

# Social Impact Bond: WIN<sup>3</sup>

Brace for impact?  
Guideline for a Social Impact Bond

Ian Dewae

While there are already examples of successful innovative interventions within the current arsenal of financial mechanisms on offer, there is a need for instruments that bring about long-term cooperation and ensure sustainability for socially responsible partnerships. Any organisation or government that values sustainability will benefit from a strategic business plan comprising well thought-out investments and trusted partnerships that yield a measurable impact. Through collaboration and co-creation with carefully chosen partners, the financing form of Social Impact Bonds (SIBs) can help towards maximising and rendering social impact more sustainable.

This publication seeks to provide government agencies with the guidance and tools necessary for implementing SIBs. But equally, for investors and social entrepreneurs, it offers an insight into the very creation of SIBs, thereby ensuring everyone is prepared to work together in making a difference for those in need.

### **Making the SIB mechanism usable and easily implementable to address societal problems as cost-effectively as possible**

- **Why SIBs**
- **Lessons learned from practice**
- **Roadmap towards a SIB**
- **Recommendations**



*Ian Dewae is an expert by experience, who works in and is fuelled by a research environment. With his in-depth knowledge of SIBs, he served as the architect and project coordinator behind the first two Flemish SIBs. He was there when SIBs first broke ground on Flemish soil, when there was no specific legal framework surrounding them. He has shaped this totally new concept from scratch, familiarising himself with the methodology, as well as results from scarce applications worldwide to the realisation of the first tangible SIB projects in Flanders. Through*

*adjustments made to the basic SIB model, he aims to use SIBs as a catalyst to ignite the dynamics between the capital market and the social sector to address the social challenges of today. When these two worlds start working together, they will ultimately build a bridge towards a better future.*

## Contents

---

	<b>Introduction: Need for future-proof financing mechanisms</b>	<b>01</b>
<b>Chapter 1</b>	<b>Social Impact Bonds: why use them?</b>	<b>05</b>
	Description	06
	Benefits of SIBs	08
	Contracted SIB stakeholders	12
<b>Chapter 2</b>	<b>The first SIB in Flanders – lessons and experiences</b>	<b>16</b>
	The lead-up	17
	Mandate	19
	Target	22
	Legislative changes	23
	Preparatory actions	25
	A complex brief	26
	Pilot project timeline	30
<b>Chapter 3</b>	<b>Roadmap</b>	<b>34</b>
	Shaping of SIBs	35
	Budgeting of SIBs	36
	SIB outcome funds	38
	Setting up public-private partnerships	39
	Government responsibility	43
	Impact evaluation	48
<b>Chapter 4</b>	<b>Recommendations</b>	<b>52</b>
	<b>About the author</b>	<b>59</b>
	<b>About the Research Centre for Sustainable Organizations</b>	<b>61</b>
	<b>About HOGENT University of Applied Sciences and Arts</b>	<b>65</b>

The background is a solid teal color. There are two purple abstract shapes: a circle in the top-left corner and a large, tilted, rounded rectangle that spans from the middle-left towards the bottom-right of the page.

# Need for future-proof financing mechanisms

# Introduction

---

## **Need for future-proof financing mechanisms**

With government budgets under pressure for some time now due to COVID-19 measures, climate, energy and international crises, long-term investments in complex and unpredictable social and societal challenges are coming under pressure. Vulnerable citizens are thus at risk of falling by the wayside. It is now more important than ever to visualise a potential return on these social risk investments and express it in terms of an investment cost and a public return on investment: i.e. long-term return through cost savings on the long-term effects of those social and societal challenges.

The question remains, however: who is willing to bear the risk?

New capital markets seeking socially responsible investments and new forms of contracts such as Social Outcome Contracting (SOC) and Social Impact Bonds (SIBs), involving thorough impact evaluations, are offering themselves as a form of leverage. To make such public-private partnerships profitable, there is a need for new configurations, a clear framework and a viable investing environment.

In this publication, we respond to this need. The aim is to help shape socially responsible policies driven by impact outcomes from the combined efforts of academic institutions, investors, social organisations, intended target groups and governments, both at home and abroad.

## **Sustainable business models**

Through collaboration and co-creation with carefully chosen partners, the financing form of SIBs can help towards maximising and rendering social impact more sustainable.

Here lies a historic opportunity to develop new, impactful and sustainable business models and partnerships where the United Nations Sustainable Development Goals (SDGs) and Corporate Social Responsibility (CSR) are not considered mere ‘nice-to-haves’ alongside business plans, but rather their very foundation.

While there are already examples of successful innovative interventions within the current arsenal of financial mechanisms on offer, there is a need for instruments that bring about long-term cooperation and ensure sustainability for socially responsible partnerships. Any organisation or government that values sustainability will benefit from a strategic business plan comprising well thought-out investments and trusted partnerships that yield a measurable impact.

When it comes to ‘doing’ more (or do we actually mean to ‘achieve’ more) together with fewer resources, we need to look for equal and constructive collaborative relationships.

The environment in which these current collaborations are entered into, are largely determined by the price of the service rather than its outcome or impact. The position of power between partners is also still too often unequal. An evolution towards equal and constructive cooperative relationships is desirable. Such a strategic broadening will result in a broadening of (institutional) partnerships, where organisations should be seen as complex and adaptive systems.

New partnerships require new tools and mature networks.

## Turning point

We find ourselves at a turning point. There has never been a greater need, or a better time, to tap into new capital markets and introduce new innovative investment mechanisms capable of achieving social impact.

On the potential of the financing mechanism of SIBs, there is so far little conclusive quantitative data available. This is something that

is much talked about, resulting in a certain stigma and prejudice. For some, this is still uncharted territory, while others may already know certain aspects or have perhaps studied it.

Correctly applied, SIBs can form a bridge between a government, social enterprise and private investors, working together from a hitherto unseen level of involvement and commitment, to unearth sustainable solutions to lingering social issues. While such public-private constructs may be new, they are complementary to today's conventional partnerships. Can be used for high-risk and innovative projects, where the outcome and methodology are unpredictable, but the impact on success is substantial and therefore necessary.

SIBs can act as a catalyst for capacity building and policy innovation, while complementing the current shift from pure development spending to strengthening policy objectives. In addition, this is equally a means of fostering a culture of innovation.

In terms of structure, a lot still needs to be done to get this funding mechanism firmly embedded in Flanders, Belgium, Europe, even globally. Today, there are already quite a fair number of mature social enterprises, creative commissioning governments and socially focused investors, so all the components are there. The key lies in creating an enabling policy environment - the lack of which, among other things, is the cause of heavy transaction costs when repeatedly restructuring collaborative frameworks.

## **Mind shift**

With this publication, we aim to provide the tools necessary to render SIB mechanisms both usable and easy to implement. In addition, the SIB research project within HOGENT yielded clear visions and advice, as well as a roadmap, towards the structural shaping of SOC and SIB implementation.

The lines are drawn and ready to be implemented. They implicate a mind shift in terms of procurement: from procurement policies to

partnership policies, variants of SIB models, outcome and guarantee funds, new investment opportunities and stakeholders. The objective is to give structure to a future-proof financing mechanism, complementing existing forms of financing, that is easily applicable in meeting today's challenges.

Ian Dewae, august 2023

*This publication came about through experiences, concrete case studies, in partnership with (inter)national, regional and local authorities, practitioners and academics.*

*Special thanks to Pol Bracke for the editorial support, Bénédict Wauters and Francois de Borchgrave for the vision exchanges at inception and Patrick Maes for the intense sparring throughout the years.*



