma, 2003) and private services (Watson et al, 2004) are distinct and hardly reconcilable. In a comparison carried out in the Netherlands, Van der

Wal et al (2008) summarised this difference considering that (idem, pag. 473) "(...) "lawfulness", "impartiality" and "incorruptibility" were considered the most important public sector values and were absent from business' [private sector] top values. "Profitability" and "innovativeness" were at the top of business values and absent from the public sector's top values. "Profitability" according to this measure could even be considered the least important public sector value."

Likewise several authors (McHugh et al, 2013; Warner, 2013; Roy, McHugh and Sinclair, 2017, 2018) consider that SIBs fall within a so-called "neo-liberal mindset", and their implementation can subordinate public policies to the financial interests of investors (Lake (2015) calls it "financialisation"). Joy and Shields (2013, 2018) go further, and place SIBs as an important instrument of the neo-liberal reform of social policies, privatising it and creating new markets for the benefit of private capital.

Kish and Leroy (2015) and Tse and Warner (2020) also criticise the model as a way of generating results from socially marginalised groups, while Dowling and Harvie (2014) criticise the use of voluntary work by NGOs, while there is remuneration for investors (when the project is successful). Morley (2021) analyses the ethical issues associated with the commodification of social interventions, considering that despite the potential of SIBs, there are failures at the ethical level, mainly due to the asymmetry of information and imbalance of power between the actors involved and in particular between private investors and public authorities. It also raises concerns related to the weak decision-making capacity (and consent of the interventions) of the target populations, usually fragile communities, an issue that normally does not arise when public policy is centralised.

B. Impact on NGOs

In line with this issue, SIBs may challenge the traditional mechanisms of public management through their use of the concept of "value for money" in social public policies, a concept that is much employed in the NPM, and public private partnerships (Ostrander, 2007; Sarmiento, 2010), but there may be a potential negative effect, associated with the increased risk of mission drift of the non-profit organisations involved in their implementation and monitoring (Joy and Shields, 2013; Maier, Meyer and Steinbereithner, 2016). According to these authors, by operating with a policy instrument that transforms social issues into economic ones, they may call into question values associated with their organisations such as those of 'equality', 'justice' or 'rights', a concern also mentioned by Mullins, Rees and Meek (2011) and by Arvidson and Lyon (2014). Their (high) bureaucratic and administrative burden may also reduce the ability of organisations to fully pursue their social missions (Edmiston and Nicholls, 2018).

Finally, and still analysing the impact on NGOs, if on the one hand there are authors (Leventhal (2012), Jackson (2013), Clark, David, Hwang, Moses, Nelson and Torres (2014), Pendeven (2019)) who understand that SIBs allow more resources and greater financial stability to be provided to NGOs, other works (Fraser et al, 2018) consider that, due to the complexity (even administrative and bureaucratic) and/or larger scale of initiatives and/or the pressure to deliver results, small third sector organisations may

become less involved (Edmiston and Nicholls, 2018), with a risk of oligopolisation of the third sector.

C. Nature of initiatives/metrics

As investors' remuneration depends on the outcomes achieved, a regulatory framework is very important to clearly define ex-ante the objectives, the evaluation metrics and the independence of evaluators (Broccardo et al, 2020; Sinclair et al, 2021). Measuring the outcomes (impacts) of initiatives can be complex, should be associated with long-term outcomes, and needs to be done by skilled and independent evaluators (Fox and Morris, 2021). The basic idea is that impact can be measured, and compared across different initiatives and approaches (and notably with the traditional public approach) (Cohen, 2020). However, empirically the fact that many of the projects are still being implemented makes their analysis difficult. Fraser, Tan, Boaz and Mays (2020) and Huckfield (2020), in relation to the situation in the UK, question the evaluations published because they rarely make any comparison with existing more traditional services, but merely present the results. Fox and Morris (2021), also in terms of the UK, consider that the information is not very transparent and the quality of the evaluations is poor. There are also authors (Edmiston and Nicholls, 2018; Fox and Morris, 2021; Sinclair et al, 2021) who point out that there may be another perverse effect associated with SIBs: this need for performance metrics may result in more integrated and global projects where the measurement of results is more complex, being pre-empted in favour of more focused projects (and possibly with fewer effects).

In theory, the evaluation should be carried out by comparing the intervention funded with SIB with the traditional model (control group), which raises ethical questions, arising from differentiated access to social services and "experimentation" with vulnerable populations (Tan et al, 2021). It is worth noting that impact measurement metrics are still very diverse and remain the subject of academic debate (Prentice, 2016; Epstein and Yuthas, 2017; Addy, Chorenge, Collins and Etzel, 2019; Rawhouser, Cummings and Newbert, 2019; Viviane and Maurel, 2019), which does not facilitate a (more) unbiased analysis of this issue.

D. Investors

SIBs have attracted private capital to innovation and social intervention, but their weight in project financing is variable, with their inclusion associated with different motives, for example image, portfolio diversification or mission (Pendeven, 2019)). Huckfield (2020) mentions that despite numerous incentives, many of the investors are foundations and trusts, rather than risk-taking investors, not least because in some cases public guarantees are issued (Arena et al, 2016; OECD 2016b). Bafford (2014) and Godeke (2013) even consider that some investors in SIBs are risk averse. Furthermore, Del Giudice and Migliavacca (2019) consider that agency problems (for example arising from the ability of public entities to monitor projects) have constrained the involvement of institutional investors in SIBs.

