

ROADMAPPING A NEW SOCIAL IMPACT BOND IN ROTTERDAM

Comparing SIBs at HMP Peterborough, Riker Island and Rotterdam

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Disclaimer

The content of this research does not reflect the official opinion of Accenture. Responsibility for the information and views expressed in this research lies entirely with the author.

Abstract

This thesis considers a relatively new form of financing for social services: Social Impact Bonds (SIBs). By comparing three cases, HMP Peterborough, Riker Island and Buzinezzclub Rotterdam, recommendations are made for a new proposed SIB in Rotterdam. These do not completely match with academic literature, due to context-dependency of SIBs. This thesis concludes with several recommendations for this specific SIB. I argue that if enough attention is paid to potential risks, this SIB will have large social impact and financial returns.

Foreword

In September 2016, I started an internship at Accenture Amsterdam. My internship supervisor sees much potential in the big data that the Municipality of Rotterdam owns. He proposes to build an IT system from this big data, to lower unemployment time and to improve re-integration. This creates public savings, which makes it very suitable for a social impact bond. Due to its context-dependency he asked me to research how this SIB best be set up.

Acknowledgements

This thesis would not have been possible without the advice and support of several people. First, I would like to thank my supervisor from Leiden University prof. dr. Pierre Koning for his useful advice. Second, but not less important, I would like to thank my supervisor from Accenture, senior manager Robert-Paul Doove, who gave me the opportunity to do an internship at Accenture.

Amsterdam, 7 June 2017

“There will be big wins and big losses on the way”

(Milner, et al., 2015)

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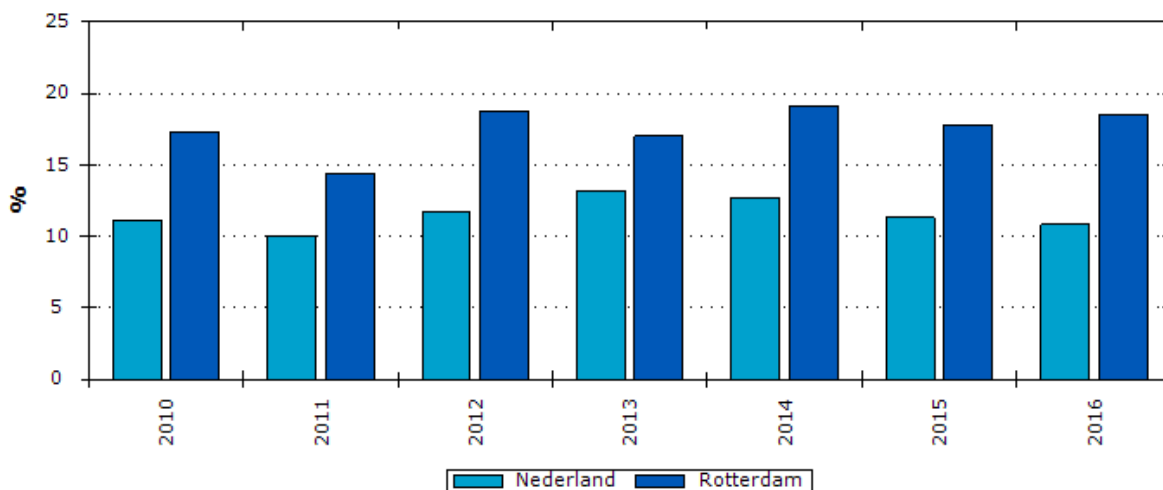
1. Introduction

1.1 Current problems in Rotterdam

The municipality of Rotterdam has suffered a high youth unemployment rate, although they were investing millions in unemployment-projects and programs. In 2014 and 2015, 32 new projects and programs were created to lower youth unemployment in Rotterdam, however, youth unemployment kept rising (Maas, 2015). In December 2016, youth unemployed in Rotterdam reached 18,5%; around 8,500 youth were unemployed (UWV & SBB, June 2016). In comparison, nationwide was the youth unemployment rate 10,8% and lowering each year, see figure 1 below (CBS, 2017).

Maarten Struijvenberg, city counselor of employment and economy in Rotterdam, said that “they were doing a lot, hoping that it works” (“We doen van alles, in de hoop dat het werkt”: Maas, 2015). Regarding the rising unemployment rate, is this an unusual and debatable public policy. One of the core problems is that projects and programs are not evaluated. Journalist Jessica Maas wrote in november 2015 an article called: “Aanpak jeugdwerkloosheid verzandt”. She states that more and more youth in Rotterdam are unemployed, but the numerous projects of the municipality are not evaluated. “This is the biggest problem of Rotterdam” (Maas, 2015). Struijvenberg states that they know that a few programs are working well, but that he does not know which program is good for which person (NOS, 2016).

The second problem is related to the evaluation problem. Civil servants are currently matching unemployed individuals with welfare-to-work programs based on limited knowledge and/or their feelings. Which program is good for which unemployed is difficult to determine; there is no rational or statistical decision model to match unemployed with the right program.



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Figure 1: unemployment percentage between the age of 15 and 25 in The Netherlands and Rotterdam.

1.2 Solving problems: a new Social Impact Bond in Rotterdam?

Accenture states that they can provide a solution to these two problems; their proposal is to build, with the use of big data analytics, a new IT system for the municipality of Rotterdam. With Rotterdam's data, Accenture can fasten the work resumption for unemployed people in Rotterdam (see details in text box below). Shortening unemployment time will then cause large public savings. It is therefore very suitable to function in a Social Impact Bond (SIB).

Briefly explained is a SIB is a new innovative way to finance social projects in the public sector. A SIB involves a contract with a public organization (often a local government or municipality) in which a commitment is made to pay for improved social outcomes by a service provider, that result in public sector savings, such as lowering of recidivism of ex-prisoners. Multiple stakeholders are involved to divide the risk of an investment. For instance, a service provider is paid by an external investor to support ex-offenders after release from prison. If they succeed to lower recidivism, it will cause public savings for the government. The government is then required to pay the investor, often with interest. If the SIB contract includes a pay-for-performance basis and the service provider fails to lower recidivism, the government is not required to pay anything.

This new method is since 2010 used to finance social projects. There have been almost sixty SIBs set up worldwide (Social Finance, 2016). Most are still running; only four SIBs have been completed so far. This research will show that it is a promising innovative method for governments to finance social projects, although some risks must be taken into account.

ACCENTURE'S SOLUTION EXPLAINED: MATCHING SYSTEM

Accenture's solution to the high unemployment in Rotterdam is a new IT system, built from big data. The municipality of Rotterdam possess a large amount of data about their unemployed youth. The new IT system will rationalize the decision-making process for civil servants. The allocation of unemployed youth to welfare-to-work programs/projects is now based on limited knowledge, if not guesswork. Accenture will try to segment the unemployed population in order to match them with the right program. In the segmentation, many characteristics are taken into account, such as (the lack of) motivation, education, age, privileged/unprivileged, origin, etc. The dashboard for civil servants, which is connected with a central system within the municipality, will show the success-rate of the unemployed at every welfare-to-work program. In this way, the decision-making process - or in other words: the matching of unemployed people with the right welfare-to-work programs - is rationalized.

Why would they rationalize this process? The prognosis is that this system will reduce the unemployment time and fasten the re-integration of unemployed youth. This will reduce welfare-to-work program costs and unemployment benefits. Besides working youth pay taxes that flows to the state, instead of the other way around. Savings can reach up to millions.

This dashboard is indirectly also a solution for the missing evaluation of programs. Civil servants, who consult the dashboard when assigning an unemployed person with a welfare-to-work program, will see what the success rate is of all programs for this concerning person. Successful programs will have a higher success rate than unsuccessful programs. Programs that continuously display low success rates, will receive less allocation of unemployed people by civil servants. The successful programs will keep existing and the programs without participants cannot continue their services.

1.4 Research question

This new IT system could be a possible solution to the youth unemployment problems in Rotterdam. The financial risk for the municipality is large, perhaps too large. Setting up a SIB could overcome this problem; dividing the risk with an extra investor.

This SIB is still in an exploration phase; no contracts have been signed nor any official proposals have been made. In this phase a roadmap with learned lessons is useful, if not necessary. Why a roadmap is important is due to several reasons (see 1.7), such as the complexity of SIBs and context dependency of SIBs (Pauly & Swanson, 2013). The goal of this thesis is to make a roadmap for the

participating stakeholders in the SIB. By comparing three cases – SIBs at HMP Peterborough, Riker Island New York and Buzinezzclub Rotterdam – recommendations are made for the new SIB in Rotterdam. The main research question therefore is: in what way can the proposed SIB in Rotterdam best be set up?

After the introductory chapter, the second chapter proposes a theoretical framework by explaining the question what SIBs are according to a wide range of literature. The third chapter is empirical and compares three different cases, with each having their own recommendations. Chapter four describes the proposed SIB in Rotterdam. Chapter five analyzes the cases, whereafter recommendations are made for the new SIB in Rotterdam in the last chapter.

1.5 Research Methods

The main question will be answered by examining three different SIBs. The three cases are the SIBs in PMS Peterborough, Riker Island New York City and Buzinezzclub Rotterdam. PMS Peterborough is chosen due to its importance in the field. It was the first SIB and is therefore seen as the prototype SIB. Riker Island is chosen because of its failure; it was dismantled after a few years. It was the first and until now only failing SIB. Rotterdam has been chosen due to its location and context. It has the same location and context as the proposed SIB. In this way, lessons can be learned from the prototype, the failed and the similar SIB.

In chapter four, in the analysis, a scheme will give an overview of all aspects from the three empirical cases (aspects are explained in paragraph 1.6). This makes the qualitative data easier to compare and analyze. The final recommendations for the proposed SIB will then be made in the conclusion.

1.6 Conceptualization and operationalization

The three cases will be researched on six focus points with each their own subparagraph. The first two explain how the SIB worked ('Introduction' and 'Stakeholders'). Number three and four try to learn lessons from the SIB ('goals', 'gains', 'losses' and 'risks'). The last subparagraph concludes the case with recommendations that are based on the learned lessons ('Lessons learned'). With some minor exemptions is this structure also used in the theoretical framework of chapter 2. Below are the paragraphs explained and conceptualized.

- 1) Introduction: this involves a short description with the methods, goals, and intervention. Social Finance states that SIBs can 'differentiate between the different stages and we have found value in identifying the goals, structure, and mode of implementation (Social Finance, 2016, p. 62). With mode of implementation they mean the kind of intervention, for instance, is it innovative or evidence based of nature? In our cases, we will also identify goals, structure and mode of implementation. This is explained in the first two subparagraphs: 'Introduction' and 'Stakeholders'. It helps to evaluate and compare the cases with the proposed case in Rotterdam.
Second, the context of the SIB is shortly explained. Almost all aspects of SIBs, such as the structure and made achievements, are context-dependent. If SIBs are compared, the context must also be taken into account. The concept of 'context' can be explained as a set of circumstances or facts surrounding a particular project or situation.
- 2) Stakeholders: describes the structure of the SIB and all its participants with their roles. Participants, or stakeholders, are the players who have at least one contract within the overarching SIB.
- 3) (Potential) goals and gains: This paragraph describes what the impact was of the SIB. What were its core goals? These can be for instance social impact or financial returns. These gains are the reasons why stakeholders participated in the SIB; what was in it for them? There are however more gains than only the core goals. Due to differences among SIBs, has each SIB

its own benefits. All benefits of a particular structure, methods, intervention, context or goals are mentioned in this paragraph.

- 4) (Potential) risk and losses: What were the risks? Risk is defined as the exposure to the chance of danger. Economic or social loss are examples of danger for SIBs. Therefore: which dangers needed special attention? SIBs are known for the dividing of risk, there are however still stakes at risk for stakeholders. If the SIB fails to meet performance, what can the stakeholders lose? This can be for instance the loss of investment, effort or reputation. These potential losses are described per stakeholder to have a clear overview. Goals, gains and risks cannot be analyzed per stakeholder, due to too much overlap.
- 5) Lessons learned: recommendations. Lessons can be learned from a wide range of aspects. From structure and payments methods to practical considerations as information gathering and infrastructure. Recommendations are derived from subparagraphs three to six.

The data used for the empirical research is derived from reports and publications made by a wide range of organizations. Scientific research organizations, such as OECD and RAND Europe, think tanks, such as the American Centre for Progress, non-profit organizations, such as Social Finance and Instiglio, public organizations, such as British Cabinet Office and British Ministry of Justice, and commercial organizations, such as Ernst&Young, ABN AMRO Bank and Boston Consulting Group. Some have described whole cases, others only aspects.

The strategy for handling the data is as follows. For the theoretical section is scientific literature used. For the empirical section are official reports used, written by participants of the SIB. These can be governmental organizations, companies or think tanks that had the role of independent evaluator. For the first two mentioned organizations it is important to note that their reports are written from a certain perspective; they all had their own goals. Subjectivity can sneak in and can harm the internal validity of the research.

External validity is also a major concern. SIBs are context-dependent and the SIB field is continually changing. Generalizing SIBs does the innovative aspect of each SIB injustice. The three cases that are researched for this thesis are investigated and compared with their context.

1.7 Research motivation

SIB approach is context dependent

The first reason why research is needed, is because SIB's exist in different forms. Many stakeholders and different contexts causes that SIB's are set up differently. Each case is different. There can be differences in for instance structure, the role of stakeholders, payment methods or intervention. Research how the proposed SIB must be set up is therefore necessary; there is no structure or model that exactly can be copied.

Large consultants state "There is no holy SIB grail. Every societal issue asks for its own form" (Lunes, Frissen, Vermeer, & Revenboer, 2013) and there is "no one-size-fits-all solution" (McKinsey & Company, 2012). Academics agree: the success of a SIB is "strongly context-dependent" (Pauly & Swanson, 2013). A good example is given by academics Marika Arena, Irene Bengo, Mario Calderini and Veronica Chiodo, who compared twenty different SIBs: "Only 4 SIBs, out of 20, adopted a configuration that is fully coherent with the SIB prototype [Peterborough]" (Arena, et al., 2016). That means that in most cases, new SIBs must be custom designed.

This is especially the case for the new SIB in Rotterdam. The proposed SIB in Rotterdam is extraordinary. There are three reasons why this SIB is more innovative than other SIBs. First, the SIB has an unparalleled large target group. The first 22 SIB's had an average of 1,238 persons in their target group; the proposed SIB in Rotterdam aims to help seven times this amount: 8,585 unemployed youth. Second, the service provider is creating permanent public savings, instead of temporary savings. Third, cherry picking in the target group is avoided; the whole population is treated, even the most difficult cases. These reasons make the SIB extraordinary. The structure of this new SIB cannot be copied pasted with another SIB. Structure, methods and goals must be carefully researched.

Changing field and lack of academic research

Second, but not less important, is the changing SIB field. Social Finance, a non-profit organization that intermediates in SIB's around the world, argued in a 2016 published report that "we continue to evolve the model, as do others who are now active in the field" (Social Finance, 2016, p. 16). It is "a field that [is] changing every week" (p. 15) and is "changing quite rapidly" (p. 71). SIB participants and researchers are trying to improve structures and methods of SIBs. Besides, the amount of SIB's around the world is growing exponentially. It quadrupled the last three years; the number now stands on sixty-one worldwide. Although SIBs are becoming more and more popular, until now, there have been only predicted profits, on the exception of four projects. The SIB field is still in its infancy. Research must keep up the changing and growing field.

The amount of research about SIBs done by academics has been marginal (Fraser, Tan, Lagarde, & Mays, Oct 2016). Most research has been done by large firms and, such as ABN AMRO Bank, McKinsey & Company and Ernst & Young. Think tanks and non-profit organizations had also their contribution, such as the Center for American Progress. There are also some (local) governments trying to develop the market. For instance, the British government created in 2012 a new department for SIBs: 'Centre for Social Impact Bonds', who also publish reports about SIBs (for instance: Cabinet Office, 2017). However, from the academic side we can state that there is a lack of theory behind SIBs (Sheehy, et al., 2015).

Theoretical framework

2. What are Social Impact Bonds?

2.1 Introduction

A SIB is an innovative financing model that addresses social problems with preventive solutions, such as the prevention of re-offending by ex-prisoners. It is a contract with the public sector in which it commits to pay for improved social outcomes. SIB's brings multiple parties together: an investor, a service provider, a public sector party and sometimes an evaluator and/or intermediary. The investor makes money available for the service provider, whose work is to create public savings by making improved social outcomes (for instance, re-integrating ex-prisoners into society to reduce recidivism). Only when outcomes improve and public savings are made (such as, recidivism numbers are reducing), investors will receive payments from the public sector. This is a repayment of the initial investment with an extra financial return. If the service provider is unsuccessful in preventing (partly) a social problem, the government does not have to pay for the services. The financial return is thus dependent on the degree to which outcomes improve. The public sector therefore does not take large financial risk, only the investor.

McKinsey & Company defines Social Impact Bonds, sometimes called 'Pay For Success contracts', as "an innovative form of cross-sector collaboration that can help government transition from funding remedial efforts to addressing social problems through higher-impact, less costly preventive solutions" (McKinsey & Company, 2012). The nature of the intervention is thus *preventive*. However, chapter four of this thesis will show that this is not necessary. Another possibility is optimizing public sector processes, causing better situations for the target group and causing public savings. The only necessary condition is that public savings are made.

Important to note is that despite its name, a Social Impact Bond is not a bond in the traditional sense, where the government collects loans with interest and where the financial risk for the investors is very low (Warner, Oct 2013). With SIBs, the government puts out outcome based contracts and where the investors bear the largest financial risk. Besides, there is no monthly or yearly interest, but only extra financial returns at the end of the SIB (Lunes, et al., 2013).

