Advances in Applied Sociology, 2023, 13, 488-495
https://www.scirp.org/journal/aasoci
ISSN Online: 2165-4336
ISSN Print: 2165-4328

Social Impact Bonds and Social Innovation: Benefits and Weaknesses

Caterina Galluccio

Department of Law and Social Science, University of Chieti Pescara, Chieti, Italy
Email: caterina.galluccio@unich.it

How to cite this paper: Galluccio, C. (2023). Social Impact Bonds and Social Innovation: Benefits and Weaknesses. *Advances in Applied Sociology, 13,* 488-495.
https://doi.org/10.4236/aasoci.2023.136030

Received: May 9, 2023
Accepted: June, 27, 2023
Published: June, 30, 2023

Abstract

SIBs are spreading across the globe and have been gathering governments' attention and public authorities, social service providers, scholars, and evaluators, among other stakeholders, in the last few years. Similarly, SIBs have resulted in debates always controversial about matters such as the delivery of social services and the aim of attaining efficiency in doing so, the risk transfer from the public to the private sector and what it means for social service providers, the ability to track and evaluate ideal results, and the increasingly widespread urge to invest in preventive solutions with higher profits in the long term. In recent global meetings, several such debates have recently been displayed in international conferences with stakeholders discussing SIBs' benefits and weaknesses. Notably, SIBs tend to have both strong opponents and proponents. A common thing about them, however, is the need for more proof to evaluate their capacity in an informed manner. This work reviews the recent literature on the subject in order to provide a further contribution to this debate.

Keywords

Social Impact Bonds, Social Innovation, Social Finance, Social Welfare, Policymaking

1. Introduction

Regardless of the concerns and limited proof of their usefulness, there is rife positivism for SIBs. Theoretically, SIBs encourage private investors to fund creative social initiatives by offering dividends if such policies perform better than traditional solutions. Sinclair et al. (2021) argue that proponents have since regarded SIBs as a "win-win" context for individual investors and citizens. One notable proponent in the U.S. Congress stated that Republicans like SIBs because they allow the private side to connect to public social welfare, while Democrats prefer them because they can raise public investment in social well-being (Morely, 2017). Undoubtedly, Dear et al. (2016) assert SIBs are a financial innovation, and the focus and positivism they have yielded surpass political, geographical, and cultural borders.

They are projected to be around 89 to 160 SIBs in operation or under creation in 19 nations. They are being designed to fund global development practices in aspects of development impact bonds (Ronicle et al., 2016). While the extent of SIBs-financed provisions is currently limited, a lot of hope and political equity has been put into them, and their possible impact on future social and economic policy is enormous. Loxley & Puzyreva (2015) argue that this phenomenon is especially rife in the U.K., establishing the most conducive environment for SIBs globally. Britain introduced the maiden SIB in 2010, and the then Prime Minster spoke proudly of the nation's leadership in developing SIBs (May, 2017). Following the increased attention and enthusiasm that SIBs have generated across the globe, this essay seeks to discuss the pros and cons of SIBs and how likely they can be adopted as tools of social innovation and to this end it reviews the most recent literature on the subject.

2. Social Impact Bonds and Social Innovation

Stakeholders and authorities in some of the globe's wealthiest countries are facing an increasing demand to react to increasing social needs while at the same time facing fiscal needs that could appear to insist on the cutting of social expenses (Olson et al., 2022). In such a situation, Outcomes Based Commissioning (OBC), for instance, payment by results in Britain and Pay for Success in the U.S., have been suggested as among the ways that additional social services can be given for fewer public funds. Such types of public sector contracting are always connected to a new mechanism of funding called SIB. As highlighted by Mulgan et al. (2011), this equity finances an initiative or a solution aiming to enhance the lives of a target audience that requires public services.

