

**REPORT FOR INTERVIEWS WITH SOCIAL INVESTORS AND INTERMEDIARIES
IN LONDON ON 4-6TH MARCH 2019**

SUMMARIES OF INTERVIEWS

INPMS, MEIJI UNIVERSITY

Frist Published 1st August 2019

Contents

Introduction	2-3
Big Issue Invest.....	4-5
Government Outcomes Lab.....	6-8
Social Finance	9-11
SASC (Social and Sustainable Capital)	12-14
Traverse (Formerly OPM).....	15-17
Big Society Capital	18-21

Introduction

Our research group on social impact investing based at **Institution of Nonprofit and Management Studies (INPMS)** (<http://www.kisc.meiji.ac.jp/~inpms/index.html>) conducted semi-structural interviews with keypersons who work for social investing institutions and intermediary organizations in the UK between 4th and 6th March in 2019. Our research agenda is to understand current change in ecosystem and strategies with regard to promoting social investment, in particular, social impact bonds(SIBs) in the UK. We had interviews with **Big Issue Invest, Government Outcomes Lab (GO Lab), Social Finance, Social and Sustainable Capital (SASC), Traverse** and **Big Society Capital**.

In Japan, since 2014, interest in social impact bonds and impact investing has radically increased. In fact, since April 2015, some local governments and national government departments such as Ministry of Economy, Trade and Industry(METI) have been engaged in pilot experiment projects (Not Bonds) in collaboration with a few private charitable foundations ,nonprofit players and private companies. The areas of interventions include preventive health care, work integration (NEET), adoption, local businesses development, and learning support for children. As such, in early and experimental stage, policy areas of SIB were diverse. Furthermore, in this early stage of SIBs experiments in Japan, in most cases, nonprofit organizations played role of service providers. Nevertheless, in more recent years, leading investors and intermediary organization have radically lost their concern about nonprofit organizations as service providers of SIBs. In addition, such investors and intermediaries tend to focus in problems of health care or preventive health care rather than problems with socially and economically excluded persons.

On the other hand, “Act on Utilization of Funds Related to Dormant Deposits to Promote Public Interest Activities by the Private Sector” was enacted on 9th December 2016. Thereby, funds related to dormant deposits will be utilized from fiscal year of 2019 for promoting public interest activities such as 1) the support for children and young people, 2) the support for people having difficulties in their daily and social lives and 3) the support for areas facing social difficulties such as decline in social vitality in local communities. **Japan Network for Public Interest Activities (JANPIA)** set up by Japan Business Federation initiative was designated by Cabinet Office as Designated Utilized Organization on January 2019. (<http://www.janpia.jp>). JANPIA is expected to be engaged in the operations as Designated Utilized Organization mainly, such as 1) Providing organizations distributing funds with grants or loans for funds necessary for the offering of grants, 2) providing private organizations carrying out public interest activities with loans for funds necessary for the implementation of public interest activities, 3) accepting grants funded by dormant deposits.

In this context, the ecosystem for social investing in Japan is expected to change radically.

We are keen to learn from lessons and knowledge in relation to SIBs overseas including UK.

This report is just summary of our interviews and our analysis of research results is not included.

Date	Institution	Interviewees
Monday 4 th March 2019	Big Issue Invest 113-115 Fonthill Road Finsbury Park London, N4 3HH https://bigissueinvest.com/	Lars Hagelmann Head of Fund Operations & Portfolio Management Hannah Barkan , Investment Analyst
	Government Outcomes Lab Blavatnik School of Government, University of Oxford Radcliffe Observatory Quarter, Oxford OX2 6GG https://golab.bsg.ox.ac.uk/ *The Interview was held in London.	Mara Aioldi , Director of the Government Outcomes Lab Andreea Anastasiu , Senior Policy Engagement Officer
	Social Finance Tintagel House, 92 Albert Embankment, London SE1 7TY https://www.socialfinance.org.uk/	Robert Pollock , Director Luisa Braig , Senior Analyst Jack Goldstein , Associate
Tuesday 5 th March 2019	SASC (Social and Sustainable Capital) 2nd floor, Room 208a Euston House 24 Eversholt Street London NW1 1AD https://www.socialandsustainable.com/	Peter Morris , Investment Director
	Traverse 252B Gray's Inn Road London WC1X 8XG https://traverse.ltd/	Chih Hoong Sin , Director
Wednesday 6 th March 2019	Big Society Capital New Fetter Place, 8-10 New Fetter Lane, London EC4A 1AZ https://www.bigsocietycapital.com/	Cliff Prior , Chief Executive Officer Aman Johal , Investment Associate Drew Ritchie , Investment Manager

About Big Issue Invest

- Big Issue publishes the Big Issue magazine and the Big Issue Foundation organizes the vendors. Big Issue Invest's main functions are; Corporate social venturing program (customer relationship management), Social impact loans, Social impact investment funds, advisory on retail markets and the coordinating an exchange opportunity and events.
- Their mission is to dismantle poverty by creating opportunity through self help, social trading and business solutions.
- Big Issue Invest directly invests in social and charity organizations.
- From a legal point of view, it is separated from the Big Issue magazine. They both operate under the same brand but they are separate legal entities. Big Issue Invest is a limited company owned by a charity group.
- As for the business model of Big Issue magazine, it is about providing the experience of a business transaction. The vendors buy a magazine for £ 1.25 and sell it for £ 2.5. They need to save money from the sales from this week to buy (procure) new magazines next week.