# Social Impact Bonds: why use them?



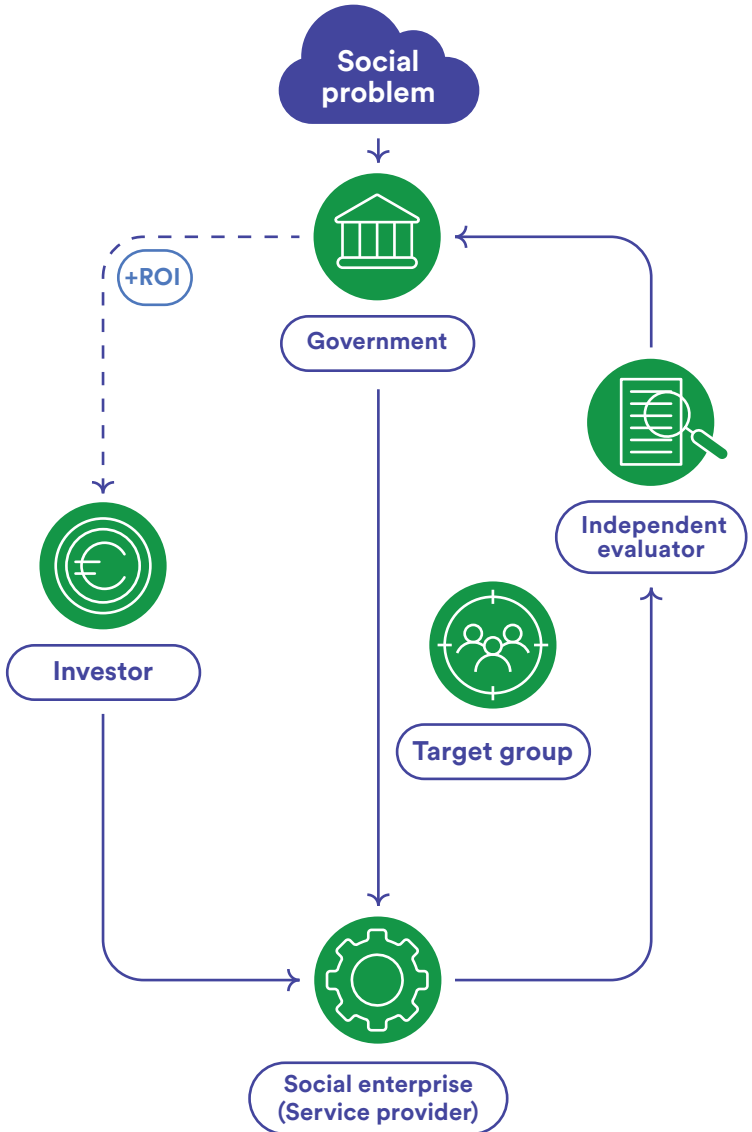
## 1.1. SIBs: description

---

A SIB is a fairly new form of public-private partnership for creating social impact. It is a contractual agreement between a commissioning **government**, an **investor** and a **social enterprise** (service provider). This form of investment is complementary to already existing public financial mechanisms and can be used for alternative methodologies and projects where outcomes are unpredictable but the impact, if successful, substantial. The private investor assumes the financial risk of failure by pre-financing the project. This risk capital investment will only be repaid if the predetermined impact results are realised. On top of this possible reimbursement, a return on investment (ROI) is also paid out, generated from the savings on social spending generated by the intervention. The predetermined success rates are analysed by an independent evaluator, as any repayment is dependent on them. A lot of SIBs involve an intermediary or structurer, who supports one or more contracting parties in establishing or implementing the SIB.

This form of funding has emerged over the past decade as a new model for investment, partnerships and delivering on social intervention projects.

The umbrella term is Social Outcome Contracting (SOC) and refers to the innovative form of procurement for social services based on results (outcome) rather than output. The term covers a range of instruments such as results financing and SIBs.



## Making taxpayers' money go further

A different approach to the role of government, including through 'strong new partnerships', is emerging. Public services are being organised differently, which also requires new tools to create such partnerships. A SIB can act as a catalyst for engaging the investment market on social challenges.

New capital injections from this source also provide opportunities for redesigning internal budgeting, testing out entrepreneurial solutions and focusing on prevention.

SIBs are much more than an alternative way of financing projects. It is a new investment channel where funds can be acquired that contribute towards boosting the profitability of expenditures to be spent. Evolving from a project-based operation that needs to achieve results, to a system that realises savings. SIBs therefore make taxpayers' money go further.

With project-by-project financing, you don't get market traction. There is a need for a structural construction that can make the capital market more sustainable. Once this structure takes shape, other government partners and local authorities can then fall back on it.

Continuing to market SIBs ad hoc, project by project, without a structural framework, will result in investor uncertainty and therefore will become finite. Thus, employing a project-based approach will not bring about progress.

## 1.2. Benefits of SIBs

---

The SIB mechanism is a concept that allows one to mobilise non-public resources to develop and implement new solutions-based strategies to address persistent social issues. At a time of tight public finances, this makes them all the more efficient.

The stakeholders who benefit from a SIB-led approach are govern-

ments, investors, service providers, the target group of the SIB and society as a whole.

### Benefits for the government

---

- Expanding services for a target group that is proving very difficult to engage with

---

- Outsourcing of financial risk to investors, use of funds only in case of success

---

- Target group approach without having to make a financial effort prior to launch

---

- SIBs are assets that can be used alongside the three conventional collaborative financing models (outsourcing, grants and partnership agreements) as a fourth, complementary form of financing to improve overall service delivery

---

- While achieving the set targets and succeeding in the task at hand will incur costs for the government, the realised impact will itself generate savings in social spending

---

- Additional resources to deliver results-oriented work through entrepreneurial solutions

---

- Stimulating innovation

---

- Opportunity to invest in intervention and prevention

---

- Making public spending go further

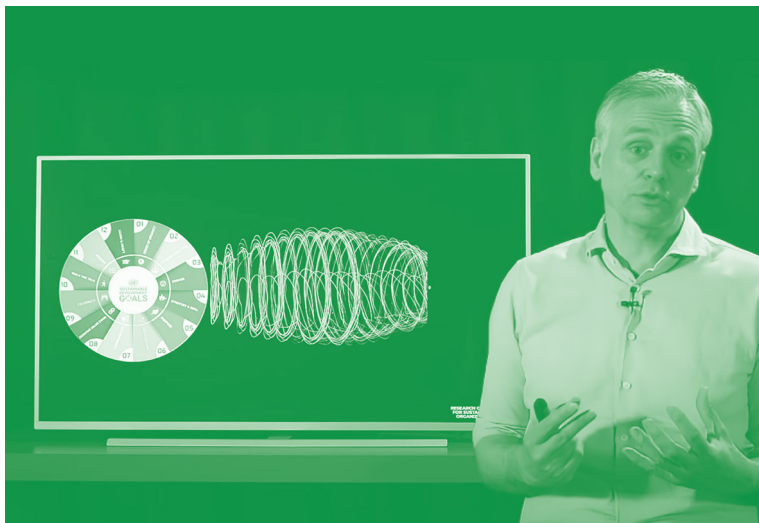
---

- New capital injections provide broadened focus



## Benefits for the investor(s)

- Return on investment if success is achieved with the ultimate target group
- Financial return is linked to social outcome
- Catalysing entrepreneurial solutions
- Investing in impact and not merely in organisations
- Capital that can be repaid, with a return, and then subsequently reinvested
- Engagement and involvement from investors who can make their network available and support this network in the fight against societal challenges.
- Fits within the United Nations Sustainable Development Goals (SDGs), Corporate Social Responsibility (CSR) and Environmental, Social and Governance (ESG) criteria, all of which are used to assess the sustainability and ethical impact of any investment



*Fragment from the webinar 'Can Social Impact Bonds help make our impact-driven society profitable?'*

### Benefits for the service provider

---

- From day one of implementation, the service provider has the financial resources to work with the target group, regardless of any commitment to a particular result. This helps avoid any cash flow problems

---

- Strengthening own organisational competences, know-how and methodologies, all without financial risk

---

- Room is created to innovate

---

- Service offering can be expanded

---

- Network partnerships can emerge

---

- Investors will also provide non-financial support

---

- First mover advantage: there is a knowledge benefit in validating and further rolling out the solution

### Benefits for the target group

---

- Alternative, business-driven methodology for engaging with the target group. The additional financial boost allows to break free from tried and tested methods, thereby creating an improved focus

---

- Potential to launch interventions within certain target groups that would not be addressed without the additional financial input from the investment market

---

- Impact is not only felt by the individual, but also by that individual's family and social environment. The achieved impact therefore extends far beyond the target group itself

### Benefits to society

---

- Impact on permanent social costs that have repercussions in multiple policy areas, including poverty, health, welfare, employment, education, security, etc.

---

- Through the SIB mechanism, non-public resources can be mobilised to address other prevalent social issues. In a period of scarce government budgets, these resources are used more efficiently and effectively.

## 1.3. Contracted SIB stakeholders

---

Below, we will highlight the four types of stakeholders involved in SIB contracts: the government representative, the service provider, the investor and the structurer or intermediary. In doing so, we will outline what criteria these stakeholders can best meet to be a solid SIB partner. A fifth stakeholder is the independent evaluator. Whether or not they are a contracting stakeholder will depend on the type of structure used.

### The government representative

A SIB government representative has an open policy that can include a crucial role in conceiving, stimulating and funding innovation. A bolder vision of the role of government also requires a change in the figures used to evaluate these policies, with current, static cost-benefit analyses proving inadequate. There needs to be a willingness to undertake a much more dynamic form of analysis. Evaluating the success of a government project should take into account the **sector-wide impact** created - pigeonholing should be avoided. The biggest challenge here is that the results of any impact often only partly reach the organising government, and to a large extent to other authorities and departments. A correct calculation of the direct and indirect impact, as well as plotting the net social benefit against the direct return for the organising government, is needed to create sustainable policy support.