Mulgan et al. (2011) argue that to attract investors, SIBs need a commitment by a commissioner, which in most cases, is the federal or local government, to make payments connected to achieving particular social results by the target audience. Theoretically, the SIB stakeholders evaluate the level to which the initiative has attained these results, probably at the end of the initiative or at specific intervals (Mulgan et al., 2011). Depending on the worth of such results, commissioners then pay the investors, giving them their profits. Olson et al. (2022) indicate that early SIBs supporters separated them from other types of outcomes-based payment by insisting that SIBs ensure the matching of financial and social profits and that an investor's up-front capital covers the costs incurred by a service provider. In theory, SIBs can pull risk far from the public and categorize sets of social and intervention portfolios that might not have been linked without the new mechanism. Olson et al. (2022) affirm that, therefore, SIBs might also aid in increasing the social investment market.

3. Pros of SIBs

Gruyter et al. (2020) and Then & Schmidt (2020) indicate that SIB supporters have termed SBI as an innovative financial mechanism that can pull private capital to fund services for initially underserved audiences that would otherwise be too risky to offer. As with effect investing, SIB stakeholders look for private sector investors who pay attention to financial and social profits. Consequently, this helps service givers secure the most reliable financing, and governments offer higher service quality and quantity (Martin, 2015). According to Ormiston et al. (2020), most views that SIBs can expand capital access refer to private equity, as private investors have in the past been unwilling to take low profits and more risks linked with social policy funding.

Another notable pro of SIBs is strengthening the interaction between the private and public sectors. These bonds create and ensure a substantive interaction between these two sectors to deal with critical social issues (Barajas et al., 2018). SIBs create an opportunity between the two sectors for responsible social investing. For instance, in 2012, government officials in New York gave a $9.6 million SIB for the rehabilitation of prisoners (Chen, 2012). This SIB-funded program allowed Goldman Sachs (the investor), Osborne Association and Friends of Island Academy (service givers), and MDRC (intermediary) to have a place where they could discuss and find a creative way of ending re-offending. Outside the realms of this SIB framework, the nonprofit entity and the international for-profit organization would have minimal, if any, interaction with each other.

By linking repayment to the initiative's success, front-end financing moves the performance financial risk from commissioners and service givers to support performance management and measurement. Thus, SIBs can attract an unused channel of social funds by matching the interests of stakeholders to specific social results. However, Williams (2020) indicates that SIB initiatives have primarily been undertaken by foundations and teams of wealthy individuals instead of private investors. Moreover, as Gruyter et al. (2020) highlight, questions remain about whether SIB initiatives would still have been financed using other sources or if investors would have preferred different social projects.

In what seems to be an instrument of political maneuver, SIBs can be used to finance politically unattractive programs. Political players can utilize SIB financing to establish social initiatives for politically risky matters (Maier & Meyer, 2017). The SIBs framework of payment on success ends the taxpayers' burden of failed projects. Individuals are more unlikely to fight SIBs than other initiatives because the state only caters to initiatives that effectively deal with a social challenge. With SIB financing, stakeholders can introduce social initiatives without expanding budgets (Arena et al., 2016). Social challenges that are costly and often politically less attractive are more easily dealt with.

4. Cons of SIBs

Despite the growing wave of enthusiasm and attraction towards SBIs, a different view criticizes this positive focus on the operation and impact of SIBs. Although proponents understand that, many years after the maiden SIB was introduced, there is limited proof that SIBs per se (contrary to any surplus funds they can offer) offer more creative solutions or better results than traditionally financed initiatives (Tan et al., 2015). Moreover, SIBs present very severe practical challenges. They are generally hard to commission and have significant transaction expenses (Fraser et al., 2016). Moreover, many public subsidies have been needed to underwrite SIBs and encourage private investors who are unwilling to finance risky and creative social solutions (Pasi, 2014). Warner (2017) notes that the extent of public cushioning against risk is significant, with some funders giving returns guarantee of up to 50% of their input. Farnsworth (2013) argues that, thus, instead of transferring risk, the public subsidy will have to subsidize private investors, resulting in an expansion of corporate welfare.