Involvement with social investment including social impact bonds (SIBs)

- Currently Big Issue Invest is operating three funds; 1) SEIF 1 (Social Enterprise Investment Funds) was launched in 2010, £ 9.3 million under management, 22 investors, 2) SEIF 2, set up in 2015, £ 24 million under management, 13 investors, 3) Outcomes investment funds (OIF), £ 10 million.
- Big Issue Invest started outcome invest fund including SIBs in 2011. 13 investments have been made until 2019 March. The first one was one of the SEIF 1 projects.
- In an early stage of working on the SIBs, Big Issue Invest was co-funded with social investors. For outcome investing, Big Issue Invest comes after Bridges ventures in the investment size.
- The initial SIB was funded by SIEF 1. Big Issue Invest does not mind joint investment (joining into the risks and deliveries) but For OIF, they tend not to do joint investment.
- Big Society Capital is one of the funders. Big Issue Invest also works with local authorities and intermediaries.
- Intermediaries are impact advisors who also bring the deals. They also help Big Issue Invest set up and execute the transactions. Social Finance is a manager of one of our SIBs. This project is called MHEP (mental health employment partnership)¹ the biggest SIB for Big Issue Invest.
- Big Issue Invest tries to invest in the projects other organization do not usually invest in. (For example, an education project which has not been successfully tested in UK.) Big Issue Invest also looks for service providers themselves. However, since the number of investors is very limited, service providers often need to team up during the bidding process.
- Big Issue Invest is currently funding the 3rd round of MHEP, engaging with 13 boroughs, Department of Education, Department for Digital, Culture, Media & Sport (DCMS) and Big Lottery Fund.
- DCMS is currently managing SIB grants, being responsible for £ 80 million top up fund. They have about 35 different schemes.
- In order to use the top up fund, an organization needs to have social investors as a board member.
- Big Issue Invest is involved in various kind of SIBs including children support, homeless support and emergency medical care.
- SIBs can be developed by a local government, a central government, a social enterprise or an intermediary. Therefore, Big Issue Invest needs to have networks with all these parties.

¹ Mental Health and Employment Partnership was set up in 2015 to drive a large-scale expansion of high-quality supported employment programs for people with mental health issues and other groups with health conditions and disabilities. <https://www.socialfinance.org.uk/projects/mental-health-and-employment-mhep>

- When developing a new fund, Big issue invest works together with DCMS, Big Society Capital and Big Lottery Fund. Big Issue Invest does not just wait for the investment opportunity to come but they actively give feedback and work on developing the whole market.
- When Big Issue invest gives feedback in developing SIBs, they focus on three points; 1) to make it functional, 2) to deliver the outcomes and 3) to achieve a financial returns.
- St Mungo's is a service provider for two of our currently alive SIBs. The one is in London and the other is in Brighton. Besides the St Mungo's projects, Big Issue Invest is currently working on another homeless support project in new castle.

Characteristics of SIBs / Lessons learned from SIBs

- SIB is providing better opportunity for ultimately the individuals but mainly the local authorities because they can clearly see the evidence of the financial saving.
- SIB gives social enterprises more flexibility in delivering the outcomes because usually the contract is very fixed about how to deliver the outcomes and what steps they need to take to deliver the services. SIBs or other outcome-based contracts give them the flexibility to change the ways of delivery in the midst of projects but still achieve the outcomes.
- Often local commissioners are not flexible once they sign the contract with the service providers and will not change the numbers of the rate card. However, some good commissioners would say you can review the terms within 12 or 24th month and if the change is appropriate for all the parties.
- Since the changes on the rate card are not usually allowed, all stakeholders need to be extremely diligent when signing contracts and analyze the service provider if they can really deliver what they have promised, if they have experience delivering the similar outcomes and if they can be flexible enough to adopt to changes if necessary.
- Depending on how much access Big Issue Invest has to the variance, they decide the risks and returns.
- Changing a service provider is a worst case scenario because you would have to start from zero all over again. In the past, we had to change a manager within a provider because he did not build a good relationship with local commissioners to get enough referrals. It depends on the contract but most of the time, if investors and government commissioners agree, it is possible to change a service provider.
- All the SIBs are structured in different ways depending on how complex the delivery is (For example, how many providers and commissioners you have).
- There are so many different types of outcome-based contracts. For example, there is one type that purely gives loans to the provider and the provider holds the contracts, or a provider or an investor sets up a SPV (Special Purpose Vehicle) and makes the provider a sub contractor. These are just small part of examples of the outcome-based contract.
- Big Issue Invest tends to have a seat on the service provider's board where they can have contact with provider's day to day delivery.
- The number of referrals is the normally the biggest issue deciding the performance of the contract.
- The difference between SIB and other outcome-based contract is that with SIBs, investors can push the performance of the project. Big Issue Invest can drive innovations and outperform of the contract in the most effective way.

About Government Outcomes Lab (Go Lab)

- The GO Lab is a center of academic research and practice for outcome-based contracting and Social Impact Bonds (SIBs). It was set up in 2016 as a joint partnership project of UK government and Oxford University.
- There was not a single source of trusted information about what works and not in outcome-based contracting and it was difficult for the commissioners to find information from a single reliable source.
- GO Lab has a wide range of resources shared on the website and the information was developed for commissioners. In their engagement work, they work with investors and providers but their number one focus is the government commissioners.
- The examples of their information on the website is as follows.
 - 1) The project database has the information about all the SIBs that have been launched in UK. Within a couple of month, it will be expanded to worldwide information. Go Lab uses its own data collection format for the stakeholders to gather the information needed. On Go Lab's database, readers can also download all the data, which will be useful for researchers and analysts.
 - 2) The collection of specific case studies offer in depth information about programs. For this case studies, Go Lab talked with various stakeholders who were directly involved in the SIBs. The aim of these case studies is identifying the most interesting insights to enable the government commissioners to do similar projects.
 - 3) Technical guidance gives guidance on how to set up the indicators and outcomes, run procurement process and conduct evaluation. The emphasis is to help build the capacity of commissioners so that they can run the projects by themselves.
- The goal of Go Lab is to critically look at the evidence and compare SIB approaches to other ways of commissioning public services to understand when and if SIBs can achieve better public services.

