Social Impact Bonds
opportunities and challenges for The Netherlands

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Abstract
With decreasing governmental budgets, social interventions are not getting enough funding, while investors are looking for new opportunities to make investments, which will have a positive impact on society and the environment. These developments create room for growth and new products in the impact investing sector, of which Social Impact Bonds (SIB) is one. SIBs are multi-stakeholder partnerships, which provide upfront funding for social service providers by private investors instead of the government. Based on the savings that the service generates for the government, the government repays the investors, giving investors a possible return on their investment.

The number of SIBs being issued is growing rapidly, with the United Kingdom as the clear first mover having started the first SIB in Peterborough. The UK has a social investment sector of £163 billion. Before launching a SIB in The Netherlands, it is important to use the lessons learned from earlier SIBs. Even though those SIBs are not finished yet, there are already some important points to take into consideration. For instance, the profitability, transfer of risk from government to individuals and the ways to measure the outcome are still unsure. That said, the potential benefits for the three main stakeholders are good enough to consider SIBs as a serious alternative for the future funding of social interventions.

In the Netherlands, unemployment, criminal activity and healthcare are three issues, which could be interesting for a first pilot of a SIB. This is because they have the possibility to obtain concrete savings, which are relatively easy to measure and because they are big societal problems that are rapidly growing. For all three it is possible to structure a SIB. While other topics are of interest for SIBs as well, it is most likely that one of the three mentioned subjects will form the basis for the first SIB issued in The Netherlands.

Banks can take up an important role within SIBs. While banks are so diverse that they can take up different roles within a SIB, it is not likely nor wise to do so. It is important to find the best role for a bank. In the first stages it seems likely that the bank will facilitate SIBs by giving their (wealthy) clients the opportunity to invest in SIBs. In the latter case, it is likely that more local investors will take up a big amount of the investments because of the social bonding with their environment.

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Reasoning behind report
Can social problems be solved by governments alone? How can innovative solutions arise for societies’ most pressing issues in times of major budget constraints? How can the private and public sector work together to initiate cross-sectorial solutions? Those are common questions that are currently being asked by multiple stakeholders in society.

Social interventions are facing tough times to fund their programs. Governments face significant budget cuts, which are being felt in municipalities and on a national level. Directors of social delivery programs are spending more time writing investment proposals and applying for subsidies and less on running their program and realizing social impact, thereby reducing the effectiveness of their interventions.

Various solutions are being tried to face the aforementioned challenge, mostly based on a Payment By Results (PBR) structure. A PBR allows governments to pay directly for the results of public services instead of paying for the service itself. Payment is not made upfront but rather when results are realized. Only then does the service provider receive payment. Because of this, small service providers have major difficulties footing the initial bill upfront. Furthermore, municipalities struggle to set up objective measurement procedures to make sure they only pay for real results.

From donating and investing to impact investing
The social sector is facing major changes. Social enterprises are on the rise, with the UK as the first mover. The number of these new types of enterprises is growing in The Netherlands as well1, creating an entire new sector.

Social enterprises are primarily focused on improving social challenges is seen as a major trend and is likely to continue to grow in the Netherlands. To illustrate the growth that the sector has already experienced, the UK already has 688,000 social enterprises, which employ two million employees and have created total revenues of £163 billion a year2.

Social Enterprises also require funding, opening a new investment category called impact investing. Investors are investing in social enterprises or interventions and sacrifice part of the financial return to obtain social return. With the growing social enterprise sector, the impact investing sector is increasing as well. Leading to the launch of the Big Society Capital (BSC) fund by the UK government. For the BSC an amount of £600mln has been allocated to help the impact investing sector grow. It is expected that the total yearly demand for impact investing in 2016 will be approximately £1 billion3.

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1 Opportunities for the Dutch Social Enterprise sector, McKinsey & Company, November 2011, p.5
2 G8 factsheet: social investment and social enterprise, UK Cabinet Office, 3 June 2013
3 The first billion: a forecast of social investment demand, Boston Consulting Group, 2012
David Cameron arranged a special G8 meeting around social impact investing earlier in 2013 and announced next steps towards the facilitation of the sector⁴, highlighting the importance of impact investing.

