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The transferability of the UK SIB model - a case study of The Netherlands and Germany

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The transferability of the UK SIB model – a case study of The Netherlands and Germany

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I. Abbreviations

CDA	Christen-Democratisch Appèl or Christian Democratic Appeal
CDU	Christlich Demokratische Union or Christian Democratic Union
COVID-19	Coronavirus Disease 2019
CPT	Causal Process Tracing
CSU	Christlich Soziale Union or Christian Social Union
EaSI	EU Employment and Social Innovation Programme
EC	European Commission
EIF	European Investment Fund
EU	European Union
EuSEF	European Social Entrepreneurship Funds
FDP	Freie Demokratische Partei or Free Democratic Party
HI	Historical institutionalism
HIB	Health Impact Bond
HMP	Her Majesty's Prison
NGO	Nongovernmental organization
OECD	Organisation for Economic Cooperation and Development
PvdA	Partij van de Arbeid or Labour Party
PVV	Partij voor de Vrijheid or Party for Freedom
SI	Sociological institutionalism
SII	Social Impact Investing
SIB	Social Impact Bond [also known as “Pay For Success (Financing)”, “Social Benefit Bond” and “Sozialer Wirkungskredit” in German]
SPD	Sozialdemokratische Partei or Social Democratic Party
UK	United Kingdom
US	United States
VVD	Volkspartij voor Vrijheid en Democratie

1. Introduction

Governments worldwide struggle to find solutions to the dilemma of increased demand for social programs while dealing with limited budgetary resources. As a result, after economic shocks in the past, governments have turned to austerity measures to balance the budget.

In the aftermath of the global financial crisis in 2008, governments in the EU responded with initial social spending increases due to the additional incurred unemployment costs. However, they changed course and embraced austerity measures in the following years (Hermann, 2014). Vis et al. (2011) attribute this to a change in public opinion on deficit spending, which forced politicians to include austerity measures in the form of structural reforms, cuts to welfare programs, and tax increases. The United Kingdom is a particular example, where lawmakers embraced austerity policy and even explored new instruments that encompassed limited public spending.

The Social Impact Bond (SIB) is a model that first appeared in the UK in 2010, whereby social outcomes were linked with a financial interest. At Her Majesty's Prison (HMP) Peterborough, this approach was trialed to alleviate budgetary pressure and achieve predetermined objectives of reducing the recidivism rate of inmates. The SIB was unique in the sense that the state, the market, and civil society - actors that typically have different goals and stakeholders - aligned their interests toward common predetermined outcomes (Maier & Meyer, 2017). Since the launch of the first SIB, the number of SIBs in the UK increased to 83, and the concept of SIBs spread and evolved globally as well, standing at 191 SIBs around the world as of August 2020 (Airoldi et al., 2020)

To this day, most SIBs are found in Anglo-Saxon welfare systems such as the UK and the US, though the model is gradually expanding to countries with different social systems. What poses a challenge for implementing SIBs in other welfare systems in Europe is that - in contrast to the UK and the US - the state takes on a prominent role in the welfare provision, and existing programs are historically and socially institutionalized. Thus, the social policy objectives and the welfare state institutions create a different environment for implementing new outcome-based financing instruments.

Budgetary constraints make it imperative for governments to evaluate their current welfare policy portfolio and investigate new forms for public service delivery. These plans could include SIBs as a possible alternative or complementary to existing programs.

1.1. Purpose of the study

This thesis examines the transferability of the UK model of Social Impact Bonds (SIBs) into different welfare state designs. A particular focus will be placed on how the welfare state policies and institutions shape the implementation process of SIBs in welfare states. The research question is:

“How transferable is the UK model of Social Impact Bonds to different welfare state designs in Europe?”

Academic literature on the topic remains quite limited and centered around research fields in Anglo-Saxon economies such as the United Kingdom and the United States. The UK and the US also account for most SIBs, though the financial instrument also spread to other countries with different capitalist systems.

The study explores the role of welfare state systems and the institutions and policies that shape the implementation process of SIBs in different countries. Esping-Andersen (1990) categorizes western capitalist systems in welfare state regimes that differ in their reliance on the state to provide social rights and focus on market-based solutions for welfare provision. Given that a SIB operates in a space that combines market logic to an extent and public objectives, it is necessary to look at the different institutional environments that impact SIB implementations in other welfare systems.

By examining the Dutch and German approaches to new social financing instruments, this thesis seeks to expand on existing literature surrounding SIBs and social investing, a field that mostly investigates liberal welfare regimes such as the UK and the US. However, Continental European countries organize their welfare system differently, and historically the state has a bigger role in the provision of social rights. Thus, implementing SIBs in the European context could be expected to look different from the counterparts in liberal welfare state systems.

1.2. Outline of the study

The research design of this thesis is a qualitative comparative case study of the Netherlands and Germany that uses causal process tracing to explore how the institutional factors and policies impact the implementation process of SIBs. The study relies on documents to investigate the transferability of SIBs to different European welfare state designs. The primary sources for the research are government documents, parliamentary documents, and reports by other stakeholders involved, such as social investors, NGOs, and social enterprises. The documentation provides a broad narrative for the cases while also revealing the interests and motivations of these actors. Newspaper articles are used to triangulate the data and to demonstrate the contextual environment.

The thesis is structured into seven chapters. The first chapter introduces the topic of the study and gives background information on the motivation and purpose of the research. The second chapter establishes

the theoretical framework of the study, including academic work on SIBs and the implementation in the UK and the political economy, and institutional theory and scientific work on the welfare state. The third chapter outlines the methodology and design of the research. The case descriptions detailing the emergence of SIBs in the respective countries are found in chapters four and five. The empirical analysis can be found in chapter six. Finally, a conclusion will summarize the main findings of the research.

2. Theoretical framework

This chapter outlines the theoretical framework for a detailed examination of the welfare state policies and institutions and their impact on implementing SIBs in different welfare state designs. Firstly, the chapter conceptualizes Social Impact Bonds and goes into detail into the UK model of SIBs and how the political economy shapes SIBs. Furthermore, the chapter lays out the institutional concepts to explain the historical processes and institutional pressures towards continuity or discontinuity. Finally, to analyze the different welfare state designs, it is also necessary to explain welfare state theory.

2.1. Social Impact Bonds

Social Impact Bonds are part of the larger Social Impact Investing movement that emerged in 2008 as an initiative of the Rockefeller Foundation in the United States, intending to involve financial investors who contribute to efforts of solving social or environmental problems all while generating financial returns (Bugg-Levine & Goldstein, 2009). Social Impact Investing (SII) is understood as “repayable, private investments together to create “positive social impact” beyond financial returns” (Golka, 2019, p. 18). SII encompasses a wide variety of financial instruments that can stretch from socially conscious investments to philanthropy, though a significant driver is the outcome of social change (Maduro et al., 2018, p. 21). The SII market is most developed in economies with mature financial markets, resulting in an increased number of impact investors in Western economies in North America and Europe (OECD, 2019). Within the European context, the United Kingdom has taken an essential role in implementing SII policies and promoting SII in other countries by initiating what has now become the Global Steering Group for Impact Investment (OECD, 2019). As part of its SII efforts, the United Kingdom also became the first country to implement a Social Impact Bond in 2010 in Her Majesty’s Prison Peterborough (Disley et al., 2011). UK’s leadership role can be traced back to the facilitating policy environment of the early 2000s, where the groundwork for SII initiatives was laid by developing new concepts and networks surrounding social policy; however, the real push towards SII came with the conservative leadership of David Cameron who introduced new policies such as the Localism Act resulting in more SII initiatives across the country (Golka, 2019).

The existing body of research approaches SIBs from different angles. Maier et al. (2018) identify two paradoxes inherent to the SIBs: evidence-based flexibility and cost-effective risk transfer. The first paradox encompasses the objective of increased flexibility in providing social rights that are juxtaposed

to the policy objective of evidenced-based decision-making (Maier et al., 2018). For the second paradox, the authors identify a transfer of the innovation risk and the implementation risk towards private actors, which involves considerable transaction costs that challenge the policy objective of creating a cost-effective welfare provision instrument for the public commissioner (Maier et al., 2018).

Researchers have also examined SIBs in the broader discussion about the financialization of the welfare state. Hajer (2020) investigates the SIBs by comparing the national governance context surrounding the implementation in leader countries, such as the UK and US, and skeptics, such as Germany and France. The author finds that the leader countries' institutional and structural systems present a facilitating environment for implementing SIBs, thus stepping away from the traditional framing of cost-effectiveness and efficiency as the reasoning behind integrating SIBs in the policy portfolio (Hajer, 2020). Dowling (2017) explores SIBs in the broader discussion about the changing role of the state in the welfare provision in the UK and how SIBs could be seen as a continuation of the neoliberal maxim that places austerity at the center of welfare reforms while foregoing structural reforms that tackle social and economic inequality. Finally, Chiapello and Knoll (2020) apply the Welfare Conventions Approach to comparatively analyze how SIBs fit in the larger historical conflicts that include social, political, technical, and economic dimensions. They assess that SIBs are dynamic instruments shaped by the institutions and welfare systems (Chiapello & Knoll, 2020).

2.1.1. Definition of Social Impact Bonds

Contrary to what one might think when hearing of a Social Impact Bond for the first time, a SIB does not refer to a bond in the classical sense, where there is an agreement between a lender and a lendee about a loan and its repayment details. Instead, a SIB includes the condition that the desired and specified social objectives are met. A Social Impact Bond is an outcome-based social financing instrument between different actors, such as public institutions, service providers, and private social investors. Social investors provide the initial financing for the project to achieve the intended social impact (Warner, 2013). They enter into the SIB contract in exchange for a commitment by the government bodies to compensate for the initial investment and an additional return if the pre-defined outcome objectives are achieved (Dayson et al., 2019). In addition to the three main actors, SIB structures also involve an intermediary that is part of the development process of the project and tasked with securing the contract with public institutions and assisting the progress of the investment and the project (Fraser et al., 2018). Finally, SIBs also require external evaluators to ensure independent monitoring of the project and assessment whether the predetermined outcomes were achieved, which would then require a calculation of the returns paid to investors (Warner, 2013).

This financing instrument is also known as “Pay for Success (Financing)” in the United States, Australians use the term “Social Benefit Bond”, the United Kingdom and other countries refer to it by the term “Social Impact Bond” (Albertson et al., 2020; Maier & Meyer, 2017).

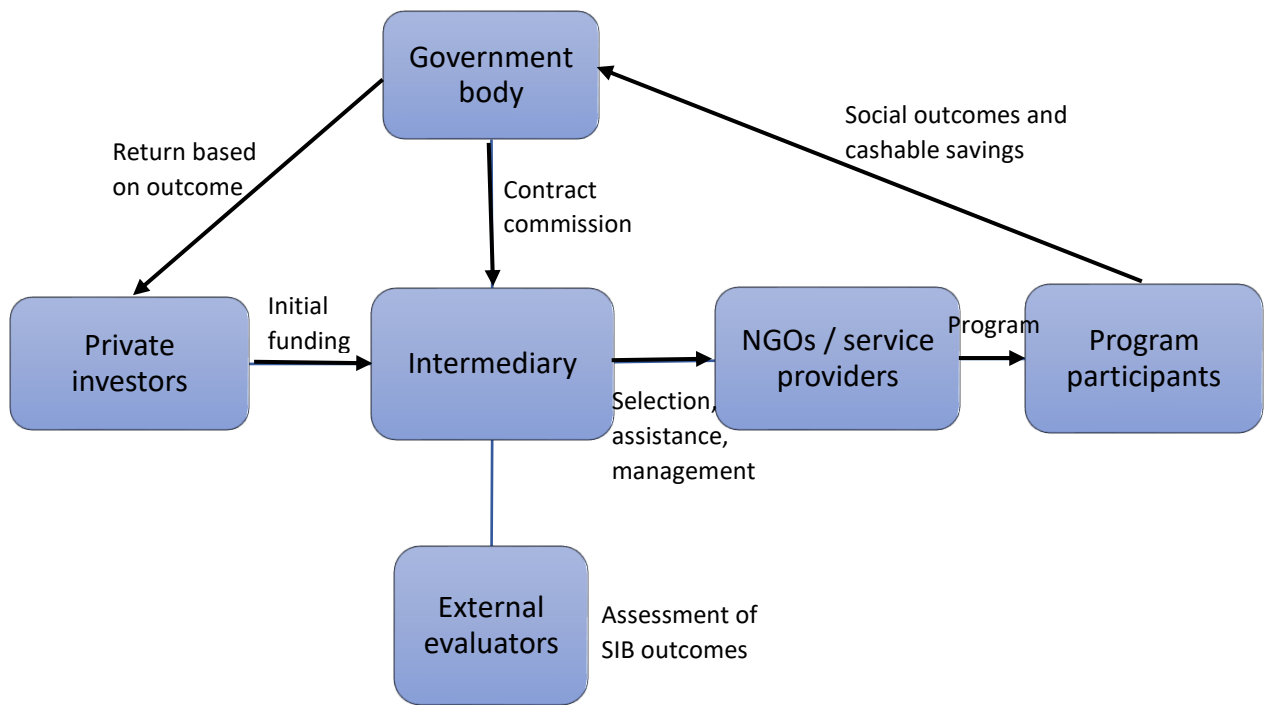


Figure 1- Structure of SIB based on Golka (2019) and (Department for Digital, Culture, Media & Sport et al., 2017)

2.1.2. Social Impact Bonds in the United Kingdom

The United Kingdom has taken on a pioneering role in implementing the Social Impact Bonds globally by launching the first SIB in 2010 to decrease the recidivism rate of short-sentenced inmates in HMP Peterborough (Disley et al., 2015). This pilot project was commissioned by the Ministry of Justice and the Big Lottery Fund, which then involved Social Finance UK, a private non-for-profit consultancy, as an intermediary that in turn gathered 5 million pounds as investment funding from private individuals and philanthropic organizations (Disley et al., 2011, p. 3). The project was originally intended to last until 2017; however, due to a policy change by the Ministry of Justice that would provide a similar service by public institutions, the project was cut short in 2014 (Guter-Sandu, 2018). Nonetheless, the SIB achieved the predetermined objectives of lowering the re-offending rate of short-sentenced prisoners, which was seen as a success.