Assuring quality of data and evidence

- Getting access to accurate and validated data could be very challenging. Even for a same project, there are times conflicted or slightly different figures show up, so acquiring access to original data is important.
- For case studies, Go Lab first conducted research on the public information and when there are gaps of information, they would directly contact multiple stakeholders to validate the information. Go Lab also keeps all the records of the communications. In each case study, there are specific references for every single source that was used including the communications with the stakeholders because if anyone wants to test the figures or ask questions they can directly contact the person with the information.
- For the primary data collections, there is a team conducting research under General Data Protection Regulation (GDPR) and university's data protocol.

Communications with Commissioners

- Commissioners can be both central and local. GO Lab has focused more on local but as the interests from the central government increases, they have started conversations about the long term views on outcome based contract in the country.
- Go Lab is looking at all the outcome-based approach and SIBs is one of the options.
- Overall, more and more councils have started showing interests in outcome-based contracts. Many local commissioners find the thinking processes behind SIBs very helpful. In some cases, local commissioners investigate the SIB model and decide not to do it but the overall they find the whole thinking exercise very useful.
- There has been better understandings on SIBs and there are more SIBs led by local governments rather than central government. Some local governments are running multiple SIBs.

Characteristics of SIB model

- Because SIBs try to tackle very complicated issues, the benefits come back to both local and central governments. Top up fund like Life Chances Fund² recognizes the direct benefits to the treasury. In some cases like children services, the savings go to local communities whereas the youth unemployment issues are more compelling to the central government. To Ms. Anastasiu's knowledge, there is only one commissar trying to set up an SIB without top up funds.
- Especially in early days there were many projects without exit strategies. Now, stakeholders discuss with experts about key decisions about the legacy plans (exit strategies) in early stages of projects.
- On the innovation point, the focus was about the flexibility and adaptability within the service delivery. Because SIB has strict performance management and monitoring, organizations involved in deliveries can look at what works and does not work on regular basis and they can tweak the model to adjust human resources, capitals or change of approach. This is considered to be one of the innovations SIBs can provide.
- SIB is not one single model and there are many variations in contracts. Numbers of different factors such as a role of inventors and risk sharing vary depending on the contract.
- Some local governments uses a SIB as a instrument of a reform such as to change the culture of how to manage projects and create a different way of working.

Development of social investment in UK

- Go Lab does not specializes in the investment side but social investment market is well developed in UK and it has been providing funding to social enterprises both in local and national level. There are more councils becoming interested in introducing social investment in their community. Some councils are starting to set up a regional network of stakeholders who are interested in social investment in general to attract more social investment to community.

Measurement and evaluation

- There are two movement happening around standardizations of measurement.
 - 1) Practice led movement: Investors, service providers, commissioners and intermediaries choose the matrix and other projects replicate the matrix.
 - 2) Top down led movement: There is a movement trying to create a consensus in a project on what the impacts are and how to measure them by using the principle of cost benefit analysis. This movement has become more technical than in the past two years and the consensus now tends to include who would receive the benefit, how they would receive it and how to incorporate the counterfactuals in the outcomes.
- There is an ambition to capture all the benefits but if you look at the practices, financial benefits are most often measured because the principle of the benefits and their value to society are often forgotten and people tend to focus on the deal which is about saving cost. Some cases are very difficult to monetize but it is important not to forget about the social value.
- Analysts in central governments are more used to cost benefit analysis but local governments tend to focus on monetization of the impact.
- Go Lab tells the commissioners to start with a problem not with the outcome. It is important to start with understanding the target population and causes of the issues and ideally, work with the service providers and other stakeholders to articulate a set of outcomes which are measurable.
- Impact evaluation should be considered from an early stage of a project. Making the provision in the contract for robust impact evaluation is the best way to ensure you are achieving the ultimate policy intentions.

² The £80m Life Chances Fund supports local councils and other commissioners to develop social impact bonds and is structured around six key themes: drug and alcohol dependency, children's services, early years, young people, older people's services, and healthy lives. <https://golab.bsg.ox.ac.uk/knowledge/basics/outcomes-funds/life-chances-fund-latest-news/>

- Theory of change can also be used to check you have addressed the problems you intended to address in the beginning.
- Sometimes the payment starts before the final evaluation starts so it is important to continue a long term evaluation as you start payment according to short term outcomes.
- Evaluation can tell you if you have solved the issue but most of the current governments projects do not go through evaluation processes.

Care and Wellbeing Fund

- In Care and Wellbeing Fund, Big Society Capital (BSC) and Macmillan Cancer Support were the investors.
- In Care and Wellbeing Fund, there have been some SIBs but when it is more efficient to give the funding directory to the National Health Service (NHS) service provider, Social Finance chooses a form of a revenue participation agreement. Social Finance also has invested in the equities of social enterprises outside the NHS.
- There was a lot of interests in social investors in healthcare but this area requires specific knowledge and not many social investors have that knowledge.
- Social Finance was looking at bringing some parts of healthcare from hospitals to the communities as an experiment.
- Macmillan Cancer Support was curious about using social investment compared to traditional grants and Social Finance started conversation with them as a potential investor.
- Initially, the idea was to include many investors such as pension funds and investment funds but they each had different aims and ideas about investment so Social Finance decided to start a project with just BSC and Macmillan Cancer Support.
- Social Finance realized at the later stage that they needed additional support to develop investment opportunities and The health foundation supplied with some additional opportunities.
- Social Finance is the discretionary fund manager so they manage everything from early pipeline investment process and portfolio management but they also have strong links with BSC and Macmillan Cancer Support and they meet every month to discuss new opportunities. It is a very active partnership.
- Especially, Macmillan Cancer Support as a charity, it is very concerned about their reputation so they need to make sure everything is aligned with their charity agendas.
- This fund is already closed and individual investors can not join in the investment at this point.

