

ePub^{WU} Institutional Repository

Florentine Maier and Gian Paolo Barbetta and Franka Godina
Paradoxes of Social Impact Bonds

Article (Submitted)

Original Citation:

Maier, Florentine and Barbetta , Gian Paolo and Godina, Franka (2017) Paradoxes of Social Impact Bonds. *Social Policy & Administration*. ISSN 1467-9515

This version is available at: <http://epub.wu.ac.at/6054/>

Available in ePub^{WU}: February 2018

ePub^{WU}, the institutional repository of the WU Vienna University of Economics and Business, is provided by the University Library and the IT-Services. The aim is to enable open access to the scholarly output of the WU.

This document is the version that has been submitted to a publisher.

Paradoxes of Social Impact Bonds

Florentine Maier, Gian Paolo Barbetta, Franka Godina

Abstract: Social Impact Bonds (SIBs) have alternatively been portrayed as a promising tool to improve the functioning of welfare systems, or as an instrument of neoliberalism that threatens to undermine them. Recently, a more nuanced understanding of the promises as well as pitfalls of SIBs has developed, as both practical experiences and published empirical evidence about implemented SIBs have increased in number. We aim to contribute to the development of such an understanding by means of a combination of qualitative and quantitative text analysis. In doing so, we analyse a comprehensive sample of 51 practitioner reports on SIBs. We identify two key paradoxes of SIBs. These paradoxes centre on statements that cannot both hold true for the very same SIB: (1) flexible but evidence-based services and (2) cost-saving risk transfer to private investors. We conclude by discussing how those paradoxes have been resolved in existing SIBs so far, which strategies of de-paradoxification may turn out paramount in future, and how positive aspects of SIBs can be preserved while defusing their more problematic ones.

1 Introduction

In many countries, the crises that began in 2007-2008 have contributed to an increase in welfare needs. At the same time, particularly in the EU, austerity policies have led to calls for restricting public welfare expenditures (Vis, van Kersbergen et al. 2011). This has created a tension, and incited practitioners and scholars to suggest changes in the welfare field: Private philanthropy should fill funding gaps; more services should be delivered by private providers; more resources should be devoted to the prevention of social problems rather than to their cure; and, finally, more attention should be paid to the actual impact of social policies in order to get the most out of public resources. Various approaches rooted in public choice theory – namely quasi-market theory and New Public Management – support such suggestions. They have contributed to the cultural climate that led the birth of Social Impact Bonds (SIBs; For a comprehensive review of origins, context and conceptual foundations of SIBs, see Joy and Shields 2013).

Based on this socio-cultural back-ground, critical scholars have interpreted SIBs not as neutral instruments, but rather as part of a boundary shift that fundamentally alters the regime of welfare provision by rearranging responsibilities and rewards among governments, private investors, and social service providers (Sinclair, McHugh et al. 2014, McHugh, Sinclair et al. 2013). These scholars caution that SIBs foster financialization, promote welfare retrenchment (Dowling 2017), and threaten to tear the fabric of social cohesion apart (Roy, McHugh et al. 2017:271).

Research anchored in financial economics, on the other hand, has been supportive of SIBs. A typical argument stemming from this line of research is that “[b]y redesigning social programs through market-based solutions, SIBs enhance transparency and evaluation of expenditures made by government” (Schinckus 2015:105); moreover, it is suggested that SIBs “encourage finance professionals to assume personal responsibility for their role in making markets more efficient” (Shiller 2013:21). Non-profit service providers too have been attracted to SIBs because they may provide stable funding as well as freedom to innovate and personalize services according to client needs (cf. Fraser, Tan et al. 2016:7).

Given this wide latitude of views on SIBs, our aim is to contribute to a more nuanced understanding of their merits and limitations. Specifically, we explore in which ways claims concerning the merits of SIBs that are made in practitioner reports (produced by people and organizations involved in the creation and management of SIBs) are paradoxical and examine how these paradoxical claims are brought into coherence. To do this, we proceed as follows: In the next section, we explore the concept of SIBs in greater detail and review previous research on their potentials and perils. Then we describe how we used qualitative and quantitative methods of text analysis to analyse practitioner reports on SIBs. We present our findings, pinpointing two key paradoxes of SIBs: evidence-based flexibility and cost-effective risk transfer. We furthermore show how these paradoxes are resolved rhetorically in the texts. We conclude by discussing how they have been resolved in some existing SIBs, which de-paradoxification strategies may turn out paramount in the future, and how positive aspects of SIBs can be preserved while defusing their more problematic ones.

2 What is known about the potentials and perils of SIBs?

SIBs – also called “pay for success” (PFS) bonds – are tools with many variations (cf. Clifford and Jung 2016, Arena, Bengo et al. 2016). Yet, they share certain commonalities: All SIBs involve a contract between a commissioner and a commissioning agency. The

commissioner is almost invariably a government. The commissioning agency may be an intermediary who prepares the deal, administers it, and subcontracts with service providers. Alternatively, the commissioning agency may also act as an investor, or may be a service provider acting as prime contractor and subcontracting with other service providers. Typically, service providers are private non-profit organizations or social businesses, but for-profit service providers are also possible. In every SIB, there is at least one investor who is legally separate from the service provider and the commissioner. This investor may be profit-oriented, philanthropic, or a blended value institution. It may take on all or part of the risk of non-performance, with or without guarantee of principal, with longer or shorter time to maturity. In all SIBs, payments from the commissioner to the investor are activated if service providers meet predefined social outcomes. An evaluator usually assesses the attainment of those outcomes.

Research on the merits and limitations of SIBs is still at an early stage, largely consisting of conceptual writings and some mostly qualitative empirical studies of one or a few SIBs. A systematic review on SIBs has been conducted by Fraser et al. (2016). Covering grey and academic literature until March 2015, they identify three main narratives: a public sector narrative and a financial sector narrative, both of which come to an affirmative “win-win” portrayal of SIBs, and a cautionary narrative which highlights the risks of SIBs. Fraser et al. (2016) conclude that empirical evidence is too limited to conclusively confirm either of those narratives, although the cautionary narrative appears to be somewhat more plausible than the two affirmative ones. Since this literature review, the scientific debate has continued along roughly the same lines, with conceptual arguments brought forward in favour of SIBs (e.g. Clifford and Jung 2016) or in caution against SIBs (e.g. Roy, McHugh et al. 2017, Dowling 2017, Rowe and Stephenson 2016).

The main concerns of the cautionary narrative have been expounded in a case study of the London Homelessness SIB (Cooper, Graham et al., 2016). Drawing on Foucauldian theory, the authors show how this SIB undermines systemic understandings of the homelessness problem and replaces them with an understanding centred on the homeless person as a failed individual who becomes securitized into the potential future cash flow of investors.

