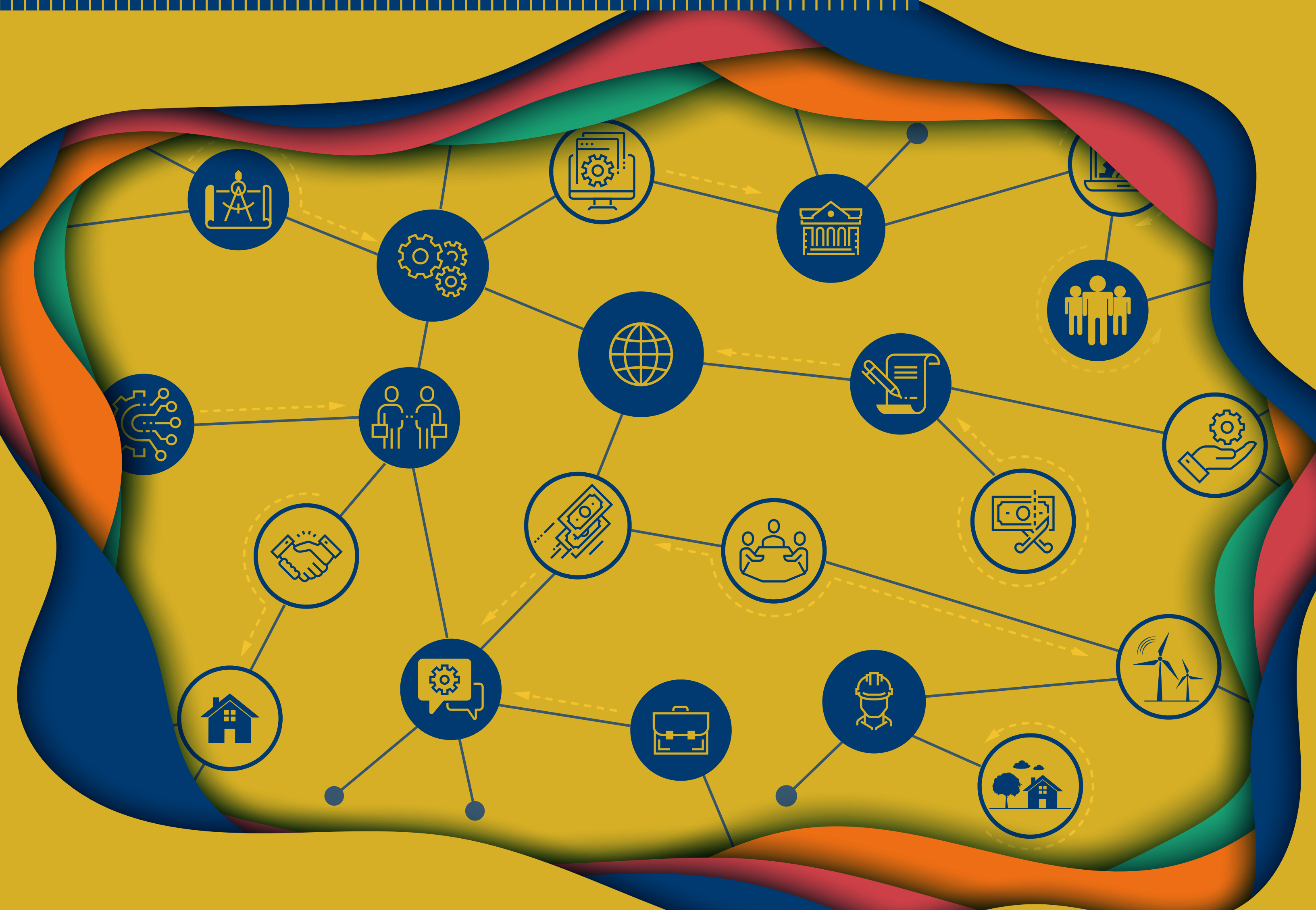
MEASURING THE SUCCESS OF
IMPACT BONDS

Global Economy and Development at BROOKINGS

DO IMPACT BONDS AFFECT THE ECOSYSTEM OF SOCIAL SERVICES DELIVERY AND FINANCING?



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Overview

This brief, the fourth in a series of five analyzing various dimensions of the success of impact bonds, examines the evidence for how impact bonds affect the larger ecosystem of social service delivery and financing. The influence of impact bonds as a mechanism is considered, independent of the targeted outcomes achieved by the impact bond interventions themselves. Seven types of ecosystem effects are reviewed: whether impact bonds build a culture of monitoring and evaluation, drive performance management, foster innovation in delivery, crowd-in private capital, reduce government risk, incentivize collaboration, and/or sustain impact in social service delivery ecosystems. Qualitative evaluations of completed impact bonds and interviews with impact bond stakeholders in active and completed deals show that impact bonds do seem to influence the systems where they are active by shifting mindsets and building stakeholder capacity.

