

Social Impact Bonds: the Holy grail by doing good and making profit?
Realistic Evaluation of Social Impact Bonds in the Netherlands

by

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Colophon

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Abstract

Since Social Impact Bonds (SIBs) were introduced in 2010, there is a world-wide growing interest in the financing mechanism which harnesses private capital for embedded social issues. Alongside the political enthusiasm, questions regarding the promised outcomes and process complexities of implementation, are increasingly raised. These two developments call for a Realistic Evaluation of the nine SIBs in the Netherlands through consultation of relevant stakeholders. In the case of successful implementation of SIBs, three outcomes are identified, namely: social impact, fiscal savings, and local knowledge. Social impact and fiscal savings are classified as initial objectives of the SIB, while local knowledge is classified as an unintended, however valuable, outcome. Three mechanisms are identified to produce these outcomes, namely: payment by result, private capital, and a multi-stakeholder perspective. These mechanisms operate within specific economic, political, jurisdictional and financial, and partnership contexts characterizing the circumstances in the Netherlands. While still very early in their development, once implemented SIBs realize a great deal of intended outcomes. However, the implementation process appears extremely complicated, due to critical challenges in the contextual factors. Knowledge about these hindering conditions and subsequently improving them is crucial for a more fluent implementation process. In addition, this thesis contributes to the debate about the usefulness and applicability of the Realistic Evaluation model when evaluating complex partnership approaches. The applicability of the Realistic Evaluation model is questioned. It is proposed that the model is more appropriate for evaluating one specific intervention in a SIB, instead of the whole SIB-model.

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1. Introduction

1.1 Problem statement

Doing good for society has long been the task of the government and on a smaller scale the civil society. However, in the last decade two different macro-trends are causing private sector corporations to strive for social returns as well as financial targets. On the demand side, the financial crisis in 2007 led to two contrasting dynamics; the emergence of more and acute social needs, as well as the call for policies to cut public spending (Arena, Bengo, Calderini, & Chiodo, 2016, p. 927). These developments triggered a retreatment of the public approach, in which third sector organizations and private sector corporations are involved for their effective and efficient character. On the supply side, a new breed of financial investors evolved, who are intentionally seeking for social impact alongside financial return (Arena, Bengo, Calderini, & Chiodo, 2016, p. 927). The trend of doing good for society can now be seen across sectors.

These developments are causing a new interest for innovative public-private partnerships, in which the government is more dependent upon the involvement of different stakeholders from various societal sectors (Pollit & Bouchaert, 2011). In the context of the persistence of pressing social issues, a new type of partnership has been introduced to provide social services, namely Social Impact Bonds (SIBs). Since 2010, the SIB-model has been used to bind actors from different societal sectors to a specific social objective. It is a new financing instrument in which social entrepreneurs, investors, and government collaborate to realize social impact. The SIB-mechanism harnesses private capital for social services and encourages outcome achievement by making repayment contingent upon success (Gustafsson-Wright, Gardiner, & Putcha, 2015, p. 2). Through this model of cooperating actors who achieve added value and share risks, a win-win situation is created for all the partners involved.

Since the introduction of SIBs in 2010 in England, there is world-wide growing interest in the model (Warner, 2013, p. 304). There are 98 SIBs in operation globally and numerous new SIBs are designed, at the publication date of this thesis (Instiglio, 2017). At the end of 2013, the first SIB was launched in the Netherlands. Since then, there has been a manifold of positive reactions and enthusiasm of policy makers and investors. Currently nine SIBs are operative in the Netherlands and several new impact bonds are being created as we speak. Despite all the positive energy, such a network of different stakeholders with different perspectives plus the rather complex objective of achieving social impact, is inevitably connected with extra complexities.

Alongside the political enthusiasm for the SIB-model to address the complex nature of embedded social problems, questions regarding the promised outcomes and process complexities of implementation, are increasingly raised: do SIBs deliver the intended outcomes, and do these outcomes outweigh the complex process (and costs) of

implementation? These questions are of special importance as the SIB-model gains in popularity, is adopted by governments in both developed and developing countries, as well as being applied to an increasingly diverse set of social problems, thus touching all sorts of vulnerable groups in society.

It has long been recognized by governments and donor organizations that rigorous evaluations of public interventions are necessary to execute legitimate decision-making (Blomquist, 2003). However, the history of evaluation shows that research focusing on successes or failures often result in disappointing and/ or inconclusive findings. Realistic Evaluation (Pawson & Tilley, 1997) has emerged to fill in this deficit.

Pawson and Tilley developed the Realistic Evaluation model which is centred on finding not only “what works” but on “what works and why”. This knowledge is crucial to understanding the heterogeneity of SIBs in different contextual environments as well as evaluating the role, benefits, and impact of SIBs in public service delivery, and thus their role in policymaking. The Realistic Evaluation model tries to unravel what outcomes are produced from interventions, but also how they are produced and what is significant about the varying conditions in which the interventions take place.

In this Realistic Evaluation model of Pawson and Tilley, it is emphasized that the impact of a program cannot be determined with any degree of confidence without considering the context in which a certain intervention is taking place. Additionally, understanding the context is important in terms of replicating the program in another setting in the future (Blamey & Mackenzie, 2007, p. 441). Considering its young existence and the political enthusiasm surrounding SIBs, the need for a realistic evaluation is growing.

1.2 Research objectives and questions

The study serves two aims. The first aim of this research is to contribute to the debate on public service delivery through SIBs as a new type of public-private partnership (PPP). SIBs rely on an approach by multiple stakeholders with distinct backgrounds and interests, which is accompanied by extra complexities. Considering this, together with, the potential of SIBs to quickly diffuse as a common-used financing mechanism to combat embedded social issues, the need for appropriate evaluation continues to grow. It is important that besides evaluating the outcomes, the inner workings of the SIB and the varying conditions in which SIBs are implemented need to be analysed. Therefore, a realistic evaluation is executed in which three investigative areas are addressed:

“Mechanism: what is it about a measure which may lead it to have a particular outcome in a given context?”

Context: what conditions are needed for a measure to trigger mechanisms to produce particular outcomes patterns?”

Outcomes pattern: what are the practical effects produced by causal mechanisms being triggered in a given context?" (Pawson & Tilley, 1997, p. 145)

Addressing questions of 'what works and why' and to formulate lessons for future policy is in this early stage of SIB-development necessary and of special significance, as the model is adopted by an increasing number of governments in developed and developing countries, as well as being applied to an increasingly diverse set of social problems, touching all sorts of vulnerable groups in society. Therefore, this thesis executes a Realistic Evaluation, by looking not solely at the outcomes, but by, in addition, looking how outcomes are produced and what is significant about the varying conditions in which the SIBs are implemented.

The second aim of the study is to evaluate the applicability and usefulness of the Realistic Evaluation model developed by Pawson and Tilley. By applying the Realistic Evaluation model on SIBs, it is experienced how the evaluation schema holds when analysing a complex partnership approach trying to tackle increasingly complex tough social problems.

The main research question has been defined as follows:

What contexts and mechanisms contribute to a successful implementation of Social Impact Bonds in the Netherlands?

In order to answer this question the three investigative areas –mechanisms, contexts, and outcomes– defined by Pawson and Tilley are explored, using the following specific questions:

1. *What are the practical effects produced by the SIB?*

2. *What are the mechanisms of the SIB?*

3. *Under what conditions is the SIB implemented?*

These questions are answered through consultation of several relevant stakeholders from different SIBs in the Netherlands. A detailed description of the data collection method and data analysis that has been organized along the three investigative areas can be found in the methodology section in chapter 3.2.

1.3 Structure of the thesis

This research gradually answers the aforementioned research questions. The structure of this thesis is as follows. In chapter 2 the concept of PPPs and SIBs will be introduced and discussed. First, a brief history on PPPs will be provided and notions regarding their

potentials, challenges, effectiveness, and accountability will be discussed. Then, a better look is taken at the model of the SIB, its stakeholders, potentials, and challenges. In chapter 3 the analytical framework will be described. First, the concept of Realistic Evaluation will be discussed, while touching upon several implications for using the framework for SIB evaluation. Subsequently, the methodology of the research will be described in detail. In chapter 4, a careful description of the interviews is given, in which the insights are categorized by the four identified stakeholders. Here after, the results are turned over and each research area, i.e. outcomes, mechanisms, and contexts, will have its own sub-chapter. In chapter 5, the insights from the previous chapters are used to answer the main research question. Finally, in chapter 6 the findings will be discussed by reflecting on relevant literature. Additionally, the usefulness and applicability of Realistic Evaluation when evaluating a complex partnership approach is evaluated.

2. Social Impact Bonds as a new type of public-private partnership

This chapter will start by looking at the history of public-private partnerships (PPPs) and the debate about its definition. Next, potentials and challenges of PPPs will be described, and notions on their effectiveness and accountability will be discussed. Hereafter, the concept of SIBs, as a new type of PPP, will be conscientiously described, by looking at the model, the involved stakeholders, its potentials, and its criteria, and challenges.

2.1 Public-private partnerships

2.1.1 Definition and language game

History indicates that there has long been some degree of cooperation between the public sector and the private sector. Two examples of private involvement in the public sphere are: (1) the private cleaning of public street lamps in 18th-century England; and (2) the private rail-ways of the 19th century (Hodge & Greve, 2007, p. 545). While consensus on the exact definition of PPPs is missing, it seems that these two examples do not belong to the definition of PPPs used nowadays. Many scholars see PPPs as the main alternative to 'contracting out' and 'privatisation', as it is believed that PPPs are a jump ahead in the effort to combine the strong sides of the public and private sector. Van Ham and Koppenjan define a PPP through an institutional lens as:

"a cooperation of some sort of durability between public and private actors in which they jointly develop products and services and share risks, costs, and resources which are connected with these products" (2001, p. 598)

Three characteristics of PPPs are emphasized in this definition: (1) there needs to be cooperation of some durability; (2) both parties have to bear parts of the risks involved; and (3) they jointly produce a product or a service. Within this definition there is still a wide array of governance types and a wide range of outcomes that fall within the PPP family. Overall, PPPs always seem to have a financial and organizational dimension: how are public and private partners engaged financially; and, how tightly organized are the public and private actors? (Hodge & Greve, 2007, p. 547)

Whenever analysing the definition and concept of PPPs, scholars should carefully consider the often played 'language game' within public policy. This game reflects the phenomenon in which more catchy names are used for the same policy. Public policy analysis shows that governments deliberately change language in the pursuit of getting more votes (Hodge & Greve, 2007, p. 547). As for Tony Blair's Cabinet, the concept of partnership stands for the New Labour, which works *with* society rather than directing it from *above*. However, when looking at everyday reality, a scarcity of projects is set up jointly by the public and private

sphere. The example of the Private Finance Initiatives in the UK, set up by public actors, show more resemblance with a contracting-out scheme rather than a PPP (Teisman & Klijn, 2002, p. 197). When analysing and evaluating PPPs, awareness about this 'cloud' of strategies that fall within the PPP family is critical.

2.1.2 Potentials and challenges

Reasons for the uptake of the private sector in public service provision are manifold ranging from rising expenditures for refurbishing, maintaining and operating public assets, increasing constraints on government budgets stifle, seeking innovation through private sector expertise, and aiming for better risk management (Roehrich, Lewis, & Goerge, 2014, p. 110). It is emphasized that PPPs are established because they can combine the strengths of private actors, such as innovation, technical knowledge and skills, managerial efficiency, entrepreneurial spirit, and the strength of public actors - including social responsibility, social justice, public accountability, and local knowledge (Roehrich, Lewis, & Goerge, 2014, p. 117). Both sectors have specific qualities, and if those qualities are combined, the result is believed to be better (Rosenau, 2000, p. 218).

Thus, PPPs include actors from different networks, each with their own history and practices, which creates challenges for efficient decision-making. Klijn and Teisman (2010, p. 138) analyse decision-making in PPPs from a network governance perspective. They state that "a PPP is created by a game that involves more than one arena (for instance central and local government) and more than one network (for instance a traffic and transport network and a public housing network)." A game surrounding a PPP can be influenced by decisions taken in other games and arenas. Each of the actors chooses their own strategy. This may result in extremely complex decision-making processes in PPPs, since decisions are faced not only with an institutional complexity, but also with strategic complexity.

However, there is no doubt that interest in PPPs will continue to grow in the future for multiple reasons. First of all, as the government continues to pull back from civil society while reassessing its role, PPPs provide a way for the government to remain involved. Secondly, it is believed that in order to deal effectively and humanely with tough complex social problems, multiple sectors -business, non-profits and philanthropy, and the government- need to collaborate (Bryson, Crosby, & Stone, 2006, p. 44). Lastly, interest in PPPs will grow as the PPP-market keeps growing in other jurisdictions and sectors (Osei-Kyei & Chan, 2015, p. 1335). Nowadays, partnerships are seen in a wide variety of policy areas, such as construction of buildings and tunnels, port development, sports stadiums, wastewater management systems, construction and operation of prisons, education, transportation, human services, welfare service provision, and emergency services (Roehrich, Lewis, & Goerge, 2014, p. 110). Where prior PPPs were mainly seen in road construction, the market is now broadening to public health infrastructure and service delivery. In 2010, US\$ 4 billion was invested worldwide into health PPP contracts. The increased popularity can be seen across developed, developing and emerging economies

(Roehrich, Lewis, & Goerge, 2014, p. 110). Governments are beginning to enter long-term business relationships with the private sector under more sophisticated and far-reaching contracts than ever before (Hodge & Greve, 2007, p. 545).

2.1.3 Effectiveness

Despite the increasing interest of the public and private sector in collaborating, a comprehensive evaluation of the PPP phenomenon, including the diverse set of partnership types, is missing. An evaluation would logically begin with identifying the objectives set by the government when initiating the partnership. However, vague partnership goals are typical and a huge potential array of goals is possible, as there are a multiplicity of partnership arrangements (Hodge & Greve, 2007, p. 548). The empirical results of evaluation that has been executed show mixed evidence (Roehrich, Lewis, & Goerge, 2014, p. 110). Hodge and Greeve (2007) list a number of reasons for this reality: a lack of independent evaluators; poor evaluation rigor; evaluations by auditors general who, on most jurisdictions, cannot question government policy; inaccurate estimates of risk transfers from the public to the private sector; and predicted benefits being estimated at an early stage of a long-term contract. Besides, the criticism on the notion of value for money, scholars have also charged the high transaction costs and the weak competition. PPP implementation is still experiencing lots of impediments which need critical attention.

2.1.4. Accountability

Insufficient research on outcomes of PPPs plus governments entering highly sophisticated, complex deals and long-term business relationships have implications for governance and accountability. First of all, complex partnership deals raise issues regarding transparency and public participation, as the financial arrangements within the partnership can be hard to fathom. However, concerns seem to be in place as financial risk sharing is often reality. Additionally, governments entering long-term contracts of up to several decades, reduce their capacity and flexibility to make future decisions in the public interest. This 'lock-in-effect' seems to be mainly ignored in political and administrative levels, however existence of these issues has been proved in academic literature (Hodge & Greve, 2007, p. 553). Furthermore, it is in the context of accountability essential that sufficient research is undertaken to fully understand the mixed results and outcomes of PPPs are analysed and that current research gaps on the effectiveness of PPPs are explored.