Now that an increasing number of SIBs have ended or reached an advanced stage of implementation, more evaluations that use transparent research methods are being published. Some of these investigate the merits and limitations of a specific SIB as a funding instrument (e.g. Disley, Giacomantonio et al. 2015, Roberts 2014). Some examine those aspects for

several SIBs in synopsis (e.g. KPMG 2014, Ronicle, Fox et al. 2016). Due to the bespoke characteristics of each SIB and each evaluation, it is not possible to draw definitive conclusions about the merits and limitations of SIBs in general from those evaluations. Notably, the aforementioned evaluation reports do not contain much information about transaction costs of SIBs, which, however, seem highly relevant.

Despite these shortcomings, a recent study has compiled information about various SIBs and attempted to thereby arrive at conclusions about the feasibility of the SIB approach in general (Arena, Bengo et al. 2016). Results show that most existing SIBs deviate from the prototypical promises of SIBs in one or more of the following ways: Firstly, despite rhetoric to the contrary, SIBs often do not finance highly innovative and risky programmes. Secondly, despite the alleged outcome-orientation and flexibility of SIBs, some SIBs precisely define specific interventions. Thirdly, only few SIBs fully transfer risks to the private for-profit sector. In most SIBs, philanthropic foundations or governments provide some kind of guarantee for the invested principal.

A recent conceptual paper by Giacomantonio (2017), who engages with the academic and grey literature on SIBs by building on a rational choice framework, comes to a similar conclusion: SIB-financed initiatives that are rational choices on the part of governments are unlikely to be attractive to investors interested in financial returns, and vice versa. Giacomantonio argues that the future of SIBs may be akin to forgivable loans from philanthropists to governments.

Alltogether, the scientific debate about SIBs has become more firmly based on empirical data and more nuanced in tone. Key areas of concern have become clearer, notably SIBs' politically contested effects on welfare systems, difficulties of keeping SIBs both outcome-oriented and flexible at the same time, as well as difficulties involved in realizing cost-effective risk transfer to the private sector. With the following analysis we aim to advance this debate by identifying the two key paradoxes intrinsic to the idea of SIBs: the paradox of evidence-based flexibility and the paradox of cost-effective risk transfer.

3 Methods

We identify paradoxes inherent to SIBs by looking at practitioner reports. We subject these texts to a qualitative and, to a lesser extent, also to a quantitative analysis on the basis of Luhmann's (1991) and Czarniawska's (2005) concepts of paradox and de-paradoxization. In

this section, we shall explain our sampling, the conceptual basis for our text analysis, and the procedure applied.

3.1 Sampling

Practitioner reports about SIBs were used as textual data. Reports, generally speaking, purport to provide factual information, not opinions. The language of reports is direct and formal. Reports are typically structured into sections; they are usually composed of an introduction, a body, and a conclusion. Depending on the subgenre, further sections such as references, appendices or a section on research methods may be added (Treadwell and Treadwell 2004:205f.). For this text analysis, we focus on what may be referred to as practitioner reports: a particular subgenre of reports that exhibits the fundamental genre characteristics but does not include a section on research methods (Treadwell and Treadwell 2004:205).