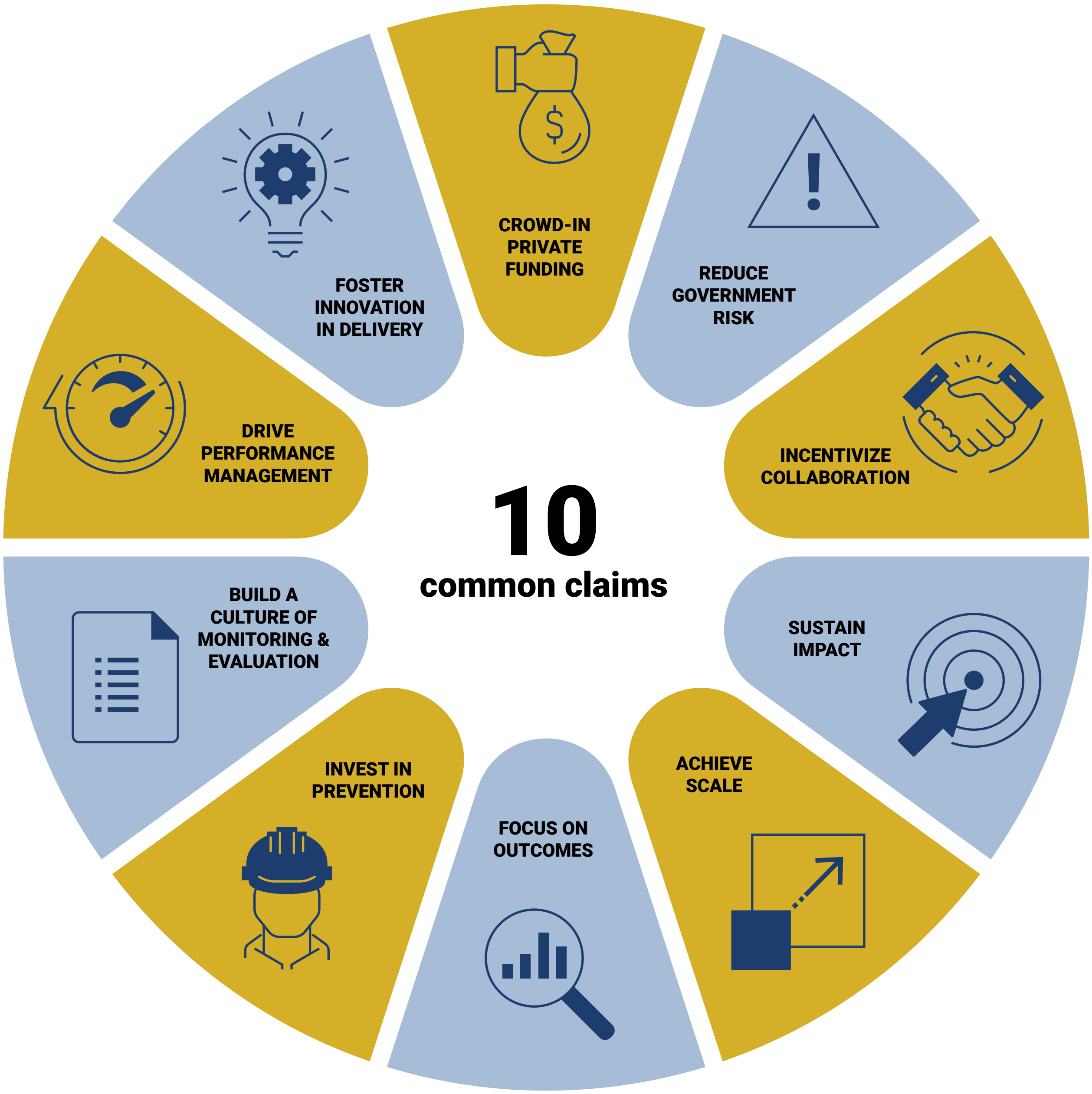
Defining ecosystem effects

As the first generation of impact bonds complete implementation and begin to release their evaluation results, the effects on the ecosystem beyond the outcomes achieved for the beneficiaries are emerging. These include the broader effects of the impact bond mechanism on social services financing and delivery, and may encompass lessons learned or innovations developed within and around the impact bond structure. In order to structure reflections on these ecosystem impacts, we revisit the ten common claims about impact bonds from 2015 and 2017 Brookings reports (Figure 1).[1]

A number of these ten claims are particularly relevant to the consideration of ecosystem impacts, and are the focus of this brief: whether impact bonds build a culture of monitoring and evaluation, drive performance management, foster innovation in delivery, crowd-in private capital, incentivize collaboration, and/or sustain impact.

