

Perspectives from the Social Finance Forum 2012

An Australian snapshot

Social Impact Bonds

November 2012



The Centre for Social Impact (CSI) is a partnership between the business schools of the University of New South Wales, the University of Melbourne, Swinburne University of Technology and The University of Western Australia. CSI's mission is to create beneficial social impact in Australia through teaching, research, measurement and the promotion of public debate. It brings together the committed hearts and business heads of the philanthropic, not-for-profit, private and government sectors in pursuit of social innovation. It provides socially responsible business management education and research in the common cause of building a stronger civil society for Australia.

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Introduction

On 26 September 2012, the Centre for Social Impact hosted its inaugural Social Finance Forum in Sydney, Australia. The [agenda](#) focussed on Social Impact Bonds, which have been named Social Benefit Bonds in New South Wales (NSW). It also featured government and investment representatives who spoke about social finance more generally. It was the first time all organisations involved in the NSW Social Benefit Bond trial had been in the same room. At this point in time, they were developing their contractual arrangements with NSW Government and each other, solving problems and making decisions that had no precedent in Australia. In addition, David Hutchison and Jane Newman from Social Finance in the UK shared their experience of establishing the first Social Impact Bond, Peterborough Prison, and their continuing work developing Social Impact Bonds in other service areas.

“Social Impact Bonds are a form of outcomes-based contract in which public sector commissioners commit to pay for significant improvement in social outcomes (such as a reduction in offending rates, or in the number of people being admitted to hospital) for a defined population. Social Impact Bonds are an innovative way of attracting new investment around such outcomes-based contracts that benefit individuals and communities. Through a Social Impact Bond, private investment is used to pay for interventions, which are delivered by service providers with a proven track record. Financial returns to investors are made by the public sector on the basis of improved social outcomes. If outcomes do not improve, then investors do not recover their investment. Social Impact Bonds provide up front funding for prevention and early intervention services, and remove the risk that interventions do not deliver outcomes from the public sector. The public sector pays if (and only if) the intervention is successful. In this way, Social Impact Bonds enable a re-allocation of risk between the two sectors.” ([Social Finance, 2012](#))

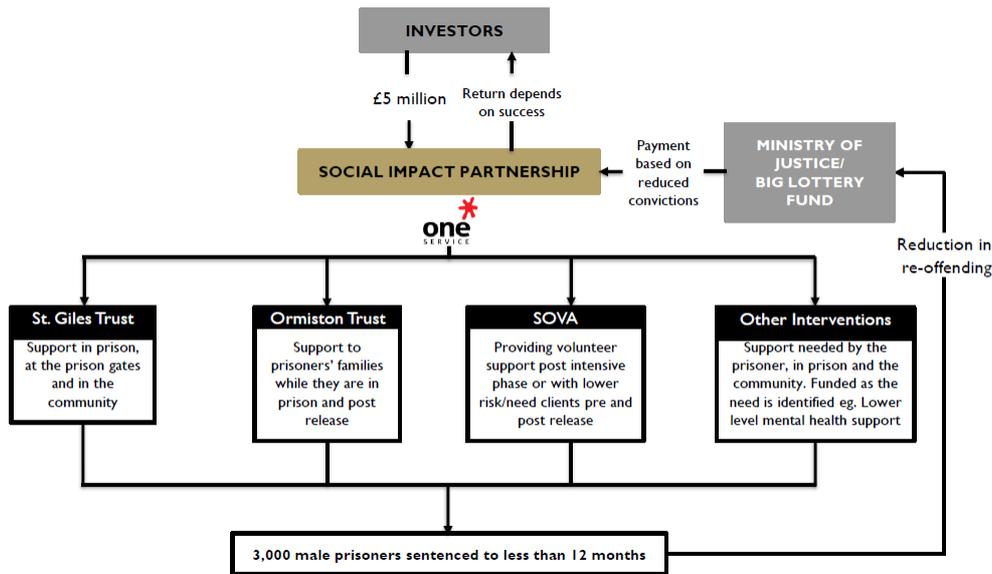
This paper captures some insights from the presenters at the Social Finance Forum. It contains six sections. The first section sets the context for Social Impact Bonds in Australia. The second section outlines the organisations involved in the NSW Social Benefit Bonds trial and the general structure they might follow. The third section contains a description of benefits already realised by the organisations involved in the trial. The fourth section identifies several types of risk associated with Social Benefit Bonds and how these risks are managed. In the fifth section, measuring outcomes is presented as the basis for Social Impact Bonds. The sixth and final section presents expectations going forward.