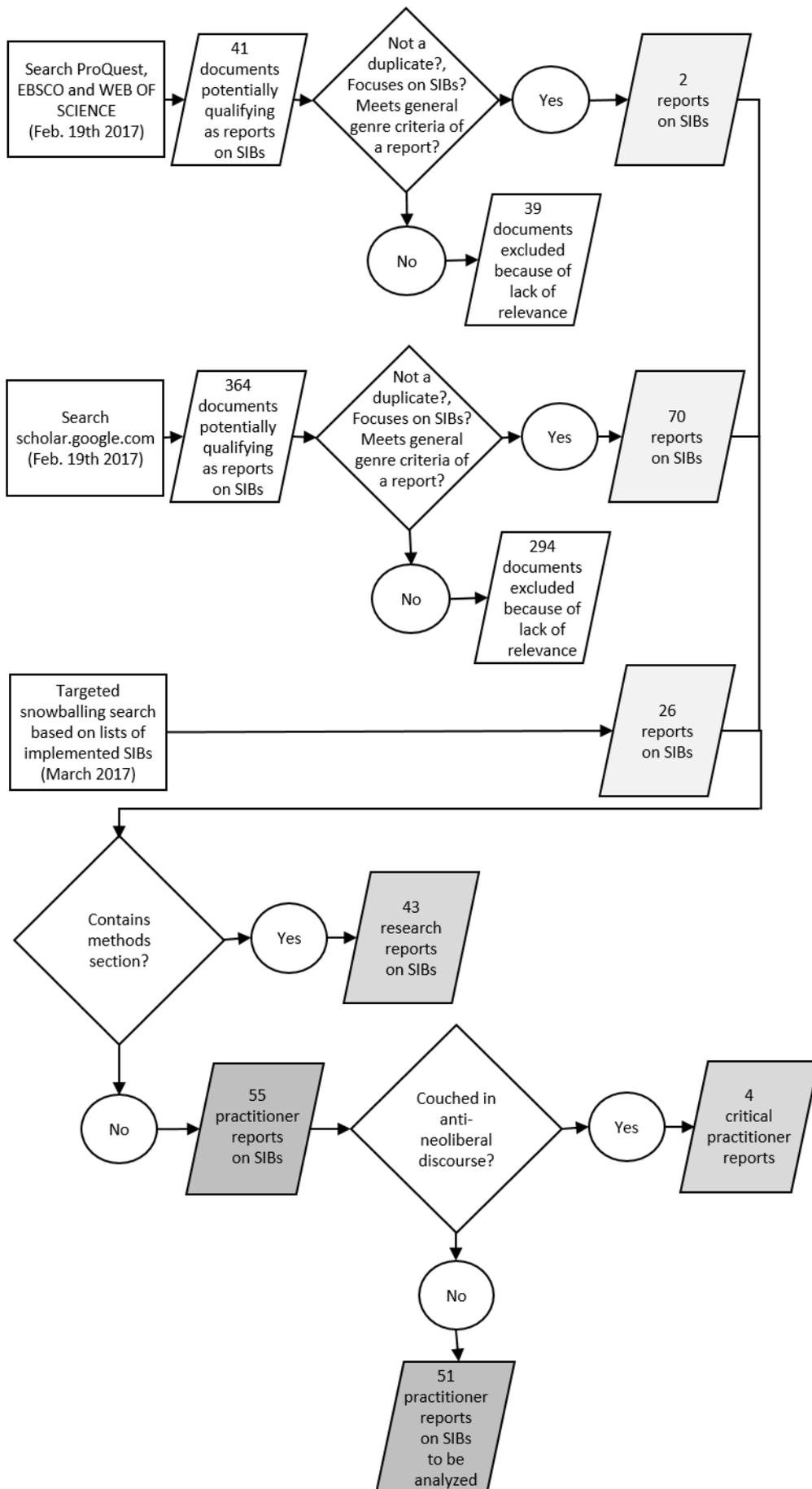


Figure 1: Sampling procedure

Our sampling procedure is visualized in Figure 1. First, we searched all databases of ProQuest and EBSCO for sources that are classified as reports and that contain the term “social impact bond” or “social impact bonds”. We also searched the WEB OF SCIENCE databases for all sources featuring those keywords. After screening for duplicates, genre criteria of reports, and topical relevance, this search only produced two relevant results. Then we used scholar.google.com to search for sources of the file type pdf containing the term “social impact bond” or “social impact bonds”. We had noted that almost all of the documents exhibiting the genre characteristics of a report also contained the phrase “this report”, which is typically used in the introduction or acknowledgements section. We therefore included this phrase in the search string. Finally, based on lists of implemented SIBs contained in the reports retrieved so far, we conducted a snowballing search to find further reports that had been missed in the course of the two prior steps. This was done on google.com by searching for the term “report” in combination with the name of the SIB or terms closely connected to it (e.g. its location).

All reports were then classified as to whether they contained a section on research methods or not. Reports with methods sections were marked as belonging to the subgenre of research reports and were considered in the literature review for this article. Practitioner reports were considered as textual data. Out of the 55 practitioner reports that were identified, 4 reports stood apart from the others due to their unequivocally negative assessment of SIB as well as their critical tone couched in anti-neoliberal discourse. It was not feasible to analyse those within the same framework of discursive categories as the remainder of the sample. The remaining 51 practitioner reports were imported into NVivo for qualitative text analysis. A compressed EndNote library containing full texts of all research and practitioner reports as well as tags to document the sampling procedure can be retrieved here:

https://www.dropbox.com/s/ahuyehv5h6t0387/sample%20SIB%20reports%202017_05_02.enlx?dl=0.

3.2 Conceptual basis for data analysis

Our first analytical task was to identify paradoxes. By paradoxes, we mean statements about benefits of SIBs that, according to generally accepted opinion (*doxa*), can be considered as incompatible (hence *para-doxical*). At first sight, the two statements in question cannot both

hold true for the very same SIB. Paradoxes are not innate qualities of texts, but appear as a result of subjecting narratives to logical analysis. It is the observational tool of analysis that deconstructs the narrative flow of the text, and thus reveals the paradoxes (Czarniawska 2005:128, 141). Needless to say, the authors of the SIB reports do not see their statements as contradictory, and neither does the typical reader in an ordinary mode of reading.

Our second analytical task was to identify the de-paradoxifying arguments. This task is crucial because, when we as researchers “catch” the authors of SIB reports contradicting themselves, this does not mean that we “unmask” them due to the superiority of our analysis over their narrative (Czarniawska 2005:141). It rather means that we are not done with our analysis yet. The next analytical task is to understand how it is possible that statements that would otherwise be considered as contradictory do not appear to be so (Czarniawska 2005:141). We went about this task by focusing on de-paradoxifying arguments. With this term, we mean rhetorical moves through which statements that would otherwise appear paradoxical are brought into congruence. Once again, it needs to be stressed that those moves, according to Luhmann and Czarniawska, are not usually the result of deliberate scheming. On the contrary, a paradox can only be effectively mitigated in a narrative if the author does not examine it too closely. In other words, the author must not dwell on its conflicting sides too much. The texts that most effectively mitigate paradoxes of SIBs are those that only minimally touch upon contradictions, but nonetheless proceed to neutralise them in an almost somnambulistic manner, by bringing in additional common-sense assumptions or tacitly displacing the paradoxes in time and space. In prior research, generic strategies of de-paradoxization have been delineated: focusing on either side of the paradox, choosing a middle ground (Fiol 2002), or suspending the paradox through temporisation, spatialization or relativization (Czarniawska 2005). We used those generic findings as a basis from which we inductively expanded our own analysis. The process of doing so shall be explained below.

3.3 The procedure of data analysis

The data was analysed by the first and third author in collaboration, with both authors taking turns to code the data and to crosscheck it for consistency. We applied a form of qualitative and quantitative text analysis customised for the research aim at hand, i.e. we analysed the texts in a hermeneutical-interpretative way, following systematic procedures informed by the theoretical concepts of paradoxes and de-paradoxification.

The first step of our analysis was to mark all passages that refer to the merits of SIBs. In a second step, we coded these sections to group them into categories of merits. Four major

categories were thus identified: the evidence-based approach of SIBs, their conduciveness to flexible service provision, their potential to transfer risk to the private sector, and their potential to make social service provision more cost-effective. Thirdly, we examined the relationships between those categories in order to analyse how they contradict or corroborate each other according to common sense. This led to the identification of two key paradoxes, which will be characterised below.

To identify de-paradoxifying arguments, we carefully re-read the texts and examined how statements that would otherwise appear paradoxical were reconciled in the texts. For this investigation, we drew upon the generic de-paradoxization strategies found in prior research, and inductively expanded on them to identify the typical argumentative structures that combined those statements into a consistent narrative. Finally, to enable quantitative orientation, we established how many reports contained any of those paradoxes and de-paradoxifying arguments.

4 Paradoxes and de-paradoxifying arguments

Practitioner reports about SIBs, generally speaking, contain many passages about expected benefits. By looking at those passages in synopsis, we identify two key areas in which paradoxes occur: (1) evidence-based flexibility and (2) cost-saving transfer of risks. Table 1 and 2 show how pervasive these paradoxes are in the genre.

When looking at the reports from a diachronic perspective, it becomes apparent that arguments concerning SIBs have become more nuanced throughout the years. Early reports, for the most part, tacitly neutralize the paradoxes. Some of the more recent reports (e.g. Coletti 2016:4, Griffiths and Meinicke 2014:15) engage with the paradoxes in more open, reflexive ways. In the ensuing analysis, we will point out such variations whenever they appear to be salient.

4.1 Evidence-based flexibility

SIBs are promoted as tools that support flexible social services but, at the same time, contribute to the agenda of evidence-based policy:

“The preventive intervention should be based on objective, evidence-based methods that not only helps [sic] the target population in the SIB, but could be scalable and replicable in other jurisdictions with a similar social condition. SIBs need to contain some flexibility, in that the service providers should have considerable freedom to define the strategy that seeks to achieve the desired outcome.” (Eames,

It is stated that SIBs can, or even have to, be simultaneously flexible and evidence-based:

“The Social Impact Bond contract with government specifies the desired outcome, but not the means of achieving it. This means that interventions can be tailored to local needs and can evolve over time as needs change. [...]