Furthermore, Hodge and Greeve (2007, p. 553) emphasize that it is important to be aware of the party pushing towards PPPs in the various countries, as this gives insights and clarity in the different interests, and the extent of their influence. The Netherlands is given as an example of a country in which a single-purpose organization is established which promotes PPPs, while for example Germany is organized in a more decentralized manner. The single-purpose organization suggests a clear top-down push for PPPs and a critical eye for appropriate advocacy is necessary.

2.2 Social Impact Bonds

In the context of the persistence of pressing social issues, a new type of PPP is introduced to provide social services, namely Social Impact Bonds (SIBs). Since 2010, the SIB-model has been used to bind actors from different societal sectors to a specific social objective. This concept will be described in detail in this sub-chapter.

2.2.1 The model

Since 2010, SIBs have emerged for financing social programs. It is a financing instrument in which social entrepreneurs, investors, and government collaborate to realize social impact. The SIB is a contract between a public-authority, a service provider, and a private investor. This contract enables the mechanism in which private investors provide upfront funding for interventions to improve specific targeted social outcomes. Outcome achievement is encouraged by making repayments from the public authority to the private investor contingent upon success. The model is described by Gustafsson-Wright et al. as:

“Private investors put up capital to fund a social intervention and governments repay the investor only if an agreed-upon outcome is achieved.” (2015, p. 4)

Hence, SIBs are characterized by the following two features: (1) adoption of a Payment by Result contract; and (2) development of a complex stakeholders’ network, including public and private organizations.

Through this model of cooperating actors, a win-win situation is created for all the partners involved:

- The social entrepreneurs can use the SIBs to scale a prosperous initiative with available financial sources;
- SIBs offer private investors an opportunity to realize social impact and simultaneously to gain financial returns;
- SIBs offer the public sector the opportunity to tackle high costs associated with the current welfare state by realizing financial savings.

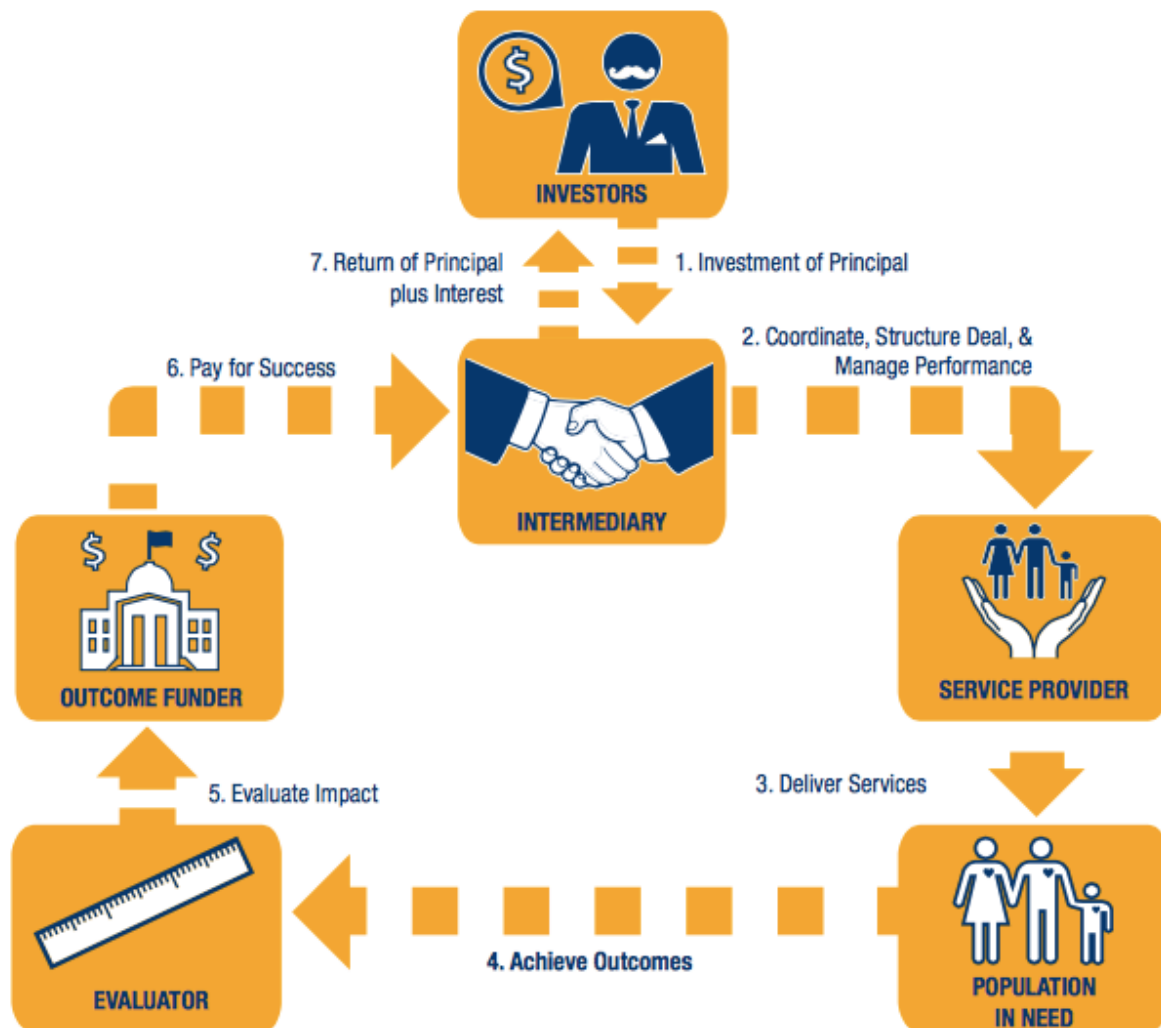
In 2010, the first SIB was launched in the Peterborough prison in the UK, where a social intervention was financed to combat recidivism for ex-offenders (Social Finance, 2013, p. 4). The Peterborough pilot used a SIB to fund an intervention –the One Service– to reduce reoffending by offenders released from HMP Peterborough having served a prison sentence of less than 12 months. The One Service intervention focused on individual case workers, assessing needs, and planning of resettlement. The whole intervention was pre-funded by the Big Lottery Fund. The Ministry of Justice pays a return to the Big Lottery Fund if targets for reduced reconvictions were met (Disley, Giacomantonio, Kruithof, & Sim, 2015, p. 3).

Since the first SIB in Peterborough, the model is appearing in a wide range of contentious and complicated social issues, such as high-quality preschool education, childcare, homelessness, debt care, and youth employment (Warner, 2013, p. 303). SIBs vary greatly in size where the smallest SIB is located in Portugal and reflects an amount of upfront capital of \$148,000 and the largest is situated in the United States with \$24.5 million upfront capital (Gustafsson-Wright, Gardiner, & Putcha, 2015, p. 16). It is emphasized that SIBs vary greatly in the composition of actors involved, their roles, and the process of putting it all together.

2.2.2 Stakeholders

As mentioned before, several stakeholders are involved in the SIB-model. The stakeholders and their relation are schematically shown in figure 1 and subsequently each of the roles will be discussed.

Figure 1: Stakeholders and Relations



(Gustafsson-Wright, Gardiner, & Putcha, 2015, p. 6)

Population in need

This is the target group for which is strived for an improved social, financial, or health situation through an intervention. These interventions vary greatly across sectors and can be curative or preventive.

Outcome-payer

The outcome-payer (in the picture named outcome funder) is the party who repays the investor contingent upon success. This party is represented by governmental bodies, such as municipalities and ministries. Outcome funders are motivated to enter a SIB by possible monetizable savings, the reduction in financial risk if the supported intervention is not successful, and the benefits to society if outcomes are positive (Gustafsson-Wright, Gardiner, & Putcha, 2015, p. 24).

Investor

The investor is the party who provides upfront funding for an intervention, in which there is a belief for future success. This party can be represented by philanthropic organizations as well as commercial businesses. Investors are motivated by the combination of financial and social return, with some variation regarding the emphasize on finance-first vs. impact-first motivation (Gustafsson-Wright, Gardiner, & Putcha, 2015).

Social entrepreneur

The social entrepreneur (in the picture named service provider) is the party who executes the intervention and who is in direct contact with the population in need. Their motivation to join SIBs is that it provides them opportunities to innovate or scale a specific intervention.

Intermediary

The intermediary connects all involved stakeholders and acts as a project manager. Regarding the set of tasks belonging to the intermediary's role, there seems to be discussion. Where sometimes their role is solely seen as a party that connects the stakeholders, others believe there is an active role as a SIB manager or representative of the government which ensures proper playing rules. Various parties can serve as an intermediary and their motivations depend on the nature of the organization.

Evaluator

The evaluator is an independent party which has access to empirical data and will evaluate if an intervention is successful. Their evaluation will decide how much the outcome funder will pay the investors.

It must be noted, that the distinguished roles do not necessarily have to be represented by different parties. The role of the intermediary and the role of the evaluator role can be combined with the roles of service provider, investor, or outcome funder. Furthermore, it

seems that all parties are indispensable, except for the intermediary. As the intermediary's role can be described as a process-guider; if absent their activities are naturally replaced by the main stakeholders involved.

2.2.3 Potentials

Financing social service programmes through SIBs differ in several aspects from traditional methods to finance social programs. These differences create a set of potentials, which might provide a solution for the long-lasting plague of the social service sector regarding the achievement of successful outcomes.

First of all, SIBs provide an opportunity to focus on preventative and early intervention programs which tackle underlying causes of social problems (Social Finance, 2013, p. 4). Prevention-focused areas which have been unable to attract public funding, can attract interest of private investors (Warner, 2013, p. 305). These social areas are characterized by inputs which are fairly complex but outcomes which are simple to measure. For example, job-training, pre-primary education, and family therapy are high-impact, cross-sector interventions that fall outside core government services (Gustafsson-Wright, Gardiner, & Putcha, 2015, p. 13). Given the high levels of return found in prevention-focused social programs, this area is interesting for socially-oriented financiers who are looking for both social and private return. The challenge has been how to link these positive social returns of the prevention-focused interventions, to a mechanism that could compensate the private investors. SIBs provide a solution for this challenge, as it derives financial return for private investors from potential reductions in future public program budgets due to for example lower rates of recidivism (for prisoners) or a decrease in inflow in special education programs (for children) because of increased investment in preventive programs (Warner, 2013, p. 308).

Additionally, it is stated that SIBs have the potential of scaling prosperous interventions. Due to scarcity of financial means, successful local initiatives are sometimes unable to scale their prosperous initiative. SIBs provide a solution to scale these small-scale promising initiatives by bringing in private capital (Society Impact Platform; Ernst & Young, 2013, p. 9). These two examples show that SIBs can realize an increase in preventative focused programs and scaling up of prosperous initiatives, and thus represent a potential expansion in social service funding.

Furthermore, SIBs use the concept of 'Payment by result' which allows the government to pay a provider of services based on the outcomes of their services rather than the inputs or outputs the provider delivers. The rationale behind this concept is that it will drive greater efficiency and stimulate innovation, by focusing on reward on outcomes and providing minimal prescription as to how outcomes should be achieved (Fox & Albertson, 2011, p. 5). It is suggested, that payment by result encourages goal clarity and it gives organizations the leverage to focus on specific key areas (Warner, 2013, p. 303). SIBs bring in a level of precision to budget analysis as payments are linked to clear milestones.

This goal alignment and appropriate pricing generates local knowledge regarding what works for who (Warner, 2013, p. 314).

Moreover, performance-based finance allows for risks to transfer from the public sector to the private sector. Within SIBs, the public authority is only paying for outcomes, the risk of less successful intervention is beard by the private investor. Hereby, the government is, in theory, able to reduce costs to the taxpayer (Warner, 2013, p. 303).

It is worth to note that SIBs do not wish to substitute traditional ways of financing (Arena, Bengo, Calderini, & Chiodo, 2016, p. 927). SIBs will not apply in all circumstances and its feasibility and effectiveness vary from case to case and depends on several criteria. Besides these criteria, the complex stakeholder network and the use of a Payment by Result contract creates also challenges for SIBs to come to fruition. These will be discussed in the following paragraph.

2.2.4 Criteria and challenges

In 2015, Gustafsson-Wright et al. executed a comprehensive overview of all running SIBs globally. They set four basic criteria for SIBs to come to fruition. These are shown in figure 2 and subsequently discussed.

Figure 2: Impact Bond Feasibility Criteria



(Gustafsson-Wright, Gardiner, & Putcha, 2015, p. 5)

First, outcomes should be meaningful, which implies that the expected outcomes should be a proxy for measurable longer-term economic outcomes. Tools and systems should be in place to accurately and consistently measure. These criteria can be a challenge as 'monetizable' outcomes are often challenging to find. Additionally, whenever outcomes are measurable and meaningful it is also a challenge to determine if results are exclusively obtained through the social intervention active in the SIB, as the target group is often suspect to multiple social interventions (Society Impact Platform; Ernst & Young, 2013, p. 22). Moreover, the measurement of results in general, raises concerns since it could make delivery organizations focus on those outcomes which are easier to measure or more likely to succeed (Fox & Albertson, 2011). This focus can be harmful as some groups in society will always cost money while they might deserve attention the most.

Secondly, the time horizon of the intervention to achieve outcomes should be reasonable. This criterion is subject to the nature of the intervention, as well as the willingness of investors and outcome-payers to give and receive payments.

Thirdly, in order to adopt an intervention in a SIB, evidence of success of the intervention or closely related interventions should be available. This criterion could favour large organizations, at the expense of small, local, and distinctive ones, by choosing those projects with a proven track record (Fox & Albertson, 2011, p. 4). Additionally, this evidence of success requires evaluation of the intervention vs. the control group. While the SIB promotes innovation in the short term, there is a risk that it stifles further innovation, as diffusion of a successful intervention could be slowed down by the need to maintain a control group (Warner, 2013, p. 314).

The last criterion is that appropriate legal and political conditions should be in place. Proper legal conditions will enable governments to act flexible towards financing social services outside the usual financing frames. An example of a financing problem is the wrong-pocket problem. This problem arises whenever the department paying for the intervention is not the department who experiences fiscal savings (Society Impact Platform, 2016). There are two types of wrong pocket problems: horizontal and vertical. An example of the vertical wrong pocket problem is whenever the outcome-payer of a SIB is a municipality and the fiscal savings are realized at the national governmental level. A horizontal wrong pocket problem arises whenever, for example, an intervention is paid for by the Ministry of Justice and Security, and benefits fall within the Ministry of Social Services. Appropriate political conditions are those that support Social Impact Bonds as well as those that support the services delivered. This support needs to be present at all relevant stakeholders. The political support ensures positive momentum and flexibility towards the process.

In addition to these criteria and related difficulties, the biggest challenge seems to be the complex process of developing a SIB contract. The process is in each case unique depending on the organizations and individuals involved. All legal representatives of each stakeholder involved need to agree on financing, payment structures, and the best outcome metrics.