[1] Gustafsson-Wright et al., 2015 and Gustafsson-Wright et al., 2017

Figure 1: Ten common claims about impact bonds



Building a culture of monitoring and evaluation

Strong systems of monitoring and evaluation are built on effective data collection and use. In order to deliver quality social services, the capacity to discern what data are needed and to collect those data efficiently—including tapping into existing administrative systems, as well as translating the data into action—are critical. To date, almost all of the evaluations of impact bonds emphasize the increased role of data, providing some indication that impact bonds may be better than other mechanisms at building this culture of monitoring and evaluation among outcome payers (government and third-party actors), service providers, and investors.

Stakeholders in early social impact bond (SIB) projects cited the opportunity to promote a new culture of monitoring and evaluation in social service delivery, including improved data collection and management, as a reason for championing the model. For example, in the world's first impact bond, the Peterborough SIB, stakeholders in the evaluation process drew attention to learning about data collection and usage: One of the innovative components of the intervention was the creation of a multi-agency database used for case management, performance management, and reporting. Caseworkers tracked the engagement of the participants with the staff and volunteers, which was later analyzed to paint a picture of each participant's "journey" through the program. This database, and the appointment of a full-time director to manage it, was cited as an innovation that could be adopted by other programs (Disley et al., 2015), and indeed set the stage well for impact bond data and performance management systems to come.

Another example of the ecosystem shift toward data comes from the United States. Two critical players in driving the discussion in the impact bonds market—or pay for success (PFS) as it is known in the

United States—are Third Sector Capital and the Harvard Government Performance Lab (GPL). These two entities have embraced a "data first" approach, focusing on the reform of government procurement and contracting processes to be more rigorously outcomes-oriented.

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In 2019, Third Sector Capital led the establishment of a Data Advisory Council to "capture and share best practices for using data to measure the social impact of outcomes-based financing" (Beachkofski et al.,2019). The GPL was initially named the SIB Technical Assistance Lab, but rebranded as part of a broader pivot toward focusing on improving data collection and performance in government as a whole, based on lessons learned from the impact bond projects that the Lab advised in its early years (Williams, 2019). For example, as part of its support for the Connecticut Family Stability impact bond, the Harvard GPL worked with the state's Department for Children and Families (DCF) to standardize data collection on families with known substance use and referrals for treatment and recovery programs, among other systems innovations. DCF is now scaling these approaches to other portfolios of work, and the GPL has offered similar system-wide reengineering to other state governments outside the PFS model (Harvard Kennedy School Government Performance Lab, 2017). This improved data collection system will have impacts that last far beyond the narrow scope and timeline of the impact bond project itself.

In the U.K., the 2015 launch of Social Finance U.K.'s Digital Labs initiative has brought new models for data analysis that local governments can apply to their programs outside of an impact bond. The goal is to improve the effectiveness of increasingly scarce government resources through more informed allocation, particularly to outcomes-based approaches (Williams, 2019).

In Colombia's first impact bond on increasing employment for vulnerable populations, which was also the first SIB in a developing country, the role of data in measuring sustained employment among vulnerable participants was apparent. In this impact bond, in fact, a government agency was uniquely engaged: Through the Ministry of Labor, administrative data was used to verify results, despite the fact that the Ministry was not involved in the provision of services (Gustafsson-Wright et al., 2017).

In addition to governments, investors involved with development impact bonds (DIBs) have identified the impact bond mechanism as playing a key role in ongoing reporting in grant or project implementation. For example, Delta Fund, the lead investor in the Village Enterprise DIB, Africa's first impact bond which focuses on poverty alleviation in rural Kenya and Uganda, noted that its experience "has educated us as funders on the questions we should be asking service providers—most often asking them to share their expertise in the space rather than a tedious process of giving us information that is less useful to them as an organization" (K. Boland, personal communication, July 2020).

While the introduction and implementation of rigorous data collection and analysis can lead to better overall data systems for service providers and outcome payers, this can also bring short-term challenges. The service providers engaged in the ten Innovation Fund impact bonds in the U.K., for example, found the collection of data to reportedly be a "culture shock" (Thomas et al., 2016). Even Educate Girls, which is now well known in the impact bond and broader development circles for their high-quality data-driven management system, had to look beyond their previous monitoring and evaluation systems to achieve the cultural change that they believe led to the ultimate success of its impact bond. The Educate Girls experience is profiled in more detail in Box 1.