Preconditions for a successful Social Impact Bond: [...] Evidence-based interventions: Investors must have confidence that interventions to achieve the target outcome are well understood. It must be possible to estimate the impact of a certain level of investment on the target outcome.” (Bolton and Savell 2010:47, 52)

Clearly, this creates a tension, which practitioner reports have recently begun to address openly:

“PFS contracts have an inherent tension between evidence and experimentation. They offer a way to experiment with evidence-based interventions in new settings or at a larger scale. Flexible implementation can create uncertainty for the evaluator and government, as it can be difficult to know why the intervention worked or failed, but this flexibility is also an advantage of PFS contracts compared to the typical government program.“ (Coletti 2016:4)

This paradox of evidence-based yet flexible interventions can be found in 34 of the 51 examined practitioner reports (see Table 1). To reconcile those contradictory ideas, the reports make use of three argumentative moves: (1) They use more flexible understandings of “evidence-based” interventions; (2) they reduce flexibility; or (3) they devolve the paradox onto the procurement intermediary or prime contractor.

	Number of reports
Reference to neither evidence-based interventions nor to flexibility	1
Reference only to evidence-based interventions	14
Reference only to flexibility	2
Containing paradox of evidence-based flexibility	34
De-paradoxified by flexible understandings of ,evidence based‘	28
De-paradoxified by reducing flexibility	11
De-paradoxified by devolution to intermediary or prime contractor	10
total	51

Table 1: Paradox of evidence-based flexibility

4.1.1 Flexible understandings of “evidence-based”

As in academic literature, in the practitioner reports the term “evidence-based” is used with various shades of meaning. The most widely used meaning is that funding is provided for a specific intervention for which a positive evidence-base already exists. This understanding, however, is particularly hard to reconcile with flexible service provision. Other understandings are more compatible with the notion of flexibility, for instance when complex professional know-how or evidence-building are considered as “evidence-based”, or when evidence-based interventions are merely seen as optional elements of SIBs.

Complex interventions that are tailored to clients with widely diverging needs can be conceptualized as “evidence-based” if they are brought down to a framework for the overall workflow of the programme. Such personalized delivery models outline general dimensions, stages, or varieties of the programme, as well as a spectrum of measures that professionals apply at their discretion. The Energise SIB provides an example:

“The provision began with an Individual Needs Assessment in order to help frontline staff ascertain the correct level and intensity of support. [...] Energise offered three pathways with the core provision common to each:

Pathway 1 – Core provision: designed to provide support, encouragement and practical skills for improving engagement and motivation. This pathway included 1-1 support, group sessions in school, mentor support and access to work experience.

Pathway 2 – Short residential: designed for young people needing a short intensive period of residential support to overcome the barriers preventing them from engaging in school. [...]

Pathway 3 – Intensive: designed for the most at risk and challenging young people. An intensive 12 week support programme, it combined specialised provision, such as longer residential programmes and activity days [...].” (Butler, Flory et al. 2016:8f.)

Interestingly, it is state of the art in many disciplines that working with clients in such a sustained, individualized and holistic manner is thought to be beneficial. Such models are dependent on highly qualified professionals exercising their discretion, as the following example of a SIB that funds Multi-Systemic Therapy for troubled families illustrates:

“You get to see the challenges that the family are facing first-hand, and help them manage them as they arise. For example, I was recently in a therapy session when I observed the young person being disrespectful to her mother. Through role-play and direct intervention I was able to help the mother drop her anxiety and frustration and resolve the situation calmly.” (Social Finance 2014a:27)

To assess such a situation and decide that role-play would be appropriate is a professional competence that is based on scientific evidence; however, it needs extensive training and cannot be replicated easily.

In some reports, the paradox is handled by using “evidence-based” in the sense of evidence-building. Understanding the concept in this way, the SIB may build on existing evidence but, more importantly, promotes learning from ongoing performance measurement:

“Real-time analysis and flexibility to innovate and evolve allows Adviza and Social Finance to adapt the delivery model. Recognising that the current structure of pathway 2 residential programmes did not meet the needs of young people, the intervention was changed. The updated pathway 2 provision is longer and more intensive.” (Social Finance 2014b:35)

The idea of an evidence-building, flexible SIB defers the paradox in time, because in order to generate strong evidence of what works, the nature of the intervention needs to be precisely documented and kept constant.

Another solution that focuses on one side of the paradox is to argue that SIBs are primarily about paying for outcomes, with the evidence-base of intervention models being of secondary importance:

“Social Finance recommends identifying the smallest number of Contractual Outcomes Metrics that create the right service provider incentives. For instance, an Impact Bond targeting a reduction in reoffending rates may have only a single Contractual Outcomes Metric, against which payments are made, to ensure that the focus of service providers and investors is clear. To build the evidence base around what works, the policy community may nevertheless want to evaluate what influenced reductions in reoffending within an Impact Bond (e.g. access to housing and benefits, family reconnection, substance misuse counselling, etc.). To trigger contractual payments against such metrics, however, would presume prior knowledge about the detailed needs of the target population in terms of the intervention mix they require that is unlikely to be available. Such metrics would also risk distracting service providers from their core objective to reduce reoffending and instead place the focus on the way in which services are delivered negating much of the value of an outcomes-based approach.” (Social Finance 2016:10)

4.1.2 Reducing flexibility

The paradox can also be resolved by focusing on the side of evidence. In this case, SIBs are characterized as flexible with regard to the financing model but not the intervention itself:

“PFS offers advantages over traditional government financing: risk transference, accountability, infrastructure building, and flexibility. [...] Because payment is dependent upon results, there is more incentive to pick evidence-based programs and to empirically validate results. The focus on developing and using evidence-based social programs may also spur innovation in the social sector as programs

compete and are adopted based on the strength of their evidence and track records of success. [...] Finally, the flexibility in PFS has advantages over traditional financing. The PFS transaction can include funding from numerous agencies whose resources might otherwise be separated or siloed because of the funding structure of government agencies.” (Roman, Walsh et al. 2014:14)

This kind of de-paradoxization is concomitant with strict monitoring of the service delivery process:

“[...] The knowledge intermediary manages and provides oversight of service providers to ensure fidelity to the model devised for the program. Monitoring and supporting fidelity to the evidence-based program provides the strongest possible chance of positive results being achieved and of investors achieving a return.” (Roman, Walsh et al. 2014:13)

4.1.3 Devolution to an intermediary or prime contractor

A third de-paradoxifying move is to devolve the paradox to an intermediary or prime contractor. In this case, the service provider implements clearly defined evidence-based interventions, and the flexibility rests with the intermediary or prime contractor, who chooses among providers:

“Such an intermediary can release a government procurer from the role of monitoring service providers intrusively. It could also be easier for a commercial intermediary to address the problems of a non-performing provider than for a government agency which is inevitably operating in a more politicised and less commercial environment.” (Jeram and Wilkinson 2015:9)

4.2 Cost-effective risk transfer

SIBs are promoted as instruments not only for evidence-based yet flexible service provision, but also for transferring the innovation risk of promising programmes or the implementation risk of proven programmes to private investors in a way that is cost-effective for the public purse. This idea is pervasive in practitioner reports (see Table 2).