Target investment size

- The total Care Being Fund³ is £12 million with a target investment size between £500,000 to 2.4 million. Compared to other social investment, £12 million is too small for all the work that needs to go into developing an investment opportunity. It will be more efficient if the fund was bigger.
- When BSC provides funding to intermediaries, £12-20 million is still too small if you want the funds to be independent and to cover its cost. There is a new fund for venerable women. Ideally the fund should be £50 million because it is very difficult to find opportunities, develop them and deploy capital.

Priority areas

- End of life care is a big national priority because a lot of the life time, a health care cost of a person occur in the last couple of months. Many people are referred to hospitals and end up dying in hospitals when they could be supported in their communities. Therefore, there are strong social and economic arguments moving end of life care from acute care hospitals to communities.
- In Europe, there is a bigger tradition of hospice. It was prevalent in UK before the World War II but introducing the large national services eliminated the market in charities providing the service. It is an important part of growing the provision particularly where the third sector is providing the service.

³ The Fund was established to develop and scale community-based services to improve health and wellbeing across the country, particularly for those suffering from long term conditions such as cancer. <https://www.careandwellbeingfund.co.uk/>

Outcome design and evidence

- The outcomes could be about both cost saving and social impact. For instance, in the end of life care SIB, it is linked to the cost saving (reduction in emergency admissions or increase in deaths in their homes). As a different example, in SIB which supports dementia patients, outcomes included the improvement of caretaker's and patients' experience.
- The key priority is if the outcomes are verifiable even if there are qualitative elements. Typically, Social Finance design outcomes where their evidence can be provided. For example, for a job sustainment SIB, the evidence could be employment contacts or receipts of salary. It is also ensured that a third party verifies the outcomes.

Social areas suited for SIBs

- Mr. Pollock stated that he does not think there is a universally suited area for SIBs. It depends on a structure of a public sector, whether taxpayers or private citizens are paying for the service and who is providing the service. There is a SIB in Northeast England in which there were 3,000 people with more than one health condition. The aim was to provide preventative support so that they can manage themselves the condition rather than going to a hospital. In a project with many participants, it is easier to do RCT whereas in some of the end of life care projects, the cohort is smaller so it is not feasible to do RCT. In this project, Social Finance compared the outcomes with historical base line data.
- One of the greatest challenges in making the SIB effective is finding enough referrals. Some people do not want to participate in the project if there is a possibility of some of the participants going into the control group so Social Finance tend not to tell that fact to the potential participants.
- Investing in unused properties in rural areas is an very exciting area. You can create community spaces and community businesses funded by grants or investments. It is a very positive way to encourage life back into spaces that are dying.

Current state in SIB market

- In Mr. Goldstein's opinion, the original expectations for SIBs were too high. SIB has been successful but it did not meet the artificially high expectations. However, there are a few areas where SIBs have been successful. For example, SIB model has become DIB model as well and this area has the biggest potential.
- In Ms. Braig's opinion, initially SIB was mainly considered as a funding mechanism and a lot of success and benefits from SIB came along the finance. Feedbacks from the partners in SIBs say they value the analysis, the additional capacity, the program management and the focus on outcomes. There is a lot of positive learning from SIBs which were less focused on at the beginning.
- In Mr. Pollock's perspectives, SIBs should be used to experiment to generate evidence for evidence-based policy. Once you understand how to finance it, the cost of the contracts between the governments and charities will ultimately goes down.

Purpose on SIBs

- Early on, the focus was cost saving to get the government's interests but now the debate has shifted to far more towards value and wider benefits of early intervention in social issues and reducing demands.

Deciding the remuneration

- Social Finance analyses the numbers against the historical baseline such as the average cost of death in the hospital and average cost of emergency admissions in the last six months.

Involving individuals and private sectors in social investment market

- For individual investors in UK, there is a structure called Social Investment Tax Relief (SITR)⁴ which allows the individuals to invest directly in individuals and SIBs. Therefore, individuals have a potential to be a very impactful investors.
- For businesses, in UK, there is no shortage of capital and the challenge is to find service providers.
- It is maybe easier to get private sector's involvement in social projects where there is an asset such as housings for homeless people or for vulnerable people, and health insurance related project. Social Finance Israel has launched diabetes prevention project and a private insurance company joined and it has been successful. In UK, since there is NHS, it is not possible to launch a SIB providing insurance.

How to determine the dividends

- Typically, for impact bonds in Europe, the base case returned to the investors is intended to be high single figure.
- Social Finance would design the financial model so that in the low case, the investors would just get the money back or lose the money, in the high case, it will be capped so investors do not receive substantial returns, in the base case, investors get high single figures.

⁴ Social Investment Tax Relief (SITR) is the government's tax relief for social investment which encourages individuals to support charities and social enterprises. Individuals receive a 30% tax break when investing in an eligible organisation. <https://www.gov.uk/government/publications/social-investment-tax-relief-factsheet/social-investment-tax-relief>

About Social and Sustainable Capital (SASC)

- In the past 10 years, there has been a big wave of social investment in UK. SASC was born in this big wave.
- SASC is trying to make a difference in social impact investment. SASC is only allowed to give money to non-profit organizations.
- When non-profit organizations can not find funding anywhere else, SASC provides them with funding.
- In UK there are nine different legal forms of organizations. Most of the organizations SASC deals with have two legal formats; Registered Charity and Company limited by Guarantees which is defined as non-profit. Community Interest Company is also included in out investment.
- SASC has £15 million to invest and they come from Big Society Capital (BSC) and Social Investment Business⁵. Therefore, this is not a commercial business, which makes it possible for us to take more risks than normal investors. SASC's investment would not be appropriate for pension funds or other commercial investors because of the high risk they take.
- SASC is owned 65% by the two founders and 35% is owned by Social Investment Businesses.

Big picture of social investment

- It took 500 years to create the capitalism in west. Now people are trying to invent in capitalism 2.0 which is more complicated than the normal capitalism since it has two goals (financial and social goals). It is not surprising that there have been a lot of confusion with capitalism 2.0 since it is only 10 year old.
- One of the reasons for the confusion is that people use words such as social/impact investing) in different ways.
- My personal view is that more that 90% of the social impact investment are not doing anything different from the old types of investments. For example, there are for-profit and non-profit organizations which run hospitals and they both create the same social impact. If one of them were clever, they would say they are impact investors and people will applause, but nothing might be actually different.