Nevertheless, several impact bonds have created innovative systems to tackle these data challenges. For example, the first and second Colombian Employment SIBs have introduced a performance management digital tool where service providers upload data that can be viewed in real-time by intermediaries, outcome funders, evaluators, and investors. The virtual system operates using data inputs that allow for service providers to not only send data into a central coordination system and receive feedback, but also to visualize the data and make course corrections and adjustments in real-time. This can also feed into other innovative tools developed by service providers themselves—for example, an "employability matrix" which allows them to identify and manage individual needs and strengths for SIB participants. Another example comes from the architects of the Village Enterprise DIB, who noted in 2018 that their DIB trained enumerators to use digital data collection tools, avoiding costly data entry and redundant quality checks (Sturla et al., 2018).

As results-based financing and outcomes-based approaches to social services have increased in the past few years, the research shows that so too has the importance given to data and monitoring and evaluation within governments and social service organizations, and it is difficult to say what role impact bonds specifically have played in this overall shift. What is clear, however, is that the expanded culture of monitoring and evaluation to achieve results has lasting impacts for service providers, governments, and investors well beyond the impact bond project itself. Intricately linked to these systems and cultures of monitoring and evaluation are how this information is acted upon in order to achieve outcomes, as discussed in the next section.

Box 1:

Educate Girls DIB India

In the Educate Girls development impact bond, as profiled in the third brief in this series, the service provider course corrected after data showed the program falling behind in achieving its learning targets. Educate Girls was considered target driven, familiar with monitoring evaluation and learning processes, and culturally open to change prior to their participation in the DIB—which was valuable as mid-program results came in and showed change was needed.

As part of their program, Educate Girls trains local volunteers to make household visits. In year two of the DIB, when they found that children who were chronically absent were falling behind, Educate Girls worked with their volunteers to add more home visits, and introduced remedial classes. As a result, the learning gains made by the chronically absent students were comparable to those of students who regularly attended (Kitzmuller et al., 2018). In reflecting on their experience with adaptive performance management, the Educate Girls team noted: “We felt that we were incentivised to do ‘whatever it takes’ rather than being concerned that we had ‘done what we said we would do’ or stuck to a plan” (A. Bukari, personal communication, July 2020).

The Educate Girls team also pointed to the importance of capacity building in data-driven performance management. In addition to introducing a data and performance management technical system, they invested resources to train field staff to analyze and use the data they collected. This allowed decision-making to be decentralized to the village level, so staff could more rapidly use data to make decisions, with deep community insights and context. Through this system, the team learned that 70 percent of the out-of-school girls came from just 7 percent of the DIB villages, and were then able to adapt and more effectively target resources and remedial services towards the greatest needs. They reflected that “Without the rigour and outcomes-focused approach of the DIB we might not have had that eureka moment about the importance of targeting our work to the ‘high burden’ villages with the most vulnerable girls” (A. Bukari, personal communication, July 2020). This needs-targeted approach, performance management system, and capacity building process remain a central part of the approach of Educate Girls today, long after the completion of the DIB.

Drive performance management

In addition to improved capacity to handle data, impact bond evaluations suggest that contracts thus far have encouraged more iterative and adaptive performance management. In traditional input-based financing, the specific activities of a project are carefully specified at the time of contracting, leaving little room for changes without time-consuming and formalized modifications, if at all. The focus on outcomes, on the other hand, can allow service providers to better react and respond to new information—whether it be data on program impacts or an exogenous shock such as a natural disaster—to adapt programming in order to achieve the outcomes committed to in the contract.

In recent years, there has been an increased emphasis on the need for adaptive management in social service delivery broadly, though this has been a touted benefit of impact bonds since their origin. The Peterborough SIB was perceived by service providers to be quite flexible—adapting to meet the needs of service users, and allowing for the use of flexible funding to access resources for temporary accommodation, for example (Disley et al., 2015). This adaptation in response to iterative feedback continued in the Energise the U.K. in 2012 as part of the Innovation Fund, to improve education and employment outcomes for at-risk teenagers. Early in the SIB, the stakeholders struggled; the volume of participants was below target, so a stakeholder working group was established to identify better ways of engaging with schools to get referrals, including shaping the program around schools' timetables and curriculum. The evaluation concluded that this adaptive management approach, coupled with robust data collection practices, allowed schools to work with the service provider to create predictive models for different levels of approaches and thus require fewer resources. The service provider credited its participation in the SIB with its "improved capacity to monitor data, analytics and improve systems—benefits which outlast the duration of the Social Impact Bond" (Social Finance, 2016).