In the event it is proved that a SIB resulted in future cost savings, it is possible that such impact would rely on maintaining at least a few of the initiatives they finance and not simply withdrawing contracted audiences. Moreover, there exist popular unanticipated, widespread results that arise from having particular audiences and rigid working frameworks in social policy (Jackson, 2013). Theoretically, SIBs avoid that issue by embracing the "black box" method to solutions where the focus is on getting ideal results instead of undertaking specific practices. However, practically, SIB-financed initiatives have not been so liberating. Financiers and intermediaries that launch SIBs in Britain are primarily engaged in designing programs they pick to fund (Carter, 2016). Notably, some third-party service givers have witnessed rigidity in delivering services and higher supervision, transparency, and a significant administrative load created by the same hands-on investors.

5. Discussion

SIBs have been a recent discussion topic in social welfare, and policymakers and other political stakeholders are in a dilemma about whether to adopt SIB-funded services or not. Among the proponents of SBIs is the former United Kingdom Civil Society Minister, who highlighted that SIBs show a radical change in the manner the state can offer public services. The minister noted that SIBs result in significant possible savings for the citizens, the prospect for higher profits for charities and social programs, and profits for social shareholders (Kay, 2016). Gardiner et al. (2016) note that other proponents of SIBs indicate that they have a considerable capacity to result in additional outcome-based funding that pays attention to preventive solutions and encourages collaboration. Mulvaney & Kriegler (2014) suggest that proponents also argue that incentives for financial returns pay attention to enhancing performance and accountability. Another con popularly stated by SBI proponents is that the upfront and safe financing and their attention on results instead of prescribed investments promote experimentation and innovation in service delivery (North, 2016). Nevertheless, advocates note that the focus on deliverables and profits, reinforced by monitoring performance, focuses the mind and ensures dedication to constant improvement. In this context, SIBs are used to disconnect third-party service givers from regulations and standardization and free them to adapt and react to a client's needs.

Despite the enthusiasm for SIBs from groups of proponents, Roy et al. (2017) indicate that too much focus on SIBs can result in ignoring systemic issues. The increasing attention to SBI might distract from effective and reliable social policy changes. For instance, reducing re-offending rates for a particular prison underestimates the institutional regulations that perpetuate the mass imprisonment of specific populations. Broccardo et al. (2020) indicate that political players might use SIBs to champion only a problem without getting further into long-lasting and systemic interventions. Moreover, Trotta et al. (2015) believe the profit motive of SIBs might compromise the social effect. Returns as an incentive can compromise the capacity for social effect in place of higher revenues. Private firms can gain from the social resources that the state offers through SIBs. Firms with more legal resources can control contract discussions and sway government programs toward directions that might not optimally serve the public.

Regardless of claims from supporters, limited SIBs handle the authentic sources of problems but instead deal with their symptoms and how they manifest, for instance, where they happen and whom they affect. SIBs neither move solutions upstream to deal with the sources of social issues. Instead, they only give an ineffective lifebelt that helps a few people remain above the waters while still being carried away by giant waves (Olson et al., 2022). For these cons, and regardless of the optimistic view or hype from advocates, no far-reaching SIBs have been established (Carter, 2016). In fact, there have been small SIBs in the aspects of beneficiaries and investment. These small-scale SIBs have neither focused on innovative solutions mainly. Olson et al. (2022) and Whitfield (2015) argue that most have reduced risk faced by investors by depending on proven and effective methods with a vast evidence pool.

There is no or minimal evidence of any growing need for SIBs in third-party organizations, most of which have neither the required financial expertise nor frameworks to control such investments (Murray & Gripper, 2016). Moreover, it is ironic that there is no adequate evidence to back up a program that mainly pays attention to results and effects (Joy & Shields, 2013). Therefore, as Gustafsson et al. (2017) indicate, advocates of SIBs are still championing an unproven "ability" of SIBs. While highlighting the reluctance to embrace SIBs in the U.K., notes that a few third-sector members in Britain warned against the government's growth plans, with one organization indicating that it is risky that a lot is being anticipated from SIBs, too soon.