Main concerns about the social investment and impact measurement

- Social Investment Business is a quasi-governmental organization (auxiliary organization). They are like a predecessor of BSC but they have slightly different function. Social Investment Business' purpose was to give grants for small organizations, whereas BSC was created afterwards with very big mission to create a big social investment market. However, since the government never defined what social investment is, BSC has the same confusion as everyone else about how to differentiate social investment from past investments.
- What is a social impact investment about?
A) Is it about big money? (For example, to achieve SDGs)
Or
B) Is it about providing opportunities for non-profit organizations to start new kind of social activities?
 - The government gets very excited about attracting big money. However, to attract big money, you need to go to pension funds and pension funds have to make a commercial return, which means you are not doing anything different from the old types of investment.
 - If everyone recognizes and admits that there is no difference between the A and B above, the confusion in the social investment market might start getting clear.

⁵ Social investment business provides loans, grants and strategic support to charities and social enterprises to help them improve people's lives. It is one of the UK's first social investors and since 2002 have provided over £400 million of loans and grants to charities and social enterprises. <https://www.sibgroup.org.uk/>

SASC's investment structure

- SASC fund's structure is based on the standard private equity fund. (Many people who work in social investment market used to work in private equity so there is a big influence from private equity). Investments are in standard investment structures but no one knows exactly what financial returns BSC wants to make. SASC believes BSC's target return is 6% but it is mysterious and controversial.

Development of impact measurement

- BSC and all the other investors want to see the standardized impact and the measurement methods.

It will take decades before we know how to measure the impact. There are many intelligent people trying to collect data but collecting data is not the same as measuring impact. It took 500 years to figure out how to measure the profit in capitalism. Measuring impact is much more complicated than measuring profits. SASC would like to measure correctly but it is important to understand that the impact measurement now is very crude.

Impact measurement at SASC

- when SASC makes an investment, SASC agrees with the NPO on how they will measure the impact. It is important to try to keep it simple because small organizations do not have the resources to collect detailed data. SASC tries to make it as pragmatic as possible. For example, SASC asks for an outcome report on five indicators every quarter and track them over time. SASC has not so far asked for a big third party evaluation. Mr. Morris commented he is not sure how meaningful or robust the data collection is.

Involvement of the private sector in capitalism 2.0

- Unless there is a big change in the world, 98% of what gets done outside government will continue to be done by a private sector, so if you don't change their behaviors, you will not see a big change. However, it is important to be realistic.

- Mr. Morris commented that he wants to ask social investors if they think there is trade offs between financial return and impact. If they are making the same financial return, then they are not doing anything different. For example, two for-profit hospitals are delivering same services. One of them says it is making an impact the other says no, but they are making the same outcome. It is important that people look clearly and see those companies are doing the same thing. Private sector is very good at marketing, so there is a danger that private sector applies impact marketing to cover their activities. There is a real danger of impact washing.

Opinions on Social Impact Bond

- The word social impact bonds (SIBs) is also used in many different ways. The case in Peterborough was a classic type of SIBs, which the investor is the lead player, so the investor had a contract with the local government. Investors charge a high fee. The argument for the classic SIBs is 1) The investors bring money so there is new money which would not be there otherwise, 2) The investor improves performance (the investors are there to make the charity organizations more efficient.)

- SASC believes there is a place for a classic type of SIBs but there is also a danger that people get confused and think that there is only one way to do SIBs. That is one of the reasons why SIBs grew much slower than it was expected at the beginning. SASC is skeptical about SIBs.

Communication with service providers

- The amount and the frequency of the communication with the NPOs vary but SASC always ask for the regular financial report and the impact reporting every quarter.

In one case, SASC has a seat on the board, in another case, SASC has an observer seat on the board. SASC is a lender and not a shareholder. SASC spends a lot of time communicating because their partner NPOs are all small and they need various supports. Therefore, SASC's business model costs much more than commercial investment. (SASC does not reflect the

extra cost on the fee for NPOs.) This is an example of why social/impact investment costs more than commercial investment.

Recent changes in social investment market

- BSC together with national government is placing emphasis on the housing problems because there are not enough social housing and a number of homeless people in UK is dramatically increasing.
- Housing has become an increasingly important area for the local government as well because it has been costing more money with the increasing number of homelessness.

Funding

- There is a lot of money supply from the social investment but the demand side is not responding so the a lot of effort now is in raising awareness and helping the service providers and commissioners to become interested in the social investment.
- The main reason for the abundant funding in social investment is the dormant bank account. There has been two round of dormant funding in UK. Big Society's Capital (BSC)'s responsibility is to grow a supply of money into social investment so in the first round, there was a rule that with every pound they invest, they needed to attract at least another pound from somewhere else. Therefore, the dormant assets were used to multiply the social investment money. The second round is thematic so the money goes to two prioritized policy areas, which are young people services and housing.
- Compared to Japan, UK has many big national charitable organizations and trusts and they are interested in social investment as well. Normally, they would just give out grants but with social investment, they can collect and recycle the money to other projects.
- The types of institutional investors has become diverse as well. For example, now the local pension funds are going into the social investment.
- UK has also been stimulating the social investment from individuals as well. Social Investment Tax Relief (SITR), which was introduced in 2014, allows individual investors to claim back 30 % of their social investment in the income tax.
- Intermediaries have been trying to scale up individual funding, because the individual investment is small in value compared to institutional funds. If you want to make a bigger investment, you either go to an institutional funds or social finance intermediaries like Triple Point.⁶
- Triple Point aggregates individual investments through SITR into a bigger some of money that can be invested into bigger projects.
- The government does not have plans to introduce tax relief for institutional investors so far.
- The government is aware of people speculating. Therefore, one of the conditions for claiming a tax return from SITR is that the investor needs to have held the investments for at least three years before claiming it for the SITR.