	Number of reports
Reference to neither cost-effectiveness nor risk transfer	0
Reference only to cost-effectiveness	3
Reference only to risk transfer	1
Containing paradox of cost-effectiveness and risk transfer	47
De-paradoxified by risk-adverse governments and service providers	38
De-paradoxified by philanthropic funding	47
De-paradoxified by cultural change effects of SIBs	42
De-paradoxified by transitory high transaction costs	32
De-paradoxified by additionality of SIB funding	39
Total	51

Table 2: Paradox of cost-effective transfer of innovation risk

The following quote emblematically illustrates the paradox:

“Under SIBs, the government contracts with the private sector and investors to provide social services, but payment is contingent on achieving pre-agreed social outcomes. The focus on outcomes rather than on social service inputs or outputs, and the contingent nature of payments, creates real performance incentives for service providers and investors, and shifts financial risk to the private sector. Potentially, taxpayers pay for successful outcomes, but not otherwise.” (Jeram and Wilkinson 2015:7)

The claim that this risk transfer will be cost-effective is paradoxical for two reasons. Firstly, SIBs have relatively high transaction costs for negotiating contracts and monitoring performances. Many practitioner reports discuss this:

“SIBs are complex instruments. They involve multiple stakeholders coming from different sectors. Time, technical expertise and commitment to collaborate are indispensable in order to establish a SIB. SIBs have been costly instruments so far. They have entailed significant transaction costs that stakeholders should consider before embarking on them.” (Galitopoulou and Noya 2016:3)

Secondly, risk transfer usually comes at a cost. Basic investment logic dictates that risk transfer to private investors will reduce the variation of financial effects on the public purse or service providers, who would have otherwise have borne this risk. Total costs for governments (who like private investors can spread risk across many projects) will only be reduced, however, if they are able to strike preferential deals. This is only addressed in relatively few practitioner reports, such as the following:

“In a social impact bond scenario, performance risk is borne mostly by the bond-issuing organization, rather than by the service provider. Because the bond issuer spreads the risk across its bond holders, it will be substantially more risk-tolerant than would be a non-profit service provider in a direct performance contract. Nonetheless, investors will require compensation for taking on risk.” (Liebman 2011:16)

The by far more common claim is that risk transfer will reduce the net burden on government budgets:

“Real risk transfer: If a scheme fails to demonstrate results the government will not pay out. A legitimate criticism of PPP/PFI has been that if they went wrong, the government landed up absorbing a large proportion of the losses. SIBs involve genuine risk transfer, which has both financial and political advantages.” (Mulgan, Reeder et al. 2011:15f.)

A frequent phrasing is that governments pay “only for successful results” (Roman, Walsh et al. 2014:3), with no mentioning of the cost of de-risking.

Some reports address this paradox; however, they do not portray it as a serious flaw of the SIB approach but rather as a challenge that should be overcome:

“Despite the significant potential benefits of SIBs, there are also challenges that need to be worked through. A common response from Treasuries is that SIBs are an unnecessarily complex way of financing better social programmes. Since government’s costs of capital are significantly cheaper than markets, they should be providing finance. If there really are better approaches to cutting recidivism or unemployment, these should be directly funded by governments, rather than indirectly via SIBs.” (Mulgan, Reeder et al. 2011:17)

Some more recent reports, in particular when discussing implementation risks of proven programmes, conclude that SIBs may not be cost-effective for this purpose:

“Is there some level of uncertainty about the effectiveness of the programme? (for example never implemented in the UK before, or not rolled out to this scale before) → No → If there is no risk in relation to the outcome of the programme, then the commissioner does not run the risk of wasting money by commissioning an ineffective programme → It is cheaper for the commissioner to fund the programme.” (Griffiths and Meinicke 2014:15)

If SIBs are to be maintained as cost-effective instruments for transferring risk, this paradox needs to be resolved. We identified five ways in which this is done rhetorically: (1) by construing governments or service providers as risk-averse, (2) by introducing philanthropic funding, (3) by pointing out additional positive cultural change effects of SIBs, (4) by maintaining that the relatively high transaction costs of SIBs are transitory, and (5) by arguing that SIBs increase the overall amount of funding going to good causes.

4.2.1 Risk-averse governments and service providers

In this de-paradoxifying argument, governments are portrayed as inherently unwilling or unable to take risks:

“Government agencies, which might otherwise continue to fund the same old approaches they have funded in the past, would have an incentive to invest in promising new strategies, including preventive services. That’s because the risk of wasting taxpayer dollars if the new approaches fail is transferred to the private sector.” (Liebman 2011:3)

Governments are thus construed as so risk-averse that even SIBs that involve paying a risk premium stand apart as one of the few ways in which they could take on any risk at all.

In reports concerning SIBs in the UK, we additionally find the de-paradoxifying argument that, after years of the government shifting risk to service providers, SIBs are a way to relieve service providers of excessive risk by shifting it to more suitable private investors:

“[A SIB] shifts much of the responsibility of raising upfront capital away from the service provider. Most service providers are relieved to no longer bear this burden. Rather, investors bear this risk.” (Dear, Helbitz et al. 2016:21)

4.2.2 Philanthropic funding

Another de-paradoxifying strategy is to involve investors who subsidize transaction costs or take on risk at below-market rates. These investors voluntarily forsake market-rate financial returns because they are also, or exclusively, interested in social return:

“The advantage of philanthropic funding for SIBs is that it leaves open considerable scope for experiment and innovation, rather than relying on proven models of delivery. It can also accept high levels of risk – much higher than commercial funding.” (Mulgan, Reeder et al. 2011:8)

Indeed, all reports that contain the paradox of risk-effective risk transfer bring up philanthropic funding as a possibility, and most reports argue that some kind of philanthropic funding will be indispensable.