6. Conclusion

In summary, SIBs have received a wave of support from many countries and stakeholders across the globe. In the U.K., for instance, the environment is conducive to establishing these bonds, and the government is recently looking at its potential benefits. However, the lack of a good number of SIB-funded programs or large-scale SIB programs questions the effectiveness of these bonds. While advocates focus on the pros of bringing change in terms of social innovation, those against it highlight issues such as compromise of social impact and ignorance of systematic issues. Therefore, for a particular government or policymakers to establish SIBs, they should evaluate both the pros and cons (which seem to surpass the pros) to adopt a practical model that will serve the targeted audience.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

References

Arena, M., Bengo, I., Calderini, M., & Chiodo, V. (2016). Social Impact Bonds: Blockbuster or Flash in a Pan? *International Journal of Public Administration, 39,* 927-939. https://doi.org/10.1080/01900692.2015.1057852

Barajas, A., Burt, K., Johnson, P., Licona, J., Parker, W., Sturtevant, L., & Yeh, C. (2018). *Social Impact Bonds: A New Tool for Social Financing.* https://spia.princeton.edu/sites/default/files/content/Social%20Impact%20Bonds%202014%20Final%20Report.pdf

Broccardo, E., Mazzuca, M., & Frigotto, M. L. (2020). Social Impact Bonds: The Evolution of Research and a Review of the Academic Literature. *Corporate Social Responsibility and Environmental Management, 27,* 1316-1332. https://doi.org/10.1002/csr.1886

Carter, E. (2016). Living up to the Hype? The Application of Social Impact Bonds in the U.K. In *Social Policy Association Annual Conference*.

Chen, D. W. (2012, August 2). Goldman to Invest in City Jail Program, Profiting If Recidivism Falls Sharply. *The New York Times*.

Dear, A., Helbitz, A., Khare, R., Lotan, R., Newman, J., Sims, G. C., & Zaroulis, A. (2016). *Social Impact Bonds: The Early Years*. Social Finance.

Farnsworth, K. (2013). Bringing Corporate Welfare in. *Journal of Social Policy, 42,* 1-22. https://doi.org/10.1017/S0047279412000761

Fraser, A., Tan, S., Kruithof, K., Sim, M., Lagarde, M., & Mays, N. (2016). *When Technical and Relational Challenges Frustrate New Forms of Social Investment: A Comparative Analysis of Four Recent Health and Social Care Social Impact Bond, Trailblazers' in England*.

Gardiner, S., Gustafsson-Wright, E., & ManuelyanAtinc, T. (2016). *The Future of Impact Bonds Globally: Reflections Recent Brookings Event*. Brookings.

Gruyter, E. de, Petrie, D., Black, N., & Gharghori, P. (2020). Attracting Investors for Public Health Programs with Social Impact Bonds. *Public Money & Management, 40,* 225-236. https://doi.org/10.1080/09540962.2020.1714312

Gustafsson-Wright, E., Boggild-Jones, I., Segell, D., & Durland, J. (2017, September 18). *Impact Bonds in Developing Countries: Early Learning from the Field*. Global Economy and Development at Brookings.

Jackson, E. T. (2013). Evaluating Social Impact Bonds: Questions, Challenges, Innovations, and Possibilities in Measuring Outcomes in Impact Investing. *Community Development, 44,* 608-616. https://doi.org/10.1080/15575330.2013.854258

Joy, M., & Shields, J. (2013). Social Impact Bonds: The Next Phase of Third Sector Marketization? *Canadian Journal of Nonprofit and Social Economy Research, 4,* 39-55. https://doi.org/10.22230/cjnser.2013v4n2a148

Kay, L. (2016, March 24). *Cabinet Office Sets up the Center of Excellence to Boost Social Impact Bonds*. Third Sector.

Loxley, J., & Puzyreva, M. (2015). *Social Impact Bonds: An Update*. Canadian Centre for Policy Alternatives, Manitoba.