SIBs are centered around on different social issue areas. Not only ex-offenders are targeted, but also un-educated children, unemployed people, homeless people and even clients of healthcare insurance companies. This latter is focused on the prevention of diseases. They are all doing the same: intervening to prevent future social problems. The figure below shows the different sectors in which SIBs are active. Important to note is that SIBs can also vary in many other ways, such as structure, kind of intervention, goals and payment methods. Paragraph 2.3 will give a clear overview and describes the role of each stakeholder.

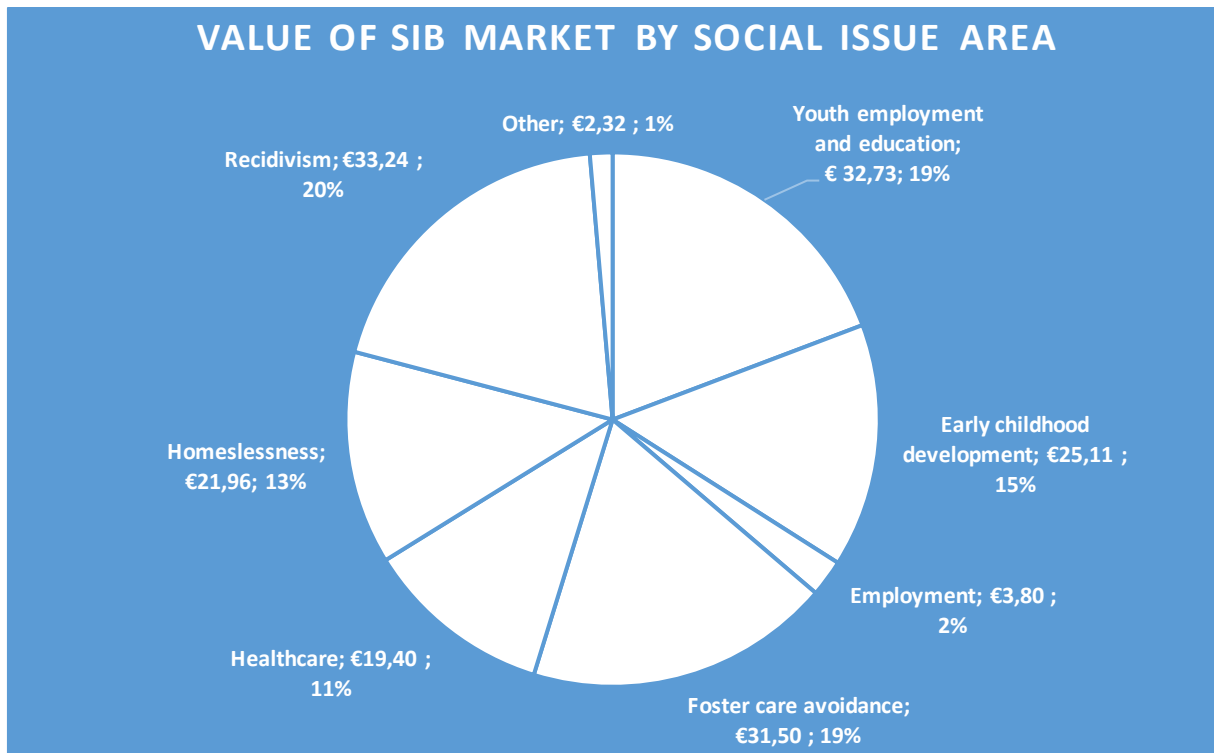


Figure 2: The value of the SIB market by social issue area, expressed in million euros. Source: the Canadian SIB tracker website Finance for Good (Finance For Good, 2017).

2.2 The history of the SIB field

The idea of SIBs was created by the Council on Social Actions (CoSA), an independent advice committee created in 2007 by the British government. The British government was in need of innovative ways to control public costs and social issues. One of the initiatives CoSA came up with was a new financing model for social issues: Social Impact Bonds.

The prototype was tested at HMP Peterborough, a local prison with place up to 840 prisoners. The prototype started in 2010 and was treating 3000 prisoners before and after release of prison. The idea was by giving them support at re-integration into society, recidivism will be lowered. The re-integration support was a success; recidivism rates lowered. New SIBs in the United Kingdom were created in a short period of time (Lunes, et al., 2013).

In 2013 the Social Impact Investing Task Force was launched as part of the G8 summit (Burand, 2012). This initiative came from prime minister David Cameron (Ahmed, 2017). It paid off: several nations created or enlarged their budgets for social impact investing. President Obama had created a budget of 100 million dollars and even the Pope was supporting the initiative (The Economist, 2017 and OECD, May 2016).

People around the world noticed the success and copied Peterborough's initiative. It led to an exponentially rising number of new SIBs. Since Peterborough started in 2010, 73 SIBs have been implemented divided over 19 Countries (Instiglio, 2017; best SIB tracker website according to OECD, May 2016). A total raised capital of over 200 million euros has touched approximately 100,000 lives (Social Finance, 2016).

SIBs in developing countries are called Development Impact Bonds (DIBs). The first DIB was in implemented in 2014 in Rajasthan, India (Gungadurdoss, 2016). It focused on lowering drop out of girls' education. New DIBs are considered in Brazil, Chile, Colombia, Mexico, Pakistan, Rwanda, Swaziland and Uganda, with focus on, for instance, reducing of HIV and malaria (OECD, May 2016).

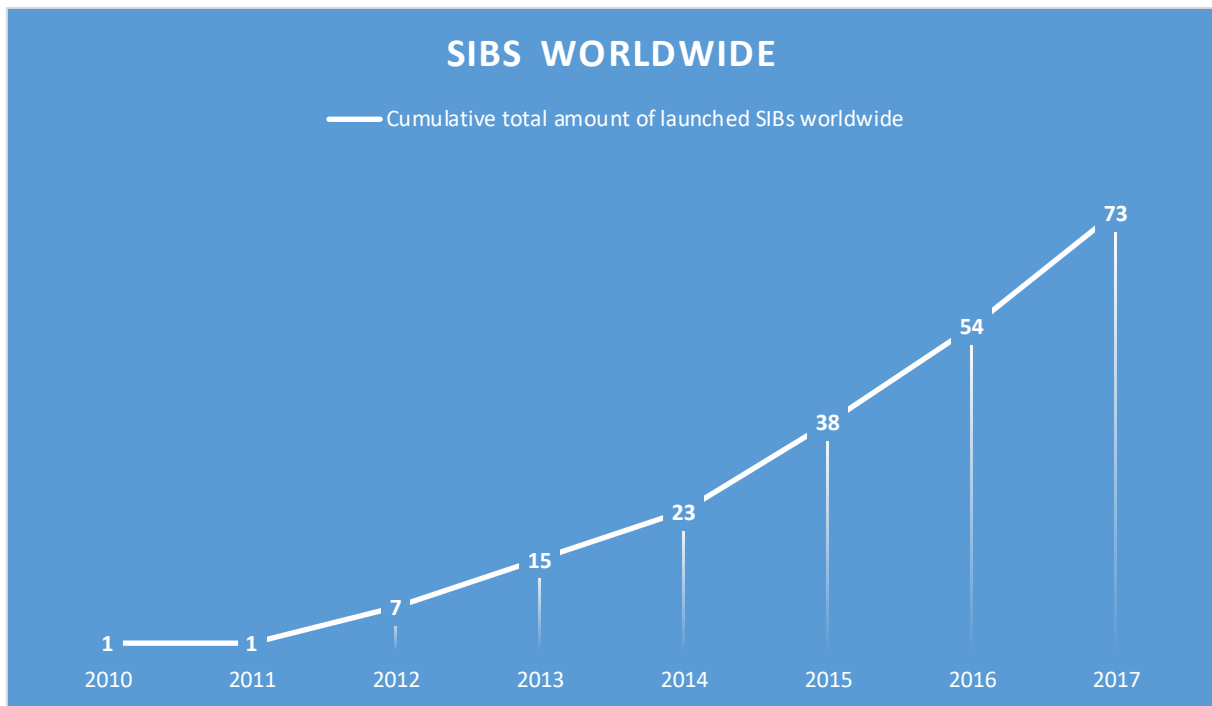


Figure 3: cumulative total amount of launched SIBs worldwide (Instiglio, 2017).

Meanwhile, in the academic world many researchers noticed the new phenomenon. Business reports and academic research have the first few years centered around the pilot PMS Peterborough. Several participants of PMS Peterborough, the non-profit organization Social Finance, the British Ministry of Justice and think tank RAND Europe, have written extensively reports about the project (for instance: Social Finance, Nov 2011, Jul 2016; Ministry of Justice, 2015; RAND Europe, 2011, 2014 and 2015). Academics Deborah Burand (2012), Benjamin Cox (2011), Fox and Albertson (2011), researched SIBs in the early phase.

When new SIBs gradually emerged, Peterborough became a benchmark for other initiatives. The prototype became the norm; other new SIBs were based on the pilot and researchers try to learn as much from it as possible. This is best seen in the article by dr. Alex Nicholls and Emma Tomkinson. Focusing on the Peterborough case, they compared it with a dozen other SIBs that just had started (Nicholls & Tomkinson, Oct 2013).

Researchers have tried to introduce SIBs in other parts of the world: several roadmaps and guides for SIBs have been made in the field. Drew von Glahn and Caroline Whistler investigated already 2011 the possibilities for SIBs in the USA (Glahn & Whistler, 2011). McKinsey & Company did similar research one year later (McKinsey & Company, 2012). The latest has been a roadmap for Italy, made by Irene Bengo and Mario Calderini early 2016 (Bengo & Calderini, March 2016). It is however short-spoken and only focused on Italy. The most extensive roadmap is the 2013 'Technical Guide to Developing Social Impact Bonds' by Social Finance (Social Finance, 2013). It roughly explains the development process of a SIB. It is however not very detailed and proposes only one development process, one structure and one intervention, while three years later we know that there are many different methods. Together with Instiglio, a non-profit organization that gives technical assistance in SIBs, five legal firms have made a legal roadmap, so stakeholders are guided if they want to bring SIBs to Brazil, Chile, Colombia, India, Mauritius, Mexico or South Africa (Instiglio, Baker&McKenzie, et al., Nov 2014).

To investigate the potential of SIBs, many academics have been focusing on the opportunities and challenges of SIBs (Sheehy, Taylor, Clark, & Banders, 2015; Leventhal, 2013; Mulgan, Reeder, Aylott, & Bosher, 2012 and Warner, Oct 2013). Although risk is often seen as one of the opportunities of SIBs, Deborah Burand, notes that there are still risks for SIBs (Burand, 2012). She distinguishes six different kind of risks, but gives for every risk a solution. Other studies that focuses on challenges are

for instance Shifali Baliga, with her ‘Lessons Learned from the Privatization of U.S. Prisons’ (Baliga, 2013). She argues that with the privatization of U.S. prisons certain challenges are raised, that also can appear in SIBs.

Although the SIB field is relatively young and promising, there have also been clear critics in the field. Especially after the first and until now only failure SIB at Riker Island, New York City. Ana Demel, professor of Law at New York University was one of them (Demel, 2013). In her article ‘Second thoughts on Social Impact Bonds’ she argues that SIBs are just one of the many variants of innovative financing techniques. She finds the excitement surrounding the emerging of SIBs well deserved, but she thinks SIBs are too complex and prefers simpler approaches. Other critic came from Neil McHugh and his colleagues. They emphasized on the unintended consequences for the third sector (McHugh, Sinclair, Roy, & Huckfield, Oct 2013). Mark Rosenman, emeritus professor at Union Institute & University, questions whether the private sector just doesn’t benefit from the poor (The New York Times, 2012). These critics do not have many supporters in the academic world.

This have been roughly the history of SIB field and the academic research behind it. There is however more research that has not been mentioned. Many aspect surrounding SIBs have also been the focus of academic studies, such as the development of the market (Arena, et al., Jan 2016), regulation of SIBs (Humphries, 2013) and the influence on taxation of non-profit organizations (Dagher, 2013). There are however also many aspects of SIBs that deserve more attention. One of the biggest neglected aspects is the effect of SIBs as a new public policy in the academic field of public administration. While SIBs are emerging, their impact becomes larger. Sir Ronald Cohen, a British advocate of SIBs argued that “social enterprise and impact investment could dramatically change the role of the social sector in the way that venture capital and business entrepreneurship did in mainstream business in the 1980s and 1990’s (Cohen R. , 2011). Academic research must keep up with the market.

2.3 Stakeholders

Target/treatment group

The goal of a SIB is to improve the situation of the target group, to prevent further deterioration and preventing more costs for the government. The target group are often poor and unfortunate people, such as unemployed people, uneducated children or ex-prisoners. The target group is carefully selected, but without ‘cherry picking’, which means that the contractor must not only pick the easiest targets.

The service providers

This is the party that delivers services that improves the situation for the target group. This can for instance be done with welfare-to-work programs. They are contracted and paid by the investors or an intermediary, not by the government. It is important that the service provider has experience, or at least can prove to the other stakeholders that they are capable for getting the job done.

Outcomes payer

The outcomes payer, sometimes called commissioner, is always a government or a governmental body. This can be a municipality, ministry or a government. The government pays the investor based on (future) public savings that are created by the service provider. If the service provider fails to deliver an effective program without public savings as consequence, the government is not required to make any payments: no cure, no pay. Their job is to deliver information about the target group, so the evaluator can calculate whether there any progress made in their situation.

Investor(s)

The service providers are paid by investors. When they are successful in creating public savings, the investors will be paid by the government. There are two types of investors who are willing to bear the financial risk of SIBs:

- Non-profit organizations, such as charities, philanthropists, foundations and family offices. They are committed to invest in society; social impact matters to them. Financial returns are a bonus, but not necessary.
- Commercial investors. Financial returns are of primary importance. Helping society is of secondary importance. Social responsible investing has become increasingly popular among commercial investors and has mushroomed the last few years (Vogel, 2017).

Optional: intermediary

SIB's are sometimes seen as complex to understand. An intermediary is an external organization that has an organizing and coordinating role within the SIB and has complete oversight. This party makes sure that arrangements are made and kept between stakeholders. They assist in structuring and settling of all financing agreements and contracts. In this way, financial risk can be mitigated. Besides, due to its unique position, they can influence the success of a project (Haffar, 2014). Social Finance is often intermediary for SIBs.

Optional: independent evaluator / performance manager

The government pays the investor on the basis of made public savings. For the reliability it is important that an independent evaluator checks this measurable savings. This avoids conflicts and strengthens trustworthiness. They measure whether the service providers really have prevented problems and have saved public money. The evaluator will share this with the government, who will then repay the investor.

Optional: evaluation advisor

When the SIB is a success and scalability is optional, it is advisable that an evaluation advisor evaluates the SIB. This is often a think tank, such as RAND Europe. Evaluation withholds often large research and many interviews. There are two distinct roles for the evaluation advisor (McKinsey & Company, 2012, p. 41). First, it advises the intermediary and service provider. Second, the advisor checks the performance of every party and when ineffective, they can be replaced by the commissioner or intermediary. Evaluation can be done during the SIB or after the SIB, when scaling is optional.

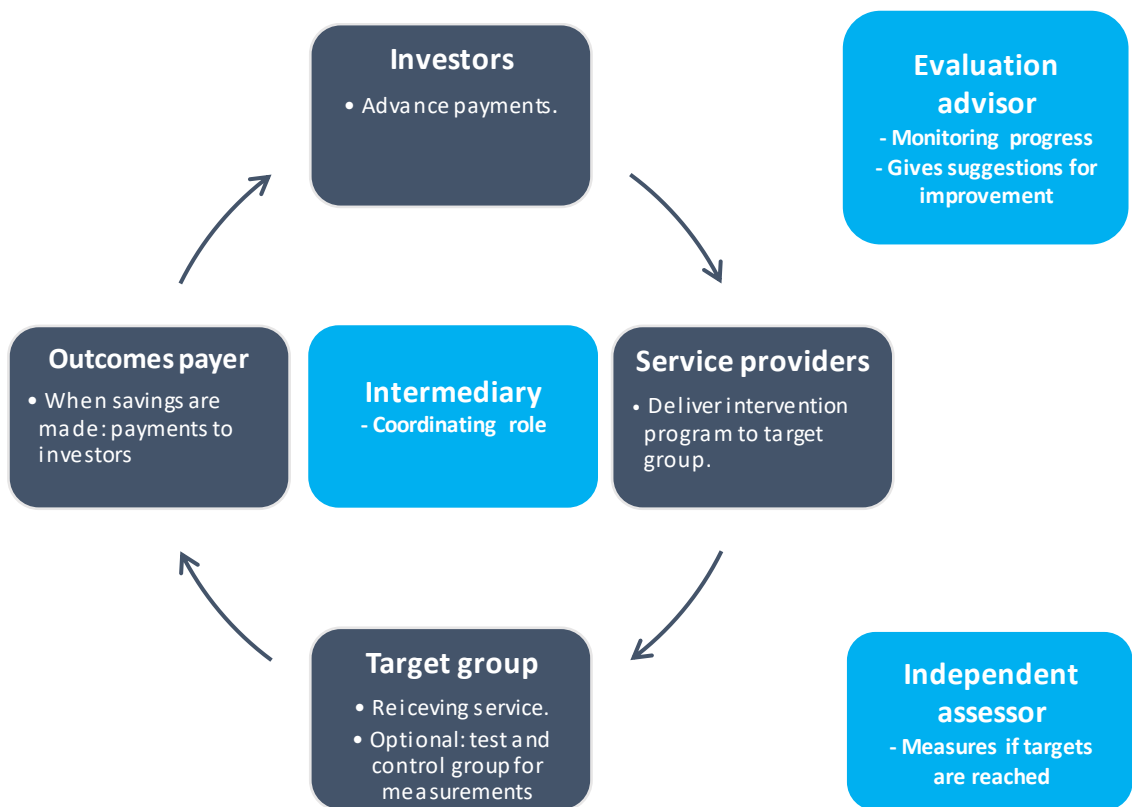


Figure 4: SIB structure with in light blue the optional roles.

