FROM VISIONS OF PROMISE TO SIGNS OF STRUGGLE

EXPLORING SOCIAL IMPACT BONDS AND THE FUNDING OF SOCIAL SERVICES IN CANADA, THE US, AND THE UK

FINAL RESEARCH REPORT
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PREFACE

Much has been written on the subject of social impact bonds (SIBs) and their role in addressing the social challenges of our time. There are many excellent surveys of the field and efforts to catalogue the number and characteristics of projects launched around the world. Rather than adding another voice to the chorus of commentaries and debates, this report is rooted in a very different approach to, and perspective on, SIBs. It is the product of a three-year journey through not only the world of SIBs and pay-for-success contracting, but also the neighboring fields of social investment, impact investing, venture philanthropy, and nonprofit funding. It thus benefits from the perspective of those working both within and outside of the SIB market and offers a wider angle lens on the SIB phenomenon. The research is also comparative in nature. Thanks to a one year research leave from my home university in Toronto, Canada, I was able to engage not only with developments in the Canadian context, but also those in the US and the UK including two three month research trips, one to Boston in the Fall of 2017 and the other to London in the Winter of 2018. The result of these extended engagements is 196 interviews with a variety of groups including: providers; advisors and intermediaries; members of government; philanthropists; and 'social' investors. The fact that these interviews were confidential allowed these individuals to be more forthcoming and forthright in their views, while my own position as a neutral observer without any stake in the field provided a degree of access as well as openness that otherwise might not have been possible. The report that follows reflects this unique approach. Throughout, I have done my best to capture these different perspectives and to remain faithful to these conversations. To the extent that critical questions are raised about SIBs and outcomes-based funding, this is by no means an attempt to cast aspersions or to impugn motives, but rather to provide as honest and as thoughtful an account as possible of the strengths and limitations of new approaches to the funding of social services, this as part of the same spirit underlying SIBs themselves: developing solutions to intractable social problems and providing support to those in need.

EXECUTIVE SUMMARY

Since the launch of the first pilot in Peterborough prison in 2010, the social impact bond (SIB) has received a great deal of attention, both positive and negative. For advocates, it is an opportunity to bring the capital and expertise of the financial sector to bear in addressing society's most intractable social problems. For critics, the model has failed to deliver on key promises and represents a slippery slope towards the privatization and marketization of the social sector. Informed by these competing positions, discussions around SIBs have become mired in an increasingly polarized debate. Funded by a grant from the Social Sciences and Humanities Research Council of Canada (SSHRC), this report is the result of a three-year study which sought to stake out more of a middle ground in the great SIB debate and to explore the complexities and nuances of SIBs as a way of funding social services and driving capital towards 'outcomes' rather than 'outputs.' This study was also comparative in nature drawing from insights and lessons from three key national contexts: Canada, the US, and the UK. The research itself consisted of interviews with those directly involved in the design and execution of SIBs, including SIB specialists, government, providers, and investors, as well as those working in the neighboring fields of social investment (or impact investing) and venture philanthropy. A total of 196 interviews were conducted between June, 2016 and October, 2018 in Canada (54), the US (68), and the UK (74), primarily in the cities of Toronto, Boston, and London.

A key finding of this study is that the reality of the SIB market is quite different than the way it is portrayed by advocates and critics alike. Rather than the growing role of investors and private capital in the delivery of social services, and a market that is poised to continue to grow and expand, the reality is that SIBs have struggled to take hold. Despite outward optimism, many of those involved with SIBs in all three countries expressed a sense of uncertainty and, in some cases, downright skepticism as to the future of the market. While the number of deals continues to grow, the pace of growth is slower than many expected and the size of individual deals and the value of the market as a whole remains quite small especially when compared to related markets in social investment, impact investing, and public services. In examining the reasons for this slower than expected growth, the research uncovered a series of challenges,

barriers, and limits which have varied across the three national contexts, revealing the unique agendas, actors, and interests that have shaped each of these respective SIB markets.

At the same time, these challenges reflect a more fundamental set of tensions between the parties to these deals. The SIB model holds out the promise of a win-win-win scenario in which the interests of investors, providers, and government are all aligned around a common value proposition. However, this research found that the circumstances in which this alignment of interests is possible, and may be sustained through project development and launch, are much more limited than is often acknowledged. Governments are looking to transfer the risk of these deals to investors while achieving real cost savings and only paying for outcomes that are directly attributable to interventions. Investors want to maximize their returns (no matter how modest) and minimize their risks and are interested in earlier, more output-based indicators that will generate cashflow and allow them to decide whether to remain invested or trigger exit clauses. And providers, the agencies delivering these services, are often ambivalent appreciating the infusion of longer-term and more flexible capital, but often lacking the capacity to participate in these transactions or struggling to see their value given the demands and expense of the model. SIB specialists also have their own interests seeking to grow and scale the market and to develop sustainable business models that will provide for their own long-term financial future.

In view of these challenges and tensions, which are in many respects intractable and not easily overcome, the report concludes that SIBs are, and are likely to remain, a relatively small, niche market. Assuming that this is indeed the case, it then poses the question of what this market should look like moving forward. For their part, SIB specialists have engaged in various forms of innovation, expanding and stretching the SIB model and developing new service lines. This is especially evident in the US “SIB space” where several key advisory firms have moved away from the effort to engage private capital and have instead focused on applying some of the core principles of PFS (e.g. performance management; continuous improvement; and new forms of data analysis) in a bid to improve the effectiveness of existing government contracting systems and spending streams. In cases where mobilizing private capital remains a key interest, SIB specialists have adopted more standardized and streamlined forms of contracting (e.g. rate cards) as a route to greater scale and a way to attract a wider range of investors.

However, rather than 'scaling up,' stretching the definition of SIBs and PFS and expanding the market but potentially losing what is distinct and most valuable about SIBs, the report suggests that we might be better off 'scaling back' and returning something more akin to the original Peterborough model. Here SIBs could be reserved for programs that are truly innovative, preventative, and experimental with an emphasis on systems-level change. Given the inherently risky nature of these types of projects, this would essentially be a philanthropic market with 'investments' being used to test program models and their ability to work in the context of local public services. Any returns could then be reinvested in programs and providers. The report details a series of principles which might guide these SIBs of the future. At the same time, in recognizing the limits of the SIB market, there is a need to explore other solutions to the funding challenges faced by the nonprofit sector. A frequent refrain of SIB specialists is that SIBs are only one tool in the toolbox. However, with SIBs consuming considerable attention, time, and resources, limited attention has been devoted to what these other tools might look like. There is thus a need to continue to innovate and to look for other options and approaches that might be better suited to the larger number of small and medium-sized nonprofits that are doing excellent work but which continue to struggle in the current funding environment. Thus, the report places SIBs in their appropriate context, recognizing their limits, exploring their implications, and ultimately offering a slightly different vision of the future of (and beyond) SIBs.

INTRODUCTION

The question of how to fund social programs for vulnerable populations is currently undergoing a significant and in many ways quite profound transformation. In places such as Canada, the US, and the UK, there is a growing sense of frustration with the way that nonprofit and charitable programs have been funded with little evidence that investments by government and philanthropy have 'moved the needle' on intractable social problems. Nonprofits themselves have grown increasingly frustrated by the decline of government support, the greater reliance on contracts rather than grant funding, and the fragmented nature of the funding marketplace with providers having to draw from multiple funding streams subject to different expectations and reporting requirements. The search for solutions has assumed several different forms. There is the transition from 'outputs' to 'outcomes' and the notion that public and philanthropic capital should be directed towards programs and providers that are able to demonstrate meaningful outcomes, part-and-parcel of a more 'rational' nonprofit capital market. There are related shifts in philanthropy including the growth of 'venture' philanthropy where the emphasis is on developing capacity and helping nonprofits to scale rather than simply paying for programs. And there is what is variously referred to as 'social finance,' 'social investment,' and 'impact investing,' an investment market rooted in the blended value proposition of financial and social returns and promoted as a way to 'unlock' new sources of capital for the purpose of social good. All of this reflects a distinct vision for a new funding marketplace where government, philanthropists, and investors can purchase outcomes and invest in long-term social change.

This report presents the results of a three-year research study which examined this shifting funding landscape and the challenges faced by social service nonprofits in Canada, the US, and the UK with particular emphasis on a funding model that has received a great deal of attention and which exemplifies the new outcomes-based philosophy: the social impact bond.[1]

[1] This model actually goes by a number of different names including 'social impact bond' (UK and Canada), 'pay-for-success' (US), and 'social benefit bond' (Australia). For sake of clarity, the term 'social impact bond' will be used throughout this report except where specific reference is being made to the US context in which case PFS will be used instead.

First introduced in the UK in 2010 as part of a program to reduce recidivism rates for short-term prisoners released from HM Peterborough prison, SIBs are essentially an investment contract in which a group of investors provides up-front capital to fund a social program or service. If this program is successful in meeting agreed upon outcomes targets (in the case of Peterborough, reductions in recidivism rates), the government agrees to repay the principal and provide a return to investors. If the program is not successful, investors may lose all or at least a portion of their investment. This model offers the promise of a win-win-win scenario for all parties concerned. For investors, it provides an opportunity to realize both social and financial returns. For charities and nonprofits, it offers much needed working capital supplied under more flexible terms and for a longer duration than standard government contracts. And for government, it is a way to fund longer-term, preventative social programs while transferring the risk of program failure to investors. Based on these imagined benefits, the SIB model quickly gained international attention with projects soon following in the US, Australia, Canada, and Europe. As of January, 2018, over 100 SIBs had been contracted in 25 countries in policy areas ranging from homelessness, to child welfare, to criminal justice, to health (Gustafsson-Wright and Boggild-Jones 2018).

And yet, SIBs have not been without controversy and criticism. In particular, an emerging policy and academic literature has identified a variety of limitations and concerns. These range from the struggles of the model to live up to the promises of cost savings, risk transfer from government to investors, and the funding of innovative and prevention-oriented programs, to issues with its underlying assumptions including the inherent challenge of attributing changes in complex social conditions to a single program or provider and the resistance of social programs to quantitative metrics and forms of evaluation, to the creation of unintended consequences such as perverse incentives (e.g. creaming and parking), the privileging of larger over smaller nonprofits, and the erosion of agency autonomy, mandate, and moral mission (Cooper et al. 2016; Edmiston and Nicholls 2018; Fraser et al. 2016; McHugh et al. 2013; Neyland 2018; Warner 2013). More generally, SIBs have been viewed as a further sign of the growing influence of market and financial logics over social services, the first step in a slippery slope towards what some commentators have described as the "financialization" of social services (Lake 2016; Sinclair et al. 2019; Tse and Warner 2018; Warner 2013). The result is an increasingly polarized debate between advocates and critics (Carter et al. 2018; Fraser et al. 2016; 2018), between a view of SIBs as a solution to austerity, the limits of government budgets, and a way to inject much needed capital and expertise into the social sector, and the notion that SIBs are inherently flawed failing to deliver on their promise while setting the stage for the transformation of social services (and program beneficiaries) into investment propositions (Carter et al. 2018).

While appreciative of the potential benefits of SIBs, and sympathetic to many of these critiques, this report seeks to chart a somewhat different course and to ask a slightly different set of questions. Rather than using the SIB model as a starting point, and attempting to determine whether SIBs are 'good' or 'bad,' or to distinguish the features of 'good' versus 'bad' SIBs (assuming that this is even possible), the focus of this study is on the effort to develop a viable SIB market and the challenges, barriers, and frustrations encountered along the way. Contrary to the notion that SIBs have taken off and are poised to transform how social services are funded – an assumption shared by advocates and critics alike – a closer look reveals a market that has struggled to gain traction. While the number of transactions continues to grow, the majority of deals are quite small and the market as a whole accounts for only a tiny fraction of public and private spending on social programs with little evidence of the type of scale and market depth originally envisioned by SIB advocates. Thus, rather than focusing on how SIBs are transforming the social and nonprofit sector, and their role in bringing private capital to bear on social services, a key question explored in this report is why the market has not grown as quickly as expected and what this might tell us not only about SIBs, but also outcomes-based funding models more generally. Two additional questions also inform this analysis. The first concerns the variations in SIBs across different national contexts and the lessons to be learned from similarities and differences across these markets. Here the report draws from an explicitly comparative approach exploring two of the largest (UK and US) and one of the smallest (Canada) SIB markets (see Appendix A for an overview of SIB/PFS markets in Canada, the US, and the UK). The second involves the future of, and beyond, SIBs including what future SIBs might look like and potential alternatives for addressing the funding challenges faced by the social sector. The report thus seeks to answer three central questions: (1) how has the SIB market evolved since 2010, and what are the key challenges, barriers, and frustrations encountered in the effort to develop the market?; (2) how have these challenges varied across Canada, the US, and the UK, and what do these differences tell us about the SIB enterprise more generally?; and (3) what are the implications of these struggles for the future of SIBs and are there variations or alternatives that are worthy of consideration?

The answers to these questions are informed by a three-year research study. Funded by a grant from the Social Sciences and Humanities Research Council (SSHRC), the study is informed by two core methodologies. The first is documentary research including a comprehensive and exhaustive review of publications, reports, and blogs on the subject of SIBs, PFS, and outcomes-based funding. The second, and by far the most significant, is in-depth interviews. The bulk of these interviews were with individuals who had either directly participated in a SIB transaction or who had engaged in exploratory or feasibility work. This includes respondents selected from the following groups: (1) government; (2) providers; (3) investors (including trusts and foundations); (4) SIB specialists (intermediaries, advisors, and fund managers);[2] and (5) evaluators and data specialists.[3] In addition, given the interest in the world beyond SIBs and how this model fits into the larger nonprofit funding ecosystem, the research also drew from a larger group of social service providers, philanthropists, social and impact investors, philanthropic consultants and nonprofit advisors, and those engaged in policy and advocacy work. I was especially interested in speaking with individuals working in the neighboring fields of social investment in the UK and venture philanthropy in the US which intersect with, and have influenced, the SIB market but also extend well beyond it possessing broader mandates and drawing from slightly different tools and approaches. Moving outside of the "SIB bubble" yielded an interesting, and often quite critical, perspective on SIBs.

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[2] While fund managers such as Bridges and Big Issue Invest are technically 'investors,' in light of their critical position in the market and the fact that they are actively involved in SIB design, development, and execution, they are more appropriately viewed as 'SIB specialists.'

[3] Given potential challenges in terms of access, and my interest in the SIB market rather than the effects of SIB-funded programs, the study did not include service users.

Based on these different groups of actors, between June, 2016 and October, 2018, I conducted 196 in-depth, confidential interviews.[4] These interviews were facilitated by extended stays in each of the three SIB markets. In addition to my home base in Toronto, I spent three months in both Boston (September 8 to December 1, 2017) and London (January 15 to April 15, 2018). London is an obvious choice for exploring the UK market given that nearly all of the major SIB specialists as well as trusts and foundations and investors are based in the city. Additional interviews were also conducted (by phone) with individuals in Newcastle, Oxford, Cambridge, and Scotland. Boston also made eminent sense given that three of the four major advisory firms are based in the city (Social Finance US; Third Sector Capital Partners; and the Harvard Government Performance Lab). Additional interviews were conducted in New York (in person and by phone) and Washington (by phone). All of the interviews took place on the condition of confidentiality. As a result, all quotes cited in the report refer only the location of respondents with respect to the three national markets. Where appropriate, and where it does not endanger confidentiality, further contextual information is provided (see also Appendix B for respondent positions and SIB experience). Ultimately, this study represented a unique opportunity to travel through three distinct SIB ecosystems with extended stays in each providing a depth of engagement and comparative lens that sets it apart from existing research much of which is conceptual and limited to case studies of existing SIBs (Fraser et al. 2016; Heinrich and Kabourek 2018; Maier and Meyer 2017). There are two additional provisos to this research and the discussion to follow. First, the scope is limited to social services with particular emphasis on five core areas: (1) employment; (2) early education; (3) homelessness; (4) reoffending; and (5) child welfare. There are only passing references to health SIBs as well as environmental and development impact bonds. This is consistent with my interest in the funding of social programs. These areas also account for the bulk of SIB investments to date. Second, the report is focused on a specific eight year window (2010-2018). Given the rapid rate of change, the discussion may not reflect the most recent trends in the SIB market. However,

[4] The interviews ranged from 30 minutes to two hours. All but four interviews were digitally recorded and transcribed.

as a critical period of development for the field, this timeframe offers valuable insights into SIBs regardless of what the future might hold.

What emerges from this research, and is outlined in the pages to follow, is that the SIB enterprise has indeed encountered a series of key challenges, barriers, and constraints which have varied across the three national contexts and help to account for the limited growth and scale of the market to date. These challenges are by no means limited to the oft-cited considerations of cost, complexity, capacity, expertise, and data access. They also include more fundamental tensions around the agendas underlying the SIB enterprise, and the interests and objectives of the various parties to these deals (i.e. government, investors, and providers) with SIB specialists at times struggling to engage all three players and to build common value propositions. One of the key conclusions of this report is that what is most needed at this juncture is a moment to pause and reflect on what the SIB project has accomplished to date and on the potential limits, rather than simply the promise, of finance and investment as a solution to the funding challenges faced by the social sector. If SIBs are, and are likely to remain, a small, niche market, more thought needs to be devoted to exactly what this market should look like moving forward as well as what alternatives might be developed to better address these funding challenges. Tempering expectations, adopting a more modest approach, and re-imagining SIBs as but one small part of a larger funding landscape may be the best way to move forward.

Informed by these general themes, the report is organized as follows. The first chapter tackles the seemingly straightforward, but surprisingly nuanced, question of 'what is a SIB?.' Not only is there confusion around the terminology used to describe the model and the essential ingredients required for a transaction to qualify as a 'SIB,' but the selection of different terms and key ingredients reveals a unique market politics as different groups of actors seek to gain a competitive advantage and establish their own market niche. The second chapter explores the evolution and current state of SIB markets in Canada, the US, and the UK. Despite public expressions of confidence and optimism, many of those working on the frontlines expressed a degree of frustration with the slow growth of the market and uncertainty regarding its future. These sentiments are reflected in several key signs of struggle which the remainder of the report seeks to examine and unpack. Chapter Three lays the groundwork for this analysis examining the larger agendas that have informed SIBs in Canada, the US, and the UK and noting key differences in these agendas. Chapter Four then traces the connections between these distinct agendas and the specific challenges impacting each of these markets. In Chapter Five, the focus shifts to the more recent evolution of the SIB market particularly in the US where there has been a move away from the investment element of PFS towards more direct advisory work with government. Finally, Chapter Six explores the future of SIBs in light of the findings from the study. The chapter outlines a series of principles which might inform the SIBs of the future and then contemplates the future beyond SIBs including other options and approaches for addressing the funding challenges of social service nonprofits. The report concludes with a summary of key findings as well as a series of broader themes that will hopefully serve as a touchpoint for future research and policy work on SIBs, the funding of social services, and the question of how to tackle our most intractable social challenges.

CHAPTER ONE: WHAT IS A 'SIB' (AND WHY DOES IT MATTER)?

One of the most basic issues confronting the SIB market is confusion around the very terminology use to describe the model. The term 'social impact bond' is itself a misnomer as these transactions are not 'bonds,' and alternatives such as 'pay-for-success' are often used in slightly different ways. There is also uncertainty around the essential elements that must be present for a transaction to qualify as a 'SIB' with variable design and contracting structures stretching the definition and "pushing the boundaries of the SIB concept" (Carter et al. 2018: 2; see also Albertson et al. 2018; Dear et al. 2016; Tan et al. 2019). Market competition, and efforts by intermediaries and advisors to distinguish themselves from their competitors by developing new and different terminology, further muddies the waters. The unfortunate result is confusion on the part of key stakeholders (i.e. government, providers, and investors) around exactly what it is that we are all talking about. This chapter examines these questions around the definition and essential elements of a SIB and suggests that they provide an initial clue into the tensions and struggles impacting the SIB market.

Terminological Confusion

From the outset, SIBs have been plagued by uncertainty around exactly what to call this model. While "social impact bond" was used to describe the first pilot in Peterborough, and has since become the dominant term in the UK, this created an immediate problem. As many commentators have noted, these are not, by definition, bonds. Rather than a debt instrument defined by fixed returns over a specific time period, they are in reality working capital loans with a variable interest rate thus combining the features of both debt and equity and ultimately resembling more of a quasi-equity product. Referring to these contracts as "bonds" has led to confusion on the part of prospective investors and thus frustrated early marketing efforts, "It's not a bond. So when you talk to investors who have more of a financial background they get really confused. So it takes two iterations for the conversation for them to be like, 'Oh, ok. It's not what it's described as being'" (CDN Respondent #14). There is also some confusion around the meaning of 'social impact.' While the term 'impact' is often used quite loosely by SIB practitioners, for those with an evaluation background 'impact' is reserved for cases where outcomes have been evaluated relative to a comparison group with one respondent observing that SIBs are thus "more often about outcomes-based payments than impact-based payments. So the 'impact' part of the SIB name is confusing" (UK Respondent #24).

In the US, where there has been an effort to engage more return-motivated investors, and where the 'bond' misnomer was thus more of a liability, these transactions were quickly rebranded as 'pay-for-success' projects. And yet, the term 'pay-for-success' is used in slightly different ways in the US market. For some, it is essentially a synonym for 'social impact bond,' "I use [PFS] interchangeably with social impact bonds" (US Respondent #54). For others, PFS refers simply to an 'outcomes-based' contract which may or may not be financed using outside investment with a clear distinction thus being drawn between the contracting and financing elements of the transaction. The difficulty is that, at any given moment, it is unclear whether 'PFS' is being used to refer to the investment model versus simply the pay-for-success contract.

A host of other terms have also been used to describe these respective elements. On the contracting side, there is 'pay-for performance' which seems to apply to incentive-based contracts in which a provider is paid a bonus for achieving specific targets, while 'PFS' is reserved for contracts that are partially or entirely dependent on 'outcomes.' On the financing side, alternatives include 'social impact financing' and 'social innovation financing.' There is also the more generic 'impact bond' which is used as an umbrella term to capture the growing variety of SIBs including development impact bonds and environmental impact bonds (Gustafsson-Wright 2018; Savell and Heady 2016). The proliferation of terminology, and the slightly different meanings ascribed to similar terms, continues to be an issue and source of confusion both within and outside the market, "We've always used PFS because we hate the bond word. But people used all sorts of different terms. People had all sorts of different ways they described it and ways they talked about it. And it's still…true to some extent" (US Respondent #53).

Essential Ingredients

Another source of ambiguity and confusion involves the essential ingredients required for a transaction to qualify as a 'SIB.' Many descriptions are based on the original model developed by Social Finance UK. This involves a fully intermediated structure in which an intermediary sits between the various parties and performs several different roles including: identifying suitable providers and interventions; contracting with the commissioner; stewarding the capital raise; and managing the contract. The first SIBs also featured a special purpose vehicle (SPV) as the contracting structure with the government, providers, and investors all contracting with the SPV which was then managed and overseen by the intermediary. However, in the wake of Peterborough, and the search for simpler, cheaper, and more standardized models, a number of variations have emerged featuring different commissioning and contracting structures.

One notable alternative is the rate card which was first introduced in 2011 by the Department of Work and Pensions as part of its Innovation Program and has since become the dominant model for SIBs in the UK. Under this structure, the government identifies a range of outcomes and the prices it is willing to pay for these outcomes, and providers are then invited to submit bids. This provides the advantage of being able to contract with multiple providers through a single vehicle, and reduces the scope and costs of intermediation. The UK and US markets have also seen the development of contracting structures that do not involve SPVs. One such model has the provider contracting directly with government and investors essentially providing a bridge loan to finance the gap between service delivery and future outcome payments. This has the benefit of further reducing the cost of these transactions, especially given that it does not involve an SPV or separate oversight through a hired performance manager, but also the downside of providers taking on a greater share of the risk.

As these options continue to proliferate, SPVs and intermediaries are no longer viewed as defining features of SIBs, "I think there's a growing recognition that an SPV isn't always required in order for something to be a SIB, an intermediary isn't always required for something to be a SIB, that there is no one size fits all" (UK Respondent #55). Interestingly, this same individual went to on to suggest that SIBs are ultimately more of a "mindset" involving a focus on "outcomes," rather than a financial product or structure, "it's a mindset of thinking differently about public services with a focus on outcomes. And the rest is just about how you make that happen" (UK Respondent #55). Another respondent echoed this sentiment noting that, "A SIB is just an idea of how you mobilize different things and bring in different sources of finance to hit the outcomes" (UK Respondent #64). The difficulty is that with greater flexibility in how SIBs are defined comes a loss of precision in what the term actually means with one respondent suggesting that there is in fact no defining feature of a SIB "other than that it's called a SIB. The use of the term is the only defining characteristic" (UK Respondent #21).

Marketing and Market Politics

The question of appropriate terminology and essential ingredients has also been shaped by considerations of brand identity as well as by market politics. In the UK, several key SIB specialists have sought to move away from the term 'social impact bond' which some respondents suggested has been tainted by its perceived association with the expensive, somewhat cumbersome, fully intermediated model built around SPVs, "The trouble is SIB has become a fairly dirty word among frontline organizations. Because they just think London. They think expensive" (UK Respondent #32). In the words of another respondent, "The reason why we don't talk about SIBs is partly because the name itself has rightly or wrongly attracted quite a lot of uncertainty, dislike, negative feedback" (UK Respondent #55) with terms such as "outcomes-based contracting" representing a more palatable, although less auspicious, alternative. Respondents from the US and Canada noted that the term 'social impact bond' can be intimidating for governments who may be risk averse and leery about new and untested models. For a Canadian respondent, 'PFS contract' is the more politically acceptable and thus preferred term as it helps to "take it away from the world of big and scary to the more like practical solutions level. Part of it is governments tend to be nervous about new things and 'social impact bond' sounds newer than 'pay for success contract'" (CDN Respondent #14). A nearly identical point was made by a US respondent, "When I can sit down with folks in government and say I am providing a working capital loan, they will go, 'oh, ok'...Social impact bond sounded so scary to people" (US Respondent #55). There is also the fact that the SIB brand is so closely associated with a single market actor (Social Finance) thus creating an incentive for other participants to establish their own brand identity. Market positioning has informed some of the alternatives that have emerged in the US with one respondent noting that their selection of a term other than 'PFS' to define their practice was motivated by "marketing purposes" (US Respondent #54). Ultimately then, confusion around the nature and meaning of 'SIB' and 'PFS' reflects not only the slippery nature of these terms themselves (Fraser et al. 2018), but also the influence of market politics as different actors struggle to distinguish themselves and mark out their own territory.

Conclusion

This chapter has argued that any discussion of SIBs and PFS must begin with an acknowledgement of the ambiguous and shifting nature of these terms. While they are often associated with a single model of intermediated capital flows between investors, providers, and government, in practice SIBs and PFS have assumed a variety of different forms with a lack of consensus around their essential ingredients. The evolution of the market and the emergence of new terms (e.g. 'social innovation financing') have simply added to this complexity and potential confusion. 'What is a SIB?' is thus a challenging question that is also shaped by market competition and considerations of marketing and branding. Two additional observations emerge from this discussion. First, the SIB market has clearly moved away from the original Peterborough model with more recent iterations such as rate cards bearing only a distant resemblance. Rate cards, as they have been developed in the UK, retain the elements of outcomes-based contracting and outside investment but jettison many of the other features of the original model including the role of the intermediary as well as the involvement of evaluators tasked with comparing results to live counterfactuals. Thus, those who continue to view SIBs through the lens of Peterborough will see only a small slice of the field. The proliferation of different models and contracting structures also reveals the folly of thinking about SIBs as a singular, coherent model and instead focuses attention on what is in fact a complex and dynamic marketplace. Second, to the extent that the definition and essential elements of SIBs are not only stretched but simplified, with these transactions resembling more run-of-the-mill working capital loans, there may be a danger that the uniqueness and distinct value add of SIBs are being lost. In making SIBs less scary, more palatable, and easier and cheaper to execute, are we losing what is distinctive and most valuable about the model? This is just one of the many tensions that underlie the SIB market.

CHAPTER TWO: STATE OF THE SIB MARKET

As we approach the tenth anniversary of the first project in Peterborough, considerable enthusiasm continues to surround SIBs. Advocates remain committed to the model and present an image of steady growth and a future in which SIBs will be mainstreamed as a way of contracting and funding social services. And yet, one of the key findings from this research is that the reality is somewhat different, "it's not been a smooth sailing, not at all…I think that the public conversation about it may be more positive than the private conversation about it" (US Respondent #58). Despite the allure and promise of SIBs, my discussions with those engaged on the frontlines of the market in Canada, the US, and the UK revealed frustration with the slow growth and take-up of the model as well as uncertainty, and in some cases downright skepticism, as to its long-term future. The following comments are indicative of this more skeptical view:

- "This whole market is developing more slowly than [firm x] or anyone else expected…So what that is telling you is that the market is not growing as fast as people wanted it to" (UK Respondent #47).
- "When I first started in social investment early in 2011, I wouldn't have quite put it as boldly as this, but I could see a social impact bond on every street corner…But actually now I don't think it'll happen. And I think that the bubble has burst already. And I think this will fizzle out" (UK Respondent #17).
- "The external view is it's swans on water. But there's some desperate paddling going on. And there are so few of these SIBs still in this country" (UK Respondent #54).
- "SIBs are still seen as so niche…the bulk of commissioners think they are irrelevant" (UK Respondent #64).
- "There's been a lot of hype around [PFS], but not a lot of deals" (US Respondent #2).
- "It hasn't really grown into the size of market that we maybe expected it to" (US Respondent #32).
- "The future of PFS is very uncertain" (US Respondent #22).

One of the most striking assessments came from a senior member of the US PFS space who suggested that, while the external perception is that SIBs/PFS have taken off, the actual pipeline has "dried up significantly" (US Respondent #43). Citing several projects where providers or investors had pulled out at the last minute, they went on to predict that the PFS market in the US would either "collapse" or become a "boutique" market. This chapter highlights five key signs of struggle which inform and may help to explain and contextualize this more skeptical view.

Signs of Struggle

1. Rate of Growth

For those working on the frontlines of SIB markets in Canada, the US, and UK, one of the key disappointments is that, while the number of deals continues to grow, the overall pace of growth has been slower than expected. As noted by one respondent, whose initial view was that the PFS market would "take off like a rocket," the existing slate of projects in the US is still a "drop in the ocean compared to what it could be" (US Respondent #42). Invoking a similar metaphor, a Canadian respondent made the point that, "when you think about the growth trajectory, it's very fast. We have a lot of statistics on how many projects have been launched, the amount of capital, directionally it's a lot and they grow very quick. But equally, you are still talking about…many drops in many buckets" (CDN Respondent #7). Even the initial surge of transactions in the UK is slightly misleading as many of what are counted as separate deals flowed from a handful of central government rate cards. For example, the Department of Work and Pension's Innovation Fund resulted in ten projects. Thus, roughly half of the first 32 SIBs in the UK were Peterborough, Essex, or central government rate cards (UK Respondent #21).

2. Market Size

A second sign of struggle is that all three SIB markets remain small in size especially when compared to social investment, philanthropic, and public sector markets. The majority of investments in the UK are less than £2m (Dey and Gibbon 2018) and many are closer to £350,000 "which is a lot of work for not a very big intervention" (UK Respondent #31). In terms of total size, estimates of the UK SIB market range from £100m-£150m (UK Respondent #21). In comparison, the outcomes payment (PbR) market is worth £15 billion (UK Respondent #21), and the UK's annual spend for human services (education, health, social services, children's services) is £230 billion (Bridges Ventures 2016). Thus, "SIBs are a tiny portion of the PbR market, outcomes-based contract market, tiny portion of the social investment market" (UK Respondent #21). A US respondent made a similar comparison noting that the annual capital investment in PFS is tiny compared to annual government spending on social services and suggesting that these efforts are thus "not moving the needle" (US Respondent #30).

3. Development Pipelines

Third, development programs such as Commissioning Better Outcomes (UK) and the Social Innovation Fund (US) have experienced significant rates of attrition with many potential projects foundering between feasibility and execution. As noted by Ronicle et al. (2017) in their review of the CBO fund, of the 62 projects that received development grants in 2013, 37 had decided by 2016 that they would not continue to pursue a SIB. The latest figures (CBO Funded Project Pipeline at 28/02/19) indicate that 20 SIBs have been launched under CBO with 14 of these projects receiving development grants thus pointing to further attrition (23 projects) beyond that noted by Ronicle et al. (2017). This appears to support the assertion by a UK respondent that very few of the SIB feasibility studies conducted using CBO funding "ever came to fruition with a social impact bond. And my prediction would be that the same will happen with Life Chances Fund" (UK Respondent #17). This prediction regarding the Life Chances Fund appears to have been borne out. As of January, 2019, LCF had awarded 106 development grants but only five of these projects have been launched as SIBs, although 40 projects are still in the pipeline with several additional SIBs thus likely to be added to the final tally.

In reference to the Social Innovation Fund, the initiative established by the Obama White House to support not only PFS but also the scaling of promising social innovations in the US, several individuals from the US PFS space expressed disappointment that more deals did not materialize, "I think the fact that so few projects get to full implementation is a bit of a failure" (US Respondent #32). Another respondent suggested that SIF had generated a lot of feasibility studies but not a lot of projects, concluding that the program had a "track record of failure" (US Respondent #42). In the assessment of a third respondent, "coming out of the Social Innovation Fund…people were saying 72 projects in the pipeline. And my question was well maybe a third of that is viable and feasible. I think it's drying up" (US Respondent #53).

4. Funders and Investors

Fourth, the SIB market continues to rely on support from government and philanthropy and lacks the kind of commercial and institutional capital that many believe is needed for SIBs to scale. In the UK, the bulk of the funding has come from a combination of trusts and foundations and funds backed by the social investment wholesaler Big Society Capital[5] including Bridges, Big Issue Invest, and Social and Sustainable Capital, "intermediaries partly spending BSC money in most cases" (UK Respondent #21). Other investors include a handful of local public pension funds,[6] high net worths, and financial institutions such as Deutsche Bank who were interested in testing the market to "understand how it worked, what it looked like, and was it something they were then prepared to sell to their clients" (UK Respondent #58). Thus, "in terms of investment capital, [the UK market] still is being driven by BSC, foundations, some financial institutions" (UK Respondent #34). As these sources have provided more than enough capital to cover the deals on offer, SIB proponents in the UK have never really tested the commercial market. Indeed, a respondent, formerly with the Cabinet Office, noted that market sounding with mainstream investors was not a priority given the small size of the market, "you've not got enough social impact bonds for them to invest in" (UK Respondent #58). However, several respondents were skeptical about whether more commercial capital would indeed become available should the market truly begin to scale. The following comment would appear to give some weight to this concern, "There are some investment banks looking at social impact bonds, but anecdotally the feedback we are getting

[5] Big Society Capital is capitalized by funds from dormant accounts in the UK.
[6] For example, the Greater Manchester Pension Fund is an investor in the Bridges SIB Fund. While this type of investment may appear to be too risky for a public pension fund, one respondent suggested that local authority pension fund investments in the Bridges SIB Fund were "de-risked" through investments in Bridges' other funds, "[Bridges] played around with it and enabled local authorities to come in" (UK Respondent #34).

from those borrowers is that the process was too complicated. So they were persuaded to come in by the investment bank and then they've regretted it" (UK Respondent #5). A similar insight emerges from the study of social care SIBs, known as the 'Trailblazers,' by Fraser et al. (2018) who conclude that, "the vast majority of the Trailblazer finance came from organisations that were primarily 'philanthropically or socially minded.' This research found little evidence that the opportunity to invest in the Trailblazer programmes was perceived by more commercially minded private investors as offering a sufficiently attractive new investment opportunity" (134).

In the US, there has been much more interest and engagement on the part of mainstream financial institutions. Indeed, the prevailing view in the UK is that US market is much more "commercial" in nature. However, in the vast majority of cases, these investments have been backed by philanthropic capital in the form of guarantees, or capital stacks in which foundations serve as subordinate investors allowing more commercial investors to come in as senior capital receiving more favourable deal terms. Moreover, much of this investment has come from a single source, Goldman Sachs, with much smaller investments from a handful of CDFIs such as the Nonprofit Finance Fund and the Reinvestment Fund. At this point, it is unclear whether Goldman will continue to be a dominant player in the US market, although the firm has not invested in any of the more recent PFS projects. Much more will be said about the difficulties in attracting more commercial, return-motivated investors in Chapter Four.

5. Intermediary and Advisory Market

Fifth, there are signs of struggle within the intermediary and advisory market itself. This is partly a function of the slow growth of the SIB/PFS market more generally as well as the challenging economics of the field. With providers generally unable to fund the type of advisory work required for these deals on their own, and some government partners (particularly cash-strapped local authorities in the UK) also hesitant to spend public funds for this purpose, SIB specialists in all three countries have been dependent on public and philanthropic support.

In the UK, funds such as Commissioning Better Outcomes and Life Chances have provided critical support for SIB development work. However, the size of these grants has been on the decline leading one respondent to suggest that, "The advisory market is pretty much on its knees in the UK and that's because all of the grant fund has been turned off" (UK Respondent #36). For another respondent, it is the inconsistency of this funding that is a key challenge,

> I think the challenge has been that at least in the UK, there's been a central policy shift so a number of intermediaries have staffed up to do this sort of work, but the funding flows have been inconsistent and it's tough to live solely off that type of revenue flow as an intermediary (UK Respondent #31).