It is crucial to identify measures that reveal the benefits of long-term investment and innovation. This involves a different way of measuring value, including the spillover effects of this kind of ambitious public funding. Interactions between the public and private sectors should be based on co-creation and open collaboration with mutual respect, with a view to strengthening each other towards the common goal of value creation.



## The service provider

Besides the required basic information about the organisation of the intervention, the service provider must also be able to demonstrate sufficient commitment to deliver on the SIB partnership and demonstrate the added value they can offer as a government partner. The service provider should have **relevant experience** in implementing the type of intervention and have sufficient adaptability to achieve the predetermined results. Moreover, the proposed methodology should be applicable in supporting the most difficult profiles among the target group.

Results should be easily measurable to allow for regular evaluations and possible adjustments of the intervention. The intervention should guarantee (new) impact that is not more expensive than comparable methods.

## The investor

The investor plays a crucial role in the formation of this partnership. Who is better placed than the investor to analyse the service provider's business plan and resilience. In doing so, they should also assume any financial risk of failure. Solvency, know-how and sufficient time investment are obvious necessities, and the investor should also have experience in financing structured investment products.

It is also crucial that the investor is **motivated by the social purpose of the SIB** and is an active participant in the constructive formation of SIB policy. They will make themselves available, preferably, to support the service provider in achieving their objectives. It is a balancing act of offering advice and assistance to the service provider, albeit without putting on pressure to achieve pre-set success rates. There may be a role to play here for the government in keeping a watchful eye over this.

## The structurer or intermediary

**The complexity and innovative nature** of the mechanism may justify the use of an external consultant. This can add value in terms of legal advice, procedural guidance, or other aspects. There is also a question of sensitivity here. After all, the consultant is then an implicated party and cannot be used by potential applicants to the tender. This consultancy must also be appointed through a tender and must be included in overhead costs. Depending on the evaluation method, the same applies to the independent evaluator.

Social service providers who are unable to navigate the investor market themselves can rely on external consultancy to assist them in this, along with developing a business plan and a term sheet. The question is to what extent a social service provider can budget for this. On the other hand, the business nature of social organisations can sometimes be underestimated.

The **guaranteed neutrality** of these external advisors is essential to maintaining a focus on impact and not getting caught up in discussions around interest and capital cover and/or stakeholder advocacy.

## The independent evaluator

Defining, let alone measuring, the success rate of a SIB is not so straightforward. In many cases, the measurability of a project can prove quite complex.

Therefore, much attention should be focused on **defining success and how to measure it**. This will determine the level of repayment, and hence the level of success for the overall project. While well-defined evaluation methodologies take a good amount of time to develop, they save disputes in the long run.

The same applies to the target group, where accuracy is also required when it comes to defining it. After all, an undefined target group can potentially yield distorted results.

It is possible that adequate evaluation mechanisms already exist, rendering it unnecessary to develop any expensive and elaborate tailored evaluation tools. Depending on the specific need, an academic institution or specialised evaluator can offer support in identifying impactful solutions, providing assured methodological answers and managing and analysing all manner of data. The impact evaluator will lead the way in terms of impact measurement, capable of simplifying and speeding up evaluation methodology wherever possible.

# The first SIB in Flanders – lessons and experiences

2

# The first SIB in Flanders: lessons and experiences

---

In an environment where public spending is highly rationalised and weighted, new mechanisms need to be put in place to maximise the impact of that public spending. Impact measurement and impact-based financing are essential here, bridging the gap between government, the private investment market and the social services sector to leverage new capital injections, creating social impact and supporting economic recovery.

In recent years, I have studied alternative forms of impact financing at the Flemish Employment and Vocational Training Service (VDAB) and subsequently at the HOGENT Research Centre for Sustainable Organizations (SUOR). In concrete terms, this mainly involved researching the added value and potential of SIBs. Based on this research, I realised the first two SIBs in Flanders. These experiences have reinforced my confidence in this mechanism.

Below, I will describe the run-up to and realisation of a pilot project at the VDAB, through which we wanted to investigate to what extent the concept of SIBs could add value to the Flemish labour market. Such a concept redefines the outlines and preconditions and working frameworks of public-private partnerships. It mobilises private funds and sets up bold, innovative partnerships to solve problems that cannot be effectively addressed within current forms of public-private partnership.

## **The lead-up**

In late 2014, I was working at the VDAB - Public Employment Services, where I was asked whether the SIB funding mechanism could be used as a tool for the Flemish labour market. There had been interest in the mechanism within VDAB management for some time, having initially circulated in financial and social business

circles as an alternative to 'traditional' government funding. The then just published research paper from Harvard Kennedy School of Government 'Establishing Social Impact Bonds in Continental Europe' by now secretary of state Thomas Dermine was no stranger to this.

In short, there was increasing momentum behind interest in SIBs. This allowed me to work on an initial international document study on private partnerships between (social) business, the capital market and the government. The main conclusions were reviewed on a monthly basis with a working group under the aegis of strategic account management.

In addition, as there was little concrete hands-on experience on the European continent at the time, extensive discussions were held with initiators such as KOIS invest, at that time one of the leading pioneers in structuring SIBs. ESF Flanders and the King Baudouin Foundation also served as keen partners in providing both vision and direction.

Building support before getting started effectively is essential. Inform yourself thoroughly, gain insight into practical experiences and share that knowledge both widely and on a regular basis. This is how you get potential stakeholders, both inside and outside your own organisation, excited about your project.

## Mandate

An initial sharing of information at the board meeting in June 2015 was met mostly with surprise and scepticism. The idea initially fell apart. Among other things, I was accused of wanting to privatise the government and make the rich richer on the back of those in need.

Nevertheless, I had piqued some interest and following the summer recess, upon a second presentation with a broad overview of effective figures and examples, the idea started to gain traction. I was mandated to explore the mechanism in greater depth. Getting an explicit mandate is necessary to continue working efficiently. It allows you to get your project known both inside and out of the organisation.

Show plenty of resilience.

SIBs are a new concept, a different way of thinking. People need time to get used to the idea. Resistance is therefore to be expected.

Consider these as teachable moments that will enable you to anticipate any future backlash.

While a theoretical approach would already provide a great deal of insights, the barriers, technical and legal stumbling blocks of this new mechanism would not be truly experienced by the VDAB until it was eventually implemented. After all, there was not much practical understanding at that time: on a global scale, fewer than 40 projects had been funded in this way, and, moreover, almost all of them took place on British soil.

Make sure you have or assign a clear mandate throughout all steps of the process. It is needed to work both efficiently and with proper backing.

This therefore prompted an appeal to the European Social Fund (ESF). It had to facilitate the translation of a funding model developed in the UK to the Flemish market, with its own legal, social and economic framework, but above all with its own unique political structure.

In December 2015, the SIB project was approved, meaning that ESF gave VDAB extra financial strength to hire external support and inspiration. The aim was to get a clear picture of how the different parties - social service provider, investor and independent evaluator - should interact to create a SIB. Project partners comprised social enterprise Point Urbain, the Research Institute for Labour and Society (HIVA) for support in shaping the evaluation methodology and the Flemish government's Department of Work and Social Economy (DWSE).

It is important to include the draw up of the evaluation methodologies at the very start of the project.

Even though the VDAB working group that would shape the SIB included employees with diverse expertise, we could do nothing but conclude that the required, specific expertise needed to establish a SIB in Flanders was not present.

We therefore opted to engage an external specialist. This provides



additional support and insights you would not read about in any reference books. It is therefore important to be thorough and meticulous when choosing the right partner. Eventually, through a tender process, we decided to involve KOIS Invest in the project. This experience expert provided support in various areas, including researching the legal and budgetary feasibility of an SIB mechanism within the framework of VDAB operations, determining the role of each affected stakeholder and the relationships between them, guiding the VDAB throughout the pilot project, etc.

**A SIB is a complex legal and budgetary system that requires very specific knowledge and experience. Do not hesitate to seek these out externally if they are not present.**

From that process, I drafted the report 'Draaiboek voor de implementatie van een Social Impact Bond in Vlaanderen' (Roadmap for the implementation of a Social Impact Bond in Flanders). This study provided the impetus that would shape a pilot project.

I initiated an extensive round of interviews and discussions with experience experts, policy makers, academics, capital providers, social entrepreneurs, target group experts and disadvantaged group representatives both at home and abroad to shape the objective and procedural design of a first SIB project.

I also took the first steps towards finding investors and potential allies. Thus, we carried out SIB information sessions at various employer organisations, who in turn surveyed their members as potential investors.

## Target group determination

We wanted to gain further insights on the practical experiences, the barriers to implementing this funding mechanism within the current legal framework. VDAB explored how this instrument can be used to achieve its objectives and generate social impact, for example on projects that focus on the connection between the local service economy and the mainstream economy or projects that focus on difficult to employ target groups.

Ensure that the leaders within the organisation are involved from the outset, for example through organising ‘challenges’ where they can help determine the target group, pricing, etc. This helps circumvent any resistance later on.