2.4 Different structures

To give the SIB field structure several distinguishes can be made between SIBs. In the way SIBs develop, two models can be distinguished (Gustafsson-Wright, Gardiner, & Putcha, July 2015).

- **Impact bond fund:** multiple outcome payment contracts around the same social issue. Service providers can bid for the contract, the service provider(s) with the best offer will win. By using a fund, it is possible to set up multiple SIBs at once (Goodall, Oct 2014).
This system works with a rate card which indicates the payment per individual outcome. In other words, a rate card shows how much savings can be made per individual. An example is the 'Unit Cost Database', created by the British government (Cabinet Office, 2017). The database shows that the average social, financial and economic cost of domestic violence per incident is 12,331 pounds. These are the costs made by the government. The service providers who bid for the contract must therefore bid below this number to be profitable for the government.
- **Individual transaction impact bonds:** one payment contract. Many UK and all USA and Australian SIBs are developed in this way. Outcome prices are determined by an open call (OECD, May 2016).

Across these different contract methods there can be made a dividing into three rough categories (Gustafsson-Wright, Gardiner, & Putcha, July 2015 and Goodall, Oct 2014). These categories are made on the basis of the stakeholdership. Note: an independent assessor, who measures if targets are reached, is possible for all three structures.

Direct structure

Delivery contract between the outcome payer and a service provider. Only one service provider and most tasks are undertaken by the three core parties. Investment is made from investor to service provider to finance delivery contract. The performance of the service provider is managed by themselves. One out of three SIBs has a direct structure.

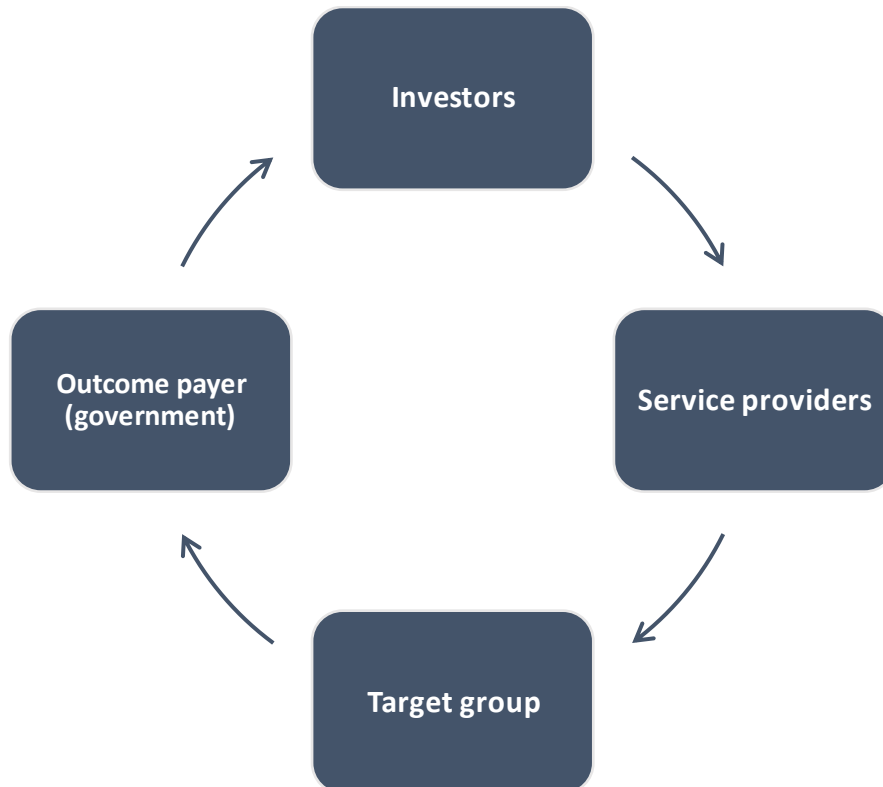


Figure 5: A direct SIB structure

Intermediated structure

Contract between the outcome payer and a special purpose vehicle (SPV), which is owned by the investor(s). The SPV contracts the service provider(s) and has a limited role as intermediary due to an independent evaluator/performance manager. A special purpose vehicle can be for instance a specially created foundation or fund. Public savings and policy goals can sometimes fall under different government bodies and sometimes under different budgets (ABNAMRO, 2015). With a central fund it does not really matter in what department the savings are made; the special purpose vehicle makes sure that a repayment is made. With roughly four out of ten SIBs is the intermediated structure the most used structure.

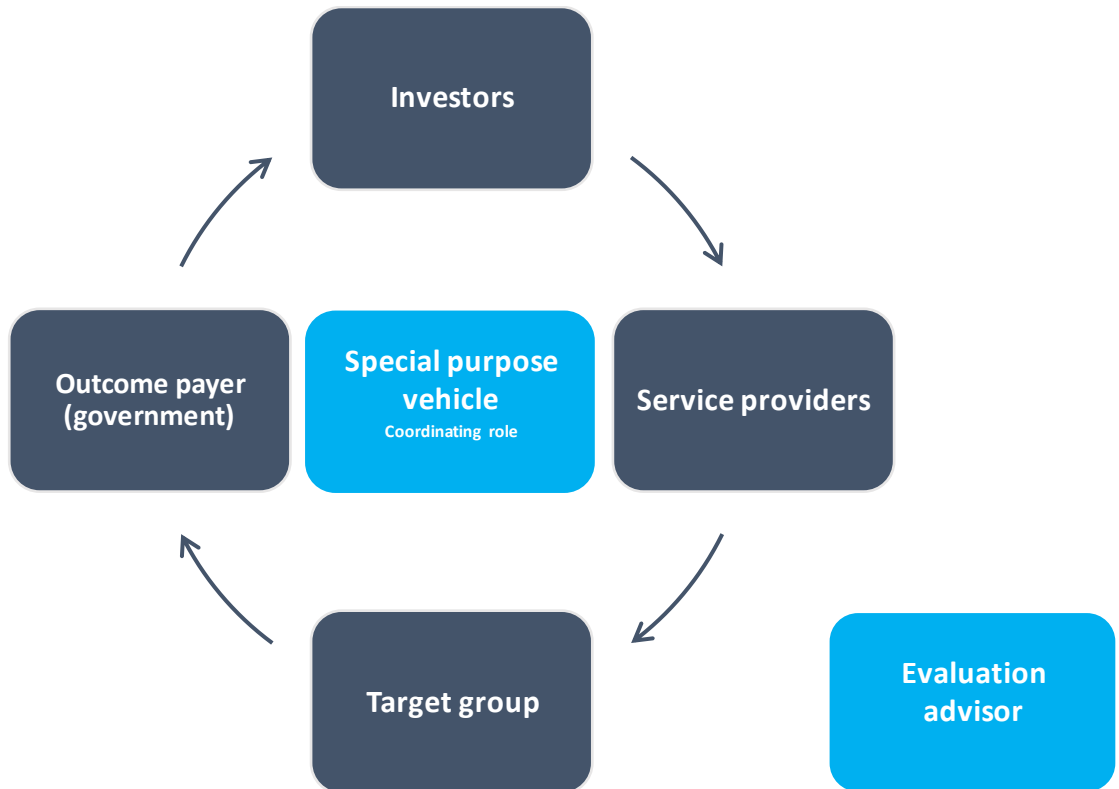


Figure 6: An intermediated SIB structure

Managed structure

Delivery contract between the outcome payer and the intermediary. The crucial link in this structure is the intermediary. The intermediary has a lead role in the SIB. Besides, it is fulfilling the role of independent evaluator/performance manager. The intermediary can also be an SPV owned by the prime service provider. Roughly one quarter of SIBs falls into this category

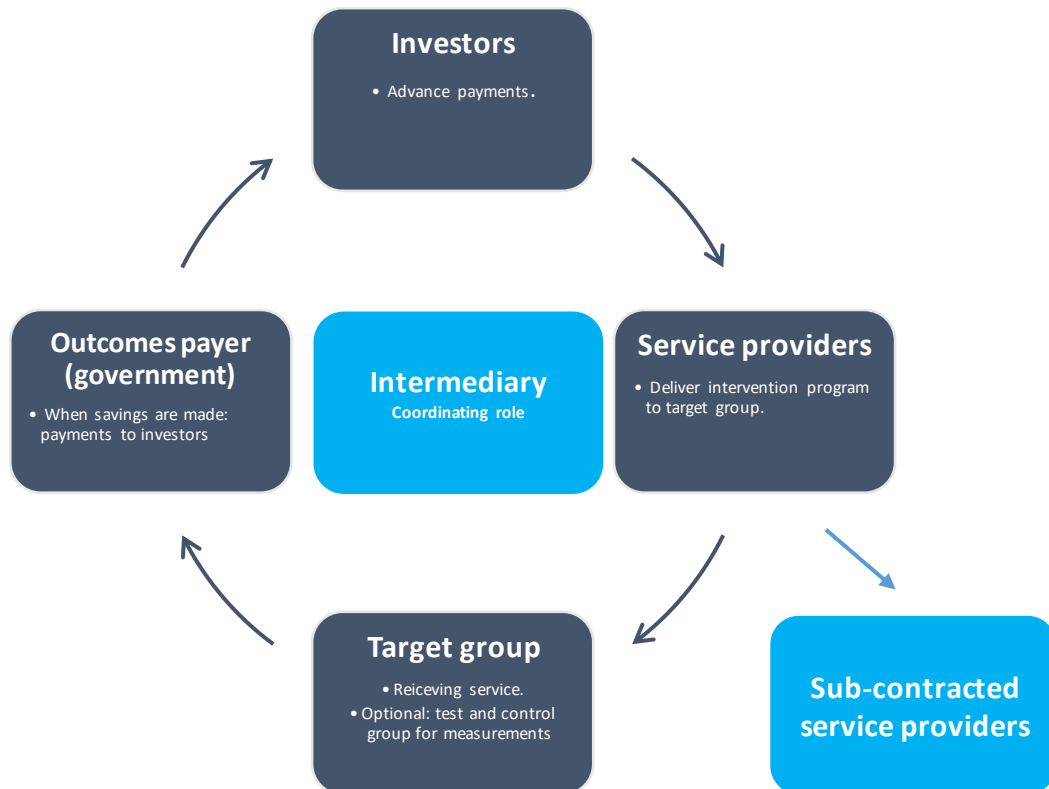


Figure 7: A managed SIB structure

Note: Although these categories are a useful way to give the SIB-field structure, there are some exemptions and overlapping. The SIB at Riker Island, New York City is an example of exemption. Goldman Sachs invested 9.6 million dollars, but did not bore all the risk. They could had make a maximum profit of 2.1 million dollars when the service provider was successful and only a loss of maximum 2.4 million dollars when the contractor was failing. Bloomberg Philanthropies was guarantee for the other 7.2 million dollars. An example of overlap is the 'Newpin SIB' in Australia. The investor owned a special vehicle purpose (: intermediated structure), while the service provider was managing their performance their selves (: direct structure). There are also SIBs that have shifted from structure during their implementation (Goodall, Oct 2014).

2.5 Potential goals and gains

The most critical measure of success in a SIB is social impact (Social Finance, 2016). Social impact is the core reason for governments, charities and foundations to participate in a SIB. The key question for new SIBs is: does it lead to improved outcomes for the target group? Will lives be positively touched, and will the quality of life increase?

It is difficult to measure what the overall social impact was of all SIBs until now. We only now that until now more than 200 million euro is raised to touch the lives of more than 100,000 people. How much their lives are touched and how much their quality of life has increased is variable for each SIB; some interventions had more impact than others. What the achievements are of three particular cases will be described in chapter three.

Next to social impact are financial goals important (OECD, 2016). SIBs can create a win-win situation for all stakeholders, with financial returns for investors, public savings for governments and procurements for service providers, intermediaries, assessors and evaluators. Numbers of total public savings or financial returns for investors worldwide are unknown.

These core goals are on itself gains compared to traditional procurement of social services. They are the reasons why a party would participate in a SIB. However, academic literature provides

deeper explanations of the potential mechanisms driving the effects of SIBs. These effects can best be divided into three categories. The first category is that SIBs create better incentives to solve social problems. This category includes all benefits that are related to the social problems that are issued and their solutions. The core of this category is that social problems are solved in a better way. The second category is better allocation of public money. This category includes all benefits that are related to the fact that governments can procure service providers in a new way. The third category is unlocking new funding. This is not a major benefit for single SIBs, but the overall emerging of SIBs has large positive impact on the social investment market.

Better incentives to solve social problems

Correcting poor incentives: Government programs are not always effective enough; their performance can be more effective and efficient (Mulgan, et al., 2012). Government performance can be improved with SIBs (Liebman, 2011). Journalist Eduardo Porter agreed: “Ultimately, the biggest promise of these Social Impact Bonds (...) might lie more in their ability to impose discipline on government programs than in their promise to draw private money” (Porter, 2015).

Outcome based: There is a focus on outcomes rather than outputs (Roth, 2011). Governments normally contracts units of service and not eventual outcomes. This is in two ways beneficial. First, it provides a financial incentive to focus on an improved outcome. Second, service providers are not required to burdensome reporting about their services.

Transparency: A SIB, that is focused on outcomes, creates clarity and transparency for governments. Its citizens know what their government's goal is and how they are trying to reach it. Traditional contracting with blocks or units of services is less transparent (Roth, 2011).

Accountability: Public organizations are also better accountable for their actions (Roth, 2011). SIBs are more efficient in solving social problems than traditional procurement (Mulgan, et al., 2012). Besides, the nature of SIBs is prevention of social problems and prevention is better than solving problems. Prevention is often less costly and in an ethical way better for people.

Better allocation of public money

More efficient service providers can be contracted by the government, which will reduce public costs. The goal of a SIB is to reduce public costs on the long term. For example, the SIB at Riker Island prison could save the city of New York up to 20.5 million dollars (Liang, Mansberger, & Spieler, 2014).

More innovative service providers can be contracted by the government (Liang, Mansberger, & Spieler, 2014). There is a spur of social innovation: SIBs create space for innovative service providers, combine innovations, create innovations and *is* innovative (MRDC, 2013). This innovation incentive facilitates innovation of social service programs and fosters a monitoring and evaluation culture between public organizations and service providers (OECD, 2016). In this way, new strategies and new solutions can approach social problems.

Riskier investments are possible with better revenue. Governments tend to invest steady and stable over time, without taking too much risk. Governments are often not capable or willing to invest in innovative or preventive programs due to the financial risk. Civil servants that are elected are risking their jobs with risky projects. Civil servants that are not elected are interested in achieving results that are stated by their department, not more than that; they have no incentive for risky investments (Lipsky, 2010, p. 19). In a SIB, the financial risk is transferred from the government to an external investor; no large financial risk is taken by the government. This makes riskier investments with better revenue possible.

Possibility for financing new projects: Another benefit of SIBs is that it makes it possible for governments to finance new projects. Insufficient budget could be one of the reasons that a project or service provider cannot be procured by a government. A third party that invests makes it possible for public organizations to start major projects that were not possible before. Besides, SIBs encourage to invest in the most difficult target groups, such as drug addicts and homeless people.

Unlocking new funding

Unlocking new funding: The demand for social investment is growing rapidly. In the UK it raised from 286 million in 2012 to 750 million in 2015 to 1 billion in 2016; a grow of around 38% a year (The Boston Consulting Group, 2012). Unlocking new funding is crucial for the social investment market. A SIB creates better platforms and often better projects for investors. SIBs give both charities and commercial investors more incentives to invest in social programs (Mulgan, et al., 2012). Charities can more easily invest in commercial service providers that aim to help society, because successful SIBs return their injected capital. Social Finance, an intermediary for SIBs, has created an instrument, whereby charity organizations could receive performance payments in the form of donations (Ernst & Young, 2013). SIBs also allow commercial investors to invest in social programs, which can be profitable if the program is successful. SIBs thus, enlarges the pool of possible investors in social programs.

2.6 Potential risks and losses

These mechanisms with positive effects is one side of the story; there are also undesirable effects that can undermine these mechanisms. These undesirable effects can all be traced back as the problem of information-asymmetry, which means that one stakeholder has more or better information than the other. These effects are risks that needs special attention to prevent the failure of a SIB.

Information asymmetry between stakeholders. It is important that as much information as possible is available for all stakeholders to stimulate efficiency. Sharing information is especially important for SIBs that have many stakeholders. An intermediary that keeps in contact with all stakeholders at all time, can mitigate and control this risk. The most common complaint about SIBs is that they are complex (Social Finance, 2016). The complexity can be challenging during the early phase of a SIB; simpler projects are easier to sell. Many stakeholders are involved and they all have their own goals and methods. The most complex issue is often the measurement of the made public savings, which is often done by a specialized firm.

Lack of legislative knowledge. Lacking information about legal aspects of SIBs is sometimes limited and can bring difficulties in SIBs. SIBs cannot be fully standardized worldwide, due to legislative differences. Although academic literature does not mention the legal aspects of SIBs, is it too important to neglect. A handful of law firms have done desk research for Instiglio, an international nonprofit organization that aims to increase the effectiveness of social programs in developing countries. Baker & McKenzie (multinational), BLC Chambers (Mauritius), AZB Partners (India), Webber Wentzel (South Africa) and Mattos Filho (Brazil based) wrote together with Instiglio and Thomson Reuters Foundations a report with several cases. They recommended how to put up a SIB in Colombia, Mexico, South Africa, Mauritius India, Chile and Brazil. They mentioned that certain aspects are important to remind, such as tax rules, jurisdictions, legal mechanisms to ensure future payments and many more (Instiglio, et al., 2014).