Over the last decade, SIBs became ever more popular in the UK and spread to different policy areas in the process. The policy areas of SIBs range from homelessness to workforce development and employment training to family and childcare support to health/wellbeing and education (Airoldi et al., 2020, slide 28).

2.1.2.1. The UK's policy approach

The United Kingdom embraced the social investment market by providing institutional legitimacy through legislative acts, such as the Public Services (Social Value) Act of 2012 (Guter-Sandu, 2018).

The act's objective was to include the social and environmental factors in the commissioning process, thereby involving more affected stakeholders in the decision-making process to arrive at more effective and specific services (Guter-Sandu, 2018). In addition, the UK government initiated reforms that facilitated the “changes to legislation and policy relating to outcome-based contracting; tax relief to stimulate investment; creation of new intermediary institutions and funds to build market capacity and provide information, advice and guidance.” (Wiggan, 2018, p. 727).

The UK also adopted the Localism Act of 2011, which decentralized the decision-making process towards local actors, thus placing the social policy amid municipalities and the communities. Under the new Act, it fell upon municipalities to provide public services; the act laid the groundwork for the inclusion of private actors, such as social investors, in the public service delivery (Golka, 2019). The new Localism Act has expedited the emergence of SIBs in the UK (Harvie & Ogman, 2019). The UK government initiated another change through the Open Public Services Agenda in 2011. The government outlined the plan to extend the delivery of public services to include private actors. This plan builds on the idea that local actors should explore all avenues, such as social investment options and private enterprises, to deliver welfare (Cabinet Office, 2011). The policy agenda also included the Welfare Reform Act, which promoted individual responsibility while sanctioning those who abuse the system. This policy step encompasses the neoliberal notion of limited government and individual responsibility concerning entitlement programs. In his presentation of the welfare reform, Prime Minister David Cameron approached the reform initiative as part of a greater responsibility effort (Cameron, 2011). Overall, the UK policy approach signifies a devolution of social policy towards municipalities and divestment of public service to include more private actors.

2.1.3. Political Economy of Social Impact Bonds

Given that SIBs remain a new social investing instrument that broadened the discussion about the role of the welfare delivery, the historical and institutional processes of the existing welfare state indicate how well SIBs incorporate in the status quo.

The current democratic capitalist economy model can be traced back to WWII and provided a framework for government involvement to ensure social justice and stability (Streeck, 2013). The involvement of the state varies significantly among countries. They have turned to different strategies of financing social programs, though governments typically rely on a taxation-based or contribution-based system. The design of the welfare system is dependent on larger policy objectives and governments' positions on the involvement of the state in welfare delivery.

2.1.3.1. Three typologies of welfare systems

To compare these approaches, welfare institutionalist theory offers a framework that is conducive for comparative analysis. Gøsta Esping-Andersen, who authored the seminal work “*The Three Worlds Of*

Welfare Capitalism” in 1990, identifies three distinct types of welfare state regimes. Esping-Andersen (1990) analyzes welfare states along three dimensions. The first measure of welfare states is their degree of decommodification, which describes the extent of disconnect from the market regarding the delivery of social rights. The second dimension refers to the degree of social stratification, which assesses how classes are preserved in the welfare state. Finally, the last dimension evaluates regimes by the relative role that the state, the market, and the family take in delivering welfare. The dimensions determine the three welfare state regimes: liberal, conservative, and social-democratic (Esping-Andersen, 1990).

When it comes to the funding of social programs, both the liberal and the social-democratic welfare state regimes rely on taxation as the primary source for financing (Esping-Andersen, 1990). What differentiates the approaches is that the liberal welfare state type emphasizes the market instead of the state. The scope of government programs is generally limited and relies on means-tested flat-rate benefits for those who need it the most (Kersbergen & Vis, 2014). Typical examples of liberal welfare states are found in the Anglo-Saxon capitalist sphere, such as the United States, Canada, Australia, Ireland, New Zealand, and the United Kingdom (Esping-Andersen, 1999). On the other hand, social-democratic welfare states encompass the principle of universality, which highlights a primarily public approach to welfare delivery and the rejection of means-testing (Kersbergen & Vis, 2014). This generous way of financing social programs is very costly, which explains that taxes are generally high in social-democratic welfare states. Full employment is a priority to finance the expensive system (Esping-Andersen, 1999; Kersbergen & Vis, 2014). Social-democratic welfare states are often described as Nordic or Scandinavian, and typical examples are Sweden, Denmark, and Norway (Esping-Andersen, 1999).

In contrast to the liberal and the social-democratic welfare state type, the conservative model relies primarily on a contribution-based system to fund social security (Esping-Andersen, 1990). This approach is dependent on the employment and the working history of the individuals, thereby focusing on the social rights for the working population while foregoing the non-working population, such as homemakers (Kersbergen & Vis, 2014). Given that social rights and status are given based on the type of employment and working history, differences between social groups, such as working and non-working, are reinforced under this welfare state model. Typical examples of conservative welfare states are found in continental Europe, such as Germany, Austria, Italy, and France (Esping-Andersen, 1999).

2.1.3.2. Social Impact Bonds and the consolidation state

If we now look at the individual capitalist economies in their historical context, OECD countries faced a similar public debt problem from the 1970s onwards, which was usually associated with low economic growth, decreasing employment numbers, growing opposition to taxes, income disparities across society, and disengagement in the political process (Streeck, 2013). This posed a problem for governments. Due to the rising unemployment, the need for welfare spending grew, while at the same

time, tax revenues decreased. As Streeck (2013) notes, the growing budget deficit created a “*distributional conflict*”: the creditors’ commercial interests in ensuring that owed debt would ultimately be paid back and that public finance would foster an encouraging investment climate were in opposition with citizens’ interests gearing towards meeting welfare needs. To ensure that the funds of financial actors are protected, governments have embraced the structural reforms intended to balance the budget. Streeck (2013) conceptualized this as a transformation from the “*debt state*” towards a “*consolidation state*”. The objective of consolidation is to restructure public finance to effectively reestablish a favorable investment environment for creditors (Streeck, 2013). Indeed, further research on this topic suggests an increasingly close interaction between governments and capital markets, creating interdependence between different capitalist economies, as well as domestic trajectories that go back to the national economic and political environment (Fastenrath et al., 2017).

If we look at SIBs through the conceptualization of the consolidation state, we can discern that SIBs take on an interesting role in the sphere of welfare and finance. One could even argue that SIBs are an example of consolidation efforts. This is reflected in the structure as well as the motivations of the SIB. For instance, if we look at the SIB design, the public commissioner of the SIB shares the financial risk with the social investors, thereby restructuring public funds. The initial funding is sourced from private investors, while the public commissioner of the SIB distributes public funds and an additional return based on the project’s outcome. Additionally, SIBs offer a new market for private investors to invest in social outcomes, which could be viewed as the next step in commodifying social rights.

Given that SIBs operate in a sphere that is shaped by three actors, namely the state, the market, and civil society, commodification is visible in two areas. On the one hand, SIBs lead to the financialization of the welfare state because the state accesses private finance to arrive at the desired social outcome while financial actors are able to increase financial gains when the outcomes are achieved (Dowling, 2017). Thus, financialization can be defined as “a social process in which financial actors acquire a central position in social orders and change those social orders to their material benefit, critically based in cooperative relations with state actors” (Golka, 2019, p. 9). On the other hand, SIBs may also lead to the marketization of the third sector. Service providers (NGOs) are measured by the predetermined outcomes set in the contract, thereby applying market strategies in social policy. As a result, the predetermined outcome objectives could lead to a change in their service provision to meet the contract objectives instead of the client’s needs (Hudson et al., 2010; McHugh et al., 2013). Warner (2013) raises this issue by noting the threat of “creaming” the target population along the contract lines rather than the actual need of individuals for support measures.

2.1.3.3. A new manifestation of neoliberalism

The financialization of the welfare state and the marketization of the third sector follow the United Kingdom’s development of a social investment market and the larger movement of detaching the state

from the role of primary provider (Dowling, 2017). Following the neoliberal reasoning of reducing public spending, the United Kingdom asserted the “*political economy of Big Society*” in response to the financial crisis by detangling the state’s role from the provision of social rights and phrasing social security as a community-centered responsibility that includes civil and private actors, who are enabled to generate returns in the process (Dowling & Harvie, 2014). SIBs could point to a course correction within neoliberalism away from the negative consequences of market deregulation towards inclusive social capital policies (Ogman, 2020).

In many ways, though, SIBs are seen as a continuation of the neoliberal approach of activating the labor market and providing limited social services to those who are the most vulnerable (Dowling, 2017). Dowling and Harvie (2014) determine that the “*political economy of Big Society*” is shaped by three crises, namely the “*crisis of capital accumulation*”, due to the slow and uncertain recovery after the financial crisis, the “*crisis of social reproduction*”, pointing to the fact that societal costs are put on the shoulders of communities and civil actors, and finally the “*fiscal crisis*”, which refers to the UK’s sovereign debt problem that makes austerity measures all the more appealing. Ogman (2020) assesses that SIBs address these crises by posing as a new source of profitability by emphasizing the social values of private actors and merging them with economic objectives. Social challenges in health care, recidivism, labor force activation, and training could be addressed by using an innovative instrument that utilizes private funds and incurs fewer costs (Ogman, 2020).

Other countries have also addressed the negative economic impact of the financial crisis by limiting the scope of state involvement in the provision of social rights. Australia, a country that has adopted 10 SIBs so far, also implemented a policy agenda in line with the UK example where an “austerity rationality” became more entrenched in the political economy after the financial crisis (Broom, 2021, p. 119). Like other countries affected by the shock, the first policy step was a ramping up of spending to address the acute societal needs exacerbated by the economic downturn (Kennedy, 2009). What followed was also seen in other countries, namely a change of course and an embrace of welfare retrenchment policies. Broom (2021) identifies this “austerity rationality” grounded in classical neoliberal reasoning as one of the main drivers behind the adoption of SIBs in Australia.

Admittedly, both Australia and the United Kingdom are classified in the liberal welfare state typology. This is because the state already takes a minor role in public service delivery, and there is a greater reliance on the market. Nonetheless, neoliberal policies as a crisis measure have also been adopted by countries known for their expansive state apparatus, such as Israel. In response to periods of low economic growth at the turn of the century, Israel adopted a distinctive policy agenda that centered around the idea of integrating market ideals to strengthen the state’s influence (Maron & Shalev, 2017). Since the 1980s, the main drivers of neoliberalism in Israel were the state and semi-public institutions that initiated structural reforms to create a facilitating environment for market actors (Maron & Shalev, 2017).

2.2. Institutional theory

This thesis will draw from institutional theory to understand how SIBs fit in the respective welfare states. The first section will explain the relevance of historical institutionalism (HI) for institutional analyses and further describe how institutions emerge and change. The second section will explain the importance of sociological institutionalism (SI) for analyses and delineate the process of institutional change.

2.2.1. Historical institutionalism

Historical institutionalism is a theory that facilitates institutional analyses over time and thus highlights the formation processes of institutions. The theory is grounded in the understanding that the historical path that led to the institutions influences the institutional changes (Kickert & van der Meer, 2011). Historical institutionalists define institutions as “formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy” (Hall & Taylor, 1996, p. 938). The theory is conducive for analyses on the macro level, for instance, by providing a framework to explore the state formation, the welfare state, economic production regimes, as well as on the meso level, such as analyses of particular organizations and policy developments in a specific issue area (Pierson & Skocpol, 2002). The theory also analyses the relationship between several institutions in different institutional systems, such as the interaction between administrative, political, economic, and social systems. Finally, the theory provides a structure to explore the context in which the institutions operate, such as the historical period, region, culture (Pierson & Skocpol, 2002).

Under historical institutionalism, institutions are understood to be fairly stable, and once they are implemented, the institution's path becomes increasingly difficult to change (Thelen, 2009). There is a distinction between critical junctures – important points of change that set up the institution's future path – and periods of stability, referring to continuity of the institution's trajectory (Pierson, 2000). This refers to a concept called path dependence, which describes, in essence, that the history and the inception of an institution shape the institution's course in the future (Pierson, 2000). Pierson (2000) grounds this concept in the economic model of “increasing returns”, which refers to self-reinforcing or positive feedback processes. With every step down a path, it becomes less likely to alter the course, and it becomes progressively costly to change the trajectory, which creates a lock-in (Pierson, 2000). Furthermore, this underlines the reasoning that the sequencing of the events matters, early choices matter more because they set the trajectory for future decisions, and small events could lead to large and lasting consequences (Pierson, 2000, p. 263). This could result in institutions being virtually impossible to change.

2.2.2. Sociological institutionalism

Sociological institutionalism is a theory that places culture at the center and rejects the notion that the organization's institutional norms and processes are only introduced because of their rationality (Hall & Taylor, 1996). Sociological institutionalists define institutions not just as “formal rules, procedures or norms, but the symbols, cognitive scripts, and moral templates that provide the ‘frames of meaning’ guiding human action” (Hall & Taylor, 1996, p. 947). Institutions are seen as manifestations of the cultural and social norms and symbols that shape them. Sociological institutionalism as a theory challenges rational choice institutionalism, which assumes that institutions are born out of decisions based on calculated self-interest (Hall & Taylor, 1996). Sociological institutionalists see action as driven by duties and obligations that follow the logic of appropriateness, grounded in “the political and social system and transmitted through socialization” (March & Olsen, 1984, p. 741). Formal rules as well as informal norms define the appropriate behavior (March & Olsen, 2011).