In developing countries, where data quality can often be poor, there may be particular advantages to engaging in impact bonds, or outcome-based contracting, with the prospect of promoting high-quality data collection and use among service provider and government organizations alike. The Quality Education DIB in India includes a mix of different education service providers, some with more experience than others. Within the impact bond structure, the service providers with less experience can receive more support through the DIB performance management intermediary, Dalberg Associates. Key to this is first building trust between the intermediary and the service providers. Through a three-pronged approach, Dalberg supports service providers to focus on long-term strategic planning, implementation of internal programmatic levers and risk-mitigation strategies, and a customized approach based on their unique strengths (Dalberg, 2020).

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In some cases, the promise of impact bond adaptability is not fully realized, for a number of reasons. Social Finance Netherlands, a key intermediary and stakeholder in Dutch impact bonds, noted that the level of performance management in impact bond projects often falls short of expectations. The organization attributes this in large part to budget constraints, and the challenge that outcomes funders and investors view investments in high-quality performance management and data-driven monitoring systems as "overhead," an area where costs should be kept as low as possible. Additionally, Social Finance Netherlands (Social Finance NL) points to a larger challenge of misaligned incentives within the politics (e.g. failure to achieve outcomes could be perceived as failure of government) and the bureaucracy of impact bonds that leads to lower levels of adaptive management during implementation than was envisioned in the design phase—this is discussed further in the "Reduce government risk" section below.

Nevertheless, based on the anecdotal findings and process evaluations, on average, the evidence seems to point in the direction of a positive "impact bond effect" on performance management. However, without a rigorous comparison, it is difficult to attribute the influence to impact bonds with certainty. It could also be possible that service providers who already have strong performance management capacity are chosen for impact bonds rather than those that could benefit from training and technical support potentially available in an impact bond, which would be riskier and potentially more costly for investors.

Colombia's two employability impact bonds utilize a robust performance management tool to improve beneficiary services.

Photo credit: SIBS.CO

Foster innovation in delivery

The consideration of innovation as it relates to impact bond projects is an important one, but also one with varying meanings. In fact, our own definition has evolved and adapted over the years, to cover several of the different elements of innovation that apply to impact bonds. The impact bond itself is often referred to as an "innovative finance mechanism," but beyond that, there are two main claims about how innovation relates to service delivery in this novel approach: (a) that the projects themselves are "pilots" for an untested or experimental intervention and (b) that the tying of payments to outputs as opposed to inputs and the prescribed activities allows for flexibility and thereby adaptive innovation in intervention design and delivery.

Initially, impact bond projects were often described as pilots or as a testing ground for new or experimental interventions. The idea was that a proof of concept could be established through the impact bond which was made possible by the private sector investor bearing the operational risk. However, when examining the entire impact bond market, it is apparent that very few interventions funded through impact bonds are untested. In fact, it has become clear that impact bond investors are often unwilling to invest in a model or an intervention that does not have at least some evidence behind it. One example of this is the DIB in Cameroon that utilizes the evidence-based method of kangaroo mother care (skin-to-skin contact plus other interventions) as the intervention to prevent neonatal mortality and improve life outcomes.

Additionally, impact bonds do not tend to support organizations that are not well-established. In the U.K., service providers have mostly been medium or large organizations with the capacity to not only implement the SIB but to help commissioners develop it (Ecorys, 2019). The evaluation of the London Homelessness SIB also raised questions about whether the selected service providers were the most likely to benefit from the contract. The two service providers had a track record of success in serving London's homeless population and had robust data collection and analysis practices in place to make iterative changes to improve outcomes, owing to their participation in PbR contracts. Their selection for the SIB was based on this track record, which was perceived as de-risking investor participation as well as benefiting recipients of services. As the evaluation noted, "Investors themselves raised questions about whether the SIB was targeted at organisations who could most benefit from their involvement in terms of performance and financial management" (Mason et al., 2017).

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In contrast to the tendency toward de-risking by engaging high-performing medium or large size organizations, the Utkrisht Impact Bond, the world's first health development impact bond, specifically targets under-performing service providers. It was designed to help the participating private healthcare facilities meet the quality and transparency requirements for a new certification standard from India's National Accreditation Board of Hospitals and Healthcare Providers and the Federation of Obstetric and Gynecological Societies of India (Convergence, 2018). This early engagement with underperforming service providers could lead to broader changes. The Utkrisht pre-launch stakeholder engagement and collaboration process included a proposal for increased donor flexibility (such as for USAID, one of the investors in this impact bond) in the traditional grants. This was based on the theory that such management flexibility, combined with rigorous monitoring and evaluation processes, would increase outcomes and therefore impact (Convergence, 2018). In the case of the QEI DIB, one of the explicit goals of the program is to strengthen service provider capacity, and to build the evidence base in support of their interventions for future investment and scale up (Dalberg, 2020). This explicit goal setting and targeting of the broader ecosystem goals of an impact bond is growing in popularity, in particular in the case of large and high-profile DIBs.