Reflecting this difficult economic environment, one UK advisory firm was forced to close its doors, another went through a major restructuring, and a third received a significant capital infusion from BSC.

In the US context, foundations have been key supporters of advisory and technical assistance work. The main form of government support has come through the aforementioned Social Innovation Fund. At the time of my US interviews (Fall, 2017), SIF funding was just wrapping up and there was a sense of uncertainty as to the future of federal support for PFS. The subsequent passage of the Social Impact Partnerships to Pay for Results Act (SIPPRA) in February, 2018[7] has no doubt helped to brighten the prospects for the field. However, the $100 million in funding "is still a tiny amount of money" and will likely support only a handful of projects (US Respondent #24). A comment from one respondent regarding the importance of SIPPRA further highlights the fragility of the field and the continued reliance on subsidy and support, "I think it's hugely impactful. I think it's a really big deal. I would probably be more worried about the PFS space if SIPPRA hadn't been approved" (US Respondent #45).

In the context of slow market growth, and limited and/or declining forms of subsidy, it is noteworthy that several of the key national intermediaries and advisory firms in the US have started to move away from PFS, or at least from the investment dimension of PFS. Instead, they are seeking to work directly with government to reform contracting and procurement systems using tools and lessons learned from their PFS work including data analysis and performance

[7] This was part of the U.S. Bipartisan Budget Act of 2018 and represents a rare example of bipartisan agreement in an increasingly fragmented American political environment.

management. The advisory market itself has thus shifted quite significantly which will no doubt have important implications for the future of PFS. More will be said about this in Chapter Five. Given the small number of deals (five to date), the Canadian advisory market remains tiny, dominated by a single firm (the MaRS Centre for Impact Investing). Overall then, the inability of intermediary and advisory firms to sustain themselves solely on SIB/PFS work, and their continued dependence on forms of public and philanthropic subsidy and support, provides further evidence of the struggle to grow and develop the SIB market.

Challenges, Barriers, and Frustrations

In light of this sense of frustration and uncertainty about the current and long-term prospects for the SIB market, the study sought to unpack the reasons for this slower than expected growth. When asked about this, respondents pointed to a series of challenges, barriers, and frustrations which they felt had impeded the market, many of which were consistent across all three national contexts and are by now well recognized in the SIB literature (Albertson et al. 2018; Fraser et al. 2019; Tan et al., 2019). They include: (1) the cost and complexity of the model; (2) long development timelines; (3) the challenge of first securing government commitment and then maintaining this engagement across changes in key personnel; (4) lack of government capacity and expertise; (5) difficulties in accessing the data required to calculate and track outcomes; (6) the challenge of identifying a suitable end payor, particularly in cases where savings accrue to multiple departments and/or levels of government, the proverbial "wrong pockets" problem; and (7) lack of provider capacity and expertise.

And yet, while these challenges are without question significant and have had a real impact on the fortunes of these markets, they ultimately represent what might be described as 'technical' barriers impacting the execution of these deals. They are thus largely amenable to more or less technical fixes among them greater contract standardization, less costly contracting models, data access agreements, and the development of integrated data systems. Indeed, the field has already adopted many of these innovations. However, the research also uncovered a series of deeper, more fundamental challenges, barriers, and limits which have taken slightly different forms in the UK, US, and Canada, and which reflect constraints that are more endemic to the SIB model and are thus less easily overcome. Some of these challenges were explicitly identified as such by respondents. Others emerged implicitly from the interviews. Some inform the slow growth of the market in the present, while others reflect potential barriers to its longer-term growth and sustainability. These challenges may be divided into two clusters. The first involves the broader agendas and influences that have informed the SIB enterprise in each national context, while the second stems from the specific characteristics and make-up of each SIB market including the interests, motivations, and perspectives of the various market participants. As will be revealed in the next two chapters, these challenges are fundamentally interconnected as the larger 'SIB agendas' have shaped each national market and thus inform the specific barriers and constraints encountered by SIB/PFS practitioners.

Conclusion

Contrary to the public image of SIBs as heralding a transformation in the way that public services are funded with significant volumes of private capital applied to tackling some of our most difficult social problems, this study has instead revealed a market that has struggled to gain traction with respondents in the UK, US, and Canada expressing a degree of frustration and uncertainty as to its future. In accounting for the slower than expected growth of the field, those working on the frontlines cited a host of technical challenges around data access, interfacing with government commissioning and procurement, and capacity and expertise on the part of government and providers alike with the suggestion being that if these complications could be addressed, and impediments overcome, the market would thrive. The next two chapters suggest that there may be a more fundamental set of challenges, barriers, and limits to SIBs in Canada, the US, and the UK, challenges which are rooted in larger agendas and market dynamics and which may serve as a more significant curb on the fortunes of the market.

CHAPTER THREE: SIB AGENDAS

To understand the struggles faced by SIB specialists in attempting to grow and scale the market, we first need to explore the specific mandates and priorities that have informed SIB projects in Canada, the US, and the UK. While adopting a similar vision of SIBs as a way to drive private capital into the social sector, and equally enthusiastic about the prospects and potential for the model, the specific motives and justifications for embracing SIBs have varied significantly across the three national contexts. This chapter suggests that these interests and rationales reflect three distinct ‘SIB agendas’ which have played a pivotal role in shaping each respective SIB market and its attendant challenges. To speak in terms of a ‘SIB agenda’ is not to suggest that there is a coherence or an absence of tension. Indeed, it is the tensions and contradictions within these agendas that provide valuable clues to the challenges confronting these respective markets and thus the struggles examined in the previous chapter.

UK

The origins of SIBs in the UK can be traced to Prime Minister Gordon Brown’s 2007 Council on Social Action (Fraser et al. 2016) where the model was first mooted as a way to support preventative social programs targeted towards broader systems level change, but which were difficult to fund using conventional government funding streams. These programs were innovative and carried greater risk, they demanded longer time horizons that exceeded typical government funding cycles, and they were based on multiple providers working in concert to address a common problem. By injecting a single stream of private working capital through a coordinating intermediary, SIBs were seen as a way to address these challenges. However, as the first SIB was launched in Peterborough in March, 2010, the ripple effects of the financial crisis and the election of the Conservative coalition government brought several new influences to bear on the UK SIB agenda most notably: (1) austerity and localism; and (2) social investment.

1. Austerity and Localism

In the UK, it is difficult to have a conversation about SIBs without some reference to austerity and the government cuts that followed the financial crisis of 2008. While government funds for the charitable sector had grown significantly under the Labour government – with Third Sector organizations (as they were then more commonly known) viewed as key partners in the delivery of social services – faced with revenue shortfalls and budgetary pressures, the Conservative coalition that took over in May, 2010 embarked on a systematic effort to cut public spending and impose fiscal discipline. The result has been deep and protracted cuts to state funding for many social and public services the bulk of which have been directed to local authorities, "So the most stunning impact is obviously on local government where the cuts have been the deepest, the most prolonged that it's ever been" (UK Respondent #64). This austerity agenda has also had dramatic effects on providers, particularly those working in the areas most dependent on local authority funding including homelessness and children's services. As noted by one provider of children's services, "The funding environment for us is difficult. Probably about eight years ago we were 90% funded through local authority funding, and then when the recession came that pretty much dropped to zero" (UK Respondent #28). As explained by a homelessness provider, "This is the first budget round in nine years when I haven't had to stop a service or lay people off. That shows how it's changed. It would be 2009 when it hit local authorities in terms of their allocation" (UK Respondent #67). In response, providers have developed alternative funding streams with many turning to trusts and foundations and exploring opportunities for earned income.

Accompanying this austerity agenda was a model of service delivery which emphasized localism, what one respondent described as an effort to "get local government and local services operating closer to the community" (UK Respondent #57). One of the key manifestations of this "big push on localism" (UK Respondent #57) was the devolution of responsibility for various public services from central to local government. This was outlined in the government's 2010 Local Growth White Paper and the 2011 Localism Act. Thus, at the same time as central government was dramatically reducing transfers to local authorities, it was increasing their responsibilities with key services (e.g. homelessness services) devolved to local governments. The localism agenda was thus very much shaped by the interests of austerity and the agenda of spending cuts, "the drive very much then, which suited the narrative of spending cuts, was actually you trim the centre and you delegate responsibility, you devolve responsibilities to the local" (UK Respondent #64).

Within this climate, SIBs were hailed by senior members of government as an antidote to austerity-related cuts. By mobilizing capital from social investors, SIBs were seen as not only an alternative source of funding for cash-strapped charities, but also a way to generate cash savings that could then be used by local governments to pay for these services, "particularly for the politicians, that was the big headline message. 'Austerity is here. We're going to be cutting grants and everything, but don't worry because social investment was going to sort your problems out'" (UK Respondent #7). In this context, the SIB agenda quickly morphed from a focus on innovation and prevention to a solution to the problem of local governments having to provide more services with less money. SIBs were thus a way to achieve the goals of both austerity and localism. They were also seen to provide another important benefit to central government. By tying spending to outcomes, they introduced greater accountability into local authority spending. In the words of one respondent, SIBs are ultimately a tool for changing the way local government behaves, "I think the main agenda behind the whole SIB thing has been to change the way commissioners, in other words the government authorities, work…This is central government trying to change the way local governments behave" (UK Respondent #47). Ultimately, this suggests that austerity is not simply about reducing the deficit and balancing the books. It is also connected to a larger agenda of public sector reform with scarcity being used as a leverage point to expand the use of outcomes-based commissioning within local government. SIBs have thus taken on what could be construed as a disciplinary flavour in the UK reflecting longstanding tensions and suspicions between central and local government.

And yet, it is important not to overstate the impact of SIBs as an element of the larger public sector reform agenda, or the coherence of central government strategy. One respondent, who was working in central government at the time, noted that SIBs were a bit of a "side show" to the local public service reform agenda (UK Respondent #57). Thus, while they may in theory have had the potential to enhance central government control, the small number and scale of projects has meant that they have impacted only a “miniscule amount of local authority total spending” (UK Respondent #57). This same respondent also noted that SIBs were championed, not by the department responsible for local government spending, but rather Cabinet Office Ministers and then Head of the UK Civil Service, Sir Jeremy Heywood, thus suggesting that there was not a coherent central government agenda in which SIBs were viewed as key to reforming local authority spending. Thus, with respect to SIB agendas, we must be mindful of the gaps between aspiration and reality.

2. Social Investment Market

A second key aspect of the UK SIB agenda involves the effort to catalyze and scale the social investment market directing private capital towards social enterprises and projects that are able to offer both financial and social returns. The expansion of this market was another key policy focus of the Conservative coalition government, and SIBs were viewed as one aspect of this emerging marketplace. Among the various policies adopted by the central government in support of social investment, the most critical was the establishment of BSC in 2012, a £600m fund seeded by dormant account funds and contributions from the Merlin banks (Barclays, HSBC, Lloyds, Royal Bank of Scotland) in repentance for their role in the 2008 financial crisis,

> It was after the financial crisis. David Cameron wanted to do something to show that he was punishing the banks. So he basically got them to do this as a way of not having to punish them. Look how social they are. They are going to impact society with £200 million. They probably would have granted the money (UK Respondent #13).

While a variety of options were originally considered for the unclaimed assets, the Cameron government opted to earmark all of the funds for social investment and BSC, “originally a lot of the money was going to be going to youth services and the focus changed completely and all of that unclaimed assets money was going to a social investment wholesaler which was changed to become a social investment bank and then became Big Society Capital” (UK Respondent #58). As a wholesaler, BSC was mandated to provide funds to intermediaries (known as Social Investment Finance Intermediaries, or 'SIFIs') who could then establish funds of their own and distribute capital to individual charities and social enterprises. Several options and models were considered for this financing function including a blended loan and subsidy model as well as a finite term for BSC itself. However, it was ultimately decided, according to some at the urging of the Merlin banks, that BSC would operate based on a more commercial model. The fund would have to be self-sustaining and generate what was modelled as a 4% return (UK Respondent #13).[8] In order to cover its own costs, this meant that BSC would have to lend out it funds based on a 5% or 6% return with the SIFIs then charging even higher rates to end clients.

The presence of BSC has been essential to the SIB market. Most notably, it has meant that there is a plentiful and reliable supply of capital for SIB deals. BSC was a direct investor in several early SIB deals and it helped to capitalize the dedicated SIB funds most notably the Social Impact Bond Fund operated by Bridges Fund Management (previously Bridges Ventures). This £25 million fund was founded in 2013 with support from BSC and has been involved in close to 50% of the SIBs launched in the UK to date. A second dedicated fund (backed by a £10m investment from BSC as well as support from Barclays Bank) was established by Big Issue Invest in 2017, although this has been branded as an "Outcomes Investment Fund" thus reflecting the further move away from the traditional SIB model as described in Chapter One. In addition to these dedicated funds, several of the SIFIs (e.g. Social and Sustainable Capital) have also invested in SIBs through their general social investment funds. Thus, while investors in the early SIBs were largely trusts and foundations, the bulk of funding is now provided largely through these BSC-backed funds.

In addition to BSC, another key actor in the UK social investment space, and contributor to SIBs, is the Big Lottery Fund.[9] Funded by proceeds from the National Lottery, Big Lottery has

[8] This same respondent suggested that the 4% figure was based on the premise that the Merlin banks needed to get their money back with interest, "My feeling is the reason why is because of the [person] who modelled it and he modelled it so that the banks, the former Merlin banks, would get their money back with interest. So effectively the Merlin money polluted the Dormant Account money and they had to make sure that they were preserving the capital and then covering all losses and providing 4% on that to the banks" (UK Respondent #13).
[9] On January 29, 2019, the Big Lottery Fund was renamed The National Lottery Community Fund. As Big Lottery was the name of the agency at the time of the study, it will be referred to as such throughout the report.

provided critical forms of support including: (1) acting as a co-commissioner for the Peterborough SIB; (2) providing £5m in funding for Social Finance UK, the key advisory firm working in the space, to develop six feasibility studies; (3) supporting development funds designed to build the capacity of charities and social enterprises (Big Lottery funded Big Potential, and co-funded the Access Foundation's Growth Fund); and (4) executing two key SIB outcomes funds, Commissioning Better Outcomes (designed and funded by Big Lottery) and the Life Chances Fund (co-designed by Big Lottery, but funded by central government), which have provided development costs and a portion of the outcome payments for SIBs developed by local authorities. And yet, the pivotal role of Big Lottery is often overlooked, "I don't think we've ever really potentially given [Big Lottery] the credit that we should in that they were putting money into Social Finance particularly and for Social Finance to focus and think about SIBs really early" (UK Respondent #58). Thus, to the extent that BSC has been a critical source of loan capital, Big Lottery has provided grant funding incenting local governments to engage with the model and providing funds for intermediaries and advisory firms to assist with deal development. Ultimately, these initiatives speak to the critical role of the UK central government in supporting the SIB enterprise, a role which also includes the participation of central agencies, namely the Department for Work and Pensions and the Department for Communities and Local Government,[10] in some of the early rate cards and outcomes funds, as well as policy and strategic support through the Centre for Social Impact Bonds and the Government Outcomes (GO) Lab at the University of Oxford. The result is a market that is heavily subsidized (Floyd 2017) on both ends, both in terms of capital supply and outcomes payments. The question, to be explored in the next chapter, is how these agendas of austerity, localism, and social investment have informed the challenges confronting the UK SIB market.

US

While the UK and US are world leaders in SIBs/PFS, the former based on the number of deals and the latter the average size and total value of transactions, the agendas and influences shaping the development of PFS in the US have been very different.

[10] DCLG was re-organized and renamed as the Ministry of Housing, Communities, and Local Government in 2018.

1. Evidence-Based Policymaking and 'What Works'

Whereas SIBs in the UK have been framed in terms of the austerity agenda of cost savings and value for money, PFS in the US has been informed by what several respondents described as a "learning agenda" which sees these transactions as a way to identify, test, and scale programs that 'work.' Here there is a critical connection to the larger movement around evidence-based policymaking. Reflected in publications such as *Moneyball for Government*, a common touchpoint for US PFS advocates, the essential notion is that only a tiny fraction of government programs are subject to even the most basic forms of evaluation and that directing funds to programs that have been proven to 'work' based on data and evidence is key to the more effective use of public funds as well as better 'outcomes' for beneficiaries. The key challenge from this perspective is thus "better use of government resources and getting better outcomes for the vulnerable populations that they're trying to serve" (US Respondent #25), with PFS ultimately viewed as an "entry ticket" to improved government performance.

Another key aspect of the evidence-based policymaking and 'what works' movement which has impacted the US PFS space is the notion that determining program effectiveness depends on the use of specific evaluation methodologies with more rigorous methods providing more objective and convincing results. Many in the 'what works' community in the US have embraced one methodology in particular, the randomized controlled trial (RCT), as the 'gold standard' of program evaluation and thus a key arbiter of program effectiveness given its unique ability to control for extraneous factors and thus identify causal connections between programs and outcomes. RCTs feature prominently in the evidence clearinghouses which have sprung up around the US where they are essential to the 'what works' seal of approval. With the PFS agenda in the US built around similar objectives with respect to rigorous evaluation and determining 'what works,' it is not surprising that RCTs have figured prominently in PFS transactions. Indeed, many of the early US deals featured RCTs as the basis for gauging program outcomes and investor returns. Interestingly, while quite common in the U.S., there are few, if any, examples of RCTs in other national contexts. All of this speaks to a slightly different public sector reform agenda. While the emphasis in the UK is on re-engineering commissioning with the aim of boosting efficiency and value for money (i.e. doing more for less), in the US the focus is on improving the effectiveness and impact of government spending by investing in programs that 'work.'[11]

2. Philanthropy

A second defining feature of the US PFS landscape is the role of philanthropy. While support from trusts and foundations was vital in the early days of the UK market, retreating with the growing influence of BSC-backed funds, they have remained essential actors in the US where they have played a variety of supporting roles. First, foundations have helped to seed many of the core actors in the PFS ecosystem including transaction specialists and advisory firms such as Social Finance US, Third Sector Capital Partners, and the Harvard Government Performance Lab (formerly the Harvard Social Impact Bond Technical Assistance Lab) as well as organizations providing more specialized support around evaluation (e.g. Urban Institute) and knowledge sharing (e.g. Nonprofit Finance Fund). Second, foundations have provided funds for individual projects including grant funding for feasibility and development work, direct investments, and capital guarantees and first loss capital designed to 'crowd-in' more return-motivated and risk-sensitive commercial investors. Thus, to the extent that the UK market has been subsidized by government, PFS in the US has been heavily dependent on philanthropy with the role of BSC and Big Lottery played by the Rockefeller Foundation and the Laura and John Arnold Foundation,[12] the latter referenced by many in the US space as the most active funder in the field and a key market catalyst, "They were really behind this whole field and I think played a pretty catalytic role" (US Respondent #53). In contrast, government has played a more minor role in the US, particularly with respect to federal strategic and financial support

[11] In responding to a first draft of this report, two respondents suggested that this distinction between the UK and US could be viewed as overly simplistic neglecting the extent to which SIBs in the UK are also based on a learning agenda. As evidence, one respondent pointed to SIB supporters in central government (e.g. Sir Jeremy Heywood, former Head of the UK Civil Service) who were also proponents of 'what works,' as well as the Peterborough and Ways to Wellness SIBs which, they suggested, were inspired by a learning and innovation agenda. However, while SIBs may have originated in a learning agenda, and some programs may indeed share this feature, as the model has evolved in the context of austerity greater emphasis has been placed on cost savings and value for money. The fact that very few SIBs in the UK include evaluations of project outcomes is another key difference and point of departure from the 'what works' agenda in the US.

[12] On January 28, 2019, the Laura and John Arnold Foundation was relaunched as Arnold Ventures LLC. However, the original name is used throughout the report.

for PFS development, with contributions limited to: amendments to legislation (e.g. Workforce Innovation and Opportunity Act, and the Every Student Succeeds Act) authorizing federal transfers to be used for PFS payments; feasibility work and funding for outcomes payments on the part of individual agencies (e.g. Justice; Education; Veterans Affairs; and Housing and Urban Development); and the aforementioned Social Innovation Fund which was largely used to fund capacity building and feasibility work rather than to pay for program outcomes.[13]

The pivotal role of philanthropy has had two additional consequences for the larger PFS agenda. First, philanthropic funders, in concert with government, have helped to drive the use of RCTs in PFS deals. In particular, the aforementioned Arnold Foundation, a major advocate of evidence-based policymaking and the use of more rigorous forms of evaluation in government policy decisions, has been an active proponent of RCTs as the basis for determining program outcomes and investor returns. In this respect, foundations have strengthened and solidified the connections between PFS and the larger evidence-based policymaking and 'what works' agenda.

The second respect in which philanthropy is relevant to the US PFS agenda stems from the view of PFS as a solution to a longstanding problem: how to exit from existing investments. Particularly in the context of 'venture philanthropy,' where the focus is on helping promising social entrepreneurs and programs to grow, a key dilemma is who is going to provide support for these programs and enterprises at scale and over the longer term allowing venture philanthropists to exit these investments and to turn their attention to new endeavours. The need to develop a viable exit strategy has led to the somewhat reluctant realization on the part of many in the venture philanthropy community that in order to truly achieve greater scale, they need to engage with government, "for the problems that we're focused on, government spending dwarfs philanthropy. If you want to change this world, you have no choice but to work with government" (US Respondent #51). In this respect, PFS is a way for philanthropy to develop a convincing value proposition and proof of concept with government then assuming

[13] According to one respondent, one of the recommendations on the table when the Social Innovation Fund was first being developed was that it include matching outcomes payments, this in recognition of the fact that part of the savings from early programs accrued to federal rather than state governments. However, others argued that the fund should support "technical assistance" and capacity building and this is what ultimately won out.

responsibility for funding successful programs, "You are trying to get to a solution that you could…say, 'government do this. Philanthropy will pick up the price of scaling it, but if it works for you are going to do it at the endpoint.' It became an exit strategy for us" (US Respondent #36). As explained by another respondent,

> There's a ton of power in social impact bonds if you believe the theory that the first time you prove them then the second time the state legislature or whomever will pick up the tab themselves because it's been demonstrated…there are a set of philanthropists that are willing to put up with the overhead to get to that result (US Respondent #1).

In this context, the key risk is not necessarily program risk, as most candidate programs have already been evaluated using RCTs or quasi-experimental studies, but rather implementation risk as they are rolled out across different sites. This notion of philanthropic exit helps to account for the greater emphasis on scaling evidence-based programs in the US as well as the fact that many of the providers featured in US deals (e.g. Center for Employment Opportunities, and Nurse-Family Partnership) have long-standing relationships with the very foundations initiating these transactions.

Canada

Contrary to the US and UK, one of the interesting features of the Canadian context is the absence of a discernible SIB agenda. The federal and several provincial governments have expressed an interest and made positive public overtures around the model. However, SIBs in Canada have not been tied to a clear, driving policy agenda. Thanks to a more heavily regulated banking system, Canada was largely spared from the 2008 financial crisis and the austerity agenda which has dominated the UK. And, compared to the US, conversations around evidence-based policymaking and 'what works' have been much more muted in Canadian government circles, although there have been some moves in this direction. Canada also has stronger public sector unions which have been quite vocal in their opposition to SIBs (e.g. NUPGE 2014), an observation reinforced by the following respondent,

> I think there has also been a lot more organized opposition to the introduction of these vehicles than elsewhere…and I've seen this certainly through our own participation in things like federal hearings…on social finance broadly and SIBs and pay for success in particular, where particular public sector unions have been far more willing to call this bad names, privatization, wolf in sheep's clothing, and frankly spread from my perspective disingenuous information. I would say things that are not actually borne out by the facts. And so that's been a part of it. That's been a contributing factor (CDN Respondent #7).

In at least one case, a prospective SIB was scuttled in part due to labour opposition, "we have a longstanding relationship with labour and they were in opposition. So that was an issue" (CDN Respondent #4). The Canadian three party system, with the New Democratic Party possessing quite close ties to the labour movement, also affords a stronger political voice to SIB critics. These dynamics increase the potential political risks and liabilities associated with SIBs and the political capital required to engage with the model. Finally, while Canada is not without significant social and economic challenges, its comparatively more robust social welfare system means that there are fewer of the types of overt 'market failures' that would justify the expense and effort of a SIB. Beyond government, the small size and conservative nature of the Canadian philanthropic sector offers yet another explanation for the lack of momentum behind SIBs in this country. Ultimately then, the Canadian case proves the point about the role of larger contexts and agendas in shaping the fortunes of the SIB enterprise. More will be said about the specific challenges confronting Canadian SIB specialists in the next chapter.

Conclusion

Most discussions of SIBs/PFS tend to begin and end with the model itself including its virtues as well as its drawbacks. However, this view overlooks the larger influences that have been brought to bear on SIB/PFS markets and which vary across national contexts. In the UK, SIBs have been driven by the agendas of austerity, public sector reform, and social investment. They are viewed as a tool for managing the effects of austerity and for introducing greater control and discipline over the spending of local authorities. In pursuing this agenda, the UK central government has provided extensive subsidies and support at both ends of the market – on the demand side through central outcomes funds and support for capacity building and

SIB development, and on the supply side through the provision of capital via BSC. In the US, PFS has been less about scarcity and cost savings, although cost savings is still central to the PFS value proposition and is part of what helped to foster much of the initial excitement around the PFS model (US Respondent #54), and more about how to improve the effectiveness of government spending this through the identification, support, and scaling of programs that 'work.' Rather than government, it is philanthropy which has played a pivotal role offering financial resources, expertise, and promoting the 'what works' agenda (Albertson et al. 2018). One respondent provided the following summary of the differences between the UK and US,

> Both markets have had very substantial support for them to be able to have the volume of activity and transactions. And the support in the UK has largely come from government. And I would include the Lottery money, but the capacity building support that the Lottery put alongside the government money and its own money around outcomes. So the outcomes funds have created momentum in the UK…I think in the US the subsidy has come from the philanthropic sector much more so because there's been a huge amount of money poured [in] (UK Respondent #49).

In Canada, support has been much more scarce on all counts thus contributing to the small size of the market. A key question for the next chapter is how these agendas and influences have informed the evolution of the SIB/PFS market in each country and the specific challenges and struggles encountered by those working on the frontlines.

<u>CHAPTER FOUR</u>: SIB MARKETS, THEIR CHALLENGES, AND THEIR LIMITS

While the SIB market has struggled to grow, the same cannot be said of commentaries, reports, and 'how-to' guides which continue to proliferate and which focus on: the process of designing a SIB; things to consider; and potential barriers encountered along the way. As noted in Chapter Two, these challenges typically cluster around issues of cost and complexity, government and provider capacity and expertise, and ability to access the data required to benchmark and test outcomes, cost savings, and investor returns. And yet, while entirely valid and no doubt complicit in slowing deal development and impeding the uptake of the SIB model more generally, these impediments are not only 'technical' in nature, but they largely involve challenges of *execution* – the ability to construct, design, and execute deals. However, this research suggests that there is a slightly different set of barriers which are more fundamental to the slow growth and uncertain future of the SIB market. These involve challenges of *engagement* – that is, the ability to engage government, providers, and investors not only in individual transactions but also a longer-term vision of, and commitment to, the market. While execution-based challenges are fairly common across all three markets, challenges of engagement vary significantly and are informed by the distinct SIB agendas discussed in the previous chapter.

<u>UK</u>

In the UK, much of the responsibility for the slow growth of the SIB market has been laid at the feet of local government. A recurring complaint voiced by respondents is that local commissioners have been slow to engage with the model thus limiting the pool of outcomes payers and the flow of potential deals. While there is no doubt a degree of truth to this assessment, the reasons for this limited engagement extend beyond local authorities themselves with this research suggesting that investors, fund managers, and intermediaries may also share part of the blame both for the limited uptake on the part of local government and the slow growth of the market overall. The view of SIBs within the provider community also points to several additional challenges confronting the UK SIB market and its longer term sustainability.

Engaging Local Government

Thanks to a steady supply of capital from BSC, and the emergence of specialized funds dedicated to SIBs and outcomes-based contracting (Bridges and Big Issue Invest), one of the key constraints on the growth of the UK market has not been the availability of capital, but rather the lack of investable deals with respondents pointing to local authorities as the key culprit, “there is so much social investment out there, that’s never going to be a problem…Commissioners are not ready for social investment. Every single time we’ve worked on social investment, it’s fallen down at the commissioner’s end” (UK Respondent #68). This view was shared by a respondent who had worked at the Cabinet Office during the early days of SIBs and social investment, “quite quickly it become quite clear that there was a fair bit of money out there in terms of investors willing and able to invest…what was missing, or what was slowing things down was commissioners. They weren’t commissioning” (UK Respondent #58).

The focus on local commissioners as key sites for, and barriers to, SIB development reflects the close ties between SIBs and the agendas of austerity, localism, and public service reform noted in the previous chapter. While many of the early projects were led by central government departments (e.g. Ministry of Justice; Department for Work and Pensions), the view of SIBs as an antidote to austerity, a way to support the localism agenda and the devolution of public services from central to local government, and a tool for introducing more accountability into local authority spending meant that the focus of SIB development quickly shifted to local authorities (Dear et al. 2016). This is reflected in central government outcomes funds such as Commissioning Better Outcomes, Social Outcomes, and Life Chances which are explicitly geared towards local commissioners and the promotion of the SIB market at the local level.

With SIBs thus directed towards local government, respondents cited a variety of explanations for the failure of local authorities to engage as expected, most of which focused on organizational deficits including: (1) lack of capacity and bandwidth; (2) absence of expertise; (3) the dependence on internal champions to build coalitions and secure buy-in from operational, legal, and procurement groups; (4) high staff turnover; and (5) an undeveloped infrastructure for outcomes-based commissioning. The following assessment was typical,

> In local government it's partly they've never done it really before either. They have tended to buy services the same as central government and they just haven't got as much of the capacity to do this policy thinking that central government has. So even if they might be interested, they just don't have the resources to think about how you would do this and how you would set it up (UK Respondent #58).

Respondents also alluded to the culture of risk aversion and the fact that ceding control over service delivery – purchasing solely on the basis of outcomes with little say over how those outcomes are achieved – runs counter to local authority DNA, "it challenges their control. And my experience of the civil service of various local and national levels is that they tend to like to keep control. It's not something they give up lightly" (UK Respondent #41). While these issues of capacity and expertise are no doubt significant, SIB development in the UK has also been impacted by a deeper set of tensions between the dual (and as it turns out dueling) mandates of public sector reform and social investment. These tensions take three specific forms.

1. Austerity and Capacity

The first source of tension involves austerity and capacity and reflects a key contradiction in the UK SIB market. At the same time as local authority budgets were being cut due to austerity, local commissioners were being asked to adopt an investment-based model which (by its very nature) requires significant capacity, expertise, and new ways of working. This irony was nicely captured by a service provider involved in several SIBs,

> So the irony is at the very time the government is trying to suggest that this might be an alternative means of funding public sector services, it's actually removed from public sector services the means by which it might actually be able to use this thing. And I think that's a real problem (UK Respondent #17).

In making this point, they made a direct connection between austerity-related cuts and the loss of the internal capacity required for these transactions, "even where you've got authorities which might be interested…because of the impact of public sector austerity, they have actually cut all the posts in the local authority for all of the people who would have set this up. So they've got no one to set it up" (UK Respondent #17). While most respondents acknowledged that austerity was a constraint on local authority capacity, few seemed to appreciate the true depth and impact of these cuts which have in many cases ranged from 40% to 50% of local authority budgets. One local commissioner alluded to "a significant chunk of our funding from central government being removed by 2020 where we will be £63m reduced in budget by 2020. And I think our entire budget is £150, £160m for the council. So that's a massive chunk of the money. So that's austerity really kicking in" (UK Respondent #51). In this context, it is not surprising that local authorities have struggled to engage with the SIB model.

The context of austerity has also impacted how SIBs are imagined at the level of local government and the types of projects that have been developed. Faced with increasingly acute financial pressures, many local authorities have come to view SIBs as a way to generate cost savings "for things which mostly fall within their statutory requirements for things they have to do" (UK Respondent #21). This of course runs counter to the original promise of SIBs to focus on longer-term, more preventative services. One respondent who works closely with local commissioners recounted how their efforts to develop a SIB were stymied by the inability to identify cash savings and thus make a strong business case to the council executive,

> We did all the mapping, agreed on the outcomes, mapped the outcomes back onto, if you achieve outcome 'a' where do you feel it internally, which team feels it, how do they feel it, do they feel it in a specific budget, or something else? Did that twice. And they ended up being a bit deflated where they went, 'oh, we still think this is something we want to do…but actually it's not really going to save us money. It's not cashable savings…And it's going to be a harder business case to argue for' (UK Respondent #64).

Several respondents also alluded to the challenges of realizing cost savings given dynamics such as latent demand and the tendency to fill available capacity, "How often are the cashable savings realized? We try not to talk about them. Because you can guarantee that within public services there is latent demand" (UK Respondent #55). Realizing cost savings may also require structural re-organization and reductions in personnel that may be politically contentious,

> We literally had one where, if it does save costs for them, then they would have to get rid of social workers and that is not popular to do. And so that was too scary for them to think about that they might save money and they would have to re-structure themselves (UK Respondent #68).

Thus, another challenge faced by local commissioners is managing the change required to realize the economic benefits of SIBs, “So that’s been a difficulty that has been replicated across many social impact bonds is that the public sector body has struggled with the management of the wider change that it needs to engage in to be able to maximize the financial benefit” (UK Respondent #17). The result of these pressures is a narrowing of the scope of potential SIBs, and thus the SIB market itself, with emphasis placed on projects involving statutory services such as children at the edge of care procured on a spot-purchase basis allowing local authorities to realize immediate cash savings without adverse effects on local authorities themselves.

2. Public Sector and Private Finance

Another impediment to the UK SIB market involves tensions between the public sector and private finance. SIBs have been developed largely by individuals with backgrounds in finance many of whom have worked in the ‘City of London’ and migrated to the social sector in the years following the financial crisis bringing with them distinct backgrounds, worldviews, and approaches which may not always align with those in the public sector. This is reflected, for example, in differences in language and barriers to communication,

> The social investment market is led [by] people who have been former hedge fund managers and investment bank, accountants, chartered management financers, and they speak a totally different language. A language which institutionally, the way that we do our public financing is very different to the way a hedge fund manager works. So on the one hand these investors are talking about return on investment and net present value, and public financiers are talking about base budget for this year and if we don’t spend it now then it won’t be there next year. And so there’s a discrepancy between the market that’s actually going to finance a SIB, how you access that, versus the way that you actually account for it at a council (UK Respondent #51).

As noted by this same respondent, a member of a local authority, there are also gaps in expertise,

> The lack of understanding of how that market operates is often a barrier to getting SIBs off the ground because if you are a local authority officer…on average you have never worked in the private sector, you have never understood the concept of return on investment because you are paid to do a job that serves citizens, and as long as you are doing it that's fine right? Suddenly someone's gone 'a social impact bond, do one of those things.' You don't have the frame of reference to really understand that do you? So how many local authority officers understand how the stock market works? Probably…not a lot. So when you are talking about present value of future investment, which is basically how a SIB works, how many local authority officers understand that? (UK Respondent #51).

For another local commissioner, these gaps in expertise and experience are accompanied by a deeper suspicion of investors,

> And this is a general bit of suspicion of anything to do with investment…because it's quite difficult for me to understand. So it's in the difficult box and I prefer the simple world where everybody in the public sector is really lovely and anybody else who is making money out of things is somehow tainted (UK Respondent #9).

A respondent from an advisory firm also referenced this suspicion of finance as a barrier to SIB development, "you have somebody who says, look, as soon as you have an investor in the deal I know that all they want is to maximize their profit, therefore I am not willing to give public money to these people" (UK Respondent #2). In the words of another respondent, SIB specialists have found it difficult to engage local government "because local government is to some extent a closed shop suspicious of the 'private interest' in social issues. Bringing together finance, power, and trust in a new intervention for vulnerable groups that is contracted out is a bit of a challenge in that context" (UK Respondent #57).

Beyond these more general tensions in language, expertise, and worldviews, several respondents also pointed to an overemphasis on the financial aspects of SIBs and a neglect of the actual needs and interests of commissioners themselves,

> Even just by calling them social impact bonds, it makes it all about the financing and the financiers which is…where the early ones and the early narrative lost people was it talked about being about outcomes, but actually all the talk was about the financial structures. And I can understand why when you've come up with those financial structures, yeah they're pretty cool, and they're doing things differently, and it's really nice. That's great. But…it doesn't mean you always need to talk about it. Because other people aren't so interested in that stuff (UK Respondent #55).

In the words of another respondent, "I don't think the case has been made effectively to local government. SIBs have been seen as a financing tool. But the public sector doesn't necessarily care about the financial tool. They care about how to deliver their services to their public and that case hasn't been made" (UK Respondent #1). This same individual went on to recount their experience of working with local commissioners in the context of a SIB deal,

> We went to commissioners talking about the end piece drawing box and arrow diagrams and talking about how the risk flowed and how you structure this and how brilliant and clever the financing mechanism we set up here. And the commissioner couldn't see how that had anything to do with the fact that they were facing rising demand in their residential care services…So that's my hypothesis as to why there hasn't been greater take-up (UK Respondent #1).