Measurement of direct and indirect savings. Calculating how much public savings are made by the service provider is one of the most difficult tasks in a SIB. Rigorous methods are sometimes necessary to ensure that payments are based on actual results achieved (Gilchrist & Wilkins, 2016). These calculations can be done with a counterfactual analysis: how is the situation different compared with the situation without the intervention? Based on these calculations, the government will pay the service provider. Random control groups and tests can strengthen the validity of the measurements. These calculations are often a complex and difficult task, which must be done by specialists.

It is important that indirect savings and costs are also taken into the calculation. A contractor that helps unemployed people to work, can have massive successes when looking to the unemployment rate. However, if the prisoner population is growing rapidly at the same time, the public savings are not rising. Therefore, is it important that side effects are measured, to correctly calculate the *total* public savings. Homelessness and debt counseling are for instance also variables that must be taken into account.

Underperformance. If one of the stakeholders does not meet agreed performance, there is a chance that the SIB will not succeed. This is especially the case for the service providers. They are crucial for an improved social outcome. Service providers can take inappropriate actions to reach their targets (moral hazard); a SIB is after all outcome based. For instance, service providers that are contracted to lower prisoner recidivism can influence legal processes. Another example of moral hazard is a service provider that is contracted to lower the number of children in foster care that sends children back home too early. Information asymmetry is the underlying problem and causes eventually false outcomes and a deceived government and target group. An intermediary can safeguard the performance of service providers with checking or auditing. Other stakeholders have also to be committed to the SIB; a commissioner or investor who does not work properly can cause many problems. For instance, it is important that participating bureaucrats are dedicated and are taking the SIB seriously.

If not proper attention is paid to these risks, the SIB has a higher chance of failing. A closely linked question, is what stakes all parties have at risk? Successful SIBs can be beneficial, failing SIBs however, can be harmful. These potential losses are described per stakeholder to have a clear overview and to avoid too much overlap.

Investor(s)'s stake: financial risk

The investors are bearing the financial risk. The investor must be prepared to invest in a social issue with the possibility to lose its investment. The municipality or government will return the investment when the service provider is successful and public savings are made. Note that not only the service provider uses the investment. The intermediary - who manages the SIB - and the independent evaluator - who measures performance – must be paid. A SIB therefore cannot be too small scaled. On the long term, can standardization or replication of structures and contracts lower transaction costs.

Government's stakes: effort, political reputation and accountability

A participating government have three things to lose. First, government's commitment and effort is at risk. Government must fully commit in a SIB to work properly. Commitment that is made and delivered input by civil servants is at risk. When the service does not reach its targets and the SIB fails, the effort that is made will be in vain.

A SIB that fails can harm the political reputation of elected officials. They are often inclined to please their grassroots support. Losing reputation means losing support for next elections. There are however (contested) strategies to limit this risk, such as political marketing (Schnee, 2015). It can also work the other way around: political structures and local elections can influence running SIBs. Therefore, the duration of the program and the payment terms must be fixed, in order to protect the SIB (van Es, 2015).

Third, a government's accountability towards citizens is at risk. Bad performance by service provider can harm the target group, that is often already vulnerable. This can due to failing treatment with negative consequences or with stopping of treatments. The government, who is responsible for their safety and wellbeing, is the commissioning party and accountable.

There are several ways that government can mitigate these risks regarding accountability. A first advisable possibility is making 'step-in rights' in the contract, so government or intermediary can step in and fix things before (further) damage is made or harm is done by the service provider (Burand, 2012). Termination of the contract or replacement of the service provider can also be added to the contract. Another way to mitigate this risk can be the adding of an independent evaluator to the SIB. Other possibilities are strict due diligence regarding codes of conduct and staff training.

Intermediary's stake: reputation

An intermediary that fails to perform its obligations, will lose their goodwill and reputation. Intermediaries have to coordinate and manage a complicated web of actors and interest. SIBs are

relatively new and for many intermediaries is it an on-the-job-learning process. Burand expected in 2013 that when the life cycle of SIBs will go from an emerging to a standardization phase, the consensus of best practices will rise among practitioners (Burand, 2012). Setting up SIBs will be easier in the future.

Service provider’s stake: reputation, profits

The service provider(s) have always their reputation at stake. For experienced service providers is their much at stake. Some municipalities that have worked earlier with SIBs, demands that service providers must have a track record. In this way, they know that the service provider is experienced and is probably trustworthy, and that they have something to prove and to lose: their reputation.

In some SIBs, the service providers are paid on pay-for-performance basis. This means that if they do not meet targets or do not perform well enough, they will not receive payments. In this case the service provider has much to lose and can experience more pressure. Note that pay-for-performance for service providers can have negative influence on flexibility and innovation.

Summary

The scheme below shows a summary of the theoretical chapter, which is used in the research of the empirical cases. Therefore, the same structure is used in both chapters. In this way, it is researched whether the goals, gains, risks or losses that are described in this chapter, can be applied to the cases and/or whether the cases have additions. Finally, this scheme will be used in the conclusion.

	Literature
Structure	- Direct, or - Intermediated, or - Managed
Population	Total: 100,000 people
Investment	Worldwide approximately €200 million
Potential Goals	Social impact: 100,000 lives “touched” Financial impact: Made public savings unknown Innovation incentive
Potential Gains	Better incentives to solve social problems - Correcting poor incentives - Outcome based - Transparency - Accountability Better allocation of public money - More efficient service - More innovation - Riskier investments are possible - Possibility to finance new projects Unlocking new funding
Potential Risks	Information asymmetry: - legislative challenges - Measurements of public savings - Underperformance

Potential Losses	<p><u>Investors:</u> Investment</p> <p><u>Government/outcome payer:</u> - Commitment/effort - Political reputation - Accountability</p> <p><u>Service provider:</u> - Reputation - Profit</p> <p><u>Intermediary:</u> - Reputation</p>
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Empirical research

3. Three cases compared: PMS Peterborough, Riker Island and Buzinezzclub Rotterdam

3.1 PMS Peterborough (UK)

3.1.1 Introduction

Duration:	September 2010 – 2015 (the original plan was 2019)
Target population:	Reducing recidivism rates amongst 3,000 ex-offenders (all released prisoners). Divided into three cohorts of each two years.
Control group:	Recidivism rates of ex-offender of HMP Peterborough were compared with other prisons. Using the Police National Computer, each prisoner is compared with ten similar offenders.
Intervention:	‘One Service’: supporting ex-offenders for 12 months. Supporting mostly in housing, finance, addiction, behavior problems and employment (work/education). Carried out by seven service providers. Public savings made in court, police and prison costs.
Social Impact:	Results from an independent evaluator demonstrated an 8,4% reduction in reconviction rate among the first 1,000 ex-offenders. The Transforming Rehabilitation Initiative was rolled out nationwide.
Investment & returns:	£ 15 million by 17 social investors with a rate of return of 13% for investors. Return payments were made by the Ministry of Justice, if reconviction rates decreased with a minimum of 7.5%. Early payments to investor were possible at a minimum of 10% reducing of recidivism after each cohort; the first cohort however reached 8.4%.
Structure:	Managed/intermediated

In the years before the start of the SIB in Peterborough, around 60% of short-term sentenced adults were reconvicted within one year after release in the UK. This social problem was for the government a heavy financial burden: each prisoner cost the British government approximately £40,000 (Cabinet Office, 2017). HM Prison Peterborough was the scene of the first SIB. It aimed at reducing reconviction among adult male offenders who had served prison sentences for less than 12 months. The intervention was called ‘One Service’ and had a duration of 5 years. It started in September 2010 and ended in June 2015. Seven service providers intensively supported ex-offender for one year after their release from prison. The service providers are up-front paid by seventeen investors. Only when the service providers succeeded in lowering recidivism, the government was required to pay the investment plus interest to the investor.

The target group was divided in three cohorts, but due to its success the project was suspended after the second cohort; it was outsourced by a nationwide new project from the British parliament. They quickly learned from the success in Peterborough and decided to implement a new policy called ‘Transforming Rehabilitation’. The new project was estimated at £3 billion (OECD, May 2016).

3.1.2. Stakeholders

PMS Peterborough’s structure was combination of intermediated and managed, with an intermediary who had a large role and with an independent evaluation advisor. Together with 16 other investors, the Big Lottery Fund paid the service providers. These service providers were helped by local partners and were directed by a director from the intermediary, Social Finance. Together they supported ex-offenders from PMS Peterborough. When successful, the Ministry of Justice paid the investors back. QinetiQ and the University of Greenwich were the independent assessors and measured if targets were reached. Think tank RAND Europe did research and evaluated the pilot.

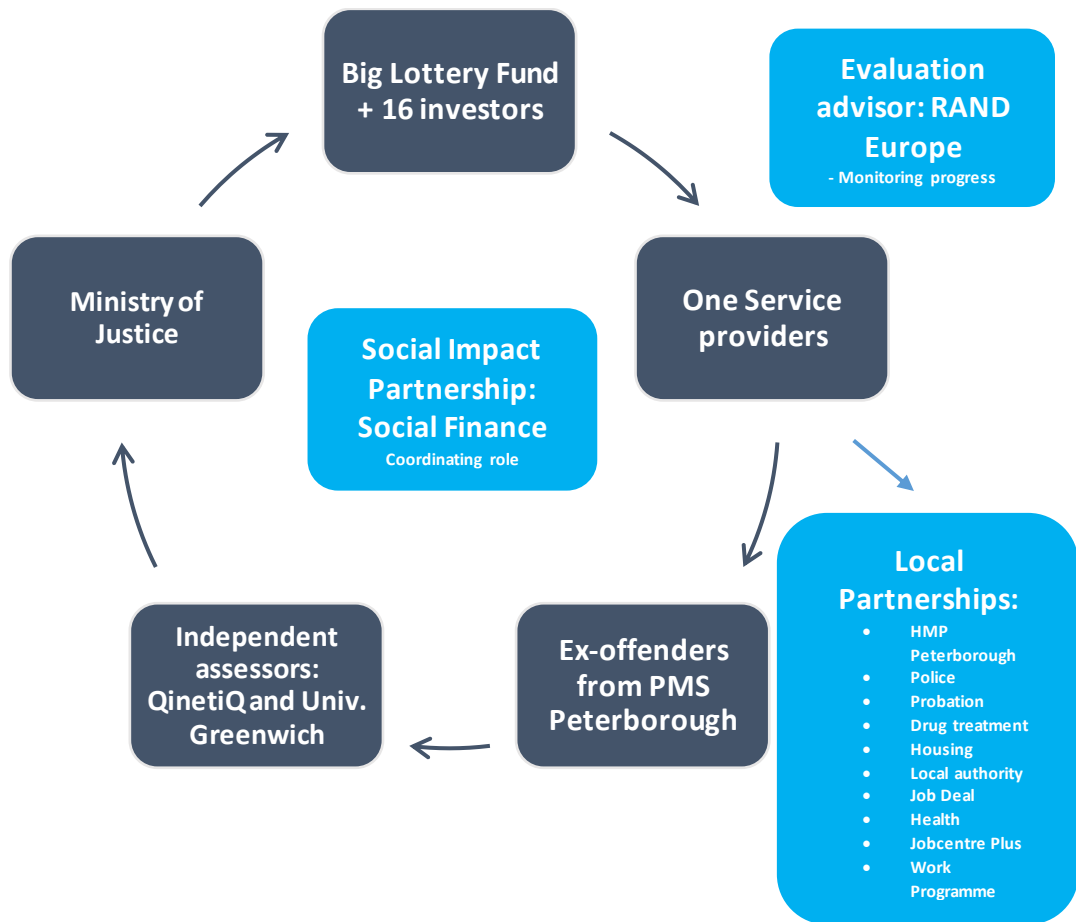


Figure 8: SIB structure PMS Peterborough

Service providers

A total of seven service providers were contracted. These were commissioned and contracted by Social Finance. Local partners, as the police, probation service, Job Deal, Drug Treatment and others, supported the target group, but stood apart from the service providers; they were not contracted and paid. The seven service providers were paid in advance or on a fee-for-service basis. Fee-for-service (FFS) is a payment method in which the service provider is paid for the service, rather than scheduled hours, work or time on call (Mosby's Medical Dictionary, 2017). The seven contracted service providers included:

- St. Giles, who gave through-the-gate service and delivered a peer advice trainer. Six full-time caseworkers and six part-time volunteers of St. Giles were working for One Service. The caseworkers mentored the support and helped with short-term needs. They helped for instance with medical needs, addiction problems, housing, financing and employment.

- YMCA, who provided unpaid volunteers in the early phase of the pilot. YMCA is a non-profit organization that is focused on communities, youth care, healthy living and social control. They were involved in the early phase of the SIB, but was replaced by Sova, who was more specialized. The gym of the YMCA in Peterborough was however during the whole pilot available for ex-offenders.
- SOVA, who replaced YMCA with the providing of volunteers. SOVA is a non-profit organization in England and Wales that is focused on keep people out of criminality. SOVA and YMCA were focused on long term goals, such as making durable relationships and friends. They worked in Peterborough with the lower-risk cases. In other words: the easiest ex-offenders to treat were handled by volunteers. In this way, better social outcomes were achieved without making more costs.
- Mind. This mental health charity helped every ex-offender that suffered mental health issues.
- Ormiston Families. This charity for children, young people and families in East England supported ex-offenders and their families.
- John Laing Training. Construction skills courses were given by JL Training in and outside of prison. After release their training continued in the community.
- TTG Training CIC was an initiative that replaced John Laing Training in January 2015. TTG Training is a community interest company (CIC) that is specialized in helping ex-offenders. CIC's are social enterprises that aim to use their resources for the public good. TTG Training was established in early 2015 as "the legacy of The One Service Social Impact Bond pilot" (TTG Training, 2017).

Investors: Big Lottery Fund

There were in total seventeen investors, including the Big Lottery Fund, Barrow Cadbury Foundation, Esmée Fairbairn Foundation, Tudor Trust, Friends Provident Foundation and others. They invested £5 million up-front to the service providers. These investors were willing to invest in a social impact project and to bear the financial risk.

Target group: ex-offenders from HM Prison Peterborough

Offenders that were at least 18 years old and sentenced of less than 12 months could participate in One Service. In comparison with longer term prisoners, was recidivism high among these offenders. After their release, these men could make use of One Service for 12 months. They needed support with mostly housing, employment (work/education), finances, behavior problems and addiction (Lunes, et al., 2013).

Three cohorts of each circa 1,000 ex-offenders were planned over a period of five years. Every two years a new cohort had to start. The third cohort was however detached from the SIB, due to new national policy.

	Recruitment period	End supporting period
Cohort 1	Sept 2010 – June 2012	Sept 2010 - June 2013
Cohort 2	July 2012 – June 2014	July 2012 - June 2015
Cohort 3 - suspended	July 2014 – June 2016	July 2014 – June 2017

Commissioner: Ministry of Justice

The commissioner was the British Ministry of Justice. A payment by results contract was put up; the Ministry would pay up to 13,5% of the original investment if the rate of reoffending was decreased by more than 7.5%. They had overall responsibility for the pilot, but did not bear large financial risk (RAND Europe, 2011).

Intermediary: Social Finance

The non-profit organization Social Finance had the responsibility to manage and to coordinate the SIB. They appointed a special director to do this. His task included sustaining partnerships, commissioning service providers and an independent assessor, and optimize outcomes and efficiency. The director could intervene within the SIB whenever necessary. The directorship in a pilot is an on the job learning process. As the project progressed important lessons were learned: ex-offenders needed accommodation, training and employment opportunities and low-level mental health support (Social Finance, 2014). The intermediary made sure that the investors flexible funded the service providers, so that they could solve crisis situations.

Independent evaluator: RAND

Rand Europe has made three evaluations for the Ministry of Justice (RAND Europe, 2011; 2014; 2015). These reports informed all stakeholders of the situation and made the intermediary able to improve the SIB. RAND Europe is an independent non-profit research institute specialized in helping to improve policy and decision making through research and analysis.

Independent assessors: QinetiQ and University of Greenwich

QinetiQ and the University of Greenwich were responsible of measuring if the targets of 7.5% decreasing of recidivism were reached. Their calculation came up with 8.4%, which initiated payments from the Ministry of Justice to the investors. With the approval of Social Finance, they were contracted through a competitive tendering process. (Cave., Williams, Jolliffe, & Hedderman, 2012).

3.1.3 Goals and gains

Social impact

The social impact in Peterborough was statistically significant. Re-convictions were reduced with 8.4%. The target was set on 7.5% decreasing of recidivism across all three cohorts. Ex-offender experienced better control over their life and lower incidences of reoffending (Social Finance, Nov 2011). Independent assessor Professor Darrick Jolliffe and his team from the University of Greenwich calculated that there were 142 reconvictions per 100 prisoners in Peterborough. This was 8,4% lower than the 155 reconvictions per 100 prisoners from other prisons. For every cohort of 1,000 prisoners is that a reduction of 130 reconvictions.

How was this calculated? The 8.4% reduction of recidivism was relative to the entire prison estate in the UK and was based on the 12 months' period after release from prison. To be more precise, each prisoner from Peterborough was matched with ten similar prisoners using the Police National Computer. The average reconviction rate of these ten ex-offenders was calculated and compared with the Peterborough ex-offender. It was thus not a necessity that the intervened ex-offender was not reconvicted at all, but less than the average of its control group. This method to calculate re-offending rates was called 'Propensity Score Matching' and was upfront tested: the HM Prison Peterborough had the same re-offending rates as other prisons (Cave, et al., 2012). The risk of wrong calculations was in this way minimized.