This form of payment requires advanced financial modelling and careful navigation of procurement regulations. As an example of this complexity, the legal counsel to the intermediary in the Massachusetts recidivism SIB reported that 27 contracts were written and more than 1100 legal hours were billed to develop the bond (Gustafsson-Wright, Gardiner, & Putcha, 2015, p. 30). Deal development sometimes takes up to three years which relate to enormous costs to get the deal together. It should be emphasized that as the market matures time and money spent on deal development should decrease. In the context of the complex process, it is of special importance that the involved actors possess expertise, will, and dedication to carry out the development process.

3. Analytical framework and methodology

This chapter will start by describing the concept of Realistic Evaluation. Hereafter an example will be given of the application of realistic evaluation to the hypothetical situation in which a smoking cessation program is implemented. Subsequently, the concept will be theoretically applied to SIBs. Then, the methodology of this research will be described, by outlining the process of data collection and the methods and process of data analysis. Finally, some methodological reflections and limitations of this research will be described.

3.1 Building Blocks of Realistic Evaluation

Social public interventions usually take place at the interface of the individual and the social, where multiple factors and influences are continuously at work (Cheetham, 1992, p. 265). Interventions invariably rely on partnership approaches involving multi-sectorial representations (Dowling, Powell, & Glendinning, 2004, p. 309). The increasingly complex nature of health and social problems are linked to increasingly complex matters of evaluation. At the same time, there has come an emphasis on evidence-based practice and a demand for accountability of public spending (Blamey & Mackenzie, 2007, p. 442). There is increasing recognition among governments and donor organizations that rigorous evaluations of public interventions are necessary to execute legitimate decision-making (Blomquist, 2003).

The extent to which these complexities are addressed during evaluation depend upon the type of evaluation executed. In the literature three 'boxes' of evaluation are distinguished: 'black', 'grey', and 'white' box evaluations (Kazi, 2003, p. 804). When evaluators talk about the black box, they refer to the practice of viewing social programs primarily in terms of effects, with little attention paid to how those effects are produced. With grey box evaluation besides the effects, the components of a program are discerned, but their inner working are not revealed. White box evaluation, the antonym of black box evaluation, not only addresses the effects of a program, but also looks at the inner workings and different components of a program and how they are connected (Kazi, 2003, p. 804).

Tilley and Pawson (1997) developed a theory on white box evaluation. They developed the Realistic Evaluation model which is centred on finding not only what outcomes are produced from interventions but also how they are produced, and what is significant about the varying conditions in which the interventions take place (Tilley, 2000). A favourite metaphor used to demonstrate the spirit of Realistic Evaluation is the clock. By examining the surface of a clock, it is not possible to understand how it works. By going beneath the "surface observable appearance" and delving into the "inner (hidden) working" you can observe the 'balanced spring of the oscillation of caesium atoms' (Pawson & Tilley, 1997, p. 407). When evaluating the impact of an intervention within any given context, Pawson and Tilley outline three investigative areas that need to be addressed:

“Outcomes pattern: what are the practical effects produced by causal mechanisms being triggered in a given context?”

Mechanism: what is it about a measure which may lead it to have a particular outcome in a given context?”

Context: what conditions are needed for a measure to trigger mechanisms to produce particular outcomes patterns?” (Pawson & Tilley, 1997, p. 145)

As Pawson and Tilley put it: Programs work (have successful ‘outcomes’) only in so far as they introduce appropriate ideas and opportunities (‘mechanisms’) to groups in the appropriate social and cultural conditions (‘contexts’) (Astbury & Leeuw, 2010, p. 366).

Thus, through the model a ‘context mechanism, outcome pattern configuration’ (CMOC) can be developed, which allows researchers and policymakers to get insight in what works in specific circumstances. CMOCs are developed through consultation with relevant stakeholders involved in an intervention. The evaluation model allows the researcher to understand what aspects of an intervention make it effective or ineffective and what contextual factors are needed to replicate the intervention in another setting, timeframe, or country. Realistic Evaluation recognizes that the impact of social programs cannot be understood with any degrees of confidence if there is no knowledge about the context in which a program is executed. It provides a tool for policy makers to understand how effects are being produced and how they can be consistently replicated (Blamey & Mackenzie, 2007, p. 441). Tilley (University of Leicester, 2017) suggests that evaluation models need to be developed for the purpose of replication of interventions: *“Realism provided the necessary ingredients for such a model: specification of the crucial contextual conditions for the intervention, the change-inducing mechanisms that will be triggered by the intervention, and the anticipated outcomes pattern that will be generated by triggering these mechanisms. This comprises a CMOC.”*

3.1.1 Steps to develop a CMOC

To explain how Realistic Evaluation works in practice Blamey and Mackenzie (2007, p. 444) describe the hypothetical example of the implementation of a smoking cessation program in the UK. They define four steps in order to develop a CMOC:

- *Step 1:* Through a dialogue with the program implementers the evaluator attempts to understand the nature of the social program. The following questions can be used: what is the aim of the smoking cessation program?; What is the nature of the target population?; In what kind of contexts and settings will it operate?; and what are the available theories about why smoking cessation services will work for specific people in specific circumstances?
- *Step 2:* Potential mini theories are developed that relate the various contexts of a program to the multiple mechanisms by which it might operate to produce different

outcomes. For example, existing evidence base might suggest that when focusing on the educational component of the ill-effects of smoking on babies in utero the program will be most effective for midwives with no previous children. On the other hand, young female smokers may react more positively to those interventions that are designed to positively influence their self-image.

- *Step 3:* The evaluator undertakes an outcome analysis in relation to the mini-theories developed in the previous step. This involves building up a quantitative and qualitative picture of the smoking cessation program, which includes underlying psychological mechanisms and motivations that have been triggered by specific services in particular smokers.
- *Step 4:* Through an exploration of how context, mechanisms and outcome configurations (CMOCs) are operate within the program, the evaluator refines theories of what works for whom in what circumstances.

This approach acknowledges that particular contexts can positively or negatively influence outcomes and that these contexts might lay within or outside the control of the program implementers (Blamey & Mackenzie, 2007, p. 441). It must be noted that also when influential contexts lay outside the control of the program, the knowledge about it is useful and valuable. Looking at the example: if the smoking cessation program would be implemented now, it might be much more successful than one implemented 10 years ago, due to various changes in political, jurisdictional, and social contexts. Furthermore, it is recognized that the social make-up of interventions areas, including levels of social capital and geographical deprivation, influence normative views of smoking and related motivations for cessations which subsequently influence the outcomes of the program (Blamey & Mackenzie, 2007, p. 441).

3.1.2 Evaluating SIBs

In this research, I focus on the evaluation of the new public-private partnership 'SIB' in which private investors put up capital to fund a social intervention and governments repay the investor if the agreed-upon outcome is achieved. By applying this concept to the Realistic Evaluation framework of Pawson and Tilley, the following three investigative areas are investigated: outcomes, mechanisms, contexts.

As Pawson and Tilley would describe: the SIBs work (have successful 'outcomes') only in so far as they introduce appropriate ideas and opportunities ('mechanisms') to groups in the appropriate social and cultural conditions ('contexts'). As outlined before, the SIB-model is meant to create social impact. Logically you can abstract the desired outcome of 'social impact'. However social impact is meant to be created through a win-win situation for all stakeholders: (1) private investors get the opportunity to realize social impact while realizing financial returns; (2) the public sector has the opportunity to realize financial savings; and (3) social entrepreneurs can scale up their prosperous initiative. Whether the

three statements should be categorized under outcomes, contexts or mechanisms is a difficult question and needs further exploration.

In the example of the smoking cessation program, four steps are distinguished in order to develop a CMOC. Primarily the nature of the program needs to be understood (*step 1*). This question is related to issues regarding the understanding what the purpose of the program is and how it intends to achieve this purpose. Thus, in order to develop a CMOC about SIBs the nature of the financing mechanism needs to be understood. In the example of the cessation program, the nature of the program is understood through consultation of the strategy implementers. For grasping the workings of the SIB, it is not sufficient to speak to the social entrepreneurs who implement the social intervention, as this reflects solely one of the stakeholders of the SIB. For understanding the whole arrangement, the strategy implementers of the SIB need to be consulted. From the stakeholders categorized in the previous chapter, the population in need and the evaluator are not concerned with the implementation of the SIB. Thus solely the following four stakeholders should be consulted: the outcome-payer, the investor, the social entrepreneur, and intermediary. When consulting each of these stakeholders, the following questions can be used to reveal the nature of SIBs: Why are you participating in the SIB?; What is the aim of the SIB?; When is the SIB successful for you and the rest of the partners?; What are the available theories on why SIBs will work in certain circumstances?

Subsequently, *step 2* needs to be executed, which will allow potential mini theories to be developed which relate the various contexts and settings, in which SIBs are developed, to the multiple mechanisms. Both the mechanisms and contexts are identified through consultation with all stakeholders. A potential mini-theory could be that when all stakeholders separately experience favourable political support, through the mechanism of the SIB in which a win-win-win situation is created the desired outcome of social impact is created. However, when one of the stakeholders is experiencing lacks political support, the win-win-win situation is not created and the desired social impact will not be achieved.

Blamey and MacKenzie (2007, p. 444) describe two more steps in order to develop an academically tested CMOC. In *step 3* the evaluator builds an outcome analysis using a quantitative and qualitative picture of the SIB in action. *Step 4* this analysis is used by the evaluator to refine the CMOC and ultimately academically tested theories are developed of what works for whom in what circumstances. As SIBs are a very new phenomenon in the Netherlands, currently a total number of nine SIBs are in operation. Eight out of the nine SIBs have been constructed in the last two years. Due to the multiple years a SIB contract lasts, the results in the Netherlands are not yet sufficient to execute *step 3* and *4*. By executing *step 1* and *2* it is believed that valuable insights can be developed in the inner workings of the SIB and the relevant contextual factors in which the model is implemented.

3.2 Methodology

3.2.1 Data collection

In this thesis, I have chosen for qualitative research. The young existence of SIBs, the relatively small number of SIBs in operation, and the fact that outcomes are scarce make quantitative analysis difficult. Moreover, in-depth analysis of cases through qualitative methods is of special value in such a pioneering phase. The methods used in this research are document- and literature analysis and semi-structured interviews. Each of these will be discussed subsequently.

3.2.1.1 Document- and literature analysis

The literature analysis was conducted as background information regarding aspects important for successful implementation of SIBs in the rest of the world. This information guided development of proper interview questions. The document analysis was conducted for two reasons. First of all, document analysis was used to identify the stakeholders active in the nine operating SIBs in the Netherlands. The results from the document analysis are shown in table 1.

Table 1: Overview of stakeholders involved in SIBs

	Outcome-payer	Investor	Entrepreneur	Intermediary
SIB I	Mun. of Rotterdam	Start Foundation ABN AMRO SIF Buzinezzclub	Buzinezzclub	-
SIB II	Mun. of Utrecht	Start Foundation Rabobank Foundation	The Colour Kitchen	Society Impact
SIB III	Mun. of Rotterdam	Fonds DBL	WRZ	Social Impact Finance
SIB IV	Mun. of Utrecht	ABN AMRO SIF Oranje Fonds Buzinezzclub	Buzinezzclub	-
SIB V	Mun. of Eindhoven	Start Foundation ABN AMRO SIF Buzinezzclub	Buzinezzclub	-
SIB VI	Min. of Security and Justice	Start Foundation ABN AMRO SIF Oranje Fonds	Work-Wise Direct	Society Impact
SIB VII	Mun. of Enschede	Start Foundation ABN AMRO SIF BOAS Werkt	BOAS Werkt	-
SIB VIII	Mun. of the Hague	CZ Zorgverzekeraar	Sociaal Hospitaal	Society Impact
SIB IX	Verzekeraar De Amersfoortse	Start Foundation ABN AMRO SIF	Arbo-Ned & Re- turn	-

When the interviews were executed SIB IX was not yet launched and is thus not discussed in the interviews. It must be noted that all the information mentioned in the table should be carefully interpreted as the information from the document analysis and the information obtained in interviews were not unilateral. Secondly, the document analysis was used to provide background information on the respondent and the organization they work for. This information made it possible to sharpen interview questions that applied to their specific role and case.

3.2.1.2. Interviews

Selection of respondents

From the outcome-payers, the investors, and the social entrepreneur three parties were interviewed. When selecting the desired respondents two things were taken in consideration. First of all, I tried to talk to at least one stakeholder from every SIB. Secondly, I tried to talk to a diverse set of respondents as possible. As for the first notion, I succeeded to talk to at least one stakeholder of every SIB. As for the second notion, it resulted in a diverse respondent-set in such a way that I tried to talk to parties that differed in the scope of the SIB they were involved in, in the experience they had with SIBs, and in the focus of the social problem of the SIB.

As for the intermediary, solely one respondent was found. Two reasons can be found for this difference. First of all, the definition of an intermediary turned out to be unclear as different stakeholder applied different definitions. This resulted in an unclear picture of intermediaries involved in the nine SIBs. Secondly, negative answers to interview requests made the offer limited. It must be noted that the respondent which I classified as an intermediary, does not classify himself in his current role as an intermediary. However, the interview focused on a previous job in which he executed activities as an intermediary.

Taking the abovementioned notions into consideration, the parties listed in table 2 were selected and willing to participate in the research. After interviewing eleven participants, new insights were scarce and data saturation was reached¹.

Table 2: Respondents participating in the research

Outcome-payer	Investor	Social entrepreneur	Intermediary
Mun. of Enschede	Start Foundation	BOAS Werkt	Deloitte
Mun. of Rotterdam	ABN AMRO SIF	Buzinezzclub	
Min. of Security and Justice	CZ Zorgverzekeraar	Sociaal Hospitaal	

Six out of the eleven interviews were executed face to face, at the organization of the interviewee. Four interviews were conducted through a telephone call and one was conducted through a skype session. Each party was consulted through an interview with one employer. Solely CZ Zorgverzekeraar is an exception on this rule, as the first interviewee

¹ See Annex I for a list of respondents, including organizations, function, date and nature of the interview.

turned out to have a certain distance to the partnership practicalities, and therefore I was advised to consult a second employee.

Semi-structured interviews

A CMOC perspective is developed through semi-structured interviews with open-ended questions. In order to develop a CMOC perspective three investigative research areas are defined, namely: contexts, mechanisms, and outcomes. Therefore, these concepts shaped a topic list which guided the interview questions. It is important to emphasize that this topic list was not precisely followed but functioned as a guidance, leaving room to let conversations develop in specific directions. Through this method it was possible to delve deeper into issues that turned out to be the most relevant and important.

The interviews were adapted to the specific role an organization possessed. For example, slightly different questions were asked to the investors, in comparison with the outcome-payers, social entrepreneurs, and intermediaries. Also, the answers and insights gained through previous interviews shaped the coming interviews. Therefore, it is emphasized that all interviews were very different.

At the beginning of each interview I asked permission to record the interview. This was agreed to by all respondents. Additionally, it was agreed to consult every interviewee whenever a specific quote would be used. The completed transcriptions were sent to the matching respondents, and they were given the opportunity to change unclear or statements that lost their context. Most of the respondents did not make use of this opportunity. The interviews lasted from 30 minutes to 90 minutes with an average of approximately 45 minutes. All interviews were conducted in Dutch, as this was the mother language of all respondents which made it easier to express themselves. Therefore, quotes are translated into English.