To determine the target group, we organised a ‘challenge’ that included all regional VDAB directors. This was a great way of immediately providing them with information and letting them ask any questions, express their views and help in the decision-making process. The price setting was decided by consensus, which thwarted possible future discussions and resistance.

When it came to selecting the target group, the preference went to the NEETs (Not in Employment, Education or Training) in the Antwerp region, as both VDAB and OCMW (Flemish public centre for social welfare) had no or very few leads towards them. They remained under the radar and were therefore difficult or impossible to contact when it came to labour market or pathway mediation. Moreover, this target group had continued to grow, despite the efforts of both

VDAB Antwerp and the City of Antwerp. Engaging the market to solve this growing social problem using an alternative, innovative concept seemed like an ideal opportunity. Indeed, the task of finding, activating and motivating these vulnerable job seekers to actively seek employment was crying out for an alternative, more creative approach.

The SIB mechanism could cater to this need, all without imposing any financial burden on the VDAB budget. Theme, target group and region, design, success rates, budget and cost per participant were all approved.

## **Legislative changes**

In mid-2016, we were ready to launch the SIB. However, it was just then that an amendment to the Law on Public Procurement was published in the Belgian Official Gazette (14 July 2016).

This new law limited the scope for implementing innovative experiments, such as the SIB, from a service provider led initiative (following similar cases in the Netherlands).

The legal requirement to appoint the service provider through public tender also meant that it was no longer possible to start the pilot project for NEETs in Antwerp with the ESF partners.

These new elements resulted in a change of direction during the public procurement process. A challenging and unique SIB structure took shape, namely the tender for a provision of services rather than a service provider, with the format being that investor and service provider would jointly submit a project together.

The negotiation procedure, with publication, would be made up of two phases. Phase 1, i.e. the selection phase, involved market research to identify interested, knowledgeable and decisive stakeholders to deliver the brief. This allowed us to gauge how ready Flanders was for this sort of SIB mechanism. During phase 2, i.e. the award phase, the best proposal would be awarded via negotiation procedure.

These legal proceedings allowed us to examine whether a separate route should be followed for attracting the service provider or rather (and preferably) for attracting the service provider and investor in joint fashion. This created an opportunity to also turn a social service provider into an entrepreneur who could tap into the investment market themselves. They would then no longer simply come knocking on VDAB's door with a creative solution to a social problem, but rather, in addition, would have already amassed the required funds themselves. If successful, these would be reimbursed as operating costs.

The underlying idea is to encourage the social sector to be entrepreneurial and self-directed, where the VDAB can be a catalyst and facilitator with calls for tenders to grow the social service sector's resilience and encourage partnerships between social service providers and investors.

When developing the SIB, be sure to take into account the already existing ecosystem for the particular social problem. Make sure the SIB intervention does not unbalance the existing ecosystem.

The proposed schedule was the publication of the tender specifications in June 2017 and the award by September 2017. A protracted, sometimes difficult but instructive negotiation period led to a significant delay in project implementation.

With this pilot project, we wanted to investigate the extent to which the SIB concept could add value to the Flemish labour market. Such a concept redefines the outlines and preconditions and working frameworks of public-private partnerships. Private funds could be

mobilised, and bold, innovative partnerships established to identify solutions to problems that had not yet been effectively or efficiently addressed within the current sphere of public-private partnerships.

### **Preparatory actions**

Some preparatory actions were taken to ensure the effective implementation of this pilot project. We had the opportunity to present the project and SIB mechanism to the partners of the Federation of Enterprises in Belgium (FEB) Alliance for Youth initiative. Of course, in doing so, we were also looking to drum up their interest as potential investors.

Tap into your network to recruit stakeholders. You need to be especially proactive about this in the early stages of SIB applications: for many, SIBs constitute uncharted territory. Thorough advance information and communication is therefore necessary to achieving a positive response to any tender.

Of course, social organisations should also be informed, as they are often sceptical, even reluctant to the concept of SIBs. The social sector often has an aversion to the capital market. They are different worlds, with a different mindset, vision and vocabulary.

We encouraged social organisations to develop in-depth expertise on

their business and operational plan in preparation of signing up for a SIB call.

Spend enough time informing and sensitising the social sector. The social sector is reluctant to embrace SIBs and often has an aversion to the capital market. They are different worlds, with a different mindset, vision and vocabulary. This is something not to be underestimated.

### **A complex brief**

This project resulted in a complex brief. I received questions, reservations, views from virtually all internal departments involved in the SIB mechanism, from their perspective and their own objective, but the mechanism is rather complex in nature and forms a single whole. Each part could only be addressed in conjunction with other aspects. It was therefore expedient to set up a working group where all concerned parties could express their critical concerns, questions and visions, all while continuing to see the broader picture.

Giving shape to an open tender, one that left room for interpretation, took quite some time. Usually, procurement experts are trained in drawing up tenders that are conclusive, not open to interpretation and have no loopholes. However, here we had a new innovative mechanism on our hands. To maximise the teachable moment, I

wanted a very open, open-to-interpretation specifications, where tenderers could also provide direction on the drafting process. As a result, while the design process took quite some time, it did result in a precedent that set a great deal in motion on many fronts.

Finally, in May 2017, the public tender became a reality, with a market exploration, initial selection phase and market research into identifying stakeholders with the required level of interest, expertise and decisiveness to deliver on the brief. The SIB negotiations did not always run smoothly, partly because the parties' views on the SIB mechanism differed. Nevertheless, in order to maximise the teachable moment, the VDAB chose two projects to be preferentially awarded for this pilot project.



*Constructive learning moments for all parties during the negotiation phase*

To keep the experiment financially viable and reduce any risks to an acceptable level for all parties, we suggested limiting the duration of the tender. Instead of an initial 5-year project with a possibility of discontinuation after 2 years in the event of failure, we opted for an initial minimum 2-year project, with a possibility of extension to a maximum of 5 years in the event of success.

At the end of June 2018, following a protracted negotiation phase, two duos submitted their best and final offers (BAFO). A number of idiosyncratic conditions crept into these BAFOs, e.g. the investor's

conditional commitment ('we will continue when we have found enough sub-financiers') which compromised the level playing field in the competition and brought proceedings to a halt, as well as interest on outstanding capital and capital guarantees that had to be included, etc.

Including such unilateral conditions in the partnership dishonored the SIB and especially the vision of the mechanism. This was not what the VDAB had been expecting. We were looking for partnerships, sustainable collaborations, which did not weigh solely financially on the VDAB.

The VDAB wanted to continue ensuring that the philosophy behind SIBs was respected and its original objectives remained a priority. The SIB mechanism is meant to be applied where methodology and outcome are unknown, so as not to put taxpayers' money at risk.

**Ensure that the philosophy of a SIB is respected and that its original objectives remain a priority. The SIB mechanism should be applied where methodology and outcome are unknown.**

The working method, unique structure and pure nature of the VDAB-SIB garnered interest from experienced professionals and academics alike. We received invitations to share our experiences both at home and abroad. Part of this was due to the fact that we changed the basic structure from a search for a service provider to a search for a provision of services, where service provider and investor had to bid together for the tender.



As such, SIBs were used as a bridge to bring the investment market and social sector closer together, with the goal of fostering a positive new dynamic between these two different worlds. When these two worlds tackle social problems together, a whole host of possibilities arise.

### **SIB vision and operation shared, explained and commented**

- 
- 2018-19: Member of the European Investment Bank Advisory Hub i.e. European Commission, integrating EU funds into Social Outcome Contracting and Social Impact Bonds
- 
- 2018-19: Member of the 4wings foundation SIB working group, embedding SIB in Belgium
- 
- 2019: Participant of the advisory group and guest speaker for the European Commission on the ESIF regulation for the next 7 years to facilitate implementation of SIBs, as well as the integration of EU funds in SIBs.
- 
- 2019: VDAB SIB operation and vision presented at the five biggest international SIB events
- 
- 2020: Member of the Emerging Responses and Government Outcomes peer learning group on COVID-19, Oxford University
- 
- 2020-21: Member of the Policy Advisory Group, Global systematic Review on outcomes-based contracting, Oxford University & Ecorys

Obviously, it is not VDAB's role to further shape the structure of SIBs. I did want to pursue this further, and I started looking for the ideal environment to work holistically on the structural design of this mechanism, making links between organisational structures, complex living systems and Social Outcome Contracting, Impact Investing and Social Impact Bonds.

Among other things, I want to contribute through the HOGENT-Research Centre for Sustainable Organizations to further understand and work on the implementation of procurement policies, strategies, cost calculation, structuring, transformations, procurement processes, profitability of public spending with public money, impact creation, etc. to simplify the roll-out of SIBs

## Pilot project timeline

As the above shows, you cannot set up a SIB project overnight. Below, you will find the run-through timeline of proceedings in more schematic fashion.