Changes in SIBs market

- The government wants to do both SIBs and other social investment. In the civil society strategy published last October, Department of media culture sports (DSMS) made a commitment to SIBs and also made it clear that they want to grow the social investment market in general.
- Specifically for SIBs, in November 2019, DSMS announced two strategies;

- 1) DSMS is looking for a business case of a SIB in the area of digital exclusion especially for older and disable people.

⁶ Triple Point's innovative investment solutions are built around the needs of private, institutional and public investors.
<https://www.triplepoint.co.uk/about-us/58/>

2) DSMS is looking across all the government departments to find two or three policy areas in which has not have SIBs yet.

- The Treasury is already planning the potential next pot of SIB funds. There are currently two SIB funds and one is called Life Changes Fund which is worth £18 million that will pay for outcomes up to 2025. Another fund is called Care leavers Fund⁷ that will pay for the outcomes up to 2024. Therefore, the money is dedicated for at least next five years.
- The government is already designing the next round of SIB funds which will target homelessness, children services, and preventative healthcare. (The value and the timing are not disclosed yet.) Therefore, it does not seem like the government wants to grow other social investments at the expense of SIBs.
- The crisis with SIB market in UK is not just to do with the SIB funds. It has to do with the intermediary market collapsing. The intermediaries have either gone out of business or decided to leave the SIB market. For example, Triodos left the market as an investor and an intermediary and Number for Good⁸ has gone out of business. This has been affecting the SIB market.
- The government's SIB funds are not considered to be sustainable in the long term. Local governments cannot expect current level's of government's support all the time. There are already some players developing SIBs that do not require SIB fund top up. For example, the Norfolk county council is already building internal modeling and business cases to be able to sustain SIB development without SIB funds.
- There is another challenge in SIBs in UK which is the behavior of investors. The main investors include; Bridges Fund Management, Big Issues Invest, Social and Sustainable Capital and Care and Wellbeing fund. These four are active in investing in SIBs but the Bridges Fund Management has been dominating the market. There have been many complaints that Bridges Fund Management is using their power to persuade other stakeholders to design SIBs in a certain way that possibly is to the advantage of investors not the service providers or the outcome payers.
- BSC is trying to encourage more competition in the market. For example, they are trying to create second dedicated SIB investment fund in Big Issue Invest. Bridges Fund Management was special because it was the only investor with a dedicated SIB investment fund from BSC.
- BSC invested in Big Issue Invest two years ago so there is now direct competition. Only in the 12 months, Big Issue Invest has become very active in developing SIBs.
- DCMS and Big Lottery Fund are trying to attract new smaller investors into the market. One is CAF venturesome⁹ which is only interested in smaller SIBs. It fits into the market because Bridges Fund Management likes to invest in big project, Big Issue Invest and Social and Sustainable Capital like the middle sized project and the smaller projects are not being managed by anyone.
- Small SIB is about £1-3million and bigger SIBs are becoming bigger than before. For example, two big sized SIBs are being developed under Life Chances Fund¹⁰. One is in Sheffield city council and the other one is Norfolk county council and both of them are between £25-30million.

⁷ The funding targets Bristol, Sheffield and Lewisham to support care leavers to stay in education or transition in to employment or training. <https://www.gov.uk/government/news/minister-announces-improved-support-for-care-leavers>

⁸ Numbers for Good's mission was to create financial solutions that allow organisations to fund social and environmental projects and connect investors with opportunities for sustainable financial and social returns. <https://numbersforgood.com/about/>

⁹ CAF Venturesome is a registered charity that connect charities and social enterprises with philanthropic capita. <https://www.cafonline.org/about-us/caf-venturesome>

¹⁰ The Life Chances Fund (LCF) is an £80 million fund is managed by the Big Lottery Fund on behalf of the Department for Digital, Culture, Media and Sport (DCMS) and was launched in 2016. It seeks to tackle issues around key themes: drug and alcohol dependency, children's services, early years, young people, older people's services and healthy lives. <https://golab.bsg.ox.ac.uk/knowledge/basics/outcomes-funds/>

Decline of the transaction fee

- In UK, transaction fee has come down in mature policy areas such as children social care and homeless. One of the proxy indicators is the size of the development grants. The size of development grant to help people develop SIBs has come down very rapidly. For example, under the commissioning Better Outcomes fund and Social Outcomes Fund, the government grants for developing each SIB was £90,000 to 100,000.

However, by the start of the Life Chances Fund, the grants has come down to £ 40,000 by the middle of the fund and it became £30,000 by the last round of the fund. It has come down to £20,000 at the end of the fund and six project developed SIBs without any development grants. The cost of developing SIBs has come down quickly.

- It's important to share the learning from mature policy areas regarding how to structure the SIB, cost of the outcomes, how to trigger payment. Now there are more templates available for people to copy and modify but in newer areas transaction fee is still high. For new policy areas such as public health, the government is willing to give more support than the mature areas.

- The transaction fee is also mirrored in the investors attitude towards the financial returns. For the first edge of care SIBs, the return was expected about 20% but now no one expects the return of 4-5% from new types of SIBs. The financial returns are usually not disclosed.

- Social investors here are quite different from the social investors in North America. For example, there were cases that the social investors went to the outcome payers in a middle of project telling were paying too much to the investors. This might not happen in North America.

- Also, because the transaction cost has gone down, SIBs became commercially not viable and it seems like the consulting firms such as KPMG or Deloitte have lost their interests in SIB market.

- It was expected more people would use the rate card but many people refuse to use it because it is a national price and even if it is the same price they want to calculate their outcomes on their own. On the other hand, people are happy to use template contract tools.

- Innovation Fund¹¹ used the rate card because the outcome payer was the central government but in Life Chances Fund, the rate card was not used because the outcome payer was a local government.