The basic principles behind investments in social enterprises can also apply to social interventions. The difference is that the enterprises earn their own money, where the interventions don’t. But they do realize savings for the government on a number of levels. If we can relate those savings directly to the intervention, then impact investing might apply to interventions as well. Therefore, Social Impact Bonds can be of importance to developing the impact investing sector.

What is a Social Impact Bond?

In general a SIB can be described as a multi-stakeholder partnership to provide upfront funding for social service providers by private investors instead of by the government. Based on the savings that the service generates for the government, the government repays the investors, giving the investors a possible return on their investment. The government only pays after results are realized and in accordance with the generated savings, therefore minimizing their risk and shifting it to the investors who lose money when the service fails to produce the needed results. An overview of the structure of a SIB can be seen in figure 1.

Even though the product is a debt-structured model the word bond can be misleading, since it is not an actual bond. As described earlier, it is a multi-stakeholder partnership in which contracts are signed between governments, investors, service providers and possibly intermediaries.

Service providers are chosen based on their track-record and the possibility to scale their interventions. An independent assessor determines the potential profitability of the service and draws a payment structure equivalent with the expected results. Performance payments are made by the government based on previously defined Key Performance Indicators (KPI’s). Social Impact Bonds give service providers the opportunity to establish long-term funding if they perform well and give investors the opportunity to gain both a social and financial return on their investment.

In 2010 the first SIB was started in the UK for the HMP Peterborough prison’s reoffending program. Upon leaving prison, 3000 offenders are placed into the intervention to stop them from reoffending. The results are compared with a control group elsewhere in the UK and if the intervention’s results are 7.5% better than those of the control group, the investors get their money back with a 7.5% yearly dividend. If the results get better than 7.5%, the investors will receive a larger ROI up to a maximum of 13% in the form of a yearly dividend. When the results are less than 7.5%, the investors will lose their total investment.

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⁵ Social Impact Bonds – A promising new financing model to accelerate social innovation and improve government performance, Jeffrey B. Liebman, 9 February 2011

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Figure 1 - Overview of a SIB⁶

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⁶ Social Impacts Bonds > 6
Current developments Dutch public sector
The developments in the world economy are not promising, leading to significant budget cuts by governments. The Dutch government is no exception, and seeks opportunities to save money. Due to this, the government is withdrawing from a lot of subsidies, transferring more responsibility to civilians. The result is that a lot of projects that were dependent on subsidies are now in troubled waters because they are short on money and most of them lack the experience or knowledge to obtain funding on their own.

Most social interventions were fully funded by the government. Now they either have to stop their intervention or dramatically reduce their efforts because of the funding gap. The lack of measurement exacerbates the problem, making it very difficult to see which interventions have really succeeded, and hence are well performing. This makes it difficult to select the ones to put the limited funding towards. Therefore, both the government and service providers are desperately looking for alternative funding options. Impact Investing and particularly SIBs can possibly fill the gap that the Dutch government leaves behind.

Current result-based payments in the Netherlands
The definition of subsidies used in this white paper is ‘a claim on financial resources provided by governmental organizations for the purpose of certain activities of the applicant, other than as a payment for delivered services or products to that governmental organization.’ There is a lot of room for different treatment of those subsidies. Recently in the Netherlands a lot of municipalities made performance agreements with social service providers changing from paying for services to fully paying for results and combinations of the two.

Governments see the change in the way social services are funded, but have a tradition of making compromises. Therefore, they end up compromising between paying for services and paying for results. As a result, governments still end up footing the bill upfront and rarely pay for actual performance, thereby failing to reduce the risk on their ‘investment’.

Another problem for result-based payments in the Netherlands is the inability to measure the outcome of the intervention successfully. Because governments often lack the resources or ability to track results on a more detailed level, there is a lack of clarity into the intervention’s real results. For instance, when an unemployed citizen stops his or her allowance, it is often not registered whether they did so because they got a job, went to prison or moved to another city. Not knowing the actual results makes it impossible to pay for performance.
Current Social Impact Bonds have shown some essential do’s and don’ts that are important to consider when launching a successful SIB. Governments contemplating SIBs should take these into consideration while putting their program together.

**Risk transferring**

Since there are multiple partners involved in a Social Impact Bond, it is important to determine who bears the risk if the results are worse than expected. A major reason for governments to use SIBs is to transfer the risk that they were fully bearing, to investors or to the service providers. It is important to configure the risk setup in a way that all stakeholders are satisfied and can be held accountable for the different targets.