In the interviews with the evaluator, stakeholders did not mention any indirect major negative externalities in the area (RAND Europe, 2015). Only positive side effects were noticed, such as the alleviation of local police, reduction of homelessness and the improving of quality of life, due to less crime victims. These effects had social impact, but were not taken into the calculations, because they did not create sufficient public savings.

Besides, re-integration and resettlement of short term prisoners had been a blind spot for a long time for the Ministry of Justice (Social Finance, 2014). Seen from a policy perspective, is this an important element: it improves the British governments prison policy. The intervention was seen as such a success that a similar intervention was set up nationwide (The Transforming Rehabilitation Initiative).

Financial impact

What the final total public savings were and what the final payments were, is unpublished. However, we do know which agreements were made and what the expected savings were. Before the project started they expected that the reducing of costs in court, police and prison would be large. Savings for the complete project were anticipated on £ 44 million, which could had reached up to £ 90 million if reconviction events lowered more than expected and if the third cohort was not suspended (Cabinet Office: Centre for Social Impact Bonds, 2017).

The anticipated costs for the Ministry of Justice were much lower than the anticipated savings: maximum of £8 million (Lunes, et al., 2013). These costs were the payments to the investors, who had upfront paid the service providers. These payments were triggered if a minimum of 7.5% recidivism was achieved. The Big Lottery Fund took the remaining payments to the investors for its account. The Big Lottery Fund had reserved £11 million for the SIB and further development of SIBs.

The anticipations were that the investors would pay the service providers £15 million. These investments would return plus a bonus if recidivism decreased by more than 7.5%. Less recidivism meant more bonus, ranging from 2,5% to a 13% a year of their complete investment for the duration of the project.

Service providers also benefited from the SIB: they gained profits and experience, and some service providers kept operating after the SIB. The Ministry of Justice was pleased by their performance and contracted them again, such as TTG Training CIC.

Social innovation

In chapter 2.2 (history of the SIB field), we have seen that SIBs are growingly exponentially worldwide, due to its innovative structure. The pilot in Peterborough is seen as a major success. 72 SIBs have been implemented worldwide and more are in exploration phase. A spur of social innovation was created.

Other gains

Next to these goals, the structure and methods of the pilot had three important gains. First, the SIB created better allocation of public money. The participants that were interviewed by evaluator RAND Europe declared that one of the major strengths of the SIB was that the service providers and the government did not bear large financial risk. The SIB protected service providers from performance-related risks. This means that no matter what the outcome would be, the service providers were paid. This caused better efficiency, flexibility and innovation.

The second and third gain are related to 'better incentives to solve social problems' as described in chapter two. One of these better incentives was the avoidance of cherry picking by service providers in the target group; all offenders released from prison joined one of the cohorts. This means that the service providers were not able to choose only the easiest cases for One Service. All ex-offenders have the same chance for receiving support and it creates an incentive for service providers to work with the most challenging cases. Side note: ex-offenders were not obligated to actively participate in the program. There is a possibility that the most difficult cases were not actively participating.

Third, the flexibility of service providing was beneficial in two ways (RAND Europe, 2015). First, the provided service was individualized, which made it responsive to everyone's personal needs in the target group. Second, the service providers changed and adapted their approach during the project to improve outcomes. Learning at the job and new ways of working was in this way possible and very important. The SIB at HMP Peterborough was a pilot; nobody had experience with a SIB. For example, the role of stakeholders was adjusted and new service providers were contracted.

Flexible funding caused that staff could quickly adapt to unforeseen situations. The needs of the target group could be met and crisis situations were prevented or easier solved. For instance, homelessness could be prevented by last minute bookings of Bed & Breakfast accommodations. These

flexibility benefits are seen by stakeholders as an innovation, however not necessarily as a result of the SIB structure. Flexible funding can thus also be implemented without a SIB structure.

3.1.5. Risks and Losses

What could have caused failure in the Peterborough SIB? What were the risks? Although academic literature (see: chapter 2) described several possible risks that all could be traced back as information asymmetry: lack of information, measurement of public savings and underperformance.

Information asymmetry between stakeholders was limited, due to the appointment of an intermediary. QinetiQ and the University of Greenwich did not experience large problems with the measurements of reached targets and public savings. They had upfront tested the 'Propensity Score Matching' to be well prepared. Both information asymmetry between stakeholders as measurement of public savings were not mentioned by the evaluator as risk.

Only underperformance was a risk, due to some recruiting volunteer problems. YMCA and Sova had difficulties in recruiting enough good volunteers to complement the service providers. Good volunteers for supporting prisoners were hard to find, especially when volunteers were ex-offenders themselves (longer than 12 months out of prison). Their experience could give them extra skills to support, but they need to be stable and trustworthy enough to help others. Finding enough volunteers without costing too much resources and time was therefore a risk.

The pilot was under much pressure; many stakeholders, the media and the national government kept a close eye. If the pilot had failed, what was at stake for the stakeholders? What could they lose with the participation of this SIB?

Investors

Seventeen investors had invested £15 million in the project. If the target of 7.5% recidivism reduction was not reached, the Ministry of Justice would not have been required to pay the investment back to the investor. Especially the charities among the investors were willing to take this financial risk.

Ministry of Justice

The stakes at risk for the government were very limited. Chapter 2 mentioned three things that the government could lose: their effort, political reputation and accountability. In this SIB, the government's effort was very limited. Evaluation reports do not mention any extra government's costs that are not included within the financial circle of the SIB. The government pays only when public savings are made. However, it is possible that the salaries of the civil servants that have helped in the development of the SIB are not included. Again, there is no mentioning of this in any evaluation or report.

Second, the risk of losing political reputation was marginal. Local elected counselors were not the commissioners and were only limited involved. The Ministry of Justice was in 2010 headed by the conservative Kenneth Clarke. A failing pilot SIB influencing the reputation of the conservative party and national elections of 2015 is unlikely.

Third, accountability was not at risk. The intermediary had oversight and could ensure that performance was well. If service providers did not perform well enough, the intermediary had the power to step in. The safety of the target group was in this way guaranteed and the government's accountability was therefore not at risk.

Service providers and intermediary

Some service providers declared in interviews with RAND Europe that damaging reputation was a possible risk (RAND Europe, 2011). The first SIB generated an enormous amount of media attention and policy interest on national and international level. One interviewee from St. Giles stated that they had built a reputation from 50 years of work and that all the media attention and even visiting ministers

put pressure on them: “*It’s not so much the financial risks I’m facing, but it’s certainly reputational risk*” (RAND Europe, 2011).

Four out of seven service providers were non-profit organizations, such as YMCA. With the dependency on donations is reputation important for them (Prakash & Gugerty, 2010). The commercial service providers were less, but still significant vulnerable for reputation loss; their future is dependent on new procurements and their goodwill. The intermediary, Social Finance, could had also lose their reputation. Organizing and coordinating the first pilot SIB was an on-the-job-learning process. Failing to coordinate the SIB could had ruin their reputation.

3.1.6. Lessons learned: recommendations

- Appointment of a director

All stakeholders believed that the full-time One Service Director had an important central role and that he was crucial for three reasons. First, the director was responsible for the coordination and managing of the SIB. Second, he developed and facilitated partnerships. Where necessary, he replaced stakeholders, such as the replacement of John Laing Training with the more specialized and efficient service provider TTG Training CIC. According to the evaluator, RAND Europe, the level of inter-organizational conflict was strikingly low, due to the director (RAND Europe, 2015). Third, the director ensured continuous improvements and stimulated innovation. He could adapt the SIB to reach an optimal outcome. A similar coordinated role is for these three reasons advisable.

- Protecting service provider and government

The SIB in Peterborough protected service providers and government from performance-related risks. Some new SIBs replaced this by including performance-based payments to providers. This could affect flexibility, service provider performance and service users. Protecting service providers and government can therefore be useful.

- Reducing information asymmetry

An online case management database, which was available for service providers and several other stakeholders, reduced information asymmetry. Investors are reported, providers are supervised and up to date performance can be monitored. The service providers mutually shared information about their clients with each other and the director had clear oversight. In this way, the right follow-up actions could be taken (Lunes, et al., 2013, p. 32). Make sure that also the independent assessor(s) has as much information as possible, so that measurements are as accurate as possible.

- Flexible funding and operating

HMP Peterborough was in two ways flexible: the service to the target group was individualized and the funding of service providers was flexible. The personal needs of each ex-offender could be taken into account, which made the support more personalized. Better efficiency was the result. The flexible funding from investors to service providers was also experienced as beneficial. They were more adequate to quickly respond to unforeseen situations.

- Volunteers

Although finding good and enough volunteers was a challenge, the non-paid volunteers that worked for the pilot contributed to the successful outcome. They supported the paid caseworkers and increased the total performance without making more costs.

3.2 Rikers Island (USA)

3.2.1. Introduction

Duration:	August 2012 – 2015 (last year)
Target population:	Reduce recidivism bed days in 1,470 young men aged 16-18 with a length of stay of more than 4 days (estimated at 3,000 per year) at Rikers Island Jail.
Control group:	Treatment group was compared with a control group of prisoners who passes through jail before the program (2006 – 2010). This historical group was matched on multiple factors, including criminal history, charge, gender and age. Second control group was a group of nineteen-year-olds in 2013. Statistical technique: propensity score matching.
Intervention:	Adolescent Behavioral Learning Experience (ABLE). Two service providers focused on social skills, personal responsibility and decision-making for youth offenders.
Social Impact:	In the first year of the program, 87% of adolescents that entered jail attended at least one ABLE session. However, participants did not return to prison at a rate significantly different.
Investment & returns:	Benchmark for payments by the city were set on 8,5%. With 10% or more could led to profit for Goldman Sachs, between 0.5 and 2.1 million dollars (The City of New York: Office of the Mayor, 2012). Final results showed no significant reducing of reconvictions, which led to a halt of the ABLE program per August 31, 2015, meaning no repayments were made on Goldman Sachs' 7,2 million investment, triggering Bloomberg Philanthropies' 6 million dollars guarantee.
Structure:	Managed (Goodall, Oct 2014)

Riker Island is the second largest prison in the US. The island, which bears the same name as its prison, is squished between Manhattan, the Bronx and Queens. It houses an average of 14,000 prisoners. Each day, more than 7,000 guards and 1,500 civilians are working in and around the prison. The New York City Department of Correction, who manages the ten jails on the island, have a yearly budget of 860 million dollars.

Almost half of young offenders that are released were re-offended within one year. Goldman Sachs, the City of New York, several service providers, an intermediary and a philanthropist started a SIB to lower recidivism. Many reports describe this first SIB of the US (ABN Amro, October 2015; Vera Institute of Justice, 2015; Haffar, 2014; Nonprofit Finance Fund, 2015; Social Finance, 2016; Griffiths & Meinicke, 2014). Most important report is made by MDRC and the mayor's office (Financing Promising Evidence-Based Programs: Early Lessons From the New York City Social Impact Bond, 2013).

Goldman Sachs invested 9.6 million dollars in a new intervention, called 'Adolescent Behavioral Learning Experience' (ABLE) that therapeutically supported 16-, 17- and 18-year-old prisoners. Financial returns were based on the amount of recidivism. The more the New York City saved on detention, the more they paid back. However, if New York City did not save any money on detention, they did not have to pay anything in return. This latter case happened; recidivism did not sufficiently decrease.

3.2.2. Stakeholders

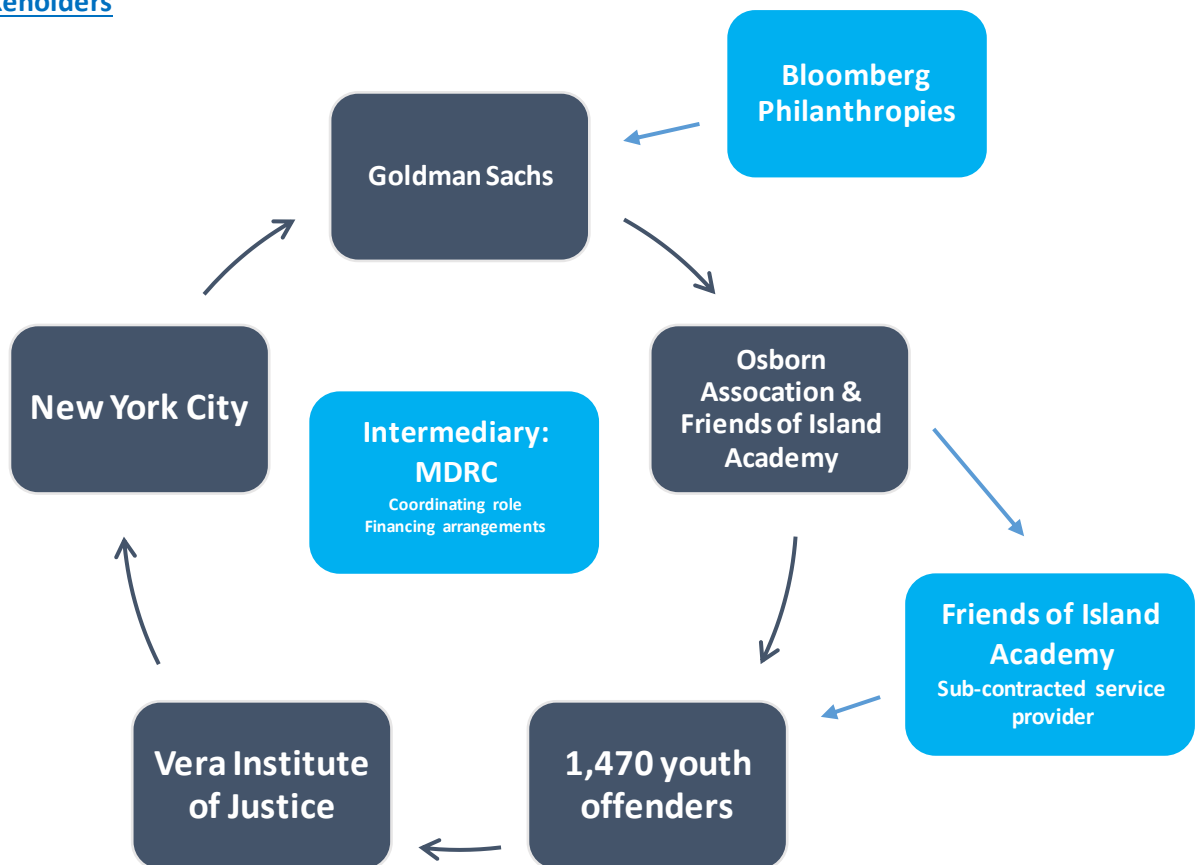


Figure 9: SIB structure Riker Island

Goldman Sachs paid the service providers via the intermediary. The service providers, Osborn Association and Friends of Island Academy, delivered services for the young offenders of Riker Island. They were followed for two years by the independent assessor: The Vera Institute of Justice. They researched whether the intervention had success. They reported to New York City that the intervention did not have enough effect. New York City was consequently did not have to repay Goldman Sachs. Bloomberg Philanthropies guaranteed for 6 million dollars if the project lacked success. These cashflows took all place via the intermediary.

Target group: 16-, 17-, 18-year-old youth offenders of Riker Island

More than half of released young offenders were re-offended within one year. Almost 1,500 youth offenders of Riker Island received therapy. Their length of stay was at least five days. Anticipated was that yearly more than 3,000 youngsters could receive the treatment, however the participation grade remained too low.

Outcome payer: The Mayor's Office of New York City

Located in New York City hall and responsible for the five districts: Brooklyn, the Bronx, Queens, Manhattan and Staten Island. Until 2013 was Michael Bloomberg mayor of New York City. Remarkable is that the mayor's new project was financial backed by his own foundation.

Investors: The Urban Investment Group of Goldman Sachs Bank and Bloomberg Philanthropies

The Urban Investment Group was established in 2001 and makes investments and loans in projects that support urban communities. They invested 9,6 million dollars in the service providers for the intervention. If the intervention would fail and recidivism did not lower enough, Bloomberg

Philanthropies guaranteed to pay 7.2 million dollars. In this way, the financial risk was divided between a commercial investor and a social investor.

Intermediary: Manpower Demonstration Research Corporation (MDRC)

MDRC is a non-profit research organization that focuses on social policy. In the development phase, they chose an intervention, based on evidence that it worked and based on the question whether it was a well fit for the environment. After the development phase, they coordinated the SIB and managed the intervention. MDRC was the “relationship builder” (Rudd, Nicoletti, Misner, & Bonsu, 2013). They visited Riker Island monthly and were able to identify important challenges as they arise and supported the Osborn Association to overcome these. MDRC received the full investment of Goldman Sachs and gradually paid the service provider. The agreement was that if recidivism lowered, New York City would pay MDRC up to 11.7 million dollars, which then would flow back to Goldman Sachs.

Service provider: Osborn Association and Friends of Island Academy

Osborn Association has a long track record: founded in 1931 and effectively treating yearly 8,000 people affected by incarceration (Rudd, et al., 2013). The Osborn Association is a foundation that focuses on supporting prisoners with therapy called ‘Moral Reconciliation Therapy’ (Vera Institute of Justice, 2015). This therapy is a three-month intervention at minimum and is evidence-based with a strong track record. However, the program had not been tested before (Milner, et al., 2015). Innovating with the applying of evidence-based practices in new programs, there is higher risk of failure. The Friends of Island Academy is a non-profit organization, who provide a broad network of mentors (“advocates”). They deliver individualized support and mentoring for young people.

Independent assessor: The Vera Institute of Justice

This research institute for crime and detention measured recidivism by following the treatment group until two years after release. They were also responsible for the calculation of public savings. Their results showed that savings were not sufficient enough to trigger payments.