- In the first three years, when the outcome payer was the central government, the rate card have always been used. However, now since the local government pays for 80% of the outcomes, local government do the calculation on their own.

- Local government like to have some comparison with other regions so they do refer the database (such as by New Economy) but they do own calculation because the cost of services vastly varies in each region.

Intermediary's role

- Intermediary's role should be building capacity for governments because the government commissioners should not be always relying on the intermediaries and intermediaries should not be continuing to gain same profit from the similar projects (Because it is easier to manage similar projects after the second time). They need to be opening up new market, for instance, in the areas of digital exclusion and public health.

¹¹ The Innovation Fund was set up by the Department for Work and Pensions (DWP). It was a £30 million programme comprising 10 SIB pilot projects delivered between April 2012 and November 2015. The programme aimed to help disadvantaged young people re-engage in education, training and employment.
<https://golab.bsg.ox.ac.uk/knowledge/basics/outcomes-funds/>

About Big Society Capital (BSC)

- BSC was constructed to build a market than be a market. Therefore, BSC seeks co-investment alongside BSC's investment. BSC uses conventional tools but has also invested new tools specifically designed for social investors.
- Co-investment and direct investment are completely different. There are benefits in co-investment in that it is a shared idea. There are some difficulties including the pricing. BSC would like the pricing of the capital to be low but co-investors has their own pricing.
- In an early days, a lot of BSC's work was to support service providers and intermediaries on how to set up a process for impact. Now BSC has started to focus on outputs and impacts.

Recent changes in social investment market

- SIB is not the biggest development in the social investment market. Currently, BSC is at seven-year point. Their key achievement figures are; £1.7 billion committed and £1 billion down down.
- BSC now has more than ten intermediaries investors managing more than £50 millions.
- Mr. Prior commented that on the deployment side, 80% of social sector leaders feel that they understand social investment. Over 800 hundreds frontline organizations have used BSC's finance and over all 2,500 organizations have used some kind of social finance. The growth rate is between 15-25% a year.

Risk of impact washing

- There are two good initiatives to prevent impact washing;
 - 1) IFC Operating Principles for Impact Management¹² which gives guidance on the mechanisms of impact investment.
 - 2) Global Impact Investment Network (GIIN)¹³ which gives guidance on the conduct and behavior.
- The importance of preventing the impact washing is starting to be understood in the investment world but not at all in the public. We will need much more simple language if we want to reach the public.

Recent changes in proportions of SIBs

- SIBs make up 8% of BSC's portfolio. However in the social investment market across the UK (the broader market), SIBs are very small and only makes up 2% of all the investment. This has doubled since the last year but it is still very small.
- As the numbers of the SIBs, In 2012, there were 14 SIB, in 2017, there were 41, in 2019, and there were 54 so it has been developing in UK.

Utilization of Social Investment Tax Relief (SITR)

- There are only three SIBs which have used Social Investment Tax Relief (SITR), raising only £425,000 of SITR.
- SITR needs to be accredited by the central government and it takes a long process. At the moment, there is a consultation happening regarding SITR and BSC is in conversation with the government to make it utilized more.

¹² Operating Principles for Impact Management: A set of impact investing standards developed by asset owners, managers, and other industry experts. They provide investors with guidance on how to manage investments so that they contribute to measurable positive social, economic, or environmental impact, while simultaneously generating financial returns. <https://www.accountabilitycounsel.org/2018/10/ifc-impact-investing-principles/>

¹³ The Global Impact Investing Network is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing around the world. Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. <https://thegiin.org/values-and-guiding-principles>

Changes of the local and central governments' behaviors

- The national government has been very supportive through their center for SIBs.
- Increasingly, there are more local governments becoming interested in SIBs, which is why the Life Chances Fund¹⁴ was set up.

Changes in the investors' behaviors

- There are interests from wholesale investors (international investors such as QBE insurance and Scandia).
- Initially, foundations were the biggest investors in the market but now there are more regular institutions investing in social investment market. There is also a potential in retail investors trying to get SISR to work better.

Changes in the intermediaries' behaviors

- There are two functions of intermediaries; 1) as fund managers and 2) as advisors.
- With the fund managers there are two dedicated organizations which are Bridges Fund Management and Big Issue Invest.
- SIBs mainly used for two purposes; 1) Supporting innovative services, 2) Improving efficiency in delivering of outcomes.
- Big Issues Invest tends to support the innovation and Bridges Fund Management focuses more on the efficiency improvement.
- There are other generalist funds but it requires a lot of effort from the investors to develop the SIBs to the investment level.
- Each investor likes to do SIBs it in different ways. Some prefer specific structures as well. For instance, Bridges Fund Management likes to use the SPV model to retain control, whereas Social and Sustainable Capital (SASC) likes to do it on the balance sheet.
- On the adviser side, there were organizations such as Social Finance and Numbers for Good but this market has not been working as we initially expected. The government has dramatically cut back the grants because there were many negative feedbacks about some intermediaries' work, which means the investors now need to focus more on upstream in development of SIBs.

Changes in key functions of BSC

- Initially, BSC did a lot of commissioner engagement but now BSC is working predominantly at market level to ensure there is enough money in the SIB market and things are working correctly. For instance, BSC works with GO Lab¹⁵, Department for Digital, Culture, Media & Sport (DCMS) and Big Lottery Fund together as a steward in the market. BSC holds SIB forums every two months.
- Now BSC is formulating a strategy for the market in terms of what it would look like and what BSC would need to do to get there in the next few years.

Changes in the government's fund

- There have been many governments funds since the SIB market started in UK. Latest is Life Chances Fund which is a £80 million top up fund. Life Chances Fund is a local government focused top up fund. The fund is for outcome payment.
- There are many plans for the central government to make future funds and they are expected to be policy specific local funds. These are not yet finalized.
- Without central government's supported fund, it is difficult develop SIBs but BSC has identified some policy areas which SIB could be developed without central government's subsidies. An example of those areas would be children services where the track records and cashable saving are evident.