In the UK Peterborough pilot, investors accounted for all of the risk in setting up the program. However, the first evaluation of the project states the following. “The data gathered in interviews suggest that there has been a transfer of risk from the government to the private investors. However, this transfer, and the contracts themselves, are untested in many respects: issues that challenge the contractual arrangements and/or require clarification through the contracts could still arise in the course of implementation and determining outcomes and payments for this SIB.”

Also the next paragraph states, “drawing on experience with private finance initiative contracts, complexity sometimes meant that the actual transfer of risk is not clear.”

These quotes suggest that even though a risk transfer was facilitated, accountability for project failure remains unclear. For example, to what degree private investors are able to pull the plug on the financing if they don’t see enough results at interim reports is unknown. Of course, this will be less of a problem with more charitable or impact first investors, but with investors that are more focused on financial return it remains an issue. While the first category will probably finance the first few projects, Social Impact Bonds will only become scalable when also the latter investors will participate in a later stage.

“Drawing on experience with private finance initiative contracts, complexity sometimes meant that the actual transfer of risk is not clear.”

While risk-transferring is not yet fully covered by Social Impact Bonds, the SIB will dramatically decrease the risk taken by the government. In the current situation, the Dutch government takes on the full risk since the support of social services is seen as their responsibility. Therefore it is a move in the right direction when they share the responsibility with investors.

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7 Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough, Emma Disley et al., May 2011, p. 54
8 Ibid.
Measuring the outcomes

To be able to transform social impact into financial return it is essential for SIBs that the outcomes of the delivered services are measured correctly and that it is clear which revenues the investors get in return for the outcome.

Various local governments already use general tests to confirm whether services have positive outcomes to make payments based on performance possible\(^9\). This shows that Dutch governments are willing to measure social impact and value the projects that they fund with performance indicators. However, to obtain a full financial view, these tests are not sufficient. To implement a SIB, the measurements should contain strong quantitative KPI's, agreed upon in advance, valued by all stakeholders and measured by an independent party.

The exact measurement of the full impact scope is nearly impossible. To illustrate this, it is interesting to examine a relatively simple re-employment intervention for youth in the age group of 18-27. The primary objective is to help participants find a job, thereby stopping their governmental allowance. It also could be the case that they were previously engaged in a criminal activity. If criminal activity is reduced, it could account for savings as well. But what if they go back to school or participate in voluntary work? Although everyone agrees these changes have a positive value, it is nearly impossible to make an objective quantitative qualification. Therefore, it is hard to put a definitive price on every outcome and determine all the savings in such a simple intervention. Choosing the factors that are the best and easiest to measure first can simplify the process when these combine for enough savings to create a solid business case. Other effects will be presented as positive side-effects.

Can the factors that actually contribute to the results of an intervention be determined? If a participant finds a job, can it be established that the intervention was the original cause of the result? When measuring the results of the intervention, it should be taken into account what happens when a participant becomes unemployment again and after what time period this occurs. Furthermore, there are several external factors that can influence outcome as well. For example, stress to the local and national economy or big unexpected events could have a disruptive effect on the outcome. In addition if too many similar projects are running at the same time, the control group will be influenced by other projects, making it harder to establish the actual cause of the result. Trying to do so can possibly be a waste of time and resources. Most of these problems can be overcome by using the tariff payment structure, which will be discussed in the next part of this chapter.

To determine the scale on which measurements should be done, it is important to understand the objectives of the three main stakeholders of a SIB. It is the government that has to decide what they want to pay for each intervention. However, if the government is satisfied with the current measurements, why not take current measurements as a baseline for future reference. From there going forward, the final structure can be the result of a negotiation process between the stakeholders.

Importance of a track-record

The importance of a track record is stated in a research about bringing SIBs to the United States. ‘SIBs offer a new option for expanding proven preventive programs’\(^10\). The previous statement suggests that service providers need a well-established track-record to be eligible for a SIB. This makes a lot of sense, since both investors and governments are putting up large sums of money to scale a service and without any track-record the risks are untenable.

The biggest issue is that, as discussed in the previous paragraph, measurement has been done poorly up till now, both by the government and by the service providers. Therefore it is hard to match service providers with proven track-records with the needs of a basic SIB. This of course serves as an obstacle during the process of finding the right service provider.