This paper is not intended to be an exhaustive account of Social Impact Bonds nor is it an exhaustive account of the Social Finance Forum. Rather, it is intended to present information and opinions from the Forum that have not been published previously, reflecting the Australian experience to date in a national and international context.

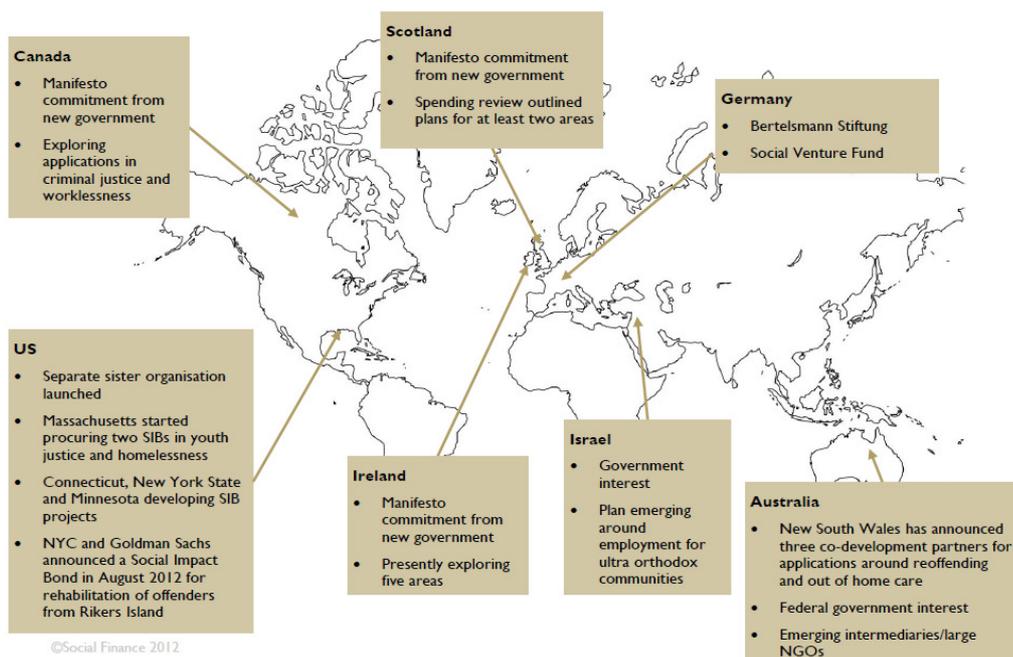
The context for Social Impact Bonds in Australia

This section outlines the context for the emergence of Social Impact Bonds in Australia. It begins with the international precedent, an emerging social investment market and pressure on government budgets. It then describes how Social Impact Bonds allow governments to shift resources towards early intervention, while the focus on outcomes gives service providers more freedom with their delivery models and the opportunity to deliver greater benefits to their clients.

The first Social Impact Bond was launched in September 2010 at Peterborough Prison in the UK. It was developed by Social Finance (UK) and was presented by the Chief Executive Officer, David Hutchison, using the diagram below.



In the two years following, there has been worldwide interest, as can be seen in this map of Hutchison's.



Social Impact Bonds are one of several instruments in the emerging social finance market. Greg Peel, CEO & Managing Director, Community Sector Banking, said, “There is a significant move internationally in what is actually happening in this market”. Gill Callister, Secretary, Department of Human Services, Victoria, said this was reflected locally with strong and rapidly developing interest in social finance in Victoria. Social finance initiatives in Victoria includes low interest loans, community finance, community renewal infrastructure projects and co-production at a micro-level, which involves government bodies developing agreements with non-government organisations, investors and communities. Jenni Perkins, Director General, Department for Communities, WA, introduced a state focus that is reflected nationally, that of building capacity around innovation and social enterprise in community organisations.

Peter Shergold, Chair, NSW Government’s Social Investment Expert Advisory Group, pointed out that this is a time of significant financial volatility for governments, which are facing increasing pressure on budgets. The Hon Pru Goward MP, Minister for Family and Community Services, NSW, noted that in light of the Global Financial Crisis, her department had to deliver more services and better outcomes within the same budget. She said, “Governments need non-government organisations and other funders to help make difficult decisions in a world of limited resources. New South Wales has the highest rate of removal of children to out of home care in Australia. And there are poor outcomes for these children. We can measure the cost of out of home care, which is \$37,000 for general foster care per year and can rise up to \$250,000. What is the cost of rehabilitation versus the cost of foster care? The Social Benefit Bond will shift our thinking about what governments and society can change.” Goward said as part of this thinking, the NSW Government wanted to build a more direct role between philanthropists and governments.

