



Potentials and challenges for the implementation of Social Impact Bonds in Austria

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Abstract

Altruistic ambitions and making profits are usually presented as a dichotomy. Companies are often seen as solely being interested in generating profits, whereas non-profit organizations and public entities are considered being responsible for projects and programs that lead to a more socially-just and more sustainable system. *Social Impact Bonds* (SIB) aim at bridging these two perceived opposites.

Social Impact Bonds describe an outcome-based financing method, which is used to address social challenges such as youth unemployment or ageing population by testing new approaches, while enabling a cost reduction for the state and allowing more flexibility in the service provision. Against the background of increasing public indebtedness and austerity programs, states are looking for alternative financing methods and thus, SIBs were implemented in many different countries.

The aim of this paper is a comprehensive analysis of the benefits and limitations SIBs face in Austria. Based on a workshop held on the 13th of June 2017 in Dornbirn, Austria with relevant stakeholders, the insights gained from the first implemented SIB in Austria and two semi-structured interviews, this paper will provide an overview of the situation in Austria, the status-quo as well as opportunities and obstacles for Austria.





1. Introduction

Social Impact Bond (SIB) are a relatively new financing method to enable social innovation. However, *Social Impact Bonds* are not like bonds in a traditional financial understanding, meaning that there is no fixed rate of return. It is a somewhat misleading term in this context, since SIBs are rather future contracts based on social outcomes of certain programs or projects (Dowling & Harvie, 2014; Wilson et al., 2015). Outcome-based financing method in contrast to output-based ones put the focus on the *impact* certain activities have rather than the mere outputs of a project or program. An output can be described as a completion of an activity, like for example the implementation of a certain method and an outcome would describe the impact this method has on the beneficiaries (Gustaffson-Wright et al., 2015; Myers & Goddard, 2016).

In the year 2010 the first *Social Impact Bond* was implemented in Peterborough, United Kingdom with the aim of reducing recidivism (Gustaffson-Wright et al., 2015; Social Finance, 2016). By now, 89 *Social Impact Bonds* have been realized worldwide, whereas most of them have been implemented in the UK, the US and Australia (Social Finance, 2017). In continental Europe, there are not that many already implemented, due to differences in the political structure. In this paper, we want to analyze the potentials and challenges SIBs face in Austria. So far, one pilot project has been conducted in Upper Austria, which is still ongoing (BMASK, 2017).

Due to the increase in usage and the innovative character of the instrument, SIBs gained a lot of attention over the last years. There are voices raised who see in SIBs a great opportunity to enable social innovation and there are critics who see in the call for efficiency in the social service provision a dangerous development (OECD, 2016).

This policy paper develops several policy recommendations for enabling *Social Impact Bonds* in Austria. The conclusions are based on the analysis of the first Austrian *Social Impact Bond*, a workshop held on the 13th of June and two semi-structured expert interviews. Since *Social Impact Bonds* are an additional instrument to state regulation that could be useful, an in-depth analysis of the current situation and recommendations for the future development are critical. First, *Social Impact Bonds* in general will be discussed, then the already existing Austrian SIB will be introduced, followed by the opportunities and limitations within Austria for further implementation of SIBs, concluding with possible next steps and policy recommendations.

2. Social Impact Bonds

Since SIB is a rather new financing method, contract development is still complex and each SIB is unique and different (Gustaffson-Wright et al., 2015). SIBs are influenced by the local context, the stakeholders involved and their specified roles and also the policy area, where it is implemented matters (Wilson, 2014). However, they have a common structure of actors involved. A SIB usually consists of a private-sector investor, the public sector (often the government), service providers, an intermediary, an evaluator and the group of people in need. The basic idea behind a SIB is that a private investor pre-finances a social project





and the public sector agrees to reimburse the costs in the case of success with an additional rate of return, which can vary depending on the contract (Gustaffson-Wright et al., 2015).

The intermediary fulfills a critical role being responsible for structuring the contract and for finding investors. The private investor or the private investors guarantee the provision of funding for the project upfront. The financial risk lies often solely by the private investor. The service providers are responsible for the operational implementation of the new approach. The state agrees to reimburse the costs and pays a revenue in case of successfully finishing the project (OECD, 2016). Success is measured in terms of the social impact the approach has and it has to be confirmed by an external and independent evaluation where it is assessed whether the predetermined improvements have been reached. The government does not pay the intermediary or rather the investor in the event of not achieving the specified goals (Azemati et al., 2013). This is what makes SIBs so attractive to states since states do only pay if an improvement in social outcome can be reached (OECD, 2016). Additionally, the idea is that these payments evolve from the savings the state has due to the outcome improvement (Azemati et al., 2013). Impact measurement is thus, a key aspect of SIBs and requires a thorough examination.