3.2.2 Data analysis

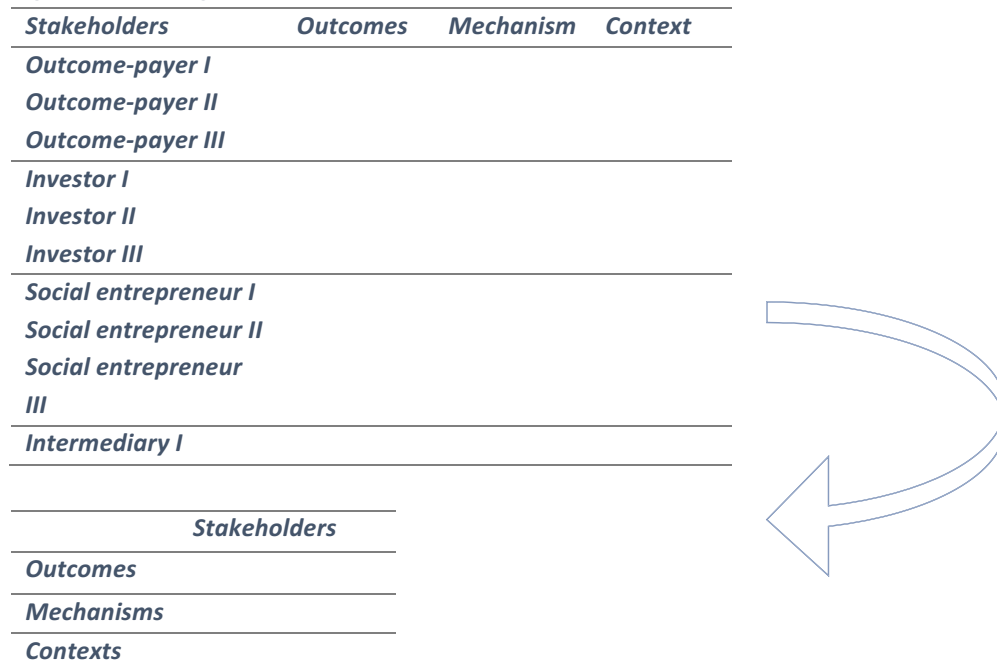
All the interviews were recorded and transcribed². The transcriptions were analysed by highlighting all statements that related to the three investigative areas: contexts, mechanisms, and outcomes. Subsequently, these highlighted statements were categorized by the topic it discussed. By these means a number of 10 topics is developed. In turn, these topics are vertically fitted into the context, mechanism, outcome framework.

Subsequently, all interviews were individually described in a separate paragraph. The paragraph starts with a description of the organization and the interviewee and their relations with SIBs, in order to provide a contextual background. Subsequently, the findings gained from the interview are stated and grouped under the context, mechanism, outcome

² Transcripts are kept in a separate file and stored with restricted access by the head of the Public Administration and Policy Group.

categories. Hereafter these findings are rotated 90° degrees which provides a holistic picture of the research areas, as is illustrated in the figure 3.

Figure 3: Findings are rotated



3.2.3 Methodological limitations

First of all, it must be stated that SIBs are a relatively new phenomenon worldwide including the Netherlands. SIBs reflect a contract for multiple years, and thus outcomes on finalised SIBs are currently not substantially available. There is currently only one SIB in the Netherlands which has ended and for which results are available. These results are now labelled as successful however, information on what successful in this case means is not provided. This means that asking the respondents about outcomes, they responded predictively.

Secondly, half of the respondents were involved in multiple SIBs. Additionally, two respondents also functioned in multiple stakeholder roles in different or the same SIB. This has implications for the answers given by the respondents. Answers were frequently generalized and not specifically focused on one specific case. Thus, relating answers to specific SIBs was in some cases difficult.

4. Results

This chapter will start with a description of all interviews, including the insights found. Hereafter, it will provide a description of all relevant outcomes, mechanisms, and contexts derived from these interviews.

4.1 Interviews

I will describe the interviews executed with the outcome-payers, the investors, the social entrepreneurs, and the intermediary. First, I will briefly describe relevant characteristics of the organization in which the interviewee is employed. Subsequently, I will elaborate on the organization's involvement in the various SIBs. Here after, I will analyse the individual that has been interviewed and their relationship with the respective SIB which will shed light on the context of the answers. The interviews were semi-structured centring around the following questions:

- What are the practical effects produced by the SIB?
- What are the inner workings of the SIB?
- Under what conditions is the SIB implemented?

Insights in these questions are respectively categorized in outcomes, mechanisms, and contexts and subsequently described in this order.

4.1.1 Outcome-payer

Municipality of Enschede, Tjalling de Vries (TdV)

The municipality of Enschede is the outcome-payer in the first trans-national impact bond worldwide. In Enschede, a town close to the border of Germany, there is a high unemployment rate, while on the other side of the border, in Nordrhein-Westfalen in Germany, there is a labour-shortage. It is relatively unattractive for the unemployed to shift to the German labour market, because of the language barrier, a different (labour) culture, and various technical difficulties concerning laws and regulations. In this SIB, the social entrepreneur (BOASWerkt) looks for vacancies in Germany and prepares Dutch unemployed for the German labour market by offering them schooling in language, culture, and work-related courses.

TdV currently works for the Municipality of Enschede, and was involved in the implementation of this trans-national SIB and is currently monitoring its progress. Before he worked for the municipality of Rotterdam which is involved in two SIBs. TdV managed the first SIB and implemented the second SIB. Furthermore, he is working on the 'ratecard-project', which reflects several potential new SIBs in the context of multi-problem adolescents transferring from the 18⁻ domain to the 18⁺ domain, who experience difficulties in several domains (labour, debts, security, and health). This project is interesting as it stimulates integral solutions for problems in these multiple social domains, in contrast to most SIBs in the Netherlands which have a high work-related focus and are one-dimensional.

The following insights were obtained during this interview:

OUTCOME

- In October 2017, a year since the SIB has been in operation, there was an evaluation moment in which it was decided whether the SIB would continue. TdV explained that, as the participants needed to have a technical background and the technical sector had been showing economic growth, they were experiencing difficulties with finding enough participants for the intervention. It is still unknown if a better search will lead to an increase in participants. Aborting the SIB after one year seemed a likely possibility. This showed that, because of the focused SIB contract, detailed information was gained about the specific group of unemployed and the search system within the municipality. *“The question we try to answer is: are the people there but are we unable to find them? Or is the problem not there anymore, and do we have to conclude that we have a really nice instrument but the match with the demand from the market is missing?”*
- Regarding the ratecard-project TdV emphasized that social entrepreneurs are stimulated to innovate and provide integral solutions. They are asked to provide interventions which look holistically at for example safety, health, school, and debts. This suggests that the ratecard-project can potentially realize social impact by stimulating innovative and holistic interventions, which are centred on the individual instead of the system. *“We ask them not to solely look at care, but also at labour, and also at debts, and also at safety, and hereby we can work on the basis of the adolescent instead of on the basis of a one-dimensional demand”*

MECHANISM

- According to TdV a consequence of the SIB is that the municipality proposes a different question to the market. As prior, the market is asked to provide a specific quantity of inputs, through the SIB the market was asked to provide a specific quantity of outcomes. This shift in focus was established by the mechanism of payment by result. *“So, we are not going to say: well we want you to guide these people for a certain period or we think that you should offer the language course two times a week. No, we say: be sure that people experience a wanted effect, or find a job, or obtain a diploma.”*
- TdV explained that, as the investors bear the financial risk, their perspective can tackle certain dysfunctionalities in the method of working. This critical perspective seems to be encouraged by making the social entrepreneur invest for a relatively small part as well, as this creates an extra incentive to perform. This shows that by attracting private capital, risk-transfer from the public to the private sector is established and that the multi-stakeholder perspective is perceived as valuable.
- Regarding the ratecard-project TdV emphasized that integral interventions are stimulated, which is difficult with traditional finance as different social domains are related with different financing streams. This shows that by attracting private capital, which is bureaucracy-free capital, the SIB provides an opportunity for the development of innovative and holistic interventions.

CONTEXT

- TdV described that during the development of the business case, the number of participants per year was a point of discussion, in which Enschede had a more cautious approach than the social entrepreneur. This difference in approach is understandable, as the municipality is in first place the responsible party for the deliverance of participants. In the end, it was decided to share the responsibility of delivering, where the greater part (55) was the task of the municipality and a small group (15) was the task of the social entrepreneur. The discussion seemed to be appropriate as they were facing problems with finding enough participants. This shows that SIBs run on a contract of multiple years within a developing economic context in which social problems might change.
- The interest of the municipality in the SIB was part of a broad exploration in different ways of financing. This shows that the SIB was constructed within a stimulating political context. This simplified acquiring political support and financial resources. Political support in all layers of the municipality is perceived by TdV as an important condition for implementation.

“There has to be political support in all layers within the organization. This entails that you need to have an alderman and a director who believe in the mechanism, plus somebody who has knowledge and time.”
- It is emphasized that the financial and jurisdictional arrangements are rather difficult. The municipality in Enschede created a transformation budget which bears the pre-finance. Whenever savings are realized, repayments are set up. TdV emphasized that if savings are made the development of proper financial arrangements should always be possible.

“Through the SIB, the financial shortage will diminish, you will realize savings, and on this basis capital should be made available.”
- Regarding the complex stakeholder network and partnership construction TdV commented on three notions. First, TdV described that the initiative for SIB development came from the social entrepreneur and investor in Rotterdam, where in Enschede the outcome-payer initiated the idea of the SIB. TdV emphasized that regardless which party initiates a SIB, it is essential that the motivation to develop a SIB should be to address a social problem instead of developing a SIB just for having a SIB.

“Before we start talking about SIBs, we are going to make a list of societal problems for which innovative finance can be a solution, to start with the problem is essential. You should not have a SIB for a SIB as it is just a financing instrument.”

Secondly, TdV noted that he never experienced a partnership construction with the assistance of an intermediary’s role. In Enschede, this role is consciously unfulfilled for two reasons: first, to lower initial costs and secondly, the perceived necessity was little as the involved investors and TdV possessed SIB-experience. This shows that the perceived added value of an intermediary is their expertise and specific knowledge.

Third, TdV described that the social entrepreneur in Enschede invested a relatively small part in the SIB through working hours. This is a valuable incentive for the entrepreneur to obtain a certain outcome, as this party is the only party who receives finance regardless of the outcomes.

“Within the impact bond-construction the entrepreneur is quite risk-free, because they know they receive finance regardless of the outcomes.”

Municipality of Rotterdam, Hiske van den Broek (HvdB)

The municipality of Rotterdam is an outcome-payer involved in two impact bonds. In the end of 2013, they launched the first impact bond in the Netherlands and in 2015, the second impact bond was launched. Both SIBs focus on unemployment.

HvdB is project manager of both impact bonds in Rotterdam. In both SIBs, she was not involved from the start. She described her role as continuously organising an environment within the municipality in such a way that SIBs will be accepted.

The following insights were obtained during the interview:

OUTCOME

- HvdB described that currently, the first impact bond is ending and evaluated. The results are promising and the SIB is perceived as successful, despite minor start up difficulties related to finding enough participants. The SIB resulted in fiscal savings for the outcome-payer as the social entrepreneur realized faster flow into a job, study, or entrepreneurial activities coming from a social benefit, in comparison with the control group.

MECHANISM

- HvdB described that solely the municipality’s perspective on unemployment was perceived as incomplete, as jobs are also created by the private sector. In order to create smart solutions, it was desired to look at the problem through a multi-stakeholder perspective. This shows that the municipality believes that specific societal problems should in essence be addressed by multiple stakeholders.
“What you do with a SIB is that you really undertake a partnership, and you dive into each other’s worldview. How do you perceive this, and what do you need to collaborate, are valuable questions to explore through the instrument.”
- At the start of the first SIB they faced difficulties with the recruitment of enough participants. HvdB described that in the municipality an internal mind shift was necessary. Prior to the SIB, employers experienced a lot of freedom regarding assigning individuals to specific interventions, with the SIB they had a binding concrete target to meet. Thus, due to the payment by result contract and the related binding agreements the municipality was stimulated to quickly investigate and solve this issue. This resulted in a relatively fast increase in number of participants.

CONTEXT

- The municipality of Rotterdam is one of the first parties to investigate the possibilities of developing a SIB. HvdB mentioned two reasons for this investigation: they faced a large financial shortage and the problem of unemployment was perceived as a problem of society which needed a multi-stakeholder approach. This intrinsic interest related to a stimulating political environment. HvdB emphasized the importance of political support for SIB implementation, and specifically the presence on three different layers: the alderman, the director, and a project manager.
- Regarding the jurisdictional context HvdB emphasized that there are difficulties with the tendering arrangements within the municipality. Together with other municipalities, they are trying to come up with appropriate arrangements. This shows that the jurisdictional institutions are not yet in place for SIBs to be easily implemented.
- Furthermore, she explained that as the first SIB was a pioneering project there was no intermediary involved. At that moment, there were no intermediaries yet. There is some confusion regarding the presence of an intermediary in the second impact bond. Deloitte constructed the business case and facilitated the process, but cannot be labelled as an intermediary according to HvdB. In general, she was not convinced that an intermediary is of added value, as a SIB runs on relations between partners. An intermediary could be a disturbing factor in this partnering-process. She did see added value in an external party writing a business case, but as a process-guider the added value is questioned.

“Something like this is built on relations between parties, and the involvement of an intermediary could cause a smokescreen between the involved people; because it will always involve an extra translation, which is dysfunctional.”

Ministry of Justice and Security, Dennis van Breemen (DvB)

The Ministry of Justice and Security is the outcome-payer in the only national SIB. The initiative for the SIB is part of a broad governmental investigation regarding the opportunities for SIB implementation in the Netherlands. The SIB focusses on rehabilitation and labour, as it is believed that a stable job is the first and most important step towards successful reintegration. DvB is involved from the beginning of the governmental investigation, and is still managing the progress of the SIB.

The following insights were obtained during the interview:

OUTCOME

- DvB explained that the rehabilitation sector is showing a public service gap. Reintegration in society is relatively easy for convicts with a short detention. Moreover, convicts with a long detention face a wide variety of reintegration programs. But convicts who are facing a long nor short detention (3-12 months) are in current policy left out. It is believed that for this specific group social impact and fiscal savings can be realized due to faster flow into a job and due to less recidivism. This shows that this SIB

realizes an expansion of the social service sector, as an intervention is offered to a group of convicts who did not face an intervention before.

- DvB commented on the potential fiscal savings due to less recidivism. To realize these savings, a certain quantity needs to be met first, as for example one less prisoner does not automatically imply less guards. This differs with for example savings on social security spending, which are directly tangible.
- DvB described the process of partnership composition. To select the social entrepreneur a tender was set out, which led to a consortium of entrepreneurs: Stichting 180, Exodus, and Restart. This consortium is unique and as each partner has their own specific focus (behaviour, work, housing). This suggests that SIBs can realize social impact through the jointly offered innovative and holistic intervention.

MECHANISM

- Within the process of creating the SIB, DvB noted that all SIB stakeholders learn about each other's perspective and environment. He described that the investors learn about the bureaucratic environment, the financial aspects, and the various stakeholders involved in the chain. Where for the Ministry, insights are gained by looking at the problem through the glasses of the investor, and by looking critically at risks, profit, and feasible results. This shows that through the SIB two perspectives are combined which is perceived as a successful approach.