Hutchison described the government spending cycle in times of reduced resources. This cycle sees funding become focussed on delivering acute services, reducing the proportion spent on early intervention. Over time, this leads to rising demand for acute services, in turn constraining further the resources available for preventative spend. He argued that Social Impact Bonds break this cycle by funding early intervention. Caralee McLiesh, Deputy Secretary, Human and Social Services, NSW Treasury, supported this idea, stating that the NSW Social Benefit Bonds were not a replacement, but rather an expansion of early intervention funding for NSW Government. She said this was also an opportunity for the NSW Government to increase capacity for measurement of impact and to collaborate with non-government organisations and investors to harness their capabilities in this area.

There seemed to be sufficient interest from organisations to deliver services for Social Benefit Bonds and investors for the Bonds. Peel asserted, “We have, in effect, significant demand and significant supply” for social investment opportunities and that the difficulty lies in connecting investors with social organisations. When Social Finance (UK) approached investors, Hutchison said “a significant proportion want to engage but cannot access investments in their current form, which is a sign of market failure.” Shergold said “What it is trying to offer investors is part financial yield, part social return”.

Social Finance (UK) is an intermediary, whose role it is to connect the parties involved in a social finance transaction. One organisation playing this role in NSW is Westpac Institutional Bank, with Craig Parker, Executive Director, Head of Structured and Asset Finance, describing its involvement in Social Benefit Bonds as fitting with the Westpac

agenda. This agenda is “on a macro level, a key part of our Corporate Vision is to help communities prosper and grow. Our involvement in a Social Benefit Bond is a by-product of this Vision. In the past, we’ve been involved with community projects like building a house, but the reality is that we’re better bankers than builders. We seek to be at the forefront of establishing a social finance capital market in Australia.”

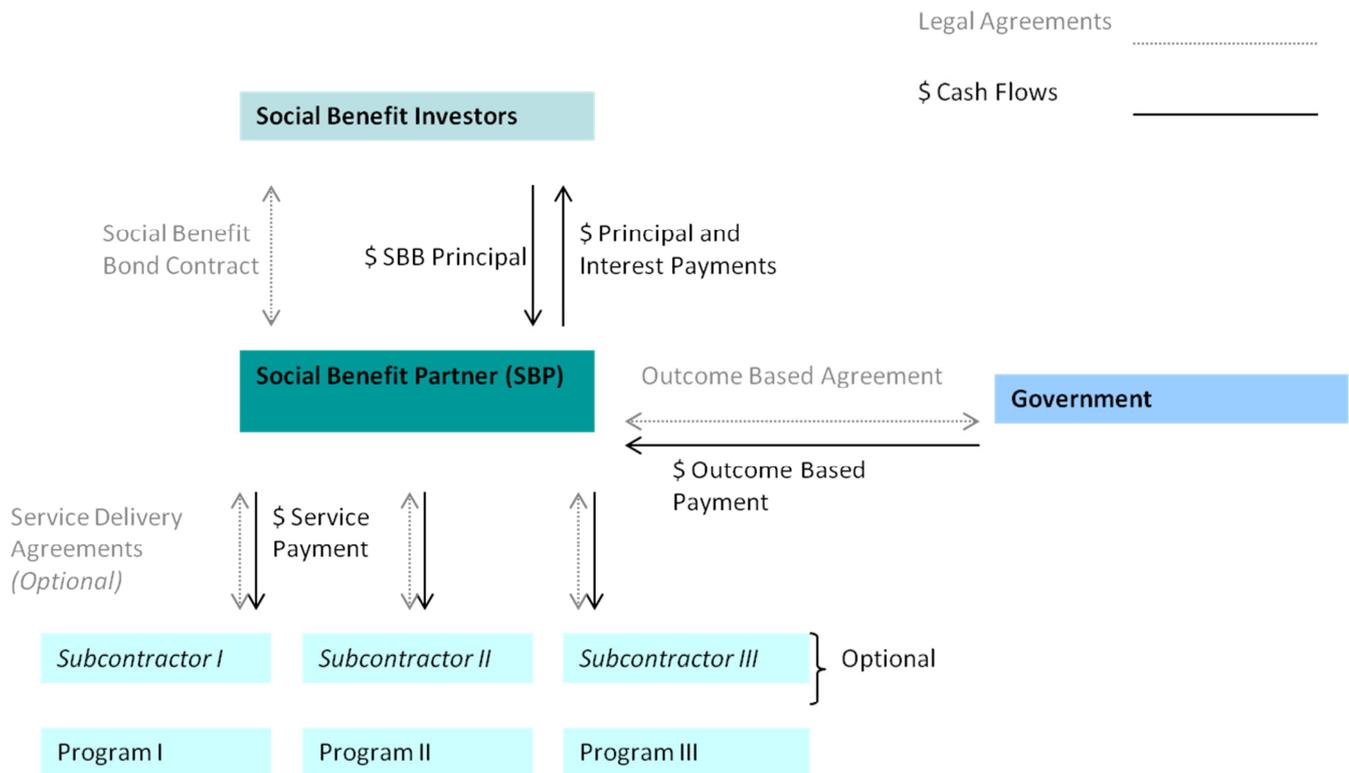
Graham Neal, Director, Business Development and Infrastructure, UnitingCare Children, Young People & Families, said, “The Social Benefit Bond is the most expensive and complicated way to do it. If there is a simpler way of funding your project, go for it!” But as Alan Hargreaves, a long-time donor and now investor in Newpin, said, “Getting sustainable funding is what we’ve been trying to do with Newpin for years”. Hargreaves now chairs the Newpin Advisory Group. Sally Cowling, Manager, Research & Program Development, UnitingCare Children, Young People & Families, said that this model particularly suited Newpin, as it was “a program with: measurable results and defined outcomes; consistency with government policy goals; and a good track record.” UnitingCare had to satisfy themselves that a Social Benefit Bond could be a viable way to improve practice quality, while retaining the integrity of the Newpin service model. Cowling concluded they were “excited about process which marries accountability to outcomes with practice freedom”, a freedom not available within the constraints of traditional government contracting. Perkins spoke about contracting from a government perspective, saying there was culture change in thinking “moving away from being very prescriptive.” Cheryl Kernot, Director of Social Business, Centre for Social Impact agreed, “It’s about changing the culture, changing the mindset, implementing a new approach in contracting and focussing on outcomes.” Keith Ketheeswaran, Executive General Manager Risk and Compliance, the GEO Group Australia said, “If you want outcomes, you’ve got to make that cognitive shift.”