4.2.3 Cultural change effects of SIBs

A further way to resolve the paradox is to argue that SIBs promote positive cultural change of such magnitude that they are worth the relatively high costs. SIBs are said to provide an added value by promoting cultural change towards evidence-based policy, outcome-orientation, accountability, and prevention. Moreover, they are said to promote collaboration between service providers and across sectors, as well as correcting misaligned incentives:

"SIBs are an expensive way to finance the scaling up of preventive programs. A SIB's 'premium' is justified if conventional options aren't working, or if the SIB helps government, philanthropy, and other social sector actors align their priorities and play their roles more effectively and efficiently" (Department of Budget and Finance 2013:10)

These effects, it is argued, may lead to indirect public savings that justify the additional costs of SIBs in comparison to other ways of funding:

"After the SIB term is complete, the government potentially has two options to extend the program. Theoretically, it could fund the program directly, or it could execute another SIB to fund the program for five to ten more years. Given the considerable value added by the intermediary and the market discipline that investors contribute, SIBs would be an effective way to recapitalize successful programs." (Social Finance 2012:13)

4.2.4 Transitory high transaction costs

Another de-paradoxifying argument is that high transaction costs are, to a large extent, a transitional problem, and that, as SIBs become more common, transaction costs will decrease:

"We are already seeing signs of standardization in the field, with programs being replicated and adapted to multiple geographies. This is important: it will accelerate the development of existing Social Impact Bond models, reduce the costs for government and allow for new social issues to come to the fore. Funders will gather data and be able to value specific outcomes with more confidence [...]" (Dear, Helbitz et al. 2016:8)

A major part of transaction costs comes from performance measurement. Here it is argued that the SIB approach will soon enable less costly measurement methods, while, at the same time, actors are incentivised to devise them:

"[...] The development of effective measures of social impact is notoriously complex. Use of Social Impact Bonds could potentially speed up this process by increasing the incentive for social service providers to evidence the effectiveness of their interventions. Better evidence would improve their chances of becoming a service provider funded by Social Impact Bond investment." (Bolton and Savell 2010:22)

This line of argumentation leads to the conclusion that in cases where transaction costs for SIBs are too high, the solution would be to implement more – not fewer – SIBs.

4.2.5 Additionality of SIB funding

Finally, SIBs are framed as cost-effective because they are said to raise additional funds for the public good:

“By attracting non-public funding, SIBs enable the public sector to raise additional funds for the provision of Early Intervention programmes.” (Griffiths and Meinicke 2014:13)

The possibility that philanthropic funders may switch from non-refundable grants to SIBs is depicted as an overall increase of money going to the good cause:

“Unlike public-sector or grant funding, impact investments produce financial returns that can be reinvested in the social sector. In this way, capital can be recycled and returns can be used again to continue widening impact.” (Social Finance 2012:7)

Only a few reports voice concerns that there may be a problem with this idea from the risk-bearing investor’s point of view:

“A key challenge for SIBs will be ensuring that SIBs do not displace existing spending and interventions by incentivising existing funders or providers to cut spending or provision.” (Mulgan, Reeder et al. 2011:19)

Likewise, only a few reports point out that this might be a problem with regard to government budgets:

“SIBs are not a source of new, additional funding. SIBs do not raise new money for social programs since government ends up paying for the services when performance outcomes are met. As such, appropriating funding for a SIB in reality displaces funding for other programs. Theoretically, the remedial cost savings should be used to pay for the SIB and intervention costs, but most initiatives will not work out that neatly.” (Department of Budget and Finance 2013:8)

5 Discussion

Our findings confirm Giacomantonio’s (2017) analysis, which highlights the paradox of cost-efficient risk transfer. To this we add that there is another key paradox intrinsic to the idea of SIBs: the paradox of evidence-based flexibility. The depiction of SIBs in practitioner reports is imbued with those two paradoxes. Whether and how they will be resolved when implementing really existing SIBs will be decisive for the future of this funding instrument, because those paradoxes constitute an important part of the charm of the SIB idea: They

enable several good things to happen at once that would otherwise be incompatible. They have also helped the SIB concept to gain popularity with various audiences, because the concept can be bended in one or the other direction, depending on the preferences of the audience and the situation at hand. In this sense, the concept of SIBs is not only paradoxical but also “chameleonic” (Smith 2013:191f.): It connects to several firmly institutionalized notions about what programmes or policies should be like (i.e., evidence-based, flexible, cost-effective, safe) and combines them in a new, potentially transformative, but also vague and transformable way. To rhetorically achieve this, practitioner reports employ numerous de-paradoxifying moves. Some reports suspend the paradoxes in time (by, for example, understanding “evidence-based” as evidence-building) or in institutional location (by, for example, devolving the balancing of flexibility and evidence to an intermediary). Some reports downplay elements that make SIBs attractive (by, for example, abandoning flexibility, or confining the appeal of SIBs to philanthropic investors). Some rely on a view of governments as risk-averse, or on potential fundraising effects, decreasing transaction costs or positive cultural change effects.

The paradoxes and de-paradoxifying arguments that we have analysed are located in the discursive realm of writing about SIBs. To deepen our understanding of SIBs it would be important to further examine how existing SIBs resolve those paradoxes in practice. From what can be gleaned from published evaluations, every existing SIB is positioned somewhere with regards to those paradoxes, and more or less successfully resolves them in a particular way. To date, there are only a few evaluation reports based on transparent research methods that contain enough information to assess de-paradoxification strategies for particular SIBs with reasonable confidence by answering the followings questions: How flexible and how rigorously evaluated is the provided service? How risky is the intervention, and how is risk transferred? How cost-effective has the SIB been with regards to prevented spending, comparative costs of service provision, transaction costs, and risk premiums? On the basis of those few evaluations, we tentatively sketch out two examples of how the paradoxes of SIBs may – or may not – be resolved in practice:

The world’s first SIB, which financed the ONE Service at Peterborough prison in the UK from 2010-2014, enabled flexible service provision, with a relatively weak grounding in prior evidence and a similarly weak focus on evidence-building. No theory of change was articulated, and the intervention was modified in the course of the SIB (Disley, Giacomantonio et al. 2015:23). This corresponds to the de-paradoxifying move of flexible

understandings of the term “evidence-based”, specifically the move of prioritizing outcome orientation. The Peterborough SIB was intended as a means of transferring the innovation risk of a promising intervention rather than the implementation risk of a proven intervention. Evaluations do not provide much information about the cost-effectiveness of this effort, but it is stated that “[s]takeholders did not report any major costs or disadvantages from the operation of the pilot in the area.” Governments and service providers are described to have been risk-averse (e.g. Disley, Giacomantonio et al. 2015:60). Charitable investors who took over risks at below-market rates were involved. Transaction costs were high (with the intermediary alone investing approximately 2.5 person-years of its resources and 300 hours of legal advice), but actors, to a large extent, engaged on a pro bono basis because they expected to bring down transaction costs in the long run (Disley, Rubin et al. 2011:15). Moreover, stakeholders report a number of positive cultural changes (e.g., better co-operation) that occurred in the course of the project. After the early termination of the pilot, similar rehabilitation services were rolled out with government funding across the UK, which constitutes an increase in resources going to this cause. Altogether, it seems that in the Peterborough case, the paradoxes inherent in the SIB idea were resolved in a way that the involved stakeholders widely perceived as consistent.