Maier, F., & Meyer, M. (2017). Social Impact Bonds and the Perils of Aligned Interests. *Administrative Sciences, 7,* Article No. 24. https://doi.org/10.3390/admsci7030024

Martin, M. (2015). Building Impact Businesses through Hybrid Financing. *Entrepreneurship Research Journal, 40,* 109-126. https://doi.org/10.1515/erj-2015-0005

May, T. (2017, January 9). *The Shared Society: Prime Minister's Speech at the Charity Commission Annual Meeting*. Gov.Uk.

Morely, J. (2017, February 13). *Dream of Social Impact Bonds Should Not Blind Us to Their Dangers*. Policy Innovation Research Unit.

Mulgan, G., Reeder, N., Aylott, M., & Bo'sher, L. (2011). *Social Impact Investment: The Challenge and Opportunity of Social Impact Bonds*. The Young Foundation.

Mulvaney, M., & Kriegler, L. (2014). *Thinking about Social Impact Bonds in the South African Context (Lessons from the United Kingdom)*. Cornerstone Economic Research.

Murray, P., & Gripper, R. (2016, March 10). *A Balancing Act: Charities and the 2016 Budget*. NPC.

North, J. (2016, April 25). *Social Impact Bonds: More than Just a Money-Saving Measure*. Pioneers Post.

Olson, H., Painter, G., Albertson, K., Fox, C., & O'leary, C. (2022). Are Social Impact Bonds an Innovation in Finance, or Do They Help Finance Social Innovation? *Journal of Social Policy,* 1-25. https://doi.org/10.1017/S0047279422000356

Ormiston, J., Moran, M., Castellas, E. I., & Tomkinson, E. (2020). Everybody Wins? A Discourse Analysis of Competing Stakeholder Expectations in Social Impact Bonds. *Public Money & Management, 40,* 237-246. https://doi.org/10.1080/09540962.2020.1714316

Pasi, G. (2014). Challenges for European Welfare Systems. A Research Agenda on Social Impact Bonds. *Review of Applied Socio-Economic Research, 8,* 141-150.

Ronicle, J, Fox, T., & Stanworth, N. (2016). *Commissioning Better Outcomes Fund Evaluation Update Report*. Big Society Capital.

Roy, M. J., McHugh, N., & Sinclair, S. (2017). Social Impact Bonds-Evidence-Based Policy or Ideology? In M. J. Roy, (Ed.), *Handbook of Social Policy Evaluation* (pp. 263-276). Edward Elgar Publishing. https://doi.org/10.4337/9781785363245.00021

Sinclair, S., McHugh, N., & Roy, M. J. (2021). Social Innovation, Financialization, and Commodification: A Critique of Social Impact Bonds. *Journal of Economic Policy Reform, 24,* 11-27. https://doi.org/10.1080/17487870.2019.1571415

Tan, S., Fraser, A., Giacomantonio, C., Kruithof, K., Sim, M., Lagarde, M., Disley, E., Rubin, J., & Mays, N. (2015). *An Evaluation of Social Impact Bonds in Health and Social Care Interim Report*. London School of Tropical Medicine and Hygiene.

Then, V., & Schmidt, T. (2020). Debate: Comparing the Progress of Social Impact Investment in Welfare States—A Problem of Supply or Demand? *Public Money & Management, 40,* 192-194. https://doi.org/10.1080/09540962.2020.1714302

Trotta, A., Caré, R., Raffaella, S., & Migliazza, M. C. (2015). Mobilizing Private Finance for the Public Good: Challenges and Opportunities of Social Impact Bonds. *European Scientific Journal, 1,* 259-279.

Warner, M. E. (2017). *Dream of Social Impact Bonds Should Not Blind Us to Their Dangers.* Policy Innovation.

Whitfield, D. (2015). *Alternative to Private Finance of the Welfare State: A Global Analysis of Social Impact Bondpay-for-Success and Development Impact Bond Project.* Australian Workplace Innovation and Social Research Centre, The University of Adelaide.

Williams, J. W. (2020). Surveying the SIB Economy: Social Impact Bonds, "Local" Challenges, and Shifting Markets in Urban Social Problems. *Journal of Urban Affairs, 42,* 907-919. https://doi.org/10.1080/07352166.2018.1511796