Kylie Charlton, Managing Director and Founder, Unitus Capital, said, “The most exciting thing about the Social Impact Bond model is that it encompasses both economic *and* social value.” Hutchison said, “We need to widen access to pools of investment and getting that right is key to creating lasting social change.” The market is in a raw stage and involves complex relationships. First and foremost, this is a mechanism to tackle social problems, not reduce government expenditure. Shergold said “in the best of the possible worlds, this can be a win for the private sector, a win for the public sector, and a win for the community sector.”

NSW Social Benefit Bonds

Hutchison noted that Australia is home to larger charities than are common in Britain, so some of the skills and experience offered by Social Finance (UK) to their charity partners may be available in-house in large Australian charities.

The New South Wales Social Benefit Bonds trial involves three large charities, which are developing three separate Bonds. Mission Australia, with revenue of \$441m in 2010-11, has partnered with an intermediary, Social Finance (Australia) to develop a Social Benefit Bond to reduce reoffending. UnitingCare Children, Young People and Families is a division of UnitingCare (NSW, ACT), which had a revenue of \$540m in 2010-11. They are supported by Social Ventures Australia to deliver a Social Benefit Bond that continues and expands their Newpin program to strengthen families with young children and reduce the need for foster care. The Benevolent Society had \$78m revenue in 2010-11 and is partnering with Westpac and the Commonwealth Bank to strengthen families and reduce the need for foster care. The details of the Social Benefit Bonds are currently under development, but the structure in the NSW Government's Request for Proposal to which they responded is below.



What benefits have already been realised?

This section captures some benefits that have already been realised by those involved in the NSW Social Benefit Bonds. These include innovation, capacity building and using data to measure and improve service outcomes.