3. Status Quo in Austria

So far, one pilot project was conducted in Austria. The first *Social Impact Bond* in Austria - *Economic and Social Empowerment of Women affected by violence* - was implemented in Upper Austria by the Austrian Federal Ministry of Labor, Social Affairs and Consumer Protection and Juvat (a non-profit subsidiary of Benckiser Stiftung Zukunft) together with the state of Upper Austria and the Austrian Federal Ministry of Health and Women's Affairs (former Austrian Federal Ministry of Education and Women's Affairs). Juvat had already experience with SIBs as Juvat was the intermediary in the first *Social Impact Bond* in Germany. The project duration is set from September 2015 until August 2018. The total budget including the 1% rate of return per annum is 804.688€ (BMASK, 2017; Juvat, 2015).

The political background to this pilot is that the Austrian government announced within the working program 2013-2018 to promote innovative approaches within social policy to address the social challenges and close potential gaps and to foster the social cohesion in Austria (BMASK, 2017). The issue addressed is poverty and social marginalization of women affected by violence. Violence against women is still an often underestimated problem worldwide. In Austria, every fifth woman is affected by violence within her social surrounding. Most of them are financially as well as socially dependent on their partners, which results in a situation where the affected women and their children often see no other possibility than going back to their abuser (BMASK, 2017; Juvat, 2015).

The aim of this project is to help these women to escape the abusive situation through helping them to find a job and thus, becoming financially and economically independent. For women affected by violence, finding a job can be extremely challenging. Lack of education and job experience together with financial and social dependency and a lack of childcare are just some obstacles in their search for a job. Additionally,





women who are affected by violence and do have a job, are often at risk of losing their job due to sick days and being absent from work as a result of traumatization and injuries (BMASK, 2017; Juvat, 2015).

The socio-economic background of these women affects their ability to escape the abusive situation. Over 60% of the victims of domestic violence are unemployed, 40% have not completed their schooling or only their compulsory schooling, 10% lose their jobs as a consequence of leaving their abuser. 25% go back to their abuser due to financial dependency. The children of the abused women are often affected as well, either indirectly or directly. Approximately a third of the children is affected by violence themselves, which leads to a higher risk of poverty and marginalization as well as a potential continuation of the circle of violence in the next generation (BMASK, 2017; Juvat, 2015).

The project was initiated by the Austrian Federal Ministry of Labor, Social Affairs and Consumer Protection and Juvat. The funders of the project are ERSTE Austrian Spar-Casse private foundation, family Scheuch private foundation, HIL foundation, Schweighofer Privatstiftung Beteiligungsverwaltung GmbH and Juvat. They hold the entire default risk. Intermediary is Juvat. The public hand, which will reimburse the costs in case of success, is the Federal Ministry of Labor, Social Affairs and Consumer Protection. Administrative support is provided by the state of Upper Austria and the Austrian Federal Ministry of Health and Women's Affairs. Women's Shelter Linz and Center for Protection against Violence Upper Austria are the service providers involved and thus, responsible for the operative realization. Through the upfront financing, the service providers are able to focus completely on their work. The success evaluation will be conducted by Ernst & Young. Additionally, since it is still a rather new instrument and the first pilot in Austria, there will also be an evaluation of the process and the instrument itself over the three years. The process evaluation will be provided by the Competence Center for Nonprofit Organizations and Social Entrepreneurship at the Vienna University of Economics and Business and the Institute for Conflict Research (IKF – Institut für Konfliktforschung) will accompany the evaluation (BMASK, 2017; Juvat, 2015). For the actual implementation of the project, perspektive:Arbeit was funded, a new team was recruited for the specific task of the SIB – helping women affected by violence to find a job. Juvat is fulfilling the role as intermediary at no cost and was responsible for the contract with the Federal Ministry of Labor, Social Affairs and Consumer Protection, to find private investors as well as service providers and evaluators (BMASK, 2017).

The target group of the project are women who are affected by violence in Upper Austria and are either at risk of losing their current job or do not earn a living wage. Additionally, they have to be legal residents in Austria with valid work permits and consequently, being of working age. In the last 24 months, they have to have been in contact with either Women's shelter or a Center for Protection against Violence in Upper Austria (BMASK, 2017; Juvat, 2015).

The objective of the pilot project is to help women to escape the abusive situation through financial and social independency. Specifically, this implies that the project will enable 75 women affected by domestic violence to find a job, which fulfills the following criteria. It should be at least a 20 hours per week job with at least 19.517€ annually salary before tax and it should be subject to social insurance contributions.





Additionally, the women need to have the job for at least a year during the project time framework (BMASK, 2017; Juvat, 2015).