Two options can be chosen to solve this problem. The first is a traditional tender. If the scope of a project and the desired savings are determined, then a tender can be carried out. Since the tendering process is designed to come up with the best suitable provider for the desired service, this should result in the best social intervention for the best price.

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\(^10\) From potential to action: Bringing Social Impact Bonds to the US, Laura Callanen et al., May 2012, p. 12
One question remains whether the tender will be received with as much enthusiasm by the other stakeholders because tendering processes are not known for their flexibility and the results are not always what was anticipated.

The second option will keep the responsibility of coming up with the potential savings at the government level. The government determines, based on all the available statistics, a tariff that they are willing to pay for each person helped by the intervention. The tariff also takes into account the amount of people that would’ve been helped anyway, resulting in approximately the same break-even point as with a control group. Service providers can apply or bid on the tariffs and the government will choose the best provider based on a combination of quality and price, creating possibilities for a tender within the tariff structure.

Using a tariff-based structure will also solve some other issues. For example, softer problems (attendance in school, improved behaviour) are difficult to turn into clear cash savings while they still are of influence. When the government is able to make an ‘educated guess’ and determines a value that they are willing to pay for those softer results as well, it will be easier to include all the factors of a social intervention in a SIB. Furthermore, there is no control group needed to compare the results, making it easier to scale the interventions.

It will make the SIB more convenient financially as well. With a control group, the results can only be determined after the intervention is completed. Therefore, the intervention has to be pre-financed for the project’s full duration. While the tariff structure gives the opportunity to pay directly when a result is obtained, making it possible to refinance the intervention with profit based on its own results during the timeframe of the SIB. Thus, less pre-financing is needed, reducing the risk for investors.

Based on the aforementioned advantages it is very reasonable to assume that the first SIBs will make use of the tariff structure when the track-record is not yet established.

### Profitability of Social Impact Bonds

First evaluations in the US show that re-entry programs in general are not necessarily profitable. Showing that with the current structure it will not be possible to have a re-entry SIB that is budget neutral for the government and at the same time pays enough dividend to the investors to make it profitable for them.

The first results of the evaluation delivered the following conclusions:

“A re-entry program financed using a SIB would not produce sufficient benefits to justify the operational costs or risks of engaging in this form of high-stakes contracting.”

“A Social Impact Bond financed program would not produce cost savings when outcomes are achieved, even under highly optimistic assumptions.”

These conclusions should be taken seriously. While it might not be necessary to have a social solution that is fully cost-free for the government, significantly reducing those costs should be the first concern and is essential for the success of SIBs. The biggest problem is the extra organizational costs to set up the accounting and intermediary structure. While these costs are relatively high for the current SIB pilots, with bigger SIBs (€20-30mln) the costs will become affordable. Even though allowances and social standards are high in the Netherlands compared with the US, it is hard to launch such a big SIB in such a small country. It is much more likely that SIBs will be packaged. This will create a more profitable SIB, but also more risk diversion because of the different projects that can be packaged, to make it more interesting for investors.

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11 Evaluating Social Impact Bonds as a new reentry financing mechanism: A case study on reentry programming in Maryland, Kyle McKay, January 2013, p. 17
Even though the Netherlands is a relatively small country, the social issues are very diverse through the different regions. While the basic topics will overlap, there are also different challenges for different cities. SIBs have to be scalable and of a significant size to become financially sustainable. Therefore it is important that the intervention commissioned by a SIB is scalable throughout the entire country.

In this paper three different topics will be considered for a SIB, unemployment, criminal activity and healthcare. Besides unemployment and healthcare costs, which have risen exponentially in the last few years, it would also be interesting to see whether a SIB related to decreasing the number of reoffenders, like the HMP Peterborough SIB, would applicable in the Netherlands.

As the review of the three different sectors will show, choosing the subject can also influence the type of investors and play a big role in expanding the range of investors for social good, which is one of the primary goals for SIBs.

Unemployment
As most countries are experiencing during the current economic and political crisis, unemployment is also rising sharply in the Netherlands. Now up to a total of 650,000 citizens are unemployed (8.2% unemployment rate\textsuperscript{12}), while the unemployment rate for youth is already up to 15.5\%\textsuperscript{13}. The city of Rotterdam stands out with a general unemployment rate of 13.9\%\textsuperscript{14}. These numbers have been rising steadily since mid-2011 and more than doubled since the start of the crisis in 2008.