Neal said that the Social Benefit Bonds development process had demanded innovation. “We are not slavishly following the example of the UK or the US. We are developing a proposal that suits our particular opportunity. There are no rules in this area, we are making this up as we go.” McLiesh referred to the funding model as a “game changer in social finance”. She said that Social Benefit Bonds not only lowered the risk taken by governments on new programs, but developed government capabilities. These capabilities included data collection, measurement and internal collaboration, with improvements already apparent during this early development phase with non-government partners. Ben Gales, Director, Performance Evaluation and Review, Department of Family and Community Services (FaCS), said that Social Benefit Bonds required so much more of a rigorous process for FaCS that their development had already forced improvements. With a FaCS budget of approximately \$5 billion per annum, of which over \$2 billion per annum funds non-government organisations, even a small spillover benefit of improved contracting efficiency far outweighed the \$5 million or so per annum that would be spent on Social Benefit Bonds.

Goward said Social Benefit Bonds have given the NSW Government a new relationship with non-government organisations. “Social Benefit Bonds are helping Government reform due to their emphasis on detailed measures, outcomes, transparency and contracting.” She said this reform also includes the way the governments collect and share information. The Department of “Family and Community Services has not necessarily been transparent about the data they have. We are now empowered to share data. It has made a tremendous difference to how FaCS staff negotiate arrangements.” Shergold said, “Bonds may provide an additional source of funding...without the level of government interference.” He said government contracting “often comes with a high bureaucratic overload. There is a much greater opportunity for entrepreneurial social enterprises to really innovate under this scheme”. Goward said the NSW Government was “calling on non-government organisations to design innovative early intervention services.”

The service providers for the New South Wales Social Benefit Bonds have already realised some benefits from their involvement in the development process. Cowling said that they had learnt a lot about cost benefit analysis, which is not extensively applied in Australia. She said, “The thing I’ve taken away from the process is how exciting it is to get deeply immersed in data”. They have experimented with the delivery model and already improved the impact of the Newpin programme. Cowling said their disengagement rate had dropped from 25% to almost zero.

Jocelyn Bell, Project Manager Business Development, The Benevolent Society, said that participating in a Social Benefit Bond meant The Benevolent Society gained experience in performance based contracting, which involved working with the NSW Government to improve and resolve issues. This has enabled The Benevolent Society to learn more about their own performance as they have accessed government data against which they can measure their service outcomes. Social Benefit Bonds have introduced collaboration with corporate organisations and the opportunity to build new relationships with new partners, with Bell reporting that there had already been some

transfer of skills and knowledge between partners. The additional funding will also allow them to reach more families. Parker also spoke of the benefits of collaboration. “At the end of the day, we do not have a monopoly on great ideas. Through a wider partnership, we will harness the intellectual capital of many”. Teresa Zolnierkiewicz, Head of Philanthropy, ANZ Trustees said, “Having various stakeholders from different angles pushing for the success of the work is most likely going to create good creative friction, good clear resolution of issues that may seem irresolvable, and in general terms will really enhance results.”

Hutchison reported that their partners providing services for the Peterborough Social Impact Bonds have found using data for performance management very helpful. “For example, in the early stages, it was clear that some case workers were devoting a disproportionate amount of time to a small minority of their case load who were vocal in expressing their needs, which prompted a discussion on how to meet the needs of the less vocal majority. They found it essential to have a clear measure of effective delivery and to be able to use data to adjust practice and commission new services.”

Neal said that a welcome side benefit of Social Benefit Bonds was that they required client results to be improved. This improvement can be the result of a number of factors. Hutchison said, “What we have noticed is that there is considerable value in introducing our clients to other services that provide in the area, that they were disconnected from.” Cowling said, “The reason we’re so excited about this pilot is that it makes us demonstrate to all of you that change is possible, but it also highlights the need for early intervention and prevention work.” Hargreaves described Newpin participants, saying, “They’re not asking for a handout, but they’re asking for a hand up.”

How have risks been managed?

This section looks at the risks associated with Social Benefit Bonds and how they've been managed. It uses six categories, which are: reputational risk; financial risk; risk to service integrity; risk of non-performance; organisational risk; and risk of not reaching a deal.

Bell said, "This Social Benefit Bond trial faces a lot of challenges. As I see it, we're:

- developing a financial product that does not yet exist in Australia,
- to sell to a market of investors that does not yet exist
- to fund a service that the market does not yet understand, where no independent experts exist to advise investors
- with returns based on evidence of service effectiveness that is limited to non-existent
- paid on the basis of government savings that will be modelled rather than actual.

We've got our work cut out for us."

Reputational risk

Hutchison said he thinks that reputational risk, particularly on the service delivery side, has not been fully assessed. Ketheeswaran said, "The key thing running through this all is our reputational risk. So we wanted to get the measurement system right. Can you come up with a measurement system that will more likely than not help you achieve outcomes? Can a good measurement system inform you how to put a program back on track, if you have lost direction?"