The overreliance on 'boxes and arrows,' and their alienating effect on local commissioners, was a recurring theme, "the evangelicals who are trying to change [commissioning] come from a finance background mostly. So there is a danger of them intuitively feeling as though multiple boxes and arrows are a good thing by themselves. I come from that background. And I hated it there. And it doesn't work here" (UK Respondent #47). The use of terms such as 'SPV' have had a similar effect evoking images of accounting scandals and questionable financial dealings and further stoking suspicions of investors and discomfort with the SIB model, "I avoid using the term special purpose vehicle…because the moment you say SPV everybody thinks Enron and you are harnessing money offshore" (UK Respondent #51). All of this suggests that it is not simply capacity or expertise that is responsible for the lack of commissioner engagement, but rather tensions between two very different worlds (and worldviews) and the challenge of developing an effective case and compelling value proposition for local commissioners.

3. Localism, Scale, and Sustainability

The SIB market in the UK has also been impacted by a tension between the strategic focus on SIB development at the local level, and the pursuit of scale as an overarching objective of SIB specialists and one of the indicators of market success. The focus on local authorities means that SIB development has been limited to small, local populations resulting in smaller deals with more challenging economics and tighter margins,

> Because the UK is such a small country, one of the challenges we've had for instance across our looked after children work is just in any given local authority there may not be enough children that fit within a certain category of need to make it economical to run a service for them…that certainly has been a challenge here at times which is just, not that there aren't commissioners that are interested in funding outcomes, but just practically, operationally, the target cohort isn't quite big enough to make it work (UK Respondent #63).

While SIB specialists have had some success in developing jointly commissioned SIBs involving more than one local authority (e.g. Social Finance's Positive Families Partnership), the challenges described above are compounded when attempting to work across multiple local authorities. If the objective were truly to scale the SIB market, the focus would be on central government which would also address some of the reported issues around capacity as well as the "wrong pockets" problem of the benefits of programs accruing to central rather than local government. And yet, the central government departments that were initially active in the SIB market in the UK (i.e. the Ministry of Justice, and the Department of Work and Pensions) appear to have stepped back and are no longer engaged with the model. Indeed, one respondent from the Ministry of Justice indicated that the legacy of Peterborough and its conflation with the widely reviled Transforming Rehabilitation initiative has contributed to strong internal resistance to additional SIB projects. In the case of DWP, one respondent suggested that they have moved on to other priorities and are no longer willing to pay for employment outcomes,

> Employment was very investable, but isn't because DWP won't pay for employment outcomes. The department whose job it is to get people jobs won't pay for employment outcomes…they say they are doing it themselves and they

> have done their bit with this. But they just haven't got the money to pay for these things. It's a bit silly (UK Respondent #70).

Several respondents also made the point that, while buy-in from the UK Treasury is critical if SIBs are to scale, Treasury officials have yet to be convinced that the returns of the model thus far have been worth the investment, "If the Treasury had decided that this was the best thing ever, I think we'd have had a whole raft of social impact bonds" (UK Respondent #53). The challenge is, "[Treasury] have a pretty high bar for accounting for savings" and they are looking for "really, really hard economic evidence that an intervention has had this outcome which has had these savings or costs avoided" (UK Respondent #58).

The focus on local authorities also has implications for the longer-term viability and sustainability of the UK SIB market. Of all of the local SIBs that have been launched in the UK, very few have been designed and executed without assistance from central government top-up funds. In one respect, the ability to tap into these outcomes funds is a reasonable way to get around the aforementioned "wrong pockets" problem. And yet, it would appear that the willingness of local authorities to undertake SIBs is often dependent on this central government contribution which tends to be viewed less as compensation for "wrong pockets" and more as free central government money. One respondent went so far as to describe these funds as a "bribe," "They are basically using that to bribe the commissioners to do this stuff…if you are sitting in a local government why on earth would you take on this risk unless you are being bribed to do it?" (UK Respondent #47). Another respondent recounted how, in developing a new program for "at risk" youth, they were pressured to apply for central outcomes funds (and had to develop a SIB) because the central government money was essential to securing local commissioner buy-in for the project, "What got local authorities to talk to us was the promise of central government top-up, an extra 20% or more from central government. In order to say yes, we are going to get the central government money, we had to do a SIB" (UK Respondent #33).

Given the importance of these incentives, I asked several respondents whether the SIB market could survive in the absence of central government funds and in only one case was the reply clearly in the affirmative.[14] The following response was typical,

> That's a good question. No. Probably not actually. I think somewhere along the line central government has got to put up some money for this…I can't see local authorities having the capacity to take these on. Whereas if central government is saying here's £10m quid, who wants some of it, you have to do a SIB, then local authorities will. I can't see them having their own money to do this or shifting money from existing services to do it (UK Respondent #67).

In the words of a SIB specialist, "post-Life Chances Fund, I don't know what the market will look like. I'm not yet convinced that commissioners have the head space for this really unless there's a pot of money to incentivize them to do it" (UK Respondent #63). Another respondent spoke to the larger sense of uncertainty within the market, "I'm not at all sure what the future is. There are some people thinking it will just run straight into the sand as soon as government takes away subsidy" (UK Respondent #70). Interestingly, it was the advisors who work most closely with government who appeared to be the most skeptical about the ability of the market to survive without this support. The fact that the SIB market is dependent on these funds, which require an extensive application process with several rounds of reviews and revisions, only adds to the complexity and long development timelines for SIBs, "my reflection is that the process of getting the government money is very, very bureaucratic and sometimes it's a disincentive to get it" (UK Respondent #9). This same individual went on to describe how they were interested in developing a new service that could better meet the needs of their local population, but in order to do so they required additional resources that were not available due to the constraints of austerity. They thus applied for, and received, Life Chances development funds and, thereby, felt committed to pursuing a SIB even if this was not their

[14] The one respondent who did feel that the market could survive without central top-up funds pointed to children's services as an example, "So I think there are certain projects that you can launch and use payment for outcomes without central top-up funds. So they've got a lot of stuff in children's services is done on a payment-by-results basis and you could certainly launch a range of contracts like that" (UK Respondent #35). And yet, another respondent suggested that even children's services are still dependent on subsidy, "We're finding that projects are still dependent on subsidies to move forward which is unfortunate because one would have hoped that projects like children's services would have advanced such that they needed a lower level of subsidy" (UK Respondent #45).

first choice.[15] This once again begs the question of how well aligned SIBs are with the needs of local authorities and whether what has been created is a somewhat artificial market, dependent on central government subsidy, and whose longer-term sustainability is more fragile than many believe or might care to admit.

Investors, Fund Managers, and Intermediaries

While local authorities have received the lion's share of the blame for the slow growth of SIBs in the UK, another constraint follows from the types and terms of investment flowing into the market and the role of fund managers, advisors, and intermediaries. The origins of the UK SIB market lie in financial contributions and support from philanthropy. All seventeen investors in the original Peterborough SIB were trusts and foundations, and philanthropic capital accounted for the bulk of investment in the DWP Innovation Fund SIBs as well as the Essex SIB. However, since this time, the market has shifted significantly with BSC-backed social investment funds and fund managers (e.g. Bridges) playing a much greater, and many would argue dominant, role. While some trusts and foundations continue to invest in SIBs, many have withdrawn from the market and their contribution has "sort of been airbrushed out of history. They were the founding fathers of this space and made stuff work. And now they have all walked away from it or most have walked away from it" (UK Respondent #32).

Respondents from trusts and foundations offered several explanations for their SIB exit. For one foundation, it was the experience of Peterborough and the clear display of the political and reputational risks of working with government (evident in the cancellation of the SIB and the introduction of the wildly unpopular Transforming Rehabilitation) along with discomfort with the conflation of SIBs with privatization and austerity agendas that soured them on the market,

> And to find yourself in cahoots with that, because obviously once you are invested financially you are invested strategically as well, to effectively be supporting government to achieve a policy aim at the same time as government is withdrawing 20%, 25%, 30% of funding such that the social impact bond is

[15] Officially, there is no requirement that projects receiving development grants from the Life Chances Fund actually pursue a SIB, although recipients are required to undertake a SIB feasibility study/business case.

> now being viewed as not just a Trojan horse for privatization but as a fig leaf for austerity, then this is very, very dangerous ground (UK Respondent #11).

For another, it was the emergence of fund managers as "anchor investors" and the shrinking role for trusts and foundations which led them to disengage from the SIB market,

> It was just really interesting, and it's actually become the tone for some of the social investments going forward in other areas as well, is that those two anchor investors had sought to get a position on the board and sort of basically direct the project in a way that other investors coming in…were sort of left outside of. And that for us is quite [critical] because having made the commitment and having wanted to get into the investment, we were then sort of not allowed to be party to some of the work out of some of the finer details. So we almost had to sign up to what the anchor investors had put in place. And that has changed the way we see SIBs and it's one of the reasons that we haven't invested in them again (UK Respondent #74).

Several respondents also expressed frustration with the failure of successful SIBs to be sustained by commissioners. As explained by the following respondent, the mainstreaming of programs is one of the key benefits of SIBs from a philanthropic perspective,

> We are pretty fussy about the one's we do. So we do a handful a year. But we focus on the ones where the social impact is really high. When the successful social impact bond won't necessarily lead to another social impact bond, it will hopefully lead to the commissioner taking on those investments and thinking about commissioning differently (UK Respondent #56).

And yet, few if any programs have been taken on by commissioners post-SIB given the constraints noted above, "A lot of the commissioners that we've spoken to don't have enough headspace and budget to think about actually investing in medium term and longer term outcomes because they are so focused on what they actually have to do this year" (UK Respondent #56). More generally, respondents noted concerns around the actual objectives of the SIB market – e.g. the emphasis on investor returns, rather than learning and innovation – and reservations about the use of philanthropic capital to under-write private investment,

> We have to be really, really careful that we are not using philanthropic capital to underwrite the risk to the state or to the private sector. It's got to be because it's actually something that helps that not-for-profit organization do…something better for the people it is there to help…So that's why we've only done very, very

> few because there's not that many that are actually designed in that way (UK Respondent #42).

As many trusts and foundations have withdrawn from the market, those that remain have become more perspicacious limiting their investments to SIBs with stronger outcomes and social impact.

At the same time, the growing role of BSC-backed funds has had a number of consequences for the SIB market. Most significantly, the fact that funds receiving BSC capital must generate sufficient returns to cover BSC's required return of 4%[16] as well as provide for their own fees means that SIBs have been designed according to a more commercial model with greater emphasis on generating returns and less ability to take on the forms of risk and innovation which defined the early days of the market. As explained by the following respondent,

> Anyone who has got BSC's capital, their priority is to give BSC their 4% return…So the problem in the sector is the rate of return on BSC's base which you've probably heard elsewhere. BSC comes from a completely logical place. They want to create a commercial model for the market so the money needs to be able to pay for itself. Otherwise, how do you attract investors then? (UK Respondent #13).

These parameters have led to "some fairly safe bets" (UK Respondent #70) as well as efforts to limit investor risk and exposure such as the use of 'exit' clauses and contracting with providers on a PbR basis whereby working capital is delivered in tranches with each payment contingent on providers meeting specific performance targets deemed to predict program success including referrals, enrolments, and flow through the program (see also Fraser et al. 2018). There are also strategies around capital preservation with small amounts of capital invested early on in deals and initial returns (again, often based on outputs and indicators) then recycled back into the program and used for subsequent rounds of working capital thus avoiding the drawdown of additional investment,

[16] A number of respondents indicated that SIFIs who borrow from BSC need to provide returns between 6% and 7%, "For a start, if you are co-funded by BSC you've got to give them 7% return" (UK Respondent #70).

> The way a social impact bond works is that you have a rotation of money in the system that means that the investor doesn't have to put up all the contract money up front. The investor puts in a…portion, which then gets recycled through the pot year by year, or quarter by quarter, and then at the end the £3m contract only needed £800,000 of investment. It doesn't need £3m of investment (UK Respondent #2).

Moreover, given the small size of many of these deals, margins are often very tight with emphasis placed on controlling cost and closely managing program performance. The result is a market geared towards safeguarding investor return,

> [Fund manager x] have a very socially minded spin…and I think they do care about the social impact, but we have worked with them on a number of contracts and they are pretty brutal when it comes to it around, they take some pretty tough decisions around delivery. They are pretty clear about what their return objectives are for that fund…they are ultimately safeguarding their ability to raise investment funds in the future. The way they do that is by safeguarding their return (UK Respondent #63).

To be fair, this impulse is not limited to fund managers, but also includes some grantmaking trusts seeking to grow their social investment businesses, "everybody is pursuing their return. And so the money isn't available in the market to develop new ideas. Instead, everybody needs to find something that will financially wash its face" (UK Respondent #30).

Beyond the shift towards a more commercial model for SIB transactions, the pooling of capital within a small number of funds has accorded investors and especially fund managers a dominant position in the SIB market more generally, "There's a small number of very active investors in this area" (UK Respondent #4). This is especially true of Bridges Fund Management which has been involved in over 50% of SIBs in the UK to date. As a result, they have been able to accumulate expertise and strategic insight across their various deals which places them at a decided advantage in their dealings with local authorities most of whom are new to the model. These SIB investors are also able to exercise significant influence over SIB design. They are often brought in at the very early stages of SIB development delivering critical support to commissioners. Indeed, evidence of prior investor contact and engagement is often a stipulation of the central outcomes funds. For example, Life Chances applications require local authorities to demonstrate that they have thought about potential investors with more formal contacts no doubt strengthening applications, “we need to have demonstrated that we have started to think about and approach investors” (UK Respondent #9). With only a handful of investors in the market, these connections are especially critical. And yet, this raises the concern that projects are being overly influenced by investors, “it’s very worrying when a commissioner’s starting point is what will investors back rather than what is the target population that we care about, which outcomes do we want to deliver, and how much is it worth to us” (UK Respondent #63).

The dominant position of fund managers has also impacted the intermediary and advisory market. SIBs were first conceived as a fully intermediated model whereby a single organization, initially Social Finance UK, would be responsible for all aspects of the transaction from defining the issue area, sourcing providers, providing technical assistance to government, and managing performance through the SPV. This was the model that was used in both Peterborough and Essex and which was exported to the US and Canada. However, this approach quickly came under fire for its cost and complexity (Griffiths et al. 2016: 37). Investors and fund managers who participated in these early deals came to the realization that they could provide financial modeling and performance management themselves thus reducing the cost of projects and, from their point of view, developing a less expensive and more scalable model, “[Firm x] just do it on their own. Because they can just do it in-house quicker, cheaper, and better. So why pay another intermediary to do it?” (UK Respondent #13). This more simplified and streamlined approach was also made possible by the aforementioned adoption of the rate card as the dominant model in the UK. One of the results of these shifts has been a shrinking role for intermediaries. As noted in a 2016 report, “the role of intermediaries is changing. Rather than needing advisors to ‘make the market,’ as was the case in the early days, the key parties involved can simply draw on specialist advice if and when they need it. This more efficient model can prevent potential conflicts of interest, speed up development times, and reduce costs” (Bridges Ventures 2016: 8). This has led to what several respondents described as “disintermediation” in the market,

> [Fund manager x] are now increasingly themselves saying we will act as the intermediary for a SIB…We will set up a SPV to manage the contract. We'll deliver it. We will act as project manager. And we will bring in whatever providers are needed to do it. So they increasingly present themselves as project manager rather than investor which is a fairly extraordinary piece of positioning. The first time I heard it I want, yeah? I can see why they are doing it. They are doing it to get away from the still queasiness that people have about paying the costs of investment in some of these deals. But it's an odd position (UK Respondent #70).

This same respondent suggested that intermediation "in the sense of people who are intermediating SIBs in the way that Social Finance have done, that's already dead as far as I am concerned" (UK Respondent #70).

At the same time, there were differing views of the consequences of disintermediation and the contraction of the intermediary role. On the one hand, respondents cited the benefits of lower transaction costs and less complexity in project design and execution. There was also a belief that the fully intermediated model created a dependency on advisors which prevented commissioners from developing the skills internally to design and execute these transactions in the future. For one commissioner, the additional expense associated with intermediaries and the desire to develop the capacity internally was a key rationale for working directly with investors,

> I just went direct. Because they are a middleman basically. So I just went direct to social investors and said what are you looking for in a SIB business case and if I can build that myself I will…I think this comes down to knowledge retention. So if the knowledge of how to do this is retained within the commissioning organization then there is a likelihood that they could do it again. If the knowledge is retained in those intermediaries then essentially what those guys are doing is going to other commissioners and saying we have done this before and we can do this again and they make essentially a consultancy margin on it which is fine. But it's not really what we were looking for (UK Respondent #51).

However, on the other hand, disintermediation further strengthens the position of investors relative to commissioners thus potentially exacerbating the asymmetries noted above,

> There's a huge assumption that comes with disintermediation that the commissioner and investor are equally knowledgeable. The danger of disintermediation...is that an investor like [firm x], [x] spends [their] whole life investing in impact bonds. Like the asymmetry for [them] to go and work with a commissioner that has never done this before is very worrying I think and will probably lead to some very bad contracts...I think it is too early to disintermediate is my sense (UK Respondent #63).

There is also the question of more subtle, knock-on effects including less focus on research and development, and the exploration of new policy areas and interventions. The emphasis on expanding existing models in established issue areas runs counter to the promise of innovation. Finally, several respondents alluded to the financial challenges confronting the broader advisory market with specific reference to the funds available for SIB development, a key source of cash flow for many advisory firms, "There is less and less money for advisors. The CBO fund came with grants of 30, 40, 50 and in some cases over £100,000 to develop SIBs. Life Chances Fund has come with typically 20, 25, £20,000...And I think that trend will continue" (UK Respondent #70).[17] This same respondent went on to suggest that this shrinking pot of development funds was a problem not only for advisory firms, but also for SIB development more generally,

> There is a genuine concern with the restrictive funding that we have now that a lot of the SIBs that have been given the in principle funding will never make it over the line because there's too much work to do and no money to do it...And the burden goes on investors which gives even more of an advantage to those like [firm x] who are organized and able to manage and do it. So I've had this conversation with [firm y] and they say 'yeah we are aware of it. We know that all these deals are not going to be investable because the work hasn't been done and we just don't have the capacity to do the work for the people who are bringing them to us.' So they will just potentially get run into the ground (UK Respondent #70).

Here the respondent cited the example of an organization which received a significant award from the Life Chances Fund but then ran out of development money. When they asked for

[17] In part, the smaller awards reflect the belief by the developers of the LCF that less technical and development support would be required given the learnings produced by CBO (which preceded LCF). Given this stronger knowledge base, particularly on the part of commissioners, LCF also sought to fund a narrower range of technical support services compared to CBO with fewer services thus qualifying for support.

additional funds, they were told, "No. Not a penny. So the development money comes out of a different pot and it's a very small pot" (UK Respondent #70).[18] Although this constraint on the advisory market may not be a direct result of disintermediation, it is consistent with the more narrow view of advisory services that has accompanied this shift in the market. There has thus been insufficient appreciation of the extent to which SIBs are a market not only in capital but also in advice with either government or investors needing to make additional funds available for advisory services if the market is to grow.

Engaging Providers

While much attention has been devoted to commissioners and investors, one group that is often overlooked in discussions around SIBs in the UK is providers. In my conversations with UK-based respondents, providers and provider readiness were rarely cited as a significant concern or constraint on the SIB market, "I don't think we ever found that so much. It wasn't something we focused on a huge amount because there were enough out there at the time. I think probably if the market grew quite quickly then there may well be an issue of provider readiness" (UK Respondent #58). Indeed, there was a sense that the shift from grants to results-based forms of contracting (PbR) dating back to the Labour government had both prepared charities to work within the constraints of an outcomes-based model, and helped to fuel the growth of charities themselves resulting in a sufficient supply of providers with the required size, scale, and capacity to engage in SIB transactions. And yet, many of the providers I spoke with, all of whom had either engaged in SIB feasibility work or had participated in an actual SIB, were quite critical of the model despite acknowledging its benefits in terms of greater flexibility and freedom from the constraints of traditional government contracting. Ultimately, three key issues emerged around provider views of, and engagement with, SIBs.

[18] To be fair, neither CBO nor LCF allowed for increases in awards post development grant offer, nor has Big Lottery allowed for top-ups in previous feasibility supported work. However, the fact that Life Chances awards are smaller on average compared to CBO, and are geared towards specialist skills rather than more generic support, does appear to have impacted SIB development.

1. SIB Design and Development

One of the most common frustrations expressed by providers was their limited role in SIB design and development. While many SIBs have been initiated and developed by providers, the vast majority of SIBs launched in the UK have been commissioner rather than provider-led, a reflection of the constraints of the model itself as SIB ultimately depend on identifying a commissioner who is willing to pay for outcomes. Providers may have excellent ideas, but struggle to convince commissioners of the merits of their proposals,

> A lot of the ideas that are out there which might fit with a SIB…sit within the voluntary sector. And the voluntary sector will have to sell the idea to a commissioner. There's often a disconnect between the VCSE trying to sell that and whether the commissioners will buy that or not. So money can be spent on developing a proposal…which a commissioner will never actually buy on because it doesn't fit with the commissioners' perspectives. So there's a bit of a disconnect between the VCSE trying to throw an idea at a local authority and whether a local authority will actually accept that (UK Respondent #45).

This same individual suggested that, while outcomes funds generally have a high level of attrition, there is "a higher level of attrition in the VCSE projects where local authorities have just not picked up on those" (UK Respondent #45). In speaking of the gap between providers and commissioners, one respondent mentioned a provider they had worked with who was interested in developing a SIB around youth services for 18-24 year olds with an emphasis on preventing them from becoming NEET (not in employment, education, or training) and from falling into the criminal justice system. However, a meeting with the local authority revealed that the authority's biggest problem was 12 year olds with special needs, "that's a classic case of the misalignment of the problem with the provider" (UK Respondent #70). Another respondent suggested that it was especially challenging trying to engage commissioners around more radical and transformational programs, "the challenge then is to find an ambitious local authority who want to do something radical around social change that then will want to work really positively with a voluntary organization and an investor" (UK Respondent #30). Both investors and commissioners thus bear some responsibility for the difficulty of launching more innovative types of programs. Ultimately then, for providers, designing a SIB is a decidedly risky proposition, "the provider one's are really hard" (UK Respondent #28), and there are many cases where providers have developed a project only to discover that there were not any local authorities willing or able to commission the service.

In the case of commissioner-led SIBs, providers also tend to play a minor role. One explanation for this is the nature of commissioning and procurement in the UK which is built around an open and competitive process with local authorities specifying the type of service they want and providers then enlisted to submit bids. In this context, working with an individual provider to develop a project prior to the bidding process may be construed as a violation of procurement rules. Indeed, one local commissioner cited procurement as an explanation for their limited engagement with providers during the SIB design process,

> So we have spoken to providers to get an idea of cost of intervention. So in a way we have done a little bit of that market warming you could say but there's nothing officially that's done yet, because it is expected to be a competitive process. And it's got to be open and transparent and all that stuff. So we've got to follow full procurement rules on that. And that is a stipulation of the Life Chances Fund as well as our own procurement people (UK Respondent #51).[19]

A provider also noted how these rules had prevented a more fulsome engagement with a commissioner prior to SIB procurement,

> We offered…to do more intensive work on that. And we went to the council and said, 'look I know you probably have to go out for tender for this, but we are really happy to kind of have some in-depth conversations about our data, what we know about people, what we find, what we think the barriers are.' And they didn't take us up on that because I think they were coming from a point of view that well if we do that, we design the detail of it with the current provider then that's giving them a competitive advantage in the tendering for it (UK Respondent #19).

While these restrictions may be unavoidable at a certain level, not engaging with providers in advance is especially curious in cases where there is only one provider which is actually able to

[19] The formal LCF requirement is as follows, "For Full Applications, we expect your contracting arrangements to offer good value for money in selecting the intervention and other providers through open procurement involving consideration of at least three potential suppliers, Voluntary Ex-Ante Transparency notices and similar arrangements are all acceptable provided they are compliant with the commissioner's financial standing orders and national contract law" (LCF FAQ, August, 2017: 8).

deliver the desired service. Stranger still are instances where commissioners have undertaken the initial design process for a SIB without knowing if there are any suitable providers capable of actually delivering the intervention. Ultimately then, while providers may have the opportunity to provide some input once they have secured the contract, they often have little say in the SIB design process itself despite their experience and expertise, a situation which one respondent described as "daft," "it is designed without the charity in mind. And you just think well, this is daft. If you are designing a structure that doesn't even ask the people who are delivering it, then the delivery model is not going to work" (UK Respondent #54).

And yet, this sense of marginalization was by no means universal. Some providers reported exercising considerable influence over the design process, leading negotiations with commissioners and investors. This tended to be true of policy contexts such as rough sleeping where the provider market is quite small and dominated by a handful of larger organizations which have greater leverage given that a SIB is unlikely to be possible or feasible without their participation. One respondent also mentioned how the ability to invest their own funds, and thus participate as both a provider and investor, served to level the playing field,

> I was quite clear that when people went out to negotiate, we negotiated quite hard. We weren't in the position of having to do this so we could take terms…And then we threw in a bit of money because it makes it a more equal relationship. It makes it more of a partnership with the investors and I think that works. When investors feel that they are superior to you or are needed more than they are, and I come back to smaller organizations, that's when it's not good (UK Respondent #67).

In this respect, the contraction and consolidation of the provider market may actually accord greater bargaining power and leverage to the few providers that remain.

2. Performance Management

Another common concern voiced by providers involves post-deal execution and what they viewed as an overly intensive and at times aggressive form of oversight and performance management. One of the hallmarks of the SIB model is a heavy reliance on ongoing performance management as a way to ensure that providers are meeting targets and producing outcomes. This includes “real-time” monitoring of data and early indicators (e.g. referrals; enrollments) that are believed to correlate with future outcomes, and the introduction of changes and course corrections when things are not tracking as expected. Respondents were generally in agreement that the first six to twelve months of a project are the most challenging and that in most cases the initial models are wrong and need to be adjusted, “whatever you launch never works or some aspects of it never work as well as you hope, so you always have to change some stuff” (UK Respondent #35). These changes could involve modifications to the program or directing additional resources to aspects of programs seen to be lagging. Programs often struggle to meet expectations around referrals and enrolments, which are seen as key predictors of program success, and changes may be needed to reinforce or expand the referral pipeline. Staff changes may also be required including hiring individuals with different backgrounds and expertise. The following respondent spoke to the nature and scale of change that is often required, “my understanding is [fund x] had to redesign at least a part of every single SIB that they’ve launched the first couple of years. In some places that’s been changing service providers or removing management teams of service providers or going in and essentially just changing the actual delivery model” (UK Respondent #54).

While some providers view this performance management as challenging, but ultimately of value allowing them to become more sharply focused on managing to outcomes, others found it to be overly intrusive and counter-productive. To be fair, the bulk of these concerns were directed towards a single organization which is said to engage in an especially hands-on and “very muscular” (UK Respondent #49) style of performance management. In the words of one provider, “we experienced a type of management of the contract that we never experienced before. There were monthly meetings, almost daily phone calls” (UK Respondent #17). This same respondent drew a clear connection between this management style and the background of people working at the firm,

> The people in [firm x], they are private equity people. What they did is they sought to manage the SIB like it was a private equity arrangement. And what you do in private equity is you are all over that investment every day, every hour.

> And that's what [x] tries to do. And that's a real problem. It makes working with them quite difficult (UK Respondent #17).

Another respondent referenced the "constant pressure on providers to do better, do better, do better…there was constant, constant, constant changes and meetings and meetings and meetings all about how can you do it differently" (UK Respondent #61). This creates not only stress and strain but significant demands on senior management, "The expectations of management time…were too great. So our contract was worth about £1.5 million a year to run those services but we were applying a level of management that would be consistent with a £10 million contract" (UK Respondent #17). Rarely are allowances made in SIB budgets for these additional management costs. Other SIB specialists are known to have a less aggressive and more informal and constructive management style (Fraser et al. 2018),

> Other investors are a bit more hands off. They've got smaller teams of investment managers who make the investment based on the due diligence they have done on the provider and then they kind of just let the provider get on with it. So it's a bit of a continuum I think (UK Respondent #4).

Ultimately, regardless of its merits in driving change and producing desired outcomes, the issue with this style of performance management is that it is based on a degree of mistrust and reflects an imbalance in the relationships between the parties to SIB deals,

> Where investors do too much of that driving for performance management…to me it speaks of wider issues that the relationships across the three are not balanced…I would read that as a sign that this is not a mature, and positive set of relationships that we have in place. That for some reason the other players, or the investor, isn't engaging with the other players with a more collaborative, problem-solving, trust-based relationship, but it's becoming more punitive (UK Respondent #64).

As suggested by another respondent, the failure to work more collaboratively with providers is another barrier to the future growth of the SIB market,

> [Firm x] have more of a kind of private equity command and control mentality. So they've driven a lot of change in a lot of their SIBs and in a good way sometimes, but also they haven't always taken the SIB providers along with them which I think then can create damage in the medium to long-term (UK Respondent #36).

Moreover, the notion that this form of performance management is necessary for SIBs to be successful raises questions as to the ability of programs to be mainstreamed post-SIB as it is unlikely that local governments will ever possess the capacity to manage contracts to this degree.

3. Provider Benefits and Engagement with the SIB Model

A final consideration with respect to providers concerns the SIB value proposition and the interest and willingness of providers to participate in future deals and engage with the market over the longer-term. One of the most commonly cited benefits from a provider perspective is not necessarily the additional funds, but rather the flexibility of these contracts, "most of my work is all contracts. So it's local authority contracts…which are stifling, limiting, preconditioned, determined. There's a path you will travel and you shall not veer from this path and you will achieve x, y, and z" (UK Respondent #65). In contrast, SIBs allow providers to make choices "without limitation, without question, about how we staff and deliver and how we get to where we want to get to. So I have a pot of money and…I can choose what the hell I like to do with that money as long as I achieve that outcome" (UK Respondent #65). Another respondent echoed this sentiment, "And that whole flexible way of working is not something we can do with our existing contracts where we are told that we must have a certain number of people in post at all times. So it's really interesting how it frees you up" (UK Respondent #72). Beyond the promise of flexible, multi-year funding, SIBs were also seen to deliver other benefits including greater publicity. For larger providers with significant revenues and sizable balance sheets, who could quite easily self-fund an outcomes-based contract, these ancillary benefits may be critical to their decision to participate in a SIB, "one of the big pluses…is the profile…we got a lot more publicity out of it as an organization than if it had been traditional funding to do the same thing. And publicity is important when you are a charity trying to raise money" (UK Respondent #44). The value of publicity was also noted by a SIB investor, "They usually think it's something that is high profile and exciting…and we've seen organizations transform because they have taken on a SIB" (UK Respondent #56). However, this begs the question of providers' long-term commitment to the model and their willingness to participate in future deals as the novelty and thus value of SIBs as a form of publicity begin to wane, “I think the press dividend wouldn’t be so great with any future SIB” (UK Respondent #44).

Another key issue surrounding the SIB value proposition from a provider perspective is the extent to which providers are required to take on part of the risk of the investment. As noted above, while some contracts provide working capital at set intervals regardless of provider performance, others include a PbR element where the disbursement of funds is conditional on providers meeting specific benchmarks. However, in requiring providers to take on part of the performance risk, it becomes less clear exactly what investors are bringing to the table,

> As a point of principle whenever we structure deals we always tend to work with the service providers we manage on a kind of, we will pay them quarterly in advance. Actually that’s not hard wired into impact bond contracts and some of the one’s that [firm x] does, and this speaks to the evolution of the investment market, that the redder in tooth and claw that you are, the more you are saying ‘well if we’re taking these payment terms, you can take them too. So we’ll pay you on results.’ At which point you are like well hang on a minute what’s the investor really adding at that point? (UK Respondent #63).

While assessments of the health of the SIB market often focus on investors and commissioners, provider engagement is also critical. Up to this point, the market has been dominated by a fairly small group of large providers who are able and willing to take on the cost and complexity of these contracts, “So you see some of the big providers mopping up the market” (UK Respondent #64). However, it is unclear whether this will translate into a long-term commitment especially as most of these providers could simply self-finance or use mainstream banks to finance PbR contracts, “we can get 3% from a bank so why would we seek social investment for that?” (UK Respondent #68). In the words of another respondent, “I don’t think there’s a lot of appetite anymore to work with investors. We are a big organization, £140 million turnover organization. We don’t need to pay 6% to people” (UK Respondent #17). Several respondents also suggested that there has not been enough investment in ‘market development,’ “we keep talking about market development, but we don’t really do it” (UK

Respondent #64). The result is the exclusion of smaller providers which lack the capacity to participate in these types of structures, but could bring more innovation to the space, "it precludes a lot of small players…It's either technically too complex or too risky. Or they just haven't got the capacity which is a shame really. Because I think a lot of the innovation comes from smaller providers" (UK Respondent #67). Shrinking development grants and the general absence of support for provider advisory work are further barriers to this type of 'market development.' Thus, while commissioners represent a barrier in the present, provider engagement could hamper the growth of SIBs in the future.

The Challenges, Barriers, and Limits of SIBs in the UK

Despite its position as first mover and world leader in SIBs, the SIB market in the UK has not been without its challenges. Foremost among these has been the struggle to engage local authorities, a widely acknowledged problem that has yet to yield a clear solution. Part of the difficulty is that this challenge is itself the by-product of larger tensions in the way the SIB agenda has evolved in the UK. On one side is a social investment model which demands capacity, expertise, and new ways of working and is geared towards the pursuit of scale. On the other is a public sector reform agenda which has combined deep cuts to local authority budgets with greater responsibility for public service delivery thus eroding organizational capacity, expertise, and appetite for innovation while focusing SIB development on local projects which are limited in scale and face more challenging economics. These tensions are also underlain by a deeper and more fundamental disconnect between the world of private finance and public services. SIB specialists have struggled to make SIBs relevant to local authorities and to translate the SIB model into language and a value proposition that resonates with public sector actors. To the extent that local authorities have engaged with the model, this has been motivated largely by the carrot of accessing central government top-up funds rather than the merits of the model itself with the emphasis placed on initiatives that can deliver short-term cost savings. SIB fortunes in the UK have also been impacted by the role of BSC as the focal point of the government's social investment agenda and catalyst for the SIB market. While BSC has been a critical source of investment capital, the terms of this capital have resulted in a more commercial approach on the part of fund managers thus contributing to a series of knock-on effects which have further eroded the SIB value proposition for both government and providers including: greater cost of capital; strategies to limit investor risk and a focus on risk sharing rather than risk transfer; and more intensive forms of performance management. It is thus not only the contradictions within the SIB agenda that are critical, but also the misalignment between the interests of the various parties to these deals. The supply of BSC capital has also impacted the organization of the SIB market. Fund managers have come to assume a dominant position in the market relative to government and providers, and the role of both philanthropy and intermediaries has been on the decline. This raises a larger set of questions around the impact and implications of these shifts including the consequences of investors being given greater say over the design of public services. Thus, three lessons emerge from the UK SIB experience: (1) the impact of larger policy agendas on the fortunes of the SIB market; (2) the contradictions within these agendas and the challenge of using an investment approach to achieve public sector reform; (3) the difficulty of aligning the interests of very different groups of actors. The question is whether similar lessons apply to the US and Canada.

US

As noted in the previous chapter, the US PFS market has been shaped by a distinct set of agendas and influences. Rather than austerity and localism, PFS in the US has been informed by evidence-based policymaking and the effort to identify, support, and scale programs that 'work,' a very different vision of public sector reform. As a result, evaluation has been much more front-and-centre in these projects with greater reliance on methodological rigour as an indicator of project quality and value and an emphasis on RCTs as the basis for determining program outcomes and investor returns. While SIBs in the UK have enjoyed extensive financial and policy support from central government, government has played a much more limited role in the US with the support that has been made available largely limited to technical assistance and capacity building rather than outcome payments or capital investments. Instead of government, it is philanthropy which has driven PFS in the US, a reflection of the greater role of philanthropy more generally in the US context, and an interest in PFS as an exit strategy and vehicle for scaling philanthropic investments. Continuing with the theme that it is challenges of engagement rather than execution which help to account for the struggles of SIBs, the question is how these elements of limited government support, the active role of philanthropy, and the embrace of evidence-based policymaking have impacted the ability of US PFS practitioners to engage investors, government, and providers.

Risks, Returns, and the Challenge of Investor Engagement

While engaging local commissioners was by far the most commonly reported challenge in the UK, in the US it was the struggle to secure investors, although there were some diverging views on this question. Absent a capital source equivalent to BSC, US practitioners have had to coordinate the full capital raise for each individual deal. While a portion of this sum has typically come from foundations in the form of subordinate investments and recoverable and/or non-recoverable grants, this has meant that PFS practitioners have had to draw from a larger pool of investors including more commercial and return-motivated investors. The focus on more commercial capital is also consistent with the vision of PFS as a form of impact investing and a tool for scaling successful programs with the pursuit of scale ultimately requiring access to a larger capital pool. Thus, in addition to raising the required funds for individual deals, PFS practitioners have also been eager to test the larger commercial market and to establish proof points that the model could work for more return-motivated investors. As noted by a UK respondent, "in the States it feels like part of the goal of this thing is to get the private financial markets involved" (UK Respondent #35).

In the face of these demands, some US respondents suggested that raising capital for their own projects has not been an issue, "I feel like we…had a pretty good stable of investors" (US Respondent #45). However, for others, investor engagement was a key challenge and impediment to market growth. Part of this divergence may be due to the definition of "investors" and the types of investors being pursued for these deals. The individual referenced above, whose firm had managed to secure a "good stable" of investors, characterized these individuals as "social first investors" whose primary concern is recouping their principal,

> People want to get their principal back. I'll be honest. They care a lot less about excess return over that…the people who invest with us are clearly social first investors who care very dearly either about the geography, the issue area, the innovative mechanism, that's what's drawing them. They are not coming in saying 'oh wow if this goes perfectly I'll be able to earn 9%, uncorrelated 9%.' That's not why our investors are participating. They come because of the project…But as part of it they say, 'ok we're not making a grant, we're making an investment.' So the goal is to return the principal at a minimum (US Respondent #45).