The control group was in the past: sixteen- to eighteen-year-olds that entered jail in 2006 to 2010. They were matched based on 34 criminal justice and demographic characteristics, such as charge, criminal history and gender, to ensure “apples to apples” comparison (Vera Institute of Justice, 2015). Next to this historical control group, researchers of the Vera Institute tracked nineteen-year-old prisoners in 2013, in order to take citywide changes in crime rates into account (the ABL program was not available for nineteen-year-olds). Historical data had showed that recidivism for these ages were similar.

3.2.3. Goals and gains

Financial impact

The core goal was to achieve social impact and save public money by lowering recidivism. If ABL was successful, Goldman Sachs could receive extra financial returns up to 2,4 million dollars and New York City could save up to 20 million dollars with detention costs (see graph below) (The City of New York: Office of the Mayor, 2012).

However, after three years, the independent assessor briefed Goldman Sachs and Bloomberg Philanthropies that recidivism was not lowered enough to create sufficient public savings (Vera Institute of Justice, 2015). These results did not triggered any payments from the city to the investors. How much recidivism was lowered is unknown. The investors lost their injected capital of 9.6 million dollars.

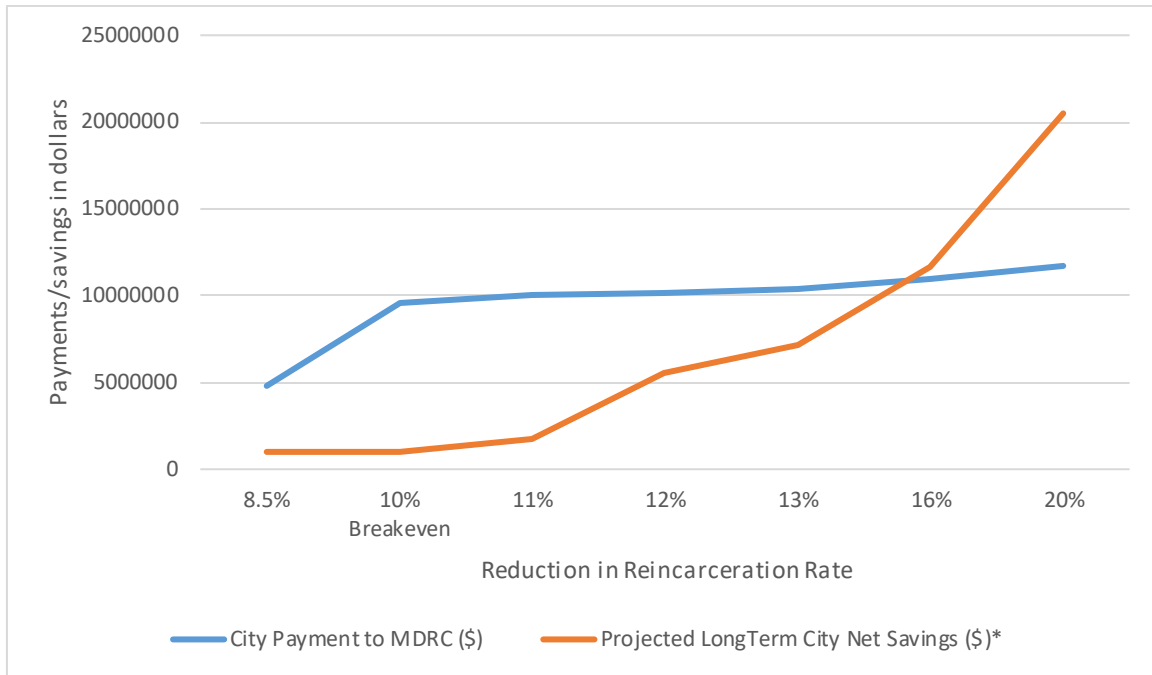


Figure 10: Recidivism rates linked with city payments and long-term savings. *savings after repayment and continued funding for program delivery.

Social impact

Social impact was also lacking. Everyone hoped for greater social impact (Burton, 2015). The target was set on 8.5% reduction of recidivism; an outcome below this rate would not create sufficient public savings to cover the costs made by the service providers. Evaluation reports do not mention that the target was set too high. However, there is a chance that a recidivism rate below 8.5% will still create social impact and/or public savings. Unfortunately, information is lacking about how much recidivism rates lowered and whether they created any public savings at all (see graph above; the lines start at 8.5%).

Innovation incentive

Some consider the failure of the SIB as a success, as it entailed a large project where the city of New York did not had to pay anything for (Burton, 2015). The SIB at Riker Island, as seen as an innovative policy instrument, showed that new financing methods for social projects were promising. First deputy mayor Tony Shorris stated that they will continue to use innovative tools, both on Rikers Island and elsewhere. Although the outcome was not a success, it showed that a large social project can be set up without hurting the tax payer (The Huffington Post, 2016). Justin Milner and his colleagues put it as: “The close of the Rikers Island transaction may be a first step along a long road toward more effective innovation. At the end of the road is better, more effective government” (Milner, et al., 2015).

Unlocking funding

Jim Anderson, lead of the government innovation program at Bloomberg Philanthropies, argued that, even though the results were not everyone had hoped for, it “unlocks new pieces of funding, private capital especially” (Burton, 2015). The demand for social investments is growing fast, but the supply remains too low. Unlocking new funding in the US is an important gain for the social investment market.

Dividing of risk

The failure of this SIB proved that the outcome payer do not have financial risk. The City of New York did not lose any investment. Goldman Sachs and Bloomberg Philanthropies took the hit. They were

willing to take the financial risk and the risk turned out to be reality. The failure showed that the investors protected the City of New York. In this way, the SIB can be seen as a success. What exactly the financial losses were for the investors, is explained in the next paragraph.

3.2.4. Risks and losses

What were the reasons that Riker Island failed to lower reconviction rates? The main reason is underperformance by service providers. This problem can be traced back as information asymmetry: The Osborn Association did not know that their intervention was lacking, until it was too late. They were not able to deliver a program that had sufficient impact on the lives of the treatment group. One of the reasons was that only 44% of the treatment population reached a programmatic milestone, associated with positive outcomes (Vera Institute of Justice, 2015). In other words, prisoners that did not follow the complete program, were less likely to better their lives. Other reasons were that participation rates were too low, due to operational realities such as lockdowns, alarms and other security measures. Often therapy sessions were interrupted, causing ineffectiveness. Also, during the program, it turned out that the Osborn Association treated offenders in too large groups (Rudd, et al., 2013). Young people were reluctant to reveal themselves and to share personal details

The failure of Riker Island SIB was widely discussed on the news. What was the impact of the failure for the stakeholders? What were their losses?

Investors: Goldman Sachs and Bloomberg Philanthropies

Goldman Sachs lost 1.2 million dollars and the rest, 6 million dollars, was covered by Bloomberg Philanthropies. The full investment that was planned of 9.6 million dollars was never made; due to lacking performance, the project was cancelled just before the last year. The additional amount of 2.4 million dollars was never invested. Goldman Sachs, however, did not stop with investing in SIBs.

New York City

Although New York City did not make any large investments, their staff and leaders, who are paid by tax payers, did put considerable effort in the project (Cohen & Zelnick, 2015). This effort turned out to be in vain; no significant reducing of reconviction rates.

Service provider

The Osborn Association suffered severe reputation loss. They had a longstanding track record, but their good reputation was suffered because of the failure of the Riker Island project. If this reputation harm has affected profits is not known.

3.2.5. Lessons learned: recommendations

- Appointment of an intermediary

Although not necessary, an intermediary is advisable. It depends on the complexity of the SIB and the role the intermediary can fulfill. Low risk SIBs with evidence-based interventions the intermediary has a marginal and replaceable role. In large, innovative and complex SIBs, where modification of the program is likely to happen during the SIB, it is recommended to appoint an intermediary.

- Flexibility to change the program

Several of these problems mentioned above were tackled by the intermediary. Therapy was not effective, due to group size and interruptions. Flexibility in the program ensured that treatment was modified. Challenges and problems could be handled in this way. One example of flexibility was that therapy time of public service for offenders was expanded to 20 hours.

- *Early performance indicators*

Several problems were tackled, but too late. Whether improvements of the program were needed could only be known with early performance indicators. Riker Island needed more and earlier performance indicators (Rudd, et al., 2013). Investors had to wait three years to receive performance data. Early indicators can ensure the program's short-term performance. It is recommended that at least of the stakeholders develop proxies of success to monitor progress.

- *Spreading out of repayments*

To make the payments by the government easier, it is advised to spread the payments of the government over time (Rudd, et al., 2013). Just like Riker Island, SIBs often do not result in immediate public savings, which makes it difficult to make early payments. New York City's final payments were planned on July 2017, one year after the end of the program, allowing it time to realize sufficient savings. However, waiting for several years with any payments is also not advisable, due to large pressures of stakeholders. Spreading out of payments is therefore recommended.

- *Start with a pilot*

Evaluating reports mentioned that a pilot test would had been helpful and could had identified important issues (Rudd, et al., 2013). Riker Island turned out to be an on-the-job-learning process, however many lessons could had been learned in a pilot.

3.3 SIB Buzinezzclub Rotterdam

3.3.1 Introduction

Duration:	March 2014 – 2016
Target population:	160 unemployed youth
Control group:	Similar unemployed people in Rotterdam. Matched on basis of characteristics.
Intervention:	Service provider Buzinezzclub supports unemployed youth.
Social Impact:	Lowering unemployment time
Investment & returns:	€ 880.000 investment with a maximum annual financial return of 12%
Structure:	Intermediated

N.B. Do not confuse this SIB not with the other SIB in Rotterdam: ‘Social Impact Bond Werkplaats Rotterdam Zuid’ or the new proposed SIB of chapter 4.

3.3.2 Stakeholders

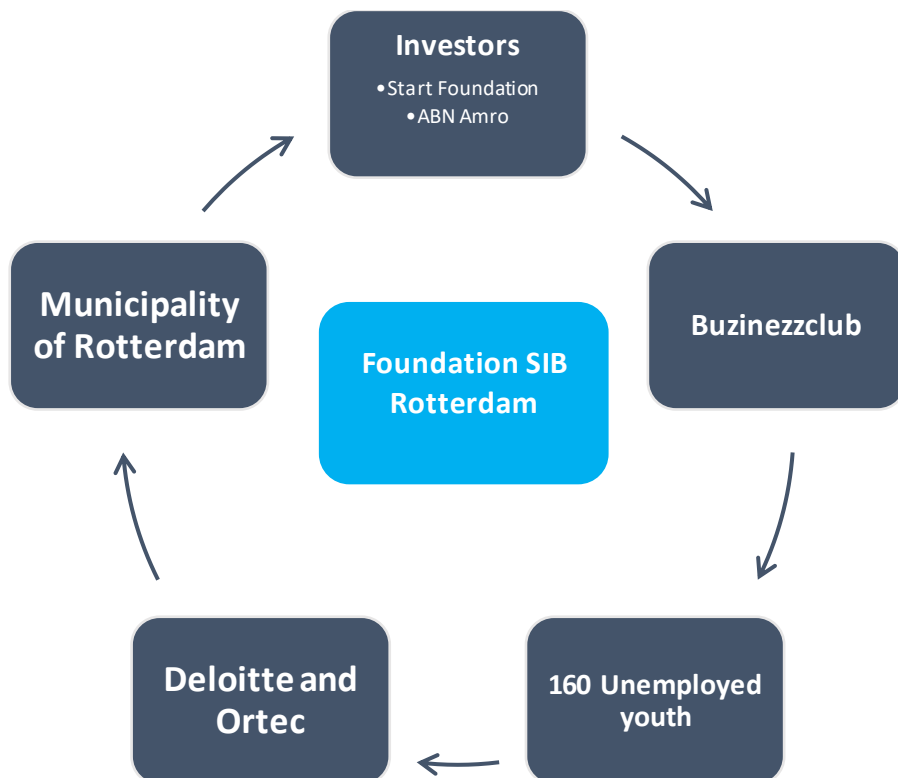


Figure 11: SIB structure Buzinezzclub Rotterdam (Factsheet Buzinezzclub Rotterdam)

Target group: Unemployed youth

The intervention is focused on unemployed youth, between the age of seventeen and thirty. They have often big debts and crime records, without or with the wrong diplomas and no support. It is a “tough group” (van Es, 2015). They are selected by civil servants at the Youth Counter (selection procedure is described in paragraph 3.3.4.).

Service provider: The Buzinezzclub

The Buzinezzclub is a commercial company that helps and supports unemployed people. They help people to (re-) start with school, work or own company. To build a track record, a pilot was started with financial support from the municipality. In the pilot, eleven youngsters were treated by The Buzinezzclub: the program stopped their benefits 211 days (average) earlier than average (Start Foundation, 2013). There are three half year programs: ‘entrepreneurship’s, ‘school’ and ‘work’. Their methods include workshops, trainings and individual coaching, which is all centered around the dreams and talents of the youngsters (PlusConfidence NL, 2015).

Independent assessor: Ortec Finance and Deloitte

Ortec has built a model to calculate the performance of the Buzinezzclub. It calculates what the expected benefit period is of each person on the basis of the municipality’s benefit data and personal features (ABN AMRO, 2015). The model takes economic conditions into account and relapse in unemployment. Mathematical details about this model are unpublished.

The role of Deloitte is to use this model and to measure performance. The moment a new group has started a treatment, Ortec measures the variables and calculates how long this group would be unemployed without the Buzinezzclub. This is compared with the actual results and the end (and there after) of the treatment. This is measured per individual and is add together, where after the median is determined. To assess long term effects of the program, every individual of the treatment group is measured over a long period.

For instance, Ortec calculated that the average unemployment time of similar youth (but not treated) is 22,7 months. Deloitte then measures whether the treatment group is shorter unemployed than 22,7 months.

Outcome payer: Municipality of Rotterdam

The municipality of Rotterdam has circa 11,000 employees and is responsible for more than 600,000 inhabitants. The municipality was the outcome payer and only paid for positive outcomes. This payment was thus never higher than the created public savings. Financial details are described in the next subparagraph.

Investors: Start Foundation and ABN AMRO

Together, Start Foundation and ABN AMRO invested €680.000 in The Buzinezzclub (ABN AMRO, 2015). Dependent on the success rate of the service provider, interest can reach up to 12% over their investment of €680.000 on a yearly basis (PlusConfidence NL, 2015). Start Foundation and ABN AMRO both invest 40% of the needed capital. The Buzinezzclub bears also minor financial risk: the last 20%. Start Foundation is an independent social investor who wants to create chances and work for people who are vulnerable to the labor market. ABN AMRO, a Dutch commercial bank, created in 2013 the ABN AMRO Social Impact Fund (AASIF). With this fund the bank invests in social and sustainable companies who are eager to change society in a positive way.

Foundation SIB Rotterdam

This foundation is a special purpose vehicle and was established for this SIB only (ABN AMRO, 2015). The investors are together in this foundation and payments were made via this foundation; it is a legal framework and not an intermediary party. There were two contracts: one between The Buzinezzclub and the foundation and one between the municipality and the foundation.

3.3.3 Goals and gains

Financial impact

The final results of this program will be released in 2018. Only then we know if the intervention was sustainable. The first results are promising. From the first group, 80 unemployed youth, 59% is reintegrated faster than the average of two years (Gemeente Rotterdam, 2016). This means that 47 youngsters were faster back to work or education. Calculations by Deloitte showed that the intervention reduced benefit with 464 days for each person. This creates large savings for the municipality. Although official numbers remain unpublished, an idea can be given: a single youngster costs the municipality circa € 40 a day (NOS, 2013 and De Volkskrant, 2013). With 464 days for 47 youngsters is that almost € 900,000 of savings each year.

To place this € 900,000 yearly savings into perspective: the total costs were € 880,000. For a total of 160 participants were the cost per participant was € 5,500; € 880,000 in total (PlusConfidence NL, 2015). The largest part was used by the service provider. Organizing the SIB cost € 40.000, which included contract and due diligence costs. Also included are the measurement costs by Deloitte, which was a few thousand euro's each year (van Es, 2015). Ortec has built its model for free. Work by own employees was not included, this could had been replaced by an intermediary, but had cost money.

Social impact

The lives of 47 young unemployed people has radically changed due to the intervention. They started a job or school after a long period of unemployment. If the second year is even successful and the intervention turns out to be sustainable, the amount of touched lives will be doubled. Start Foundation mentions three positive side effects. "Empowerment" of youth, entrepreneurial skills and building confidence (Start Foundation: Factsheet Buzinezzclub Rotterdam). Although, these side effects are difficult to measure, they can have large influence on local society. However, social impact must not be overrated. The target group existed of 160 unemployed youth, in a city of more than 600.000 people.

Spur of innovation

In four different ways caused this first Dutch SIB an innovation incentive (PlusConfidence NL, 2015). First, the new financing method for social projects was new in The Netherlands and drew much attention from media and policymakers. Second, The Buzinezzclub showed that awareness for the personal drives of young people matters a lot in the re-integration process. Using their own dreams was a good motivation for them. Third, The Buzinezzclub used not only the traditional goals of school or work, but also entrepreneurship. Fourth, the project established lasting connections between the business community and the treatment group. Individual coaching and a professional network ensured sustainable impact of the program.

Further gains, as describes in chapter two, are limited. It is likely that without the construction of a SIB, the intervention not could had been procured. Rotterdam spent less and less money on the supporting of unemployed people (NOS, 2013). Only half the earlier reintegration attempts performed well enough.

3.3.4 Risks and losses

There were some risks that may have undermined the SIB. The dangers can be placed under 'underperformance' of stakeholders (see chapter 2). The first issue is the selection procedure by the municipality, which was not free from cherry picking (PlusConfidence NL, 2015). The criteria were broad, so the reason for rejection needed to be grounded. Reasons for rejection could be for instance (more than) three months' pregnancy, due to mandatory participation of the half year program. Another reason could be that a candidate did not showed up at the interview. Although the service provider was powerless here, it did filter the candidates on motivation. However, the amount of rejections was estimated very small (van Es, 2015).