"For me personally the SIB is more a way of thinking, you look through investment glasses and thus steer financially. It is about the combination of point of views, and the related checks and balances approaches, which I think are making the approach successful."

- In general, DvB explained that the use of private capital is a valuable characteristic of the SIB, as it can bear risk. Thus, SIB models are especially interesting in situations where it is hard to gather money through traditional finance. This suggests that SIBs can stimulate innovation as risky, new approaches can find finance.

CONTEXT

- DvB described that the SIB had a long run-up inducing enormous overhead costs. Two reasons were mentioned for this long process of development. First, creating a positive business case was rather complex due to out-of-pocket savings, the search for entrepreneurs with a proven track record, and discussion about the timespan of the SIB. Secondly, the stakeholders needed to understand each other's language and perspective. This showed that an inappropriate jurisdictional environment and the complex stakeholder network created a long set-up phase for the SIB. for several reasons. In general, the Ministry concluded that for small investments setting up a SIB is probably not worth it.

"But now we concluded, only start thinking about SIBs whenever you are crossing the million, below the million you can better give subsidies from a governmental point of view."

Additionally, DvB stated that for the Ministry these costs were doable as the government is set up as an instrument which will always make room for innovation tracks in order to answer questions regarding policy renewing, but this is not reality for all outcome-payers.

- In the context of the construction of the partnership, the role of the intermediary is discussed. DvB believed that in particular phases their role can be valuable by bringing parties together, initiating discussions, and keeping track of the progress. However, at a certain moment parties know each other well enough that the intermediary automatically will be put at a certain distant. The difficulty of the costs of the intermediary are acknowledged and as the SIB-market will standardize, DvB emphasizes that these intermediary costs need to decrease.

Furthermore, DvB emphasized that fruitful partnerships need to be flexible and transparent, because despite of all the research, preparations and informing all involved employers, unexpected problems will arise when you find yourself pioneering.

"I believe that besides all the thought-through concepts, whenever we actually began with, delivering candidates and organizing circumstances for a real start, it was still difficult and you need to be transparent about these difficulties."

4.1.2 Investor

ABN AMRO, Ruben Koekoek (RK)

ABN AMRO is involved in six SIBs and is thus one of the major players involved in the Netherlands. They were amongst others one of the initiators of the first impact bond. RK has been involved in implementing and managing progress in all SIBs. He can be considered as an expert as in 2015 he conducted a research for ABN AMRO on potentials and limitations of SIBs in the Netherlands.

The following insights were obtained during this interview:

OUTCOME

- As for the SIB in Rotterdam that has ended, RK concluded that it was successful as ABN AMRO yielded a profit of 12% on a yearly basis. This shows that a marginal profit is made by the investors in the partnership.

CONTEXT

- The importance of political support was emphasized by RK. Political support should be present at the top to ensure accommodating decision-making, and at the bottom a dedicated project manager is necessary to execute the work. RK added that political support will enable the crossing of unexpected bumps in the road which are always present when pioneering.
- Multiple attempts to construct new SIBs fail. Political and jurisdictional reasons are stated by RK. Politically it can be an ideological struggle. This shows that whenever there

is no sufficient political support within a municipality SIBs cannot be constructed. Jurisdictionally it is a complex model to implement, which can cause resistance within a municipality.

“Some just believe they should do a lot themselves, they don’t want to transfer responsibilities to the market and certainly not to a bank. And sometimes the problematic is seen if the budget for social security and the budget for rehabilitation activities are not easily financially connected.”

- The complex partnership composition was discussed. RK emphasized the importance of a dedicated outcome-payer. The SIB is a tool which enables the transfer of certain responsibilities to the market, however it is highlighted that the playing rules should always be defined by the outcome-payer. Currently, these are often defined by all stakeholders in the partnership. Thus, all partners are not seen equally important in bearing certain responsibilities. The outcome-payer should always be in the lead.

“You need to define the playing rules yourself; so, how are you willing to pay, how are you measuring, what is the timeframe and what is the target group. You can decide all of this within the partnership but in the end, there is only one party deciding and that is the government and sometimes this goes wrong.”

RK elaborated that besides the fact that other stakeholders can’t decide the destination of public money, a predetermined partnership composition leaves little room for a shift in focus. When a social entrepreneur is chosen, shifting to a different target group is often difficult.

“When you dive in the problematic and you formulate your goals, and that you have to conclude: hey, we actually wanted to solve youth unemployment but not so much to gather here, but hey elderly unemployment that’s where we have to focus. And this room is relatively small whenever the social entrepreneur is already involved.”

RK explained that regarding the role of the intermediary, this role is less well represented in the Netherlands compared to England and the United States. The intermediary’s role is currently not used to the fullest, a party who can help to define playing rules and disentangle a social problem. Besides assisting in the process of developing the bond, there is also a valuable role when the impact bond is running. This shows that an intermediary as a protector of the government and as an impact bond manager who actively tries to improve the partnership is believed to be missing.

Start Foundation, Ralph de Ruijter (RdR)

Start Foundation is involved in six out of the eight SIBs and is thus one of the most involved parties in the Netherlands. They are currently recalibrating their role as a social investor by executing an evaluation research on SIBs, as they see both potentials and limitations in the SIB-model. RdR can be considered as an expert as has been involved from the first impact bond and is currently engaged in the evaluation research.

The following insights were obtained during this interview:

OUTCOMES

- RdR elaborated on the difference between financing through a SIB and financing through traditional subsidy. He explained that through the SIB-model there is a clear performance incentive for the social entrepreneur. This incentive is often lacking with traditional finance, through which a lot of tax money is wasted. Moreover, this ineffective spending of public money is often not known as individuals are not tracked through an intervention and results are not measured. Clear measurement is a necessity for SIBs. This shows that SIBs provide a way to effectively spend tax money and thus realize fiscal savings. Secondly, SIBs generate knowledge on which and why interventions work due to the precise measurement.
- Regarding the national SIB in which Start Foundation is involved RdR described that the intervention is focused on a specific group of convicts who do not belong to the short- nor long-detainees. For this group, there was no offer of social services prior to the SIB. By setting out a tender on this specific group, the combination of three social entrepreneurs were selected and an innovative consortium was developed. This shows that SIBs can potentially increase the social service sector through innovation and through touching a new target group.

Subsequently, RdR talked about the four SIBs constructed with the Buzinezzclub and the Colour Kitchen. RdR described that for the social entrepreneurs the SIB offered an opportunity to scale their promising initiative. He stated a critical note about the scaling of prosperous initiatives; as the SIB construction asks for a proven intervention and an entrepreneur with a proven track record, innovation is sometimes hindered.

These two examples show that SIBs can realize social impact by filling a gap in the social service sector or by scaling a prosperous initiative.

“What we do with the Colour Kitchen, a party which we know from the beginning, is in essence not different. They are doing it on a some what different scale. And as for the Buzinezzclub it is the same, they are also doing the same thing. They went to different municipalities, but the method of working is the same.”

MECHANISM

- RdR stated that for Start Foundation the big difference with grasping a social problem through a partnership model is that you all are and feel responsible for meeting certain agreements. When jointly looking at the problem certain dysfunctionalities in the system can be tackled and dependencies are dissolved. This shows that the multi-stakeholder perspective is perceived to be valuable.
- “That is actually the biggest difference, because prior you would wait as a social investor or entrepreneur for the government to send candidates, which was a dysfunctional system.”*
- RdR compared the financing mechanism through SIB with traditional finance and stated that the incentive for the entrepreneur differs for both. Where within SIBs there is a performance incentive and with traditional finance there is more an effort incentive. This relates to the mechanism of payment by result.

CONTEXT.

- In relation to political support RdR elaborated on the method of implementation. Whenever it is decided by the top-layer of a municipality a SIB will be constructed, an external project manager is hired who is supposed to implement the SIB internally. However, both, the top of the organization and an external employer, are not well integrated in the daily activities of the municipality and therefore, practical implementation often takes time, which results in problems with the deliverance of participants. RdR stated that a more horizontal implementation is necessary in order to get the employers who have to execute the SIB on board.
“Technically a SIB is constructed properly. However, the people that are assigned to execute the SIB are not directly involved.”
- The high initial costs of a SIB relating to the jurisdictional complexity are criticized by RdR. However, it is recognized that whenever more experience is gained with the model the initial costs should decrease.
- When talking about the partnership construction, RdR stated that a partnership is often developed prior to the concrete definition of the problem. Detailed information regarding the social problem or the target group is often not available at the outcome-payer’s side. However, the outcome-payers are often motivated to get started with the SIB, so the problem is sometimes pragmatically found. This relates to the necessity of disentangling a social problem prior to the start. RdR criticized the municipalities for not executing this process.
“That’s what I’ve learned from the SIB, the government does not have the information clear, it does not matter if you look at municipalities or a different institution, they do not have the overview.”

Furthermore, we discussed the role of the intermediary when constructing the partnership. RdR explained to mainly see a role in having a societal radar and by bringing the right parties together. Whenever parties have found each other you need someone to execute the technical aspects, however the intermediary is not the only party who can execute this task. Additionally, as a process guider, an intermediary is more seen as disturbing, as it is another party sitting at the table and translating everybody’s wishes.

CZ Zorgverzekeraar, Wim van der Meeren (WvdM)& Gertjan van Rossum (GvR)

CZ Zorgverzekeraar (CZ) is the investor in the first Health Impact Bond in the Netherlands. In the recently started HIB, multi-problem families are assisted, primarily in their problematic financial situation. CZ is a relative unusual suspect as an investor in this HIB, which has a high related focus on debts. They want to prove the hypothesis that improving a person’s financial situation and stimulating participation in society will establish more health benefits and prevent costs than whenever the insurer stay’s in its current role and solely reimburses pills and medicines. WvdM is the CEO of CZ and as he had some distance to the daily activities of the HIB, he advised me to also talk to GvR which is the HIB manager for CZ.

The following insights were obtained during these interviews:

OUTCOMES

- WvdM described that the intervention is an innovative approach, in which new causal relations are being examined with regard to financial situations and psychological and physical health. CZ's wish is to prove the legitimacy of the approach and the causal relations, and to scale the intervention to other cities. This shows that the intervention can potentially realize an expansion in social service funding.

MECHANISM

- WvdM stated that the involvement of CZ as an investor is an advantage as they are a private company, who experiences freedom to examine new approaches to problems. Because of this freedom, it is of special importance to step out of your own corner and to think across borders. Thus, CZ believed that it is legitimised that they act as an investor, however it is not believed that they are the most appropriate party to invest. Whenever the intervention is proven, other parties like the municipality itself can act as an investor. This shows the added value of financing through private capital because of the transfer of risk from the public to the private sector.

"I still think that the advantage of involving CZ is that we are a private company. We have more scratching space, we can just experiment a little bit more."

CONTEXT

- With GvR the partnership construction and composition was discussed. He emphasized multiple times that in this HIB the commitment of the partners and the shared belief in the effectiveness of the intervention is binding in the partnership. Furthermore, the partnership is characterized by transparency. The importance of transparency is emphasized, as it is crucial for a healthy partnership to show the various interests and the internal processes of all stakeholders involved. Society Impact acted as an intermediary in the development phase and is valued by GvR.

4.1.3 Social Entrepreneur

BOAS Werkt, Martin Assink (MA)

BOAS Werkt is a small organization located in Groningen and the social entrepreneur in the transnational impact bond with the municipality of Enschede. In the SIB, they offer a social intervention in which they prepare unemployed citizens for the German labour market. MA is the director of BOAS Werkt and involved from the very beginning in the development of the impact bond. The SIB in Enschede is his first experience with the model.

The following insights were obtained in the interview:

OUTCOME

- MA explained that in October 2017, after the SIB has been in operation for approximately one year, there will be an evaluation moment and will be decided whether to continue with the SIB or not. There is a possibility that after one year it is decided to quite the SIB, because they were facing problems with finding enough participants for the intervention. There is no consensus about the cause of this problem. Where BOAS Werkt believes that the participants are there, and where the municipality believes that the economic situation is improved and the unemployment is diminished. This shows that by looking into these possibilities, knowledge is generated about the target group and about the processes that need to lead to finding the right participants.

CONTEXT

- Before the start of the SIB a small organization executed research on the presence of competent unemployed who were willing to work across the border. However, in practice it turns out that the target group is hard to find. An increased economy or a failing search system are the two possible causes for this inability. This shows that despite prior research on unemployment rates, SIBs are long-term contracts and economic situations in society and related rates of unemployment might change.
- When talking about the functioning of the partnership, the motivation of the municipality to make the SIB a success is questioned by MA. First, it is believed that the intervention of the SIB conflicts with their own municipal activities regarding re-integration activities in the German labour market. Second, the effort of the municipality regarding publicity activities about the SIB are valued as insufficient. Although prior agreements on publicity activities were made. Third, it is believed that the account managers who in the end must send participants to the intervention are not feeling responsible for sending them.

These three statements show that trust was lacking on the side of BOAS Werkt, and that the partnership was not functioning fruitful.

“We have a problem to solve, however the municipality also executes herself activities to solve the same problem.”

You see, you must collaborate and the municipality said they would settle the publicity. Well, if they believe one advertisement is sufficient, I think you don’t hit the nail on his head.”

“In the ends it comes down to individual activities of work coaches and client managers. Well, they don’t feel the interest.”

Regarding the role of the intermediary, MA explained that as all parties except for BOAS Werkt had experience with SIBs, they decided to create the SIB without an intermediary to suppress costs. It is worth noting that at the start MA perceived the current representative of the municipality as an intermediary, however in the process of developing the bond the person was hired by the municipality. In the context of the problems that they were facing it seems that an independent party who could analyse the problem and formulate objective conclusions would be valuable.

“Which in the end complicates everything is that an independent party drops out. Currently the person protects the interest of the municipality where prior he protected the interest of the SIB and that is of course principally different.”

Sociaal Hospitaal, Albert Jan Kruijer (AJK)

Sociaal Hospitaal is an action research organization which provides insights and solutions for problems in the social domain. A few years ago, they discovered the relation between families with serious debt-problems and the demand for psychological care. The hypothesis is that whenever debt-problems are solved the demand for psychological care and the associated medicinal costs will decrease. This relation is the base of the first Health Impact Bond in the Netherlands. In this HIB, Sociaal Hospitaal is the social entrepreneur, CZ is the investor, and the municipality of The Hague is the outcome-payer. The HIB is just approved and the intake of the first families has started. AJK is the one of the founders of Sociaal Hospitaal and was involved from the start.

The following insights were obtained in the interview:

OUTCOME

- AJK explained that through the SIB a holistic intervention is provided for problems relating to debts and psychological stress. Hereby, this HIB provides a broadening of the social service sector, as these two problems were prior to the SIB not tackled through one intervention. AJK highlighted that a broadening of the social service sector is necessary and possible in other social domains as well, but hindered due to bureaucratic financial streams.
- When talking about the future of SIBs AJK commented on the marginal profit made by the investors through the business model. The fact that this marginal profit is paid for with tax money could be a reason why SIBs will diminish. Outcome-payers just need to realize that they can pay for these social interventions themselves.