As an example of a "social first investor," this same respondent pointed to high net worths who are drawn to PFS given the opportunity to re-invest any returns, part of a more "evergreen" approach to philanthropy,

> The high net worth investors…are looking at it as, 'ok I'm probably going to make a grant to this organization anyways, but wait I can do it through this vehicle? And so I might actually get to make the money back and grant it again?'…I think they are comparing it to granting. They like the thought that they may get the principal back so that they can give it away again. It becomes a bit more evergreen (US Respondent #45).

Donor advised funds would also fit into this category. One could argue that these capital flows are essentially philanthropic in nature and thus should be distinguished from investments motivated by both social and financial returns as per the mantra of 'impact investing.'

At the other end of the PFS continuum are more return-motivated or perhaps return-conscious investors including CDFIs, CRA banks, and insurance companies who are concerned not only about preserving their principal, but also protecting their returns. It is here that PFS specialists have encountered greater difficulties expending considerable effort to engage these types of investors with mixed results. There were some promising early signs with Goldman Sachs investing $40 million across several deals through its Urban Investment Group. And yet, each of these investments was subsidized in some way by philanthropic capital. As has been widely reported, in the case of Rikers, this took the form of a direct guarantee from the Bloomberg Foundation,[20] while in most other deals foundations have served as subordinate

[20] This 'Bloomberg guarantee' has received extensive criticism. While it is rightly suspect that Goldman would require this type of guarantee for what, by its own standards, is a tiny investment, part of this was motivated by the payment structure of the deal which was based on a step function. For example, if recidivism decreased by anything up to the

investors in a capital stack allowing Goldman to come in as the senior investor with lower risks and higher returns. It is also noteworthy that Goldman has not invested in any recent projects, although this could simply be due to a desire to wait on the results from its first slate of deals. Beyond Goldman, there has been limited interest from other, more commercially minded investors. Bank of America Merrill Lynch did participate in the New York State PFS deal, but only by assisting with the capital raise via its impact investing platform rather than investing directly.[21] QBE, a global insurance company, has set aside $100 million for PFS projects as part of its 'Premiums for Good' campaign and was a major investor in the Connecticut Family Stability project. And French Bank BNP Paribas is an investor in the Connecticut Family Stability and Veterans CARE PFS projects. Most notably, there have been very few investments from CDFIs and other CRA banks which were viewed in the early days of the market as a key bridge to more commercial investors (Godeke and Resner 2012). CDFIs, in particular, may be uniquely qualified and well-suited to engage with PFS projects given that they are "driven by mission and measure their success by both financial and social returns" (US Respondent #60). Exceptions are the Reinvestment Fund and the Nonprofit Finance Fund, although in the case of the latter their $1 million investment across several projects was provided by the federal government as a learning opportunity with NFF expected to gain insight into what it was like to be a PFS investor and then share their findings.[22]

In their efforts to engage more return-conscious investors, PFS practitioners reported a series of challenges. At the most general level, the problem is that these deals are viewed as being overly risky, "You have funders saying look at the high risk. They are enormously high risk. There's not one project in the United States or around the world that is not extremely high risk…So it's a very challenging market in that way from the perspective of trying to bring in investors" (US Respondent #19). An added difficulty is that while the perceived risks are high,

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first target of 8.5%, Goldman would lose their entire investment. If it decreased by 8.5% they would recoup 50% of their principal. Given the risk that this added to the deal – with similar thresholds dictating the terms of full principal recovery and ultimately returns – the Bloomberg guarantee was needed to make it work.

[21] According to Kasper and Marcoux (2015), Bank of America offered the New York State PFS deal to certain prequalified, high-net-worth clients. This offer was backed by a guarantee fund created by the Rockefeller Foundation totaling $1.32 million, or 10% of the value of the project.

[22] According to respondents, NFF has made one loan off of their own balance sheet which is not associated with this $1 million 'grant' from the federal government.

the potential returns are usually quite modest and are capped by the terms of the contract thus limiting the investor upside, “the basic dilemma of the social impact bond is there’s a capped upside and unlimited downside…we kept bumping up against that” (US Respondent #27). These are “equity risk, bond return deals” (US Respondent #43). For many investors, the fact that not only their returns, but principal would be placed at risk meant that these investments were a no-go from the start (Godeke and Resner 2012). The absence of a secondary market and thus a lack of liquidity have made PFS an even harder sell.

Part of what accounts for the perceived risk of PFS is the ambiguity of the investment itself and, more specifically, the absence of a clear asset which can be subject to the due diligence process,

> These are risky investments. We call them social impact bonds…when you actually look at the cashflows, it looks very equity like. Because there’s no asset…there’s no assets in a PFS transaction [laughs] so the debt looks a lot like equity right. Because the asset is the contract right. The asset really is the SPV…And then you’ve got an asset which is the government saying or the payer saying that they promise to pay. And that’s the asset that sits in the SPV (US Respondent #45).

This is a perfect illustration of the difficulties associated with these deals as the respondent initially suggests that there is no asset in a PFS transaction, but then goes on to provide three slightly different interpretations of what the asset might actually be: (1) the contract; (2) the SPV which holds the contract; and (3) the promise to pay. Even more challenging is how to diligence an investment whose value derives from a projected change in human behavior,

> What does it mean for [investors] to diligence a social service outcome? That’s very different than what their internal investment committee are used to reviewing. It’s very different if they have an investment manager, what they are used to doing. It can be very different if they are a regulated entity to make sense to their internal compliance folks. What does it mean that your payment is contingent on human behaviour? (US Respondent #35).

Most financial institutions lack the subject matter expertise to answer this question, and the small size of individual deals and the market as a whole provides few incentives to develop these capabilities (Godeke and Resner 2012). The following comment from a PFS investor nicely captures the challenges posed by these investments,

> These are still complicated transactions to figure out. It's an enormous investment of resources to loan to one of these things…no one has done this before, so there's just a lot of time spent figuring out how do you actually evaluate…whether or not we are likely to be paid back (US Respondent #24).

The fact that PFS is not rooted in a traditional asset type is especially cause for concern for those in the community development space such as the aforementioned CDFIs and CRA banks which are accustomed to dealing with blended financial and social returns, but largely in the form of physical assets, principally land or buildings,

> When you dig into the community development industry in the US be it through the CDFIs or the CRA banks, most of it is funding real assets and hard assets which they can get their heads around. And this was kind of a challenge for them to figure out, what's the risk/return profile of this structure? (US Respondent #27).

Another respondent spoke directly to the challenge of trying to sell these types of investors on the PFS concept,

> They don't have an asset class called PFS. It's too new. So I've been spending more time educating them on why would you create an asset class…But then we get, 'That's too risky, I didn't realize that. We're used to have a building on the ground.' Direct quote. Asset. Right? So the minute I say you don't have a building on the ground, that is a reality check (US Respondent #19).

However, this view was countered by a respondent from a CDFI who suggested that it is not "the lack of a hard asset" that "keeps lenders away," but rather "the equity-like nature of the risk" (US Respondent #60). They suggested that, as a CDFI, they have extensive experience with underwriting cash flow risk in the absence of real estate collateral, but it is the uncertainty of PFS outcomes and returns that is the real concern. Thus, it may be the more conservative approach to assessing these risks that is a barrier to greater CDFI engagement with the PFS market. This fits with the perception on the part of several respondents that CDFIs are generally more risk averse, "at their core I think CDFIs are often relatively risk averse" (US Respondent #45).

US respondents also referenced several additional forms of risk that are unique to these projects and which have also been noted in other commentaries and market soundings (e.g. GAO 2015). There is "appropriation risk" (US Respondent #19) or "counterparty risk," that is, the risk of entering into a long-term contract with government and the possibility that these commitments might not be honoured by future administrations. When dealing with governments, investors are used to having insurance products or guarantees in place to mitigate the risk. However, "that's not the way social impact partnerships are done right now. We don't have guarantees. We don't have insurance. You have sometimes appropriations risk, always if it's government funded" (US Respondent #19). There is also "policy risk," "the risk that a government initiates a policy change that prevents a PFS project from operating as initially intended. A policy change could disrupt a service provider's program delivery, putting the achievement of outcomes – and investors' investment – at risk" (GAO 2015: 35). This begs the question of who should "own" this risk, a point one respondent illustrated in reference to a criminal justice project,

> Who should own the fact that either government could change the rules and not send people to jail as much, or that something could change in the real world, the opioid epidemic, or an increase in gun violence, or an economic drop or an economic improvement? I'm not sure who should own the risk for that when you're doing a five, six, seven year study. There's real risk with that (US Respondent #30).

The decision to cancel the third cohort of Peterborough was cited as a perfect illustration of this policy risk and a cautionary tale for investors. Finally, there is what several respondents described as "evaluation risk" which raises a larger set of issues around the appropriate standards of evaluation for PFS projects and the use of RCTs as a basis for determining outcomes and investor returns.

RCTs, "Evaluation Risk," and Barriers to Scale

Of all the issues impacting the US PFS market, the one topic that triggered the most passionate discussion and debate was the RCT. As noted in the previous chapter, the use of RCTs as an evaluation methodology is informed by the larger movements around evidence-based policymaking and 'what works' in which RCTs are hailed as the evidentiary 'gold standard' providing the most rigorous assessments of the causal effects of social programs and interventions. In the context of PFS, RCTs are seen to offer a variety of benefits. First, by gauging the effectiveness of programs, they are consistent with the PFS learning agenda in the US and the effort to expand the knowledge base of what works in the world of social policy and thus what merits greater investment. Second, they address the challenge of both deadweight and attribution. They allow governments to pay only for net benefits or "impact" – that is, positive outcomes relative to a control group – thus avoiding payment for outcomes that would have been achieved even in the absence of the program. And, the ability of RCTs to control for extraneous variables means that governments can be confident that any outcomes were the product of the program itself thus further bolstering the PFS value proposition. As explained by one respondent,

> One of the reasons that we think RCTs are so important in the US context early on was this need to ensure that outcomes were rigorously evaluated and the government was paying private investors, these kind of financially motivated private investors, based on the impact of programs and not just on what would have happened anyways. So in early projects we thought it was very important to rely on rigorous evaluation especially given the risk that a project would be set up where a service provider would hand select participants, we would measure outcomes, those outcomes would probably be things that would have happened otherwise and governments would be making not only success payments but paying a return on investment to a private investor for something that would have happened otherwise (US Respondent #8).

Thus, payment on net benefits was viewed as being important to the legitimacy of the model.

Interestingly, while allegedly providing key benefits to government, the individuals interviewed for this study suggested that it was not government per se that was driving the RCT agenda in early deals, but advisors to government, "I think some advisors to government were driving the RCT train" (US Respondent #55). As explained by another respondent,

> Most government people learn about RCTs when they get into the business and get this from their advisors. A lot of them have never even heard of RCTs…Investors certainly don't think about RCTs…and so I think that the fact that certain academic institutions have been involved in the early days of this field has introduced the evaluation community in a way that is just really interesting (US Respondent #52).

In particular, reference was made to Harvard's Government Performance Lab, "People advising the government. The GPL at Harvard. That's where that's coming from. No question" (US Respondent #49). While acknowledging that this is a common perception, a respondent from the GPL suggested that,

> the reality is a bit more complicated. In some cases the governments knew from the start they wanted RCTs, and we were happy to set up projects in that way. In other cases, we explained the trade-offs, and they decided that from both a 'learning what works' standpoint and 'making a credible case that we are only paying for impact' standpoint to go with the RCT approach. And in another set of cases, we strongly advised against doing RCTs because they were a bad fit for the particular projects (US Respondent #43).

Another respondent, not affiliated with the GPL, echoed this assessment asserting that if there is any player that has advocated for RCTs, it has been government (US Respondent #54). Others suggested that the RCT agenda was also being pushed by funders such as the Arnold Foundation as well as other foundations who continue to view RCTs as essential barometers of program effectiveness. One UK-based respondent spoke directly to this influence of philanthropy on the use of RCTs in the US space,

> In the US market, much more so than in the UK, the discourse around what appropriate evaluation of impact bonds looked like was kind of being, captured might be too strong a word, but dominated certainly by a set of actors who very strongly were saying it's RCT or the highway. You either do a randomized control trial or it's just not worth doing (UK Respondent #63).

When asked who these actors were, they replied, "Some of the foundations, and some of the foundations that are funding the intermediaries…are very strong on that stuff" (UK Respondent #63).

For investors and intermediaries, RCTs inject a number of considerations and constraints into PFS projects. They are costly and can be logistically challenging. In particular, in order to populate not only the program group but also the control group, providers must essentially generate twice the number of referrals. Moreover, these groups must be of sufficient size (100 to 200 is often used as a benchmark) to produce statistically valid results with larger numbers increasing the odds of statistically significant findings, “When you are doing a SIB you are looking to have statistically significant findings at the end so you need to have the ability to serve at least 200 people per year which for some providers is a lot” (US Respondent #67). Given that generating sufficient numbers of referrals is also a struggle for many providers in these projects, the need to increase program size solely based on the requirements of the statistical technique simply compounds this challenge while also effectively ruling out smaller programs and/or providers. The lack of suitable referrals emerged as a key point of frustration in one deal in particular which required the addition of several new referral sources mid-stream to make up for the gap, “we’ve risked losing this RCT several times in this deal because of the numbers, because we haven’t had the n to get to anything reliable so the standard deviations are, like you could drive a truck through the standard deviations” (US Respondent #21). RCTs are also notorious for producing negative or inconclusive results, thus increasing the risk of false negatives for providers, and they may tie up investor capital for longer periods of time as RCT-based projects often require longer timelines to accumulate the necessary sample size. For intermediaries in particular, RCTs (and quasi-experiments) come with another significant downside. In the absence of regular data on the control or comparison group, it is difficult to manage towards specific payment outcomes, “it’s really about performance management and so getting that real-time feedback is really important. And the RCT doesn’t lend itself to that. It’s like a black box that you open up one day” (US Respondent #55). This feedback is also important for providers, “[the provider] needs better real-time data of proximate indicators so they can change their behaviors and manage. How do you manage otherwise?” (US Respondent #30). One respondent challenged these views suggesting that evaluation and what they described as “performance improvement” should be viewed as two different things which need not be mutually exclusive,

> Learning whether an intervention has an impact and creating an environment for performance improvement are two different things. To do the first you need some kind of evaluation with a credible counterfactual. To do the second, you need high frequency feedback loops between operations and outcome measurement. Some US projects have both, some have one or the other, and the worst projects have neither (US Respondent #43).

Regardless, from an investor perspective, RCTs introduce yet another form of risk, what several respondents described as "evaluation risk,"

> [The RCT] adds a…risk that in the early days we didn't think of, which is evaluation risk which basically is the risk the structure and process of the evaluation will actually impact the results that are observed. Whether it's because the referral system is so challenging and the randomization process is so challenging that that impacts results (US Respondent #55).

RCTs are thus seen to increase not only the costs and complexity, but also the financial risks associated with these investments.

In light of these challenges, some PFS practitioners and investors started to push back challenging the merits and necessity of RCTs. One recurring theme was that RCTs are rooted in an academic perspective, no doubt a nod to the Harvard GPL as a perceived RCT backer, and that those working in the PFS space need to adopt a more practical approach. This was sometimes framed in terms of the problem of the 'perfect' being the enemy of the 'good,'

> I think people got so enthralled with the early idea of PFS, and a large majority of them coming out of academia, that I think we were a little bit tied to some of these idealistic models or viewpoints of how PFS should work in a perfect world. And I think sometimes the perfect became the enemy of the good (US Respondent #45).

As noted by this same respondent, there is a tension between the precision of RCTs and the speed and scale of transactions, "The tension that I see as an ongoing tension is how precisely do we want to measure impact versus how much scale and speed do we want to achieve in employing capital" (US Respondent #45). Another respondent also referenced the limitations of an academic mindset and the value of a more practical approach,

> Everybody was trying to be perfect. And I can tell you after six years you can't be perfect. You have to always be looking at it and saying what is more important to

> move the needle? Is this about perfection in an academic sense around PFS…or is it getting a good project launched that we'll learn…over time some of the challenges and opportunities around measuring outcomes and measurably changing someone's life? I think the needle has clearly swung for everybody back that way. You can't look at this in an academic sense. You have to look at it in a practical sense sometimes (US Respondent #19).

In advocating for the move away from RCTs, and even quasi-experiments, practitioners invoked alternative notions of 'value' suggesting that payment based on outcomes is itself a significant improvement over existing government contracting which remains rooted in activity-based indictors. Some outcomes, such as moving the homeless into accommodation for a period of time, are also deemed to be inherently good thus rendering comparisons unnecessary, "Because it is a good…if you're chronically homeless and we have you in housing for six months, we don't need to compare that to anything because we know that by definition treatment as usual was not solving that problem, that's why you're chronically homeless" (US Respondent #30).

In the wake of these mounting criticisms, there are signs that the US market has indeed started to move away from RCTs, "if you look at how people are doing in PFS contracts now, there's a shift away from doing RCTs for payment purposes which I think is smart" (US Respondent #68). As one respondent joked, "if the RCT is the gold standard, the US moved the dollar off the gold standard a long time ago and nothing went wrong. We can do that. This is possible" (US Respondent #5). This is perhaps best reflected in more recent efforts to bring the rate card model to the US, a model which is generally viewed as more investor friendly and where payments are contingent on pre-priced outcomes rather than rigorous evaluations and live counterfactuals. In this respect, the US market may be becoming more like its UK counterpart,

> I think the US market is swinging in the direction of the UK market I think appropriately because I think when we all look back on this, we don't want it to be a really interesting experiment. We want it to be a new tool that government actively uses to achieve better outcomes (US Respondent #45).

And yet, some in the US space have expressed misgivings about this move and its implications for both the PFS learning agenda and the quality and meaningfulness of outcomes. One respondent in particular (someone with experience in designing PFS projects) suggested that the move away from RCTs was motivated, at least in part, by weaker than expected results from some of the early PFS deals, and expressed concern about the reliance on less rigorous forms of evaluation in projects moving forward,

> Some of the earlier deals were coming online and there was sort of hushed awareness that the results from some of these deals were not as positive as had been hoped. So instead of having a collective discussion about why and what that meant for iteration some of the I'd say senior folks from all of the intermediaries determined that the best way to go was…to water down the evaluation design. That there was too much risk involved in these deals. So they started going away collectively from RCTs. And I think there's issues with RCTs in certain settings. But going away from RCTs and even quasi-experimental designs, going actually back to some pre/post measures and discussions of parachute clauses you could put into contracts such that you could break contracts fairly easily if it's not getting results or inflows of participants or whatever. That was very concerning to me to see that movement (US Respondent #54).

Another respondent with considerable experience in the world of evaluation also expressed a concern around attribution and thus the value of projects based on the rate card model,

> I think there's a lot of thinking that needs to be done about what's the end game? As it's evolved a little bit into different strategies like outcomes rate cards and things like that, I think there's going to be some real…hiccups in terms of attribution and really attributing program effects to the actual intervention or the scale-up intervention (US Respondent #32).

Thus, it is fair to say that evaluation remains a key point of tension in the US market, one which reflects the different and oftentimes competing agendas and visions of PFS, "Is it an impact instrument, or is it actually a social science experiment trying to measure and validate?" (UK Respondent #49). As with the UK, here we can see evidence of a clash between a particular vision of public sector reform and the demands of an investment-based approach as well as between what may be in the best interests of government versus investors.

<u>Engaging Government</u>

While many of my conversations with those working in the US PFS space revolved around investors and RCTs, respondents also pointed to challenges associated with engaging the other key parties to PFS deals, namely government and providers. In terms of the former, one respondent suggested that recruiting government payers was actually more challenging than attracting investors,

> I actually feel like we were really successful in raising capital…we would always say that the number one hardest part about PFS was engaging a government payer and then working through the identification of outcomes and pricing of outcomes with government, that was harder. And then probably the second thing would be raising capital (US Respondent #45).

Another respondent who has worked closely with governments on several PFS deals echoed this sentiment suggesting that there was a "government deal flow problem" (US Respondent #43). In speaking with PFS practitioners and representatives from local and state government, it would appear that the reasons for this limited government engagement are slightly different from the UK. Whereas in the UK the SIB market is very much tied to local government, the vast majority of US PFS deals have been with county and state governments. Capacity, expertise, and scale may thus be less of a concern as these governments are more likely to possess the sophistication and capacity to participate in these deals. Moreover, with most social services funded at the state level,[23] there may be fewer issues around the allocation of cost savings and the determination of suitable payers. The same is true for data which is also generally held by state agencies. One respondent with experience in both markets suggested that the ability to work with these state agencies made it easier to identify outcomes and savings and thus execute transactions in the US,

> In some ways it made it easier with the projects, because you could speak to a state government and actually they would be both the outcome payer for a project and would also see most of the benefits…Whereas in the UK, it feels like when you are trying to look at what benefits might be created by improving outcomes for people, it gets very complicated very quickly, because there are so

[23] Exceptions include states such as California where social services fall under county jurisdiction.

> many different layers and there's lots of different agencies and different departments doing things that it's quite dispersed (UK Respondent #66).

With respect to the ability of government agencies to participate in these transactions, it is also important to recognize the pivotal role played by the GPL in the US market. The fact that Harvard fellows are embedded within state and local governments for extended periods of time, and are able to provide whatever support and assistance is required as part of the PFS design and contracting process, has no doubt helped to facilitate these transactions. Specific advantages include the injection of an independent and "neutral" form of expertise,

> Partnering with external folks who are experts that can walk in and say, 'we are unbiased, we are neutral, we are here to help and ensure that this is done rigorously,' it takes a lot of the pressure off of the government in terms of the technical skill set. It injects some expertise (US Respondent #67).

For projects that draw from multiple stakeholders within government itself, a GPL fellow can help to "herd those cats" (US Respondent #53). Moreover, it is not only the GPL's technical assistance that is valuable, but also the "confidence" (US Respondent #43) and credibility gained from association with the Harvard brand, a point acknowledged by a UK SIB specialist, "If you were a commissioner and you say I have a fellow from the Harvard Kennedy School help me think this through, and you screwed up, you haven't quite got the IBM defense but it's not far off" (UK Respondent #31). For all of these reasons, governments in the US may be better positioned to engage in PFS transactions.

And yet, there are also some key disincentives which may help to explain their reticence to do so. Most notably, with little in the way of direct financial support from the federal government, and less acute budgetary pressures at least in comparison to the UK, there may be less financial benefits as well as pressures to undertake PFS deals. More importantly, there seemed to be greater skepticism in the US around the PFS value proposition and, in particular, the ability to deliver on key promises around cost savings and economic value for government. Partly this is a reflection of the policy focus of some of the early US deals many of which involved the criminal justice system and efforts to reduce rates of reoffending. These projects were viewed as having significant promise given the high costs of incarceration. However, the issue is that most of these costs are fixed (e.g. buildings and staff) rather than variable (e.g. prison uniforms and health insurance). As a result, even a significant (e.g. 20%) reduction in "bed days" – the most commonly used measure in recidivism projects – would not be enough to close the wing of a prison, the point where real savings would start to accumulate (McKay 2013). Thus, while attractive on its face, the economic rationale for reoffending programs begins to weaken upon further scrutiny,

> The so-called value proposition for justice-related programs in PFS I think is very attractive…but once you really dig down critically into what you are actually saving many of us in the justice evaluation world know you don't save as much as you think concretely until you start closing jails and prisons. And that's when you really get the cost savings. And I don't think we're at the point now where we have any interventions that could actually lead to, or any program interventions that could actually lead to jail and prison closings. Those kinds of things have to be at the front end of the justice system. You can't close a prison just on the back of reducing recidivism by 20% within your target population (US Respondent #32).

In light of the difficulties of achieving cashable savings in these and other deals, respondents indicated that the field has already moved away from cost savings and is focused instead on the broader notion of 'value for money,' "If you dig deep, cost savings is the rhetoric. Even if you reduce recidivism, you don't really save much money. It's just a way to talk about it. At the end of the day it's about getting value for the money that is being spent" (US Respondent #52). Another respondent suggested that what qualifies as value for money in these projects depends largely on the government's willingness to pay for a particular outcome,

> I think the full field is moving away from [cost savings] because it's really hard to do. Really, really, hard to do. You have a really narrow number of things that are actually relevant to that particular government depending on what level you're working with. So I tend to think about more of what's the willingness to pay of a particular end payer for achieving that outcome (US Respondent #53).

The shift from a "cost savings play to more of a value play" (US Respondent #31) could entail additional and better outcomes for the same cost. It could also include broader notions of "social value" (Kohli et al. 2015; see also Segal 2017) such as reduced costs to victims (financial, physical, and emotional) and a greater sense of public safety as by-products of criminal justice projects. However, these types of implied savings are more difficult to calculate and, while they may be good from a public policy and fiscal sensibility perspective, it is more difficult to justify investor returns (US Respondent #3).

Another disincentive from a government perspective is what several respondents referred to as the problem of "over-capitalization" (US Respondent #3). While in theory the PFS model allows the government to spend now and pay later if programs are successful, investor concerns around "counterparty" or "appropriation risk" have meant that governments have had to appropriate funds in advance in anticipation of potential outcome payments, "The way the mechanics of this work is the government still needs to squirrel away money in real-time to make success payments. Nobody has gotten away with not doing that. So not only is there not real money, but you're squirreling away money" (US Respondent #37). These set-asides undercut another key promise of PFS, "we told government that you don't have to put up the money unless the project works. But in fact the market says 'No. You do have to put up the money, because we don't trust you'" (US Respondent #30). This same respondent suggested that this demand for new funds is another constraint on market growth,

> One of the constraints…is that both of these projects required new funding streams. So in a time of limited resources you are saying to government you should do this thing and come up with a new pool of money that you are going to put aside because of the counter-party risk, because you won't enter into a contract that binds you year-over-year. So the other side is requiring you to put up the money as the project goes on, and so you need new money. And that's just not happening (US Respondent #30).

One conversation with a representative from state government (who declined to be recorded) with direct knowledge of several PFS deals yielded a number of interesting insights. For example, they spoke directly to the problem of cashable savings arguing that, while the whole PFS structure depends on "future costs forgone as a result of outcomes" (US Respondent #3), the savings are not in cashable form and cannot be credited to specific budget lines. They also made the point that the projected savings from these deals are very small relative to the overall government budget thus producing a small financial impact even if these savings could be fully realized. In addition, they noted the problem of "over-capitalization" and the logistical challenges involved in making appropriation requests for contingent liabilities, and they questioned the degree to which these projects provide true risk sharing (thus justifying the payment of risk-based premiums) especially when government can fund these projects much more cheaply on their own. They thus posed the question, without risk sharing, "what's the virtue [of PFS]?" (US Respondent #3). Another respondent, who has worked closely with government, provided the following elaboration on this question of risk sharing,

> There's a perception that we can pay to shift risk to investors. And for government that probably doesn't make sense because government's investment portfolio is so big that we can bear risks more cheaply by just paying for things directly and having a handful of them fail rather than paying the risk premium that we would in a PFS contract versus what we can borrow money at regardless (US Respondent #37).

At the same time, the respondent from state government did identify two positive aspects of PFS: (1) the learning agenda and the ability to have an detailed look at a specific issue thus resulting in "mounting institutional knowledge" of how to address that problem; and (2) the governance structure including greater dialogue with providers and cooperation between different government departments. Thus, it would seem that the key value proposition of PFS lies in the operational rather than the financial aspects of the model, an insight that was confirmed by a provider involved in a project with this same government body, "the thing that has just blown the state away isn't the financing model as much as the operational model. Because they are just amazed at the level of information that they have" (US Respondent #22). If it is indeed the case that governments are primarily interested in the operational side of the model, the value of private investment becomes less clear thus helping to account for some of the shifts in the PFS market outlined in the next chapter.

Thus, the challenge in the US has been less about capacity and expertise (although there are cases where capacity has clearly been an issue) and more about incentives and the willingness of state and county governments to engage with the PFS model. Absent the pull of federal funds, and with many of the key promises of PFS (e.g. savings; risk transfer) belied by the realities of the first generation of projects, there is a degree of skepticism within government around the PFS value proposition with the case further weakened as investors and intermediaries push for less rigorous evaluation designs and earlier payments based on output-based indicators (more will be said about this in Chapter Six).

Engaging Providers

A final challenge impacting the US PFS market involves providers. While provider capacity was rarely mentioned as a significant concern in the UK, this given the emergence of several very large charities on the back of government contracts, US respondents pointed to the lack of investment-ready providers as another key constraint on market growth. In the words of one respondent, “the pipeline is still very thin and it is leaky” (US Respondent #23). Specifically, few providers are seen to possess the requisite capacity, expertise, and data and performance management systems to engage in PFS deals,

> Most providers don’t know how much their services cost and don’t really know what their outcomes are walking in the door…providers call us all the time asking if they should be in these deals and I’m like, ‘can you tell me what your services cost? Can you tell me what your outcomes were over the last two years? If you can’t tell me any of that, you should run from this’ (US Respondent #21).

As was apparent in the UK in terms of local government engagement with SIBs, a key issue here is the tension between the capacity required to manage towards well-defined and precisely costed outcomes, and the failure on the part of government and philanthropic funders in the US to invest in nonprofit infrastructure with funds directed towards programming rather than “overhead,”

> Service providers have suffered from a lack of investment since the beginning of time. So then turning them into performance management oriented organizations where they have the data infrastructure, the staff who are trained on collecting and using data, those investments haven’t been made, and no one is willing to support that overhead. So that’s the issue…So I would say that it’s just been chronic underinvestment in infrastructure. Everything is like duct tape and prayers (US Respondent #24).

Another respondent also spoke to this fundamental irony,

> So if you are an agency that's already primarily government funded as a provider of human services, and your funders are now saying you need to tell us about the outcomes of your work, because of the mechanism in which they pay you, they have systematically forced you to disinvest in the infrastructure that you need to be able to do those things…So that is the first challenge that our clients are facing is that there's not really a lot of resources being put in support of something that many funders champion as a priority (US Respondent #26).

The aversion to paying for infrastructure also extends to the costs of evaluation,

> There may be organizations who can better serve their populations but don't have that evaluation, measurement capacity that would allow them to participate in PFS…these things cost money. Nobody wants to pay for what they view as bureaucracy. And I think that's why they don't want to pay for evaluation either because they see it as kind of an unnecessary add-on and all money should go into services (US Respondent #32).

Provider capacity has emerged as an especially significant challenge in the US given the emphasis on scale as a key aspect of, and rationale for, PFS deals. Thus, providers may have demonstrated strong performance in a specific locale, but there may be doubts about their ability to scale these interventions.

The focus on scale has also led to concerns around the strength of the available evidence base and the absence of proven interventions that can be transported to new and different contexts,

> Take a stroll through the what works clearinghouse or blueprints or California clearinghouse and you're going to be hard pressed to come up with a really robust list of top level solutions that would actually give you confidence to say we can scale PFS arrangements on a larger basis, or we have higher confidence that these programs can produce these outcomes in that context (US Respondent #23).

As noted by a second respondent,

> When this all started people thought that they were going to leverage a decent evidence base. I think that everyone has now realized that actually there's far fewer things that are evidence-based than, even the things that are most evidence-based are still not adequate. And then moving from jurisdiction to jurisdiction across the country, slightly different populations, it's like throw it all out the window. There's no evidence-base anymore. And I think that is

> something that has certainly changed in terms of people's perspective (US Respondent #24).

Speaking about the realities of social science research, a respondent with a background in evaluation provided the most sobering view of the available evidence-base,

> One of the dirty little secrets in social science research…is very little stuff actually works. If you look at the number of fields where there are consistently effect sizes large enough to think you are changing the trajectory of people's lives, the number of programs like that is vanishingly small and the number of those effects that replicate is trivially small (US Respondent #56).

The issue of program track record and evidence-base is especially of concern given the continued reliance on RCTs as barometers and essential proof points for program effectiveness. Even if they are not applied in-deal to determine outcomes and investor returns, RCTs are still used as benchmarks for identifying programs that 'work,' are 'evidence-based,' and thus warrant greater scale. Investors have also pushed for a robust, RCT-backed evidence base as way to predict and model project outcomes and manage the risks of these investments,

> On the commercial lender side you also had those who were looking for more of the, I don't want to call them the sure bets, but the, give me the program that has twelve RCTs because I need to have high confidence in its ability to achieve these outcomes. Or I am really only looking for the things with the really strong track record. If it doesn't have that, I am not interested in looking at it and considering it (US Respondent #53).

Conducting evaluability assessments and building out the systems and capabilities required to engage in these rigorous evaluations has been a key source of delay for many prospective PFS candidates and helps to account for the "leaky" pipeline noted above. Even strong providers may require considerable work and effort to make them 'PFS-ready.'

For the organizations that possess the required size, capacity, expertise, and evidence-base, the question is what would motivate them to enter into these deals and what benefits they would gain from doing so. Several of the participants in existing PFS transactions suggested that their primary motivation (as with their UK counterparts) was not necessarily more flexible or longer-term funding – although these were certainly cited and acknowledged as important advantages of PFS – but rather the ability to use these transactions as a way to leverage other benefits, "[Speaking about PFS] I don't think it holds any of the promise that it was touted for. But just because it does that, doesn't mean that it doesn't have some usefulness" (US Respondent #22). For some providers PFS was 'useful' in helping to gain access to administrative data that was previously unavailable or inaccessible (e.g. employment records, or criminal convictions). This type of data is especially valuable in allowing providers to track client progress post-intervention, "one of the huge benefits of this contract is that you can actually track in a very high level data how people are doing after the program" (US Respondent #68). In one specific case, it was the ability to conduct an RCT that was a key motivation, "Part of why we signed up for this is because we thought we could get an RCT out of it" (US Respondent #21). This provider had long wanted to do an RCT, but lacked access to the required administrative data, the necessary volume of referrals, and in particular, the funding,

> I have been brought in by more funders who say, 'we need you to have an RCT but we're not paying for it and we don't know anyone who does. But you need an RCT to be considered evidence-based. But we don't want to pay for you to be evidence-based.' Well ok, then what do you want us to do? (US Respondent #21).

The PFS project offered an answer to this question. For another organization, PFS was an "advocacy moment" which helped to raise the profile of their issue area within government and "[push] the state to where they should be on this issue" (US Respondent #22). In several cases, including South Carolina's Nurse-Family Partnership Project, and Massachusetts' Chronic Homelessness PFS Project, the PFS deal allowed providers to access federal Medicaid funds.[24] Indeed, in the case of the Massachusetts deal, the intermediary (MHSA) was able to access not

[24] These projects drew from two different Medicaid waivers. The Massachusetts Chronic Homelessness PFS Project used a Section 1115 Medicaid demonstration waiver which makes federal Medicaid funds available for innovations that depart from federal program rules but produce procurement savings (National Conference of State Legislatures 2017). In contrast, the South Carolina Nurse-Family Partnership Project used a 1915(b) Medicaid waiver, or Freedom of Choice waiver, which "allows states to waive Medicaid provisions that guarantee beneficiaries the right to choose their providers and require states to provide the same benefits to beneficiaries throughout the state" (Herzfeldt-Kamprath et al. 2015: 21).

only federal Medicaid dollars but also state housing vouchers thus leveraging a fairly small $3 million capital raise, primarily from Santander bank, into a $28 million deal. As was the case in the UK, PFS deals were also viewed as a valuable source of publicity offering "national recognition" (US Respondent #49) and, in at least one case, allowing the provider to tap into new philanthropic funding networks,

> [Provider x's] goal was to have multiple investors because after PFS is over we want as much exposure as possible to new funders to us so that they could potentially fund us in the future…Because that's one of the things that we were hoping for out of this is that this is launching us onto a national stage, giving us access to funders we never would have met because they are interested in PFS but not necessarily in [the city] or [issue area] (US Respondent #49).

Thus, once again, PFS is "a great way of leveraging different types of things" (US Respondent #22). All of this raises two questions. First, is PFS the best way to deliver these benefits? Second, if provider engagement is indeed contingent on these types of ancillary benefits, does this limit the provider pool? In other words, would providers be willing to participate in the absence of these benefits, and would providers who have already participated in PFS projects and realized these benefits be up for subsequent deals? Interestingly, all three providers I spoke with in the US were either unsure or skeptical about whether they would do another PFS contract. In one case, the answer was a clear no, "I wouldn't do this again. I would take an outcomes-based contract" (US Respondent #21). The preference for outcomes-based contracts over fully fledged PFS deals was also noted by another respondent in reference to larger, national nonprofits,

> What we're seeing now is a lot of the organizations that are growing effectively nationally are saying, 'That's just a lot of work and a lot of constraint. Why would I do that if I don't have to? I actually don't want to. Performance-based contracting yes, but actual SIB-like structures, no.' So there's a really interesting disconnect there (US Respondent #61).