- 
- December 2014 - launch of preliminary investigation into SIB mechanism
- 
- June 2015 - first SIB presentation before technical working group (Board of Direction) of VDAB, presenting the mechanism
- 
- August 2015 - ESF submission, call for 'Innovation through adaptation'
- 
- September 2015 - second SIB presentation before technical working group of VDAB, concrete figures and examples
- 
- December 2015 - ESF approval. Project partners:
    - HIVA, to provide market research and evaluation methodology support
    - Point Urbain, for support from social services providers sector
    - DWSE, for support from Department of Work and Social Economy
- 
- Objective within the ESF project - to explore the limitations of the SIB mechanism within the Flemish labour market through general research and a pilot project
- 
- July 2016 - VDAB proposes the intention to conduct a pilot project to the city of Antwerp, where the idea was positively received.

- 
- February 2016 - Flemish Parliament, concept note for new regulation on Social Impact Bonds regulation (Parys, Diependaele, Hofkens, Lantmeeters, Coudyser, Persyn)
- 
- June 2016 - amendment to European public procurement legislation, removing the possibility for a service provider to initiate and submit a proposal to a public authority to address a social problem. New scope, service appointment via public tender
- 
- July 2016 - SIB on agenda for General Policy, Finance and Budget Committee
- 
- July 2016 - VDAB public tender, hiring SIB expert, laureate KOIS Invest.
- 
- October 2016 - KOIS gets started. The initial legal analysis conducted by Osborne Clarke (law firm and subcontractor to KOIS) revealed that we are required to issue a public tender within the SIB structure to appoint any service providers
- 
- Autumn 2016 - SIB mechanism presentation at employer organisations
- 
- Spring 2017 - public tender format for service appointment pilot.
- 
- Launch of the SIB working group
- 
- May 2017 - public tender, phase 1, market exploration, the selection phase, market research on stakeholders with interest, expertise and ability to deliver the contract
- 
- June 2017 - public tender phase 2, the award phase, with negotiated procedure, where the best proposal will be awarded. ESF project validation
- 
- June 2018 - VDAB invited the two duos to prepare and forward their best and final offer, following which VDAB and PIP (Programme for Innovation Procurement, co-outcome funder) proceeded to award the contract
- 
- October 2018 - award by VDAB and PIP to Impact Capital and BeCode for the first Flemish Social Impact Bond



*The launch of the first Flemish SIB, Tackling N.E.E.T. youth unemployment in Antwerp*



# Roadmap

## 3.1. Shaping of SIBs

---

Shaping a SIB is not an end in itself. It is a means of achieving impact for difficult social issues. The question to ask is ‘why does a project need a SIB structure?’

### **Identify a social issue as a starting point for the intervention**

The first step is to gain a clear understanding of the concept of SIBs, as well as how and when to apply them. Be sure to clearly define the following elements of the project, by consensus, prior to starting:

- 
- Objective of the preliminary phase
- 
- Identifying the form of intervention - defining the target group and order of magnitude
- 
- Market exploration (which potential service providers, (partial) solutions, investors, etc. (ecosystem))
- 
- Budgeting
- 
- Social cost and potential social return (savings)
- 
- Possible public-private partnership forms
- 
- SIB shape

### **Conclusive definition of target group and order of magnitude**

Set parameters and indicators to determine a conclusive, non-interpretible definition of a target group, as well as the order of magnitude upon which the intervention will have an impact.

What are the social and statistical characteristics of the individuals benefiting from the SIB’s intervention? Finding consensus on this will enable a clear direction for the SIB and its services.

## **Assess whether this intervention is a priority need**

What social problems do you want to solve and are you responding to an area of government policy with your action? Conduct a process analysis of priority needs within the policy as a touchstone for a possible intervention.

Map out the existing ecosystem of services for this particular social issue

Check whether actions have already been taken for your target group and what the results have been so far. Also, investigate what may be causing the persistent presence and/or growth of the issue. In doing so, also check whether the government is already subsidising these interventions and whether a SIB would not lead to any form of overfunding.

### **Is there an implementation mandate? If so, from who?**

Analyse whether and how an implementation mandate is necessary and whether ministerial or governmental decisions or approvals are required.

## **3.2. Budgeting of SIBs**

---

### **Estimation of a market-based costing for the intervention**

Work out a process analysis and strategic roadmap or challenge to provide a market-based price calculation for the intervention.

The government partner should have a clear view of the SIB's strategic objectives, maximum budget and ambitions in terms of number of beneficiaries the intervention should cover.



After defining the strategic objectives, the government partner should record benchmarks to determine the zero point of service delivery (calibration).

The service provider is expected to perform its intervention better than the market average and better than the government partner. This provides the government partner with an additional incentive to support this service provider through a SIB. Such performance is estimated by examining how the success rate and the costs of this intervention relate to each other. Cost-effectiveness can then be compared with other similar interventions or, where there are none, with the potential savings generated by the intervention versus non-intervention and other possible courses of action.

### **Factoring these operating costs as part of the overall budget**

Budget any operating costs that may or may not be spent depending on the outcome.

A technical reflection is required to determine how the provision of reimbursements can be written in the government budget (because of the deferred payment).

### **Budgeting transaction costs**

Also make an honest assessment of the transaction costs and possible reputational damage for all parties concerned. Organising a SIB in itself costs a hefty sum before even a single outcome is achieved. Make sure there is enough support, resources and mandate to fund and oversee the process right to the end. After all, it is you who will bear most of these costs, irrespective of the start, implementation or impact of the project.

## 3.3. SIB outcome funds

---

### **How much does this social issue cost society?**

Calculate the current social cost of the social issue you want to address.

Public-private partnerships where private investors take the risk to solve a social issue also come at a price. The investor undertakes to fund an innovative social programme that allows the government to save public funds. The government, in turn, undertakes, only in case of success, to repay the investors' capital, plus a predetermined return, calculated based on the saved social costs.

Thus, the SIB mechanism is a concept through which one can mobilise non-public resources to combat social issues. At a time of tight public finances, this makes them all the more efficient and effective.

The financial 'risk' for the government is strictly tied to the project's success. Then the government partner is required to repay the amount invested to the private investor. However, this exact scenario implies that the government partner has succeeded in achieving its mission.

### **Estimation of savings in terms of social spending of the intervention (to determine ROI)**

Calculate the costs and benefits. What is the order of magnitude in terms of social spending savings achieved via this intervention?

In many cases, any savings in social spending achieved from the success of a SIB project go beyond one particular policy area. Permanent social costs, which have repercussions in a multitude of policy areas, precisely form the sum total of social spending savings, upon which ROI needs to be calculated. This represents a very complex set of calculations. By keeping your SIB and social impact

within one policy level or area, you can avoid some of this complexity, especially in countries like Belgium where some policy areas are regional and others are federal.

### **Detecting/identifying parties benefiting from these savings**

Detect which budgets the intervention will impact at a municipal, regional and federal level, as well as which specific departments.

Determining the percentage of social spending savings by policy area, and therefore also who are the more favoured parties, is very labour-intensive and cannot be standardised. Every project is different and has repercussions in other areas. The impact of a SIB intervention is usually cross-departmental, meaning the savings on social spending are also felt outside the commissioning department.

### **Involve these favoured parties as potential outcome funders**

Process analysis of the strategic roadmap to engage these more favoured parties in repaying the ROI, which is recovered from the social spending savings achieved through the intervention.

## **3.4. Setting up public-private partnerships (PPPs)**

---

### **How do people perceive the partnership and the level of trust between investor and service provider?**

Sound out the drivers of a SIB partnership, where engagement and involvement of the parties adds value in realising social impact.

Partnerships built on trust and equal footing are an indispensable foundation for a SIB. This relationship of trust is put to the test during the public contract awarding period. It is like a voyage of discovery where dialogue is advisable between parties, to explore this mutual trust and possible partnership.

European procurement rules apply to the awarding of contracts. This preparatory phase requires a lot of time and effort, while the parties are not yet sure of their position.

## **Role of intermediaries**

Traditionally, SIBs provide for the intervention of intermediaries who bring service providers and financiers together to support the formation of contracts. Intermediaries are often linked to financiers, so their level of neutrality can be questioned. This can cause impact targets to be eroded.

One solution could be to pick a selection of intermediaries if they can commit to both parties. In other words, the commissioning government selects intermediaries, while the service provider, together with investor, chooses who can support them and therefore qualify for subsidy.