MECHANISM

- Two different parties, the municipality and the insurer, are responsible of respectively the costs for debt aid and the costs for psychological care. However, both problems relate and thus a new financing instrument is necessary. AJK elaborated on the valuable characteristic of attracting bureaucracy free capital. He stated that bureaucracy is indissoluble connected with separate financial streams, rules, laws, and protocols which hold back innovation and holistic solutions. Through the SIB, Sociaal Hospitaal can simultaneously combat the financial and psychological problems. It is worth noting that AJK elaborated on the difference in added value of private capital between SIBs in the Netherlands and SIBs in England and in the US. He stated that in England and the US, SIBs provide a way to generally increase capital in the public spheres, however in the Netherlands this is not necessary as there is sufficient capital in the public sector. In the

Netherlands, the value of private capital is that it is bureaucracy free capital and that it can potentially provide a solution for cut up financial streams.

“In the UK and US Social Impact Bonds exist because there is not enough capital in the public spheres. They are invented because there are districts in Manchester with 80.000 residents, in which there is no school, no general practitioners, no medical centers, nothing. In the Netherlands, we have districts with 5.000 residents with a broad school, a normal school, a police center, a medical center, a health center, a housing institution, you name it, so in the Netherlands there is actually too much public money. However, our money is cut up in separate boxes, that is pure bureaucracy and that is why there is no innovation. What does a SIB mean to us? We don’t need the investor for the capital, we need the capital because it is bureaucracy-free capital.”

CONTEXT

- The high initial costs are experienced as tremendous by AJK, due to bureaucracy and the related jurisdictional and financial systems. These costs are related to the small goal of helping 250 multi-problem families and to the higher goal of showing the success of a new financing system with room for collaboration between municipalities, insurers, and other relevant parties. In relation to this higher goal these costs are experienced as negligible.

“So these transaction costs which we had to make are in the context of the 150 families that we help high, however these costs are in the context of our larger mission, namely to show a new financing systematic, negligible.”

- Society Impact was the intermediary in this impact bond, for which they mainly put effort and time in making a valid business case. This was judged as very valuable by AJK. AJK commented that with more complex business cases the added value of an intermediary is increasing and that with simple contracts an intermediary is not per se necessary.

Buzinezzclub, Leo van Loon (LVL)

The Buzinezzclub is currently involved in three Social Impact Bonds in Rotterdam, Utrecht, and Eindhoven. The Buzinezzclub aims to get multi-problem adolescents from an unemployment benefit to a job, study, or own business. It is worth noting that all impact bonds in which the Buzinezzclub is involved, the Buzinezzclub is also investor for one third. Because of this, the entrepreneur feels an extra incentive to achieve results and bears a part of the risk. The first SIB in Rotterdam was world’s first impact bond with such a shared role for the entrepreneur. LVL is the founder of the Buzinezzclub, and has been involved in the implementation of all three impact bonds.

The following insights were obtained during the interview:

OUTCOME

- LVL stated that public resources were used more appropriately, as the municipalities only pay for the results. He explained that with traditional financing methods the focus

is more on quantity of inputs, while through the SIB the focus is on quantity of outcomes. Regarding the critical notion of the financial benefits of the investors paid for by tax money, LvL explained that this can be justified whenever there is an innovation with a high level of risk. Because it will not be at the expense of public money, whenever the intervention fails.

“I think it is useful to pay the profit whenever there is an innovation with a high level of risk. The big advantage is namely, that if it fails, it doesn’t cost you a dime.”

MECHANISM

- LvL explained that the relations between the municipality and the social entrepreneur are changed by the partnership and the involvement of investors. Because of the different and new critical look on the problem of the investors, who are taking a financial risk, embedded dysfunctional procedures are tackled. As an example, LvL stated that the monopolistic position of the municipality was diminished, which is believed to be beneficial. Through the SIB municipalities were forced to deliver participants to the intervention, an efficient agreement they would never accept before the SIB. This commitment swung around the whole municipality and policy in general. This shows value of creating a business case and binding agreements. Furthermore, a multi-stakeholder approach with equal power balances is believed to be functional.
“Look, the only commitment that a municipality has, is to deliver. And the only commitment that a municipality normally doesn’t consider is deliver.”

CONTEXT

- LvL described that the highest layers of municipalities, the mayor and alderman, are very often very enthusiastic about the instrument which facilitates implementation in the beginning. However, the employers who must execute the SIB are not per se enthusiastic as suddenly they must comply to the obligation of delivering a certain number of individuals. Whereas, in the past the account managers experienced a high degree of freedom regarding assigning people to certain interventions. This shows that SIBs are often top-down implemented which causes slow implementation of SIBs in the system of the municipality. Leo proposed the solution of starting with a small group and slowly expanding the number of individuals. However a side note was made, that such a growing model creates difficulties with hiring an appropriate number of employers who execute the intervention.
- When talking about the partnership construction LvL described that in Utrecht and Eindhoven he approached and enthused the municipalities and played a sort of intermediary role, as he linked the stakeholders and scheduled meetings. He believed that an external party who acts as an intermediary can hinder the process of implementation. Leo explained that it is such a complicated process; another party that adds another agenda, another communication channel, another interest will make it in his opinion more complicated.

4.1.4 Intermediary

Deloitte, Björn Vennema (BV)

Deloitte is in various SIBs the evaluator, the party that measures the results and compares these with a control group. Furthermore, they assist in developing SIBs by creating business cases. Deloitte does not see itself per se as an intermediary, as they don't particularly guide the process and manage the partnerships.

BV currently works for Deloitte. In the past he worked for ABN AMRO where he was involved in the development of the first SIB. Between his work at ABN AMRO and Deloitte he worked for Social Finance UK, an organization which fulfils the role of intermediary in the UK. Here, he worked on four operating SIBs, by managing progress and the partnership, supporting the entrepreneur and supporting the SIB in general.

The following insights were obtained during the interview:

OUTCOME

- BV stated that SIBs can potentially expand social service funding, as it provides a financing opportunity for interventions who have a hard time getting traditional finance, three examples are outlined: (1) whenever interventions operate in preventative areas, as relations between cause and effects are sometimes hard to proof; (2) whenever results of an intervention are only tangible after a relatively long term; and (3) by scaling prosperous initiatives.
- According to BV another outcome of the SIB is generation of new knowledge, as results are precisely measured and insights are generated in processes. However, the moment when this information is revealed is criticized by BV, as this is often whenever the SIB is already up and running and the partnership is already constructed. By executing a legitimate preliminary research phase this information should be revealed earlier in the process. As then particularly the social entrepreneur can be more properly chosen.

MECHANISM

- BV explained that SIBs are sometimes created through a principal decision of a municipality which sees added value in jointly solving a problem with a 'x' number of parties instead of solely addressing a problem. This relates to the mechanism of addressing a problem through a multi-stakeholder perspective.

CONTEXT

- BV explained that the willingness to create a SIB is high in a lot of municipalities. However, this willingness is only seen at the top of the organization. BV described that in the beginning SIBs experience some starting difficulties because people who have to execute the SIB are not well informed about the SIB construction. Thus, top-down implementation creates difficulties with the deliverance of the agreed-on quantity of individuals. This relates to having political support and implementing SIBs top-down.

- Regarding the partnership BV emphasized the importance of commitment of all stakeholders. However, the commitment of the outcome-payer is believed to be most important, as this party is the problem-owner. Thus, the outcome-payer's capacity building and having proper information about a specific problem is crucial.

"The very most important factor is commitment of the outcome-payer, the problem owner, as I see it that is the absolute core. Because I think there will never be a lack of commitment or demand from the investors or the entrepreneurs, however commitment, and proper knowledge of the problem, from the problem owner are in my believe the core."

As for the intermediary in the partnership, BV stated that this role is not well represented in the Netherlands. However, the necessity of an experienced intermediary is emphasized. He describes that SIBs experience a stronger ecosystem in England; the intermediaries built specific and valid business cases and investors think further in terms of SIBs. From his experience in England he stated two clearly defined roles for an intermediary: (1) to clearly define and disentangle the problem and (2) to actively manage the SIB and its processes and results.

"Where you actively manage the SIB and frequently come together. And also actively observe what is going well, can we improve the process, do we have to do parts different, or do we have to quite certain components."

Furthermore, the factor of trust is believed to be a valuable factor for the partnership, however, it is noted that too much trust can harm the outcomes. Trust can harm the competition, while competition improves efficiency and effectiveness.

"This means that the investors, who are sometimes competitors, are also sometimes partners. Or that they endlessly search in the entrepreneur, how can we improve, are we doing everything for the adolescent, are we doing everything for the target group. This drives the entrepreneur insane. However, such attitudes establish improvements."

4.2 Outcomes

In this chapter the following question is answered:

What are the practical effects produced by the SIB?

From the interviews the following outcomes produced by the SIB were identified: 'social impact', 'fiscal savings', and 'local knowledge'. I will elaborate on each of these effects subsequently.

Social impact

All respondents identified social impact as an outcome of the SIB by providing a potential expansion in social service funding. This expansion is realized by offering a financing opportunity for interventions which have a hard time finding traditional finance. Social impact through SIBs is realized by scaling up an already proven intervention, or by offering social entrepreneurs the opportunity to develop and apply new and innovative interventions.

The interventions of the Colour Kitchen and the Buzinezzclub, which are presented in four SIBs in four different municipalities, are examples of scaling up of an already proven intervention to other municipalities. Through the SIB the same intervention is offered in new municipalities. One respondent emphasized that these examples show that SIBs sometimes hinder innovation, as the SIB-model prefers a social entrepreneur with a proven track record.

Various examples were given of an expansion of the social service funding by offering entrepreneurs the opportunity to innovate. First of all, SIBs offer an opportunity for entrepreneurs to develop holistic interventions which are centred around the individual. Traditional finance often creates a multitude of interventions focusing on one specific problematic aspect of the individual's life, which is considered as less effective. As SIBs harness private capital, they are not hindered by bureaucracy and the related separated financing streams. The individual can be put central and one holistic intervention can be developed. Within the ratecard-project for example, entrepreneurs are asked to develop one intervention which focusses on multiple sectors, such as safety, health, school, and finances. Secondly, an expansion of social service funding can be realized by focusing on a specific social problem or target group, which is left out in current policy. An example is the national SIB in which an intervention is offered to a group of convicts, who were not offered a social program before. Lastly, SIBs can stimulate a shift in finance from curation to prevention. The Health Impact Bond shows an example in which both, curation- and prevention focused, are represented. The intervention assists families with their financial situation and focuses on costs related to financial and psychological problems. In relation to these problems the intervention can be respectively labelled as curative and preventative,

as the financial problems are already present which is not necessarily true for the psychological problems.

Fiscal savings

The outcome of realizing fiscal savings for the outcome-payer was identified by all respondents. The outcome-payer is in the Netherlands in most cases represented by municipalities, except for one in which the Ministry of Justice and Security is the outcome-payer. Whenever the intervention is successful the fiscal savings are realized on, for example, social security payments (WW³), long-term care (WLZ⁴), and on social support (WMO⁵). Whether these savings are directly tangible depends on the nature of the problem and intervention. For example, savings due to less unemployment are directly tangible, as spending on social security will decrease. However, savings due to less recidivism, depend on a certain quantity, as one less prisoner does not automatically entail one less guard.

Besides these fiscal savings, marginal financial profits can be realized for the investors. The investors bear the financial risk of an unsuccessful outcome, which is rewarded with a marginal profit. The first SIB in Rotterdam is the only SIB that is finished and for which results are available. The SIB is perceived as successful and the municipality of Rotterdam realized savings on the social security budget, and the investors got a 12% yearly profit on their investment. It is worth noting that two respondents elaborated on the marginal profit made by the investors. It is commented that the fact that tax money is used to pay this marginal profit can be a reason not to use the SIB-model in future situations. Whenever an intervention is proven, the additional value of the investors is diminished and the profit made by the investors can be criticized. It is emphasized that SIBs offer, par excellence, a valuable opportunity whenever risks of an intervention are high. Whenever interventions are proved, it is financially more appropriate that the investment is made by the outcome-payer itself.

Local knowledge

The generation of knowledge is mentioned multiple times as an outcome of the SIB. In contrast to social impact and fiscal savings, this outcome is not an initial objective of the SIB and can be classified as an unintended, but valuable, outcome.

As SIBs, require careful monitoring and detailed measuring SIBs generate knowledge on which interventions work and why they work. In addition, knowledge is gained on effective and ineffective elements in the system surrounding the intervention. An example of the generation of local knowledge can be found in the SIB in Enschede. Within this SIB, difficulties with finding enough participants for the intervention were experienced. At the

³ WW: Werkloosheidswet. The Law Unemployment support unemployed citizens financially for two years.

⁴ WLZ: Wet Langdurige Zorg. The Law Longterm Care supports citizens in the Netherlands who need long-term intensive care, for example dementing elderly or mental- or physical disabled.

⁵ WMO: Wet Maatschappelijke Ondersteuning. The Social Support Act supports citizens who need any kind of social assistance.

time of the interview there was no consensus on the cause of this difficulty, as a flourishing economy and a dysfunctional search system were both considered as potential explanations. It is expected that new valuable knowledge will quickly be gained on either the local status of the unemployment problem or on the dysfunctional elements of the search trajectory within the municipality.

It must be noted that the moment of knowledge generation, on a specific social problem or on (dys)functionalities, is often criticized. As the above-mentioned example shows, the knowledge is gathered when the SIB is already up and running, which implies the possibility of offering an inappropriate intervention for a problem. By executing a legitimate preliminary research phase, this knowledge should be generated earlier and the chance of unexpected developments will be diminished. Moreover, through execution of this preliminary research a more appropriate entrepreneur and intervention can be chosen.

4.3 Mechanisms

In this chapter the following question is answered:

What are the mechanisms of the SIB?

From the interviews the following mechanisms of the SIB were identified: 'payment by result', 'private capital', and 'multi-stakeholder perspective'. I will elaborate on each of these mechanisms subsequently.

Payment by result

The mechanism identified by almost all respondents is the characteristic of the SIB as a payment by result contract. This requires careful monitoring and detailed measuring which generates knowledge on which interventions works and why it works. This mechanism stimulates effectiveness, efficiency, and innovation.

First of all, SIBs allow the outcome-payer to repay the investor based on the outcome of the intervention rather than the input or output the provider delivers. This induces effective spending of tax money. One respondent stated that through traditional subsidies tax money is often spend ineffectively. Moreover, this ineffective spending is not known as results are not precisely measured.

Secondly, the binding concrete contract stimulates efficiency, as it requires quickly tackling of dysfunctionalities that arise. An example of a problem that arose in multiple SIBs, is the insufficient inflow of participants in the interventions. The insufficient inflow is a consequence of a necessary shift in procedure within the outcome-payer. Where before the SIB, employers experienced a lot of freedom regarding assigning individuals to specific interventions, after the SIB this freedom was limited, as the binding concrete target of the SIB demands a certain quantity. However, through the SIB-contract and the danger of

getting a fine, these inflow problems and their underlying causes were quickly recognized and tackled.