McLeish said that a key task for success was managing expectations around the bonds with no shortage of people focussed on finding failure. The trial has attracted a lot of attention and with it pressure to succeed. Neal said "they need to succeed for governments, investors and service providers" while Hargreaves noted "no one wants to get this wrong". Shergold said it is important to communicate that Social Benefit Bonds "are not going to be a silver bullet, a panacea. They are a part of a suite of new opportunities that are complementary to, not a substitute for, public funding for social services." Hutchison recognised that there was reputational risk for both governments and service providers should the program fail. This underpinned the need for a focus on performance management to help mitigate the risk.

Goward said her department was "driving very hard on the transparency of data" and that while they were aware of the risks associated with bad press, "you don't give up on transparency because of a few days of bad publicity." Callister warned of changing government funding structures too fast. "Make haste slowly is a good mantra here, so you don't have a flavour of the month effect, where you change all the funding arrangements without knowing what the benefits are. Building confidence and having some successes on the board are important in terms of how we move to different arrangements."

Hargreaves said that social investors had raised concerns about whether they would be encouraging the return of children to homes that may not be safe. He said it was important to point out that the decision to restore children to

their families was made by the courts, not the service deliverers. Shergold also recognised the risks stemming from changing the culture of social service funding. He noted that some people find it “appalling that banks or financial institutions or private investors might be seeking to make a profit, deriving financial return from social disadvantage.” Callister drew a parallel with the pharmaceutical industry. “The pharmaceutical industry invests in research and development and we accept that. We need to accept investment and then profit in research and development in social services.”

Shergold said he had heard the argument “that if these Bonds are successful, then all that will happen is governments will retire from the field.” Goward made it clear that the NSW Government “isn’t attempting to shirk our responsibilities by engaging in Social Benefit Bonds. Social Benefit Bonds will not replace current government services. But they will bring a new source of funding for government services.”

Financial risk

Shergold highlighted the issues associated with the lack of an established investor market. “No one knows if investors will come. It is an unknown market. Information is scant. Risks are hard to assess. The tax treatment in Australia, unfortunately, remains uncertain. There is a lack of liquidity because there is a lack of a market for bonds.” Bell said, “The banks expected the Benevolent Society to have a significant financial stake in this deal or they wouldn’t have the confidence to stake their own funds, or present this to their investors. The Benevolent Society is placed in the best position to identify the likelihood of success and what is to be expected. To offer the clearest vote of confidence, we need to put our money where our mouths are.” She spoke of a need to bring investors into the conversation early, as the details of the Social Benefit Bonds are being developed, in order to align the outcomes desired by the NSW Government with those of the investors.

Hargreaves said that the Social Benefit Bonds would gradually develop a market, but as none have changed hands yet, the lack of liquidity is prohibitive to managed funds. He said that tranching would offer Social Benefit Bonds to different marketplaces, but that this is a mission-aligned product, so initial investors are likely to be looking for a blended return, which combines financial and social value creation.

Parker proposed a tranching structure with three tiers of risk. The proposed structure included a low and medium risk tier where investors’ capital was protected and a high risk tier where 100 per cent of capital was at risk. He said the highest risk tranche will be sold to benevolent institutions and members of their consortium.

Bell compared their proposal with the Peterborough model, where there was no capital protection. She stated, “In the Peterborough deal, it appears that the UK Government got all of the upside and none of the downside”. Hutchison warned that the more governments were asked to guarantee, the greater the risk that they would seek to specify service delivery. He said that public servants in the UK have struggled to value the transfer of delivery risk to the private sector. The difficulty lies in justifying payments for Social Impact Bond services representing a 7 - 12 per cent per annum return on investment when they can borrow at a risk-free rate and deliver services themselves. However, he pointed out that Social Impact Bonds are more likely to deliver positive outcomes due to the clarity of accountability and incentives to deliver, and if they do not deliver positive outcomes, government does not pay at all.

Both Perkins and Callister noted that governments were very reluctant to stop funding a program, even when they knew it was not having an effect, so Social Impact Bonds solved this problem by only paying when outcomes were achieved. Hutchison said “we need to look at structured risk share, while maintaining a very clear incentive for the providers of capital to deliver”.

Parker said investors would be attracted to larger organisations with well-established credibility. “We’re the oldest bank in the Australia, working with the oldest charity in Australia, this partnership makes sense to us”. Neal agreed that it was essential to have “an organisation that has a strong reputation as a service provider. Experience in the field reduces the chance of non-performance.” McLiesh related experience to financial risk. She said, “Lack of a track record is a really significant obstacle in trying to get investments. Investors find it difficult to price risk. We need to build up experience.”