Sociological institutionalism also provides a framework for analyses of the similarity in structures and practices of institutions. According to DiMaggio and Powell (1983), institutions within an organizational field are becoming increasingly similar. They define organizational fields as “organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products” (DiMaggio & Powell, 1983, p. 148). DiMaggio and Powell (1983) theorize that organizations and institutions are subjected to the same environmental and institutional pressures, making them increasingly similar. This concept is known as isomorphism.

DiMaggio and Powell (1983) distinguish three types of institutionalism: coercive isomorphism, mimetic isomorphism, and normative isomorphism. Coercive isomorphism describes a process where organizations change their behavior due to pressure by other organizations, which they are dependent upon (DiMaggio & Powell, 1983, p. 150). Possible examples are government regulations and requirements or even more subtle pressure by organizations that provide funding or legitimacy to another organization. Mimetic isomorphism refers to a process where organizations imitate each other; this happens in times of uncertainty where organizations seek best practice models and imitate them (DiMaggio & Powell, 1983, p. 151). Normative isomorphism explains organizations becoming similar due to “professionalization”, meaning that professionals working in the organization are the main drivers of the pressure because they received the same training in university and interact within the same social circles (DiMaggio & Powell, 1983, p. 152). The normative pressure is driven by the ideas and norms of the staff working within the organization.

Both historical and sociological institutionalism provide a framework for the analysis of the implementation process of SIBs. Historical institutionalism is an important instrument to trace the processes in the welfare state designs as well as the policies related to SIBs as well as the social

investment market in the respective countries. The theory also facilitates the evaluation of critical junctures and increasing returns processes as they relate to SIBs. Sociological institutionalism approaches the issue from a different angle and provides a framework for the interaction between the actors and organizations involved and how the culture surrounding SIBs shaped the perception and implementation in different countries.

2.3. Empirical expectations

To this day, most SIBs are found in Anglo-Saxon economies with liberal welfare states, which have a long history of cutting public spending and embracing the neoliberal understanding of putting social rights in the hands of the individual rather than a centralized government body. In light of the financial crisis, we can see that the UK embraced civil society involvement in solving societal problems by emphasizing community action and local support measures. Austerity paired with civic engagement on a local level is presented to ensure a balanced budget while meeting the welfare needs of society.

Following a HI reasoning which sees the trajectory of SIBs influenced by existing institutions in the public service delivery, one would expect that the model would not travel well into the German or Dutch context. In contrast to the UK, where there is a historically entrenched motivation to limit the role of public institutions as service providers, corporatist, and conservative welfare states, such as Germany and the Netherlands, rely on a strong public sector. Hence, I would expect an emergence of SIBs in the Netherlands and Germany only if it is triggered by a conscious effort to limit the public sector's responsibility, thus stepping away from the established corporatist and conservative welfare state typology. This would also mean that the financial crisis could also be interpreted as a critical juncture in developing SIBs in the Netherlands and Germany.

Alternatively, various kinds of isomorphisms could explain the emergence of SIBs in Germany and the Netherlands. From a sociological institutionalist perspective, new social financing instruments may be possible by emulating already existing and accepted institutions in public service delivery. This approach would see SIBs as the product of a country-specific environment and conditions. Under this assumption, one can expect that SIBs may look different in the respective countries, given that regulation and institutional infrastructure differs from the UK.

3. Methodology

This thesis aims to explore how the existing institutional frameworks of the welfare state impact the implementation process of Social Impact Bonds in Europe. Given that the United Kingdom was the first country to embrace the new social investment instrument and has since enacted most SIBs in the world. This study examines the differences in the implementation process in different welfare systems in the European context, a field that has not yet been covered extensively in the existing literature. Furthermore, Continental European welfare state designs differ from the Anglo-Saxon model found in the UK in many, and this thesis explores the welfare state policies and institutions regarding their compatibility and transferability of the established SIB model. Thus, the research question is:

“How transferable is the UK model of Social Impact Bonds to different welfare state designs in Europe?”

This chapter describes methods used to assess the data and arrive at a meaningful conclusion regarding the transferability of the UK model of SIBs into different welfare state systems in Europe.

3.1. Research Design

The thesis aims to provide a thorough look at the welfare state mechanisms, policies, and institutions that impact the implementation of SIBs in Europe. For that reason, the study relies on a qualitative research design, which refers to “meanings, concepts, definitions, characteristics, metaphors, symbols, and descriptions of things” (Berg & Lune, 2017, p. 12). In contrast to quantitative research, which builds on distinct measurements of variables and outcomes, qualitative research is conducive to in-depth analyses of various issues (Berg & Lune, 2017). Moreover, given that Social Impact Bonds are a relatively new social investment instrument, quantitative data sources on the topic are limited. Therefore, a qualitative research approach ensures that the study provides sufficient insights into SIBs.

The methodology is furthermore characterized by the use of a case-study design, a research strategy that aims to explore a topic in its natural context and by applying a variety of data sources to triangulate the empirical findings (Yin, 2003). In contrast to other qualitative research strategies, such as experiments, surveys, histories, and archival analyses, case studies are helpful “when a “how” or “why” question is being asked about a contemporary set of events, over which the investigator has little or no control” (Yin, 2003, p. 9). Thus, the research strategy is used to illuminate the contextual environment that impacts the puzzle at the center of the study (Yin, 2003).

For this study, I am relying on comparative case analysis. This method is dependent on process tracing to identify the causal factors within the case. Process tracing is an approach whereby observations are looked at that allows the researcher to “infer whether the hypothesized part of the causal mechanism was present.” (Beach & Pedersen, 2013, p. 123). The tracing of evidence is particularly useful when

determining the impact of policy changes and determining the importance of sequencing and timing on the trajectory of institutions (Blatter & Haverland, 2014). Historical institutionalism provides the theoretical framework for the mechanisms surrounding these processes, particularly when determining the critical junctures, which are points of radical change, and path dependency, which illustrates the institutional inertia to change (Blatter & Haverland, 2014; Pierson, 2000). Sociological institutionalism offers an alternative perspective of the factors that impact how well SIBs travel in different country contexts. This approach sees action as the result of the underlying system already in place, and institutional change is effected through incremental change rather than transformative processes (DiMaggio & Powell, 1983).

3.2. Operationalization

When it comes to the operationalization of the main factors that will be looked at in this study, I am exploring the policy steps that were taken which ultimately led to the implementation of SIBs. This study looks at the mechanism behind the financing of social programs and how SIBs fit in the welfare state. The mechanism for this study reflects the implementation process of SIBs in the UK. Given that the UK implemented the majority of SIBs to date and took on the role of a “first-mover”, it becomes apparent that the policy environment in the UK was particularly conducive for the development of new social financing instruments. What I intend to do with this study is to explore whether the same factors also come to play in the emergence of SIBs in the Netherlands and Germany.

In the UK, the financial crisis marked an important point of change because it resulted in an increased need for social programs when public budgets were strained, and the increasing levels of debt have created an additional challenge for the government. To establish whether this was the case in Germany and the Netherlands as well, I am examining to what extent the global financial crisis triggered policies geared towards alleviating the pressure on the welfare state and whether the issue was put on the policy agenda. Policy change regarding public spending and the standing of the traditional welfare delivery system will serve as operationalization.

Two overarching themes are prominent in the UK’s adoption of SIBs after the financial crisis, namely a focus on efficiency and effectiveness of social policy. The UK government explored support measures that would provide targeted solutions for those who needed them the most while also implementing barriers for those who were not among the most vulnerable. So, to explore whether these policy objectives also shaped the policy decision process in other country contexts, I am examining whether the strain on the public budget triggered a policy response that put 1) efficiency and 2) effectiveness at the center of the agenda. This requires textual and interpretative analysis of the coalition agreements, speeches, and policy documents that detail the governments’ objectives and to see whether governments introduced budget cuts towards established social programs, new legislative acts, and institutions that place “efficient” and “effective” social policy at the center.

When it comes to specific policy agendas, the UK outlined a framework centered around structuring social policy with local actors, who are believed to know the specific societal needs better within a community. Additionally, policies regarding the opening of public services were pursued by expanding the delivery to include companies, charities, social enterprises, and volunteers. These policy agendas can be consolidated in two large policy themes, namely a decentralization of the social service delivery towards local actors and an extension of public service providers to include “non-traditional” actors. The decentralization of social policy is grounded in the notion that local actors have a better idea about the needs in a community and incur fewer costs than when there is a focus on top-down social policy. The inclusion of non-traditional actors in the social service delivery is understood as a way of creating new social innovation opportunities through cooperation with for-profit and not-for-profit actors. For that reason, I am exploring whether the Netherlands and Germany introduced policy changes that decentralized and privatized public welfare delivery. To analyze whether that is the case for Germany and the Netherlands, I am examining if new legislation and policies were drawn up and implemented with the objective of decentralizing or privatizing social policy.

Finally, to explore whether the emergence of SIBs in the Netherlands and Germany follows a similar trajectory as the UK, I am exploring whether the objectives and policies of the mechanism impacted the adoption of SIBs. To observe whether that is the case, I am examining the temporal and spatial environment and analyze how SIBs are legitimized by policymakers and proponents of SIBs.

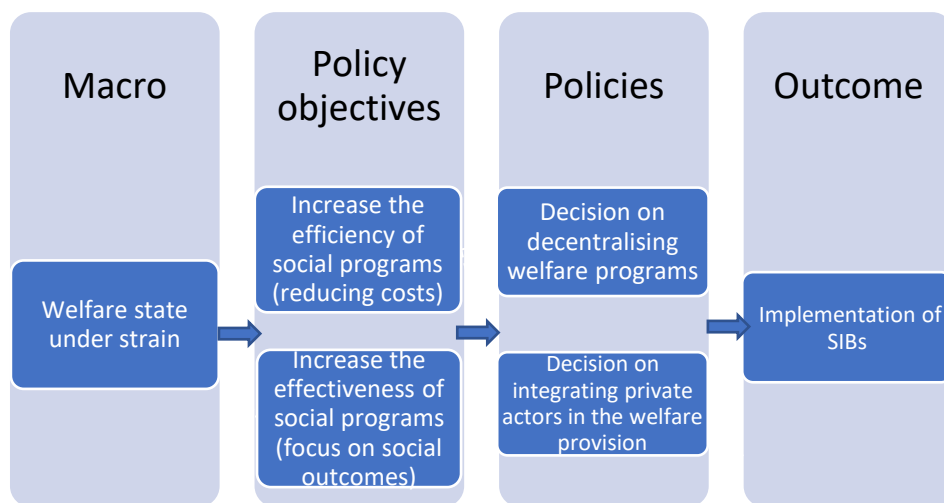


Figure 2 - Operationalization of the mechanism

3.3. Case selection

As previously mentioned, this thesis explores the transferability of the UK model of SIBs in different welfare states in Europe. I explored European countries with already implemented SIBs because it facilitates a deeper understanding of the causal links and mechanisms. Besides the United Kingdom, nine other European countries (Austria, Belgium, France, Finland, Germany, The Netherlands, Portugal, Sweden, and Switzerland) have implemented SIBs as an alternative or complementary to their

existing social programs. However, the degree of utilization varies across countries. For instance, The Netherlands and Portugal have implemented the largest number of SIBs in continental Europe, currently standing at 12 and 13 respectively, while other countries such as Belgium or Germany have only implemented three SIBs, and some have only piloted the new instrument such as Austria, Sweden, and Switzerland (The Government Outcomes Lab, 2020). Moreover, SIBs were implemented in different welfare state systems, yet the number varies greatly even in similar systems, such as the Netherlands and Germany.

With this in mind, Germany and the Netherlands are interesting cases to look at, given that they are well-developed economies that look back on a long history of state involvement in the provision of social rights. Most SIBs are found in liberal welfare state systems that already rely heavily on the market and provide mostly means-tested targeted entitlement programs to those who are most vulnerable. The Netherlands and Germany are positioned on the opposite side of this coin. Esping-Andersen's (1999) typology classifies Germany as an ideal type of the conservative welfare state regime, while both corporatist and social-democratic elements characterize the Dutch system. Thus, the integration of SIBs in the UK's liberal welfare system is questioned by looking at the emergence of SIBs in conservative and corporatist welfare systems – institutions that rely on the state and communities to deliver public services. In light of this theory, both the Netherlands and Germany constitute least likely cases because they can be categorized as corporatist systems where the state and communities take on a deciding role in the provision of social rights (Esping-Andersen, 1999). Therefore, the starting point for SIB implementation in these continental European systems is different than in Anglo-Saxon political economies.

However, if one looks at the cases individually to compare the implementation in the continental European context, the selection of the Dutch and Germany case constitutes a similar case design as well. Even though the first SIB was trialed around the same time in 2013, the trajectory of the SIB implementations differs greatly between the two countries. Germany was the first country in continental Europe to pilot a SIB with a project aimed at workforce development in Augsburg in 2013 (Juvat, 2014). The Netherlands also initiated its first SIB project around workforce development (Social Finance NL, 2019). However, after the first project, the trajectory diverged between the two countries. The Dutch case shows a slow increase in the utilization of the new instrument to ultimately 12 SIBs across the Netherlands by 2019, while Germany has only utilized SIBs in a total of three cases since 2013, which points to a smaller level of acceptance of SIBs in the German context. This difference in outcomes between the German and Dutch adoption of SIBs points to the institutional challenges and facilitators regarding the transferability into the continental European context.