There are also doubts on whether the intervention of The Buzinezzclub is also useful for ‘more difficult’ groups (PlusConfidence NL, 2015). Young people with severe problems could not enter the program due to lacking qualifications, such as motivation or health, or could not pass the entire half year program. In this way, a difficult target group remained structurally unemployed.

There is a possibility that due to underperformance the SIB fails. A closely linked question is what stakes all parties have at risk? What would their losses be if the SIB fails?

Investors: Start Foundation and ABN AMRO

Both Start Foundation as ABN AMRO had invested € 272,000 and carried the largest financial risk. When the final results show a sufficient outcome, they will receive full repayment from the municipality. The service providers also financially invested in the project: € 136,000 (20%). It is uncommon for SIBs that a service provider also makes an investment. This is because it can influence the innovativeness or flexibility of the intervention.

Outcome payer: Municipality of Rotterdam

No reports mentioned any large potential losses for the government. The SIB ensured that payments only had to be made if public savings were realized. There were two minor risks that the municipality had to keep in mind. First, the municipality had to put effort in the developing and starting the project. Second, it is the responsibility of the government to protect and to take care of all, thus also the most vulnerable, inhabitants. The municipality had to keep in mind that a failing treatment would have put a vulnerable group further into troubles. In this way, the government's accountability was at stake in this SIB. However, taking the track record of The Buzinezzclub into consideration, was this risk limited.

Service provider: The Buzinezzclub

The Buzinezzclub had an investment and their good reputation at stake. They were responsible for 20% of the total investment: € 136,000. This financial risk put extra pressure on their performance. It is possible that flexibility and innovation has suffered under this construction. Next to the investment keeping up a good track record was a pressure to perform well.

3.3.5 Lessons learned: recommendations

- *Longer contracts and optimizing measurement instruments*

The first SIB in continental Europe received much attention from the media and policymakers. Investor ABN AMRO had three recommendations (ABN AMRO, 2015). First, ABN AMRO and the Municipality of Rotterdam prefer in future SIBs longer contracts (van Es, 2015). The duration of this SIB was two years and had therefore limited impact. To enlarge social and financial impact and to give more room for innovation, longer contracts are recommended. ABN AMRO's second recommendation was the optimizing of measurement instruments. According to ABN AMRO, Ortec's calculation model worked well and forms a good basis for new measurement instruments, where more personal features can be placed. In this way, measurement of performance can be more precise. Third, focusing and measuring of side effects can also be promising according to ABN AMRO. Improving of health, reducing debts and improving of wellbeing are side effects that can have large social impact.

- *Flexibility*

Flexibility is recommended; it can lead to better performance and more innovation (van Es, 2015). The focus on outcomes, rather than compulsory effort, creates flexibility; the government will less interfere with the service provider. However, it is important to pay attention that the investors will not take over this role, when they are having cold feet. Interference of investors is not advisable. If the investors are afraid to lose their investment, they must appoint an intermediary in the development phase of the SIB.

- *Start with a pilot*

This SIB has learned us to start a SIB with a pilot to convince other stakeholders. Especially if the service provider does not have a strong track record, the intervention is very innovative and not yet proven, or when investors and the outcome payer are not yet convinced of the proposals.

- *Local monitoring system*

One of the reports mentioned the importance of setting up of a local monitoring system (PlusConfidence NL, 2015). This can be difficult, but is important to learn lessons during the project. Monitoring of the treatment group must be longer than the intervention, in order to measure the long-term effects of the treatment.

4. Proposed SIB in Rotterdam

4.1 Introduction – a quick recap

Target population:	All unemployed youth in Rotterdam: 8,585 people.
Control group:	Unemployment time compared with historical control group or a small control that does not receive treatment.
Intervention:	Matching unemployed youth to the optimal welfare-to-work program.
Social Impact:	Faster work resumption of unemployed youth and lowering unemployment time.
Investment & returns:	Approximately €5 million. Financial returns for investors are not yet determined.
Structure:	Managed/intermediated.

Youth unemployment is a major problem in Rotterdam. Approximately 8,500 youngsters are currently without work or education in Rotterdam, from which approximately 2,850 receive ‘Bijstands-uitkering’ (aid), 1,200 WW-uitkering (unemployment benefit), and 3,450 nothing (Municipality of Rotterdam, 2015). There are two important reasons why the municipality is not efficient tackling this problem. First, there is no evaluation of any of the 72 welfare-to-work programs that are procured by the municipality. Second, civil servants are currently matching unemployed people with welfare-to-work programs based on limited knowledge. However, is the concerning unemployed assigned to the best fitted program?

Accenture’s proposes to rationalize this decision making process for civil servants. This is done by building a new system that analyzes big data from the municipality. This system will segment the population (with for instance, origin, age, motivation, (dis)advantaged, education, etc.), to match them with the program where they have the best chance of success. The system will show the success rate for every welfare-to-work program. Note that every unemployed and every program is unique. Success rates will be different for everybody. For instance, a motivated youngster from Rotterdam south is best suited for the program “Ready4Work”, while an unmotivated rich youngster has better success rates at the “Harde Leerschool” (Rugby Club). This system is also a solution for the lacking evaluations: unsuccessful programs will have low success rates and will receive less applications. This IT system can shorten unemployment time and can create public savings. It is therefore suitable to function in a SIB.

This chapter describes this SIB, as proposed by Accenture. Note that this is an exploratory research and that not all details are yet known or determined. The information that is known is described in this chapter; potential risks and losses are described in paragraph 4.3.

4.2 Stakeholders

The proposed structure has never been used before. It entails a combination of managed and intermediated structure. Accenture, as an extra service provider, will have the core role with the delivering of the new IT system to the municipality. The municipality procures the usual service providers, who are helping the target group. Contracting an intermediary with oversight is recommended. Due to difficult measurements is an independent assessor also recommended.

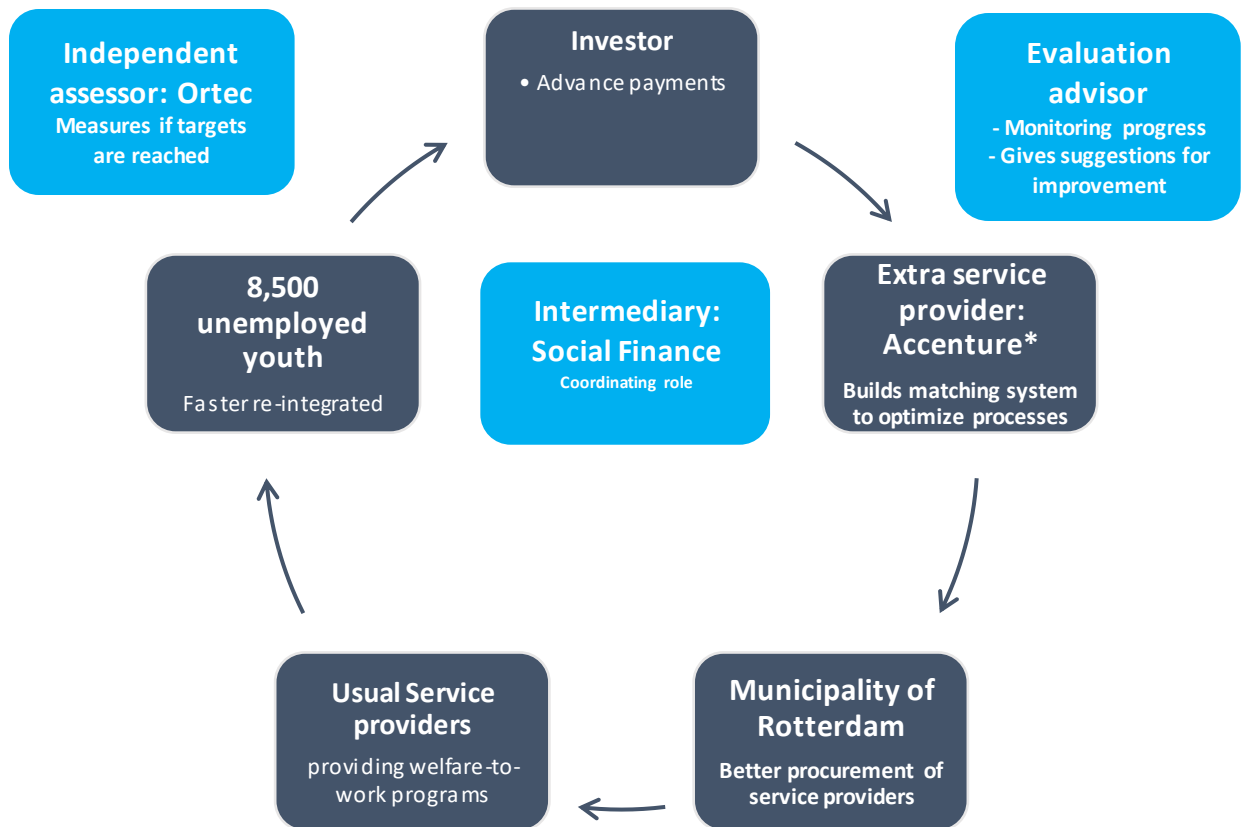


Figure 12: Structure proposed SIB Rotterdam; *Compared to other SIBs (see chapter 2), is in this chain an extra service provider (Accenture). This service provider is upfront paid by the investors; the usual service providers are procured by the municipality as normal.

Accenture (as extra service provider to the municipality)

Accenture is a global consultant, specialized in strategy, consulting, digital, technology and operational services. Accenture is an extra service provider, but delivers services to the municipality and not directly to the target group. They have a long track record and are certain of their delivery capacity and financial viability. Their proposal is to build from the big data from the Municipality of Rotterdam a new IT system that civil servants can support in their decision-making process. Accenture have built similar systems in Switzerland, Denmark and Australia (Accenture; Burning Glass Technologies; Harvard Business School, 2014).

In the exploratory phase, employees of Accenture stated in conversations that their colleagues managed to reduce unemployment time from seven to six months in Denmark (note: no references to reports). They combined a new IT system with digital marketing. Digital marketing is a helpful tool to motivate and support unemployed people. ‘Nudging’, for instance, is a new behavior psychology technique to stimulate people with (online/SMS) messages (Mathis & Tor, 2016). Although reports and details are (yet) missing, it is advisable to discuss digital marketing and nudging to improve performance in the development phase of the SIB.

Outcome payer: Municipality of Rotterdam

The Municipality of Rotterdam has currently 11,000 employees, divided over 14 areas. Their work is divided in six clusters. The cluster ‘work and income’ is responsible for the youth unemployment in Rotterdam. This department consumes the largest part of the yearly budget of the municipality, around 870 million euro (Rotterdam Begroting 2015: Programmabegroting, 2015). They try to help unemployed people back to work and to re-integrate the worst cases back into society. This is done with the procurement of service providers. After this SIB, civil servants of Rotterdam will use

Accenture's IT system to match unemployed youth with the program that have the highest success rate for them. Whether civil servants will use this system is a risk that is described in paragraph 4.3.

Service providers

Currently, there are 72 different welfare-to-work programs for unemployed people procured by the municipality of Rotterdam. Some are trying to re-integrate ex-drug addicts back into society, others are trying to give high educated youth unemployed the right network. They all have their own goals, interventions and target groups. Service providers are paid by the municipality per treated individual. Service providers are paid based on registrations. If a program does not receive any registrations, they will not receive any payments from the municipality. Service providers without registrations are however not required to stop offering their programs. Service providers are for instance: (Municipality of Rotterdam, 2017)

- Defense covenant (work in the army)
- Techniek College Delfshaven (learning engineering)
- Bigday Rotterdam (networking)
- Buddyproject (connection with intercedent from employment office)
- BBL (learning skills)
- Ready4Work (online learning skills)
- Heilige Boontjes (training for becoming coffee roaster)
- Harde Leerschool (intensive program with the Rotterdam Rugby Club)
- Startbaan (training and skills for Rotterdam harbor and airport)
- Talent Ontwikkeling is Topsport, Excelsior Foundation (program for ten weeks, training four hours a week)
- Link2Work (Networking and coaching)
- The Boost – Flanderijn (Training and coaching)
- Kickstart your social impact (working experience)

Investor

Accenture has already an investor in mind, but wants to be discrete on this until the investor is completely convinced to participate. Finding other investors who are willing to invest in social projects is becoming more and more easy (Vogel, 2017). The proposal is that the investor invests in Accenture's IT system, where after they will receive from the municipality the investment back when the IT system is lowering unemployment time and is creating public savings. A financial bonus that is dependent on the amount success is possible. However, the investor does bear the financial risk; repayments by the municipality will not be made if unemployment time does not lower enough.

Independent assessor: Ortec

Ortec is a provider of technology and advisory services for risk and return management. They are responsible of measuring if targets are reached and how much public savings are made. Ortec has participated earlier in a SIB in Rotterdam and has much experience. They created earlier a model based on historical data from the governments beneficial system. One of the things they measured, was the average length that an unemployed received government benefits (van Es, 2015). The target group was measured consistently and compared with a control group. Every day an unemployed person was earlier back to work, they saved circa 40 euros.

Important is that realistic targets are set in the preparation phase. Reaching this target will trigger payments to the investor. Targets are not yet been set, but an advice can be given. The target can be for instance an average decreasing of 30 days of unemployment time. This amount must cover the costs and is thus dependent on the question how much the reduction of one day unemployment is saving? Extra targets can be set for an investor's bonus.

The question that remains is how to calculate if a person has earlier work than predicted. I recommend to match every treated individual with a similar non-treated individual, based on personal characteristics, such as origin, age, gender, motivation, residency, (dis)advantaged, education, etc.

Then, the unemployment time of every treated individual is compared with a non-treated individual. To be as accurate as possible, it is advisable to compare individuals, not the average of whole treatment and control groups. Every day a treated individual is earlier to work than its comparison, it saves the municipality approximately 40 euro.

Who then, are the 'control' individuals? An historical control group brings difficulties: there is a chance that the boom-and-bust cycle influences the average unemployment time. This is very hard to process this in an econometric model, because boom-and-bust cycles are difficult to predict (Klaauw, 2013). Another option is the creation of a control group in another city. Important here is that different places bring different side effects, which can make comparisons difficult. Important is that comparisons must be done on the long term and that most side effects are taken into the calculation. A better option is the creation of a control group in Rotterdam that is not treated with the IT system, however this brings along ethical issues. No matter the treatment works or not, there will be a disadvantaged population.

Recommended option: Intermediary: Social Finance

An intermediary for this SIB is recommended, but not crucial. An intermediary can bring stakeholders to each other if the development of the proposed SIB proceeds too slowly or when agreements are not hold. A good option would be to choose Social Finance as intermediary.

Optional: Independent evaluator

An evaluator is especially important when scalability is desired. Lessons can be learned and more savings can be made if the target group increases or moves to other cities. An evaluator, which can be a university or think tank, will check the performance of every stakeholder.

4.3 Potential goals and gains

Social Impact

Rotterdam has the highest youth unemployment rate in The Netherlands and in some suburbs is one third of the youth without work or education. In these 'problem suburbs', as how are they are called, is the predicted social impact large. Helping youth to work or education will keep them from the streets and will also lower crime. The expected social impact is therefore large.

Financial returns

Also important, are the financial returns of the project. The financial aspect of the SIB is the most beneficial for the municipality. Their savings will be permanent. Specific numbers are not yet available, but an indication can be given. The key is that every unemployed person cost the municipality € 39,70 a day (van Es, 2015). If the average unemployment time is reduced by two weeks, it will save the municipality € 555,80 for each person. For 8,585 unemployed youth is this a total saving of € 4,724,300, without considering the side effects.

Not seen before in the SIB field is that the public savings are permanent. After the investment is paid back by the municipality, the savings will continue. Repayments can take several years, but when completed, the savings will continue and the municipality will continue to profit from it. This means that also the social impact is permanent.

In contrary, the costs to set the SIB up, based on the numbers from an earlier SIB in Rotterdam, are estimated on 40,000 euro (van Es, 2015). The costs for Accenture to build the new IT system are not yet known, but similar projects costs circa € 5 million. Further costs are the intermediary, the independent assessor and/or evaluator. If unemployment time is reduced with two weeks for all unemployed youth, the IT system earns itself back within 13 months, according to these rough calculations.

The proposed structure and methods of this SIB have more gains than only its main goals. There are five gains that can be applied to this case, that are mentioned in chapter 2.

First, it corrects poor incentives. A new IT system will correct poor programs from the 2000's (Klaauw, 2013). Many commercial welfare-to-work firms were lacking performance, but were a large expense for the municipality. Re-integration budgets were ineffective and contracts were made with the wrong incentives. For instance, cherry picking caused that targets were reached; only the easiest cases were treated and the difficult cases remained unemployed. The proposed SIB creates better incentives: service providers will try to have a high success rate (success rates are calculated on the long-term re-integration). Besides the proposed SIB improves Rotterdam's re-integration policy: the SIB solves current problems with welfare-to-work program evaluations. Current programs are not evaluated and the municipality does not have any knowledge about their performance and efficiency. According to the OECD, SIBs foster a monitoring and evaluation culture between public organizations and service providers through the demand for better data (OECD, 2016). Monitoring and evaluations, often present in SIBs, ensure that service providers are better motivated to perform better.

Second, this new SIB will create better accountability for the Municipality of Rotterdam. Policies as: "we are doing a lot, in the hope that it works" and having the highest regional youth unemployment rate in The Netherlands does not imply good accountability. Lowering unemployment time and improving re-integration can change this.

Third, a SIB will make it possible to finance this new project. Building a new IT system with no guarantee that it will lower unemployment time, will restrain the municipality to invest in it. An investor who is willing to take this financial risk makes it possible to start this project.