Lastly, innovation is stimulated as SIBs focus on reward on outcomes and by providing minimal prescription as to how those outcomes should be obtained. By asking the market this different question, the specific qualities of the private sector are utilized.

Private capital

The SIB-model harnesses private capital to pre-fund interventions. The fact that interventions in SIBs are privately financed is a valuable characteristic and labelled as one of the mechanisms of the SIB. Two reasons are mentioned for the value of private capital, namely: private capital can bear risk and it is bureaucracy-free capital.

By using private capital, financial risks can be transferred from the public sector to the private sector. This is valuable as the private sector can bear more risk. Thus, if the investor is convinced of the added value and expected success, the intervention can be funded. In risky situations, which are par excellence situations for innovation, entrepreneurs can gather finance. Risk can be attributed to scaling interventions to a different municipality and a different context, and risk can be attributed to financing new interventions.

Furthermore, SIBs can also be a proper mechanism to avoid bureaucratic financing streams and to give social entrepreneurs the opportunity to develop holistic interventions. Due to bureaucracy, the development of holistic interventions is hindered as bureaucracy is indissoluble connected with separate financial streams, rules, laws, and protocols. By using bureaucracy-free money SIBs provide a solution for the cut up public financial streams and individual-centred interventions can be applied. An example is het Health Impact Bond in which CZ, an insurer, is paying for a holistic intervention which potentially realizes savings in the public budgets of the WLZ, WMO, and Zvw⁶.

It is emphasized by two respondents that the added value of using private capital in SIBs differs for the Netherlands in comparison with the US and the UK. The countries differ in the context of the availability of capital in the public sphere and the responsibilities covered by the welfare state. Where in the US and the UK, the increase of capital in public service funding through SIBs is valuable for the increase in the quantity of capital in the public sphere, while in the Netherlands the capital of SIBs is valuable as it is an increase of quality capital in the public sphere, as it is bureaucracy-free capital. In the Netherlands, the exhaustive welfare state relates to bothering and inhibiting laws and protocols, and SIBs provide the opportunity to avoid these.

Multi-stakeholder perspective

Approaching a societal problem through a multi-stakeholder perspective and combining different perspectives is perceived as valuable and useful in developing more proper solutions. Investors learn about the bureaucratic environment, the financial aspects, and

⁶ Zvw: Zorgverzekeringswet. The Health Insurance Act supports citizens who need health care.

the various stakeholders involved in the chain, while the outcome-payers gain insights by looking through the glasses of the investor. Additionally, the entrepreneur's perspective is useful for their expertise about the intervention and target group. This combination of perspectives make the SIB-approach successful.

Additionally, two respondents described that through the partnership important responsibilities are shared, and certain inefficient stakeholder dependencies are diminished. As an example, a social entrepreneur described that in the context of delivering participants to an intervention, the monopolistic position of the municipality is diminished by the partnership. All stakeholders feel, and sometimes literally are, responsible for the inflow of participants, which is an important responsibility and induces efficiency when executed properly.

4.4 Contexts

In this chapter the following question is answered:

Under what conditions is the SIB implemented?

From the interviews the following contexts were identified: 'economic context', 'political context', 'jurisdictional and financial context', and 'partnership context'. I will elaborate on each of these contexts subsequently.

Economic context

Interventions supported through the SIB-model can touch all sorts of social problems. Outcome-payers enter long-term contracts with the entrepreneur and investor to jointly address these problems. However, the scope and intensity of a social problem can change in time, as they can be effected by, for example, economic prosperity. The lock-in-effect of these long-term contracts operating in an open society can induce an inability of the government to act flexible and appropriate towards these changes. In the SIB in Enschede, this lock-in-effect was considered in the development of the SIB, as after one year an evaluation moment was built in, and the scope of the problem was once more evaluated. In this case, the SIB will be aborted whenever the problem turns out to be sufficiently diminished.

Political context

The three outcome-payers emphasized that the SIBs were developed under a high level of political support. This support is perceived as a mandatory condition for implementation. This is confirmed by the investors, as they elaborated on the cases in which the SIB negotiations with outcome-payers resulted negatively. In these cases, the outcome-payer did not believe in the ideology of transferring certain responsibilities to the market or they did not believe in the added value of the SIB. This shows that political support is a

mandatory condition for SIB implementation. Furthermore, it is emphasized that in many cases the SIB-project was part of a broader exploration in different ways of finance. This higher-level exploration enabled the crossing of unexpected bumps in the road and the acceptance of the high start-up costs.

The respondents often described the necessity of political support within the outcome-payer's organization on three different levels: the alderman, the responsible director, and a dedicated project manager. The alderman and director need to ensure accommodating decision-making and the project manager needs to possess expertise and time in order to execute the work. It is worth noting, that support on the level of the workplace, i.e. the employers who have to execute the SIB and send the individuals towards the intervention, was not mentioned. This reflects a top-down implementation of SIBs. As a lot of municipalities face low inflow problems, this seems a necessary level. The workplace needs to experience an internal mind shift; before the implementation of the SIB employers experienced a lot of freedom regarding assigning individuals to specific interventions, while within the SIB they face a binding concrete target for assigning individuals to an intervention. One investor emphasized that ownership of the SIB is missing at the bottom level of the municipalities, as they are not feeling responsible for successfully executing the SIB. Through a more horizontal implementation of SIBs and by enthusing the people at the workplace the difficulties with low inflow problems can be diminished.

Jurisdictional and financial context

The complexity of proper jurisdictional and financial arrangements was experienced as the biggest challenge for SIB development. Especially for the outcome-payer the setting up of these arrangements require an enormous effort. This the most important reason why the set-up phase sometimes takes tremendously long. For example, the national SIB in which the Ministry of Justice and Security is the outcome-payer, had a run up of three years. This led to the conclusion of the Ministry that SIBs only start to get interesting for large projects when capital volume crosses the million. For smaller projects the start-up costs are relatively too expensive.

It was recognized that these costs should decrease whenever the stakeholders gain expertise, and whenever more standardized models are developed. A standardized model is in development within the rate-card project, which potentially creates multiple new SIBs, as data of various municipalities is gathered and a universal model is created. This decreases the difficulty of creating legitimate local models. However, it should be emphasized that every municipality is organized differently, and thus that the standardized model can only make the process easier to a certain extent. Capacity building for each stakeholder, and especially for the outcome-payer, is crucial for proper jurisdictional and financial arrangements and thus for a more fluent implementation.

Partnership context

For some stakeholders, the SIB was their first experience with participating in a public-private partnership. Most partnerships were assessed as well-functioning partnerships, in which trust, transparency and flexibility were labelled as important factors. One respondent commented on the negative side of too much trust within the partnership, as too much trust harms competition while competition improves efficiency and effectiveness. The respondents emphasized that they invested a lot in the partnership relations, as in the end the contract comprehends tough agreements on a lot of money. It is noted that this is one of the reasons why the negotiations take relatively long. Another reason mentioned for the long negotiation-phase is that the partners need to learn and understand each other's language.

Furthermore, the SIB-partnership construction was in the analysed cases initiated by different stakeholders. In some cases, the social entrepreneur (sometimes jointly with the investor) approached the outcome-payer with a business case, while in other cases the outcome-payer took the initiatives by setting out a tender. As for the former, this resulted in some SIBs in an already constructed partnership, after which the problem is pragmatically sought. This is stimulated by the will of outcome-payers to create a SIB, as some have a strong believe in the instrument. It is commented by two respondents that sometimes is SIB is created for the perverse objective of having a SIB, while it is essential that the objective should always be to address a social problem. In this context, multiple respondents underlined the importance of a leading outcome-payer. In the end, this party is the only stakeholder who will be held accountable for the results. Therefore, the outcome-payer should disentangle and define the social problem and subsequently outline the playing rules of the partnership; how will be payed, how will be measured, what will the time frame be, and what will be the target group. It is believed that these tasks are currently not sufficiently fulfilled, and thus that capacity building on the outcome-payer's side is necessary.

Furthermore, the partnership composition also differed in the analysed cases. First of all, the partnership differed with regard to the presence of an intermediary on which I will elaborate on later. Secondly, the composition differed in terms of financial responsibility. In the global used model the financial responsibility is completely assigned to the investors. In the Netherlands, some SIBs show a model in which the financial risk is shared between the investors and the social entrepreneur, and in one case additionally the outcome-payer. The first SIB in Rotterdam was the first SIB globally in which such a financial construction was developed. This composition enables an extra performance incentive for the social entrepreneur, which is in the other model the only party which is relatively risk-free.

Regarding the necessity and added value of an intermediary in the partnership, opinions were diverse. Some respondents viewed an intermediary as an unnecessary extra party at the table only complicating the partnership-process, while others experienced their presence as valuable in specific phases in the development process. The lack of a clear definition of this role makes the debate difficult. This is shown by the difficulty of assessing

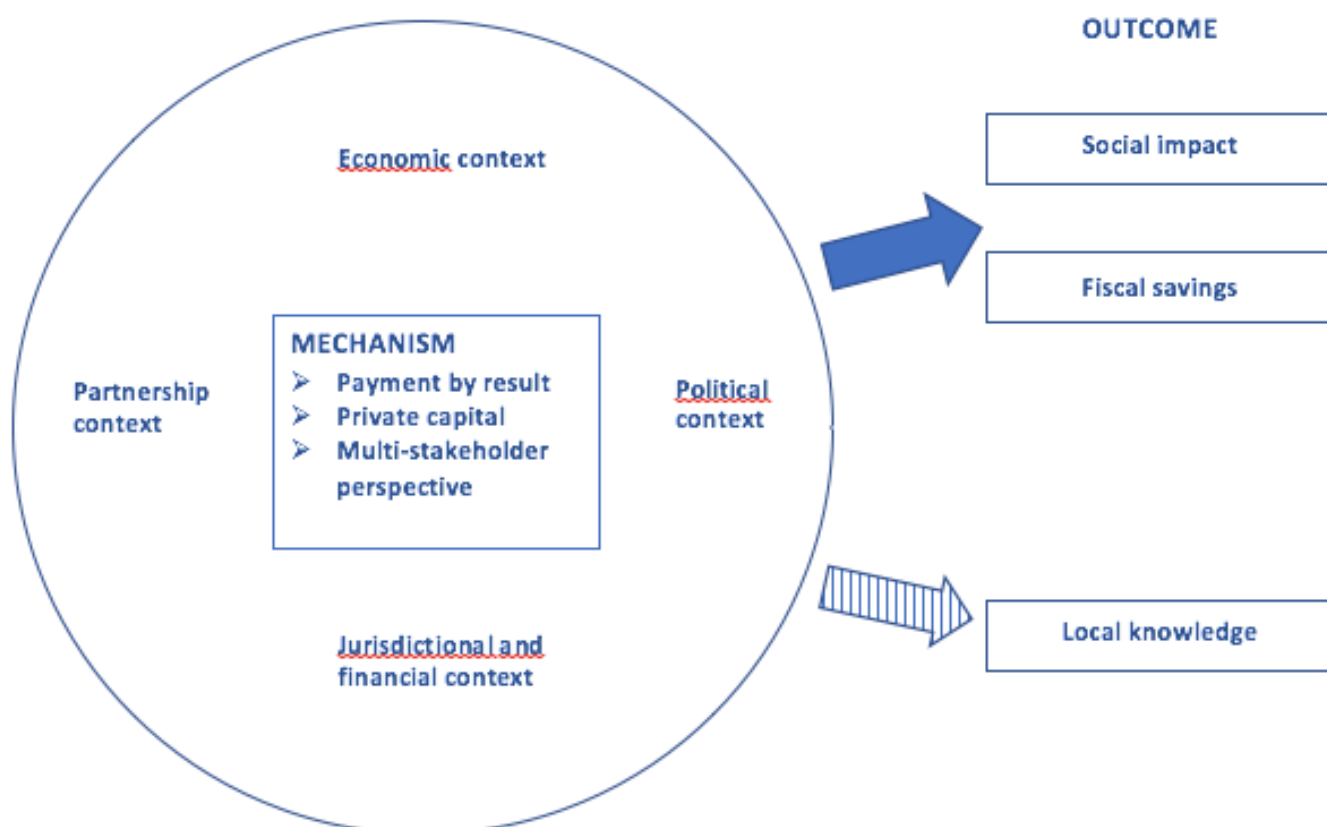
if an intermediary was involved in the partnership and if so, which party represents this role. Even document analysis and questioning in interviews did not always give clarification. One of the respondents worked in the UK as an intermediary, a country which represents a strong SIB- and intermediary ecosystem, and distinguished two separate roles for the intermediary: (1) to define and disentangle the problem; and (2) to actively manage the SIB and its processes and results. The former role is understood as a protector of the government, who can help to define the playing rules and disentangle the problem. The latter can be understood as a critical manager of the partnership, who actively tries to improve the partnership by observing efficient ingredients of the process or intervention.

5. Conclusion

In this study, a realistic evaluation method was used to further our understanding of SIBs in the Netherlands and allowing us to analyse contexts, mechanisms, and outcomes within a complex PPP environment. By identifying outcomes and mechanisms, insights are gained in the inner workings of the model; this results in an increased understanding how SIBs achieve outcomes. By analysing the context in which the SIB is implemented, appropriate conditions for SIB implementation are identified, which gives insight in what works in specific circumstances.

In the case of successful implementation of SIBs, three outcomes are identified, namely: 'social impact', 'fiscal savings', and 'local knowledge'. Social impact and fiscal savings can be classified as initial objectives of the SIB, while local knowledge can be classified as an unintended, however valuable, outcome. Subsequently, three mechanisms are identified to produce these outcomes, namely: 'payment by result', 'private capital', and a 'multi-stakeholder perspective'. These mechanisms operate within specific 'economic', 'political', 'jurisdictional and financial', and 'partnership' contexts characterizing the circumstances in the Netherlands. The identified outcomes, mechanisms, and contexts, and their mutual relations, are schematically shown in figure 4.

Figure 4: Contexts, Mechanisms & Outcomes



Mechanisms and outcomes

By relating mechanisms and outcomes, the nature of the SIB-model is understood. The mechanism 'payment by result' contributes to the two defined intended outcomes of 'social impact' and 'fiscal savings'. First of all, social impact is realized as this payment by result stimulates innovation by focusing on reward on outcomes, while providing minimal instructions as to how those outcomes should be obtained. This allows the private sector's expertise to come to full expression. Secondly, the fiscal savings are realized as the outcome-payer pays the investor based on the outcomes of the intervention rather than the input or output the provider delivers. Furthermore, the unintended outcome of 'local knowledge' is also realized through the mechanism of 'payment by result'. The prerequisite for this method of working is precise measurement, and through monitoring and detailed measuring knowledge is generated on which interventions work and why. Thus, detailed knowledge is gained on a specific social problem and on functional ingredients of an intervention.

Secondly, the identified mechanism 'private capital' also relates to the identified outcomes 'social impact' and 'fiscal savings'. Private capital realizes social impact by stimulating the development of innovative, holistic interventions, as it is not hindered by separated bureaucratic capital streams and the related multitude of rules and protocols. Secondly, the pre-financing of interventions through private capital induces risk-transfer from the public sector to the private sector. This results in fiscal savings, since the investor bear the financial risk of an unsuccessful outcome. The investors bearing this risk are rewarded with a marginal profit payed by the outcome-payer. As this marginal profit is paid by with public money, SIBs are especially valuable in risky situations, as whenever interventions are proved, it is financially more appropriate that the investment is made by the outcome-payer itself.