<u>The Challenges, Barriers, and Limits of PFS in the US</u>

While both UK and US SIB markets have struggled to gain traction, the reasons for these struggles are quite different and reflect the distinct agendas and influences that have been brought to bear on these respective markets. Whereas the UK has been plagued primarily by weakness in the demand side of the market, a reflection of the struggle to engage local government, a key challenge in the US has been securing investors and thus developing the supply side of the market. Absent a government-backed social investment agenda and capital source, US practitioners have had to work harder to sell investors on the PFS model including more return-motivated investors. While some respondents reported success in this endeavour, particularly in the case of "social investors," others indicated that this was extremely challenging. The difficulty is that social programming is not only unfamiliar terrain for investors, but it is somewhat abstract and unpredictable lacking the properties of physical assets and thus posing significant challenges from a diligence perspective. These investments also involve new forms of risk including "policy risk" and "evaluation risk." The notion of "evaluation risk" is especially significant and points to another distinct feature of the US market: the influence of the evidence-based policymaking and 'what works' movement and the use of specific evaluation methodologies, namely RCTs, as a benchmark and hurdle for identifying programs that "work." With PFS shaped by this same agenda, thanks in large part to the influence of philanthropy which continues to play a critical role in the US PFS space, RCTs were viewed as essential to the government value proposition and were thus featured in many early PFS deals. And yet, it was this very push towards RCTs which has made it more difficult to scale the model, attract other investors, and thus realize the other side of the PFS agenda: bringing private capital into the social sector. Thus, the absence of government-backed investment capital has meant that US practitioners have had to seek out private capital, while the constraints of evidence-based policy making have made it more difficult to do so. There have also been issues on both government and provider fronts. The resistance to RCTs and rigorous evaluation is seen to undercut the government value proposition, and local and state governments in the US may be more capable, but less incentivized to engage in PFS transactions lacking the carrot of additional government funds (with the exception of Medicaid dollars) and more alive to the limits of PFS in terms of savings, risk sharing, "over-capitalization." Finally, the demand for a strong evidence base, once again rooted in rigorous evaluation (namely RCTs), has also meant that there are a few providers which are "investable" and "PFS ready." For those which do check all of the boxes, these projects may be viewed more as a means to other ends with only a weak commitment to the PFS model over the short and especially over the longer-term.

At the same time, there are some important similarities between the UK and US. While the specific nature and shape of the agendas has varied, in each context SIB markets have been impacted by the tension between social investment (or impact investing) on the one hand and public sector reform on the other. In each case, the nature of the public sector reform agenda (localism, devolution, and greater accountability of local to central government in the UK versus evidence-based policymaking in the US) have conflicted with the effort to attract investors and establish a model where reliable (if not sizable) returns can be generated from supporting the work of social service nonprofits. Moreover, this is not only a clash of different agendas and ultimately visions of SIBs, but also of interests as efforts to address the concerns of one group of actors often undermines the value proposition for another. We saw this in the UK where the constraints of BSC-backed investments have resulted in various strategies to limit investor risk and safeguard returns. Similar strategies have also been employed in the US including the use of earlier payment triggers based on outputs rather than outcomes to: (1) generate cash flow early on in projects and smooth out the payment curve, and (2) provide early indicators of whether programs are likely to be successful allowing investors to decide whether to trigger the exit or termination clauses that are standard fare in most deals. Referencing these strategies, the following respondent, an investor in several PFS deals, suggested that these were in fact the two key takeaways from the first generation of projects,

> You have to have smooth payment curves. So a little bit of outcome means a little bit of payment. I think the other is building in early exits. So what are the indicators that the projects are not going? And so can we build in those moments where you can mindfully wind down a program if it's not working? (US Respondent #55).

Another respondent suggested that this focus on outputs rather than outcomes may especially be of interest to more return-motivated investors,

> They are going to have a few different measures of impact beyond just the outcomes that we are providing…it may be sufficient to say the number of enrolled clients versus purely the outcomes. They may be looking for…the number of people that they have served rather than the outcome. So they too may be coming at it in a different way (US Respondent #35).

However, from a government perspective, it is difficult to see the benefits of these strategies. Indeed, one respondent described how the use of output-based payment triggers was a key point of tension in one PFS deal where the investors and intermediary wanted an early payment based on enrolments rather than having to wait for program outcomes, and government was "holding hard and fast to, 'this is called PFS. Success is showing somebody that they did something and so I'm not going to pay you for an enrolment payment'" (US Respondent #49) – although, in the end, the government did capitulate in order to get the deal done. A respondent with experience from both a government and funder perspective echoed this point around how the demands, especially of more financially motivated investors, may undercut the case to government,

> In a few projects some of the traditionally, financially motivated investors…were pushing for terms that devalued rigorous evaluation, that were pushing for very early measurement of outcomes so that payments could be made quickly, were pushing for really strong termination clauses so they could shut down projects at any kind of red flag or as soon as something went a little bit awry that they could terminate the project. And none of those things made this model good for governments who were trying to transform the way that they operate. So the private investor component was also something that has been challenging (US Respondent #8).

Thus, while the specific challenges confronting the UK and US markets are distinct, the lessons around competing and contradictory agendas and misaligned interests are largely the same with similar implications for the sustainability and long-term future of these markets,

> I am concerned about the sustainability…because there's a mismatch still going in terms of project parties' understanding of what parties are willing to finance based upon how they want to mitigate the risk. You've got plenty of governments who might be saying these greedy bastards still want some small amount of money in return. You have funders saying look at the high risk (US Respondent #19).

CANADA

Relative to the UK and US, the SIB market in Canada remains small and largely underdeveloped. Despite public expressions of interest on the part of the federal as well as several provincial governments,[25] only a handful of projects have been brought to fruition (five at the time of writing with two or three under development) following several years' worth of effort.[26] In accounting for this slow growth, Canadian respondents pointed to challenges on all fronts with intermediaries struggling to engage government, investors, and providers.

While government support for PFS has been limited in the US, it has been almost entirely absent in the Canadian context with individual government departments left to their own devices in terms of developing SIB projects. There are no capital pools, outcomes funds, or even support for technical assistance work despite a raft of recommendations and proposals (e.g. Doyle and McFee 2017), "when I step back a bit I would tell you that I don't think that federal government is quite being the catalyst that we see in other international jurisdictions. They've made advances and they have some programs but it hasn't been a big multifaceted program" (CDN Respondent #10). From the perspective of Canadian SIB specialists, this lack of coordinated support has not only impeded market development, it has also made it more difficult to engage investors many of whom are looking for a clear sign that government is committed to the model, "there's also been a challenge in Canada where there's been far less explicit commitment on the part of multiple governments to actually trial these vehicles…there just hasn't been a clear enough of a signal that we're going to try this" (CDN Respondent #7). Respondents did express hope that the federal government's new Social Finance Strategy might finally bear some fruit, although it is unclear how this would impact SIBs directly.

In terms of engaging government payors in individual deals, Canadian practitioners have encountered similar barriers as their US and UK counterparts including technical barriers

[25] Provincial governments which have expressed interest and engaged in some feasibility and development work include: British Columbia; Alberta; Saskatchewan; Manitoba; Ontario; and Nova Scotia.
[26] As of November, 2018, the total value of SIB deals in Canada was estimated to be less than $10 million.

around government procurement policies and terms and conditions,[27] challenges in accessing administrative data given privacy restrictions, wrong pockets and the misalignment of payors and beneficiaries, and changes in government with several projects having to be abandoned due to a lack of interest from subsequent administrations. However, several respondents also alluded to deeper cultural barriers suggesting that Canadian civil servants are especially risk averse and less willing to take on new and innovative approaches,

> I would say the biggest barrier is having a government that is willing to pay for outcomes. And part of the challenge on the government side is that it is new and so the government is notoriously bad at new things. And there is political risk attached to new things. And I think that can be an issue (CDN Respondent #14).

In particular, respondents cited concerns around accountability and how these types of transactions, and investor payments, would be viewed by the Auditor General.[28] According to one SIB investor, this resulted in a government push for,

> perfect before and after data. They want to know what the social outcomes are before the proposed new intervention and they want to know exactly what they are after the proposed intervention. There can't be any doubt about those outcomes. Because, if they paid private investors for outcomes that are fuzzy, then the Auditor General is going to be all over them. Well, how many situations lend themselves, in this world, to perfect before and after data? Some, but a small minority. But then the second thing they want is perfect attribution because not only do you have to perfectly understand the data, you have to know that the intervention is what caused those change and outcomes (CDN Respondent #54).

A federal government official, who was pivotal in early efforts around SIBs in Canada, also spoke to accountability as a barrier to more experimental and risky initiatives such as SIBs,

[27] An example of government terms and conditions impeding SIB development is a standard clause in federal funding agreements which stipulates that projects can be cancelled by the government within 90 days for any reason. In the case of one SIB, the investors objected to the provision and several dropped out because of the delay in resolving the issue. Another respondent noted that terms and conditions are not designed for "paying only when success happens" (CDN Respondent #21).

[28] The Auditor General of Canada is an independent body responsible for conducting audits of federal government operations and providing reports to the House of Commons.

> In this day and age, that accountability horn that is constantly going off, that sense of government waste of public money, it makes it really hard to construct a policy frame that says, 'Well, let's be theoretical, let's take some risk, and yeah we might lose some money, but we'll learn from that' (CDN Respondent #50).

Thus, Canadian intermediaries expressed frustration around engaging government not only at a larger strategic level, but also in the context of individual deals.

Securing investors has also been a significant challenge for Canadian SIB specialists. Investor soundings have revealed interest in the SIB model (e.g. Ciufo and Jagelewski 2013), but few investors have come forward to support individual deals, "I think that there's more interest in these things than people actually cutting checks. So you have an overwhelming amount of interest…getting them to sign off on that, it's difficult. It's a different story" (CDN Respondent #21). This individual suggested that it was not necessarily the terms of the deal, but the internal approval process that was a major roadblock, "It's all the approval processes from their investment council, and their committee, and their risk management, and the board and then people say 'you know what, screw it. I'm not going through this whole process'" (CDN Respondent #21). Respondents also pointed to risk as a key concern. A member of the federal government who had engaged in some initial market sounding suggested that investors were looking for 10%, 15%, 20% returns and that, at lower returns, risk became a deal breaker, "The investors were hesitant because of the financial risk" (CDN Respondent #31). Another respondent working for a major lender described the challenge this way,

> Tools like SIBs that are part of the impact investing ecosystem are very much on our radar, but I am particularly well aware that it doesn't really fit well into any lending box. It's quasi-equity. It can be structured as debt, but you need a lot of risk mitigation in order for it to be bankable so to speak (CDN Respondent #7).

This individual suggested that 'bankability' meant a very strong degree of confidence that at a minimum the principal will be recouped. Rather than SIBs, this individual spoke to a preference for "big chunky projects where there's some big thing that you are buying. Maybe a big contract but there's something tangible. Bigger becomes easier just because it's easier to underwrite something in a more cost effective way on our end" (CDN Respondent #7). Even in cases where investors have made initial commitments, attrition has been an issue as deals proceeded towards execution. In one case, an initial market sounding for a federal SIB yielded expressions of interest from over forty investors. However, these dwindled over time with only four investors ultimately willing to sign on to the project. According to an individual involved in this deal, one of these investors agreed to participate against the explicit advice of their financial advisor who viewed the deal as too risky.[29] This respondent also noted that at least one investor in this project wanted the government to backstop the investment, "And the government felt strongly…that that doesn't become a SIB anymore" (CDN Respondent #24).

However, perhaps the greatest challenge and constraint in the Canadian context has been the lack of engagement from foundations which have of course been critical to getting SIBs off the ground in the UK and US. Here respondents cited a variety of factors including the small size of the Canadian philanthropic community as well as a different "philanthropic culture" which one respondent attributed to the stronger social safety net in Canada and thus less demand on philanthropy to fill service gaps,

> There isn't the same philanthropic culture in Canada especially compared to the US. There isn't the giant Rockefeller Foundation…And it's just partly because Canada has a stronger social safety net so there's less of a need. And it's like how the Rockefellers came into philanthropy, that's a cultural thing. That didn't really happen in Canada. And so I think there's fewer resources there on that end (US Respondent #64).

Another respondent, a SIB specialist, cited risk aversion as a key factor, "I am finding that foundations are quite risk averse and so they want to invest in bricks and mortar. So housing projects are traditionally their favourite because they can use the value of the land or the house as security against their investment" (CDN Respondent #26). This helps to account for the fact that foundations appear to be more interested in other forms of social investment (e.g. affordable housing) rather than SIBs, a point confirmed by the following respondent in the context of a discussion of the role of foundations as social investors and their contribution to the growth of the Canadian social investment market, "It has grown. There's no doubt about that. But the way it has grown doesn't translate to social impact bonds. I'll put that out there for

[29] This particular deal did not include any investor guarantees or first loss capital so much of the risk, including the risk to principal, was indeed born by the investors.

sure. What it translates to is a deeper capital market for the various impact funds that are around" (CDN Respondent #7). Others referenced the less well-developed outcomes culture in Canada with many foundations still awarding grants on the basis of activities and outputs rather than outcomes. Regardless of the specific cause, respondents appeared to be in agreement that the Canadian SIB market has suffered from the lack of catalytic capital and institutional support from the philanthropic sector. Greater engagement with foundations would thus appear to be critical to the future of the market.

Finally, respondents cited the small size of the Canadian nonprofit sector and the lack of capacity on the part of providers as another key barrier to market growth. With respect to the problem of size, one respondent argued that there has been less consolidation in the Canadian nonprofit sector and thus fewer organizations with the required balance sheet and managerial capacity to engage in these transactions,

> The social sector broadly speaking is a lot less consolidated in Canada than it probably is in other jurisdictions. There are more small and medium providers than there are larger providers. In a lot of other countries, there have been a few organizations, domain by domain, that have kind of grown, amalgamated, either from M&A or organic growth, and have become very sophisticated with scale (CDN Respondent #7).

As a result, the number of nonprofits with the size, capacity, and credibility to take on an external investment "starts to become a very, very small group as you actually look at it with any diligence" (CDN Respondent #7). Another respondent suggested that it was not necessarily size and capacity, but the "insufficient numbers of social service providers who are willing to and/or are ready to engage in the new level of rigour associated with social finance" (CDN Respondent #26). As they went on to elaborate,

> I think that's because traditionally social service providers have not been confronted with the levels of accountability that we are talking about with social finance…to-date in the Canadian marketplace I have yet to come across any social service provider organization that is just ready. We have to spend a ton of time incubating them, working alongside of them, to get to where we need to be in order for the government, foundations, investors, to be able to be satisfied (CDN Respondent #26).

While these size, capacity, and accountability constraints are no doubt significant, my conversations with providers also revealed a strong sense of skepticism around SIBs and the SIB value proposition, perhaps a reflection of the more robust funding environment in Canada relative to the US and UK and thus the stronger and more secure financial position of providers, “we actually do have a robust government system and a robust network. So yes organizations need more money and more resources and access to capital, but not like in the US and not like in the UK. So we haven’t had to be as entrepreneurial as other countries” (CDN Respondent #49). One respondent from a large provider in the education space expressed a preference for funding with “less strings” (CDN Respondent #53) and was skeptical about the whole notion of pay-for-performance, “We’ve shied away from those kinds of things, although they do come up from time to time. In fact, pay-for-performance came up recently…to have your funding tied to that, especially when it’s a social issue, is where there is so many factors that are outside of your control” (CDN Respondent #53). Another individual from this same organization was also skeptical noting that, “there’s a lot of interest in [SIBs] and pay-for-performance, but in this context I don’t know how it would get implemented since we get so much great government funding already” (CDN Respondent #34). Several respondents also intimated that, given the stronger social safety net in Canada, there may be fewer of the types of market failures on which SIBs have traditionally been built. As one respondent put it, there are fewer areas where a SIB can add value in the Canadian context, “There’s less opportunity, less possibility for these vehicles to add value. Again thinking not from a where can we make money standpoint, but where can we add value standpoint, there’s fewer areas probably” (CDN Respondent #7). Ultimately, the Canadian case provides further evidence of the significance of larger agendas and their impact on the development of SIB markets. As discussed in the previous chapter, Canada lacks a discernible SIB agenda with little evidence of the key elements (i.e. austerity and localism, and evidence-based policymaking) that have played such a critical role in the UK and US. At the same time, there are fewer incentives and stronger counter-pressures to SIB development as well as greater political risk. All of this reinforces the point that SIBs are, at least in part, reflections of larger institutional and political forces.

Conclusion

Despite what would appear to be a compelling proposition for government, providers, and investors, efforts to introduce SIBs in Canada, the US, and UK have encountered a series of challenges, barriers, and frustrations which have slowed the growth of these markets and resulted in frustration on the part of practitioners and funders and uncertainty regarding the model's future. As revealed in the discussion in this chapter, these challenges have taken a slightly different shape in each national context informed by the distinct SIB agendas that have emerged in each country, the tensions within these agendas, and their role in shaping the organization and make-up of each national SIB market.

In the UK, the localism agenda has oriented SIB development towards local government, while austerity has limited the capacity of local authorities to engage with the model. The central government's backing of social investment has meant that considerable capital is on tap for SIB projects, but not necessarily the right kind of capital with the interests and worldviews of fund managers and intermediaries at times conflicting with those of local commissioners, and the terms and conditions of capital pushing the market towards a more commercial model. The availability of a dedicated capital pool has also meant that a select group of fund managers have come to assume a dominant role in the UK market relative to government, providers, and other SIB specialists. Providers, in particular, occupy a marginal position, possessing few opportunities to develop SIBs while facing intensive forms of management and oversight. In the US, the view of PFS as a way to advance evidence-based policymaking and 'what works' agendas, promoted by key philanthropic backers and some advisors to government, has resulted in an emphasis on rigorous forms of evaluation which have further slowed the pace of deal development while increasing the uncertainty of what are already viewed as risky investment propositions thus further hampering efforts to engage investors. At the same time, the enthusiasm of government partners has been dimmed by the perceived failure of early deals to deliver on many of the promises of PFS with projects often valued more for their operational rather than their financial elements. And most providers lack the evidence-base demanded by the US vision of PFS as a way to scale programs that 'work.'

For the providers which have engaged with the model, many appear to have ulterior motives with PFS deals used to leverage other benefits and the central promise of longer-term and more flexible funding often viewed as a secondary benefit. In Canada, it is the absence of a SIB agenda including the elements of public sector reform, austerity, and evidence-based policymaking, combined with counter-pressures and competing narratives, which has impeded market development.

Beyond helping to account for the slow growth of SIB markets to date, these dynamics also point to limits to their future growth and sustainability. Both UK and US markets are heavily dependent on subsidy (Floyd 2017), and there is a real question of the extent to which these supports will continue to be made available whether in the form of central government top-up funds and future BSC-backed commitments in the UK, or philanthropic support in the US. With meager government support and a continued dependence on philanthropy, one could argue that the US market is especially vulnerable, subject to shifts in the focus and strategic priorities of core funders. Indeed, as discussed in more detail in the next chapter, there are signs that key foundations in the US PFS space are already moving away from the field, or at least shifting their focus. There are also issues around provider engagement. With the bulk of advisory services in the UK and US geared towards government rather than nonprofits, there has been limited success in growing the provider pipeline. At the same time, there is uncertainty around the willingness of existing providers to participate in future deals whether due to negative experiences (more common in the UK), or the absence of new benefits and non-financial incentives.

Ultimately, one of the key insights to emerge from this chapter is that the slow growth of the SIB market cannot be explained simply by barriers encountered at the level of deal design and execution (e.g. cost; capacity; complexity; and data). Rather, what has truly impeded SIBs in Canada, the US, and the UK is a deeper, more fundamental challenge of engagement – that is, the ability of SIB specialists to engage government, providers, and investors not only in individual deals, but also in a longer-term vision of, and commitment to, the market. This effort has been impacted by ambiguities and contradictions at the heart of the SIB agenda and very different answers to the question of what SIBs are ultimately for. Most notably, the vision of

SIBs as a financial instrument and vehicle for bringing private capital into the social sector has been difficult to reconcile with the agendas of public sector reform with these strategic objectives often working at cross-purposes (e.g. austerity undermining the capacity required for local commissioners to participate in an investment model; and the push for RCTs, central to evidence-based policymaking and the agenda of public sector reform in the US, making it more difficult to attract investors). At the level of individual deals, and efforts to source projects and bring them from feasibility to execution, experience to date would suggest that government, providers, and investors all have very different interests, incentives, and perspectives which can be difficult to align. For government, central to the SIB value proposition, and the main justification for providing investor returns, is the value of transferring risk to investors. To the extent that investors are compelled or required to take steps to limit and mitigate these risks, the case to government is substantially weakened with officials left to wonder exactly what investors are bringing to the table and why government would not simply pay for these services itself. Thus, while the specific challenges vary across the three national contexts, the influence of competing mandates and misaligned interests is a common constraint. We will return to this problem of contradictory mandates and misaligned interests, and their implications for the future of SIBs, in the final chapter. The next chapter examines a number of shifts in the SIB market providing another vantage point on the challenges faced by SIB specialists in the UK, US, and Canada and how these have pushed SIB markets in several new directions.

CHAPTER FIVE: THE EVOLUTION OF THE SIB MARKET

While the classic, intermediated SIB model continues to attract considerable attention, the SIB market has evolved considerably over a relatively short period of time. We have already seen this play out in terms of the different contracting structures (Chapter One) as well as the move to rate cards in the UK and what was described as the "disintermediation" of that market (Chapter Four). The focus in this chapter is on how the mandates and service offerings of the key intermediary and advisory firms have themselves changed and evolved with particular emphasis on the US and UK. This evolution of the SIB market is significant not only as a further indication of the challenges confronting SIBs and their long-term prospects, but also the critical connections between this market and larger movements around outcomes, or results-based funding (e.g. Bartlett et al. 2017).

US

When asked how the US PFS market has evolved since the first project at Rikers Island in 2012, respondents repeatedly referenced what they saw as a "split" (US Respondent #30) in the market, or a "fork in the road" (US Respondent #62) with PFS practitioners increasingly divided along two primary tracts. On the one hand are firms (e.g. Third Sector Capital, and the Harvard GPL) which have largely moved away from the private investment piece of PFS. Instead, the focus is on working directly with government to reform their procurement and contracting systems using the tools of data and performance management, what was sometimes described as a "data-first" approach. On the other hand are firms (e.g. Social Finance US) which have largely remained within the remit of private capital seeking to introduce modifications to the PFS model to boost the scale of the market and thus attract additional investment, indicative of a "finance-first" approach.[30] While the resulting

[30] As it was described by respondents, the notion of a "finance-first" approach was not intended to refer to the privileging of financial over social returns or objectives. The term is thus distinct from "finance-first" in the context of impact investing where it is used to describe investors who prioritize financial over social returns (in contrast to "impact-first" investors). Instead, "finance-first" in the US PFS context reflects a strategic orientation that is geared more towards mobilizing capital and "[creating] innovative financing solutions" (www.socialfinance.org) as the route

"segmentation in the US PFS space" (US Respondent #5) is ultimately more a matter of emphasis rather than a fundamental split,[31] the differences appeared to be significant enough to merit a view of the field as moving in two distinct directions with increasing forms of specialization. As described by one respondent, this is reflected in the diverging mandates of two of the core advisory firms operating in the US space,

> In the early days we were much more similar than we are now…they have pivoted much more towards a focus on data and government. I think we obviously also do government advisory work, but they're on the data angle of it…So I think they were always angled a little bit more to government, that direction, and now they're doing a lot of this data overlay. I think we've always been a little more angled towards private capital, but I think we're broadening the aperture. So we still want to stay involved in private capital (US Respondent #45).

1. "Data-First"

The "data-first" track represents the most significant move away from the vision of PFS as a way to bring private investment into the social sector with the focus instead on more direct advisory work with government, "you can have PFS without the social impact financing. At least in the US context, I think that makes a lot of sense" (US Respondent #5). This has involved applying the lessons learned from the first generation of PFS deals to reform how governments contract for social services. One of the most significant shifts in this direction involves the group at the Harvard Kennedy School. Originally called the SIB Technical Assistance Lab, the group was subsequently rebranded as the Government Performance Lab, a reflection of a "big movement away from doing social impact bonds and more towards doing procurement reform with state government" (US Respondent #54). Respondents from the GPL were clear that SIBs represent an increasingly small proportion of their overall work and future strategy. There has been a similar shift at Third Sector Capital Partners, although with a greater

to better social outcomes, rather than the use of data, data analytics, and performance management tools to directly impact government spending.

[31] For example, Social Finance US has a Public Impact Initiative which involves direct consultancy work with government and thus shares a number of similarities with the work of Third Sector and the GPL.

focus on data rather than performance management which is much more central to the GPL model.

The strategic shift away from private capital and the focus on the contracting element of PFS has been motivated by many of the challenges discussed in previous chapters. Respondents alluded to the cost and complexity of deals, the struggles to attract investors, and the challenge of having to align multiple sets of interests in the context of the traditional tripartite PFS structure. Within government, there appears to be more of an appetite for outcomes-based contracting without the complications and costs associated with private investment,

> We have a lot of clients saying look we want to do outcomes-based contracting and we want to know what population we should direct this intervention at. We want to know what outcomes we should be looking at. We want to know how to measure those outcomes. We want to actually have a bonus pool that pays for those outcomes. But we don't want to do a SIB (US Respondent #30).

Another factor was the growing realization that, after several years of effort, the PFS market still represents only a "tiny, tiny sliver" (US Respondent #43) of government spending and that, if the objective is truly to produce better outcomes at scale, the better strategy would be to focus on improving the efficiency and effectiveness of existing spending streams. The following respondent provided an excellent account of this strategic shift,

> I would say when we first started off…everyone was laser focused on launching individual PFS projects…I think the challenge was all of those were about new government funding. So new appropriations for success payments. Funding new programs at new scale totally ignoring all of the existing contracting streams that deploy the dollars every day for social services. So they were all to bespoke, unique, each of them started from scratch in many ways and I think it allowed us to learn a lot about the things not to do, the things to do, but it was a slow go. And I think the fact that we are here six years after Rikers launched and there are 18 projects, a lot of people are probably asking why aren't there more. And that's not to discount those 18, but that's not going to get us to the scale that I think everyone would want to see. And we kind of evolved away from this individual PFS bespoke project and increasingly saying can we look almost at the enterprise level, so looking across an entire contracting stream (US Respondent #53).

Reflecting the central role of philanthropy in the US PFS market, these developments are also informed by shifting priorities of key philanthropic funders such as the Arnold Foundation who have grown frustrated with the lack of take-up of PFS within government,

> [Foundation x] was attracted to PFS because we viewed it as this potentially promising mechanism that could spark change broadly across government and we haven't seen as much of that as we anticipated. So, for example, we haven't seen a state that developed a PFS project, then used the concepts in the PFS project to update all of their procurements of social services statewide (US Respondent #8).

As a result, this funder has "evolved their funding of [PFS]. They don't make direct investments in projects anymore. They don't do a lot of grant funding if any to any of the core organizations at this point" (US Respondent #53). Instead, they have turned to the same type of approach being pursued by the GPL and Third Sector, "disaggregate the PFS mechanism into its individual parts and then see if we can use those individual parts to spark more reform" (US Respondent #8).

Here respondents identified two aspects of the PFS model as being particularly significant for this advisory work. The first is the use of administrative data to better match services to specific sub-populations,

> Maybe we know for a really high risk population, an intensive intervention is needed. So how do we then take the high risk population and match them to a very intensive intervention that can meet their needs? But for the rest of the population where they may not be at high risk but could use some support, how do we match them with a less intensive intervention that focuses on some specific need? (US Respondent #8).

The focus is thus on further rationalizing the contracting process "so that the state is purchasing the right amount of different types of services" (US Respondent #8). This requires greater access to administrative data as well as the ability to work across different government data systems. Third Sector, in particular, has been active in this area investing in the development of integrated data systems through a partnership with Actionable Intelligence for Social Policy at the University of Pennsylvania which will allow them to track outcomes across different government departments and identify distinct sub-groups that cross multiple service areas and who may not be well-served by existing, largely siloed, systems. Respondents also referenced the use of new predictive risk models and technologies such as 'micro-targeting' which allow practitioners to "more finely understand for whom the intervention worked and then figure out how to deliver it just to those people and then the people for whom it didn't work find something else" (US Respondent #61). The effort to better match individuals to services is also intended to create greater accountability on the part of providers as they are expected to work with defined cohorts rather than simply whoever walks through their doors,

> The default situation is that you have providers who have a set budget and that translates into a certain number of slots, and they go out and they fill those slots…what we'll think about often is, is there a way the state could be helping the provider better understand the universe of individuals that they should be enrolling? So if we're dealing with a corrections project for example, we know the full universe of everybody who is in the corrections system. We know who's medium, low, high risk, can we be giving the provider a list of those individuals and saying 'fill your slots from this list and we're going to hold you responsible for the outcomes of everybody on here, so don't just try to pick the easiest cases because we want to see if you are moving this whole population's outcomes.' Are there more opportunities to do that, to be more purposefully directing different types of individuals to the service providers? (US Respondent #10).

As described by another respondent, this involves not only identifying and matching priority groups, but also better tracking participant outcomes,

> So a lot of our projects now are about helping create what are the right mechanisms to identify, to think about the whole population, identify who is the most important to serve, and be purposive about how we match them and how we do hand-offs and connect them and then how do we track who actually shows up on day one, who completes services, what actually happens to them afterwards. All of those things were ideas that came out of the SIB model, for us at least, but we've realized governments are desperate to apply them to the core work that they do (US Respondent #37).

Data is also viewed as critical to ongoing assessments and evaluations of providers and programs in as close to real-time as possible with the real challenge being not insufficient funds but rather how to allocate the funds that are available, "The real problem isn't financing. The real problem is resource allocation. So if we can use our data, if we can use constant learning and feedback in evaluation to inform the allocation of resources, we won't need financial trickery" (US Respondent #5). As noted by another senior member of the US PFS space,

> [Our mandate] was all about promoting a reallocation of government dollars towards the most efficacious programs…It was never about tapping new sources of financing. I've always felt that was baloney. I've spent years having people say you're all about these social impact bonds. I would say no, we're not. We're about a feedback mechanism that reallocates resources (US Respondent #51).

Another key element of the PFS model that has been carried over into government advisory work, and where data is once again critical, is performance management, or what the GPL describes as "active contract management." This involves the use of high frequency data and key performance benchmarks to evaluate the performance of a cohort of providers within a given service area. The essence of this approach is regular, often monthly, meetings between government and providers during which there are constructive discussions around the extent to which providers have met their performance indicators and outcome targets and, in cases where they may have fallen short, how their performance might be improved in the future. For example, in a child welfare context,

> What was our response time, number of days in response to an average call for a family? Did it take us three days? Three days is the target for getting to a family when we receive a call. Or was it more in the seven or eight day range and what type of operational changes do we need to make if we had a big spike up in the duration over this one month period? (US Respondent #39).

Alternatively, for a workforce program, the focus might include: (1) recruitment to enrolment; (2) completion; (3) placements; and (4) wages. All of this reflects a shift in focus from the "PFS space" to the "performance improvement space" (US Respondent #10), and an emphasis on forms of continuous learning as the key to better performance,

> We look at it as the secret sauce, the thing that is going to change the world, is creating a constant feedback loop to the government about which programs are working, trying to parse out why, trying to understand if you do continuous monitoring can you improve overall performance of the community better than

> you can by doing one off large outside financed programs. So we think learning is the key, not the money (US Respondent #5).

2. "Finance-First"

The second track within the US PFS space involves a continued focus on private capital, but adapting the PFS structure to make it more conducive to investment on a larger scale (Dear et al. 2016). This includes an emphasis on standardizing transactions and making them as replicable as possible allowing for greater speed and scale, "These projects take too long to put together. They are too bespoke the way they are now. So we are doing a lot of thinking about what sort of the future looks like and how you do these faster" (US Respondent #25). One key strategy designed to help "scale up as a field and do this a little bit faster" (US Respondent #25) is adapting the rate card model to the US context, what one respondent described as "the wave of the future" (US Respondent #55). As noted in the previous chapter, one of the key benefits of rate cards is not only the ability to launch multiple outcomes-based contracts using a single contracting or procurement mechanism, but also the fact that rate cards are "lighter touch" (US Respondent #45) and do not require RCTs or quasi-experiments relying instead on pre-priced outcomes validated using administrative data. Interestingly, while the US market is still in the fairly early stages of rolling out rate cards, initial indications would suggest that these will be somewhat different from their UK counterparts in that they will not be 100% contingent contracts. Instead, they will resemble more traditional performance-based contracts and will include a standard base and then a bonus contingent on realizing specific outcome targets,

> [Firm x] is calling it rate cards, but it's really just working within existing funding streams. In Connecticut they've just created this bonus pool and are paying a bonus based on outcomes. So service providers are still getting paid for the work but there's a piece of it that's related to the outcomes. So it's just really working within the system. It's just like a standard contract. Everyone understands a performance contract and it's not changing the contracting relationship between the state and the service provider (US Respondent #24).

According to this same respondent, in the case of the Connecticut Office of Early Childhood rate card, the bonus is 2% with 35 service providers participating in the contract. Advisory firms are thus increasingly thinking in terms of “a whole spectrum from 0% contingent on outcomes to 100% contingent on outcomes” (US Respondent #45). The result would appear to be a blurring of PFS and more traditional forms of performance-based contracting. Where private capital is required for rate cards, investors would essentially be providing the equivalent of short-term working capital loans, rather than the more project-based investments which defined the first generation of projects.

Another significant development on the “finance-first” track is the establishment of dedicated PFS funds similar to those in the UK, but funded exclusively through philanthropy and social investors. One example is the $10 million PFS fund established by Reinvestment Fund, a Philadelphia-based CDFI. Another is Maycomb Capital and its Community Outcomes Fund which, as of May, 2018, had secured $40 million in commitments including $30 million in cash commitments from Prudential and Steven and Connie Balmer, and a loan guarantee of $10 million from the Kresge Foundation.[32] With the fully raised fund expected to reach $75 million, the idea is that the fund would provide the bulk of senior capital in any PFS deal thus increasing the efficiency of the fundraise and the scale of available capital. Moreover, the fund approach would allow for shared learnings as well as risk mitigation across the pool of projects thus alleviating the pressure on individual deals to provide downside projection. The model also has a familiar structure (e.g. limited partnership; fee structure; capital call structure) and places responsibility for due diligence on the fund managers rather than individual investors,

> Until now the market has been trying to get them to go into single, direct investments which people don’t feel like they have the capacity to diligence. They don’t feel they have the capacity to execute. And so it becomes a just trust me investment. Whereas what they are used to doing is picking fund managers…that is a process they are comfortable with and it also gives them diversified exposure which makes a ton of sense in this space (US Respondent #55).

[32] The loan guarantee is designed to provide limited credit protection to Limited Partner (Class A) investors in the fund thus creating a blended capital stack with downside protection.

All of this represents a clear effort to respond to the perceived risks and complexities of investing in PFS structures noted in the previous chapter as well as a continued belief in the value of private investment as part of the move towards outcomes-based contracts,

> I think there's been a little bit of a pivot in the field where people are saying well we don't need the financing. And I feel very strongly that there is power in the public/private partnership. And that at the end of the day government could shift to performance-based contracts which would sort of bring the outcomes focus but then what government is doing is shifting the risk to the service provider. The role of private capital is to do what it does all the time which is take on risk (US Respondent #55).

Finally, there are several new iterations and permutations of the PFS model. For example, Third Sector Capital has floated the idea of a Social Impact Guarantee in which the government provides up-front funding for a social problem and investors agree to reimburse the government if the program is not successful. This helps to avoid the double capitalization problem while essentially creating a type of insurance product. However, respondents suggested that the optics of this structure are not especially attractive as investors are paying not for results, but rather for failure. The model thus appears to have gained little traction. Social Finance US has also continued to innovate on the traditional PFS structure recently introducing what they have described as "career impact bonds." In this model, impact investors provide funding to allow low-income individuals to access "high-quality, industry-recognized training programs." Students then repay the loan as a fixed percent of their income over a set period once they gain meaningful employment (www.socialfinance.org/career-impact-bonds). Unlike traditional student loans, these are "tied to actual earnings, offer down-side protection, and are time and dollar-capped" with the first pilot providing access to a "best-in-class coding bootcamp." These advisory firms are also experimenting with corporate payer models, particularly in the area of workforce development where outcomes around job placement and retention would be paid by employers, an extension of demand-led employment. Innovations such as 'career impact bonds' and 'corporate payor models' suggest that one of the key trends in the expanding remit of PFS is the development of models which do not include government with this feature perhaps providing a better route to greater scale. A final permutation of note is the “impact security.” Developed by NPX, a San Francisco-based start-up, the impact security shares most of the core features of the traditional PFS model except that it is philanthropic donors rather than government who play the role of end payor. They are also structured as standard debt securities which means that “they use widely understood language and documentation and can be transferred or liquidated by investors,” thus making them more attractive to potential investors (Schupmann and Eldridge 2018). In the first impact security project, a group of eleven investors invested $800,000 in up-front capital to fund a web development program delivered by The Last Mile, a nonprofit that provides coding education and vocational training to individuals in prison. If the program is successful in meeting the goal of 18,000 hours worked by incarcerated program graduates, investors will be paid a return for a total of up to $900,000 with the return paid by a fund supported by sixteen donors including Omidyar Network, The San Francisco Foundation, and Virgin Unite. The idea is that this could represent a step forward in performance-based funding by creating a “standardized, easily replicable, and marketable instrument” (Schupmann and Eldridge 2018) with a cost of capital that is lower than the first generation SIBs. According to NPX co-founder, Lindsay Beck, the impact security is the “next generation of a social impact bond.” There is also a suggestion that the government could step in as the end payer once the model is proven. A key question is why philanthropy would participate in this type of structure, providing returns as high as 12.5%, rather than funding these types of programs directly.