4. Data collection

In order to get a better understanding of the current situation in Austria and the opportunities this instrument could allow and the limitations and obstacles a further implementation faces, the first SIB in Austria was analyzed, a workshop was held and two semi-structured expert interviews were conducted. The main interest was to get a better understanding about the Austrian context in regards to SIBs, especially the legal situation, actors involved, obstacles and opportunities. Secondly, the insights of experts into processes that have led to the current situation were considered. Lastly, the interpretations about the status-quo and assessment of the opinions of different stakeholders in Austria.

4.1. Opportunities

During the interviews and also during the workshop, different possible opportunities this new instrument offers, were mentioned. On the one hand, general benefits of the instrument were elaborated and on the other hand, specific opportunities for Austria were referred to.

Service provision to hard-to-reach beneficiaries

Firstly, it was emphasized that Austria has a strong welfare state and also many institutions that are successful in providing good services. However, it was also stated that people exist that are not reached through standard initiatives and consequently, who do not receive help by the state. Therefore, the main benefit was seen in the possibility to reach people whose needs are not covered through the already offered services.

New inputs by different stakeholders

Another opportunity that was named is the fact that various different stakeholders are involved in SIBs. Thus, new insights and new ideas can be brought to social services. SIBs bring stakeholders from various different areas together and allow new networks. Social service providers, public administrators, foundations, consulting agencies and investors try to bring new solutions to social issues and help people in need. This allows mutual learning between the different stakeholder groups.

Flexibility in the service provision

Additionally, flexibility in the service provision was named as a possible opportunity and benefit of SIBs. In contrast to the rather strict requirements behind so-called 'Maßnahmen' from the state, SIBs allow flexibility in the service provision. Since the focus lies on the impact and the result rather than on the way how to get there. In traditional state regulation, there are clear instructions what can be done with the public money and what can be offered. Therefore, the social service providers are quite restricted in their





service provision, meaning that they cannot easily change the social service provision according to the individual's need. Whereas, when a SIB is set up, the objective is clearly defined, but not the approach to get there (Myers & Goddard, 2016). Thus, it is easier for the social service provider to respond to individual needs.

Acquisition of funding

Another opportunity that SIBs offer is that they bring new funding opportunities to social services. Consequently, the social service providers can focus on their work instead of having to spend time on the acquisition of funding. SIBs are seen as an interesting additional instrument to state regulation, but not as a replacement or alternative to state regulation.

Cost savings for the state

In the literature, it is also often stated that in the long-term SIBs can result in cost savings for the state (Azemati et al., 2013; Social Finance, 2016). However, in Austria this would imply that many SIBs are implemented and also the administrative costs and implementation costs of SIBs would need to decrease in order to be an attractive approach for social innovation and to actually result in cost savings for the state. So far, it is a rather expensive instrument due to the missing experience and missing standardization.

4.2. Challenges and Limitations

During the interviews and during the workshop, possible limitations and obstacles for further implementation of SIBs were discussed and elaborated. The legal framework is not completely clear, administrative issues and challenges in regards to measurement were mentioned among others.

Technical and administrative issues

A rather technical and administrative issue that was mentioned is the contract development. The contract development is still rather complex since SIBs are quite unknown and a new method of financing (Gustaffson-Wright et al., 2015). Furthermore, the acquisition of funding and adequate partners were mentioned as a difficult task. Overall, setting up a SIB was evaluated as being connected to a high administrative effort.

Different mindsets

The different stakeholders, which can be a benefit for the social service provision, can also be an obstacle in the implementation of a SIB. Since the stakeholders are from completely different backgrounds, communication can be difficult and there can be a lot of misunderstandings. At the beginning, it takes time to get to know the different mindsets and to start to understand each other.





Fear of privatization

In regards to the question how SIBs are evaluated by the public or politicians, the answers were that a proper discourse is still absent and that some view the instrument as privatization of public duties. Furthermore, it is sometimes perceived as critique on the current system. Therefore, it was stated that communication would be necessary to make the instrument more attractive. Additionally, it was mentioned that despite the fact that Austria has a strong welfare state, many different aspects are already provided partly by private or non-profit organizations next to the public sector. During the workshop and also during the interviews, it was emphasized that SIBs are an additional instrument to state intervention, but not an alternative to services provided by the state. Therefore, it is important to underline this more in the communication of SIBs.

Legal framework

Despite the fact that the Austrian federal government announced in its working program 2013-2018 to promote social innovation through *Social Impact Bonds* (BMASK, 2017), there exist challenges and open question in regard to the legal framework for SIBs. First of all, it has to be clarified, whether SIBs are a *Förderungsinstrument* (subsidies instrument) or *Beschaffungsinstrument* (procurement instrument). Since target setting is not allowed in regards to *Förderungen*, SIBs can only fall in the category of *Beschaffung/Vergabe*. However, even if this can be clarified, there are still some open questions left for the implementation of further SIBs in Austria from a legal perspective.