Neal said that keeping it simple was essential to investors as they evaluate the risk of involvement because both governments and service providers can measure their risk much more accurately than investors. Les Hems, Director of Research, Centre for Social Impact also noted the need to keep things simple, but “the investor who wants this simple concept will then hand over the investment document to their analyst, and that analyst will want to drill into the deepest detail possible.” He stressed that calculation of risk is essential for investor behaviour, “they need evidence and measurement and they need a track record.” Cowling also spoke of the need for a track record. She said the Newpin programme had a strong track record and evidence base, but it would be difficult for small providers to collect and present evidence to the level demanded by investors.

Hutchison said “A principal guarantee would make a dramatic difference to the risk profile of the portfolio. Evidence of delivery will make a difference too. In areas of untested intervention, the former can be a bridge to the latter. In the Peterborough Social Impact Bond, we try to manage investor exposure through actively managing performance and reporting quarterly.”

Risk to service integrity

Cowling said one of the first questions UnitingCare asked themselves was “Is this going to bugger anything up?” and set about testing the question of whether a Social Benefit Bond would introduce perverse practice incentives. They “started doing some experimentation and accompanied that with rigorous performance evaluation”, before the details of the Social Benefit Bond were finalised. They analysed three years of data against a “bare bones” proposed Social Benefit Bond model, which indicated the proposal was viable using their existing service model.

Bell said that the “difficulty is that we do not know how much surplus or benefit we can develop from our program to generate enough savings to benefit our investors and the NSW Government. If maximum financial outcomes were to be pursued, they would be providing a level of service that would enable children to remain in or return to their homes, but this level of service would not sufficiently support children to thrive in a home environment”. Modelling indicated there needed to be some trade-off between benefits to clients and investors.

Risk of non-performance

Hems noted the lack of Australian-based evidence and the question of whether evidence from other programs and jurisdictions was sufficiently applicable to the NSW context to predict results with any confidence. This lack of precedent was mentioned by Neal, who stressed the importance of having a program with measurable results and a good track record, run by capable operational managers.

Ketheeswaran warned, “Innovation has become one of those sexy terms, particularly in corrections. It’s about getting the small things right - that’s innovation.” Social Finance (UK)’s experiences with the Peterborough Social Impact Bond mirrored this. Hutchison reported that there was much value to be gained by applying simple interventions consistently across the entire client group.

Organisational risk

Trevor Danos, Partner, Corrs Chambers Westgarth, spoke of the need for carefully thought through termination rights and the consequences of termination. He said that governments would usually want a right to terminate for convenience and that this might become relevant where a change of government policy impacted on the viability of the project. He also raised the issue of whether governments would need to assume responsibility for service delivery should the service deliverer be unable to continue (the investors would most likely lack the capacity to deliver services themselves in lieu of the service deliverer).

Hutchison said that in preparing for government tenders, there was a tendency for delivery partners to be overly optimistic about the outcomes they could deliver in order to improve the headline value for money proposition. This reflected government's unwillingness to assess the risk of failure and was also the legacy of a contracting process where service providers had won contracts on the basis of over-estimating performance and were not penalised for failing to deliver. He said it was important for all parties (government, investor and delivery partners) to focus on the evidence available for the ability to deliver outcomes.

Risk of not reaching a deal

Danos said it is important for all parties to keep it simple, “We’ve got to avoid bells and whistles on a 5 to 10 million dollar proposal.” He encouraged not-for-profits to reach out to investors early. He recommended keeping the documentation as simple as possible, developing a common language platform, and trying not to reinvent the wheel where existing or analogous models and documents were available.

McLeish said a key challenge is changing culture, protocols and mindset, as the NSW Government develops Social Benefit Bonds. Hutchison defined the role of the intermediary as understanding the perspectives of all the other parties. His colleague, Jane Newman, International Director, Social Finance (UK), said that in any meeting, Social Finance represented the people who were not in the room. Hutchison said that a social purpose intermediary brought parties together to deliver a robust investment decision for investment to follow. When working with service providers to build a model and analyse performance data, he said “they have to feel confidence with the data; that it tallies with their own experiences on the ground.” He said that all Social Impact Bonds needed to start with

understanding the social issue, which meant talking with knowledge holders about how to produce better outcomes and understanding how money flows in the current system.