<u>UK</u>

While the US market has undergone a significant evolution over a short period of time, change has been slower and more subtle in the UK. One of the most significant shifts came very early on with the transition from the fully intermediated model to the rate card. As described earlier, there have also been some innovations around the contracting structure including the development of more simplified structures such as direct working capital loans which do not require an SPV. And yet, these ultimately remain variations on the “finance-first” theme. The slower pace, and more modest scale, of change is likely due to the fact that the UK market remains more locked into the existing SIB model based on continuing capital commitments from BSC and the critical position of fund managers who are obviously pre-disposed to a finance-first perspective. Ongoing support from central government in the form of central outcomes funds is another key factor.

One of the most noteworthy shifts in the market involves Social Finance UK. With less interest and willingness on the part of key actors (e.g. investors and commissioners) to pursue the fully intermediated SIB model as well as the loss of Big Lottery funding and declining support for provider readiness and capacity building work, Social Finance has expanded into a range of other service offerings, "we couldn't live by SIB alone. We had to essentially use our learning from designing and implementing SIBs and go into a variety of other areas" (UK Respondent #31). One example of this new work is Social Finance's Digital Labs initiative which uses new data sources and forms of data analysis to help local authorities make more informed decisions around the allocation of increasingly scarce resources. Social Finance has also invested in advisory services geared towards local government with the objective of driving commissioning and procurement towards outcomes-based approaches. Interestingly, these moves around data and public sector advisory work mirror developments in the US including the focus on "disaggregating what it takes to design a good SIB and making sure that we use those individual building blocks to do lots of interesting other work" (UK Respondent #31), and the notion that the value of SIBs lies in "service re-design" rather than "capital raising,"

> [Social Finance] discovered that the most valuable bit of the product that they were offering wasn't really the investment raising, the capital raising, it was the data, the performance management, and the service re-design…I think it was just interesting that at the same time as Social Finance spent years trying to convince people to do SIBs, no one really wanted to do them, then as soon as they had some up and running, they realized that actually the really, really valuable bit about SIBs probably wasn't the investment bit, it was something else (UK Respondent #73).

This same respondent, formerly of Social Finance, also echoed the sentiments from US practitioners that this advisory work with government may be a quicker route to achieving social change at scale,

> If your starting question was how do we achieve social change at scale, which is what they do want to do, we started to see that maybe social impact bonds weren't necessarily the right vehicle for doing that. Whereas if you work directly with the commissioner and you re-design a service with them, and you are more working on a consultancy basis, you are hopefully going to be embedded in their system for a period of time while you work with them, you can set up some data systems in place inside so they can use it. From there it's much easier to scale up a new way of working…rather than having a social impact bond which still do often feel like they are sort of discreet boxed off services that sit alongside traditional delivery (UK Respondent #73).

This corresponds with what some in the space have described as a shift from SIBs as a "financial" tool to a "policy" tool, that is, a "change mechanism…helping [local authorities] think through the design of their systems to focus on outcomes" (UK Respondent #49).

Another noteworthy initiative is Social Finance's Impact Incubator. Supported by several trusts and foundations, this group works to identify social issues where existing approaches are found to be lacking and then to develop innovative solutions. One example is their Drive Program, an offender-based model for addressing the problem of domestic violence. Interestingly, this represents somewhat of a return to the feasibility work and innovation in service delivery that informed Peterborough, but which is less common in the current UK SIB market. This very point was made by a member of the philanthropic community, one of the original investors in Peterborough, who is supporting this initiative rather than investing in more SIBs because it offers greater freedom and flexibility without the constraints of the investment model, "So we've almost gone back a stage and I think that's where we're at our strongest. Because again it comes back to that risk money. So you are exploring areas, but it's grant so you're not expecting a return…it's not an investment that you're having to negotiate with others" (UK Respondent #74). Social Finance UK has also been very active in the area of development impact bonds which may provide the type of scale that has been lacking in domestic projects,

> I think the potential size of contracts might be a lot larger. Donors like the World Bank, they don't think in the kinds of size of some of the projects we have seen coming through in the UK, £100,000 here, £500,000 there, where you are like

> this is very hard to cover the transaction costs for a transaction that size (UK Respondent #63).

Ultimately, with domestic projects accounting for an increasingly small proportion of their overall work, it would appear that Social Finance UK has moved on from SIBs, a further sign of "disintermediation" and its impact on the market.

<u>Conclusion</u>

The evolution of the SIB market described in this chapter is significant in a number of respects. First, the fact that many of the core intermediary and advisory firms have migrated away from the private investment element of SIBs would appear to reaffirm the challenges and barriers discussed in the previous chapter. Many advisory firms have struggled to make the model work and have been frustrated both by the difficulty of developing a sustainable business model, and the small scale and impact of their efforts with direct advisory work providing greater leverage and pressure points to change the way that governments procure social services. While not explicitly mentioned by respondents, it is also possible that consulting work with government offers a more reliable source of revenue and a more sustainable business model versus having to rely on the development of individual deals and the vagaries contained therein (e.g. leaky pipelines and inconsistent deal flow).

Second, the shifts in the market reveal the ongoing tensions within national SIB agendas between social investment and public sector reform with the US market in particular increasingly split along these very lines. In the Canadian context, the main SIB intermediary is currently facing a similar tension between these two competing visions of SIBs,

> For a consultancy that is thinking about how to move private investment money into tackling these social issues as one of the overarching frameworks of how we're working, it becomes an interesting question for us…It's like are we a shop that gets very rigorous around determining better outcomes and tracking those, or are we a shop that does that but has to have a private investment mechanism? And I think generally we are all in agreement that the outcomes piece of it is most important. That's the secret sauce. But our origins are stemming from an overarching theory that there's not enough money currently in government pools of capital and donations from individuals to tackle these

> social issues that we actually need to grab some money from the mainstream capital markets. So there's a bit of a tension there (CDN Respondent #21).

Third, despite their distinct challenges and trajectories, there appears to be a degree of convergence between UK and US markets. Both markets have moved away from the original vision of Peterborough and each is showing signs of the split between the "finance-first" perspective associated with rate cards and the use of private capital to finance outcomes-based contracts (SIBs as a 'financial tool'), and a "data-first" perspective directed towards a larger project of government reform (SIBs as a 'policy tool') – although again this is ultimately more a matter of emphasis than a fundamental disconnect. Thus, Social Finance UK has adopted some of the same approaches to data and government advisory work as firms in the US, and the embrace of rate cards and SIB funds in the US mirrors the UK market and the role of investors as intermediaries and performance managers (US Respondent #54).

Fourth, there is the question of whether, in their efforts to expand and scale the market and to create "a broad definition" of PFS (US Respondent #55), practitioners have inadvertently served to undercut their own value and what is ultimately most unique about SIBs. The shift towards rate cards and outcomes funds would appear to bear this out resulting in the erosion of the intermediary role (especially pronounced in the UK) and reducing SIB specialists to providers of performance-based contracts and more straightforward working capital loans. In the US context, it is increasingly difficult to distinguish between the work of PFS practitioners and the traditional role of CDFIs as providers of working capital loans. This also gives further fuel to critics who struggle to see the difference between SIBs and longstanding forms of performance-based contracting (e.g. Heinrich and Kabourek 2018).

Finally, from a policy perspective, what may be most significant about SIBs over the longer-term is not the greater role of private capital in funding social services as some critics would suggest, but rather the increasing focus within both government and the nonprofit sector on "outcomes" as the basis for allocating public and philanthropic capital. As noted by the following respondent, while the record on SIBs remains modest, the drive towards "outcomes" continues to gain momentum and may represent the greater accomplishment for the field,

> If you look at this from the perspective of the number of transactions, 25 in the US in five or seven years now, it's nothing. But if you look at it in terms of the systems change perspective it's actually pretty amazing what's going on, the orientation around outcomes, the way that everybody is talking about outcomes (US Respondent #24).

In recognizing this broader reach and remit of the SIB market, interesting continuities begin to emerge between SIBs and neighboring fields such as venture philanthropy which are similarly invested in "outcomes" as well as data and performance management as the foundation for a more "rational" nonprofit capital market. All of this is to suggest that the underlying logics of SIBs have a much larger resonance and that, regardless of the future of SIBs as a specific model, the use of "outcomes" as the basis for allocating public, philanthropic, and private capital will continue to proliferate. The danger is that, by focusing exclusively on SIBs, we will overlook both the potential and limitations of this new way of thinking.

CHAPTER SIX: THE FUTURE OF (AND BEYOND) SIBs

Having examined the short history and recent evolution of the SIB market, this final chapter turns to the future of SIBs. Given the challenges, barriers, and limits confronting the SIB enterprise, the question is what SIBs could or should like in the future and whether there may be different ways of imagining and designing these projects. The chapter also addresses the larger question of the future beyond SIBs. As social service nonprofits continue to experience acute funding challenges, and in view of the limits of private investment as a solution to these challenges, it is important to consider other types of funding approaches including potential reinvestments in more traditional, grant-based forms of funding. However, the chapter begins by drawing together the challenges examined throughout this report and examining their implications for how we might think about SIBs moving forward.

THE SIB "SWEET SPOT"

From its inception, the promise and potential of the SIB model lay in the ability to align the interests of very different groups of actors around a common value proposition with benefits accruing to all parties involved. This is the classic "win-win-win" scenario described in SIB publications and commentaries: where government can benefit from investments in social prevention thus limiting risk and accruing future cost savings; where providers can access longer-term and more flexible funding; and where investors can realize both a financial and a social return. However, even the staunchest of SIB supporters recognize that there are limits to the circumstances in which this alignment of interests is possible and that the development of deals depends on the ability to balance competing considerations such as evidence and risk. The point where the right compromises are struck, and where deals do not tilt in favour of one side or the other but rather are just right, is what several respondents described as the "SIB sweet spot,"

> For a SIB, I believe you need to be at this intersection of, it's some demonstrated evidence so that investors will buy into it, but then it's also not super proven. Because if it's super proven then the government should just pay for it without going through all the transaction costs. So you have to be somewhere in the

> sweet spot of sort of tested, but still sort of risky. Just the right amount of risk for the investor. And so I think that's probably the hardest thing to solve for (US Respondent #64).

A UK-based respondent offered a similar account of the balancing act between evidence and risk, while suggesting that the SIB "sweet spot" continues to be somewhat elusive,

> We are still learning how to hit it as a target...across the 70 odd, or how many SIBs there are, I would guess a third are in that sweet spot. I think if something is too risky, from a kind of investor perspective, they shouldn't take it if it's just throwing money away to some extent...If something is really certain, so if you've delivered a service on a fee for service basis for three contracts in a row and you've got really good results, there's no reason to risk share with an investor around that (UK Respondent #34).

In fact, this respondent referenced several cases where it was discovered that the risks were excessive and that the SIB needed to be "walked back" to interim outcomes,

> There's some SIBs which initially started out as you being asked to pay for outcomes where there is no evidence the intervention delivers those outcomes. And I think some of those we've tried to walk back to kind of interim outcomes and to soften the return/risk profile so that you get paid for something that might happen six months down the line rather than waiting seven years for an outcome to come about where you've got no idea whether it is or not. So it's trying to walk back some of the ones that are really high risk for investors to more of that middle spot through discussions with the commissioner (UK Respondent #34).

As an example, they cited the Worcestershire social isolation SIB which offers befriending services and support to elderly people in order to reduce hospital admissions. While the project started off with hospital admissions as the key payment metric, this was "walked back" to self-report surveys during the development process to save investors from having to "take an extraordinary amount of risk around something that is very unproven" (UK Respondent #34). The fact that a significant number of SIBs have missed the "sweet spot," and at least some have been modified post-launch, raises questions about the value of these deals for the parties involved and in whose favour the balance between evidence and risk is ultimately being struck. Given the wider array of issues and considerations that factor into SIBs, I would actually opt for a slightly broader interpretation of the SIB "sweet spot," one which also includes providers, and which extends beyond simply evidence and risk to include the elements of a broader value proposition that is compelling to all parties concerned and which can be reliably hit across an assortment of projects. It is this type of "sweet spot" that is critical to the SIB market.

After close to ten years of effort, it would appear that the SIB "sweet spot" may be much smaller and far more elusive than originally imagined (see also Fraser et al. 2018; Tan et al. 2019). While the challenges, barriers, and frustrations impacting SIB markets in Canada, the US, and UK are distinct, informed by different agendas and market dynamics, they ultimately reflect a common dilemma: government, investors, and providers all possess very different perspectives, worldviews, and skillsets and they approach this space with varying and often competing interests and objectives,

> Everyone comes at this work very differently…a non-profit wants to participate for very different motivations than the government, than investors. And bringing everyone together in a common framework, speaking a common language, around a common table over 12, 18, sometimes 24 months to negotiate a project is a lot of hard work (US Respondent #52).

Government is looking to achieve the best value for a given set of outcomes while transferring risk to investors and avoiding the logistical hassles and political risks that can come with different ways of working. Investors are concerned with maximizing returns while mitigating, or sharing, as much of the risk as possible hence the focus on cashflow and exit clauses. And providers want long-term, stable funding without overly onerous terms and conditions and undue risk exposure as well as the ability to leverage other benefits. Thus, rather than coalescence, a more common scenario may be misalignment, a reality cited by a US respondent in accounting for the constraints on the growth of the PFS market,

> I think there are constraints. I don't think there's as much money out there that is as interested in taking on the risk as people thought there was. I don't think government is willing to compensate the money that is willing to take on the risk in a risk-adjusted manner. And I don't think there's enough providers who are really ready for this…So those are all the reasons that there's constraints on growth I think (US Respondent #30).

A UK-based respondent offered a similar assessment,

> In [SIBs] everybody's trying to find a deal…So the local authority have to reduce future spend, but it's ultimate focus always is on how much it can save in-year because that's the way local authority finance departments think. The investor wants to get its 6% return and improve on it if it can. And the provider wants to provide really good services but not to take too much financial risk…So I'm not sure how honest we are in the market about talking about those different perspectives and trying to come up with deal structures that work for everybody. I think the risk is that by not having those very honest conversations, everybody ends up sort of trying to do the best they can for their own organization and as a result the structure fails (UK Respondent #30).

I would suggest that it is these competing interests and objectives which help to account for the high attrition rates reported in the SIB market and the reality that many potential projects founder between feasibility and execution. I would also argue that, underlying the challenges and points of conflict examined throughout this report, are several deeper points of tension which have served to further limit the SIB value proposition and thus narrow the SIB "sweet spot."

1. "Risk Sharing" vs. "Risk Transfer" and "Outputs" vs. "Outcomes"

One fundamental point of tension returns us to the question of the distribution or allocation of risk in these transactions, and the fact that investors are generally less interested in risk transfer and more in risk sharing with efforts to manage or limit risk exposure figuring prominently in the deal-making process. Part of the issue here is that, if investors were actually to take on the bulk of the risk in these projects, they would require the appropriate risk-adjusted returns. The fact that governments are limited in what they are able and/or willing to pay to investors in the form of returns results in the "conflicting priorities" noted by Godeke and Resner (2012) in their early PFS market sounding, "direct conflicts arise between the government's priority to transfer the risk of generating outcomes to the investors and the investors' priority to receive a risk-adjusted return on their investments from the government. Successful, scalable PFS financing will require a balancing of these sometimes conflicting priorities" (10). With governments often having little room to maneuver in terms of the returns, investors have instead focused on limiting the risk side of the equation. This has resulted in many of the strategies and tradeoffs noted in this report including making payments to providers contingent on meeting performance benchmarks, building projects around programs with a strong evidence-base, and the focus on earlier, output-based metrics to generate cashflow and smooth out the payment curve. The more fundamental issue is that these efforts to mitigate investor risk, while perhaps understandable, often have the effect of limiting the types of outcomes that are produced through these transactions and thus ultimately undermining not only their value to government but also their broader social value.

One SIB investor was actually very honest in describing how the desire of investors to limit their risk and protect even modest returns led to what they described as the "gaming" of outcomes, "the final thing I think gets in the way of the social impact bond construct…is they get gamed. Because guess what, private investors, this is new to them so they don't want to invest in things that have a huge risk attached to them" (CDN Respondent #54). This individual then went on to describe how the metrics of the SIB in which they had invested had been structured such that even if there is no improvement in the outcome measure, investors would recoup all of their money with only their return being truly at risk,

> You wouldn't have got investors to take the real risks. So in order to get investors, the numbers get gamed so you're not really transferring the risk. Government is paying for this 100 cents on the dollar for an outcome that, arguably without any intervention, would do just as well. And I think if you look at most social impact bond constructs, that's what you'll find, because, and part of that is to get the marketplace going. Maybe if there's been some success you'll be able to get investors to take more risks, but nobody talks about those things (CDN Respondent #54).

A US-based respondent (US Respondent #43) suggested that a similar type of approach was evident in early thinking around rate cards in the US where the focus was on creating a product that would satisfy the desire of investors for near certainty that they would be able to recoup all or nearly all of their principal. They illustrated this point using the example of a hypothetical rate card targeting low birth weight. According to the respondent, 85% of births in the US are "normal," while 15% of births involve babies with low birth weight. A rate card structured according to this principal protection model would pay investors every time there is a good birth. However, given that 85% of births are 'successful,' investors would get the majority of their money back simply with the status quo and without demonstrating any real success in moving the baseline. This individual questioned why government would participate in this type of deal especially given that they can borrow money more cheaply.[33] A Canadian provider involved in developing a SIB also referenced the tensions between investors and, in this case providers, noting that the consultant who had been hired to find investors for the deal recommended that the criteria for the target population be reduced from the benchmark of five years of chronic homelessness proposed by the provider (and central to their program model) to 18 months citing investor risk as a key concern,

> The finance person, the intermediary person, pressing hard for that…And this is how you see the pressure when you are dealing with the private sector. Are they there for the good, or are they there for the return on investment? And that is the tension when you are trying to deal with the private sector whose worldview is not your worldview. Their actual outcome measure is not your actual outcome final measure…they are trying to minimize the risk again. They are thinking about what the investor wants. I am thinking why not just dare to do the minimum five years…this is the collision of worldviews, but also the mitigation of risk at the expense of the concept and the agency (CDN Respondent #52).

Considerations of risk mitigation also factor into investor preferences for earlier, output-based performance indicators and payment triggers. This helps to account for the popularity of measures such as the Outcomes Star™ family of measures which provide early indicators of longer-term success,[34]

> When government did its own homelessness ones in the Fair Chance Fund, the outcomes were a long way away…it's based on the Housing First principle which is a good principle…but you only got a relatively small amount of money for a sustainable housing outcome and it was a long way away. So investors themselves said we need something that can be measured quickly that gives us

[33] To-date, none of the active rate cards in the US have drawn from this type of structure or included outside investment, although US PFS specialists remain interested in developing rate cards where significant capital would be at risk and where some form of outside investment would thus be required.
[34] These have been featured in several SIBs in the UK including many of the rough sleeping SIBs as well as the Ways to Wellness project.

> some confidence that that outcome is going to be achieved. Because if it isn't we're not going to get our money back. Therefore we need to know. So they started using the Homelessness Star from the Outcomes Star™ family which has been quite popular to just give them some kind of a lead indicator. So the investors themselves got quite keen on it (UK Respondent #70).

These early or lead indicators may also include "soft" outcomes, such as changes in attitudes, which are believed to be predictive of longer-term "hard" outcomes. A US-based respondent described how their firm had started to use what they referred to as "research outcomes" with similar objectives in mind (i.e. earlier indicators and payment points),

> Are you going to make it really onerous and wait until the seventh year or are you going to start to measure metrics and outputs at year two? What's needed to be more practical and to show success?...So we've started what we call research outcomes. So if you have maternal depression going on, why not measure the qualitative improvement in a women's life around less poverty or less pain and less school and emergency services. You can still measure the long term payment outcomes too. So you can just look at a project a little differently in terms of the entire research experience of what you're trying to achieve out of it. And then another way we can do it is you can alter the payment scheme so that sometimes you may pay earlier in the project...so redefinition of what a pay for success metric or outcome should be. Think a little more short-term as well as long-term (US Respondent #19).

The difficulty with outcomes that are a "little more short-term" and activity-based is that the relationship to the actual outcomes of interest may be tenuous and rooted in a variety of assumptions. The same is true of "soft outcomes" which, as noted by one respondent, are "easy to achieve and a commissioner is less likely to want to pay for those because they are not actually achieving a hard outcome" (UK Respondent #45). As this same individual went on to argue, they may also reduce the size and cost of the investment without necessarily translating into a better financial deal for government,

> Soft outcomes can also de-risk the investor unintentionally because it basically gives them an additional cash subsidy early on in the process which means that the investment funding isn't needed. It can reduce the cost of investment because you can rely on early funding which is like, you have a funding stream of soft outcomes within three months of the start of a project, possibly earlier, whereas you have to wait 18 months for the hard outcome. And therefore you

> can reduce the amount of capital you need for start-up since you've got a revenue flow, but equally it could well be that you de-risk the investor but the investor doesn't take a reduction in the rate of return...You can get a lot of broader qualitative information from a soft outcome but a soft outcome does not necessarily generate the hard outcome, doesn't even contribute to it (UK Respondent #45).

The relationship between payment triggers and longer-term outcomes is especially tenuous in the context of rate cards which are often based on what respondents described as "distance travelled" metrics in which payments are made based on a participant's progress through a continuum of outcome measures. The problem with these types of structures is,

> the more distance travel metrics you put in place, the more they become the be-all and end-all of delivery instead of genuinely sitting back and saying, well actually the outcome that everybody wants is this. Now it's going to take us three years to get there. And how confident am I that spending all of my time focusing on delivering a maximum payment by reference to this short-term metric is ultimately the sort of work that would deliver the long-term? (UK Respondent #31).

Thus, some of the very strategies for managing risk and making transactions more palatable from an investor perspective may serve to undercut the value proposition for government. Governments may end up paying a premium for what is in reality a very modest risk transfer and for "outcomes" which are not all that different from the outputs on which they have long paid providers and which may not be all that impactful over the longer-term. Indeed, there is an extensive academic and policy literature which would suggest there is good reason to be skeptical about the relationship between near-term outcomes and longer-term impact (Heinrich and Kabourek 2018). Moving beyond the specific question of outcomes, several respondents also noted that government inevitably retains much of the risk for these transactions especially if something goes wrong and particularly with respect to local authorities where the lines of accountability are quite clear,

> Initially it was kind of positioned as you just transfer all the risk over. That's something that private sector providers were telling commissioners for a long time. But risk is never fully transferred. It's risk sharing. If a children's services SIB goes really badly wrong it's still the head of social care that gets in trouble for

> that. You never have proper risk transfer. So I think if you don't have risk transfer, risk sharing, what's the right return for that? (UK Respondent #34).

According to a UK-based SIB specialist, this question of risk transfer remains a key source of misunderstanding in the SIB market,

> One of the misunderstandings is I don't think the public sector really value the transfer of risk. They have the problem. They feel responsible for the problem. They want to solve the problem. Simply telling them you don't pay unless it's successful means 'so you mean when it fails I don't pay.' Well that's not a great outcome. So if you think about the agendas and the motivations of the various partners the concept of transferring risk is not a very compelling one (UK Respondent #31).

Providers also shoulder much of the risk in these transactions including the most significant risk of all – reputational risk, "the biggest risk actually was reputational risk. If we…failed, why would anyone fund us to do anything like this again" (UK Respondent #44). As noted by another respondent,

> I think what we see often in these deals to date is this disproportion where [providers] actually bear all of the reputational risk. If the thing fails, it's actually going to be really hard for them to raise money. It's going to be really hard for them to get another government contract (CDN Respondent #7).[35]

Ultimately, for a model whose value rests on an investor risk premium justified on the basis of the uncertainty and difficulty of producing meaningful "outcomes," the fact that much of the risk is transferred back to (and to an extent inevitably remains with) government and providers, and that the "outcomes" being targeted are not all that uncertain (especially given the intensity of the performance management accompanying these deals) or perhaps meaningful, makes it difficult to justify these transactions from the perspective of these other players.

[35] It remains to be seen exactly how unsuccessful projects will impact the ability of providers to attract future funding. One respondent noted that, since the early termination of the Rikers PFS project, one of the providers, the Osborne Association, has actually grown their funding relationships (US Respondent #60).

2. Increasing the "Velocity" versus the Volume of Money

Another key source of tension and constraint on the SIB value proposition is the fact that SIBs do not represent new money, "there's a basic flaw in the whole thing in that it's not really new money" (UK Respondent #72). This is a common misconception with SIBs initially viewed by governments as well as providers as a new funding source that could be tapped to help ease financial and budgetary pressures,

> There's a significant misconception when I have opening conversations with a lot of people that this is a way to get private industry to pay for services and it's just not. I sometimes switch between whether that was an intentional mischaracterization and whether it was just a simple misunderstanding of what's going on. But five years ago when there was so much focus on outside funding, that perception became born…So this is a way that we can continue to do things without having to pay for it. And either that was allowed to perpetuate or it was encouraged to perpetuate (US Respondent #5).

The reality is that SIBs are a form of debt which must be repaid, "helping people makes no return. Someone somewhere has to pay for it. SIBs don't solve that at all. And I just, I genuinely don't think that government quite realizes that. The outcome in this whole process is just money back to the investors. And it's not the solution" (UK Respondent #54). A UK-based provider suggested that the realization that a proposed SIB was not in fact new money, combined with the absence of central government top-up funds, was a major reason why a local authority opted not to move forward with the deal,

> What was very interesting…is the person leading on it thought it would bring new money into the area. But this wasn't a SIB that had a central outcomes fund. This was them saying if we pool all of this and we do it as a SIB, and there was a bit of an idea that the social investors were bringing money in. And I think the reason that hasn't gone ahead is actually someone turned around one day and said, 'hang on, [this] ended up pulling money out of this system, not bringing money into it, because actually we've got to pay the intermediaries and the investors. We're paying interest on this.' I don't think that's gone any further at the moment…And that's the thing, I think, with some of these local authorities and trying to sort of go 'new money, new money.' And then when they realize it isn't, that's when it doesn't happen (UK Respondent #19).

Thus, while SIBs are able to increase what one respondent aptly referred to as the “velocity of money” (UK Respondent #41) – i.e. the rate at which funds move through the system – they have little impact on the overall volume of money. Moreover, given that this additional speed is being propelled by debt, it comes at a significant cost. This feeds into the concern expressed by one respondent that, “We are using debt to cover-up the woeful inadequacy of circulating resource” (UK Respondent #20).

Moreover, as with all investment, it is not only the returns that must be factored into the cost of transactions, but also the expense of setting up SIBs and paying the fees of intermediaries, advisors, and fund managers. It was in view of these design and execution costs that several respondents referred to funds being “soaked up” or “siphoned off,” “what you want to be very careful about is that as far as you can, the money hits the frontline. It can be creamed off as you go down” (UK Respondent #72). One respondent suggested that they, as the provider, had actually received a small portion of the money from their SIB despite being the main delivery agency, “What was fascinating was…despite being billed as the main delivery, we got a tiny fraction of the overall pot…A lot of it got soaked up…by [firm x] because they had a huge team monitoring it and doing all that” (UK Respondent #53). Another provider was very skeptical about SIBs for this very reason, “I think for me I just think they’re sold as this huge sort of panacea and people imagine it’s more money coming into the sector and it’s not. It’s the same money being used differently, but actually some being siphoned off” (UK Respondent #61). This individual went on to suggest that, “for me it almost feels like in years to come will there be a bit of a scandal really around the amount of money that is actually being taken out of the system into those organizations, when actually very few of the SIBs that I’ve come across seemed to work for the provider and for the people using the services which is most important” (UK Respondent #61).

It is also significant that many of the funds that have gone towards SIBs would have been ‘invested’ in the sector anyway in the form of philanthropic grants, “It’s interesting that sense of where’s the new money coming from. Because even when, the trusts have obviously supported it in the UK…but again that’s not in a sense new money. It’s just money with different expectations around it” (UK Respondent #72). A similar point was made by a US respondent, "to the extent that they come after philanthropic dollars like us, we were going to fund those programs anyway and we're just substituting" (US Respondent #16). In the assessment of a provider whose organization has invested in several SIBs,

> The negative lessons are actually this is all money that would have come to our services anyway and probably without taking off the 20%-25% it costs to set these things up...And linked to that is people who have invested in the SIB, philanthropic foundations and organizations, probably would have invested in homelessness anyways without the 20%-25% cut (UK Respondent #67).

Thus, not only do SIBs not increase the volume of money, but increasing its velocity comes at a cost with funds leaking out as they travel more quickly through the system.

3. "Reverse Engineering Dysfunction in Government"

Concerns with respect to the SIB value proposition also emerge from the fact that they are being used not necessarily to engage in service innovation or even to scale successful programs, but rather as a kind of workaround for issues or limitations in the way that public services are funded and delivered. This follows from the comment by one respondent that PFS in the US context, "reverse engineers dysfunction within government. There's no reason this should exist if government funding were not dysfunctional. So it's kind of like a patch around" (US Respondent #27). The interviews yielded several examples of this "reverse engineering."

One example stems from the lack of "systems coordination" between different agencies as well as levels of government. As one respondent noted in the context of homelessness services,

> We have known for many years that the systems don't work and we don't spend money, public or private, on really good systems coordination. We don't pay for enough people to make the links between jail, getting out of jail, getting housing and a job. We don't spend or even make it a requirement here that coordination happens when people leave for example medical detox to something else. So there's very big holes in the system and we need to pay for and pay attention to and really work on coordination (US Respondent #17).

Many SIBs are designed to respond to this very problem. Some focus on breaking down the silos between service domains (e.g. child welfare and juvenile corrections; or homelessness and social welfare)[36] and producing “seamless referrals and hand-offs of individuals” (US Respondent #39), an approach viewed as “bizarrely revolutionary” (US Respondent #5). Others feature ‘link worker,’ ‘key worker,’ or ‘navigator’ models which connect individuals to other services,

> Take a high needs individual or a high needs family that’s going to be involved in three, four, five different social programs. Can you have one person as a case worker who is quarterback for that individual or that family? And is that something that could dramatically help some of the highest need individuals involved in social programs? (US Respondent #39).

This type of service coordination, particularly at an individual level, is no doubt worthwhile. However, there is a question of whether this form of programming needs to be driven by a PFS model where investors are receiving returns from what are ultimately fairly straightforward efficiencies, hence the focus of advisors such as the GPL on similar initiatives beyond the PFS envelope.

A second example is what one respondent described as “regulatory arbitrage” (US Respondent #5) where the PFS structure is used to overcome largely artificial restrictions in government spending streams. Here they referenced the PFS deal in Cuyahoga which provides rapid re-housing and critical time intervention therapy for families that are homeless and at-risk of losing their children to the foster care system. A key challenge the deal helped to overcome was that funds from the foster care system are restricted to out-of-home placement and cannot be used for rapid re-housing or critical time intervention therapy which can help to keep families together and housed thus reducing out-of-home placements. As this same respondent explained,

> We can see what’s really causing entry into out of home placement and address the underlying needs. There are barriers and this is where PFS has been helpful. It can fix the issue of our foster care system would free up resources if it could provide rapid re-housing and critical time intervention therapy for mom except for their use of funds within that agency prohibit it from being used for anything other than out of home placement. So this is where PFS fixes that problem by

[36] The former was featured in the Illinois dually involved youth PFS project, while the latter was the inspiration for the Cuyahoga PFS project.

> saying we can go get money that isn't restricted on type of use and then back pay it with specific use funds. So that's helpful. But really that's sort of a regulatory arbitrage. You are using money that's not restricted to do the things that we should be doing with our money that is restricted if we didn't have those restrictions on it. I would argue it is better governance to get rid of the restrictions and do it directly (US Respondent #5).

Another example of reverse engineering the dysfunction of government involves what one respondent described as "a parallel system of services" (US Respondent #48). Here they referenced a PFS project, introduced in concert with a US government agency, which involved delivering an evidence-based intervention to a specific sub-population. However, rather than training existing staff from within the agency to provide the service, the project drew from personnel hired and managed by the intermediary. This was viewed as necessary in order to avoid issues within the agency including restrictive human resource policies. For this particular respondent, the fact that this arrangement did not address, but worked around, the perceived dysfunction within government itself meant that it was not a long-term solution,

> And what happened is [firm x] set up their own nonprofit to accept those funds and then hire their own people to run it. So I was like why are you doing that when we should be funding [government agency x]? If they are not doing something right and you have an evidence-based model that shows...these are the things that should be done, shouldn't we fund them to make those changes so that they can be self-sufficient to make those reforms at [government agency x] instead of funding another entity to go in there to serve their people and show them how to do it but then when the grant is gone those people are gone? So it's creating another separate tool...So that whole process of setting up a dual system of services is so ineffective (US Respondent #48).

This also fits nicely with the acknowledgement from a UK respondent that, "SIBs can also create their own 'contracted out' silos and deal with the symptoms rather than underlying causes of dysfunction (e.g. sustain the status quo)" (UK Respondent #57). All of this suggests that there is a delicate balance to be struck between innovation and forms of service re-design that could be pursued through other means and without the expense of the SIB model. Indeed, there is a danger that SIBs of this type could simply allow existing problems and inefficiencies in government to perpetuate themselves.

4. Narrowing Issue Areas, Populations, and Interventions

Tensions around the SIB value proposition are also evident in the types of issues, populations, and interventions that have emerged from the first generation of projects. Up to this point, the policy and issue areas deemed suitable for SIBs have been driven largely by considerations of cost and the ability to attribute savings to individual government departments,

> I think we've seen more interest in social impact bonds early in some areas where two characteristics are present. One, naturally the cost, the benefit/cost math looks great. And two, in areas where you have pretty unified control of the benefits at a single level of government or sharing across levels is easier (US Respondent #39).

As explained by a UK-based respondent,

> My view is, and this is shown out by the facts, you need smaller numbers of commissioners, saving quite large amounts of money, fairly quickly, then the case just becomes a no brainer. It starts taking off. Some of the other ones are far too complex, if I'm not going to save into money for five years, well I'm not just going to do it (UK Respondent #48).

This helps to account for the overwhelming focus on children's services and edge of care SIBs especially in the UK, services which are expensive, must be provided by law, and are often based on spot purchase contracts thus allowing for cashable savings,

> [SIBs] seem to work best in the local authorities where they spot purchase services. So particularly in the children and care space where you are de-escalating from a very expensive care place to a foster family or whatever, because they pay almost on a per child basis, a per night basis almost for some of those in residential care, they are real cashable savings. It adds up in-and-of itself for a local authority. So those types of services I think do work. And where the outcomes are much less tangible and don't drive cashable savings it can be quite hard (UK Respondent #58).

Other key issue areas are: (1) chronic homelessness (UK and US);[37] (2) youth employment (UK) and workforce development (US); (3) criminal justice (US);[38] (4) early childhood education (US); and (5) increasingly health and social care (UK and US). The difficulty is that these cost considerations limit the number and range of issues that are deemed suitable for SIBs while excluding more complex policy areas.[39]

Many of the existing SIBs are also based on driving programming towards quite narrow client groups. SIB specialists stress the importance of the careful and precise definition of target populations with emphasis placed on increasingly specialized groups including "high utilizers" or "high risk" clients. An example would be sub-groups of the chronically homeless who rely extensively on emergency medical services and frequently come into contact with the criminal justice system. However, at a systems level, the focus on a smaller number of more costly clients may result in less emphasis being placed on other groups in need of support. For example, one respondent expressed a concern around limiting chronic homelessness SIBs in the US to high utilizers of emergency medical services. Here they referenced a tool used in one PFS project to screen out individuals who are not high utilizers, "The tool is more restrictive than we would like because there is a group of chronically homeless people who are in shelter who aren't, believe it or not, necessarily high utilizers of medical care. Some are. But not everybody is. So those people are screened out" (US Respondent #17). This same respondent noted the value of investing in supported accommodation, but was also concerned about funding for other homelessness services, "what are we going to do about shelter? We're not going to be able to close shelter tomorrow. How are we going to fund it robustly enough so that we can actually get more people out so you need less permanent supportive housing?" (US Respondent #17). Another example is interventions targeting those who already have

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[37] In the case of homelessness, it is not only the prospect of cost savings that is driving these projects, but also its existence as a "political issue" (UK Respondent #64) with politicians being pressed to address the visible signs of homelessness.

[38] Some criminal justice PFS projects in the US have been informed by legal requirements to reduce the size of state prison populations. For example, several projects in California emerged from a US Supreme Court decision which upheld a lower court ruling mandating the state to reduce its prison population (see Plata v. Brown).

[39] One UK-based respondent cited the example of a proposed SIB involving 'knife crime' which was not able to secure government support and thus foundered. According to this individual, the main problem was that the project impacted (and thus required the participation of) several different agencies as well as levels of government.

extensive contact with the criminal justice system and are at "high risk" to reoffend. Intervening with this population is without question important; however, focusing significant resources on this one, very specific client group may result in the neglect of other populations in need of support. Referring to one well-known criminal justice provider, one respondent asserted that,

> [They] only work with youth of a very specific age and a very specific circumstance who meet all these other criteria because that is where the service is most effective which is amazing that they know that and they are staying in a very specific lane. But that's also a very tiny portion of the population who they can serve…so that intervention is only going to be effective for a very small sliver (US Respondent #26).

This same individual suggested that this degree of specialization is actually one of the by-products of the pressure to produce outcomes in a PFS context,

> [PFS] puts the emphasis on the return on investment in one organization. And the whole premise is that this organization produces this outcome. And the best way to know that you can produce that outcome is by getting so specialized. It's like we work with this population with this history of issues, and when we have all those factors line up we know we can produce the outcome (US Respondent #26).