In this regard, McHugh et al. (2013) argue that the absence of a clear legal definition of what constitutes social enterprises (see, OECD (1999) and, in Portugal, Parente (2014)

and Ferreira (2021)) - organisations theoretically more qualified to participate in SIB contracts and to provide social services - has constrained the development of SIBs. This legal vacuum also opens up avenues for creative interpretations, and may allow private companies, with the exclusive aim of profit, to try to "mask" their operations as social businesses, applying to participate, in this context, in contracts and provide social services (socialwashing). However, the approach of companies to a more integrated model and moving away from "pure" profit maximisation, in line with social responsibility and stakeholder theory (Schwab, 2021), and called by Ogman (2020), albeit critically, "ethical capitalism", limits the scope of this criticism, which advocates a very classical view of corporate behaviour (shareholder theory).

In brief, SIBs are an innovative instrument, which have raised some doubts concerning their effectiveness as a financing instrument for social innovation projects. Huckfield (2020, p.162) recalls that, for the defenders of SIBs, "(...) they represent a bipartisan approach across political parties", questioning it in the UK case. In the same vein, Maier and Mayer (2017, p.7) justified this situation, as "(...) SIBs are basically supportive of governmental welfare-spending but combine this with a risk-shift to private investors and a promise of market-like incentives". Therefore, several authors highlight their paradoxical attractiveness to different political orientations and target audiences (Giacomantonio, 2017; Maier, Barbeta and Godina, 2018; Harvie and Ogman, 2019), even talking about their "chameleon-like" characteristics (Tan et al, 2021).

V. Conclusion

Since the well-known Brundtland report entitled *Our Common Future* (WCED, 1987), environmental and social problems have become increasingly complex and global (WMO, 2021), demanding new solutions and thus strengthening the role of social innovation. In the European Union, social innovation is a highly relevant topic, and has already been mentioned in the report of the Bureau of European Policy Advisers (BEPA, 2014; Maduro et al, 2018). According to Mello et al (2021, p. 129), the European perspective considers that "Social innovation is understood here as involving new ideas that seek to satisfy social demands more effectively, as well as creating other forms of collaboration and relationships, and for this purpose, products, services and models are created". If in the European strategy, for the 2014-2020 period, social (and environmental) issues were already particularly important, for the period that has begun (Multiannual Financial Framework 2021-2027), the social and environmental components are even stronger (European Commission, 2021a and 2021b), which makes it even more relevant to study new forms of financing, where there is collaboration between private and public capital.

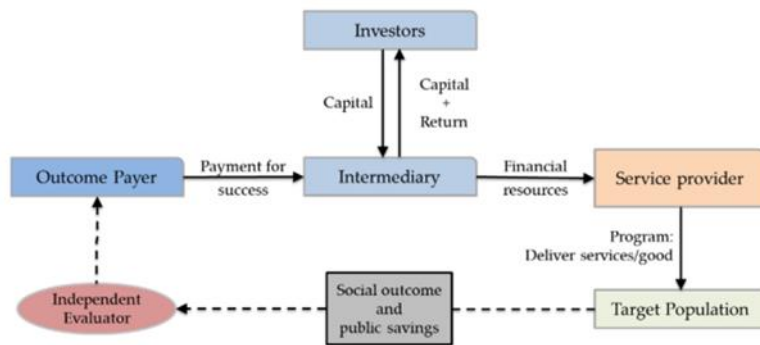
SIBs are an innovative instrument, still not sufficiently developed and studied, but that presents several advantages in a world undergoing profound and demanding structural changes (OECD, 2020c; WEF, 2020a; WEF 2020b).

As mentioned, and in summary SIBs:

- (a) attract private capital to finance societal projects, allowing them, simultaneously, competitive remuneration and to have impact;

- (b) remunerate/reimburse based on outcomes, transferring (at least partially) risks to the private sector, which is a new approach in the social area and particularly in European Union policies;
- (c) finance new approaches to social or environmental problems which, if successful, save resources for States and can later be scaled up and/or replicated in public policies;
- (d) shelter the collaboration of different stakeholders (multi-stakeholder approach), which may generate a new approach to social or environmental problems.

To summarise, the strengthening of so-called Sustainable Finance (including here Social Finance) is to be expected, allowing to keep up with the new challenges, which raises research questions that need to be urgently addressed (Lehner, 2017; Brocardo et al, 2019). During the analysis of SIBs, several limitations have been identified but one of the central issues is that of the appropriate measurement of the impact of projects. If, on the one hand, these are usual projects of limited length and scope, on the other hand, impact measurement metrics are still at a development stage, so in future studies it would be worth identifying "the state of the art" and developing new approaches (WEF, 2020c). In addition, it is important to start analysing the results in different countries and across different sectors (as several projects are completed), in order to analyse the legal and institutional influence and the specificities of the fields on the benefits of SIBs.

Appendix I – Figure 1

Source: La Torre et al (2019)

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