3.4. Data collection

In the following section, the methods of the data collection are outlined. In this thesis, I am primarily relying on documents for the data collection, such as government reports, briefs, and policy documentation, as well as web-based content that can be found on the websites of the local municipalities, ministries, SIB intermediaries, social investors, as well as the social service providers and civil society organizations.

The data used stem from both primary and secondary sources. Primary data encompass the “oral or written testimony of eyewitnesses” (Berg & Lune, 2017, p. 161). What defines these sources is that they stem from the time and place where the observation took place. Secondary data describe “the oral or written testimony of people not immediately present at the time of a given event” (Berg & Lune, 2017, p. 161). They present an assessment of events by another researcher; typical examples are textbooks, articles, journals, and newspaper articles (Berg & Lune, 2017).

In more specific terms, I based my data collection on government search engines such as *officiëlebekendmakingen.nl* for the Netherlands, the central website to find official publications, government documents, reports, and parliamentary publications. Furthermore, I have limited the search engine to include data related to the search words “*social impact bond*”, “*sociale ondernemingen*”, “*impact investing*” and “*impact beleggen*” and include data for the years 2008 until 2020. The limitations for the data were intentionally set broadly since this ensures various sources for the study. Additionally, to gain insights into the policy approaches on a local level, I have also used the search engine as well as *openarchivaris.nl* to look at local legislation and regulation that relate to municipalities and the municipalities’ websites for the same search words.

For Germany, there is the parliamentary documentation system *dipbt.bundestag.de*, an electronic archive for government documents and plenary protocols of the “Bundestag”, the federal parliament, and “Bundesrat”, the legislative body at the federal level. The search words that were used for collecting the data include “*wirkungsorientiertes Investieren*”, “*social impact bond*”, “*sozialer Wirkungskredit*”, “*social entrepreneurship*”, and “*Sozialunternehmen*”. Contrary to the Dutch search engine, this archive does not include documents of the individual “Bundesländer”, the federated states which hold legislative authority over areas such as culture and education. For that reason, I also include data from the individual states and the state and municipal governments that have enacted SIBs. In the case of Germany, this means the inclusion of data that can be found online on the websites of the Bavarian State Ministry of Family, Labor and Social Affairs, the municipality of Mannheim, and the administrative district of Osnabrück. Additionally, I am consulting the documentation platform *parlamentspiegel.de*, which offers a consolidated look at the entire state policy of Germany, including negotiations and resolutions.

In addition to the publications, reports, parliamentary discussions, I am consulting databases in SII and venture philanthropy to gain multiple perspectives on the issue. These include the Global Impact Investing Network (GIIN), where I have limited the data to “*western European*” results, Social Finance NL, which published four reports related to the state of SII and SIBs in the Netherlands, and the Global Steering Group for Impact Investing (GSGII), where I limited the data on resources about Germany, the Netherlands and the European Union. Additionally, I am also consulting the Impact databases of Social Finance UK and the Government Outcomes Lab.

I also include reports by the Publications Office of the EU, where I limited my data collection to results to the search words “*social impact bonds*”, “*social enterprises*”, “*social entrepreneurship*”. What is more, to achieve a well-rounded perspective of the multilateral factors that impact the outcomes in Germany and the Netherlands, I am also looking at EU policies that were implemented to integrate outcome-based financing options.

Furthermore, I collected evaluation reports of the SIBs that were concluded and reports on SIBs that are still ongoing at the moment. Finally, to ensure multifaceted views and increase the study's validity, coalition agreements, political statements, newspaper articles, speeches, and critical commentaries are also included in the analysis of the study. These have been derived from government websites as well as the search engines Lexis Nexis and Factiva.

Finally, I further categorize the data in two blocks with regard to the temporal background. Firstly, I am looking for policy steps that were pursued before the first SIB was implemented. This gives insights into the broader institutional background that could hinder or facilitate new social financing instruments. Secondly, I am looking for changes that occurred after the first SIB in the respective countries to see whether policy makers adopt a more comprehensive position on SIBs.

3.5. Data analysis

For this research, I am exploring how certain policies and institutions shaped the implementation process of SIBs in the Netherlands and Germany. I apply the research strategy of causal process tracing (CPT) – an approach that emphasizes assessing the sequencing and configuration of factors that lead to a certain outcome (Blatter & Haverland, 2012).

To draw causal inferences, the objective is to highlight the sequencing of the causal mechanisms and the configuration of these mechanisms, and their impact on the trajectory of the outcome (Blatter & Haverland, 2012). CPT builds on a threefold analysis of the observations to infer causality. Firstly, on a macro-level, this approach relies on *storylines* that are narrative-based. The objective of these narrative-based elaborations is to “differentiate the major sequences of the overall process and identify the critical moments that further shape the process.” (Blatter & Haverland, 2012, p. 111). This study employs this analytical instrument to present the implementation process of SIBs in Germany and the

Netherlands from a historical point of view and analyze how SIBs fit in the status quo and policy foci that were pursued in response to the economic crisis. Secondly, a more in-depth analysis offers the *smoking gun* approach, whereby the correlation between causes and effects is characterized by the temporal and spatial relation to other observations (Blatter & Haverland, 2012). For the study, smoking gun observations such as specific events are contextualized by social, cultural, and political environments. Thirdly, CPT also distinguishes *confessions* on the actor-level, which is an approach that includes “the perceptions, motivations and anticipations of major actors” (Blatter & Haverland, 2012, p. 111). These observations further complement the storylines and smoking gun observations by providing a detailed account of the individual actors’ considerations about SIBs.

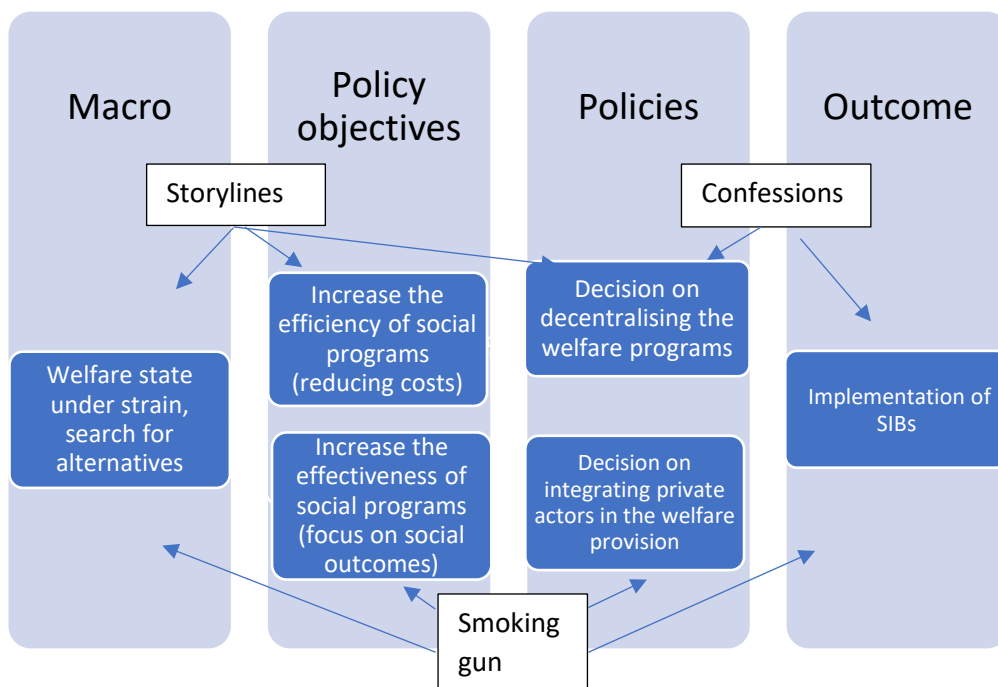


Figure 3 - Causal inference process of the mechanism

3.6. Validity and reliability

This thesis applies a qualitative research strategy that can pose challenges for researchers, particularly when it comes to the validity and reliability of the study. The sub-chapters above outline a detailed record of the research process that was applied, including the causal mechanism that is born out of the theory and the evidence that is needed to infer causality. To ensure the reliability of the study, I also provided a detailed record of the data that informed my research. I am aware that I am analyzing data that was produced with a specific interest and mission. For that reason, I have included observations from multiple sources to allow for data triangulation and an in-depth assessment of the causal factors. Additionally, I relied on freely available data for my research and applied a periodization of the observations to facilitate the replicability of the study.

As for the study's external validity, the two cases showcase different implementation processes of SIBs in the country-specific context, which is why it is impossible to draw statistical generalization.

Generalizing the conclusions based on such a small N comparative study would be ill-considered; the findings of the research cannot be generalized to a broad set of countries and welfare state designs. However, the research design offers limited generalizability for countries with similar conservative and corporatist welfare states where similar factors might also impact the emergence of SIBs. Such countries could include Austria or France.

4. The Netherlands

The following chapter describes the Dutch case. I will go into detail about the Dutch SIB portfolio. I will describe the approach that the Netherlands took in their adoption of SIBs, as well as the most prominent actors that impacted the emergence. Both the Netherlands and Germany introduced the first SIB in 2013, which is why I follow the periodization of 2008 – 2013 and 2014 – 2020 to describe the institutional background prior to introducing SIBs and after the pilot SIB. What follows is a description of the implementation trajectory, which will depict critical points of change and times where incremental policy change was initiated. The Netherlands depicts a path that closely resembled the UK's SIB approach. The financial crisis was the starting point of critical reforms, resulting in a social policy change that embraced decentralization and divestment as paths forward.

4.1. Dutch SIB portfolio

Dutch SIB projects primarily focus on the policy area of workforce development, placing more emphasis on reintegrating (young) unemployed people into the workforce by providing more counseling and training. Even the projects in criminal justice and health describe a (re-) integration of the program participants in the labor market as an objective. This points to the fact that the unemployment numbers are a pressing policy issue for municipalities and the central government alike. Initially, the implementation of SIBs was limited to the municipalities in Rotterdam and Utrecht, which both introduced two projects in the policy area of (youth) work integration. The model was then piloted in other municipalities that mostly sought measures to increase labor integration and development in their constituency. However, the Netherlands also turned to a specialized form of the SIB - the Health Impact Bond (HIB) - as a vehicle to fund complex support interventions. On the national level, the Ministry of Justice initiated the only continental European SIB working in the policy field of criminal justice. The Ministry of Defense commissioned the newest SIB, and it is by far the largest SIB with an intended target group of 1.500 disabled military personnel and an overall raised capital of 16.7 million euros (European Commission, 2019).

The Municipality of Rotterdam commissioned the first SIB to reduce unemployment in young people and prepare them for the job market. The initial funding was provided by *ABN AMRO*, a Dutch bank, and the *Start Foundation*, a venture philanthropy fund, while the social enterprise *Buzinezzclub* set out to provide the support measures (ABN AMRO, 2016a). First results indicated that 59 percent of those who participated in the program received a job, an educational program or became self-employed faster than expected, and due to the initial positive results, the municipality decided to extend the program to include a second group of participants (Gemeente Rotterdam, 2016; Social Finance NL, 2019).

The first Dutch SIB project became a model for other municipalities as well. The Municipalities of Utrecht and Eindhoven applied the *Buzinezzclub* program to a larger group of participants. Similar to

the pilot, *ABN AMRO* acted as the social investor, and notably, *Oranje Funds* invested in the program in Utrecht and *Start Foundation* provided starting capital for the project in Eindhoven (ABN AMRO, n.d.). SIBs in the field of workforce development were also implemented with different social enterprises, such as the *Colour Kitchen* in Utrecht, *Werkplaats Rotterdam Zuid* (WRZ) in Rotterdam and *Rendiz* in Venlo (Social Finance NL, 2019). However, not every project was as successful as the pilot SIB. For example, the WRZ-SIB in Rotterdam was scaled back after the implementing organization WZR had filed for bankruptcy in 2017 for reasons outside of the SIB contract, though a replacement was found shortly after (Gemeente Rotterdam, 2017).

The Dutch SIB portfolio also includes a project geared towards integrating (temporary) residence permit holders (“statushouders”) into the job market, as well as the first cross-border SIB project, which set out to assist Dutch job seekers to integrate into the German labor market (Gemeente Veldhoven, 2017; Social Finance NL, 2019). The latter project was part of a larger regional economic strategy of the Dutch government called *Actieprogramma Grensoverschrijdende Economie en Arbeid* that aims at making labor market conditions in border regions more compatible (Muskee, 2017). Furthermore, similar to the SIB in Peterborough in the UK, the Netherlands also implemented a SIB in criminal justice to reduce the recidivism rate of short-sentence offenders and provide employment support (Plaisier et al., 2018). It was the first time that the Ministry of Justice and Security commissioned the SIB instead of a local government body (ABN AMRO, 2016b). Another interesting aspect of the Dutch SIB portfolio is that the SIB model was adapted to include the policy area of health, and so far, two projects were implemented. Such projects are known as Health Impact Bonds (HIBs). As part of a larger policy agenda aiming to find innovative and effective ways of reducing debt and poverty levels, The Hague introduced a HIB in 2017 to carry out interventions for families facing multiple challenges (Deltaplan Armoede en Schulden, 2017; Sociaal Hospitaal, n.d.). Another HIB project was implemented in the following year. What makes the second HIB unique is that it was commissioned by an insurer instead of a government organization. The insurer *De Amersfoortse* commissioned the HIB to help cancer survivors return to work and reduce absences (a.s.r., 2017).

The most recent SIB contract was commissioned by the Ministry of Defense in 2019 and aimed at integrating disabled soldiers into the labor market. It is the first SIB that incorporates starting capital from the European Investment Fund (Ministerie van Defensie, 2019).