Fourth, the new proposed SIB in Rotterdam could be an incentive for innovation. From the perspective of the SIB field is this proposed SIB innovative: a new SIB structure with an unparalleled large target group, combined with permanent savings and no cherry picking in the target group (Fraser, et al, 2016).

Avoiding cherry picking is normally a challenge for SIB's, but due to the availability of the matching system to *all* youth unemployed is this not a challenge but strength. Until now, target groups of SIB were relatively small and were only a small proportion of the total population. The exemption is the SIB at Peterborough where the whole population was treated.

Another gain of this SIB is its unparalleled large target group, which increases social impact. The average target group of the first 22 SIBs worldwide was 1,238 persons. Many SIB's were focused on small groups of couple hundred people; rare exemptions were large SIB's with target groups of 3,000 people. The new IT system is available for every unemployed person. The first intention is to apply the IT system to the youth unemployed. This target group in Rotterdam is 7,500 people. This unparalleled large target group makes this SIB a game changer in the SIB field. When it turns out to be a success for youth unemployment, it can easily be scaled up to all unemployed people in Rotterdam: 30.500 other unemployed (CBS, 2017).

4.4 Potential risks and losses

Measurements of public savings

A large risk for the proposed SIB in Rotterdam are the correct measurements of public savings, which can be traced back as an information asymmetry problem. We have seen that this issue is often a challenge in SIBs. The model to measure performance, as described in chapter 4.2, has some significant risks. First, the independent assessor must take several difficult variables into account:

- Those unemployed that are not-entitled to benefits. This is challenging for two reasons. First, who are they? They are hard to find and not registered. If it is not known who they are, the youth counter cannot assign them to a welfare-to-work program. Second, measuring public savings for this group is difficult.
- 'Brievenbus-MBO'ers' (mailbox students): young people that are sent from unemployment to school, but are not present at school due to lack of motivation or inability. They are registered as students, but do not go to school. These people are very likely to fall back into unemployment, because they don't have a basic qualification. The consequence is that unemployment rate is not accurate calculated.

Other costs that are made are the indirect consequences that follows unemployment, such as criminality and health issues. Mapping side effects is important for the measurement of savings. Statistics can show that the project lowers the number of benefits, but a strong increase in criminality due to the new system causes a rise of cost for the government. For this reason, is it important that the measurement of savings take several variables into account that can cause a rise – or drop – of public costs.

- Demand for homeless shelters and debt counseling is expected to lower.
- Rise/fall of criminality. Youth unemployment has much negative influence on criminality and causes higher judicial costs (Carmichael & Ward, 2000). In the Netherlands have unemployed youth much more chance to come into contact with the judiciary system (Traag & Marie, 2011). The English Centre for Social Impact Bonds has made a database with more than 600 cost estimates of the government. This overview shows in detail what, for example, an offender or unemployed person cost for the government. The average cost of a youth offender of a first time entrant to the Criminal Justice System costs 3620 pounds. A similar database for the Netherlands would be convenient.
- Health can also be an indirect variable that have influence on society. A person's employment or unemployment can have impact on his or her health (Lakey, et al., 2014). This then has influence on healthcare costs. However, this is difficult to calculate and difficult to measure. Besides, health care costs are only partly paid by the government.

Information asymmetry: large web of data and SIB is complex for stakeholders

SIBs are sometimes seen as difficult and complex projects that are difficult to understand for stakeholders. Besides, the enormous amount of big data that the Municipality of Rotterdam owns, is very difficult to analyze. They do not know how lessons can be drawn from it. Complex SIB structures and complex big data analytics does not improve the willingness to start a SIB. A solution to this problem can be pilot programs. Pilots can give the needed evidence for hesitant stakeholders that the new method works. Proven interventions are easier to sell in the procurement and contracting phases.

Related to this risk is lacking information about the setting of proper targets. A target is set based on financial impact expectations, not on social impact expectations. The financial impact can be calculated: savings are significant enough when they are higher than the costs. The target therefore must be set above the break-even-point. If the target is set too low, the municipality will pay too much to the investor; if the target is set too high, the municipality will pay too little to the investor. In both cases will the SIB not work properly.

Underperformance

Another risk in this SIB can be placed in the category underperformance. The goal of the project is to make an IT system for civil servants at the youth counter. Civil servants, however, have relative autonomy from organizational authority and do not always follow (new) policies (Lipsky, 2010, p. 16). It is however difficult to check whether there is slippage between the orders and the carrying out of orders. Civil servants with years of experience can have difficulties in changing work methods. For this SIB, it is important that the risk of noncompliance by civil servants is minimized; it can undermine the whole project. Reducing this risk can be done in various ways, such as giving and controlling guidelines, and giving the right incentives or sanctions (Koning & Heyma, 2009; Lipsky, 2010, p. 225).

Another problem that can be categorized as underperformance is that the IT system must work properly. The next described situation is a risk that must be avoided. The IT system sends the most difficult cases to service provider X and the easiest cases go to service provider Y, because that is where these service providers are specialized in. There is a chance that service provider X, who works with the more difficult cases, has a drop in its success rate (because, difficult cases have a higher chance of failing). The system will then send the most difficult cases to service provider Y, who is not specialized in these cases. A drop in success rate for service provider Y will take place and the system will correct itself again. This circle must not continue, to make sure that all unemployed people are sent to the correct service providers. Accenture must avoid this in its IT system.

In comparison to the risks, are the potential losses marginal. If the IT system fails to meet performance and the repayments to the investors are not made, the stakeholders will lose their delivered inputs. What are these inputs? What exactly have the stakeholders at stake?

Investor

The investor will bear the financial risk. This will be (a large part of) approximate € 5 million for the project, approximate €40.000 for the development of the SIB and the extra costs for an intermediary, independent assessor and evaluator.

Municipality of Rotterdam

The effort that civil servants make to learn and use the new system will be in vain if the project lacks sufficient performance. Next to effort is the accountability at risk; the municipality is responsible that the vulnerable target group is not harmed. However, the chance is limited that the SIB is worse than the current policy of “doing a lot, in the hope that it works” without thorough evaluation. Nonetheless it is wisely that include step-in rights in the contracts, so the government or intermediary can intervene if things seem to go wrong.

Accenture

A failing project can harm Accenture’s reputation and winning new procurements can become more difficult. This is also the case for the intermediary and independent assessor if they do not perform well enough.

5. Analysis

	Literature	SIB Peterborough	SIB Riker Island	Buzinezzclub Rotterdam	Proposed SIB Rotterdam
Structure	- Direct, or - Intermediated, or - Managed	Managed/ Intermediated	Managed	Intermediated	Managed/ Intermediated
Target population	Total: 100,000 people	3,000 ex-offenders	1,470 offenders	160 unemployed youth	8,585 unemployed youth (mid 2016)
Investment	Worldwide €200 million	€ 17,68 million	€ 9,02 million	€ 680,000	€ 5 million (approx.)
(Potential) Goals	<p>Social impact: 100,000 lives “touched”</p> <p>Financial impact: Made public savings unknown.</p>	<p>Social impact: 8,4% reduction of recidivism. 84 persons each year not reconvicted</p> <p>Financial impact: unknown</p>	<p>Social impact: reducing recidivism at no significant rate.</p> <p>Financial impact: No public savings and no investment returns. Potential savings: 1-20 million</p>	<p>Social impact: limited reducing unemployment time for 47 people (first year).</p> <p>Financial impact: public savings of €900,000 yearly.</p>	<p>Social impact: reducing unemployment time and better re-integration</p> <p>Financial impact: Permanent savings for municipality. Predicted amount unknown.</p>

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<p>(Potential) Gains</p>	<p>Better incentives to solve social problems</p> <ul style="list-style-type: none"> - Correcting poor incentives - Outcome based - Transparency - Accountability <p>Better allocation of public money</p> <ul style="list-style-type: none"> - More efficient service - More innovation - Riskier investments are possible - Possibility to finance new projects <p>Unlocking new funding</p>	<ul style="list-style-type: none"> - Dividing of financial risk - Flexibility - No cherry picking 	<ul style="list-style-type: none"> - Dividing of financial risk - Spur of innovation - Unlocking new funding 	<ul style="list-style-type: none"> - Possibility for financing this project - Spur of innovation 	<ul style="list-style-type: none"> - Dividing of risk - Permanent savings - Innovation incentive - Saving public money - No cherry picking - solution to current problems - unparalleled large target group
<p>(Potential) Risks</p>	<p>Information asymmetry:</p> <ul style="list-style-type: none"> - legislative challenges - Measurements of public savings - Underperformance 	<ul style="list-style-type: none"> - Underperformance: Finding good and enough volunteers 	<ul style="list-style-type: none"> - Underperformance - Lacking early performance indicators 	<ul style="list-style-type: none"> - Underperformance - Cherry picking 	<ul style="list-style-type: none"> - Information asymmetry: simplicity and proper targets - Measurements of public savings - Underperformance: non-compliance of civil servants and proper IT system

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<p>(Potential) Losses</p>	<p><u>Investors:</u> Investment</p> <p><u>Government/outcome payer:</u></p> <ul style="list-style-type: none"> - Commitment/effort - Political reputation - Accountability <p><u>Service provider:</u></p> <ul style="list-style-type: none"> - Reputation - Profit <p><u>Intermediary:</u></p> <ul style="list-style-type: none"> - Reputation 	<p><u>Investors:</u> investment</p> <p><u>Government:</u> <i>negligible</i></p> <p><u>Service provider:</u> reputation</p>	<p><u>Investor:</u> loss of 7.2 million dollars.</p> <p><u>Government:</u> no financial losses.</p> <p><u>Service provider:</u> reputation losses</p>	<p><u>Investors:</u> investment of € 0.68 million.</p> <p><u>Government:</u> effort by civil servants and the safety of vulnerable target group.</p> <p><u>Service provider:</u> € 138,000 and reputation losses</p>	<p><u>Investors:</u> financial risk</p> <p><u>Government:</u> effort by civil servants</p> <p><u>Service provider:</u> reputation</p>
<p>Lessons learned: recommendations</p>	<p>-</p>	<ul style="list-style-type: none"> - Flexible funding and operating - Appointment of a director - Volunteers - Reducing information asymmetry - Protecting service provider and government 	<ul style="list-style-type: none"> - Flexibility - Appointment of an intermediary - Start with a pilot - Early performance indicators - Spreading out of repayments 	<ul style="list-style-type: none"> - Flexibility - Longer duration - Start with a pilot - Optimizing measurement instruments - Local monitoring system 	<p>-</p>

6. Conclusion

6.1 Summary and limitations

Since 2009 we have witnessed a rapid growth of SIBs around the world. Policymakers are experimenting with the new financing method and academics are researching many aspects and cases. The scheme summarizes the key points of the literature and the three cases. The main question, 'in what way can the proposed SIB in Rotterdam best be set up?', will be answered with the scheme above. A structure of the SIB, with all stakeholders and their roles is already proposed in chapter four. The conclusion will propose recommendations for the proposed SIB.

Important in the comparison is to take into account the external validity: SIBs are largely context dependent. In the table, we can see that the three cases are not completely similar in structure and size, which can be helpful in the comparison. Learning lessons from other cases can be useful for the proposed SIB in Rotterdam, but future stakeholders must be aware that there is a chance that due to context dependency, not all recommendations can be followed.

SIBs are seen as very risky investments. Andrea Phillips, vicepresident of Goldman Sachs argues that nonetheless this risk and nonetheless the failure of Riker Island, colleagues and clients are not less enthusiastic about future SIBs (ABN Amro, 2015). Important to question here is whether their enthusiasm is justified or that they lack criticism. Neither the total financial returns are known, nor the total social impact. The question remains how much public savings are really made in the three cases. SIBs have showed to be very promising, but their exact achievements are not publicly known.

If we take a closer look at the table, we can see in the fifth row that the achieved goals lack financial numbers. Lacking financial numbers hurts the internal validity of the research; it makes it more difficult to analyze and to compare the cases. There is a lot of excitement around SIBs, but it is not exactly known how much success is booked. This limitation deserves more research in the future, just like the role of SIBs as new public policy (see chapter 2.2).

In the sixth row a wide range of potential gains for SIBs that academics have described. The three cases showed that in practice, these gains are merely mentioned, on the exception of 'dividing of financial risk' and 'innovation incentive'. It is likely that these gains are also applicable to the proposed SIB. These are gains that are inherent to SIBs, no matter what kind of structure. Flexibility however not; flexibility was in Peterborough created in contracts and by the appointment of an intermediary. Flexibility is thus not necessarily included in the proposed SIB. We have seen that flexibility has several benefits, such as adapting the program after learned lessons. The third case, The Buzinezzclub in Rotterdam, had as one of the most important gains, that a SIB created the possibility to finance this project. Without the SIB, there was no budget to start the intervention. It is likely that three years later, Rotterdam still has insufficient budgets for large extra projects. This gain is thus also applicable to the proposed SIB in Rotterdam.

In the seventh row, we can see an overview of risks. The SIB in Peterborough struggled with finding enough volunteers. It is not expected that this will be a problem for the proposed SIB; no volunteers are included in the proposed structure (see paragraph 4.2). The Buzinezzclub case, and especially the Riker Island case, showed that underperformance by service providers is a real threat. At Riker Island, we have seen that it even was fatal for the project. One of the reasons for underperformance at the Buzinezzclub was cherry picking: the most difficult cases were not treated. This problem will not be applicable to the proposed SIB, where the treatment population is the whole population. The proposed SIB has more predicted risks than all three cases: lacking simplicity, setting proper targets, right measurements of public savings, non-compliance of civil servants and proper performance of the IT system. These risks need special attention in the preparation phase. For some risks are solutions described, such as the appointment of an intermediary to minimize information

asymmetry and giving proper guidelines with proper incentives or sanctions to minimize the risk of non-compliance of civil servants.

The seventh row shows the potential losses per stakeholder. The potential losses were in all cases very small for the governments. The case of Riker Island proved that the risks for the outcome payer was minimal. The investors carried the largest financial risk. However, stakeholders must be aware for other risks, such as harmed reputation or accountability.

6.2 Recommendations for proposed SIB in Rotterdam

Flexibility in the overall project

Striking is that in all three cases recommendations were made to ensure flexibility in the project, so that adaptations could be made. Note that this recommendation is not for civil servants; they must use the IT system. Flexibility is recommended in the structure, methods, payments, funding, operating, etc. For instance, an intermediary can change programs if one of the stakeholders lacks performance. Ensuring flexibility in the overall project is recommended: it is anticipated that the evaluating role of the new IT system will have impact on the service providers. Some will turn out to perform well, others not. Flexibility can ensure that necessary adaptations can be made. Flexibility can be achieved in several ways. The easiest way is to include flexibility in contracts or the appointment of an intermediary. Keep in mind that there can be tension between flexibility and fidelity to the original program (Rudd, et al., 2013). Flexibility makes adaptations of the project possible, but investors or the outcome payer may have less risk if the original evidence-based program is followed.

Start with a pilot

Start with a small-scale pilot to convince stakeholders. This is not a necessary condition, but it is done in all three cases and in two cases explicitly mentioned as recommendable. Important to note is that some issues only can be tested or will come to light at a full-scale pilot test (Rudd, et al., 2013). Building the IT system will take approximately one year, including a small pilot phase.

Appointment of an intermediary

Although already included in the proposed structure, it is worth to mention the recommendation to appoint an intermediary in the proposed SIB. The role of an intermediary is dependent on the complexity and the risks of the SIB. Predicted is that the intermediary will not have daily job in managing the SIB, but can form the glue between stakeholders: negotiating, contracting and making payments. The intermediary can reduce the risk of failure with monitoring, data management and technical assistance.

The intermediary can also reduce information asymmetry between stakeholders. In Peterborough this was supported with a database where all stakeholders could oversee the progress. Monitoring on low level was in this way possible. The proposed SIB has as goal to build a database system, it is recommendable that this database is available for all stakeholders. In this way, information asymmetry is limited and a local monitoring system is made.

Protecting service provider and government

The SIB in Peterborough protected service providers and government from performance-related risks. The SIB of The Buzinezzclub did not properly protect the service provider: they had an investment of €138,000 at risk. It is also not advisable to include performance-based payments for service providers. Not properly protecting service provider or government could affect flexibility, service provider performance and service users. Protecting the service provider and government can be reached in contracts and payment methods.

Optimizing measurement instruments

Taking the advice of The Buzinezzclub SIB of optimizing measurement instruments and the potential risk of the proposed SIB into consideration, it is recommendable to pay extra attention to the

measurements of performance. As mentioned, one of the biggest risks are these measurements. Taking as many of side effects and as many personal features into the calculations is recommended, although difficult. After all, more side effects mean more precise calculations of public savings and more personal features means better segmenting of population.

Early payments and early performance indicators

Chapter three described that the financial structure of the Peterborough project required a four-year waiting period before the first payments were made to the investors. The Buzinezzclub SIB and the Riker Island SIB were created in such a way that earlier payments to the investors could be made. This was also the case in most other SIB's that were focused on youth unemployment (Social Finance, 2016, p. 27). When possible, early payments are recommended, so the financial balance of all stakeholders stays healthy.

Necessary for early payments are early performance indicators. Riker Island lacked early performance indicators, causing too late adaptations of the program. Early performance indicators can increase short-term performance. This can be done by developing proxies of success to monitor progress.

To give a proper ending of these recommendations, I cite J. Milner and his colleagues from the Urban Institute:

“There will be big wins and big losses on the way to making government more evidence based, more creative, and more receptive to new ideas that better align our spending with the outcomes we want for our society” (Milner, et al., 2015).

Although the proposed SIB has some significant risks, the innovative character has much potential. The future will show whether this SIB will be a “big win” or “big loss” for the SIB field, as Milner puts it.

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