Just a 1% improvement on the number of unemployed can save €56mln for the Dutch government

People who are unemployed in the Netherlands have the right to apply for an allowance to pay their expenses. The allowance per person is €14,400 per year. With 390,000 people receiving an allowance\textsuperscript{15}, a total of €5,616,000,000 in governmental expenses is spent on these yearly allowances. This does not account for the indirect costs incurred due to increased healthcare costs and increased criminal activity.

Just a 1% improvement on that total number of unemployed people in the Netherlands can save the government €56mln, which shows the potential for SIBs on the market of unemployment. An overview of the basic factors that determine the potential measurements for an unemployment SIB are shown, together with their (dis)advantages.

\textsuperscript{14} http://statline.cbs.nl/StartWeb/publication/?DM=SLNL&PA=71761ned&D1=1-3,7&D2=0-5-20&D3=8&VW=T
\textsuperscript{15} Sterkere stijging aantal bijstandsontvangers, Centraal Bureau voor Statistiek, 31 May 2013
Unemployment itself

The easiest statistic to use would be the percentage of unemployed people who find a job. Since unemployed persons receive a monthly allowance of €1200, for a total of €14.400 per year, every person who finds a job, would result in a yearly savings of €14.400 (not taking extra organizational costs into account). In the first stages, these organizational costs are not taken into account. It is not certain whether small decreases of unemployed will lead to a smaller or more efficient governmental organization.

Criminal activity

Citizens who are unemployed are more likely to engage in criminal activities, hence reducing the number of unemployed people should lead to a reduction in the local criminal activity, resulting in cost savings related to decreased use of the police force and detention facilities. While the size of the police force will not be reduced as a result of these outcomes, it can lead to focus being given to other areas that require attention. In SIBs the savings related to a decrease in use of the police force and detention facilities will be directly related to the reduced deployment for the targeted population.

Education

The level of completed education has a major influence on the probability of unemployment. People without education are unemployed or in contact with the police five times more than those who have completed an education. Therefore, education is an important factor in unemployment.

Income taxes

Often overlooked as a benefit, but once people get a job and an income, they start to pay taxes, also adding extra income for the government. Although this benefit is hard to measure precisely, an estimate can be made or the people in the program can be followed to come up with more exact results. It is reasonable to assume that benefits may increase yearly with the rise in a person's salary, which entails a big future benefit. These benefits could also compensate for the small amount of risk taken by the government and the not fully profitable SIB.

Criminal activity

While criminality in itself is a problem worth looking into, recidivism, or a relapse into crime, comes to mind first, because of the first SIB started in Peterborough, UK. While the number of citizens that engage in any form of criminal activity is relatively low, the two-year reoffending rate of former prisoners is 47,7% and for juvenile prisoners it is 57,2%. As these statistics show, the majority of convicted criminals will reoffend, which accounts for an increase of problems. In the UK this striking problem was recognized and formed the basis for the first ever SIB. Should other countries start with recidivism SIBs right away? Not necessarily. Research shows that a re-entry SIB will not necessarily turn into a profitable project for the government and thus not realize net savings. But the profitability of a project is probably not a primary concern. If the government is willing to pay these costs knowing that they fund a scaled and well-performing intervention, there is no problem whatsoever. Especially since they will have shifted risk away even when there is a slight project loss and therefore lose less money than they would have done by subsidizing it. The same factors that apply for the unemployment sector would also apply in determining the savings for a criminality SIB.

Healthcare

With the aging population the healthcare costs are rising exponentially. Turning healthcare costs into the single largest cost to the government, resulting in spending €5535 per Dutch citizen per year on healthcare. This amount is expected to rise dramatically in the near future. Hence these costs could become the biggest societal problem in the future. It is not surprising that there are numerous start-ups trying to solve these problems by launching new services and products in the healthcare sector.