Table 1 - SIBs in the Netherlands based on publicly available information

Government body	Intermediary	Social investor	Service provider	Program participants	Capital raised in million	Policy area	Year
Municipality Rotterdam	Stichting SIB Rotterdam	ABN AMRO Social Impact Fund and Start Foundation	Buzinezzclub B.V.	160 +80 young people	0.7 + 0.35	Workforce development	2013
Municipality Utrecht	Stichting Society Impact	Rabobank Foundation and Start Foundation	Colour Kitchen BV.	252 young people	0.73	Workforce development	2015
Municipality Rotterdam	Social Impact Finance	Fonds DBL	Werkplaats Rotterdam Zuid B.V. (WRZ)	750 unemployed	3	Workforce development	2015
Municipality Utrecht	Stichting SIB Utrecht	ABN AMRO Social Impact Fund and Oranje Fonds	Buzinezzclub B.V.	380 – 540 young people	2.1	Workforce development	2016
Municipality of Eindhoven		ABN AMRO Social Impact Fund and Start Foundation	Buzinezzclub B.V.	300-400 young people	1.7	Workforce development	2016
Ministry of Justice and Security	Stichting Society Impact	ABN AMRO Social Impact Fund and Oranje Fonds and Start Foundation	Work-Wise Direct Consortium (Stichting 180, Exodus Midden-Nederland and USG Restart)	150 prisoners (short sentence offenders)	1.2	Criminal justice and workforce development	2016
Municipality of Enschede		ABN AMRO Social Impact Fund and Start Foundation	BOAS werkt BV.	138 unemployed	1.1	Workforce development	2016
Municipality of The Hague*	Stichting Society Impact	Zorgverzekeraar CZ	Sociaal Hospitaal B.V.	250 families	n.a.	Multiple (debt, health, work)	2017
Verzekeraar De Amersfoortse*		ABN AMRO Social Impact Fund and Start Foundation	ArboNed B.V. and Return B.V.	140 cancer survivors	0.64	Health and workforce development	2018
Municipality of Veldhoven	Social Impact Finance BV.	Stichting Van den Santheuvel, Sobbe, and another unknown investor	IamNL B.V. and Taleninstituut Regina Coeli B.V.	70 asylum seekers	2	Workforce development	2018
Municipality of Venlo		Rabobank Foundation	Rendiz B.V.	250 unemployed	n.a.	Workforce development	2018
Ministry of Defense	IncluSIF	EIF, Aegon, De Fundatie van den Santheuvel, Sobbe, and Fonds DBL	Future Groep, Robidus, Social Enterprise Reveal, Social Enterprise Stichting Life Goals en Ben-creatief	1.500 disabled military personnel	16.7	Workforce development	2019

*special form of impact bond: health impact bond

4.2. Dutch SIB emergence

The Netherlands was among the first countries after the UK to trial the new instrument in 2013, though the US, Australia, and Germany all started their first SIB project earlier that year (Social Finance, n.d.). In comparison to the UK and the US, SIBs have not yet been accepted broadly as a possible policy instrument for tackling a societal problem, which is why the number of SIB projects has only increased to 12 since 2013. If we compare the Netherlands with other EU member states, we can see that the model is more accepted than in other countries. This is partly because the political will to push for new

alternatives and create a facilitating environment for the implementation of SIBs extends across party lines and governance structures. More recently, the State Secretary for Social Affairs and Employment Tamara van Ark (VVD) mentioned that SIBs could be a valuable way to provide solutions for education, unemployment, and debt problems, as well as aiding refugees (de Lange, 2019). A large-scale acceptance and adoption of SIBs in Dutch society, as seen in the UK and the US, is not observable at the moment. However, the model has grown in prominence among policymakers at the national and local levels. It is also observable while initially limited to only a few actors, more recent SIBs depict various social enterprises, foundations, impact investors, and commissioning bodies.

For the following subchapter, I am distinguishing two main periods for the analysis. My cut-off point is the commissioning of the first SIB in each country, which was December 2013 in the Netherlands and September 2013 in Germany. I am tracing the path taken after the financial crisis until the first SIB contract was signed and observed whether the policy environment changed afterward to accommodate more social financing instruments.

4.2.1. SIBs as a crisis measure?

In recent years, the Dutch welfare state experienced a period of change that resulted in a transformation of existing institutions and systems. In contrast to the UK welfare state design, the Dutch welfare state is historically characterized by the strong corporatist elements and the encompassing nature of the social security system (Esping-Andersen, 1999). Social rights are laid down as fundamental rights under the Constitution of 1983, whereby the universal nature of welfare is highlighted, though the legislative process in parliament allows for changes to the existing institution of social security. After WWII, the state took on the leading role in the provision of social rights, though with the 1980s' economic downturn, structural reforms were implemented, resulting in the privatization of formerly state institutions (Aisenberg, Heikkilä, et al., 2019). Since then, there have been moves towards opening public service delivery towards private actors through nonprofit engagement, CSR initiatives, and public-private partnerships.

4.2.2. Financial crisis – the starting point of reforms

Looking back at the policy environment that emerged after the financial crisis, we can discern that the economic shock in 2007/2008 and the subsequent recession were the starting point for exploring alternatives to the classic government-sponsored benefit programs. The Dutch economy was relatively exposed to the economic shock. On a broader policy note, the initial policy response was an increase in public spending to avoid social and economic calamity. It marked a considerable incision in the status quo, given that the subsequent increase of public debt became a political and financial driver for policy reform in the subsequent years (VVD & CDA, 2010; VVD & PvdA, 2012).

During the first Rutte cabinet (2010-2012), the government sought to consolidate social security programs in single schemes and delegate tasks towards municipalities, which was motivated by the desire to provide more targeted and effective results (VVD & CDA, 2010). In the government's policy statement, Prime Minister Mark Rutte noted that it was more democratic and effective to let local governments organize their affairs (Rutte, 2010). The recipe for economic recovery was seen in the reduction of regulatory burdens, the establishment of a facilitating investment climate, and investments in innovation and education (Rutte, 2010). The stringent reform agenda was also to blame for the resignation of the cabinet in 2012 when the parties failed to coalesce around a common plan to meet the EU deficit goals.

The reform plans remained part of the public discourse, given that a new general election was scheduled for the same year. Austerity and the Dutch relationship with the European Union shaped the election cycle over the summer of 2012. Ultimately, the election brought about a second cabinet under the leadership of Mark Rutte and a governing agreement between the conservative-liberal VVD and the social-democratic PvdA. Their policy agenda can be summarized in three main points: a balanced budget, a redistribution of entitlements to provide for the vulnerable, and a reorganization of the economy that encompasses green initiatives (Rutte, 2012). In the coalition agreement, the governing parties further specified their plan of establishing social policy locally and placing municipalities at the center of the public service delivery (VVD & PvdA, 2012).

The policy agenda of reducing public spending while delegating social support responsibility towards local actors mirrors the UK's Big Society agenda. The Netherlands' overarching policy approach is known as the *participation society*. King Willem-Alexander (2013) first presented the concept in the annual speech from the throne in 2013:

It is an undeniable reality that in today's network and information society people are both more assertive and more independent than in the past. This, combined with the need to reduce the budget deficit, means that the classical welfare state is slowly but surely evolving into a participation society. Everyone who is able will be asked to take responsibility for their own lives and immediate surroundings. (para. 8)

The reorganization of welfare delivery is introduced as an unavoidable result of economic development. Instead of holding on to the traditional welfare state, the new conditions would require an overhaul of the status quo to limit public expenses and increase civil society's involvement. Youth care, long-term care, and labor participation were highlighted as areas where reforms were needed, mainly by decentralizing public service delivery (King Willem-Alexander, 2013). By devolving the delivery to

municipalities and society, the government aimed to address social needs while reducing costs through a targeted, local, and overwhelmingly self-reliance-based plan.

EU policy steps

While the Netherlands discussed a decentralization of social policy and the opening up of the social economy to civic engagement, the EU also started to integrate the “non-traditional” actors in the welfare delivery. The economic crisis and the demographic development were seen as challenges to the status quo, and as such new solutions were necessary to ensure that welfare needs were met (European Parliament, 2012). With the introduction of the Social Business Initiative in 2011, the EU aimed to promote social enterprises as part of a greater social innovation to tackle societies’ economic, social and environmental problems (European Commission, 2011). Even though the EC did not introduce a definition of social enterprises, they are described as businesses that are primarily driven by a social mission and not commercial interest, that are reinvesting profits, or organize their business in line with their mission of furthering democracy, participation or social justice (European Commission, 2011). By introducing the initiative, EC sought to improve the funding possibilities for social enterprises, make them more visible, and initiate changes with regard to the legal status of social enterprises. The plan was further institutionalized when the EU introduced the EaSI and EuSEF regulation in 2013, which created a framework for funding and established a label for social enterprise funds (Borgaza et al., 2020). In 2013, the EIF also introduced the Social Impact Accelerator, which established a funding source for social impact funds in the member states (EIF, 2013). The role of the EIF has since expanded to a social investor in SIBs across the EU, including the Netherlands.

4.2.3. From 2014 onwards: decentralization and reliance on non-traditional actors for the public service delivery

The transformation towards a participation society involved a large decentralization agenda that gave municipalities more authority and responsibility to organize social policy. This constituted a shift away from the traditional comparatively centralized governance structure. While it is true that Article 124 of the Dutch Constitution states that provinces and municipalities have the authority to introduce legislation and institutions that fall in the responsibility of local authorities, the new plan constituted a considerable step away from the status quo because it merged the social sector tasks under “one family, one plan, one coordinator” (VVD & PvdA, 2012, p. 33). The government described their objective of reducing the costs while improving the care, which are goals that typically do not correspond. That is why a comprehensive transfer of the care responsibility from the central government to the municipalities was presented as the answer to this dilemma. The reallocation of responsibility should lead to a more efficient and effective organization of the public service delivery and mainly focus on increasing social participation (VVD & PvdA, 2012).

Decentralization

The plan was outlined in the coalition agreement, though in 2013, the cabinet issued a detailed policy agenda in the *Decentralisatiebrief*, which included a comprehensive plan to allocate youth care, work assistance as well as support measures for the sick and elderly with municipalities (Tweede Kamer, 2013). It was then followed by a transition period until ultimately, in January 2015, the Youth Act (*Jeugdwet*), Social Support Act (*Wet Maatschappelijke Ondersteuning*, WMO), and Participation Act (*Participatiewet*) came into effect. Some of these decentralizations constituted a shift in the status quo, while others could be seen as the logical consequence of an increasing reliance on municipalities. Youth care, for instance, was previously fragmented across different acts and institutional infrastructure, while the new act organized all tasks related to youth care on the municipal level. The WMO 2015 was not an entirely new act, given that a version of the law had been set in place in 2007. With the new act, the government set out to address new societal conditions in long-term care, where people prefer to live at home as long as possible. The third decentralization happened with the introduction of the Participation Act, which aimed at activating more people, including those with disabilities, to (re-)enter the workforce. Under the new Act, persons who used to receive disability assistance under the prior scheme would be reassessed, and the possibility of receiving support was limited to those who were permanently and fully incapacitated for work (Geertruidenberg, 2015). The result was tightening the eligibility criteria for entitlements, which went along with an overall reduction of benefits.

This created challenges for municipalities because they were now responsible for tackling complex problems while dealing with a shortage of funds. One of the conditions that the government set was that the financial consequences would not be passed on to the central government (Tweede Kamer der Staten-Generaal, 2013). The result was a disparity of care delivery between municipalities and criticism from (former) care recipients, who argued that they received less care than under the previous scheme (NOS Nieuws, 2016).

Some municipalities saw this disparity as a reason to explore new solutions, and as part of the effort to ensure that the needs of citizens were met, municipalities turned both to citizen engagement initiatives and tapping into the private financing of social interventions. This also had implications for the development of SIBs. The pilot SIB in Rotterdam was established partly because the municipality sought new ways to fill funding holes induced by the budget cuts to the unemployment reintegration sector (Cohen, 2013). Of course, at the time when the first SIB contract was signed, municipalities started to prepare for the enactment of the new laws. With the introduction of the “decentralization” acts, the SIBs started to gain momentum: two SIB contracts were signed that year, followed by four additional SIBs in the subsequent year. The reduced budget and the growing social needs, and the transformation of the social domain provided legitimacy for the establishment of SIBs. The municipality Veldhoven, for instance, noted that the municipality faced an increasingly tight budget due to the

implementation of the Participation Act as well as an increasing number of benefit recipients, so the exploration of new programs was advisable (Gemeente Veldhoven, 2017). As part of the transition and the transformation of the social domain, the municipality of Enschede initiated and supported the first cross-border SIB (Veldhuizen, 2016). Even national policymakers understand SIBs to be a municipal responsibility, given that the State Secretary for Social Affairs and Employment called on municipalities to make more frequent use of SIBs (de Lange, 2019).

Apart from SIBs, some municipalities explored new measures to achieve more citizen involvement. The “Right to Challenge” mirrored a similar provision in the UK’s Localism Act of 2011. Rotterdam, Utrecht, and Tilburg adopted the provision to engage citizens in executing a support measure or a public task (Harthoorn, 2014; Leefbaar Rotterdam et al., 2014). The provision was further institutionalized when it was integrated as part of the 2017 coalition agreement where the government outlined the plan to implement the “right to take-over” (VVD et al., 2017, p. 10).

The decision to integrate private actors in the welfare delivery

Apart from the decentralization of social policy, we can also discern that the involvement of private actors in the delivery of public services also became more important. However, this idea is not entirely new. The integration of private actors in the delivery of public services has been part of the Dutch system for a long time, usually involving philanthropy by individual or institutional actors who dedicate time and monetary contributions and CSR practices. Since the early 2000s, private companies became more involved in the social domain by putting the social mission at the center of the business model; they are known as social enterprises (Aisenberg, Heikkilä, et al., 2019). In the government documents, SIBs are discussed as part of the larger social enterprise movement that emerged in the Netherlands, which is not surprising given that both models aim to incorporate social mission and financial interests.