Some impact bond critics consider the tendency of many impact bond projects to invest in pre-tested and researched interventions a flaw of impact bond structures, noting that this may defeat the purpose of shifting operational risk. However, it is important to note that an intervention's success in one context does not guarantee success in another. The research has uncovered, in fact, that impact bonds have often been used to scale a proven intervention to a larger population, a different population, or in a different setting. The Adolescent Behavioral Learning Experience (ABLE) impact bond project in New York City, for example, was tied to a cognitive behavioral therapy program that had already shown positive results in other settings, which made investors willing to finance it. However, recall from the profile in the second brief in the series that this impact bond famously was unsuccessful at achieving the stated outcomes and repaying investors in the new setting in which it was implemented, and was discontinued early as a result. This demonstrates that even pre-tested interventions must be implemented carefully and be tailored to the beneficiary needs in order to achieve outcomes.

The second common argument about impact bonds' innovation is that the upfront risk capital and outcomes focus drive performance and rigor that allows for, and even fosters, innovations in social service delivery. This is further enhanced potentially by the engagement of performance management intermediaries or investors who support service providers to find solutions to delivery challenges. This was discussed in detail in the performance management section above.

Crowd-in private funding

Since the initial report outlining the 10 common claims of impact bonds, our research has adapted the common claim of "crowding in private funding" to consider specifically whether impact bonds have brought additional private money to social sectors. It is important to recognize that, if the impact bond program is successful at achieving outcomes, the investors are repaid and then some by governments (in SIBs) or third parties (in DIBs), such as philanthropic foundations or donors, which would have expended the funds regardless. Thus, in a successful impact bond program, the end result for public versus private expenditure differs very little from traditional financing mechanisms. In short, impact bonds "do bring in new money, but then it has to be given back, so it is not additional funding" (Sainty, 2019).

However, that impact bonds have not brought additional funding to the market does not mean that they have not impacted the private funding and impact investing ecosystem. One of their impacts has been bringing private investors to new or additional sectors and geographies where they may not traditionally work. For example, Goldman Sachs in the United States invested in the NYC ABLE impact bond to reduce prison recidivism among incarcerated individuals, as well as in four additional impact bonds in the education, criminal justice, and environmental sectors. In the Netherlands, ABN AMRO Bank has been a key investor in several impact bonds around Europe over the past few years, primarily in the employment sector, but also including criminal justice and health.

Additionally, there have recently been a number of new investors to the impact bond space that are not traditional impact investors. An example is Skandia in Sweden, which is an insurance company and investment bank that has recently committed an investment in a diabetes-prevention intervention for pre-diabetic individuals, in which the Stockholm regional government is the outcomes payer and SEB (one of Sweden's largest commercial banks) is the structural advisor and financial intermediary.

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Another potential new vision for investor engagement, blended finance, was introduced with Colombia's workforce development SIB, which launched in 2017. In this impact bond, the Swiss Cooperation (SECO) co-financed outcome payments with the Colombian government through the Department of Social Prosperity. SECO's payments were delivered through the Inter-American Development Bank's Innovation Lab (IDB Lab) as part of a larger initiative, the Social Impact Bonds Program in Colombia (SIBs.CO). SIBs.Co is led by IDB Lab, SECO, the Department of Social Prosperity, and Fundación Corona as the executing agency, and aims to support the development of additional impact bonds in the same policy area employment of vulnerable populations, as well as market building and knowledge creation activities (Gustafsson-Wright et al., 2017).

The Colombia SIBs have also uniquely affected the impact investing market as a whole. Corporación Inversor, the intermediary in the Colombian Employment SIB in Cali, noted that the impact bond vehicle can be interesting for new investors. The organization notes: "We now can provide a short -term impact investing vehicle to the market, so that's really attractive we've found for investors that can't necessarily make the capital commitments to invest in a 10-year fund, but that would like to begin experimenting with impact investing" (M. Cleves, personal communication, July 2020).

Box 2:

Social impact bonds for employability in Colombia

Colombia launched the world's first SIB in a developing country in 2017, followed by another in 2019. Both SIBs are focused on employment opportunities for vulnerable populations, and currently the government is in preparations to structure an outcomes fund to provide similar programs and services around the country. Without the early SIBs as an example, it is unlikely that the government of Colombia would have made this outcomes-oriented investment. While current government investments are all in employment, interest from other sectors could see the outcomes-model spread further.