¹⁴ The Fund was established to develop and scale community-based services to improve health and wellbeing across the country, particularly for those suffering from long term conditions such as cancer. <https://www.careandwellbeingfund.co.uk/>

¹⁵ The GO Lab is a centre of academic research and practice for outcome based contracting & social impact bonds. It was established in July 2016 as a partnership between the UK Department for Culture, Media and Sport (DCMS) and the Blavatnik School of Government at the University of Oxford. <https://golab.bsg.ox.ac.uk/about/our-work/>

Impact measurements in SIBs

- Because of the nature of the SIB products, the outcomes have to be rigorously proved in order to trigger the payment.
- 70% of SIBs have used propensity score matching, 23% has used historically baseline, and 7% are just doing performance against contract standards. RCT has not been used so far.

Criteria for choosing social investors

- At the beginning, BSC's strategy was quite broad so there were more applications than now. At that time, the assessment was done as the applications come in.
- The criteria would be if they are creating social and environment impact. BSC focuses more on society elements since there is enough money going into the environment.
- Now BSC has moved into a co-development approach. Majority of BSC's investments are co-developed whereas there is a small investments still start from applications.
- The BSC's current priority areas are housing, communities and early interventions.
- They way BSC conduct assessment of propositions is according to the financial return, impact, systems change and the capability of managers of the intermediaries.
- The mandated financial return is mid-single digit return across the portfolio so it is risk adjusted based on the area.
- There were quite high returns with SIBs before but now the government has started to get nervous about the view of paying too much to private investors in the UK so they have started to cap the contract payments.
- BSC's SIB funds' targeted net return is between 3-5% in aggregate.

Utilization of outcome matrix

- Outcome matrix is used to support frontline of the service providers. It helps them to articulate their priority areas and come up with matrix they can report on.
- BSC encourages the use of outcome matrix but it is not required. There are many evidences of adoption of the matrix according to the reports of intermediaries.

Standardization of measurement

- Impact management framework is very helpful in understanding where you are in impact management. Currently, nine global partners are working on the standardization the framework.
- There is no standardized measurement framework in UK but there are some frameworks which are commonly applied. One of them is Nesta Standards of Evidence¹⁶ which provides a hierarchy of evidence depending on its reliability and rigor. There are also validated tools typically developed by universities and known to be rigorous and reliable.
- Each organization has different governance mechanism so there is no standardized measurement.
- Aggregation across the varied portfolio of early intervention and housing is difficult and it is a challenge the sector has faced for a long time so BSC has never been prescriptive about what information they need and it allowed the organizations to respond to its own needs.
- One of BSC 's plans is to create a platform where intermediaries can post their data and make them available for other stakeholders. It is important to organize the data in a way that is consistent and people understand. BSC wants to make it aligned with GIIN's database as well.
- There are more fundamental issues around impact which BSC is starting to engage with. Most of the impact measures have been designed by governments and not the beneficiaries. BSC may have their own ideas of what might be good the beneficiaries but the beneficiaries might have completely different ideas. Who decide what "good" looks like is very important.

¹⁶ Nesta is a UK non-profit organization. Nesta backs new ideas to tackle the big challenges of our time, from the pressures of an ageing population to stretched public services and a fast changing jobs market. <https://www.nesta.org.uk/about-us/>

- BSC works closely with GO Lab specifically on their database. They are working together to create standardized database of matrix of all the SIB projects that can be released to public.
- BSC has many different partners investing in same social enterprises and each organization has its own reporting needs. BSC sees the potential of establishing one common database/channel and other people can tap into it.

Levels of evidence required

- BSC does not have common level of evidence which is necessary for them to invest. BSC determines the impact thesis on information available such as exiting evidence and interrogations of the theory of change.
- There are not typically many counterfactual data in the UK market but BSC looks into academic studies for reference.

The use of third part evaluation

- Third party evaluation does exist but it is not common yet. BSC expects large scaled well-developed organizations to use third part evaluation.
- Some sectors use RCT as an experiment but it is very expensive and it is not guaranteed to have the right answers.
- BSC works with the intermediaries to come up with impact measurement plans.
- Most of the time, intermediaries do the evaluation as an internal exercise but there are some government initiatives available as well.
- In time, independent verification of impact is going to become much more common based on the IFC Operating Principle. However, IFC operating principle is more of an audit of the process and it does not necessarily measure impact of beneficiaries.

Other learning from BSC

- There are three important factors in social investment market; Firstly, it is important to make the context and starting point clear as well as setting clear goals and priorities. Secondly, if you want to build a market beyond the wholesaler, you need to set your investment pricing which matches with the co-investors. Thirdly, no matter how carefully you make plans, when you actually engage with the market, you need agility and permissions to respond to the market development.
- There are six wholesale impact organizations around the world including Japan, either operating or permission granted.
- Each country has different situations so each country needs set own goals.
- BSC has continuous webinar series for wholesalers which Japan Network for Public Interest Activities (JANPIA) might be interested in.
- JANPIA's plan of choosing 30 investors sounds very similar to the access organizations in UK. What they have found is that intermediaries that are new to this market require a lot of time and capacity building activities. BSC has learned from the lessons in 16 countries that everyone has gotten the time frame wrong and it takes far more time than people initially expect to set up to goals and schemes, choose the right partners, conduct capacity building and spend this much amount of money right.

Written by: Yurie Sato, Visiting Researcher, INPMS

Edited by: Ichiro Tsukamoto, Professor, School of Business Administration, Meiji University

The Institute of Nonprofit and Public Management Studies (INPMS)

623 Kenkyuto, Meiji University, 1-1 Kanda-Surugadai Chiyoda-ku, Tokyo 101-8301 Japan

Email: inpms@meiji.ac.jp

Website: <http://www.kisc.meiji.ac.jp/~inpms/index.html>