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Critical Success Factors, Motivations, and Risks in Social Impact Bonds

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Abstract: Social impact bonds (SIBs) have emerged as one of the most innovative financial instruments designed to support the social service sector in the delivery of innovative social programs. Despite the growing interest of academics and practitioners in SIBs, the debate appears polarized around a series of recurrent aspects, and only a limited number of studies have sought to understand the risks and motivations related to similar initiatives. Using an exploratory approach based on a mixed-method grounded theory methodology, this study analyzed the results of 12 questionnaires that asked experts about their experiences and perceptions in SIB project development and implementation. The study identified and assessed three main groups of motivations, critical success factors, and risk factors by focusing on the private-sector SIB actors with the aim of understanding their motivations and their perceived main success drivers and risk factors. This work contributes to the knowledge on the conditions for attracting private sector actors and supporting policymakers in the development of new SIB models. The findings could facilitate the development of risk management practices for the purpose of stimulating the participation of private actors in SIB initiatives.

Keywords: social impact bonds; payment by results; impact investing; grounded theory

1. Introduction

Social impact bonds (SIBs) have emerged as one of the most innovative financial instruments aimed at capturing new needs in the social service sector by boosting innovation and quality [1]. Conceived as a cross-sector collaboration model designed to fund social programs by creating a shared vision between the public and private sectors [2,3], SIBs are a mechanism for leveraging private investment in social interventions through "optimal" risk-sharing and innovative design in the delivery of public services by the private sector [1,4,5].

From a contractual point of view, SIBs differ from payment by results (PbR) contracts in the participation of investors who provide the working capital for the implementation of programs by receiving a return depending on the achievement of the established outcomes [6,7]. The SIB begins when the commissioner (usually a public administration at the national or local level) identifies a certain social issue and target population and decides to enter into a contract with a financial or social finance intermediary that usually arranges the scheme. After receiving the working capital required for the implementation of the program, the service provider (usually social enterprises that play a pivotal role in providing solutions to social problems) delivers the scheduled intervention. The outcome measurement represents one of the central elements in SIBs: after the independent assessment/evaluation, and only in the case of achievement of predefined outcome levels, the commissioner provides payments [7,8]. To date, there are estimated to be more than 130 SIBs already operating and more than 60 SIBs