On the impact investing side is Corporación Inversor—the intermediary in the Colombia SIB in Cali and the organization in charge of the financial administration of the investor's capital providing performance management under the guidelines of Fundación Corona in their first SIB. The organization noted that the experience with the impact bond has caused the organization to focus on social outcomes in their other investments, as well. Corporación Inversor describes the shift to outcomes as having "changed the way that we view our impact strategy for our other investment line for our impact investing funds and for the entrepreneurs that we work with. We are now trying to focus on outcomes...in all [of our] investment contracts" (M. Cleves, personal communication, July 2020).

Reduce government risk

Impact bonds were first launched amid the belt tightening in the aftermath of the 2008-2009 financial crisis; as a result, early advocates for impact bonds argued that the model's engagement of private capital, and the contingency that governments do not pay for unsuccessful programs, would help governments de-risk social programs and save money. This is based on the assumption that the impact bond model shifts the financial or operational risk of a program to an investor since the outcome funder, which is often the government, only pays if results are achieved.

Most impact bonds with publicly available data have in fact achieved their targets and repaid their investors, as noted in the third brief in the series meaning that governments did not pay for outcomes that were not achieved. However, for these projects, the lack of counterfactual evidence of what would have happened in the absence of the impact bond means it is impossible to say conclusively whether operational risk to government was avoided. Only for the two projects that did not achieve outcomes—the ABLE Project for Incarcerated Youth in New York in the United States, and Austria's impact bond for economic and social empowerment for women affected by violence—can it be said that financial risk was directly reduced for government.

There may be other forms of risk that government faces however. Social Finance NL points to a more nuanced understanding of government risk, and a distinction between risk for an individual politician and risk for the government as a whole. While the design of an impact bond contract ensures that governments need not pay for unsuccessful programs that do not achieve outcomes, avoiding payment cannot be claimed as a political "win" by a politician who has staked political capital on the program in the same way that achieving improved social outcomes do. A failed social program is still a failed program, even if the government does not have to pay for it, as the beneficiary population remains in need. In addition, if allocated funds are not disbursed, as a results of outcomes not being achieved, then the outcome funder faces non-disbursement risk which can impact future funding, among other things. Furthermore, as introduced above in the consideration of performance management, Social Finance NL highlighted the challenges of misaligned incentives within government and different types of risk. For example, programs are often designed and launched with the support of politicians as high-profile, innovative social service delivery tools and methods; however they may then transition to a more process-oriented and risk-averse department within the government for implementation. This latter department may not be as bought-in to the idea of impact bonds' adaptive approaches, which can create challenges not only for the performance management elements of the impact bond project, but also for the government agency sponsoring the initiative.

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In summary, while governments may lower their financial risk through not paying for failed social programs, that does not come without a cost. Issues around the cost of capital, and the efficiency of the trade-off, are covered in the fifth brief in this series.

Incentivize collaboration

Improved collaboration among stakeholders is one of the most prominent ecosystem effects that has come to light over the past 10 years of impact bonds implementation. As discussed in the third brief, the impact bond structure itself generally requires the parties in the consortium to work together to design and structure the deal. The stakeholders must agree on outcome metrics, thresholds and pricing, a method for verification of outcomes for payment, and the contractual structure of the deal, for example. This can translate into collaboration between public, private, and third sector; across government agencies or levels of government; and across the third sector. Much has been discussed regarding collaboration in the sections above, but a few examples from the research drive home this point.

In the U.K., where impact bonds have the longest history, Carter et al. (2018) identify two SIBs where collaboration emerged through stakeholders coming together to meet the complex needs of beneficiaries: the first SIB for criminal justice in Peterborough prison and the West London Zone SIB for children and young people. In the West London Zone (WLZ) SIB, WLZ, which functions as both a service provider and lead contractor, led complex networks involving both the service delivery and commissioning parties to provide appropriate services and track progress. This allowed for close targeting of outcomes for each child and young person in the program.

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Another example is in South Africa, where a SIB for youth employment brought together a broad range of actors to secure quality employment for excluded young people: After an initial year of implementation, the program added new service providers, investors, and another outcome funder for the remaining three years (Boggild-Jones & Gustafsson-Wright, 2019). In the Impact Bond Innovation Fund (IBIF), an impact bond for home visiting in South Africa, the partners have noted a very close collaboration between the service provider, the performance management intermediary, and the financial intermediary—in particular around adaptive management of the program (F. Burtt, personal communication, July 2019).

In India, the QEI DIB also demonstrates collaboration across many stakeholders given the presence of multiple service providers, as well as multiple outcome funders (Gustafsson-Wright & Boggild-Jones, 2019). Regular communication between the steering committee and the broader consortium helps to foster collaboration and ensure that all stakeholders are aligned.

The QEI DIB works with four different service providers, on four different interventions, and thus involves extensive collaboration.