Other interesting topics for SIB’s in the Netherlands include care for the elderly, fighting obesity and/or caring for the homeless. There are enough topics to consider, however, determining which one is the most suitable is outside the scope of this paper. It would be an interesting topic for future research. SIBs in healthcare create opportunities for investors to benefit in multiple ways. Health insurance companies would benefit from clients whom are healthier and therefore file fewer claims. Large corporates could also consider investing in a SIB that includes their own workforce, as improving the health of their employees should lead to fewer sick days and better performance. Hence, investing in such a SIB would be very interesting.
The Dutch government is very bureaucratic with multiple agencies holding different cost structures, responsibilities and different approaches to problems. Because the local and national governmental agencies have different departments with different responsibilities, both should be involved. That said, this makes it more difficult to determine which payment should go to which department. For instance, if an intervention helps juveniles to get out of criminal circles or to become employed, then costs related to detaining and policing them will be reduced. In addition, certain allowances will also be saved. While the allowances are paid and registered separately by every municipality, the detention and police costs are paid by different departments within the national government. Therefore, every department has to agree on the structure of payments or at least the negotiation of terms. This may bring some additional challenges in structuring a SIB.

If the intervention is successful and is scaled to multiple cities, the municipality of every city has to agree on paying for the savings, as well as the different national departments. This can easily become overly complex with too many stakeholders to be easily managed. This brings us back to the same problems that these organizations are facing currently, therefore these agencies may think that they are not garnering enough value by using a SIB.

To create the right environment for Social Impact Bonds, structural changes are needed. If the government is willing to involve private investors to invest in financial models like SIBs, they have to ensure that bureaucracy doesn’t get in the way. If investors and/or intermediaries are forced to go through the lengthy process of involving all the departments, creating an affordable SIB would be almost impossible.

Hence, assigning one governmental department oversight for Social Investment is needed. This department should be able to sign off on multi-department deals, enabling them to be completed in a timely fashion and improving scalability. In so doing, there will be many more opportunities to fully leverage the advantages of SIBs.
There are very different roles required to originate a SIB; all can be filled by different kinds of people and/or organizations. Because banks are so diverse, they could be multiple stakeholders in creating a SIB, however, this is not a sustainable model since conflicts of interest could arise. Therefore, it is important to determine the most suitable role for them.

As a result of the current economic crisis, banks have been asked to ensure that they manage the tension between their interests and the interest of their various stakeholders better. Both the public and politicians believe that banks should become more socially involved. In addition, they are being required by the regulators to maintain larger financial buffers. Impact investing could be a way for banks to show their commitment to society by creating investment vehicles aimed at solving societal problems.

**Banks as investors**

Attracting capital and lending it out are two of the most important functions of a bank, so naturally seeing a bank as one of the investors seems reasonable. SIBs are concerned with a relatively small amount of money and it gives huge opportunities for banks to put their money where their mouth is in building a better, more sustainable world. Accepting a much lower return on investment can be a great trade-off for investing in the society and actually help.

The first bank to invest in SIBs was Goldman Sachs, who funded a $10 mln SIB in New York. While some may say that this is a minor step, since $7.2mln of their $10 mln investment was guaranteed by the Bloomberg foundation, it does show that Goldman Sachs has an interest in exploring this terrain. This may be the first step, signaling other banks to become involved in SIBs as investors.

If banks are sincere about investing in social impact and are willing to generate lower financial returns for these investments, they can be valuable investors and should be approached when starting a SIB. That said, the major benefits for “related” or local investors shouldn’t be overlooked and are probably both more appealing and better suited to the originators of a SIB.

By related investors we refer to companies, such as health insurers that directly benefit from the improved health of their customers or companies who benefit from the improved health and productivity of their employees.

Furthermore, we should not forget the target group of high net worth individuals. Many high net worth individuals invest in various types of business opportunities, with different reward structures. They are very often very interested in impact investing and may be even more determined to ensure that the project achieves actual results.

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21 Goldman belegt in delinquenten, Joris Kooiman, Het Financieel Dagblad, 23 August 2012, p. 11
Herein lies a perfect opportunity for them to invest in interventions that are active in their own community and/or those dealing with societal issues for which they have a close affinity. Many of these people are already involved in their local communities and have an emotional bond with specific locations or areas. A good example is the investment of a group of local individuals in the football club Feyenoord. They “donated” their money by putting up capital because of their bond with the city and the club. The same could apply for SIBs, making local high net worth individuals the best-suited target group as investors.