The central government has taken the position of a supporter of social innovation. This is exemplified by the fact that in 2006 there were discussions to create a separate legal form for social enterprises, but the next cabinets halted the further codification because the government argued that the existing framework allowed sufficient room for social enterprises (Tweede Kamer der Staten-Generaal, 2006, 2011, 2014). In Dutch SIBs, most of the actors are private companies with limited liability (*Besloten Vennootschap, BV*) or foundations (*Stichtingen*), and both organizational forms face different challenges. Social enterprises that incorporate as a BV face the problem that the social mission is not accounted for in the legal form and short-term business interests are at the center of the business model. Social enterprises that incorporate as foundations deal with different challenges, namely operating in a commercial setting where it is difficult to attract funding.

Central government's policy steps to include private actors in the welfare delivery

When looking at the national government's position, it becomes clear, while the government encouraged social innovation, there was a reliance on existing laws and a skepticism towards creating a separate system (Tweede Kamer der Staten-Generaal, 2014). To better understand the issues related to social entrepreneurship, the cabinet commissioned a study by the Social and Economic Council (*Sociaal-Economische Raad*, SER) to investigate the role of social enterprises and their future in the Dutch system. The SER (2015) concluded that the government should take more steps towards cooperation with social enterprises. Furthermore, SIBs were highlighted as an innovative instrument to place more emphasis on preventative measures and address complex societal challenges (SER, 2015). Following the exploratory advice of SER, the cabinet reaffirmed the objective of stimulating the integration of social enterprises while at the same time rejecting a motion that would have established specific tax rewards for social enterprises (Tweede Kamer der Staten-Generaal, 2016b).

This positioning of the central government as a promoter and supporter of private organizations in the service delivery while holding off on creating specific support measures for social enterprises is also reflected in the discussions about establishing a social bank. In 2017, the government was asked to investigate creating a social bank that reflects the UK's Big Society Capital which uses dormant assets to fund civic and social initiatives. However, following a study by Twyde Gudde, the cabinet dismissed the idea, noting that the use of dormant assets was undesirable and would not contribute sufficiently to the objective of stimulating more social initiatives (Tweede Kamer der Staten-Generaal, 2016a).

Since then, the government has taken more steps towards integrating private actors in the welfare delivery. While the government initially showed interest in municipal SIB projects, with the introduction of the first nationwide SIB in 2016, the government saw this as an opportunity to pilot new public-private partnerships (Tweede Kamer der Staten-Generaal, 2016b). It was an exploration of a new form of financing and tested whether it could be applied to other programs (Plaisier et al., 2018).

The changing of positions is also exemplified in the coalition agreement of 2017, where the coalition parties noted: "Appropriate rules will be drawn up, and more scope will be created for businesses whose goals relate to civil society, while efforts will be made to maintain a level playing field" (VVD et al., 2017, p. 36). This was the first time that social enterprises were explicitly mentioned in a coalition agreement, which could speak to the increasing reliance on social enterprises in welfare delivery.

The most recent commissioning of SIBs in 2019 by the Ministry of Defense points to a larger acceptance of the model. This is also evident in the design and scope of the project, which has € 16.7 million in raised capital, a running time of eight years, and a projected 1.500 program participants (European Commission, 2019). This could point to a further professionalization of the SII market and greater acceptance of impact investment among public figures and society. It could be argued that the Dutch

government will pursue the acceleration of SIB models, given that the government – in response to the European Commission’s economic recovery plan for the 2020 recession – endorsed social impact bonds specifically as an innovative financing instrument to stimulate private investment (Tweede Kamer der Staten-Generaal, 2020).

Does the Dutch case fit the mechanism?

In the mechanism for this thesis, the UK-SIB model is described as an instrument in a policy environment shaped by the global financial crisis. The effectiveness and the efficiency of social interventions became more important as policy objectives. The government elevated the role of municipalities and introduced policies that would facilitate more private actors in the public service delivery.

It is noticeable that the Dutch implementation follows a similar path as the UK’s SIB emergence. The financial crisis was a considerable shock that put fiscal austerity at the top of the political agenda and shaped the discussions about policy reform. The following cabinets presented comprehensive plans to limit spending and reform institutions deemed to be outdated, such as the classical welfare state. The evocation of the participation society was seen as a transformation of the existing institution. The decentralization policy agenda gave municipalities the responsibility and authority to organize social policy in youth care, labor participation, and long-term care. An opening of the welfare delivery was observable primarily with municipalities, which introduced more civic engagement policies and public-private cooperatives.

One clear distinction from the UK can be observed in the role of the central government. In the UK, SIBs were promoted by the central government from the beginning and established infrastructure around the furthering of impact investing in the social sector, for instance, through the establishment of outcome funds and a centralized government department responsible for SIBs. In the Netherlands, the government held off on introducing specific policies or institutions that would have created a separate system. As a result, SIBs initially emerged in a local setting. Only in 2016, the central government piloted the model to evaluate if SIBs could be applied to other policy areas. However, the overall framing of SIBs as a municipal policy instrument remained (‘Kabinet geeft private geldschieters ruim baan bij financieren van overheidstaken’, 2019).

Overall, the Dutch SIB emergence bears a great resemblance to the trajectory in the UK. However, differences remain in the role of the central government in the promotion of the model. So far, municipalities and private actors have led the integration of SIBs in the Dutch context. It remains to be seen whether the central government will take a more active role in promoting SII and SIBs.

Netherlands	
2007	
2008	Global financial crisis
2009	
2010	National election (VVD/CDA)
2011	
2012	National election (VVD/PvDA)
2013	“Decentralisatiebrief” (January)
	Creation of Social Impact Fund by ABN AMRO (March)
	“Doe democratie” cabinet memorandum (July)
	“Participation society” first mentioned by King Willem-Alexander
	SIB in Rotterdam
2014	SIBs and HIBs first mentioned in parliamentary documents
	Commissioning of SER
	SER report
2015	Decentralization of social policy – Youth Act, Social Support Act & Participation Act
	SIB in Utrecht (The Colour Kitchen)
	SIB in Rotterdam (WRZ)
2016	SIB in Utrecht
	SIB in Eindhoven
	SIB by the Ministry of Justice
2017	National election (VVD/CDA/D66/CU)
	HIB in The Hague
2018	HIB by de Amersfoortse
	SIB in Veldhoven
2019	SIB in Venlo
	SIB by the Ministry of Defense
2020	Cabinet agrees to introduce separate legal status BVm for social enterprises

5. Germany

In the chapter above, I outlined the trajectory of the Dutch SIB implementation and the policies that impacted the course. To test whether the path is universally applicable, I am testing the findings against the German case. In the following chapter, I will take a closer look at the German case by describing the German SIB portfolio as well as depicting the emergence of SIBs by analyzing the policy environment. The periodization of the observations will remain from 2008 – 2013 and 2014 – 2020 to facilitate comparability between the Netherlands and Germany. The German implementation is different from the UK or even the Dutch emergence, given that the financial crisis did not set off a large overhaul of the public service delivery. Instead, there is a reliance on traditional systems, highlighting the continued role of the public sector in public service delivery.

5.1. German SIB portfolio

The German SIB portfolio consists of three projects that were implemented since 2013. The pilot SIB in Augsburg, Germany, was initiated in September 2013 by the *Bavarian State Ministry of Labour and Social Affairs, Family and Integration* and aimed at providing support measures to young people who are neither in training nor working; the objective of the project was to ultimately help 20 people find employment or a training position by the end of 2015. The project was part of Bavaria's larger policy objective at that time, which aimed at creating better labor market conditions for younger people (Bayerisches Staatsministerium für Arbeit und Soziales, Familie und Integration, 2017). In contrast to the Netherlands, where several SIBs were implemented immediately after the first positive results were announced, Germany's trajectory shows that the second project was only implemented in 2017. This is surprising given that the first SIB placed 22 young people in employment and training positions (Barth et al., 2018).

The second project was implemented in 2017 by *Landkreis Osnabrück*, and the objective was to provide preventative support measures for families and families with the demands of bringing up children from an early age (Hornung, 2017; Landkreis Osnabrück, n.d.). The project is comparatively small in scope; only 48 families that were eligible for public support benefits are taking part. Furthermore, provisional documentation indicates that the project failed to assemble enough participants (*Sachstandsbericht Triple P-Projekte/SIB*, 2019).

The third project was implemented by the Municipality Mannheim, and similarly to the project in Osnabrück, seeks to provide support measures in education and early years childcare (Hornung, 2018). The project's objective is to provide educational support to non-German speaking children at the school "Pestalozzischule" to counteract the differences in the educational success of children whose families migrated to Germany (Hornung, 2018). The city already identified an increased need for support measures for migrant families and children in 2014, when the municipality of Mannheim published the

development plan for education and integration. In line with the additional education and integration needs, the city modeled the “*Integrativer Schulcampus*” or integrative school campus, which sets out to provide intercultural learning and support through an impact-driven and cooperative framework (Stadt Mannheim, 2014). The network-type governance structure and the integration of foundations and other partners in the public service delivery already reflected the structure of a SIB. Thus, the implementation of the SIB in 2018 builds on the existing model that was outlined in 2014, and as such, there was already a plan of the social objectives and the budget for the support intervention (‘Modellprojekt Für Migrantenkinder’, 2017).

When looking at the German SIB portfolio, contrary to the Netherlands’ focus on workforce development and activation, German SIBs do not follow an overarching policy theme. While the initial project in Bavaria was the first in continental Europe, the fact that the project was small in scope and that no additional projects were planned immediately after points to difficulty implementing SIBs in the German policy environment. Four years after the initial project, the administrative district Osnabrück worked with Phineo and Bertelsmann Stiftung to establish a small-scale SIB project in education and child development. The project was purposely scaled smaller due to the limited experience with SIBs in the German context (Landkreis Osnabrück, 2017a). Even though the third project was also aimed at the policy area of education and child development, the project design, scope, and program participants differ considerably from the second SIB.

An interesting aspect of the German implementation of SIBs is that there is an overall hesitance to highlight the financial objective of the project. In the planning phase of the first SIB, the intermediary Benckiser Foundation noted that a high return on investment was not desired because it would incentivize investors that solely look for a high profit (Kyriasoglou, 2012). After completion of the project, the social investors received the initial investment and a three percent return. However, due to the public-benefit status of the financiers, the funds and the return had to be (re-)used for social purposes (Ruf, 2016). This is also reflected in the language used to describe investors; the second and third project finance their support measures with the help of “*soziale Förderer*” or social sponsors (BASF, 2020; Hornung, 2017, 2018). This points to a difference in (the framing of) the role of the social investor and the objective of the SIB in general. The legitimation of the SIB lies in the social impact instead of the financial interest.

Table 2 - SIBs in Germany based on publicly available information

Government body	Intermediary	Social investor	Service provider	Program participants	Capital raised in million	Policy area	Year
Bavarian State Ministry of Labour, and Social Affairs, Family and Integration	Juvat gGmbH (Benckiser Foundation Future)	BHF-Bank Foundation and BonVenture gGmbH and BMW Herbert Quandt Foundation and Eberhard von Kuenheim Foundation (BMW Group)	Apeiros e.V. and Ausbildungsmanagement Augsburg and Kinder-, Jugend- und Familienhilfe Hochzoll and Joblinge gAG München	100 young people	0.3	Workforce development	2013
Landkreis Osnabrück	PHINEO gAG, (Bertelsmann Stiftung)	Kreissparkasse Bersenbrück	Lega 5 Jugendhilfe gGmbH	48 families	0.2	Education and child development	2017
Municipality Mannheim	PHINEO gAG, (Bertelsmann Stiftung)	BASF SE	Pestalozzischule Stiftung Fairchance, Zentrum zur Therapie der Rechenschwäche, Education Y Teach First Deutschland gGmbH and KinderHelden gGmbH	Non-German speaking children	-	Education and child development	2018

5.2. SIBs in the German welfare context

Germany's involvement with SIBs has been very limited so far. Even though the first continental SIB contract was signed in Bavaria, only three SIBs have been implemented. While in the Netherlands, the debate surrounding SIBs has entered into a broader social and political acceptance stage, the debate in Germany is driven mostly by large foundations that have adopted SII and SIBs as instruments to develop the social economy. However, neither SII nor SIBs have been broadly accepted by the private, public or third sector.

To compare the trajectory, I am relying on the same periodization as in the Dutch case, so from 2008 – 2013, to assess the period before the first SIB was implemented, and 2014 – 2020, to see whether the policy environment has since changed.

The German welfare state goes back to Otto von Bismarck's structure of a social security system. Traditionally, it is characterized by strong corporatist elements and a contribution-based model to finance social security (Esping-Andersen, 1990). To this day, the Bismarckian influence on the design of the welfare state remains visible. The welfare state is characterized as a typical model of the conservative and corporatist typology, which provides social rights and status based on one's contribution to society and the position within the family (Kersbergen & Vis, 2014). Under Articles 20 and 28 of the Basic Law (*Grundgesetz*), Germany is defined as a democratic and social federal and constitutional state, which highlights the state's position in the provision of social security and social justice. Specific social rights are further codified in the Social Code (*Sozialgesetzbuch*, SGB), such as unemployment protection, employment activation measures, youth care, protection for the elderly and the disabled, and health care and pensions. Given that social rights are institutionalized in the Basic

Law as well as the Social Code, efforts to implement changes to the welfare system are met with large institutional barriers.