At the same time as SIBs focus on smaller and more specialized sub-populations, they also serve to drive resources downstream towards the "end stage intervention,"

> My main concern is…if we were to go too far in on PFS you would be driving all of the resources to the end stage intervention stage where you can see the return on your investment quickly enough for investors and directly enough…it's actually much more cost effective to do early intervention than to do late state intervention. But PFS all lends itself to those later stages (US Respondent #9).

A similar concern was expressed by a second respondent,

> In some ways the further upstream you go, the bigger the impact is, the more it fans out. And yet the harder it is to connect the dots back. And so the more insistent you are in being able to connect the dots to justify a monetary flow, the more it drives you to the very last intervention…So I think you are focusing on, not to say the biggest impact intervention, but on the sort of the most proximate (US Respondent #40).

Thus, with resources and energy devoted to the highest risk groups and the most proximate causes, there is the question of whether there is sufficient support for interventions at earlier points in the pathway of social problems which could yield greater returns and help to avoid more costly services further on down the road.

Lastly, SIBs serve to narrow interventions themselves focusing on change primarily at the level of individual behavior. The emphasis on changes in behavior, thinking, and attitude is a key feature of many of the dominant models used in the SIB space including: MST and FFT (children's services); CBT and MRT (criminal justice); and Individualized Placement and Support (Veterans; NEET). SIB programs also tend to emphasize highly personalized forms of programming rooted in the principles of human-centred design and strength-based approaches as well as incentive and reward systems including discretionary budgets which can be used to make purchases that will incentivize individuals to engage with, and remained attached to, services.[40] This is then combined with intensive case management to ensure that things remain on track and that clients progress as expected. While this focus on highly personalized approaches, built around cognitive and behavioral change, over short time frames using systems of incentives and rewards, may produce specified outcomes, it is once again less clear whether or how these outcomes correlate with longer-term change. Behavioral nudges may be effective in the shorter-term but their effects may quickly wear off especially as programs are wrapped up and incentives are no longer available. Certainly these types of programs would be limited in their ability to address the "root causes" of social problems and to bring about the systems-level change desired by many SIB advocates as well as others working in the nonprofit space.

Overall then, SIBs serve to narrow programs and interventions in four key ways: (1) to select issue areas; (2) to highly specialized populations; (3) to proximate causes; and (4) to individual-level, behavioral interventions. To be fair, these tendencies are not unique to SIBs; they reflect trends within the nonprofit sector more generally. Most nonprofits invariably deal

[40] The use of personal budgets for this purpose is a feature of many rough sleeping SIBs in the UK. This could also be viewed as another example of the 'reverse engineering of dysfunction in government' as standard government contracts do not allow for this type of expenditure with SIBs providing the financial flexibility to do "personalized services" (UK Respondent #43).

more with the symptoms and side-effects rather than causes of social problems, or at least those aspects of social problems that can be addressed given the capacity and resources available. However, the focus on "outcomes" and the incentives and pressures associated with SIBs serve to reinforce these tendencies. Moreover, the way that SIBs have been designed and managed does beg the question of the types and scale of change that these programs are ultimately able to achieve and the value they are able provide to government and disadvantaged communities.

5. Advisors and Intermediaries

In addition to government, providers, and investors, there is also a fourth group of actors – advisors and intermediaries – who have their own interests and agendas and may create an additional point of tension within these deals. Each and every one of the SIB specialists I spoke with were genuinely motivated by the social aims of SIBs and were committed to the notion that these models hold the key to producing better outcomes for populations in need. However, their more immediate interests, namely generating deal flow, growing and scaling the market, and creating sustainable business models, may not always align with these longer-term goals. There was a suggestion from some respondents that too much emphasis has been placed on getting the deal done for the deal's sake,

> The incentive structure is interesting. This will be an interesting chapter to the book that is written on PFS or the SIBs movement and how wiling are we to come to terms with the truth around certain behaviors and dynamics that are compelling the work right now…So how much are we really putting solutions for communities at the center of deals versus getting the deal done for the deal's sake (US Respondent #23).

In particular, as this same respondent went on to explain, the incentive to generate revenue and cover costs may result in deals geared more towards government and investors than providers,

> It's a tough one because a lot of the intermediaries need to cover their overhead and who covers that overhead for them? The investors or government or the deal transaction cost. But it's not necessarily aligned I would argue with

> structuring the best possible deals and balancing those needs. I think this also plays out pretty acutely with the evaluation designs that are embedded in these deals. And in some cases some of the intermediaries are getting away with practices that if we had a Ralph Nader on all of this, or a referee with a yellow card, like you should go through a proper vetting of that evaluation design. If you are structuring a deal, you shouldn't also be designing evaluations. It's a little bit conflicted (US Respondent #23).

This message was reiterated by a second respondent also concerned about the evolution of the field, "I think over time more of the folks working in the space were building those deals for the funders and the governments first. And there was less attention paid to the fidelity of the intervention for that specific community" (US Respondent #54). Another individual, a strong advocate of PFS, raised a specific concern around the quality and meaningfulness of "outcomes" in light of these financial incentives and the extent to which they translate into true "impact." This individual made it clear that advisors are "highly ethical, doing their best to genuinely improve" outcomes, but suggested that they are also motivated to "do what's necessary to keep things going" (US Respondent #42). This, they suggested, results in a tendency to "play with your numbers in various ways to get the outcomes you need without producing true impact" (US Respondent #42). When it comes to SIBs, we ultimately need to think not in terms of a 'win-win,' or even a 'win-win-win,' but rather a 'win-win-win-win' scenario, thus further limiting the circumstances in which deals are possible and in the best interests of all groups concerned.

All of this returns us to the notion that the "SIB sweet spot" may be much smaller than originally anticipated, a reflection not simply of technical barriers to the execution of individual deals, but rather the more fundamental challenge of having to align the interests of very different groups of actors and to build a common and compelling value proposition. SIB specialists have, at times, clearly struggled to engage these various players and to make the model work. Moreover, adjustments made in the interests of one group, often investors, have the effect of negatively impacting others as well as the broader social value of these transactions. These tensions are not amenable to technical fixes. They are somewhat intractable and are not easily overcome, rooted in a deeper disconnect between finance and investment on the one hand, and the public and social sector on the other. The fact that the market has begun to drift away from SIBs provides further evidence of these dilemmas and the perceived opportunities for improving outcomes outside of an investment-based model. Ultimately then, given these challenges and tensions, it likely that SIBs will remain a small, "niche," or "micro" market (UK Respondent #45) and may contract further over time. However, this does mean that we should abandon the tool. Rather, we need to adopt a more nuanced view of both its possibilities and limitations. It is this perspective that must be carried forward in thinking about the future of, and beyond, SIBs.

THE FUTURE OF SIBs

If the SIB "sweet spot" is indeed bound to be fairly small, and SIBs themselves thus likely to remain a small, niche market, a key question moving forward is exactly what type of market this should be. Rather than expanding and broadening the model, pushing it in directions that are not all that dissimilar from traditional forms of commissioning and procurement, the best approach might be to return to something more akin to the original vision of SIBs as demonstration projects used to test and evaluate new, innovative, and experimental forms of programming which government is unlikely or unable to fund on its own. The aim would be to develop learnings and proof points around the merits of different forms of preventative programming and to build potential cases for government support, "PFS projects are best used to generate rigorous evidence about the outcomes of an intervention that, if successful, can be taken to scale through direct funding" (Gong 2018). Ideally, these would be small scale, geared towards the types of social problems which transcend individual departments and levels of government thus better reflecting the complex nature of social problems and the potential gains of working at a more systems-level. They would also be loosened from a strict cost savings and more narrow outcomes-based agenda focusing instead on broader notions of social value and more meaningful benefits for beneficiaries themselves. Ultimately then, the future of SIBs would involve a return to some of the original objectives and promises of the model which, according to the following respondent, have been lost along the way,

> When they were designed, SIBs had three things that they were trying to do. One was be outcomes-focused around beneficiaries. Second to reform commissioning. And third was, that you would take the risk and innovate and then the machinery of state would take that innovation and go 'oh yeah that works,' and then put it into policy and scale it. Those three things, gone. Now it's all about cost savings rather than outcomes. There is no machinery of state anymore so that not a single one of the SIBs that's been invested in has been taken up by the state and rolled out…And commissioning now is honestly a complete mess and commissioning has taken a step backwards because now it's all about cost…And so the three fundamental drivers for SIBs have kind of been lost in the midst of time. And now they are really being used as an outsourcing, commissioning tool to cut costs basically (UK Respondent #42).

With this in mind, there are six key principles which might inform the SIBs of the future.

1. Collaboration and Partnership

Time and time again respondents indicated that what was most valuable about SIBs was the ability to establish new collaborations, partnerships, and working relationships between investors, providers, and government. In many cases, these deals represented the first time that different government departments had been brought together as part of a collaborative effort to address a social problem in which they all had a stake. Moreover, due to the obligations created by the contracting structure, these collaborations survived changes in government as well as turnover in key personnel, "there is something powerful about the long-term nature of these contracts and having private investors at the table keeping an eye on this, where government and providers get locked into driving some sort of reform project in a sustained way over time, that sustains itself over political transitions" (US Respondent #37). One respondent pointed to the New York State PFS deal as a case in point where the deal has survived four changes in the government representative and that "never happens in government" (US Respondent #43). SIBs thus provide an opportunity to transcend government silos and adopt a more holistic, systems-based view of social challenges. They may also help to provide checks and balances across the various partners. For example, several respondents noted how investors were able to step in and push back in cases where government was seen to be over-stepping.

However, in order for these collaborations to work, there must be greater equality across the partners. The situation in the UK – where a small number of fund managers have come to dominate the market, possessing greater resources, experience, and expertise than either government or providers, and where providers have been largely relegated to the margins of project planning and subjected to intensive forms of performance management – is not conductive to these types of partnerships,

> From a charity perspective, it's this tripartite structure where all the power lies in this country with the investors because the commissioner pool is these slightly pathetic councils that are running out of money and being basically told that they have to have a SIB or they won't have any social programs being run in their area. They don't really know much about it…But you've got this weird three-way conversation that is actually a one way street. And they talk about one of the great values of SIBs is that everyone is in it together and it's discursive and it's just a lie (UK Respondent #54).

In order to work, SIBs have to be more relationship and trust-based. In the assessment of a respondent who works closely with commissioners, "SIBs ultimately are not a technical model. SIBs have to be a relationship, a long-term relationship. So it has to rest on the quality and the strength of those relationships across a tripartite arrangement" (UK Respondent #64). True partnerships will require a more "equitable distribution of power" as well as a "better mutual understanding and common language" (UK Respondent #41). As explained by this same respondent, "What we need to do is to reshape the narrative and the practice of social impact investment in to a genuine partnership with the citizen at the centre where service providers and investors genuinely understand each other's perspective and bring that together with an open minded government" (UK Respondent #41). A greater sense of what one respondent described as "emotional intelligence" and another as "empathy" is also key, "empathy is a real, in the market we are in, it's really important" (UK Respondent #36).

2. Prevention and Innovation

Second, SIBs should be grounded in genuine forms of prevention, rather than simply the mitigation of short-term costs to government. This would include more upstream interventions like early education programs which have been challenging to develop and execute under the current model. This would also involve a broader value proposition to government focusing on the larger benefits and social value produced through these types of programs such as promoting social justice and fostering greater and more equal access to education, employment, or other services. Emphasis should also be placed on innovation and experimentation. One respondent in particular expressed frustration with trying to locate funding for more innovative services in the current UK SIB market where investors are concerned about limiting their risk and government is searching for immediate cost savings largely to statutory services (UK Respondent #30). In developing more innovative programs and ways of working, it is also important to expand the scope of issue areas and interventions targeted by future SIBs. Contrary to the current focus on very specific issue areas, involving quite narrow populations and highly specialized interventions as well as single providers and commissioners, more emphasis should be placed on a “whole systems approach” (UK Respondent #68) based on connections between different levels of government. Ultimately, the idea would be to develop, not fully formed models that can be scaled or franchised, but rather broader principles and approaches to service delivery that could then be applied and adapted to other contexts, jurisdictions, and circumstances.

3. Evaluation and Learning

Third, SIBs must be informed by a genuine learning agenda. This is consistent with the focus on innovation as new models must be evaluated for their impact and effectiveness. These evaluations should be rigorous, but they do not necessarily require RCTs. Indeed, more consideration should be given to the limits of RCTs not only in terms of their costs and ethical and logistical challenges, but also what they are actually able to tell us about the effectiveness and impact of a given program. There may also be value to new methodologies such as rapid cycle testing and continuous improvement. However, it is critical that evaluation not be reduced to performance management, or what is increasingly referred to as “impact management,” and that there continue to be rigorous evaluations which ideally combine quantitative (e.g. quasi-experiments and counterfactuals) and qualitative approaches.

Evaluations should also be meaningful for providers. One of the frequent complaints of providers is that evaluations, particularly RCTs, tend to reflect the interests of researchers and are of limited value to providers themselves. Thus, evaluations should offer clues not only as to whether, but why, programs are effective or not as well as provide insights into program improvement rather than simply assessment. More emphasis should also be placed on follow-up evaluations. A perfect opportunity for this type of evaluation involves rough sleeping SIBs in the UK where providers have access to a valuable database of rough sleepers (CHAIN) and could use this database to identify how individuals have fared post-SIB. This would provide critical information on the longer-term impact of projects as well as the types of changes in the larger continuum of services and supports that may be needed to sustain SIB gains. It is also critical that funds be made available for evaluation which is not always possible in the SIB market as presently constituted (particularly in the UK) where "budgets are tight" and "it would not be rare for the evaluation to be the balancing item in a budget" (UK Respondent #55). Ultimately, the hope would be that these evaluations would help to build up the evidence-base for more preventative forms of programming, "We actually want to do stuff early, but to do that you've got to build the evidence-base and you've got to be able to attribute the impact" (UK Respondent #55).

4. Philanthropy and Government

Fourth, given the focus on more innovative forms of prevention-oriented programming conceived over longer time horizons and in the context of a larger focus on systems-level change, the type of SIB imagined here will likely not be able to deliver the returns produced by the current slate of projects. They will also carry much greater financial risk, with not only returns but also principal at risk, and will have much longer investment horizons. As a result, even "social investors" may be hesitant to engage with this model. Speaking to this reticence of investors to participate in longer-term projects, one respondent indicated that they have been in contact with social investors about the possibility of using social investment to "[achieve] wider social change…but investors run a mile. They are not interested. Because their return is ten years down the road" (UK Respondent #17). Instead, the principal investors would likely be trusts and foundations, or individuals with explicitly philanthropic aims, with these investments treated much more like traditional grants and any returns being reinvested in the social sector. One interesting model noted by a Canadian respondent would be for foundations to grant the funds to nonprofits and then allow them to retain any returns,

> The one thing that we often don't recognize is that how you structure the investment is actually quite open. You could give a grant to that nonprofit or charity. They could then use that as their own equity contribution to a project. And so if it succeeds and the government pays, they get to keep that money and it recycles. It gives a successful program more runway than it would have before (CDN Respondent #7).

One potential model for this type of approach is the South Carolina Nurse-Family Partnership Project which was supported exclusively by philanthropy and where returns are to be reinvested in the program for future service provision. This is also a case where a SIB was used to leverage the expansion of funding for social services with one of the explicit objectives of the project being to secure sustainable public financing for NPF statewide (Tse and Warner 2018).

In many respects, a more intentional and exclusive focus on philanthropy would not be all that different from the current market which, as noted at various points in this report, remains largely philanthropic in nature driven by foundations as well as high net worths motivated by the philanthropic rather than the investment potential of these transactions. It is also the case that many of the "returns" from existing projects have been reinvested and recycled back into either the same nonprofit or charity, or other charitable endeavours. Treating SIBs more explicitly as a form of philanthropy, and a type of grant rather than an investment, would also help to avoid some of the negative messaging that has dogged SIBs with the optics of investment banks such as Goldman Sachs earning returns from disadvantaged populations doing more to hurt than help the field particularly in the US.

The involvement of philanthropy would also help to ensure that the emphasis is placed not only on financial, but social returns. Respondents from the UK alluded to the important role of trusts and foundations as SIB investors given their focus on social impact,

> Foundations are in quite a privileged position as investors in that they can step back and look at the social impact as well. Some of the social investment funds

> have to be much more financially focused. So they, obviously they are thinking about social impact as well, but they are slightly more on the financial side. Whereas foundations can be a bit more independent and a bit more on the social impact side. And I think that's an advantage of having foundation investors in that we can address some of those issues when they are looking at the project at the early stage (UK Respondent #52).

As an example, several individuals pointed to the Essex SIB where representatives from trusts and foundations objected to the focus on 'days in care avoided' as a measure of impact, noting that 'not being in care' did not sufficiently reflect the wellbeing of the child, "they could be in the street actually. Or they could be sofa surfing, or they could be with their mates" with the more important measure being improvement in the home environment, "that's the gold in it" (UK Respondent #42). Based on this concern, they insisted that an additional indicator of wellbeing be included in the deal, advice which was heeded, although 'care avoidance' remained the only payment trigger. Regardless, this speaks to the larger value add provided by philanthropy and more of a 'social return' mindset, "the way in which [SIBs] are designed is really important. So often trigger payments are based on really blunt output. And the ones that we have been involved in, we have had to fight really hard to change the payment, or to add to those payment mechanisms" (UK Respondent #42).

Government will also need to play an active role in future SIBs. Recognizing that SIBs require more rather than less internal capacity and expertise (Heinrich and Kabourek 2018), any future efforts will require greater investments in, and by, government itself including internal capacity-building and support for the nonprofit sector. Several respondents rightly acknowledged that SIBs were not well-matched to the context of austerity and that they may have had a greater chance of success had they been invented ten years earlier, "because in the early 2000s, the public sector in the UK was awash with money. And for all that incremental money, it would have been great to use SIBs as mechanisms for pure, issue-focused delivery mechanisms with new providers" (UK Respondent #59). According to this same individual, "it's the right idea at the wrong time" (UK Respondent #59). Another respondent made a similar point, "if that had happened in 2000-2008, it might have actually got somewhere, because there was so much money" (UK Respondent #24). A Canadian provider observed that it is not only budget cuts that are significant to the way the SIB agenda has evolved, but also the fact that in the 1980s and 1990s governments lost the capacity to engage in policy development relying instead on the "marketplace of ideas to see what policy was out there that it could grab to help it do good…government lost the capacity to take risks. Really didn't know how to do investing in new things" (CDN Respondent #52). There is thus not only the immediate context of budget cuts that is relevant, but also the longer and larger legacy of retrenchment in the public sector. All of this suggests that if SIBs are to be pursued in the future, additional funds and capacity must be re-injected into the public sector. There must, in other words, be an effort to rebuild the "machinery of state" (UK Respondent #42).

One might also imagine changes in the role of national governments. Rather than top-up funds, or social investment funds, there is an argument to be made for the value of using public funds to establish a national, or regional, standing outcomes fund that could be used to pay for all or a portion of outcomes achieved through SIB projects thus acknowledging their broader benefits and helping to address the "wrong pockets" problem (Doyle and McFee 2017). According to one version, such a fund would: (1) invest in PFS transactions and be replenished through outcome payments if and when projects succeed in producing outcomes, and (2) be publicly financed with a greater focus on prevention thus reducing the "political risk" that comes with private investment (Boggild and Hlady 2016). These funds could also be used to help pay for successful programs that the government wishes to mainstream post-SIB. In retrospect, supporting outcomes funds rather than supplying investment capital may have been a better use of dormant account funds in the UK. Ideally, this would represent new spending and would not come from either reductions in existing budgets, or the repurposing of funds that would have otherwise gone directly to social service providers. Several respondents also suggested that projects should be supported by Treasury rather than individual departments thus providing both more centralized support and avoiding the wrong pockets problem, "So who would be the best part of government to look at this. Personally I would think it would be like the Treasury Board, somebody who has to look at the big picture. Then you can see it's a government initiative then, not just a social services or health care initiative" (CDN Respondent #15). A UK-based respondent agreed, "If [Treasury] had created a pool or a pot…not from one single government department, one centrally, and said this pot is to be used for social impact bonds to have an impact on reducing the overall spend, I think it would have been a very different outcome. But they didn't" (UK Respondent #53).

In response to concerns about the willingness of governments to internalize the learnings from these programs and fund them directly, one of the conditions of SIB contracts could be that, in the case of successful programs, the government commits to funding the program for an additional trial period thus further testing the funding case and creating the conditions for the mainstreaming of the program. Once again, this was one of the original hopes for SIBs,

> Another of the real hopes for a social impact bond is that it was in some ways a pilot but it was hopefully a more effective way of doing a pilot. So you try this thing. If it turns out that the new delivery model works, then hopefully that's a no brainer for the government at the end to go great that worked, let's do that as far as possible everywhere taking into account local circumstance and minor adaptations for local contexts, let's take that model and roll it out everywhere and scale it up. I think that bit…just seemed always kind of like to be one step away (UK Respondent #73).

This type of commitment is actually a centrepiece of the Maryland Opportunity Compact model (first proposed in 2005) where philanthropy pays for a program on the condition that government will assume responsibility for funding the project longer-term if it proves effective. By focusing on "re-investing public sector funding into the program being tested," rather than "attracting new capital investors and repaying investors if better outcomes are achieved" (Open Society Foundations 2012: 13), Opportunity Compacts are viewed as superior to SIBs. They also offer a more attractive value proposition for philanthropic funders, "Funders are often drawn to these efforts by a guarantee that the public sector – the more sustainable funding partner over the longer-term – will re-invest savings and change the way it addresses the issue or population within the community" (Open Society Foundations 2012: 12). In addition, such an arrangement would help to address uncertainty on the part of service providers around the financial fate of their programs post-SIB,

> From a service provider landscape we have yet to show what happens after a PFS project. So I think that's an upcoming interesting point in the field development. What happens when a service provider successfully meets their outcomes. Will government actually take them up? I think that's one of the primary promises of this that it should lead to more sustainable, performance-based contracts. We have yet to see that. So I think that's going to be an interesting challenge from the service providers' perspective going forward (US Respondent #35).

On this point, a UK provider noted that their SIB created additional management challenges as staff capacity had to be added only to be shed as the project wrapped up (UK Respondent #28).

5. Local Community Involvement and Engagement

Fifth, SIBs would ideally be rooted in local communities and would be smaller in scale. Indeed, several respondents spoke to the inevitably local and bespoke nature of social services and expressed skepticism around the pursuit of scale as a realistic objective,

> These transactions are going to continue to remain highly bespoke for as long as I can see. And I think that you get a better outcome for the individuals in that community for that intervention as a result. So I think that the projects are better because they really are acutely aware of the local context (US Respondent #24).

In the words of another respondent, "all social services are local at some degree. There are things like philosophies that scale…I'm not sure a specific intervention does" (US Respondent #30). With less emphasis on scale and investor returns, smaller SIBs could be viable including the type of program featured in the first Canadian SIB which involved only twenty-two participants but effectively made the case to government and helped to secure greater follow-on funding. Smaller scale and more local projects would also make SIBs relevant to a larger number of organizations (including smaller, community-based organizations) and could provide another way for individuals to contribute to local charities with not only large foundations but also groups of individual donors participating in SIB projects. One SIB that was held out as an example of a more community-based approach was the YMCA SIB in Perth, Scotland. This SIB, which was based around employment opportunities for youth, involved local investors including several businesses who provided funds as well as hired and mentored program participants. While this level of community engagement may not be possible or desirable in all cases, to the extent that SIBs can draw from the local community, they may be more meaningful and impactful as well as lead to longer-term donor relationships.

6. Focus on Providers and Beneficiaries

Finally, SIBs should be geared, first and foremost, towards providers and designed to support their work with vulnerable and marginalized communities, "I think it's got to be driven by the CBOs. It's got to be driven by the needs and the opportunities. Government shouldn't go out and search for this…they've got to talk to the people who are dealing with the issues" (CDN Respondent #15). This includes drawing from provider expertise in specific issue areas and client groups as well as developing provider capacity including research, data, and evaluation. With advisory services (including both SIBs and outcomes-based funding) increasingly oriented towards government, provider-focused support remains a significant gap,

> I would say as [advisory firms] continue to focus on government, there are fewer people focusing on service providers. And that's a little scary. Because it used to be kind of even. And these super smart folks from those different organizations were spreading their knowledge and now I think that there's, as the pivot towards government…our concern is that service providers are left without support (US Respondent #24).

This is especially true for smaller organizations,

> So oftentimes what we see is organizations serving some of the most disenfranchised, the most underserved populations who could most benefit from these services are the ones who are getting left behind in the race to outcomes but are having a hard time articulating it, or a hard time demonstrating it. They really do need some investment in their infrastructure to get over that hump (US Respondent #26).

A similar concern was expressed by a Canadian respondent, "there's no money for evaluation and there's no money for professional development. So the two things that would help the sector deal with some of the challenging times isn't there" (CDN Respondent #49). This type of support and capacity building is critical to leveling the playing field and developing more equal relationships with government and investors.

At the same time, we must be mindful of the impact of this type of capacity building work and the consequences of hiring staff trained in specific areas such as evaluation and data analysis. A balance must be struck between program and non-program staff and expertise. More individuals with expertise in evaluation and performance management may certainly be needed, but this should not come at the expense of the well-trained and skilled frontline workers who are essential to successful program delivery. Thus, investing in administrative staff while cutting back on the number, or qualifications, of frontline workers is not a solution and the focus must always remain on protecting the mandate and mission of the organization.

There is also the possibility of establishing more sector-based intermediaries who could work directly with their members to develop SIB projects. One example is Homeless Link, an organization representing homelessness charities and social enterprises in the UK, which recently established a social investment fund capitalized by the Access Foundation and is now considering a provider-led SIB. There could also be an opportunity for an organization like the United Way to serve as an advisor and intermediary as it did in the Massachusetts chronic homelessness project. A senior member of the United Way was quite optimistic about this possibility and suggested that the agency could "put together a $25, a $50 million fund that would basically do two things. One, be an investor in some of these. And then secondly some amount of money for technical assistance for local communities to figure out how to do this" (US Respondent #18). Thus, SIBs could represent an opportunity to build capacity not only within individual providers but also across the social sector more broadly.

Beyond individual providers, there must also be greater support for the larger provider ecosystem. The focus on wraparound services and navigator and link worker models means that a key element of many SIB-based interventions involves connecting clients to other providers and services and helping them to sustain those connections. The result is additional pressure on these partners which may themselves be struggling to make ends meet. The failure to recognize the contributions of other providers, and to support their work, was cited as another significant constraint as well as potential source of tension in SIB projects,

> But we were also in a time where services were being stripped back and the ability to link people with other services to help them were shrinking because of the decline in government funding and other social funding…So that caused a massive impact on how we work and because the citizens advice bureau, library, and local charities who support them were getting less and less and their waiting lists were getting longer and longer, for us to impact and get results for our clients we were doing a lot of the work for ourselves. So advocating, going to job centres, attending assessments and so on and so forth because there wasn't enough services to support, to link those individuals to (UK Respondent #10).

This respondent returned to this theme later in the interview noting that there was supposed to be a provision (i.e. additional funding) for services that were being overloaded. However, when the respondent noted this concern, little came of it,

> There was some element of if we were overloading a service, or we were creating too much work, there was possible funding would be made available for those local services. So I pitched that frequently…But nothing ever came of that even though there was plenty of evidence. So things like smaller charities, like we have one for [x] that was great and we used them quite frequently and they were like we are being overwhelmed so we would have to pause referrals. And the same with quite a few small charities that were helping with benefits. We would have to stop referring them. But they were supposed to be looking at how that big impact would affect, the scatter effect across a locality. I don't think any of that was thought through. And I think that's really important (UK Respondent #10).

Finally, future SIBs should seek not only to produce outcomes that are meaningful to clients, but also to engage these individuals in program design and evaluation. The principle of co-production, referenced by several respondents as an important feature of the homelessness space in the UK, represents one such option for better incorporating the lived experiences and feedback of the very populations that programs and providers are attempting to help. The need to focus on beneficiaries is a key lesson not only for SIBs, but social investment more generally,

> I think in the last few years what's been forgotten in all of this is the social sector organizations. There's been a lot of talk about investment and investors and these great fantastic financial mechanisms that exist and how clever people are for coming up with them…but actually what do the people we're serving need?…It's not about us. And I think that's what's been forgotten in the last few

> years. It's not about social investors. It's not about people coming out of the City and doing something good with their lives. It's about the organizations that are actually creating impact and delivering much needed services for the most vulnerable people in society. That's what we need to focus on (UK Respondent #69).

All of this is to suggest that SIBs may still hold considerable promise. However, the most promising SIBs may be smaller and more modest, geared towards innovation and developing new models that address complex needs, and rooted in a recognition of not only the potential but the limits of finance and investment as a way to address our most intractable social challenges.

The Future Beyond SIBs

At the same time as more thought is needed around what SIBs might look like in the future, there is also a desperate need to address the funding challenges faced by the nonprofit sector in the present, "It's a very intriguing model. It applies to a very narrow slice of what's going on in the social sector. So it's very far from a solution for the broad issues that are affecting the sector" (US Respondent #57). In the words of another respondent, "You might have 50 to a 100 charities in the UK that could reasonably deliver a SIB. There's 170,000 charities in the UK…this stuff is such a drop in the ocean compared to the wider remit of what's going on and the challenges people are facing" (UK Respondent #21). One of the most pressing issues facing the broader sector is the increasingly precarious funding environment, "I think the charity fundraising landscape in this country is in a perilous state. And I think there are going to be plenty of charities going under in the next few years" (UK Respondent #54). There is less government funding available and much of the funding that remains is based on contracts and increasingly performance-based contracts, "But for a lot of [charities], they used to get a lot of grant funding from the public sector, from local government, from bits of health. And that all, grants have gone completely almost. It's all contracts which charities find difficult" (UK Respondent #12). There is also a more competitive environment for philanthropic dollars. In the UK, reductions in government funding have resulted in greater pressure on trusts and foundations to fill the breach, "you've got more people because there's less statutory, more people are going for trusts and foundations, so that whole kind of philanthropic pool is more difficult" (UK Respondent #28). In the US, there is evidence of greater specialization with many foundations tailoring their investments to increasingly specific issue areas, "there are more and more foundations that used to be community-based foundations are saying, 'here are our guidelines and we're narrowing, we're not giving to everything, we're picking one area'" (US Respondent #36). Movements around 'venture' or 'strategic' philanthropy have resulted in a greater focus on scaling successful social entrepreneurs and an emphasis on "growth capital" (US Respondent #51) rather than program funding. There may actually be a danger that the pendulum is swinging too far towards infrastructure support with not enough money available for core programming. Finally, across philanthropy more generally, access is increasingly limited to online portals and informal invitations issued through philanthropic networks rather than open calls and competitions. All of this translates into a more challenging environment particularly for smaller, community-based organizations, "it is inevitable that the large organizations are going to suck up the innovative new philanthropists. And also innovative government dollars. And smaller nonprofits are going to be more forced to consolidate…I'm worried about small, historic organizations" (US Respondent #36). Another respondent wondered about the larger consequences of these trends not only for nonprofits but the communities they serve,

> I wonder do we lose something if philanthropy dollars are only going to single issue initiatives or single issue organizations or organizations that are positioned to scale, rather than organizations that exist to represent their communities and to respond to the needs of their communities? So I wonder what will happen as these languish, which they are (US Respondent #16).

Even when it is available, funding is often difficult to manage with funds coming into nonprofits from multiple sources, or what one respondent referred to as "different funding markets" (US Respondent #23), and with different conditions and reporting requirements.

SIBs may represent one option for addressing some of these challenges offering the prospect of more flexible and slightly longer-term funding with a single set of reporting requirements. And yet, even as imagined above, SIBs will likely only ever apply to a small handful of organizations. As a result, other types of models and approaches are also needed. The problem is that, with SIBs and finance-based approaches dominating recent conversations around nonprofit funding, there has been little discussion of what alternative funding models might look like. This is a key opportunity cost of SIBs. Another potential cost of SIBs, and outcomes-based funding more generally, is the erosion of support for traditional forms of grant-based funding on the part of both government and philanthropy. Several respondents spoke quite passionately about the continued need for, and importance of, grants,

> And actually impact investment or social investment cannot alone be a substitute for grants. There is still an incredible need for grant funding, for philanthropy and this notion that philanthropy can just be magically re-interpreted as investment and everyone can get their money back and the world can be changed I think was a dangerous rhetoric and was reinforced by an impact investing elite and by government who were following a particular policy ideology…I think the challenge really is that there has been an unhelpful idea that has taken seed that grants are for the lazy and social finance is for the smart (UK Respondent #29).

Another respondent highlighted the importance of grants as a form of "gift,"

> One of my biggest issues with how much attention social finance is getting is that we're not having a proper conversation about gift…I think the big picture era shift for the charity sector is to get a lot sharper, smarter, and more simple about the need for gift, the pure nature of gift as a unilateral transaction, not conditional, not commercial, and to re-discover that it's a form of re-distribution of wealth. Until we are talking about that, then all of this social impact stuff is just more extraction. It's just more extraction from people that have virtually nothing (UK Respondent #20).

Part of the future beyond SIBs may thus involve a reinvestment in grants especially for smaller providers which lack the cashflow and capacity to participate in outcomes-based funding approaches. There are several initiatives currently underway, especially in the UK, to promote the value of grants. One example is Children England's Grants for Good campaign. Ultimately, we need to be reminded of the fact that, "social investment isn't the be-all and end-all. It's not a panacea. It's not a silver bullet. It's doesn't replace grant funding" (UK Respondent #46).

There may also be a role for new forms of government contracting and commissioning that are more collaborative in nature. In the UK, in particular, a handful of local authorities have begun to experiment with new trust-based commissioning models as an alternative response to austerity. One respondent suggested that commissioners have adopted three different strategies in the face of austerity-related cuts. The first is the demand on providers to do more for less. The second involves the imposition of new models, such as PbR and "agile commissioning," on the sector. The third, currently being pursued by a "very small group" of commissioners (e.g. York and Plymouth), involves a form of "trust-based commissioning" (UK Respondent #61), a more collaborative approach with commissioners,

> turning around and going you know what, we can't do this on our own, let's be collaborative, and let's think about what is possible and realistic and how commissioning can flex with the amount of money that is available but also using the knowledge and expertise of people who deliver services but then also people who use the services as well (UK Respondent #19).

This respondent described this approach, based on the principles of partnership and co-production, as being more trust-based and superior to SIBs,

> When we are comparing how we work with [local authority x] when we are doing this co-production, developmental process with lots of people compared to what we're doing with the SIB in [local authority y], is that actually if you can build in and develop trust between provider and commissioner and set up a relationship whether that contracting relationship which is trusting and flexible and both parties feel like they are an equal partner then it feels to me like you can probably do, it's less, it potentially has as good if not better outcomes and can put more resource onto the frontline which is where it needs to be (UK Respondent #19).

The future beyond SIBs might also include a greater recognition of the range of approaches and strategies for addressing social problems. In addition to programmatic interventions and funding direct services, there may be valuable policy work that could be undertaken and which might produce an even more significant impact. Indeed, many SIBs are actually attempting to respond to problems that are the product of previous government policy decisions and which may be more effectively addressed at a broader policy level. An example is homelessness programs which are geared towards sub-populations who have frequent contact with the criminal justice system and which include reduced criminal justice contact as an outcome and payment trigger.[41] However, this 'problem' is at least in part a reflection of both untreated mental health issues and of laws around panhandling and the use of public space which have served to 'criminalize' homelessness. The Denver Housing to Health PFS project is a case in point. Researchers from the University of Denver Strum College of Law (Bishop et al. 2018) have documented the growing use of criminal law and law enforcement strategies to police the visible signs of homelessness in the city of Denver resulting in larger numbers of homeless people being arrested and sent to jail. Thus, rather than a PFS program focused on reducing criminal justice contacts, a better option might be to revisit these policy decisions and to focus on providing better supports to homeless individuals. Similarly, many of the criminal justice PFS programs in California are designed to address a problem – prison overcrowding – that is the result of sentencing policies and priorities that extend back more than thirty years. The question is thus whether SIBs, and the programs SIBs are likely to fund, are the right tools for addressing these types of social problems. At the very least, SIBs need to be developed with a clearer view of the larger policy contexts underlying key social challenges. As suggested by the following respondent, support for broader legislative and policy change may at times be the better option,

> Sometimes an investment is not the right tool. 60%-70% of our grant funding is for campaigning organizations. So sometimes campaigning for a change in legislation, like wearing a seatbelt, or taking lead out of petrol, you can make the impact happen straight-away. You don't need an impact bond to make the change happen (UK Respondent #42).