If SIBs are developed on a smaller scale, other opportunities for local investors may be possible, including the opportunity to crowdfund part of the project. It may not be possible to fund complete projects in this manner, since often the investment needed for these projects is so large, yet offering to develop parts of the project via crowdfunding could be very interesting, especially since involving local population more increases the odds of success significantly.

The network of a bank
As previously mentioned, if high net worth individuals are the most obvious investors for particular SIBs, a bank will be able to play a major role as a facilitator. Most banks have departments which provide special services to wealthy individuals and families, helping them even to become angel investors and sometimes to set up their own investment funds. Because these clients are very important for banks, the bankers know their individual profile and preferences. Hence, they will know who is willing to invest in social interventions and in what type of intervention they’d be most interested in investing. When a bank is involved with a SIB, it can directly link the SIBs needs to the right investors and even package SIBs to propose a diverse and more scalable investment opportunity for their clients. As a facilitator, banks can increase the speed in which SIBs will go up and running. This can help fuel growth in impact investing.

An interesting opportunity for banks would certainly be taking on the role of a facilitator. One way to do this would be to develop a platform where they can combine their internal and external networks without incurring issues related to privacy.

What if SIBs became actual bonds?
From a financial point of view, originating actual bonds could be very interesting. SIBs are called bonds, but are not actually bonds. But what if they were, what opportunities would that create?

Essentially, SIBs are debt-structured products with pre-financing and dividend payments, just like bonds. But the results of SIBs are much more uncertain and deemed riskier than normal bonds. It is almost impossible to define a standard rate for the dividend payments, since that is determined based on the results of the actual intervention.

Hypothetically, when a fixed return rate can be guaranteed, packaging SIBs as bonds can attract a lot of interested investors that are attracted by the relatively low risk return on investment. Furthermore, banks are already issuing bonds on a huge scale, so SIBs could be a minor addition to their portfolio. Making it easier to involve banks in SIBs, but also to scale SIBs. Once the bonds are up and running, it can be easily duplicated. If bonds are issued, it immediately creates a secondary market for SIBs. Launching SIBs within a huge pool of potential investors and a lot of potential to scale fast.

Another major problem with issuing bonds is that it fails to shift away some of the risk to investors, which was one of the intended benefits of SIBs. In Minnesota, USA, they are trying to shift most of the risk over to the service providers using Human Capital Performance Bonds. It remains to be seen if service providers will agree with such a structure, but also the government needs to know for sure that they are willing to partner up with a construction in which social finance providers can have their investment practically destroyed when an intervention fails to reach their targets. This doesn’t sound sustainable and it is not very likely that the Dutch government is going to embrace such a construction.

While issuing actual bonds might appear interesting for financial institutions at first, it doesn’t seem to be a reasonable and sustainable option in the longrun.

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Social Impact Bonds can be a very interesting instrument for finding alternative sources of financing societal issues in the Netherlands. This may require a paradigm shift for both the government and service providers. If that is achieved, then SIBs may provide an impetus for improving the social sector in the long term. Seeing that the interest for SIBs is growing rapidly, we may see some of the first pilots being launched in the near future.

While this paper shows that there are still challenges to overcome, it also shows numerous opportunities for a variety of stakeholders. One of those challenges is how to transfer risk. How to do this may not become evident until the first SIB fails. As measurements improve and service providers build better track records, the way in which to measure the success and payment structure will become more apparent.

From our discussions we believe that the first pilots in the Netherlands will probably be with a SIB related to reducing unemployment or re-offending criminality. Once the structure is in place, it will not be difficult to add other sectors with social issues as SIBs candidates as well.

This is especially true when the Dutch government supports SIBs on a larger scale, streamlining partners and the process of measuring and paying for agreed upon results.

From the perspective of the banks SIBs can be very interesting as well, especially when they can offer this opportunity to their clients. While the first step has been made by Goldman Sachs, it is unclear which role(s) banks will end up taking. At the very least, this paper has made the case for banks supporting the development of new SIBs so they can offer them as a social investment opportunity to their clients.

Even though there are no SIBs in the Netherlands, launching a SIB is still viewed as a very interesting opportunity and one could possibly be launched in 2013 or 2014. From the time of the launch of the first Dutch SIB, it will be very interesting to see whether the concept will take off or whether there will be a holding period, in which others wait in the background until more is understood about the SIB structure as well as its associated benefits and pitfalls.