Neal and Bell both stressed the importance of a detailed financial model of the new Social Benefit Bond approach, and the need for people who have the skills to build and analyse it. As a service provider, they needed to work closely with treasury and the relevant department to have an understanding of client flows, to confirm that estimated savings to government covered the cost of the program. Neal said the importance of the counterfactual, against which results of the program are compared, cannot be underestimated. Bell said they were not able to identify, from available data, the marginal benefit per additional dollar spent, so some judgements could not be fully based on data.

Jim Robinson, Senior Policy Advisor, Social Investment and Finance Team, Cabinet Office, presented via video and introduced two new initiatives by the UK Government designed to promote further development of Social Impact Bond models: an Outcomes Finance Fund which could support Social Impact Bonds where savings accrue to more than one central or local government budget; and a Social Impact Bond Centre of Excellence, which will help develop central and local government capacity in commissioning outcomes funded by social investment.

Measuring outcomes

This section provides some perspectives on key measurement challenges.

Hutchison said that service providers needed to evidence the outcomes of their services to a higher standard of rigor than they had done previously. Perkins said that once data were available, the challenge was how to use it to make decisions. “The evidence is not being used,” she said. Kernot said service providers must “really invest in building capabilities in measurement. What we really look for is value for money propositions.” Callister agreed “the research in this area is not nearly as extensive as in some other area. There is not enough rigour in the design of programs.” McLiesh said that measurement is not necessarily about collecting new data, but about “bringing the right people together and better using the data we already have.”

Hutchison said that there are several criteria that help identify whether a Social Impact Bond is worth pursuing:

- Robust outcome metric
- Clearly defined target group
- Cost of intervention is relatively small compared to potential public sector value
- Evidence-based interventions
- Measurable attribution
- Issue area a priority for public sector
- Issue area a priority for investors.

He said that the last two criteria were perhaps the most important as without them the Social Impact Bond does not stand a chance of getting off the ground. He said “I can’t raise money unless it excites investors.” But he warned “this is a marathon, not a sprint”. At the end of the day, both investors and commissioners lack information about the likelihood of effective delivery. “Data lies at the heart of what we are doing. I cannot go to an investor and ask them to take a risk that has not been analysed to the fullest possible extent.” Cowling said that sufficient service data from government and non-government providers are not available, and that the Social Benefit Bonds joint development phase with NSW Government has been essential for them to obtain an understanding of data collection, possibilities and potential.

Zolnierkiwicz said, “Measures have to intuitively make sense and they must be transparent. You don’t measure something simply, you explain it simply.”

Expectations going forward

This section includes several perspectives on what the future holds for Social Impact Bonds.

Shergold predicted that Social Impact Bonds would continue to be developed. “I do believe that performance-based contracting by governments, which is itself increasing year by year, will increasingly take the form of Bonds. The market will initially grow slowly, but as information and certainty grows, and as potential investors are able to assess chances of success and are clear about what is going to be the tax treatment, then I think Bonds will become more attractive. I also anticipate that some social enterprises will contemplate offering Impact Bonds to investors on the basis of future streams of income without governments getting involved at all. In my view, we need NSW and New York and Peterborough to succeed, in order to increase the credibility of bonds as a part (but only as a part) of new forms of social finance. We need to make haste slowly. We need to learn by doing.”

Parker also spoke of a market that will grow as information becomes available. “We need to get investors to see the Social Impact Bond as a legitimate investment opportunity. Simon [Ling] and I manage tens of billions of bonds per year. This bond will most probably be the hardest deal we’ll do this year. Bond investors still think in a very conventional way. We need to work towards the breakdown of conventional thinking.” Peel saw a market as “a better environment for us to achieve our objectives and goals” as he asked the question, “How do we blend capital solutions so that we can normalise the risk and yield?” Hargreaves saw a greater role in Social Benefit Bonds for larger philanthropic organisations, saying, “I think in the future a lot of the foundations will underwrite them.” This may encourage growth in the investor community, which Hutchison said will “need to go beyond philanthropy to be a larger market.” He also said he had spoken to an institutional investor at the time of launching the Peterborough Social Impact Bond, who said, “David, if you could get 4 or 5 Social Impact Bonds in a portfolio, and show that they were delivering, I would buy them in a secondary market.”

On the other hand, Hutchison said "If we are successful, the Social Impact Bond in areas of social activity where interventions are proven will become redundant as service providers build their own capacity to negotiate, manage and finance their own outcome based contracts."



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