Conclusion

This chapter has attempted to provide a bridge between the past, present, and potential future of (and beyond) SIBs. Informed by the agendas and challenges as well as the evolution of SIB markets in the UK, US, and Canada, the key insight of this chapter (and the report more generally), is that the SIB sweet spot, the win-win-win scenario where the interests

[41] This is true of the PFS programs developed jointly between the Department of Justice and HUD in the US.

of the various parties are aligned around a common value proposition, is much smaller that commonly believed. Rather than alignment, efforts to develop and scale SIBs have more often revealed tensions between the interests and worldviews of government, providers, investors, and even advisors and intermediaries. Part of the issue is that SIBs are positioned in a very strange territory between public, private, and philanthropic markets and they have struggled to bridge the gaps between these domains. It is these very tensions which help to account for the limited growth of the SIB market in all three national contexts. The second part of the chapter then attempted to look forward. Working on the assumption that the SIB market is likely to remain a small, niche market, the aforementioned tensions and challenges somewhat intractable and impervious to technical fixes, the chapter identified a series of principles which could inform the development of more modest but potentially more impactful SIBs. At the same time, given the scale of challenges facing the nonprofit sector, it is not enough simply to focus on SIBs. We also need to develop other models including a renewed focus on the value of grant-based funding. One of the costs of expending so much time and effort on SIBs is that we may have neglected other ways of achieving the same goal of improving the life chances of populations in need.

CONCLUSION

In 2010, SIBs burst onto the policy scene with tremendous fanfare and quickly gained an almost cult-like following. The core idea, that government, providers, and investors can all benefit from a shared transaction while ultimately helping to address significant social challenges, has an immediate, almost magical appeal, “There’s something beautifully alluring, and wonderful about it. It’s sort of win-win, and if it works everyone is better off” (UK Respondent #25). SIBs thus quickly became “the sexy financial instrument that everyone is leaning towards” (CDN Respondent #26). In the years since, SIBs have attracted not only proponents but also critics may of whom see SIBs not as a solution, but as a symptom of the problems that ail the nonprofit sector including the erosion of provider mission and autonomy, the overreliance on narrow performance metrics, and the advance of financial and market-based thinking into the world of social services. The result is an increasingly polarized debate over the merits and drawbacks of SIBs and whether they are ultimately ‘good’ or ‘bad.’

This report, and the research on which it is based, has pursued a slightly different path based on a slightly different set of questions. Rather than the virtues or shortcomings of the SIB model, the focus was on the state of the SIB market, and more specifically, the efforts on the part of SIB specialists to grow and scale the market and the challenges, barriers, and frustrations encountered along the way. The idea from the beginning was to speak with those working on the frontlines of the market, to learn from their experiences, and to draw useful insights and lessons from comparisons across Canada, the US, and the UK. Three years of travel through the SIB/PFS space, as well as the larger universe of social investment, philanthropy, and outcomes-based funding, has provided a view of SIBs that is very different from existing commentaries and the accounts of both advocates and critics alike. Despite some notable successes, the reality is that the SIB market has struggled to take hold. Many of those involved with SIBs in Canada, the US, and the UK expressed frustration with the slow growth of these markets and were uncertain about the future of the field with some practitioners opting to develop other services inspired by, but distinct from, SIBs. Indeed, the aspect of SIBs which has generated the most heat and light – the role of private capital –

appears to be the least valuable from the perspective of government and many providers and has begun to fade as a primary, driving concern with practitioners re-focusing their efforts on other aspects of the SIB model. Moving outside the SIB bubble, there was an even greater sense of skepticism around the model and its future. This was especially evident in wider social investment circles in the UK where many of the individuals with whom I spoke were quite critical of SIBs suggesting that they represent a very small slice of the social investment market and are not relevant or well-suited to many organizations,

> The charity and social enterprise sector has probably spent too much time worrying and thinking about SIBs and would be better off thinking about a variety of different financing needs. So often when you talk to a charity that doesn't really understand social investment, but kind of thinks it wants to explore it, it will talk about its desire to set up a SIB. When actually they have a working capital challenge and so there are many simpler ways of addressing a working capital challenge than structuring a SIB (UK Respondent #18).

In exploring the reasons for these market struggles, factors such as cost, complexity, data access, and government and provider capacity were repeatedly cited across all three national contexts. However, my conversations also revealed a much deeper set of challenges, barriers, and limits which varied across Canada, the US, and the UK, and which were informed by the larger agendas brought to bear on each SIB market. In the UK, the agendas of austerity and localism on the one hand, and social investment on the other, have created a market with an ample supply of capital but insufficient demand as local governments have either struggled to engage with the model or have resisted the push to do so, their ability undercut by the impact of austerity, and their willingness by competing interests, needs, and worldviews. The terms and conditions of BSC-backed capital have also constrained the market with the push towards a more commercial model curtailing innovation and adding to the expense of these transactions. In the US, the driving force has been the evidence-based policymaking agenda and the attempt to use capital from impact investors to identify and scale programs that 'work.' The fact that this 'what works' agenda, backed by powerful philanthropic funders, translated into a focus on RCTs as the basis for determining program outcomes and investor returns increased the risks and slowed the pace of these transactions making the task of securing investors – already difficult given the absence of a capital pool à la BSC – that much more challenging. In Canada, the market has encountered barriers on multiple fronts with limited support from government, tepid interest from investors, and a lack of provider capacity frustrating the efforts of intermediaries.

These larger SIB agendas, and the unique configuration of actors and influences within each market, have also created other constraints and areas of weakness. In the UK, some providers (and commissioners) have been put off by the demands of SIBs and what is often viewed as an overly aggressive and onerous style of performance management. There are also issues around the ability and willingness of providers to engage in the market. Given the focus on government as the starting point for these projects, and by virtue of the contracting process in the UK, providers are often excluded from SIB development and occupy a fairly weak position relative to commissioners and investors. For the providers that possess the size and financial wherewithal to engage in these transactions, there may be few incentives to do so and, for those who do engage, there are no guarantees that they will remain invested as the advantages for first movers (e.g. publicity) fade over time. In the US, many state and local governments remain skeptical of the model, particularly as early promises have been subject to greater scrutiny, and the provider market has been limited by the heavy demands around the evidence-base and the capacity to scale. As with the UK, those that are deemed suitable and do participate are often motivated by the pursuit of other benefits (e.g. data; RCTs; advocacy) which may not translate into a longer-term commitment. Moreover, the critical role of philanthropic funders in the US on all sides of the market leaves PFS vulnerable to shifts in priorities and mandates with some key backers already moving away from the space.

And yet, while the specific challenges have varied, one of the common constraints and key lessons to emerge from all three national contexts is the difficulty of reconciling the very different agendas which lie at the heart of the SIB project and aligning the interests of three (or four) very different groups of actors. In all three national contexts, there continues to be confusion around whether SIBs are primarily a policy tool and leverage point for realizing a larger vision of public sector reform (whether based on austerity and localism, or evidence-based policymaking), or a financial tool designed to engage private investors and bring private capital into the social sector. As we have seen throughout this report, these objectives are in many respects contradictory and difficult to reconcile. On this point, the views of whose working in the social investment space in the UK are once again instructive as several individuals spoke about SIBs as a tool of public service reform rather than an investment, "To me, there might be a government policy initiative around social impact bonds, outsourcing public service delivery, but it's irrelevant for most social organizations and most investors don't understand them. And usually the entire product has to be grant maintained which is ultimately not a sustainable model" (UK Respondent #5). According to another respondent, "I think our sense is that SIBs are an interesting tool of public service reform. I don't necessarily see them as a mainstream tool for financing charities and social enterprises" (UK Respondent #18). These tensions are also evident in the specific interests, incentives, and worldviews that are brought into the SIB space by government, providers, and investors. While in theory SIBs may hold out the promise of accommodating these different groups, the reality has been very different with each having a distinct view of the SIB value proposition and conflicting interests limiting the circumstances in which these actors may be aligned. The result is a SIB sweet spot that is both smaller than first imagined and increasingly difficult to hit.

Ultimately, the difficulty with SIBs is that they are rooted in a form of what one respondent referred to as "magical thinking," "there's this kind of magical thinking…of if we mix government and private sector together and charity and capital and shake it all up, like magic is going to happen. And everyone can show up projecting their own expectations into this structure" (US Respondent #27). This respondent then went on to suggest that "the hardest people to bring in for the magical thinking were the investors. It's not really a great asset class" (US Respondent #27); however, government and providers have also proven to be somewhat impervious to SIB magic. A Canadian respondent also invoked the metaphor of magical thinking, "[Government] are in a bind because nobody wants to pay more tax. But everybody wants more service. And so then they engage in magical thinking. SIBs will do it. Social finance will do it. It really is magical thinking" (CDN Respondent #16). Given the challenges confronting the SIB market, more thought needs to be devoted to the question of exactly what SIBs are for and what the future of the SIB market should look like. As revealed by the following comment from an investor in the Peterborough SIB, these remain difficult, challenging, and confusing questions,

> I couldn't work out in my head whether the social impact bond was predominantly useful as a black box learning mechanism such as the Peterborough SIB which potentially is time limited and gives you the clues to how one might approach things differently elsewhere, but not necessarily scaling up the exact financial model, or whether indeed the notion was that half of the probation service should be underpinned by private risk capital. Permanently. And the latter seemed so implausible to me as a strategy for a major public service that what I valued about the social impact bond didn't seem to be what government was valuing. In other words, government seemed to think that this was a principal of widespread public service reform, whereas I couldn't imagine, I just can't imagine risk capital underpinning public services on that scale (UK Respondent #11).

The previous chapter provided one possible vision more in line with the view of SIBs as a "learning mechanism," and offered several principles which might inform the SIBs of the future. Of course, there may be other possibilities. The recent evolution of the market would appear to suggest that the agenda of public service reform may be winning out with less attention being devoted to SIBs as vehicles for attracting private investment. Regardless of what future SIBs may or should look like, more serious thought and attention also needs to be given to the larger funding challenges faced by nonprofits and to the development of solutions that extend beyond SIBs themselves.

In examining the world of, and beyond, SIBs, this research also uncovered several additional insights and conclusions that are relevant to the future of nonprofit funding. The first is the need to acknowledge, at a broader policy and strategic level, the limits to the ability of finance and investment to solve longstanding social problems. Several respondents actually alluded to what they saw as a degree of hubris on the part of very well-intentioned individuals with backgrounds in finance, economics, and consulting who moved into the world of SIBs and social investment and worked on developing finance-based solutions perhaps without fully understanding the problems that they were attempting to solve. One respondent from a major trust in the UK alluded to the emergence of a,

> more robustly finance-first approach which was characterized by people from the corporate sector arrogantly assuming that social problems are easy to crack if only you would apply the same rigour that they applied to making money. It took quite a long time for them to work out that that wasn't the case by which time quite a lot of damage had been done (UK Respondent #36).

In the words of another respondent, also from the UK philanthropic sector,

> When investors try and go 'we're going to use investment to solve the world's problems,' you go 'you kind of need to understand the world's problem before you think this is the right tool to use'…until you understand the issues you can't possibly know whether your investment is going to help solve that issue or not…There is this arrogance, frankly, this real hubris about the kind of, the financing bit is the bit. And it's not the bit (UK Respondent #42).

Some also suggested that this sensibility carried over into the view, and treatment, of providers themselves,

> I also think there was a general cultural look-down the entire time on nonprofits and their ability to perform in the deals. There is constantly an assumption from the intermediaries that they knew better. And that nonprofits weren't sophisticated and they didn't really have the resources or technical understanding and therefore the intermediaries and funders were better suited anyways to structure the contracting in the way that they thought best. And I just it didn't really rub me the right way (US Respondent #54).

Another sign of the disconnect between finance and social and public sector is the assumption that all that was required to catalyze the SIB and social investment market was to turn on the supply of capital with not nearly enough consideration being given to the demand side of the equation and the need to build up the underlying marketing infrastructure as well as to develop a genuinely compelling value proposition for all parties concerned, "the early efforts were very much about let's set up the infrastructure to get this money out. The headspace wasn't there yet to actually think that that could be a demand side issue. Because the assumption was if you get the supply right, that demand will follow" (UK Respondent #64). One respondent suggested that the approach was "a bit like Field of Dreams: build it and they will come" (UK Respondent #58). Moreover, rather than presuming that the model could stand on its own, its appeal more or less self-evident, more work was needed to engage with a broader public and to anticipate and address potential objections. Having Goldman Sachs participate in the first US deal was perhaps not the best move and set PFS off on the wrong foot. The optics of the Bloomberg guarantee were especially problematic. Finally, there needs to be a greater recognition of the uniqueness of social services and a clearer boundary drawn between the larger universe of social investment, geared largely towards revenue generating social enterprises, and providers of social programs that do not, and likely never will, generate their own revenue, "people will talk about social finance broadly, and they are talking about SIBs and social enterprise and impact investment all in the same breath…I would separate those two worlds. They are very different conversations" (CDN Respondent #14). There may be very few circumstances where an investment-based approach is actually appropriate for the latter.

Another broader theme to emerge from this research involves the relationship between philanthropy and government and their respective roles in the provision of social welfare. A US respondent provided an interesting take on this relationship suggesting that it had become much less clear in recent years,

> I don't think there's an understanding on the part of government and philanthropy about their roles relative to one another. I think back in the 1960s when the Great Society initiative started in this country…there was a notion then that the philanthropic sector could incubate ideas, that if they had some evidence of efficacy could be grown and scaled by government. But that was in a period when there was consensus on the role of government and social impact work that clearly has not existed in this country really since the 1980s…And so, as a result of that, I don't think either philanthropy or government have any clue what one another is supposed to do (US Respondent #57).

This individual then went on to suggest that part of the promise of PFS is that it would "provoke a more intentional conversation about what that social contract needs to be between private sector capital, philanthropy, and government around trying to change the arc of social outcomes" (US Respondent #57). SIBs have very much been viewed as a way for philanthropy to engage with the state and to make government more amenable to the way philanthropy has increasingly come to think about, and judge the success of, its efforts – i.e. the production of "outcomes." However, this has arguably been less of a conversation and more an effort to use SIBs as a leverage point and way to drive change within government. Government has thus been viewed more as a target rather than an active partner in these efforts. The above comments, and the SIB experience itself, also hint at a deeper irony: the growth of philanthropy in the UK, Canada, and especially in the US has been accompanied by a reduction in the size, capacity, and "machinery" of government with the result being that the very efforts of foundations to produce change have been frustrated by the limits of government itself. This suggests that, moving forward, investments in the public sector may be needed in order to realize the philanthropic vision of moving the needle on key social challenges.

In the UK, philanthropy is also treading on new and untested ground. Historically, trusts and foundations have been unwilling to fund services that are the responsibility of the state. However, the pressures of austerity have pushed many trusts and foundations to provide exactly this kind of support,

> We've always taken the position that we don't fund things that the state is mandated to do. But over time, we are seeing that more and more eroded in terms of the state provision, more and more we are having to look at what we're funding. And also we're seeing a lot of closure of groups. So throughout our sector lots of groups we've worked with over lots of years are closing because they can't access funding. We've seen [charity groups] disappear…so this would be citizens advice and some of the voluntary sector umbrellas are sort of closing. So more and more when we are asked to fund, we are funding the last voluntary organization in an area (UK Respondent #74).

At the same time as philanthropy is stepping in to fill gaps in public funding, they are being encouraged to act more like investors while facing pressure from those in the social investment world to help subsidize their returns,

> I think a lot of people see philanthropic capital as being the necessary subsidy of blended funds. Cost of capital is too expensive, therefore we have all of this commercial money which has a very particular risk return expectation so it needs to be up here in terms of returns, that's not going to work, therefore the grant money, great, that will come in and soften it and basically subsidize those returns. Great. But that's using up very valuable philanthropic capital to subsidize a lot of commercial money (UK Respondent #56).

SIBs are thus underlain by a larger set of questions and conversations around the appropriate role of philanthropy in relation not only to government but also private capital. These conversations must continue regardless of the fate and future of SIBs themselves.

Finally, whether in the context of SIBs or other outcomes-based funding models, we need to be careful about what we mean by “outcomes” and how they relate to “outputs” as well as “impact.” We must also be more circumspect regarding not only the advantages but also the limitations of using “outcomes” as the basis for allocating public and philanthropic capital. “Outcomes” are ultimately by-products of available systems of evaluation, data analysis, and performance management and we need to be mindful of the extent to which the limitations of these systems are reflected in the very “outcomes” that they produce. For example, technologies such as micro-targeting may yield better “outcomes,” but only for small and very specialized populations. With “outcomes” often defined in behavioral terms over relatively short periods of time, there is also a question around how or whether they translate into longer-term change. At the same time, we must recognize the constraints within which providers are working and the limits to the change they are able to produce. It may be valuable to “push the envelope for what it is that we are going to set as our expectations of the impact of these programs” (US Respondent #10), for example, by using administrative data to see if gains are sustained after participants leave a program. However, these expectations and associated forms of accountability must be reasonable and acknowledge the complexity of social problems and the reality that many of these challenges are beyond provider control. Thus, while the fate of “SIBs” may be uncertain, the focus on “outcomes” as the basis for both public and private capital allocation and the pursuit of a more “rational nonprofit capital market” is likely to endure and to continue to grow. More careful attention thus needs to be paid to the benefits as well as costs and complications of this new approach.

Ultimately, the future of SIBs may look very different from that presented in this report. Despite the sense of frustration and uncertainty that emerged during my travels, it is entirely possible that the market may yet take off and experience significant growth. In speaking with respondents in the UK in the Winter of 2018, several indicated that their view of SIBs had changed quite dramatically from just six months prior and that the market's prospects had brightened significantly of late,

> Over the last two months I've started to see a real shift. So if you'd spoken to me three months ago, I would have said this market is on its knees. It's dying. Or six months ago it was in real trouble. I'm naturally an optimist but also I now think, I don't see there being any issue around capital because I think there are a lot of investor cases proven now. And I see central government really stepping up (UK Respondent #36).

In the words of another respondent, "at the moment I would say the pipeline is looking very good…in the last few months, all of our perceptions have changed over that. So now we're having conversations with people about oh actually we need more money to invest in SIBs. The pipeline is getting bigger" (UK Respondent #48). With a stream of projects poised to come online, it is the Life Chances fund that is responsible for much of this optimism, "There's a big wave of contracts about to come to market because of the Life Chance Fund" (UK Respondent #63). The same respondent above, whose view of the market has changed dramatically, predicted that Life Chances will help to drive significant market growth, "There's real opportunity in the SIB market in the next few years. I think you're going to see a quarter of a billion pounds in SIB contracts come online in the new two years. So Life Chances will probably leverage £200m to £250m" (UK Respondent #36). In the US, the fortunes of PFS have similarly been bolstered by the passage of SIPPRA thus helping to counter the sense of pessimism lingering during my visit in the Fall of 2017 as the final funds from the Social Innovation Fund were being dispersed and the future of federal government support was very much up in the air. One respondent suggested that SIPPRA is "interesting and exciting and the shot in the arm that I think this industry needs" (US Respondent #24). Another pointed to SIPPRA as a source of hope, "We haven't seen the scale that we all would have hoped we would have seen by now in the market. I haven't given up hope because SIPPRA just passed in the US and that's going to provide more funding" (US Respondent #45). In Canada it is the Social Finance Fund[42] that is reason for optimism.

[42] On November 22, 2018, the Canadian government announced that it would be providing $755 million in funding for a Social Finance Fund that would be used to support investments in charities and social enterprises

However, there may still be cause for concern. In all three markets, projected growth is due largely to infusions of public capital thus once again revealing the dependence on outside subsidy and support. In the UK, it is also significant that these more positive assessments all came from SIB specialists, rather than providers or commissioners. One provider, reflecting on attrition in the Life Chances pipeline offered an especially sobering assessment,

> They are really struggling to get the money out of the door. Many of the projects have not been finalized, whether because commissioners can't agree, the proposal put in was badly designed, or the investment money isn't there. If the LCF totally tanks, it will be interesting to see if SIBs even remain a niche product in the UK (UK Respondent #54).

Even if the SIB market is able to gain greater traction and grow both in terms of the number and size of deals, uncertainty remains around whether there is sufficient capital to support a scaled market. In the US, the value of SIPPRA is once again quite modest, and it would appear that these funds will be tied to the very forms of rigorous evaluation (i.e. RCTs) bemoaned by PFS practitioners.[43] The stipulation that projects demonstrate concrete savings to the federal government (US Department of the Treasury, 2019: 38-9) is also very onerous with one respondent suggesting that meeting this requirement will be "nearly impossible for any but several nonprofits in the US" and that, as a result, few nonprofits are interested in pursuing SIPPRA (US Respondent #54). According to this same individual, state and local governments are also less than enthused with the application requirements, with multiple public PFS leads suggesting that they "probably won't go after SIPPRA" as the deals are "simply too hard to structure" (US Respondent #54). Finally, the Canadian Social Finance Fund appears to be geared more towards the larger social investment market and revenue-generating social enterprises rather than nonprofits and SIBs specifically, and the purported focus on a

(https://www.canada.ca/en/employment-social-development/news/2018/11/backgrounder-the-social-finance-fund.html).

[43] One of the recurring complaints about the Social Innovation Fund was the high expectations around evaluation including the requirement that providers prepare for, and undergo, an RCT as a condition of funding. Projects launched under SIPPRA may run into similar challenges as the legislative text specifically references the use of "outcomes measurement and randomized controlled trials or other rigorous methodologies for assessing program impact" (https://www.congress.gov/115/bills/hr1892/BILLS-115hr1892enr.pdf).

"financially self-sustaining model" runs the risk of reproducing some of the same constraints noted in the UK around BSC and the high cost of capital.

The future growth and prospects of the market will also depend on one's definition of a 'SIB' or 'PFS.' Returning to the discussion of the ambiguity of SIBs in Chapter One, in the case of the fully intermediated model featuring outside investment, the future may indeed be quite dim. However, if the definition is expanded to include some of the newer iterations described in Chapter Five such as rate cards, Career Impact Bonds, and outcomes-based contracting and procurement, the prospects for the "SIB space" may be much brighter. Indeed, in responding to an early draft of this report, one of the points made by several US respondents was that the view of SIBs as a small, "niche" market neglected these innovations and larger applications of PFS, and thus the potential for significant future growth. In the words of one respondent,

> The broad implementation of PFS is indicative of anything but a small, niche market. The basic model is a Platonic idea that has many variations in its manifestation in the world. The original, unmodified model may work best in a few cases, but the underlying insight, that paying for outcomes will enhance performance, accountability, and innovation, is truer now than ever because we have validating experience in practice. We've moved from a theory to a practice whose demand continues to expand (US Respondent #5).

Another respondent reiterated the value of outcomes-based contracting as a model for public service delivery and thus the promise of "outcomes financing as a tool to put private capital to work in order to scale high-quality human service programs that already have a demonstrated track record of impact" (US Respondent #55). They pointed to two policy areas – workforce development and early childhood education – as holding the greatest potential for future growth given that they are priority areas of critical need and they feature "evidence-based models" and high-quality service providers that have "tested, measured, and proven that their program designs can produce reliable outcomes" (US Respondent #55). Ultimately, the suggestion is that more recognition needs to be given to the potential for continued innovation in the field and thus the future growth of the PFS market along both the 'data-first' and 'finance-first' tracts. 'SIBs' may be a niche market subject to a degree of atrophy , but forms of outcomes-based contracting and financing are alive and well.

And yet, this once again begs the question of whether potential gains in market size and scale will come at the cost of the value and promise of the original "Platonic idea" and the effort to bring greater innovation, systems-level thinking, and sustainable funding to the social sector. Innovations such as rate cards (US) may have merit, and they are certainly deserving of further study, but they may be less transformative than advocates might hope particularly as they drift towards forms of performance-based contracting that have been used in the past and where outcomes are tied to a small percentage of the contract's overall value. There are also issues around attribution and impact (Dear et al. 2016). Similarly, supporting well-established and evidence-based interventions such as preschool programs clearly makes sense; however, given that these programs are already delivering proven outcomes, it is unclear why early education would not be funded directly by government. In the words of a UK respondent, "If you really do have strong evidence that a program, you know input x will lead to output y, fund it. Don't fund it using an investment structure. Just pay for it" (UK Respondent #63). Moreover, part of the value of PFS may be in making a case to government and creating leverage points to expand public funding. As noted by Tse and Warner (2018), this was one of the positive outcomes of the Utah High Quality Preschool Program whose goal was to secure state appropriations for high-quality preschool and which ultimately led to the decision by the state of Utah to appropriate funding (via the High-Quality School Readiness Program Expansion bill) for early childhood education. This type of value may be lost if the focus is not on catalyzing public expenditures, but rather creating more durable and sustainable markets for working capital loans and "outcomes financing." In the context of workforce development, a key innovation involves working more closely with private employers who would then serve as the outcome payers with government essentially removed from the equation. This raises questions around accountability and would appear to play into concerns that PFS is a slippery slope towards the greater privatization of service design and delivery. With respect to the 'data-first' end of the PFS continuum, it cannot be assumed that better performance and accountability in government contracting will necessarily translate into meaningful progress on key social challenges. All of this is to suggest that more research is needed on the new models and innovations emerging from the "SIB space" and the types of "outcomes" that are, and can be, produced through these kinds of initiatives.

This brings us to the final closing thought from this study. Regardless of the future size and scope of the market, SIBs are only one tool and it is critical that work continue on developing other approaches, models, and solutions that address the needs not only of charities and nonprofits, but also and more importantly, the groups they are seeking to serve. It is hoped that, by providing a broader perspective from which to examine the SIB experiment, this report has created a space in which to have a larger conversation around the future of the nonprofit sector, a discussion that once again needs a clearer "policy narrative about what we are trying to do, about what the big objectives are, what the big policy objectives are" (UK Respondent #30). Here it is appropriate to give the final word to a Canadian respondent who suggested that the fundamental question that must guide these types of discussions is what the nonprofit sector itself is ultimately for,

> It would be interesting to tie all this back to the role of the nonprofit sector in civil society and what's it for. Why is it important?...The nonprofit sector [knits] us together and I think it's the most important thing in the world. But I don't think that most people see it that way. I think they think of it as 'oh isn't that nice those people out there trying to help the less fortunate.' I don't think they say 'oh my gosh you guys, thank you so much. You are keeping us from falling off the cliff.' So I think that would be a neat thread to pull through some of what you're studying (CDN Respondent #48).

They are of course absolutely right. The nonprofit sector, and the people it serves, is the appropriate and essential reference point for thinking about the future of (and beyond) SIBs.

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APPENDIX A

SIB/PFS Markets in Canada, the US, and the UK

	UK	US	Canada
Capital Supply	Big Society Capital Social Investment Funds (e.g. SASC; CAF Venturesome) Trusts and Foundations High Net Worths Financial Institutions (e.g. Deutsche Bank)	Foundations (e.g. Laura and John Arnold Foundation) High Net Worths Financial Institutions (e.g. Goldman Sachs) Corporates	High Net Worths Corporates
Dedicated Investment Funds	Bridges Fund Management Big Issue Invest	Maycomb Capital Reinvestment Fund	None
Outcomes Funds	Commissioning Better Outcomes Fund Social Outcomes Fund Life Chances Fund	SIPPRA	None
Development Funds	Investment and Contract Readiness Fund Big Potential Fund Commissioning Better Outcomes Fund Life Chances Fund	Social Innovation Fund	None
SIB/PFS Specialists	ATQ Evidence-Based Social Investment* Numbers for Good Social Finance UK Traverse Triodos Bank**	Harvard Government Performance Lab Instiglio (International) Social Finance US Sorenson Impact Center Third Sector Capital Partners	MaRS Centre for Impact Investing Finance for Good*
SIB/PFS Support and Market Development	Centre for Social Impact Bonds Government Outcomes (GO) Lab (University of Oxford)	Nonprofit Finance Fund Urban Institute	Deloitte

*These firms have ceased operations.
** As of January, 2019, Triodos has significantly scaled back its SIB advisory practice.

APPENDIX B

Respondents by Position and SIB/PFS Experience

CANADA

Respondent Code	Position*	SIB/PFS Experience**
CDN Respondent #1	Provider	Yes - Feasibility
CDN Respondent #2	Provider	No
CDN Respondent #3	Provincial Government	No
CDN Respondent #4	Other	Yes - Feasibility
CDN Respondent #5	Provider Advisory	No
CDN Respondent #6	Provider	No
CDN Respondent #7	SIB Specialist	Yes
CDN Respondent #8	Impact Investing Advisory	Yes
CDN Respondent #9	Provider	No
CDN Respondent #10	Other	Yes - Feasibility
CDN Respondent #11	Evaluator	Yes
CDN Respondent #12	Investor	Yes
CDN Respondent #13	Philanthropy - Other	No
CDN Respondent #14	SIB Specialist	Yes
CDN Respondent #15	Provincial Government	Yes
CDN Respondent #16	Provider Advocacy	No
CDN Respondent #17	Provincial Government	No
CDN Respondent #18	Provider	No
CDN Respondent #19	Impact Investing Advisory	No
CDN Respondent #20	Other	No
CDN Respondent #21	SIB Specialist	Yes
CDN Respondent #22	Provider	No
CDN Respondent #23	Impact Investing Advisory	No
CDN Respondent #24	Other	Yes
CDN Respondent #25	Provider	No
CDN Respondent #26	SIB Specialist	Yes
CDN Respondent #27	Provider	Yes - Feasibility
CDN Respondent #28	Investor	Yes
CDN Respondent #29	Investor	Yes
CDN Respondent #30	Provider	No
CDN Respondent #31	Federal Government	Yes - Feasibility
CDN Respondent #32	Provincial Government	Yes - Feasibility
CDN Respondent #33	Provider	Yes
CDN Respondent #34	Provider	No
CDN Respondent #35	Provider	No
CDN Respondent #36	Provider	No
CDN Respondent #37	Provincial Government	Yes
CDN Respondent #38	Provider	No
CDN Respondent #39	Provider	No
CDN Respondent #40	Provider	No
CDN Respondent #41	Other	Yes - Feasibility
CDN Respondent #42	Provider	No
CDN Respondent #43	Federal Government	Yes - Feasibility

CDN Respondent #44	Philanthropy - Other	No
CDN Respondent #45	Provider	No
CDN Respondent #46	Provider	No
CDN Respondent #47	Provider	No
CDN Respondent #48	Provider Advisory	No
CDN Respondent #49	Provider Advocacy	No
CDN Respondent #50	Federal Government	Yes - Feasibility
CDN Respondent #51	Impact Investing Advisory	No
CDN Respondent #52	Provider	Yes - Feasibility
CDN Respondent #53	Provider	No
CDN Respondent #54	Investor	Yes

US

Respondent Code	Position*	SIB/PFS Experience**
US Respondent #1	Philanthropy Advisory	No
US Respondent #2	Philanthropy	No
US Respondent #3	State Government	Yes
US Respondent #4	Philanthropy Advisory	No
US Respondent #5	PFS Specialist	Yes
US Respondent #6	Other	Yes
US Respondent #7	Provider	Yes - Feasibility
US Respondent #8	Philanthropy	Yes
US Respondent #9	Philanthropy Advisory	No
US Respondent #10	PFS Specialist	Yes
US Respondent #11	Evaluator	Yes
US Respondent #12	Provider	No
US Respondent #13	PFS Specialist	Yes
US Respondent #14	Philanthropy	No
US Respondent #15	Provider	Yes - Feasibility
US Respondent #16	Philanthropy	No
US Respondent #17	Provider	Yes
US Respondent #18	Other	Yes
US Respondent #19	PFS Specialist	Yes
US Respondent #20	PFS Specialist	Yes
US Respondent #21	Provider	Yes
US Respondent #22	Other	Yes
US Respondent #23	Provider Advisory	Yes
US Respondent #24	Provider Advisory	Yes
US Respondent #25	PFS Specialist	Yes
US Respondent #26	Provider Advisory	No
US Respondent #27	Other	No
US Respondent #28	PFS Specialist	Yes
US Respondent #29	Philanthropy - Other	Yes
US Respondent #30	PFS Specialist	Yes
US Respondent #31	PFS Specialist	Yes
US Respondent #32	Evaluator	Yes
US Respondent #33	Philanthropy Advisory	No
US Respondent #34	Other	No
US Respondent #35	PFS Specialist	Yes

US Respondent #36	Philanthropy - Other	Yes
US Respondent #37	PFS Specialist	Yes
US Respondent #38	Provider Advocacy	No
US Respondent #39	PFS Specialist	Yes
US Respondent #40	Other	No
US Respondent #41	Provider	No
US Respondent #42	Other	No
US Respondent #43	PFS Specialist	Yes
US Respondent #44	Provider	Yes
US Respondent #45	PFS Specialist	Yes
US Respondent #46	City Government	Yes
US Respondent #47	Other	Yes
US Respondent #48	City Government	Yes
US Respondent #49	Provider	Yes
US Respondent #50	Provider	No
US Respondent #51	PFS Specialist	Yes
US Respondent #52	PFS Specialist	Yes
US Respondent #53	PFS Specialist	Yes
US Respondent #54	PFS Specialist	Yes
US Respondent #55	Investor	Yes
US Respondent #56	Evaluator	No
US Respondent #57	Provider Advisory	No
US Respondent #58	Philanthropy Advisory	No
US Respondent #59	Other	No
US Respondent #60	Investor	Yes
US Respondent #61	Philanthropy - Other	Yes
US Respondent #62	PFS Specialist	Yes
US Respondent #63	Other	Yes
US Respondent #64	Provider Advisory	Yes
US Respondent #65	Provider Advisory	No
US Respondent #66	Provider	Yes
US Respondent #67	PFS Specialist	Yes
US Respondent #68	Provider	Yes

UK

Respondent Code	Position*	SIB/PFS Experience**
UK Respondent #1	SIB Specialist	Yes
UK Respondent #2	SIB Specialist	Yes
UK Respondent #3	SIB Specialist	Yes
UK Respondent #4	SIB Specialist	Yes
UK Respondent #5	Social Investor	No
UK Respondent #6	Central Government	Yes - Feasibility
UK Respondent #7	Social Investor	Yes - Feasibility
UK Respondent #8	Evaluator	No
UK Respondent #9	Local Government	Yes - Feasibility
UK Respondent #10	Provider	Yes
UK Respondent #11	Philanthropy	Yes
UK Respondent #12	Other	No
UK Respondent #13	Other	No

UK Respondent #14	Other	No
UK Respondent #15	Other	No
UK Respondent #16	Social Investor	No
UK Respondent #17	Provider	Yes
UK Respondent #18	Other	No
UK Respondent #19	Provider	Yes
UK Respondent #20	Provider Advocacy	No
UK Respondent #21	Other	No
UK Respondent #22	Provider	No
UK Respondent #23	Central Government	No
UK Respondent #24	Evaluator	No
UK Respondent #25	Other	No
UK Respondent #26	Evaluator	Yes
UK Respondent #27	Other	No
UK Respondent #28	Provider	Yes
UK Respondent #29	Other	No
UK Respondent #30	Provider	Yes
UK Respondent #31	SIB Specialist	Yes
UK Respondent #32	Other	No
UK Respondent #33	Provider	Yes
UK Respondent #34	Central Government	Yes
UK Respondent #35	SIB Specialist	Yes
UK Respondent #36	SIB Specialist	Yes
UK Respondent #37	Philanthropy	Yes
UK Respondent #38	SIB Specialist	Yes
UK Respondent #39	Other	No
UK Respondent #40	Provider	Yes
UK Respondent #41	SIB Specialist	Yes
UK Respondent #42	Philanthropy	Yes
UK Respondent #43	Provider	Yes
UK Respondent #44	Provider	Yes
UK Respondent #45	Other	Yes
UK Respondent #46	Other	No
UK Respondent #47	Social Investor	Yes
UK Respondent #48	Other	Yes
UK Respondent #49	SIB Specialist	Yes
UK Respondent #50	Evaluator	No
UK Respondent #51	Local Government	Yes
UK Respondent #52	Philanthropy	Yes
UK Respondent #53	Provider	Yes
UK Respondent #54	Provider	Yes
UK Respondent #55	SIB Specialist	Yes
UK Respondent #56	Social Investor	Yes
UK Respondent #57	SIB Specialist	Yes
UK Respondent #58	Central Government	Yes
UK Respondent #59	Central Government	Yes
UK Respondent #60	Philanthropy	No
UK Respondent #61	Provider	Yes
UK Respondent #62	Philanthropy Advisory	No
UK Respondent #63	SIB Specialist	Yes

UK Respondent #64	SIB Specialist	Yes
UK Respondent #65	Provider	Yes
UK Respondent #66	Central Government	Yes
UK Respondent #67	Provider	Yes
UK Respondent #68	Provider	Yes - Feasibility
UK Respondent #69	Other	No
UK Respondent #70	SIB Specialist	Yes
UK Respondent #71	Philanthropy	No
UK Respondent #72	Provider	Yes
UK Respondent #73	SIB Specialist	Yes
UK Respondent #74	Philanthropy	Yes

*Refers to the position occupied by the respondent at the time of the interview. The definitions of the codes are as follows:
Evaluator = organizations providing specialized evaluation services and expertise.
Government = national, regional, or local government.
Impact Investing Advisory = organizations providing infrastructure and advisory services to impact investors.
Investor = SIB/PFS investors that are not trusts or foundations.
Other = includes, but is not limited to, specialized intermediaries and infrastructure organizations (e.g. United Way; BSC).
Philanthropy = trusts and foundations - includes community foundations.
Philanthropy - Other = organizations engaged in specialized forms of philanthropy (e.g. 'venture' and 'strategic' philanthropy).
Philanthropy Advisory = organizations providing advisory services to philanthropy.
Provider = social service nonprofit or charity.
Provider Advisory = organizations offering advisory services to nonprofits.
Provider Advocacy = organizations providing advocacy and strategic support on behalf of nonprofits.
SIB/PFS Specialist = organizations specializing in sourcing, developing, and implementing SIBs - includes fund managers.
Social Investor = investors in the UK social investment market - may or may not be SIB investors.

**Refers to whether respondents have direct experience with SIBs/PFS - includes both feasibility work and live projects.