5.2.1. SIB as a crisis measure?

The global financial crisis impacted Germany's economy as well, though the economy recovered comparatively quickly. In response to the economic crisis, Germany introduced stimulus packages and relied on short-term work compensation policies. Following a national election in 2009 that led to a new coalition between CDU, CSU, and liberal FDP, the new government introduced their plan for economic recovery, which centered around a balanced budget, a redistribution of burdens, tax reform, investments in education, and research as well as the integration of civil engagement (CDU et al., 2009). The newly constitutionally anchored debt brake was seen as the way to balance the budget and recover from the global financial crisis (CDU et al., 2009). The plan was to adhere to a strict consolidation agenda that focused on efficiency in spending and effectiveness to stimulate economic growth. In the government speech of 2009, Chancellor Angela Merkel described the government's plan to focus on economic growth instead of austerity measures as the recipe for economic recovery (Merkel, 2009).

A comprehensive policy agenda that delegated social policy away from the state and towards the communities and the market was not announced. This may be partly because the last far-reaching reform of social policy was initiated by the previous coalition in the early 2000s, which presented an agenda that limited the state's role in public service delivery and promoted self-responsibility.

Federalism instead of decentralization

In contrast to the Netherlands and the UK, where after the global financial crisis, there was a conscious effort to delegate and decentralize social policy towards municipalities and civil society, Germany already relies on a federal system in the public service delivery. Decentralization of social policy after the financial crisis was not observable in Germany. Unless otherwise specified in the Basic Law, Germany's federated states (*Bundesländer*) hold the legislative authority. Amongst other policy fields, they are responsible for education, culture, and security. The municipalities are part of the *Bundesländer* governance field, though Article 28 of the Basic Law attributes municipalities and local communities the regulatory authority over local affairs.

The institutionalization of civic engagement

In the coalition agreement, the government stated the intention of creating a national strategy to establish a common framework for participation and volunteering in the country. So far, the government's role in the integration of private actors in the welfare delivery has been limited to the establishment of a new national strategy on engagement (*Nationale Engagementstrategie*), which was introduced in October of 2010 as a comprehensive policy that would connect the state, the market, and civil society to tackle social challenges (Bundesregierung, 2010). The new strategy follows four

strategic objectives, namely furthering better coordination among public institutions about the involvement of civic engagement initiatives, better cooperation with non-profit and for-profit organizations, elevating the status of civil engagement, and creating a better ecosystem for the third sector (Bundesregierung, 2012). Although only mentioned briefly, social enterprises are seen as a new trend that draws from individual civic commitment to meet social needs by applying entrepreneurial reasoning (Bundesregierung, 2010). One interesting aspect of the policy is that foundations are explicitly mentioned as a strategic partner for the state and the market. They are seen as valuable organizations that are able to create social impact across many policy areas with limited resources (Bundesregierung, 2010). This points to a more prominent role of foundations in welfare delivery. Though the strategy does not detail the role of foundations in these strategic partnerships, one can presume that it could either be the financier of a social intervention or the agent that carries out a support intervention.

Contrary to the Dutch approach, which introduced stronger civic engagement as a local and decentralized measure, the national engagement strategy establishes a coordinated framework between the federal, state, and local governments in all policy fields. A specific intervention that the government pursued was the launch of a new financing instrument for the development of social enterprises, which the Federal Ministry presented for Family, Seniors, Women and Youth (BMFSFJ) together with the state-owned development bank KfW (*Kreditanstalt für Wiederaufbau*) (BMFSFJ, 2011). The instrument aimed to fill in the financing gap of already established social enterprises and facilitate the expansion of the business by cooperating with funds, business angels, and foundations and by providing equity capital up to 200.000 euros (BMFSFJ, 2011). The program was seen as an indicator for a growing interest in impact investing in Germany. However, to this day, most support programs for social entrepreneurship are backed by (non-profit) enterprises (NAB, 2014).

5.2.2. 2014 – 2020 growing of the frameworks

Under the UK presidency of the G8, member states convened for the G8 Social Impact Investment Taskforce and were asked to establish a knowledge base on social impact investment and to give recommendations on the effective use of investment capital in each of their countries. The German National Advisory Board (NAB) presented SII as an instrument to complement the existing publicly funded welfare delivery and as a model that could fill funding gaps due to demographic and social challenges; SIBs were seen as instruments that could emphasize prevention (NAB, 2014). However, the German SII market was assessed to be in a pioneering phase and mainly shaped by few actors; the next stage would require a “proof of concept” (NAB, 2014, p. 8). Particularly the dominant role of the traditional large welfare organizations was seen as a reason for the lack of the SII and SIBs.

The political recognition of SII and SIB remained very limited. Instead, the government focused on community involvement and civic engagement. The policy agenda became more institutionalized by

adopting a specific volunteering department in the BMFSFJ in 2016 and a ministry-specific civic engagement strategy. The objective of the new step was to decrease frictional losses in the organization and expand the “tri-sectoral” cooperation between the state, the private sector, and civil society (BMFSFJ, 2016).

The Ministry for Economic Affairs and Energy has taken multiple steps to incorporate social entrepreneurship into its policy area. Namely through the adoption of social entrepreneurship as an independent field of action in the startup initiative, by publishing a practical guide on social entrepreneurship, and commissioning a study on the topic (Bundesministerium für Wirtschaft und Energie, 2018a, 2018b; Unterberg et al., 2015). The study's authors assessed that the German system still very much distinguishes social from commercial interests (Unterberg et al., 2015). This poses a challenge for social enterprises given that they operate best when there is little hindrance between the market and the third sector, as seen in the UK, the US, and to some extent, the Netherlands. This is also reflected in the fact that social entrepreneurship has not been integrated into a coordinated system but rather the individual ministries themselves adopted programs, including social entrepreneurship and social innovation provisions. This points to a limited political acceptance. Instead, social enterprises are seen as “add-ons” to the traditional policy agendas in each of the ministries. This sentiment is also reflected in the coalition agreement of 2018, where the coalition partners agreed on fostering social entrepreneurship and social innovation, but concrete policy steps were not announced (CDU et al., 2018).

Overall, the government’s policy approach focused on establishing civic engagement as a national strategy and building up social enterprises through funding programs and the establishment of networking platforms. A national reorientation towards more private actors in the welfare delivery was not observable. Instead, there was a reliance on traditional institutions in welfare delivery. Thus, the results do not indicate that SIBs emerged as a crisis measure or part of a larger policy development but rather as pilots.

Does the German SIB emergence fit the mechanism?

The German SIB trajectory differs quite considerably from the UK or the Dutch path. This is partly because the limited political acceptance of SIBs and support structures in the private, public, and third sectors are scarce. Few institutional investors and intermediaries drive the current SII and SIB emergence. For that reason, I would classify the current SIBs rather as individual pilots and not part of a comprehensive policy strategy.

The financial crisis impacted Germany’s economy as well, though it was not a catalyst for a comprehensive overhaul of the status quo. The political agenda of the government was centered around economic growth and not limiting social expenditures. A decentralization agenda was also not pursued. In contrast to the UK and the Netherlands, Germany already relies on a federal system that gives

regional and local actors authority to enact their own policies. Active steps towards the inclusion of new private actors in the welfare delivery were also not pursued. Instead, the government presented a civic engagement strategy, which introduced a centralized framework to align initiatives across the public, the private and third sectors, and the government infrastructure. Since then, the government took steps to promote social entrepreneurship by relying on capacity-building. However, the steps appear to be fragmented across ministries, and an overall strategy regarding social entrepreneurship appears to be missing.

Overall, the German case does not indicate that the emergence followed a similar path as the Netherlands and the UK. The implementation of SIB is rather the result of individual actions taken by foundations.

Germany	
2007	
2008	Global Financial crisis
2009	National election (CDU/CSU/FDP)
2010	National engagement strategy
2011	
2012	The BMFSFJ and the KfW bank establish a financing program for social entrepreneurs (January)
2013	Creation of the German National Advisory Board
	SIB in Augsburg, Bavaria
	National election (CDU/CSU/SPD)
2014	Final NAB report
2015	Ministry of Economic Affairs and Energy commissions a study on social enterprises
2016	BMFSFJ engagement strategy
2017	SIB in Osnabrück
	National election (CDU/CSU/SPD)
2018	SIB in Mannheim
2019	
2020	Bundestag adopts a proposal to promote social innovation, including investigating SIBs

6. Empirical analysis

The previous chapters detailed the case descriptions of the Netherlands and Germany and how SIBs emerged in the respective countries. The Dutch SIB implementation trajectory closely follows a similar path as the UK, only that even though the central government adopted a policy agenda that embraced the efficiency and effectiveness of social policy coupled with decentralization and divestment of the public service delivery, the main actors were local municipalities and institutional social investors. The German implementation of SIBs does not fit the mechanism, given that the central government has not adopted a comprehensive policy approach. The emergence appears to be driven by large foundations that have taken on SIBs as an alternative to the traditional welfare institutions. It is discernable that different factors and institutions drove the emergence of SIBs in Germany and the Netherlands. The following chapter will delineate the relevant factors that impacted the integration of SIBs in the policy portfolio using historical institutional and sociological institutional theory.

6.1. Critical juncture and factors of increasing returns

In the Netherlands, we can see that the economic crisis constituted a considerable shift in how policymakers talked about the welfare state. Although some developments were already on the policy agenda before, such as demographic challenges as well as an increased reliance on the market and communities in the welfare delivery, it was the “exogenous shock” of the financial crisis that disrupted the current system and gave way for “significant institutional innovation” (Thelen, 2009, p. 474). What then followed was a reorientation of policy that focused on balancing the budget and reorganizing the public service delivery to include civic engagement and local municipalities. While parts of the reform agenda were already announced in 2010, a more extensive plan was presented in 2012 with the “Building Bridges” agenda from the governing parties VVD and PvdA. The “institutional innovation” happened with the introduction of the participation society in 2013, which presented a similar approach to the “Big Society” agenda in the UK, though the legitimation of the policy differed. While Big Society uses empowerment language to enable civic engagement, the participation society in the Netherlands emphasizes a duty to take care of others and focus on self-responsibility. The effect of the policy agenda seems to align regardless of the legitimation differences: A retreat of the central state coupled with an expansion of civic engagement to fill in the welfare gaps.

With the introduction of the participation society and the inherent decentralization policy, municipalities obtained a larger role in public service delivery. They were given more autonomy over the three areas of the social domain, namely youth care, health care, and labor assistance, which also meant that the impetus for action was on local actors. Limited budgets and an increased need for social intervention led to exploring new forms of welfare delivery. Initially, SIBs became an instrument for municipalities that wanted to decrease (youth) unemployment. However, they have since been

commissioned by the central government and expanded to deal with recidivism reduction, health, and military reintegration. What unites all these SIBs is a focus on labor force activation, which is very different from the UK's SIB approach of applying the model to multiple policy areas. This could point to an evolution of the SIB as a new social investment strategy by the Dutch public sector.

As for Germany's approach to SIBs, the policy environment proves to be quite different from the Netherlands and the United Kingdom. Proponents of SII and SIB characterize the German ecosystem for impact investing as limited and lacking political support (Barth et al., 2018; NAB, 2014). One reason for this phenomenon is the significant role that large welfare organizations historically play in the social economy (Michler, 2014; Petrick & Birnbaum, 2016). The discussion about SII and SIB takes on a different connotation in the German context than in other countries because the current welfare state relies on a network of large welfare organizations known under the umbrella term of Non-Statutory Welfare (*Freie Wohlfahrtspflege*). The organization consists of six central associations that are linked to religious institutions and unions, namely "*Arbeiterwohlfahrt*", "*Deutscher Caritasverband*", "*Deutsches Rotes Kreuz*", "*Der Paritätischer Gesamtverband*", "*Diakonie Deutschland*" and "*Zentralwohlfahrtsstelle der Juden in Deutschland*" (BAGFW, n.d.). Their involvement stretches from elderly, health, and child care to care for the disabled and people in emergencies at the federal, state, and local level (BAGFW, 2018).

Their role in the German social economy is highly institutionalized, given that some of these organizations have existed since the beginning of the welfare state in the 19th century (Göler von Ravensburg et al., 2018; Höchstädter & Scheck, 2014). From a historical institutionalist perspective, this makes the institution highly path-dependent, given that sequencing of earlier events set up a trajectory for the future (Pierson, 2000). By shaping the public service delivery for such a long time, they also impacted the perception of what action in welfare delivery is supposed to look like. As a result, the discussion about the involvement of private actors in welfare delivery offers an interesting dichotomy. While non-statutory welfare organizations are accepted broadly, new forms of welfare delivery - through private investment and action - face funding as well as legitimacy problems (Jacobsen & Beeger, 2011). For example, the president of the non-statutory welfare organizations voiced concern about the public debate concerning social enterprises because it suggested that social enterprises provide better and more innovative services (Stadler, 2014). Rather than supplementing traditional social support services, he argued that social entrepreneurship should complement the existing framework. SIBs were not seen as a desirable option because they pose the risk of privatization of welfare (Stadler, 2014). This issue was also raised in the deliberations before the SIB implementation in Osnabrück, where a representative of the non-statutory welfare organizations noted that involving a private investor in the public service delivery of youth care – a municipal responsibility – was questionable and could have adverse effects (Landkreis Osnabrück, 2017b). Instead, the instrument should be tested in an area that did not reflect a core competency of the administration.

Overall, the cases depict different trajectories regarding the emergence of SIBs. The Netherlands introduced new policies that were conducive to new social financing instruments after the financial crisis, and recognition among (local) policymakers grew steadily, particularly regarding labor force activation measures. Germany's policy approach was more passive. Existing institutions such as the non-statutory welfare organizations are integral in public service delivery and are intrinsically linked to the welfare state. Advocates for SIBs and SII appear to have more difficulties convincing policymakers and society of these new models.