The difficulties are, on the one hand the contract between the public sector and the private investors and on the other hand, between the public sector and the intermediary and also the procurement process in regards to the social service providers. In the pilot SIB that already exists, the intermediary offers its services for free, therefore the above stated obstacle did not play a role. For a good initiative, a good project and a good SIB, an early collaboration with the service providers would be essential and helpful as they know best what is needed. However, this stands in direct contradiction to the procurement process regulations, where it is not allowed that they are included at an early stage.

The next legal challenge lies in the foundation law, as foundations are not allowed to make profits and are obliged to follow a risk averse investment strategy.

Measurement & monetization

The whole instrument is based around the impact a project, program or initiative might have. Consequently, the evaluation at the end of the project or program is essential. Nevertheless, this is another critical aspect of SIBs. There is no general metric that can be used to evaluate or measure social impact so far. Furthermore, it could result in limiting social innovation as only projects can be funded that are also measurable. Some methods compare the investment at the beginning to the outcome in the end in





monetary terms. The social impact is transferred to monetary terms and compared to the investment at the beginning and only if the impact is higher than the costs, is the project a success.

This results in the fear that the evaluation of social impact could lead to a monetization of social values, which could turn as a result to a reduction of the scope and range of social services. If social impact will be measured solely monetarily, then it could lead to a situation where only projects will be suggested or implemented that can be monetarily measured, which could result in a limitation to the service provision. Policies that guide the measurement of social impact are necessary here.

Reserves

Another obstacle that was mentioned, which could be a problem for the state or the local government involved is that for a SIB reserves are set aside for the possible reimbursement of the cost in case of success. The question is what happens to the money in the case of failure. One possible solution to this problem could be staggered SIBs, meaning that there will be a partial reimbursement in the case of partly reaching the objective. This would also lower the risk for investors.

5. Conclusion

From the analysis of the Austrian context, it can be concluded what next steps should be taken to enable the further implementation of SIBs in Austria. Wilson stated (2014: 31-32):

“The public sector can play a catalytic role in the social investment market in terms of creating a conducive regulatory environment, encouraging greater transparency and taking concrete steps to help develop the market. These actions can be taken at the international, national or local level. However, actions initiated in one country or region may not be appropriate for another – policy objectives, experience and local context must be taken into account.”

Clear political and legal framework

Policies are needed that clarify the position of SIBs in the Austrian legal structure. People are insecure of using SIBs if the legal situation is not clear. Establishment of a political and legal framework that encourages the testing of this innovative instrument or rather allows the testing of this instrument is necessary. Policies have to be established that allow an easy and regular application of SIBs. Otherwise, the implementation cost will be too high to attract further SIBs.

Communicating the instrument

As SIBs are still rather unknown in Austria, communication is key. SIBs should be communicated clearly and it should be emphasized that it is just an additional instrument and not a replacement to state intervention. Furthermore, SIBs have to be differentiated from privatization. It should also be addressed that enough





time is allocated for structuring the SIB since the project could not only fail because it is actually ineffective, but it could also result from a structural setting of the SIB.

Establish clear impact measurement methodologies and methods

Some people ask for standardized impact measurement methodologies and methods. However, at the same time the fear was mentioned that the standard could become monetization of social values, which was seen rather critical.

It is often stated that monetary assessment is easily measurable, easily communicated and easily comprehended and consequently, it should be used regularly. However, it should be used with caution and it should be clear that it is a highly reductionist method and also highly subjective. There should be different methodologies and methods for different projects and initiatives. The most accurate methodology or method is dependent on the SIB and especially, the objectives and the issue addressed by the SIB. Therefore, standardization is good and necessary, but it should not be limited to one method.

Encourage private investments

Private investment could be encouraged through communicating the benefits of SIBs in comparison to more traditional Corporate Social Responsibility (CSR) measures as for investors (companies or social service entrepreneurs) SIBs are an attractive alternative to more traditional CSR programs, as it provides the opportunity of reinvesting the same money in another social or environmental program (Gustaffson-Wright et al., 2015).

Establishment of a SIB fund

Another possibility to enable more SIBs would be to establish a SIB fund, where private investors, foundations, companies can invest in a fund and this fund in turn would invest in SIBs. This would lead to an easier process, since the individual investors would not have to deal with SIBs in detail, but nevertheless could still invest in them.

Social Impact Bonds are a promising opportunity to enable social innovation in Austria. However, they need further analysis.





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