

## Social Impact Bonds: the potential for social enterprise

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There is currently a lot of interest in an innovative social investment mechanism – the **Social Impact Bond** (SIB). A SIB brings together two issues which are of increasing relevance to social enterprises, especially those that are involved in or are seeking to be involved in delivering public services and the intermediate labour market.

Firstly, general recognition that access to capital is a barrier to the development of social enterprise and that debt / loan finance has a significant part to play in breaking down this barrier. Government has responded to this problem by establishing the Social Enterprise Development and Investment Fund (SEDIF) (<http://www.deewr.gov.au/pages/sedif.aspx>). Secondly, that government is increasingly basing its commissioning on outcomes rather than the traditional contracts which are based on inputs and outputs. This shift is reflected in use of results-based accountability (RBA) (frameworks and outcome based agreements).

The first SIB is now operating in the United Kingdom and the feasibility of using a SIB has been tested in New South Wales by the Centre for Social Impact (<http://www.csi.edu.au/latest-csi-news/social-impact-bonds-nsw/>).

A SIB restructures the traditional relationships between government agencies, not-for-profit organisations (NFPs) / social enterprises and investors. Under a SIB, a bond-issuing organisation raises capital from investors based on a contract with government to deliver improved social outcomes that generate future government costs savings e.g. reducing levels of reoffending which delivers tangible cost savings to the justice system. These savings are used to pay investors a reward in addition to the repayment of the principal, if the agreed outcomes are achieved.

For the pilot CSI has recommended that an NFP issues the bond, whilst in the UK the bond was issued by a social finance intermediary – Social Finance UK – which sub-contracts the delivery of the program to a number of NFPs. The UK SIB (<http://www.onesib.org/#/social-impact-bond/4542577822>) raised GBP5 million with a term of six years. In NSW we tested the concept using a \$10 million bond running over five years.

Australia is blessed with a number of very large NFPs that are capable – in both a financial and legal sense – of issuing bonds. Our recent discussions with the leaders of some of these large NFPs have revealed a high level of enthusiasm for use of SIBs including Mission Australia's CEO Toby Hall (<http://www.missionaustralia.com.au/daily-news/2788-opinion-private-capital-can-be-key-to-social-change>). At first sight this innovation in use of debt finance might therefore appear to be only of interest to the “big end of town” but I believe that there is significant potential for social enterprise. I will briefly set out a scenario to demonstrate this potential.

SIBs provide both upfront capital and ongoing revenue to achieve long-term successful outcomes. A large NFP could utilise a SIB to facilitate the establishment of new or scaling up of existing social enterprises to achieve long term desired outcomes. The NFP will retain ultimate responsibility for achieving the outcomes and will therefore only delegate this responsibility if it is confident that a social enterprise could deliver the desired outcomes. Such an approach may be particularly relevant if there is a challenging sub-set of clients and where innovative solutions can be tried and tested, and if successful scaled up over the life of the bond. For example, a SIB seeking to reduce levels of reoffending by youths may find that their main program focusing on school attendance may be ineffective for older youths living in households with no income earners. THE NFP may therefore

decide to sub-contract with a social enterprise that provides youths with a wage which may be the key to preventing reoffending and therefore achieving the long term SIB outcomes.

This reflects a significant advantage of using a SIB rather than a traditional contractual arrangement. The bond issuer can change their method of service delivery without seeking permission from government; they just have to deliver the agreed outcomes.

The learning from the UK and the feasibility work in NSW emphasises the importance of evidence on the efficacy of programs and the need for detailed measurement of costs and benefits, where the latter is measured in terms of not only achieving the desired outcomes but also how these outcomes generate future cost savings for government. This emphasis on evidence and measurement is critical for not only the host NFP but also any social enterprises that may wish to participate.

Evidence and measurement will also feature strongly in SEDIF – where social enterprises will apply for loan funding to help them grow their activities. The applicants will have to evidence the potential for their activities to generate cashflow to service the loan.

NFPs and social enterprises need to assess whether the existing body of evidence of the success of their programs is sufficiently robust to convince government, social investors, bond-issuing organisations and loan fund managers. Similarly, NFPs and social enterprises need to consider whether the systems of social impact measurement and business models are equally as robust.

Whilst we have identified in NSW a number of well-evidenced programs and NFPs with impressive measurement systems, we believe that this is an area where much more effort should be invested. Many NFPs and social enterprises will need to broaden their focus from the short term measurement of inputs and outputs to the long term measurement of outcomes and impact. The measurement systems will have to include a longitudinal element, perhaps staying in touch with people several years after they have left a program. This will be a challenge and needs careful planning, and it will require ongoing resources.

Similarly, in exploring the efficacy of a particular program, organisations will have to compare the efficacy of their “treatment” program to other programs and also to what happens if a client has no treatment. My colleague Professor Paul Flatau from the University of Western Australia has provided some useful insights (<http://blog.csi.edu.au/2011/03/evaluating-the-impact-of-social-programs-how-far-off-the-mark-are-we-in-australia/>) into this challenge.

The interest in SIBs is now worldwide. In the USA President Obama has announced USD100 million to pilot the use of SIBs and the Rockefeller Foundation has funded the Nonprofit Finance Fund to actively promote SIBs. In the UK the BIG Lottery and Social Finance UK are heavily promoting the use of SIBs.

The interest in Australia is growing. The work in NSW has been the catalyst for this interest and we are waiting to see if the new O’Farrell government proceeds to implement one or more SIBs. We are also waiting to see which other states and which Commonwealth Government departments explore this potential.

For social enterprises, I think it is important to recognise that this potential is now on the horizon and that they need to be prepared to grasp the opportunities which SIBs may offer.