SOCIAL IMPACT BONDS

What does it take to set up a social impact bond?

In recent years, socially minded investors have developed green, SDG-linked, and social impact bonds (SIBs) to leverage private finance for addressing social or environmental issues and rewarding achievement of positive outcomes[1]. SIBs are the confluence of trends around impact investing, public-private partnerships, and payment by results encouraging innovative ways to fund and accelerate impact[2]. While social welfare and employment sectors have been the focus of impact bonds in high-income countries, the health sector is emerging as a focus area for SIBs in developing countries[3].

WHO IS INVOLVED

Essential actors in establishing a SIB are investors, service providers, evaluators, and outcome funders[1]. Gustafsson-Wright et. al. provide a helpful overview of the types of organizations that fill these roles:

**Investors:**
Foundations or philanthropists; multilaterals, bilaterals or intergovernmental financial institutions; impact investing firms; banks; investment funds; institutional investors

**Service providers:**
Nonprofits, international organizations, nongovernmental organizations, development organizations, charities, community organizations

**Evaluator:**
Research institutes, academics, professional services firms

**Outcome funders:**
Foundations or philanthropists; multilaterals, bilaterals or intergovernmental financial

Beyond the essential actors, there might also be intermediaries, technical assistance, lawyers, and other actors involved depending on the needs of the SIB.

HOW MUCH DOES IT COST

The average grant ask from the English Commissioning Better Outcomes Fund is £88K or US$113K [1]. However, the amount in developing settings appears to be significantly higher. Analyzing the outcome funds for twenty development income bonds in developing settings, amounts ranged from US$110K to US$27.6M. The median amount was US$3.5M while the average was US$6.2M. These figures vary widely depending on the scale and ambitions of the SIB, but the vast majority were well above the averages seen in the United Kingdom.

In terms of the cost for non-communicable disease (NCD) SIBs, one highly relevant example is Social Finance Israel’s type 2 diabetes SIB [2]. They raised NIS19.4M or US$5.4M for 2250 pre-diabetic patients to be engaged in nutrition and fitness programs.
WHAT TO DO IN A DATA-POOR SETTING

Low-quality data can be prohibitive to the establishment of a SIB given payments are reliant on results validated by data. Short-term solutions might include proxy measures or indicators the government is already collecting\[1\]. However, using proxies or broader indicators can make attribution to the specific intervention a challenge. Therefore, in the long-term, SIBs should be viewed as an opportunity to highlight the importance of data and increase investment in improving the quality of data in these settings.

HOW CAN DIGITAL DATA SOLUTIONS HELP

Digital data can improve the sample size, efficient collection, accuracy, and accessibility of data. Stakeholders should connect during the early stages of a SIB to understand what data initial investors and outcome funders need to justify their contributions. This should map directly to what evaluators collect and analyze. Service providers can also provide valuable expertise into what is measurable and can be attributed to their program. By investing in digital data solutions as part of a SIB, stakeholders not only improve their own ability to measure impact but can contribute to a broader global data set for other countries to utilize in correctly pricing SIBs.

WHAT ELSE IS NEEDED

In order to launch a SIB, the Government Outcomes Lab at Oxford’s Blavatnik School of Government identified four determining factors they refer to as the LOUD model\[4\]:

- **Collective Leadership** at three levels:
  - Strategic: between leadership team members
  - Organizational: between leaders and internal stakeholders
  - Environmental: with external environment and outside stakeholders

- **Clear Outcomes** including clear target beneficiaries and achievable outcomes that are attributable to the intervention

- **Shared Understanding** of the policy problem, intervention, and suitability for the setting

- **Data** on the eligible cohort and outcomes

They recommend future stakeholders consider these factors when assessing the feasibility of their SIB.

THE TAKEAWAY

SIBs are still a relatively nascent product but growing in popularity and size. Thanks to the growing body of evidence from successful SIBs in different sectors and countries, we see an increasing opportunity to invest in reducing NCDs in developing countries. By securing the right stakeholders, funding, data, and working towards a shared goal, we can improve the odds of success and contribute to the collective global expertise on SIBs.

WORKS CITED