## **Legal and structural design of allocation and procurement procedures**

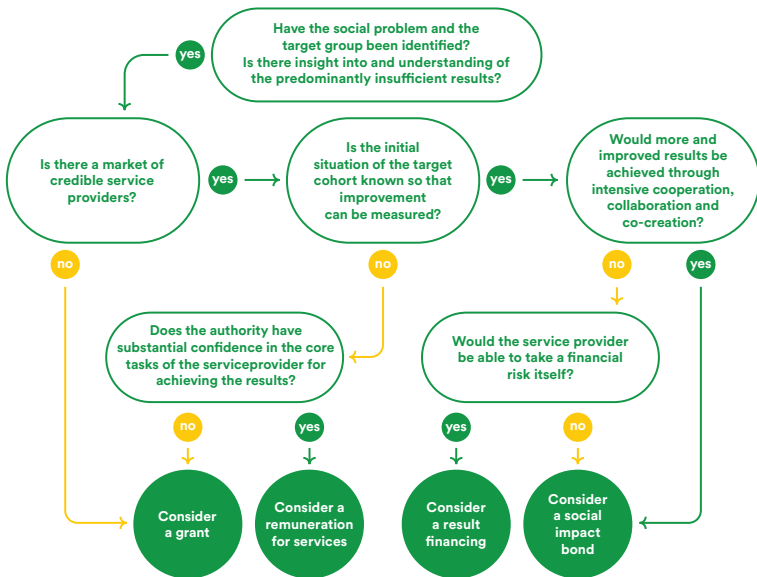
In consultation with procurement experts, map out the possibilities for a public-private partnership and determine which form of appointment is best suited to a particular social issue, along with which possible stakeholders to involve.

Most SIBs tend to be developed in highly diverse forms of contract. Sometimes grants were used, other times public procurement, but it is not always clear on which legal basis the procedure was developed. The starting point here is procurement legislation and state aid regulations.

## Complementary, in addition to other forms of financing

Keep in mind that the SIB financing mechanism is not a total replacement, rather complementary to any already existing forms of financing.

Deploying a SIB as an ideal mechanism to address societal problems is a delicate matter. There are a lot of so-called SIBs that are not actually SIBs, and analyses surrounding these projects are not promising. Critical success factors should be interpreted with caution. It is a very solid mechanism if deployed via the right form and in the right way. It is complementary to other funding mechanisms and, depending on the need, consideration should be given to which funding model is the most cost-effective.



## **Determine to use SIB when the outcome and methodology are unknown**

It is important to carefully weigh up which form of financing is best suited and most cost-effective in addressing a particular social issue.

If you stick to the philosophy that a SIB should only be deployed if solutions cannot be found within the standard framework for a particular disadvantaged group, society and certainly the disadvantaged group will benefit from a SIB. So most certainly do not deploy this mechanism indiscriminately, but rather selectively, where the need is high and the solutions unknown.

## **Limiting the number of stakeholders**

The structure of a SIB is complex. By working with too many consortia, subcontractors and other additional parties, you risk jeopardising the effectiveness of the intervention. By limiting the number of participating parties, you can reduce a SIB's complexity and overall expenditure.

## **Long-term contracts**

SIBs are used to test innovative and alternative approaches. A recurring problem with tenders is the excessively short duration of engagements. To encourage innovation and alternative approaches, you can choose to enter into longer-term partnerships.

From discussions with service providers, the common finding was that an extended duration of partnership would foster greater innovation. This does mean that such cooperation may cross legislatures, which entails implications and therefore more difficult to shape in practice.

## 3.5. Government responsibility

---

### **Ensuring quality of service**

Make sure, as a public authority, that you can ensure the quality of service without intervening in the applied methodology.

Watch over the welfare of the affected target group. While the financial risk of making the wrong investment may lie with the investor, citizens who rely on a service also face a risk in making the wrong investment - notably in losing time and energy or missing out on other opportunities. This may also be the case with citizens who use a 'regularly' funded service that does not meet expectations, but the 'self-interest' of the investor to strive for 'easily achievable results' is an additional point of attention.

Create a safety net for citizens in guidance if the project were to be discontinued. This aspect should be part of the initial negotiations. Be sure also to build in flexibility to adjust the project for the benefit of the disadvantaged group.

### **Taking responsibility for channelling pressure on the service provider**

Make sure that the pressure on the service provider to achieve success rates is not hampering them, and that outcome figures are not manipulated in any way.

The contractual connection between investor, service provider and government ensures all parties concerned work together towards a common goal. These are the building blocks to achieving sustainable stakeholder partnerships with a shared commitment to both achieving their own goals and solving social issues. This creates an improved public-private partnership where all parties involved think, co-invest and cooperate to create a win-win situation.

A definition of SIB governance clarifies the roles and responsibilities of all SIB participants. Be sure to take into account the following elements:

- 
- A prevention mechanism against abuse of position if an investor has a commercial interest in the operations of the service provider
- 
- Prevention mechanism against investor interference in intervention methodology to embellish outcomes
- 
- Types of investors: social investors who are looking for financial returns but who also harbor social motivations

## **Be open to new forms of network partnerships**

In order to render new public-private partnerships such as SIBs profitable, new configurations are required. Draw out a strategic roadmap to build support and credibility for these new forms of networking, so that they become incorporated into regular operations.

This is an evolution towards fostering partnerships between equal parties, whereas current partnerships are predominantly based around price mechanisms. A strategic broadening from an inclusive, circular and interdisciplinary approach results in broader partnerships, with organisations acting as complex and adaptive systems. Such new partnership dynamics do require new tools and mature partnership networks.

## **Integrating the mechanism, taking into account the structural framework**

Draw up a plan to integrate the mechanism, complementing existing forms of financing already in place. Test out the mechanism in practice and institutionalise it, upon significant impact, for regular use.

Internationally, SIBs are still evolving. Not surprisingly, the initial



adaptation to the Flemish context requires further refinement and improvement.

SIBs, incidentally, are also untapped territory for the capital market. A transparent structural framework is needed for the investment market to gain confidence in the government to sign up for SIBs. Raising awareness with an emphasis on the financial return of the mechanism is required to widen the pool of investors and not end up with the same investors every time.

## Exploring where the financial risk lies

Make sure that the investor assumes and maintains their predetermined role of carrying the financial risk in case of failure. To work with SIBs in a sustainable way, it is important to:

- 
- obtain a pure and project-neutral issue definition
- 
- make it clear where you want to go with the solutions post-SIB. (so the investor can assess whether there is market potential)

When you put a job on the market, there are basically two possible reasons why you cannot close a deal (based on Kraljic's spend analysis matrix, edited by Maes):

---

### 1. The financial and operational risk is too high:

---

there are insufficient reliable metrics to estimate the outcome

---

the price is not proportionate to the amount of risk

---

the brief and the expected outcome are not clear

---

the brief is too complex

---

there are no suitable providers or solutions available

---

## 2. The management and volume risk are too high:

---

it involves high volumes and therefore high impact in case of failure

---

business's carrying capacity is too small for the latter volumes

---

the solutions and parameters are not reliable or have not been tested on a larger scale

---

managing the task exceeds own organisational capacity

---

## **Intellectual property of the methodology**

Analyse the intervention of the service provider, in terms of the methodology employed and to what extent it can be used afterwards, shared, purchased or hired as a service.

If a SIB is successful, the follow-up needs to be determined. To what extent can the government adopt, copy, scale up the methodology used? Or should the government acquire it, pay a fee on use? Arrangements in this regard should be contractually defined before the start of the SIB project. As a government, you don't want to invest in a solution that you can't use afterwards without paying through the nose. That being said, there must be a fair balance towards developers and investors. If an entrepreneur knows they have to hand over their solution in full, it is fair to cover the full development cost. When reuse is possible for all parties, this cost can be partially recovered during the SIB follow-up process.

## **Follow-up steps are relevant if the SIB intervention is successful**

Integrate automation into the thought process when developing a SIB to include the post-SIB scenario in the structuring from the start.

Either way, a plan of action is necessary if the SIB is to be successful. SIBs are interesting testing grounds for innovative policy ideas.

However, evaluation and finalisation (result measurement and payments) take a long time, so the time gap between implementation and completion is considerable. This causes insecurity in terms of livelihood, which in turn threatens the renewal of successful instruments in arriving too late, with accumulated expertise in danger of disappearing as expert employees seek opportunities elsewhere in the meantime.

One possible solution is to allow for an extension in the tender until the evaluation decides on any possible scaling-up or competition procedure. This does then mean that funds should be set aside not only for the initial brief assignment, but also for any necessary extension. Any upscaling (whether under the same contract or not) might have to wait for the results of the evaluation.

Keep in mind that the further the project progresses, the more data you collect to help predict impact and results. You can therefore make some significant simplifications in the meantime.

In conclusion, it should be clearly set out beforehand what happens if the SIB should have a successful outcome.

### **What about capital guarantees and interest on outstanding capital?**

Capital guarantees and interest on outstanding capital are manageable within the SIB, although these should be factored in with caution. SIBs are and always will be risk capital investments, so having too many built-in securities would not be befitting of this particular mechanism. This would basically reduce the SIB philosophy of outsourcing financial risk to the capital market to a glorified loan.