The Essex SIB is a contrasting example. This SIB funds Multi-Systemic Therapy (MST) for young people at the risk of entering care, as well as for their families. It has been operational since 2013. MST is a clearly defined and licenced evidence-based intervention. In the Essex SIB, adherence to the MST model is monitored by the licensor. The SIB funding is reported to have enabled more flexibility by means of a special budget for supporting the outcomes of MST (e.g. to purchase a camping kit for a family to go on holiday), but the licensor’s close monitoring of model fidelity left little scope for therapists to adapt the delivery of MST as such (Roberts 2014:22). Evaluations suggest that not all stakeholders were satisfied with this solution to the paradox of evidence-based flexibility. In terms of risk-transfer, this SIB is mostly about transferring the implementation risk of a proven intervention. Whether this risk transfer was effective in economic terms remains unclear. Evaluations (Roberts 2014, Sin 2016) provide no indication that the involved government agency or the service provider were highly risk-averse. Indeed, it would have been hard to introduce risk-aversion as a de-paradoxifying argument in this case, because MST is supported by strong evidence that “minimises the risk of failing to achieve the agreed outcomes” (Roberts 2014:28). The price of the risk transfer was probably below market levels, because philanthropic funders were involved. The transaction costs of the SIB have been higher than expected (Sin 2016:23), and

all stakeholders have also contributed efforts for which they were not financially compensated (Roberts 2014:7). Some of those costs would not arise if the actors were to engage in a similar SIB again. Some of those costs were perceived by all actors to add value, either directly (for example by funding new posts) or through indirect cultural change effects (for example by encouraging greater efforts to ensure effective referrals). Some costs, however, were not widely perceived to add value. For example, the SIB required more data analysis than other payment by results contracts. Since the government agency and service provider already had relatively strong performance management in place, the SIB was perceived to add little value in this regard (Sin 2016:22 and 26). There is no evidence that the Essex SIB led to an increase in funding going to services for young people at the edge of care. To the contrary, the latest evaluation states that actors are nervous about recent or imminent funding cuts for such services (Sin 2016:14). The SIB may, however, have mobilized additional non-monetary resources provided by social investors in the form of advice and expertise (Roberts 2014:7). Altogether, the Essex SIB seems to be a case where the paradoxes of evidence-based flexibility and cost-effective risk-transfer have not been resolved in a way that all stakeholders perceive as convincing.

We suspect that not all de-paradoxification strategies are equally effective in practice. For example, in order to resolve the paradox of evidence-based flexibility, devolution to intermediaries may not result in sustainable solutions, because it is not evident why the balancing act between flexibility and evidence-based service provision should be any easier for them. Reducing flexibility may undermine one of the main strengths of the SIB idea. Focusing on flexibility only may not be legal or desirable in cases in which the government has fiduciary duties to maintain certain standards of practice. It will therefore be essential to investigate how various kinds of compromises between flexibility and evidence-based policy work out in practice. Likewise, for the resolution of the paradox of cost-effective risk transfer, some de-paradoxification strategies may be more effective than others. It seems likely that SIBs are only cost-effective if they rely on philanthropic investors (Giacomantonio 2017), and that transaction costs will have to decrease substantially in the near future. De-paradoxification by adverting to the alleged risk-aversion of governments may not hold up well to actual behaviours of many governments (see, for example, Mazzucato 2011). De-paradoxification by claiming that SIBs will increase the total amount of funds going to good causes will need to be supported by actual funding practice. This may not happen if SIBs are accompanied by a squeeze on welfare, if the main sources of SIB funding are foundations that reallocate funds previously used for grants, and if the continuation of successful interventions

is not secured after the end of the respective SIB. De-paradoxification by reference to positive cultural change effects may be too ephemeral to support the SIB instrument in the long run, especially if problematic cultural change effects of SIBs also come to the fore. We would therefore welcome more empirical studies of larger numbers of SIBs that scrutinize the paradox of cost-effective risk transfer more thoroughly. To do this, it will be essential to generate more information about costs of SIBs. So far, information about transaction costs is patchy, at best. It should become good practice for evaluations to make this aspect more transparent. Moreover, to assess cost-effectiveness from a comprehensive perspective, issues like employment conditions and fair wages for service providers should be included in evaluations (cf. Joy and Shields 2013:49).

Even if SIBs do not become widely established funding instruments, some of the elements of the SIB approach could be useful for improving welfare provision and could thus be incorporated into simpler institutional arrangements. For instance, more flexibility and professional discretion could be given to service providers through a variety of funding models, such as block contracts or contracting on the basis of outcomes. The idea of evidence-based policy is attractive, but as apparent from the paradox of evidence-based flexibility, the path from generating evidence to making policies is not as linear and technically rational as proponents of SIBs have often implied. It may be the particular kind of collaboration between sectors pioneered in SIBs – rather than the idea of evidence-based policy in a rationalist sense – that has greater potential for improving social policies. Such collaboration between governments, non-profit service providers, and philanthropic foundations should be encouraged in order to improve knowledge flows about both promising as well as proven social innovations.

6 Research References

Arena, M., Bengo, I., Calderini, M. and Chiodo, V. (2016). Social Impact Bonds: Blockbuster or Flash in a Pan? *International Journal of Public Administration* 39(12): 927-939.

Clifford, J. and Jung, T. (2016). Social Impact Bonds: Exploring and Understanding an Emerging Funding Approach. *The Routledge Handbook of Social and Sustainable Finance*. O. Lehner. London, Routledge: 161-176.

Cooper, C., Graham, C. and Himick, D. (2016). Social impact bonds: The securitization of the homeless. *Accounting, Organizations and Society* 55: 63-82.

- Czarniawska, B. (2005). On Gorgon sisters: organizational action in the face of paradox. Niklas Luhmann and organization studies. D. Seidl and K. H. Becker. Frederiksberg, Liber & Copenhagen Business School Press: 127-142.
- Disley, E., Giacomantonio, C., Kruithof, K. and Sim, M. (2015). The Payment by Results Social Impact Bond Pilot at HMP Peterborough: Final Process Evaluation Report. Ministry of Justice.
- Disley, E., Rubin, J., Scraggs, E., Burrowes, N., Culley, D. and RAND, E. (2011). Lessons Learned from the Planning and Early Implementation of the Social Impact Bond at HMP Peterborough, Ministry of Justice.
- Dowling, E. (2017). In the Wake of Austerity: Social Impact Bonds and the Financialisation of the Welfare State in Britain. *New Political Economy* 22(3): 294-310.
- Fiol, C. M. (2002). Capitalizing on paradox: the role of language in transforming organizational identities. *Organization Science* 13(6): 653-666.
- Fraser, A., Tan, S., Lagarde, M. and Mays, N. (2016). Narratives of Promise, Narratives of Caution: A Review of the Literature on Social Impact Bonds. *Social Policy & Administration*: DOI: 10.1111/spol.12260.
- Giacomantonio, C. (2017). Grant-Maximizing but not Money-Making: A Simple Decision-Tree Analysis for Social Impact Bonds. *Journal of Social Entrepreneurship*: DOI: 10.1080/19420676.19422016.11271348.
- Joy, M. and Shields, J. (2013). Social Impact Bonds: The Next Phase of Third Sector Marketization? *Canadian Journal of Nonprofit and Social Economy Research* 4(2): 39.
- KPMG (2014). Evaluation of the Joint Development Phase of the NSW Social Benefit Bonds Trial.
- Luhmann, N. (1991). Sthenographie und Euryalistik. Paradoxien, Dissonanzen, Zusammenbrüche: Situationen offener Epistemologie. H. U. Gumbrecht and K. L. Pfeiffer. Frankfurt am Main, Suhrkamp: 58-82.
- Mazzucato, M. (2011). The entrepreneurial state. *Soundings* 49(49): 131-142.