6.2. Alternative explanation: SIBs emergence as the result of informal and formal institutions

Another explanation for the emergence of SIBs could lie in the formal and informal institutions that are already in place (DiMaggio & Powell, 1983). This reasoning follows "the logic of appropriateness", which is grounded in the belief that action is driven by duties and obligations which are transmitted through socialization (March & Olsen, 1984).

6.2.1. Netherlands

Social investors as drivers of SIBs

In the Netherlands, social investors have also played an important role in the emergence of SIBs. Compared to other European countries, the SII market in the Netherlands is relatively well developed and diverse, and the involvement of impact investors has increased (Barth et al., 2018). ABN AMRO and the Start Foundation were instrumental in introducing SIBs, given that they provided the initial capital for half of the SIB projects. In 2013, the ABN AMRO launched the Social Impact Fund, through which the bank intended to tackle societal problems while making a return simultaneously, though ultimately the objective is the development of a social impact market (Bobeldijk, 2013; Dirks, 2013b). The fact that ABN AMRO is at the center of the SIB emergence is interesting because of its recent history. The global financial crisis hit the bank severely; the Dutch government even had to nationalize and bail out the bank to avoid further fallout. The reorientation towards the social investor role could thus be interpreted as stepping away from the image of a crisis-ridden bank and establishing the brand of a socially conscious financial service institution. Being the most active social investor, ABN AMRO Social Impact Fund can shape the trajectory by allocating funds for specific societal issues that the bank deems valuable and profitable.

The first SIB contract in Rotterdam had the condition after three years, if the social objectives were met, social investors would receive up to 12 percent on an annual basis or lose up to 60 percent of their investment if the project failed (ABN AMRO, 2015; Dirks, 2013a). With such a condition, social investors are entering into a market that opens new investment opportunities, leading to increased

reliance and dependence on the private sector for public service delivery. While a growing number of Dutch municipalities appear to be interested in SIBs, the social investor will decide whether the project happens at all. In 2019, an already established SIB project addressing the needs of young adults stranded prematurely when a social investor pulled out of the plan, and the municipality decided to stop the project entirely (Hellegers, 2019).

Homogenization of the SIB model

When looking at the SIB portfolio, one can discern that the design, policy area, and actors are similar. DiMaggio and Powell (1983) conceptualize this phenomenon as institutional isomorphism; organizations that are subjected to the same pressures and influences become increasingly similar. The authors distinguish between coercive, mimetic, and normative isomorphism (DiMaggio & Powell, 1983). While the first SIB in the Netherlands constituted a novum, there was always the intent to develop further SIBs if the pilot proved successful (Dirks, 2013b). On the one hand, coercive isomorphism is observable due to the fact that municipalities were faced with the same pressure of decentralization of the social domain. This resulted in an increasing reliance on municipalities to provide care, all while facing a limited budget. On the other hand, city councils looked to already established SIBs as a point of reference. Eindhoven, for instance, deliberated whether to introduce Rotterdam's "Buzzinezzclub model" or Utrecht's "Colour Kitchen model" (Scholtes, 2015). Imitation was used to provide legitimacy to the institution. Normative isomorphism may also play a role, though the data I analyzed did not include such details.

6.2.2. Germany

Legal and social constraints

It is observable that the emergence of SIBs is impacted by social norms and legal constraints in the implementation. The first SIB was initiated by the Benckiser Foundation to introduce the new model in the German context. However, it was acknowledged early on that high returns for the social investor would not translate well into the German context (Kyriasoglou, 2012). The first SIB resulted in a three percent return for the social investors, which differs considerably from the 12 percent return that was outlined in the first SIB project in the Netherlands. This points to a more significant issue for the implementation in the German context, namely that there is little political and social acceptance for economic incentives in social policy (Unterberg et al., 2015). Such a low return poses a challenge for the model's growth, given that large institutional investors would likely refrain from investing, and it would be the responsibility of philanthropic actors such as foundations to invest in projects (Fliegauf & De Carlo, 2015). In the first SIB project, the social venture fund assessed the project as less beneficial than other investments in their portfolio; the foundations saw it as an appealing alternative to traditional philanthropic endeavors, they made their investment from free reserves that could have been written off as a donation if the project had failed (Scheck, 2016).

Foundations as the main driver

Foundations take on an essential role in the implementation of SIBs in the German context. In contrast to the Netherlands, where it is observable that social investors - together with “first-mover” municipalities - have taken on a leading role in establishing a SIB portfolio, the German case depicts that the main advocate for SIBs are foundations. Bertelsmann Foundation, in particular, has been promoting SII as the next step in the public service delivery and is behind the most recent introductions of SIBs in Mannheim and Osnabrück. The foundation has also chaired the NAB and sees its role as a “market-builder” of SII in Germany (Petrick & Birnbaum, 2016). SIBs are part of that broader strategy to scale up impact investment for the private, public, and third sectors. Furthermore, they have taken steps towards integrating SIBs in the German context by collaborating with Landkreis Osnabrück; the foundation carried all transaction costs, including those associated with the development, administration, impact measurement, contract management, and evaluation of the project (Meysen, 2019).

The foundation’s role in shaping the SII market is also reflected in building new impact-oriented organizations. For example, Phineo, a consulting and analysis company and the intermediary of the second and third SIB, was formed by Bertelsmann Foundation and other partners in the private and third sectors to develop impact-oriented programs (Phineo, n.d.). DiMaggio and Powell (1983) conceptualize that institutions become more similar if they are subjected to the same influences. To that end, some findings suggest that normative isomorphism also played a role in establishing the current system around the promotion of SII in Germany. For instance, the company's current CEO was a director of Bertelsmann Foundation and relied on the foundation's infrastructure (Neßhöver, 2018; Phineo, n.d.). The findings suggest that without the support of Bertelsmann Foundation as a facilitator and network builder, the current SIB portfolio might not exist in its current form.

7. Conclusion

This thesis aimed to address the central question of “*How transferable is the UK model of Social Impact Bonds to different welfare state designs in Europe?*” In this chapter, I reflect on the scholarship that was used for the theoretical framework. Secondly, the results of the case studies and the empirical analysis will be presented as well as interpreted. Thirdly, a discussion on the limitations will follow as well. Finally, I will discuss some final thoughts.

To study how well SIBs translate into different country contexts, I relied on the scholarship on Social Impact Bonds as well as historical and sociological institutional theory. Scholars have mainly researched SIBs in liberal economies such as the UK and the US, countries that have implemented the most SIBs so far. The UK focused on an austerity-driven policy approach that expanded the public service delivery to social enterprises and civil society organizations to fill the welfare (funding) gaps. As Dowling (2017) notes, SIBs follow a neoliberal understanding of the welfare state that sees public welfare delivery as inherently flawed, and the focus is on private investment that is supposed to provide more effective and efficient solutions. Over the years, the model spread globally, though a large acceptance of the model is only observable in liberal welfare states. In this thesis, I wanted to describe how the SIB model transfers to welfare state models that incorporate a system that is not as conducive to SIBs in public service delivery. The Dutch and German systems are arguably not as conducive to these new forms of social finance instruments due to the historically entrenched welfare state. Following historical institutionalist theory, one would expect that SIBs would not translate well into the Dutch or German system unless there was a critical juncture that resulted in the transformation of the public service delivery as well as policies conducive to SIBS. An alternative explanation could lie in sociological institutionalist theory, which would see the emergence of SIBs driven by institutions that are already in place through various kinds of isomorphisms.

Results

Germany and the Netherlands offer an interesting perspective because they both implemented the first SIB around the same time, with a similar target group and their social security system reflects a similar structure. Yet since the introduction of the first SIB, they have taken different paths.

The findings suggest that the Dutch SIB emergence was driven by policy that was implemented in response to the economic recession. The economic crisis was a catalyst for new policy proposals to reform the welfare state and limit public expenditure. The plan culminated in the evocation of the “*participation society*”, which introduced self-responsibility and civic engagement to fill welfare gaps. The decentralization of social policy placed more responsibilities on municipalities, but they were also given more authority to make their own decisions. A decrease in financial means combined with the interest to find “effective” or “impactful” solutions has led to the exploration of new forms of social financing instruments such as SIBs. This can be interpreted as a step away from the classical corporatist

model towards a more liberal one. To some extent, one could even argue that the Netherlands embraced an even more “market-driven” approach, given that it followed a true decentralization of social policy and the involvement of private investors. The UK SIB emergence, on the other hand, was driven and initiated by the central government through the establishment of SII infrastructures such as outcome funds and specific government departments. Additionally, while the policy steps do appear to have contributed to the emergence of SIBs, that does not necessarily mean that other factors have not played a role. Social investors have impacted the trajectory as well. Particularly, ABN AMRO has taken a leading role in the development and establishment of SIBs. The bank even formed a Social Impact Fund to fund social enterprises and build a stronger social impact investing market in the Netherlands.

Based on these findings, one can see that Dutch SIB emerged in a similar policy environment as the UK, although the central government did not “actively” promote the use of SIBs and SII by establishing a public funding structure or a separate legal form for social enterprises. Municipalities and private actors largely drove the interventions. However, looking at the German case, it becomes clear that this path is not universally applicable.

The findings suggest that the German SIB implementation was not the result of the economic crisis or policies implemented in response to the economic recession. In contrast to the UK and the Netherlands, regional and local actors already hold a lot of responsibility, and there is a framework of welfare organizations that grew with the welfare state. Thus, entering into this “social market” is a challenge for private actors. The findings imply that the German SIB emergence resulted from individual action taken by foundations that saw an added value in the integration of private funding in the social sector. Large foundations, such as Bertelsmann Foundation, have taken to SII and SIBs to open investment opportunities. However, in contrast to the UK and the Netherlands, Germany’s SII market is shaped by only a few actors, and the public sector has not taken steps towards further development of that market. This positioning is reflective of a typical conservative welfare state that sees public service delivery as a public sector responsibility.

Limitations and future research

This research builds on a qualitative comparative case study design that utilizes process tracing to highlight relevant factors for the outcome, which offers numerous possibilities in the quest to find causal factors. Even though this study included a variety of literature in the search for factors surrounding SIBs, there is an inherent risk of missing important factors. It is also important to keep in mind that SIBs are a comparatively new phenomenon, which impacts the availability of research on the topic. Further research on the topic is necessary to build a comprehensive knowledge base.

The research design also poses some challenges regarding generalizability, given that I assessed the country-specific intricacies, norms, and factors. A generalization of the findings across other welfare state designs is impossible, though some findings may also translate into other conservative welfare

states. However, this step would require further research and comparative analysis on SIBs in conservative welfare states. To improve the external validity of the study, a larger case selection of countries (with different welfare state types) could have been explored.

Future researchers may also want to look at specific welfare state types to see which policies impacted the implementation. Particularly interesting would be a comparative analysis of the policy environment in the Nordic countries where the state traditionally takes on an even larger role. Methodologically speaking, this case selection would offer valuable insights into the necessary policy environment given that they constitute as least likely cases.

Final thoughts

SIBs have been part of the policy debate for more than ten years, and the model has spread to nearly all continents. What appears to be missing in the policy debate is a reflection on the long-term ramifications of the embrace of private investment in public service delivery. The model is still comparatively new, and not every project reaches the intended objectives. As depicted in the Dutch and German cases, some projects did not reach enough program participants, some had to be scaled back, and others had to be stopped altogether. If policymakers adopt SIBs without reflection, they are opening themselves and their constituents up to considerable risks. While social outcomes such as a reduced unemployment rate may look good on paper, one must keep in mind whether the “arranged” job is sustainable and meets the needs of the program participants. A more structured and long-term policy approach building on a public service delivery might result in better social outcomes long-term.

Of course, with the most recent COVID-19 induced economic recession, public budgets are now once again deep in the red around the world, and unemployment has a dominant role on the policy agenda. That begs the question: How will the 2020/21 recession impact the development of SIBs in each country?

It could be argued that the model will continue to be part of the Dutch policy portfolio. After all, in 2019, the Dutch government commissioned the largest SIB to reintegrate military personnel in the labor market. Although it is too soon to tell whether this project will begin a new trend, it does suggest that SIBs are no longer seen as a “niche” model. A project that raised 16.7 million euros for 1500 program participants over a period of eight years can safely be described as an evolution in the Dutch SIB portfolio. I would even argue that the role of the SIB has transformed from a “means to an end” to the actual “end”. The public sector has taken to SIBs as a new form of funding public services, emphasizing workforce integration. Additionally, it appears that the government will accommodate for new organizations that combine social and commercial interests, given that the cabinet announced their plan to make better use of their purchasing power to stimulate social and environmental causes and innovation. In 2020, the cabinet even announced that it would move ahead and establish a separate legal form for social enterprises called Besloten Vennootschap maatschappelijk (BVm), or private social

company with limited liability (Conijn, 2020). Due to these recent changes, I would expect the next cabinet to focus more on integrating and stimulating private investment in public service delivery.

As for Germany, a projection is difficult to make. While it is true that the government did not take decisive steps to integrate new private actors in welfare delivery in the past. However, it appears that the recent economic recession led to more political focus on new forms of public service delivery. As a result, in 2020, multiple motions – by multiple parties - aimed at promoting social innovation and social enterprises were put forth at the Bundestag. Ultimately, the governing CDU/CSU/SPD motion was passed, which included a request for the government to examine the use of SIBs (Deutscher Bundestag, 2020). While it is too soon to say that this will alter the trajectory of German SIBs, it does mark an important step for social entrepreneurship in Germany, given that there appears to be a consensus among the majority of parties to stimulate social entrepreneurship.

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