## 3.6. Impact evaluation

---

### Evaluate impact efficiently and correctly: repayments depend on it

Work out an efficient and correct evaluation methodology, eventually by enlisting the help of specialised evaluators.

The figure below illustrates why robust evaluation is key to ensuring a credible SIB. When defining the evaluation mechanism, keep these elements in mind and ensure that monitoring of the intervention is transparent and can be linked to the repayment process.

#### A robust evaluation is essential for building up a credible SIB

---

##### Monitoring & Performance Management of the Intervention

---



- Regularly evaluating and monitoring the intervention enables the ability to adjust bottlenecks before the end of the intervention time
- This data-oriented management method allows the service provider to concentrate on achieving the performance required

##### Transparency

---



- Performance evaluation is crucially important for the mechanism, as it determines the remuneration amount
- Gathering and processing data is validated by an independent and external audit in the annual evaluation reports

---

## Repayment process

---



- Performance evaluation is crucially important for the mechanism, as it determines the remuneration amount
- The amount to be released depends on the contractual provisions approved and signed by the parties of the SIB

In order to save costs, be sure to check the extent to which a tailored evaluation would prove appropriate and whether the existing and used evaluation methodology is sufficient.

### **Falling back on the conclusive definition of the target group**

Integrate a conclusive definition of the target group or social issue as part of the evaluation phase.

SIB projects are aimed at a specific target group, facing issues that entail social costs and where an innovative approach is expected to help yield measurable successes. As such, one of the first important steps in developing a SIB project is to delineate and define the target group with whom the service provider will be working. This delineation has to be very clear, which is less obvious than it seems. In practice, it is not uncommon to find that the effective target group is somewhat diverse and that certain characteristics are open to interpretation, with the result being that the delineation is too vague.

Firstly, you need to match the broad definition of the target group to the social issue you want the SIB to address.

Next, the definition should be translated into operational terms that allow for a case-by-case approach during implementation and evaluation to determine whether or not any individual belongs to the intended target group.

## **Underpinning evaluation methodology and linking it to a high-performance database**

When evaluating, analyse available databases and their accessibility, making sure to take GDPR legislation into account.

You can only really innovate if you are able to evaluate the return on social investment. To do so in a grounded fashion requires data. Whether or not available and accessible data sources help determine the design of success ratios and the impact evaluation. If the service provider is tasked with creating a detailed database or processing data within an already existing database, this can drive up costs considerably.

Aim for the simplest possible evaluation, preferably using already available data. Sometimes data may not be usable for privacy reasons. In that case, the government partner involved can most likely intervene to provide redacted or protected data, in line with GDPR legislation.

Also, be bold in differentiating between evaluation measurement and payment. Some impact measurements concern indirect results of the intervention that are socially relevant and deliver savings on social spending, but are not necessarily directly linked to your objectives. In addition, you should not ignore any results that are not included in your objective and payment, but that still offer solutions or generate savings. Conducting a well-balanced exercise beforehand, along with having a degree of openness during negotiations, is necessary.

### **Repayment terms – yearly or at the end of the project?**

Think carefully about the repayment terms, as depending on the type of intervention, the repercussions in terms of interest on outstanding capital and the additional costs involved may vary. You can put the pre-funded capital entirely 'on hold' for the duration of the project, implying that the capital to be used will be the full cost of the project and that any interest on this outstanding capital will be high.

Alternatively, an impact evaluation could be carried out on a frequent basis (e.g. annually), providing for repayment if successful. This capital can then be reinvested for the following year's tranche. Thus, the outstanding capital is more limited (lower interest rate) and the investor has to pre-finance only a fraction of the total budget in tranches each time.

## **Keep cherry-picking out of the story**

Build in mechanisms to counter cherry-picking and ensure that the intervention achieves the predetermined impact, without skimming and manipulating success rates.

Defining the target group too broadly can encourage 'cherry-picking' for easier cases and discourage pathways involving more difficult cases. Within the target group in need of those innovative services - because regular services are not proving adequate - you can distinguish between a greater or lesser proximity to achieving the intended outcome. Although the SIB project creates added value for everyone who meets the definition of the target group, the added value increases as it concerns a larger population with a greater distance from the intended result.

A realistic service provision model is one where there is a good balance between cases with a smaller and larger proximity to success, as successes are achieved faster with the former, which is stimulating and instructive for both the service provider and the target group.

A smart evaluation design can counteract cherry-picking by gradually differentiating success rates according to intervention difficulty (with incentives for the more difficult cases).

# Recommendations

4



# Recommendations

---

In this chapter, based on our research and experiences, we will provide some recommendations that can serve to refine, simplify and make the use of SIB mechanisms more prevalent.

## **What does a policy framework for SIBs contribute?**

If you use SIBs only as a payment mechanism for a project, you risk getting into very long and difficult negotiations that may cause you to drift away from your original objectives.

Learning from projects and working towards policy frameworks helps towards making positive steps in this regard.

When it comes to project-based mechanisms, expose the obstacles that hampered their realisation. Build a structure that removes these stumbling blocks in the funding mechanism.

While the SIB promises optimal use of finance, it still carries considerable management risk for the project commissioner, both politically and in terms of deployment of people and resources. After all, setting up a good SIB takes time, paying off only when the project makes a sufficient, social impact.

SIBs as a mechanism have no chance of success unless a policy framework is put in place that identifies when and for which objectives a SIB would constitute a relevant choice, providing frameworks to mitigate high transaction costs.

## **How can the SIB market mechanism work as the regular market for (social) risk capital investments?**

The aim of SIBs could be to achieve a market mechanism that works no differently from regular risk investment markets. This means

businesses seek risk capital to get started and, if successful, the government provides the guarantee. If the service provider can convince investors, they will do their homework before coming up with funds. As such, SIBs do become risk capital investments, albeit with a calculated risk from an investment point of view.

The negotiation of objectives and successful methodologies is therefore best conducted between investor and service provider. Only the ambition (impact target) and consistency of the proposals are subject to negotiation with the government. The how and when should be negotiated between investor and service provider.

Naturally, if successful, increasing ROI will have a threshold lowering effect for investors. These costs are perfectly justifiable when factored against the social spending savings achieved through the intervention.

### **What can an investment fund contribute to the SIB market mechanism?**

To date, finding investors has not been an insurmountable problem. That being said, achieving a 100% capital risk is not realistic or reflective of the market, especially at current interest rates. Consequently, for SIBs to become a sustainable model, there is a need for a financial instrument that builds in safeguards for investors.

European regulations on interest and capital guarantees are currently evolving and striving for simplification. There is interest from various (European) bodies in using financial instruments in social services and to support initiatives both in technically and financially.

The new InvestEU Fund could create the possibility to provide a guarantee to investors if the project does not achieve the intended results - e.g. they could get back a certain percentage of their investment -, thereby rendering more risky investments more feasible.

An investment and guarantee fund where both an independent government and investors play a role could add tremendous value to the further development of SIBs.

Such a fund could play a part in SIBs and provide part of the capital coverage for investors without having to engage in negotiations for each individual project. Moreover, this presents the opportunity to spread investment risks across different projects, which can in turn stimulate the creation of a social investment and innovation market. Indeed, there is no reason why an investment market for social innovation should function any differently from innovation markets in other sectors.

In doing so, the fund does not necessarily have to provide full funding coverage, preferably also leaving room for collaboration and dynamics between a service provider and a 'lead investor'.

The fund also offers governments the input of an expert third party to vet proposed projects for their potential value and feasibility. In addition, having such a 'second opinion' from an investment and guarantee fund saves the outcome payer from over-enthusiastic responses to a proposal, along with the possible urge to steer towards predictable successes.

We cannot separate the development of such funds from investment policies for social risk enterprises and a conscious policy choice to provide a supportive framework for SIBs and other social risk enterprises (e.g. a knowledge centre, the use of independent structurers to keep SIB mechanisms separate from glorified loans).

## **How to strengthen the dynamics between the investment market and social sector?**

SIBs are not just an alternative financing mechanism, they help bridge the investment world and the social sector to tackle social problems together.

Society today needs fast, readily agile organisations that can adapt quickly to prevailing needs. Governments and their major partners often constitute cumbersome, reliably robust cruise ships or tankers, steadily steering a course but difficult to manoeuvre. The key is to rapidly make these worlds complementary of one another, aligning

them to create new forms of collaborations and partnerships.

Political bravery and leadership are necessary for the structural shaping of SIBs, with a willingness from politicians to step forward in institutionalising their usage. This will motivate government officials to take action and create new, creative public-private partnerships.

To achieve this in a 'politically safe' environment, the investment market and social sector must also become sensitised to participating in and creating a widening network of SIB stakeholders. That means there is a need for service providers who have had the courage to embark on this new way of doing things, along with investors willing to provide capital funds.