- McHugh, N., Sinclair, S., Roy, M., Huckfield, L. and Donaldson, C. (2013). Social impact bonds: a wolf in sheep's clothing? *Journal of Poverty and Social Justice* 21(3): 247-257.
- Roberts, L. C., Genevieve (2014). Evaluation of the Essex Multi-Systemic Therapy Social Impact Bond, OPM.
- Ronicle, J., Fox, T. and Stanworth, N. (2016). Commissioning Better Outcomes Fund Evaluation: Update Report, Big Lottery Fund, ATQ Consultants, Ecorys.
- Rowe, R. and Stephenson, N. (2016). "Speculating on Health: Public Health Meets Finance in 'Health Impact Bonds'." *Sociology of Health & Illness* 38(8): 1203-1216.
- Roy, M. J., McHugh, N. and Sinclair, S. (2017). Social Impact Bonds: Evidence-based Policy or Ideology? *Handbook of Social Policy Evaluation*. B. Greve. Cheltenham et al., Edward Elgar: 263-278.
- Schinckus, C. (2015). The valuation of social impact bonds: An introductory perspective with the Peterborough SIB. *Research in International Business and Finance* 35: 104-110.
- Shiller, R. J. (2013). Capitalism and financial innovation. *Financial Analysts Journal* 69(1).
- Sin, C. H. (2016). Evaluation of the Essex Multi-Systemic Therapy Social Impact Bond: Findings from the first three years, OPM.
- Sinclair, S., McHugh, N., Huckfield, L., Roy, M. and Donaldson, C. (2014). Social Impact Bonds: Shifting the Boundaries of Citizenship. *Social Policy Review* 26: Analysis and Debate in Social Policy, 2014. K. Farnsworth, Z. Irving and M. Fenger. Bristol, Policy Press: 119–113.
- Smith, K. (2013). Beyond evidence based policy in public health: the interplay of ideas. Basingstoke et al., Palgrave Macmillan.
- Treadwell, D. and Treadwell, J. B. (2004). Public relations writing: Principles in practice. Thousand Oaks et al., Sage.
- Vis, B., van Kersbergen, K. and Hylands, T. (2011). "To what extent did the financial crisis intensify the pressure to reform the welfare state?" *Social Policy & Administration* 45(4): 338-353.

7 Cited Practitioner Reports

- Bolton, E. and Savell, L. (2010). *Towards a New Social Economy: Blended Value Creation through Social Impact Bonds*, Social Finance.
- Butler, H., Flory, J. and Angeline, R. (2016). *Social Impact Bonds: Supporting vulnerable 14–16 year olds: The Energise and Teens & Toddlers programmes 2012–2015*, Social Finance.
- Coletti, J. (2016). *Pay for Success Contracting: The Emerging Paradigm*, Reason Foundation.
- Dear, A., Helbitz, A., Khare, R., Lotan, R., Newman, J., Crosby Sims, G. and Zaroulis, A. (2016). *Social Impact Bonds: The Early Years*, Social Finance.
- Department of Budget and Finance (2013). *Report to the Twenty-seventh Legislature 2014 Regular Session: Study on the Feasibility of Using Social Impact Bonds to Fund Early Learning Programs*, State of Hawaii, Department of Budget and Finance.
- Eames, S., Terranova, V., Battaglia, L., Nelson, I., Riesenber, C. and Rosales, L. (2014). *A Review of Social Impact Bonds: Financing Social Service Programs through Public Private Partnerships*, Austin/Travis County Reentry Roundtable, University of Texas at Austin.
- Galitopoulou, S. and Noya, A. N. (2016). *Understanding Social Impact Bonds*, OECD, LEED.
- Griffiths, A. and Meinicke, C. (2014). *Introduction to Social Impact Bonds and Early Intervention*, Early Intervention Foundation.
- Jeram, J. and Wilkinson, B. (2015). *Investing for success: social impact bonds and the future of public services*. The New Zealand Initiative.
- Liebman, J. B. (2011). *Social Impact Bonds: A promising new financing model to accelerate social innovation and improve government performance*. Center for American Progress.
- Mulgan, G., Reeder, N., Aylott, M. and Bo'sher, L. (2011). *Social Impact Investment: the challenge and opportunity of Social Impact Bonds*, The Young Foundation.
- Roman, J. K., Walsh, K. A., Bieler, S. and Taxy, S. (2014). *Five Steps to Pay for Success*, Urban Institute, BJA.

Social Finance (2012). A New Tool for Scaling Social Impact: How Social Impact Bonds Can Mobilize Private Capital for the Common Good.

Social Finance (2014a). The Essex Social Impact Bond: A Year in Review.

Social Finance (2014b). Social Impact Bonds: Supporting Vulnerable 14–16 Year Olds: A Year in Review.

Social Finance (2016). Evaluating Impact Bonds: Balancing Evidence and Risks.

	Number of reports
Reference to neither evidence-based interventions nor to flexibility	1
Reference only to evidence-based interventions	14
Reference only to flexibility	2
Containing paradox of evidence-based flexibility	34
De-paradoxified by flexible understandings of ,evidence based‘	28
De-paradoxified by reducing flexibility	11
De-paradoxified by devolution to intermediary or prime contractor	10
total	51

Table 3: Paradox of evidence-based flexibility

	Number of reports
Reference to neither cost-effectiveness nor risk transfer	0
Reference only to cost-effectiveness	3
Reference only to risk transfer	1
Containing paradox of cost-effectiveness and risk transfer	47
De-paradoxified by risk-adverse governments and service providers	38
De-paradoxified by philanthropic funding	47
De-paradoxified by cultural change effects of SIBs	42
De-paradoxified by transitory high transaction costs	32
De-paradoxified by additionality of SIB funding	39
Total	51

Table 4: Paradox of cost-effective transfer of innovation risk