Lastly, the 'multi-stakeholder perspective' realizes 'social impact' as more proper solutions are developed through the combination of valuable perspectives. The combination of the private sector's business perspective, the public's knowledge of the problem, and the entrepreneurial expertise is a useful and valuable combination. Furthermore, through the multi-stakeholder perspective dysfunctional dependencies are diminished as all stakeholder in the partnership feel, and sometimes are, responsible for meeting certain agreements.

Contexts

This study resulted in the development of a clear picture of the contextual background in which SIBs are implemented in the Netherlands. Within realistic evaluation the importance of assessing relevant contexts is emphasized, as without considering the context in which an intervention takes place the impact of a program cannot be determined with any degree of confidence. The following contextual areas are identified and analysed: 'economic context', 'political context', 'jurisdictional and financial context', and 'partnership context'. By examining these areas and relating the relevant contextual factors to the extent in which SIBs are implemented fluently and produce the intended outcomes, favourable conditions

are defined. These specific conditions all together provide the opportunity to trigger mechanisms to produce the outcomes.

First of all, the 'economic context' is identified as a relevant area to examine. Through the SIB, outcome-payers enter long-term contracts with investors and entrepreneurs in order to address a wide range of social problems. For example, due to economic prosperity, the intensity or scope of a problem may diminish, which could influence the necessity of a certain intervention. Considering the open economic society in which SIBs operate, awareness about the lock-in-effect, and the inability of the government to act flexible and appropriate towards economic changes, is important.

Regarding the 'political context', SIBs are implemented within a high level of political support, and this support is considered as a prerequisite for SIB implementation. Political support on three different levels (the alderman, responsible director, and project manager) ensure accommodating decision-making and the expertise and time to develop the SIB. Little support on the level of the workplace, i.e. the employers who must send individuals towards the specific SIB intervention, negatively affects the actual execution of the SIB, which results in low inflow problems. Through a more horizontal implementation and by enthusing employers on the ground, this rough start can be improved.

Furthermore, the 'jurisdictional and financial context' is currently underdeveloped, which often leads to a difficult and long implementation process. Developing proper jurisdictional and financial arrangements for a specific SIB is tremendously complex in the current SIB-ecosystem. This is the main reason why the set up of a SIB takes so long and why the initial costs are so high. The development of benchmark models and ensuring capacity building for all stakeholders are crucial in order to improve the process of developing proper jurisdictional and financial arrangements. Whenever the process of implementation will be simplified, quicker SIB set up can be realized and initial costs can decrease.

Lastly, the SIB is executed through a public-private partnership in a 'partnership context'. Such a network of different stakeholders with different perspectives and the rather complex objective of achieving social impact, is inseparably connected with extra complexities. The following aspects are considered essential for a fruitful partnership within such an environment: trust, transparency, flexibility, and understanding each other's language. Furthermore, it is worth noting that the partnerships differed in terms of construction and composition. The SIB is initiated by either the entrepreneur (sometimes jointly with the investor) or by the outcome-payer. Whenever the outcome-payer is approached, extra attention needs to be given towards their leading role. The outcome-payer needs to make sure that a thorough preliminary research is executed and the social problem is disentangled, by either doing it themselves or by transferring these responsibilities to an intermediary. The outcome-payer needs to define the rules of the game, as this party is the only party who will be held accountable for the results. As for the partnership composition differences are observed in terms of financial responsibility and the presence of an intermediary. While in the global model financial responsibility and risk

are always solely carried by the investors, several SIBs in the Netherlands show a model in which financial responsibility and risk are shared between the investors and the social entrepreneur. This shared responsibility creates an extra performance incentive for the social entrepreneur, the only party which is relatively risk-free in the traditional model. Regarding the intermediary, the partnerships differ in terms of their presence and their activities, as a clearly defined set of tasks is missing. Obscurity on these notions make it currently difficult to assess their influence on a successful implementation. However, in the context of operating in such a pioneering phase, capacity building for all stakeholders, including the intermediary, in the partnership is crucial.

In conclusion

This research comprehends the beginnings of a realistic evaluation on Social Impact Bonds in the Netherlands. It demonstrated that several relevant contextual factors contribute to successful implementation, and that these factors all together trigger the mechanisms 'payment by result', 'private capital', and 'multi-stakeholder perspective' to realize 'social impact', 'fiscal savings', and 'local knowledge'.

6. Discussion

In this chapter I will reflect on the two aims of the study. To that end, I will first reflect on my findings in the context of the debate on public service delivery through SIBs.

Subsequently, I will evaluate the applicability and usefulness of the Realistic Evaluation model developed by Pawson and Tilley when analysing a complex partnership approach trying to tackle increasingly complex tough social problems.

6.1 Future of SIBs

The first aim of this research was to contribute to the debate on public service delivery through SIBs as a new type of public-private partnership (PPP). SIBs rely on an approach by multiple stakeholders with distinct backgrounds and interests, which is accompanied by extra complexities. Considering this complexity together with the potential of SIBs to quickly diffuse as a common-used financing mechanism to combat embedded social issues, the need for appropriate evaluation continues to grow. A realistic evaluation method was used to further increase our understanding of SIBs in the Netherlands, by allowing us to analyse contexts, mechanisms, and outcomes within a complex PPP environment. As described by Pawson and Tilley: outcomes are produced as causal mechanisms which are triggered within a specific contextual environment. This implies that changes in contexts and mechanisms may result in different outcomes.

While still very early in their development, in the examination of the existing SIBs in the Netherlands, it is observed that once implemented SIBs realize a great deal of intended outcomes. The Netherlands shows promising examples in which social impact is realized in creating an innovative integrated supply chain of service providers with different core competencies and in opening collaborative opportunities between public and private partners. However, the implementation process appears extremely complicated and it takes relatively long, both of which are associated with tremendous costs. These costs are widely criticized by scholars and policymakers, and are a potential danger for the believe and confidence in the model as a solution for complex social problems. An explanation for these costs are the presence of some critical challenges in contextual factors in which the SIB model is implemented.

First of all, it is important to highlight that SIBs vary greatly in terms of the composition of stakeholders involved, their roles and the extent to which SIBs cohere with the reference model, since the majority of SIBs are only partially compliant with the SIB prototype model (Arena, Bengo, Calderini, & Chiodo, 2016, p. 934). This large variety complicates the definition of a benchmark model, while a benchmark is of special importance for implementing such a new and innovative model.

As is emphasized by the great variety seen in SIB-models, appropriate jurisdictional and financial arrangements differ from case to case. Additionally, this appropriateness

depends on the organizations involved and their internal structures and processes. Complex jurisdictional arrangements are SIB- and stakeholder dependent. It is important to promote more flexible and inclusive laws in order to cover the whole range of varieties, and which would stimulate new, innovative approaches. In the context of the financial framework, challenges arise due to the prevailing model of public procurement. This framework is not able to cover the necessary financial streams which characterize the SIB-model. For example, the Italian public administration does not allow to commit itself for long-term expenses with undefined amounts, which characterize payment by result contracts (Arena, Bengo, Calderini, & Chiodo, 2016, p. 935). By creating specific budget centres which are quite independent in terms of existing rules, this challenge can be overcome. As is shown in the SIB in Enschede, the municipality created a transformation budget out of which the repayments were made.

Furthermore, it must be emphasized that the SIB-model relies on a complex stakeholder network, in which most actors are new to this specific partnership approach. It is crucial that all actors learn about their specific role, activities, and responsibilities within the partnership. Through capacity building of all stakeholders, a more fluent implementation process may be realized in the future.

It should be commented that in comparison with traditional finance the nature of SIBs inherently require a relatively longer set-up phase. The model requires a process of 'pre-thinking' instead of 'after-thinking' or 'no-thinking', which may be more related with traditional procurement processes. SIBs require careful disentangling of a social problem which is inherently related with time and finances. Additionally, detailed measuring in the SIB-model unravels deficits in the system and ineffective components of an intervention. This generated knowledge on ineffectiveness and the relatively long set-up phase should not be attributed as a negative outcome of the model of the SIB. It is important to realize that this valuable knowledge is revealed by the SIB rather than caused, whereas with traditional financing methods ineffectiveness might not always be revealed.

Two identified mechanisms, namely payment by result and private capital, are essential for the SIB-model, since the arrangement cannot be labelled as a SIB without these mechanisms. However, the scope of the mechanism 'private capital' differs from SIB to SIB, as differences were observed in the scope of risk transfer from the public sector to the private sector. In several SIBs in the Netherlands risk was shared by two or in some cases all three stakeholders. The first SIB in the Netherlands was the first SIB worldwide to reflect such a model of shared risk. This phenomenon seems to characterize the Dutch 'Poldermodel' which reflects consensus-based social policy making through compromises. It must be emphasized this phenomenon of shared risk must be carefully evaluated, as especially this characteristic of transferring risk to the private sector allows the model to go beyond the traditional logic of public procurement, while trying to increase efficiency and effectiveness of the public expenditure chain (Arena, Bengo, Calderini, & Chiodo, 2016, p. 934).

Furthermore, careful consideration of the marginal profit made by the investors is necessary, as critical opinions towards this profit are already expressed. The marginal profit can only be accepted if the transfer of risk towards the investors outweighs the profit gained by the investors, which thus has implications for the abovementioned 'poldermodel' of shared risk. Careful consideration of these (dis)advantages related to addressing a social problem through a SIB is necessary when setting up a SIB. Whenever an intervention is proven effective and risks are low, the added value of incorporating a social investor are diminished.

Moreover, the mechanism of payment by result seems to conflict with the promise of SIBs to stimulate innovation. By transferring certain responsibilities to the market innovation is said to be stimulated. However, the payment by result contract asks for rigorous evaluation of the target vs the control group. Thus, where the first argument leads to innovation in the short term, the second argument proposes the risk that SIBs hinder innovation diffusion for the medium term. As diffusion, can be slowed by the need to maintain a control group compare to a treatment group (Warner, 2013, p. 314).

To conclude, it is worth noting that SIBs cannot and do not aim to substitute traditional methods of finance for the social service sector. It is important to be aware that for some social services it is still more appropriate to fund on the basis of activity rather than outcomes (Social Finance, 2013, p. 7). SIBs possess specific characteristics which make financing in some cases appropriate. Awareness about the specific set of criteria related to the appropriateness of addressing a social problem through a SIB needs to grow.

Lastly, the paths for future research are discussed. It is emphasized that considering the young nature of SIBs and the inexistence of empirical data, this research is explorative in its nature. Whenever more data on outcomes will be available, larger scale research including quantitative data analysis should be executed to systematically analyse the outcomes produced by SIBs. Furthermore, as the inexistence of a benchmark seems to be related with a lot of challenges in implementation, further research should focus on creating a potential benchmark which deals with all the SIB-varieties observed. Furthermore, future research should address questions about the government's ability to ensure broader public values within a potential SIB era. Scholars are increasingly raising concerns about financializing public services and how this process alters the balance between social and financial objectives, elevating the latter at the expense of the former and undermining the universal service ideal (Warner, 2013, p. 316).

6.2 How realistic is Realistic Evaluation

The second aim of the study was to evaluate the applicability and usefulness of the Realistic Evaluation model developed by Pawson and Tilley when analysing a complex partnership approach. By applying the Realistic Evaluation model on SIBs, it is experienced how the evaluation schema holds when analysing such a partnership approach aimed at tackling a wide variety and increasingly complex tough social problems.

The Realistic Evaluation theory is centred on finding not only “what works” but on “what works and why”, as theorizing with mechanisms strengthens our understanding of how and why programs work. This knowledge is crucial in order to understanding the heterogeneity of SIBs. This heterogeneity is reflected in the different contextual environments as well as the different roles, benefits, and impacts of SIBs in public service delivery, and thus their role in policymaking. Therefore, this Realistic Evaluation approach seems to be useful and appropriate, since it puts emphasize on the different contextual factors in which SIBs are implemented. However, after conducting this research which used the Realistic Evaluation approach, the practical applicability is questioned.

The examples used by Pawson and Tilley predominantly focus on an individual policy domain, such as the implementation of a smoking cessation program or a prisoner education program. Within these domains the focus of the Realistic Evaluation approach is to unravel program mechanisms, by working in close collaboration with program implementers. It was emphasized that Realistic Evaluation requires a reasonable understanding of the program activities, target groups, and intended outcomes (Blamey & Mackenzie, 2007, p. 446). However, this reasonable understanding might be problematic when analysing SIBs. SIB operate within a wide variety of social domains, touching an enormous set of social interventions. As an example, the nine SIBs in the Netherlands already cover the social domains of financial debt-problematic, labour programs and, rehabilitation programs and the social domains covered by the SIBs continuously expand. It is not realistic (one might even say impossible) for an evaluator to understand all these social domains and additionally also the wide range of interventions practiced within these domains. The Realistic Evaluation approach is therefore less suitable to evaluate high-complex, multi-site interventions with multiple outcome, as is the case in SIBs.

The Realistic Evaluation approach seems to be more appropriate when evaluating on specific intervention in a SIB, instead of the whole SIB-model in which the intervention operates. This ‘in-depth’ evaluation is of equal importance, as not more important, as this is focused upon the specific social outcomes for a vulnerable social group in society.

In future research a different evaluation schema for SIBs should be applied and tested. The evaluation approach ‘Theories of Change’ is proposed as a more suitable approach, as this approach deals better with overall program outcomes and by providing a strategic perspective on complex programs (Blamey & Mackenzie, 2007, p. 451). Within this Theories of Change approach the evaluator works with the whole range of stakeholders while putting similar emphasize on the importance of identifying contextual factors. By combining ‘Realistic evaluation’ and ‘Theories of Change’ synergistic results might be realized as both approaches touch upon different mechanisms and layers. Theories of Change might help to elucidate how SIBs are implemented at the national and local level and in all stakeholders’

organizations, while Realistic Evaluation sheds light on specific elements of the intervention which work in particular settings.

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Annex I

Overview interviews

Name	Function	Organization	Date	Type of interview
Ruben Koekoek	Manager SIBs	ABN AMRO	17-07-2017	Face-to-face
Ralph de Ruijter	Investment manager	Start Fondation	19-07-2017	Face-to-face
Wim van der Meeren	CEO	CZ Zorgverzekeraar	26-07-2017	Face-to-face
Tjalling de Vries	Advisor control and funding	Gemeente Enschede	07-08-2017	Face-to-face
Martin Assink	Director	BOAS werkt	09-08-2017	Skype
Gertjan van Rossum	Business manager	CZ Zorgverzekeraar	09-08-2017	Telephone
Björn Vennema	Innovation consultant	Deloitte	24-08-2017	Face-to-face
Hiske van de Broek	Project manager SIBs	Gemeente Rotterdam	19-09-2017	Telephone
Dennis van Breemen	Program manager	Ministry of Justice and Security	27-09-2017	Telephone
Albert Jan Kruiter	Founder	Sociaal Hospitaal	29-09-2017	Telephone
Leo van Loon	Founder	Buzinezzclub	06-10-2017	Face-to-face