Photo credit: QEI DIB

Sustained impact

A final consideration of the ecosystem effects of impact bonds is whether they lead to sustained impact. Sustained impact can be defined in a number of ways including: 1) the outcomes for a given cohort remain beyond the impact bond's duration; 2) the project has a "ripple effect" in scaling up funding for additional programs leading to an expansion of improved outcomes; or 3) the ecosystem's effects have long-term durability, such as mindset shift and infrastructure changes.

On the first point, as discussed in the third brief, longitudinal evaluations are necessary to conclusively determine whether outcomes achieved by cohorts last beyond the completion of an impact bond. To date, no such longitudinal data have been examined to our knowledge. Notably, whether impact bonds are creating and contributing to an environment that enables continuity of services for beneficiary populations experiencing complex problems must be explored further. As Edmiston and Nichols (2018) note: "The fragility with which certain social outcomes are secured and maintained points to the importance of service continuity and support infrastructure existing alongside SIBs offering more intensive, if only temporary, assistance to target populations." Given the short-term nature of some impact bonds, if there is not a continuation of social service provision, the impacts on beneficiaries that lose services upon the completion of an impact bond could be significant.

In relation to the second element of sustained impact—whether the project has a "ripple effect"—there is some evidence to suggest that service provider performance has led to increased funding and, therefore, the ability to scale up the intervention and thus reach more beneficiaries. One of the most prominent examples of this is the Educate Girls DIB; as a result of the successful outcomes achieved by the DIB, Educate Girls was selected by the Audacious Project for funding to scale their model, with the goal of enrolling 40 percent of India's out-of-school girls by 2024 (Educate Girls, 2019).

The third area—relating to long-term durability of the ecosystem effects—is harder to analyze at this stage, with just 10 years since the first impact bond launched. The available evidence points to significant progress in building a culture of monitoring and evaluation, driving performance management, and incentivizing collaboration across government agencies and among cross-sector stakeholders. Some of this progress can be attributed to impact bonds, though separating these effects from that of other factors, including a rise in results-based financing models more broadly, is difficult. Whether the increased capacity and mindset shifts can sustain changes in administrations or politics remains to be seen. However, the presence of institutional infrastructure, such as the Harvard Government Performance Lab and Social Finance Digital Labs described in this brief, increases the likelihood of sustained impact. That this infrastructure is often embedded within some leading government and public policy institutions, such as the Harvard Kennedy School's Government Performance Lab or the Oxford Blavatnik School of Government's Government Outcomes Lab, is promising. As more public servants and stakeholders throughout the social service environment are exposed to the impact bond and other outcomes-based financing tools, they will become more and more mainstream.

One of the key considerations for the sustainability and continued growth of impact bonds and their ecosystem-level effects is the question of whether impact bonds are an efficient means of funding social services and achieving outcomes, which is the topic we explore in the fifth brief of this series.

Box 3:

Implications of COVID-19 for impact bond ecosystem changes

In early 2020, the virus causing COVID-19 began to spread across the globe, leading governments to put in place measures to ensure the health and well-being of the populations they serve. While, at the time of this publication, the long-term impacts of the pandemic on the economy are only being modeled, the short-term effects have already shown to be devastating. Mandated stay-at-home orders and business closures have led to unprecedented disruptions in economic activity and dramatic shifts in the delivery of critical social services around the world.

Brookings has conducted some initial analysis[2] on the effects of the pandemic on the services delivered through impact bonds, as well as effects of the crisis on various components of the impact bond model. Capturing learnings for the management of ongoing impact bonds (144 serving 1.2 million individuals in the first quarter of 2020), as well as for the design of future impact bonds, will be critical to ensure effective and efficient service delivery in the future.

The governance structure, strong relationships, and adaptive management capacity that impact bonds help develop provide an important safety net in a time of crisis. The strong motivation to problem-solve and collaborate stems in part from the large investment in time and resources to design and implement impact bonds. Also, the robust systems of monitoring and evaluation that are often part of impact bonds provide useful data for problem-solving and forward-looking strategies. Impact bonds' strong reliance on outcomes verification and evaluation has presented challenges and opportunities. The challenge is that rigorous evaluation designs (such as RCTs) potentially bring more complexity and rigidity to impact bond projects, which can be challenging to shift in the context of the pandemic. On the other hand, if the data collection systems have been introduced, this could be a benefit in more directly addressing the needs of beneficiaries impacted by the crisis. Furthermore, a rigorous evaluation can help to parse out the effects of a shock from those of the intervention. These elements, while not necessarily absent from traditional grant or input-based financing, are more common in the impact bond structure.

[2] https://www.brookings.edu/research/what-happens-in-an-outcome-based-financing-model-when-a-major-crisis-hits/

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