To enable this, a transparent structural framework is required, giving the investment market confidence in the government and the SIB mechanism. A process simplification of the mechanism, with an emphasis on financial returns, is required to expand the investor pool and not end up with the same investors every time.

### **What can a Public Private Partnership knowledge centre contribute to the potential SIB market?**

A knowledge centre for public-private partnerships can be particularly useful in terms of gathering and pooling knowledge and experience on an ongoing basis, while at the same time providing practical support for effective impact creation, co-created together with stakeholders. In addition, potential PPP partners (local administrations, investors, service providers, etc.) can be brought together to help spread risk and centralise support services. This is more cost-effective than providing budgets on a per-commissioning basis. The same thought experiment can also be made for the evaluation of SIBs.

In terms of form, operation and embedding, combining direction from research institutions with government funding is an advisable approach. Such partnerships between research institutions, governments and related organisations can act as a powerful engine for turning policy into sound and sustainable practice.

## Overview of a knowledge centre's overall role:

- 
- Support organisations responsible for funding social investment programmes and help them assess, on an evidence-based basis, which funding model is most appropriate and cost-effective.
- 
- Offer guidance to ensure that the initiative delivers the insights, outputs and maximum impact envisaged.
- 
- Support policy makers to make informed decisions regarding contracting and funding approaches.
- 
- Link up with academia through research into practice innovation.
- 
- Bridge between the investment world and service sector to render social impact profitable and act as a representative for the public sector around a shared strategy for impact investment.
- 
- Link with the social sector to provide support for innovation, alternative initiatives and scale-up. Share industry knowledge and identify needs from the market to inform policy.
- 
- Offer consultancy and individual project support, including exploratory research, feasibility studies, co-creation processes and expert advice.
- 
- Ambassadorship for outcome-based contracting mechanisms, process knowledge sharing and project development.
- 
- Support governments in simplifying these funding mechanisms.
- 
- The knowledge centre works closely with the enquiring public authority and their services to offer tailored advice and develop projects through co-creation (local governments, departments, agencies, regional and local entities, cities and municipalities, etc.).
- 
- Support feasibility studies and contribute to capacity building of government departments, elaborate ad hoc training and tailored workshops.
- 
- Reduce time and staff investment, transaction costs, etc. of preparatory work and the project process.

# About the author



## About the author

---

Ian Dewae is an expert by experience, who works in and is fuelled by a research environment. He has a broad focus on sustainable business models that enable organisations to transition to achieving optimal environmental, economic and social impact, with an eye on sustainable profitability across the board.

He applies a 'research to practice' principle based on the belief that strong collaboration between academia, government and related stakeholders optimises policy in practice.

Ian has in-depth SIB expertise, he served as the architect and project coordinator behind the first two Flemish SIBs. He was there when SIBs first broke ground on Flemish soil, when there was no specific legal framework surrounding them. He has shaped this totally new concept from scratch, familiarising himself with the methodology, as well as results from scarce applications worldwide to the realisation of the first tangible SIB projects in Flanders.

Through sheer confidence, he managed to create support among social partners, investors and policymakers. He sought, informed and

engaged stakeholders at various internal and external policy forums. He was driven in dealing with totally unfamiliar situations, contingencies and risks.

Ian went a step further in shaping this innovative mechanism by not taking the traditional approach of looking for a service provider, rather a provision of services, an adjustment of the basic structure that requires service provider and investor to pair up in jointly addressing social issues. This created new dynamics between the social service provider and the investor. The social service provider saw their business stimulated, while the investor was seen as an engaged, committed party.

Through this approach, Ian wants to use the SIB mechanisms as a bridging force between the social service sector and the investment market. When these two parties work together to tackle societal challenges, beautiful and bold partnerships emerge, and the sky really is the limit in terms of tackling problems.

With this practical experience, Ian is conducting an international study commissioned by HOGENT's Research Centre for Sustainable Organizations on evolutions in SIBs and simplifying applications of the mechanism. Ian's unique expertise is underpinned by the multi-disciplinary expertise on offer at the Research Centre for Sustainable Organizations, including in-depth knowledge of impact evaluation and legal issues surrounding sustainable organisations.

Ian is also involved in working groups and think tanks at European policy level, while also providing support to public bodies wishing to employ SIBs to address social issues.

Ian is a qualified organisational and personal coach, which came in handy along the journey towards the first SIBs in Flanders.

**Focus block:**

**The social service provider is stimulated to be more entrepreneurial, the investor as an engaged, committed party.**



The background features a collection of colorful, rounded rectangular and circular shapes in various sizes and orientations. The colors include shades of pink, orange, red, blue, teal, brown, yellow, purple, grey, and light pink, all set against a solid black background. The shapes are arranged in a somewhat grid-like pattern, creating a vibrant and modern aesthetic.

# About the Research Centre for Sustainable Organizations

# About the Research Centre for Sustainable Organizations

---

The Research Centre for Sustainable Organizations focuses on maximising sustainable value creation by organisations. Through interdisciplinary, practice-oriented scientific research and services, we support small and medium-sized Organisations to generate more sustainable impact on a social, ecological and economic level. Our expertise and developed tools enable these organisations to take the reins and further strengthen their own operations in an independent manner.

## Vision

---

### **Sustainable value creation and impact**

Commitment to sustainable development is a necessity in times of globalisation. It is becoming increasingly clear that current structures and processes collide with or even exceed various limits (climate problems, pollution, raw material scarcity, corona crisis, credit crises, ...). Consequently, betting on sustainable development for organisations is betting on three dimensions: simultaneously creating added value on an ecological, economic and social level. These three dimensions are strongly interconnected. Actions that create added value within one dimension may have pernicious effects on the other dimension(s). Therefore, there can only be effective, sustainable value creation if there is a positive impact within all three dimensions.

### **Interdisciplinary**

Enabling that sustainable impact requires a long-term approach and an interdisciplinary approach. The intertwining of economic, social and environmental aspects, coupled with the inherently complex

nature of organisations, necessitates an integrated approach. An approach that focuses on one sub-domain of an organisation is insufficient to capture the effective impact. We examine the characteristics and criteria of the organisational system from an interdisciplinary perspective.

To this end, the Research Centre for Sustainable Organizations focuses on modelling and implementing sustainable policies, as well as measuring and reporting impact. From six lines of research, we contribute to the realisation of our mission:

- Business Model
- Labour, Employment and HRM
- Impact marketing
- Partnerships and financing
- Integrated reporting
- Impact measurement

### **Practice-oriented scientific research and services strengthen organisations**

We want to strengthen organisations so that they can make their own -independent and informed - strategic decisions in order to achieve and maximise sustainable value creation .

More specifically, we enable organisations to use our expertise and tools so that they can translate acquired knowledge and insights into their own internal operations. This knowledge transfer then also allows them to address similar issues proactively, professionally and in an informed manner.

The focus of our research is therefore on developing valuable, practical output for small and medium-sized organisations that supports them to implement sustainable strategies. We develop tools and services that make organisations stronger by being able to work with them independently.

## **Small and medium-sized organisations**

We focus here on small and medium-sized Organisations from different sectors. Small and medium-sized Organisations are the backbone of the Belgian economy. Our research and services are tailored to their needs as these smaller Organisations do not always have sufficient internal resources, in-depth expertise, on very diverse functional domains that are essential for their operations. In this way, we also aim to maximise the sustainable impact of our own research centre.

# About HOGENT University of Applied Sciences and Arts

# About HOGENT University of Applied Sciences and Arts

---

HOGENT University of Applied Sciences and Arts came into being in 1995 through the merger of thirteen different higher education institutions governed by the Flemish Community or the City of Ghent. HOGENT has over 17,000 students and 2,150 staff members, including 275 researchers who are active in over a hundred national and international research projects. Since the 2020-2021 academic year, HOGENT's applied scientific research has been brought together in eleven interdisciplinary research centres and a Centre for Applied Data Science.

The eleven research centres are: 360° Care and Well-being, AgroFoodNature, Sustainable Land Use and Mobility, eCO-CITY, EQUALITY ResearchCollective, FTILab+, Futures through Design, Health and Water Technology, Research Centre for Living in Diversity, Research Centre for Sustainable Organizations, and Substance Use and Psychosocial Risk Behaviours.

HOGENT's applied scientific research anticipates broad social challenges and responds to the immediate needs of professional practice. HOGENT is committed to co-creation with industry, policy makers and citizens. Our strategic research agenda is inspired by the sustainable development goals of the United Nations. By stimulating researchers to work together in an interdisciplinary manner, HOGENT aims to respond to the complexity of current and future societal challenges, while stimulating critical thinking beyond the boundaries of one's own discipline.

By valorising research and expertise in various ways, by offering services and by providing an attractive range of lifelong learning opportunities, HOGENT acts as an indispensable partner in learning and innovation.