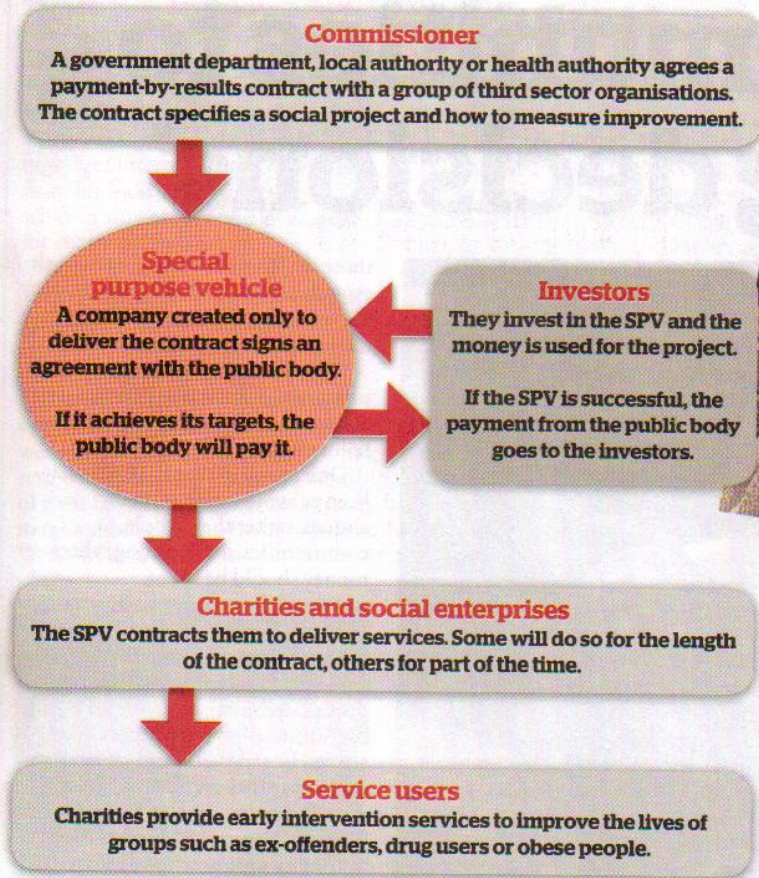


“Everyone has to take personal responsibility for how they behave”
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The name's Bond - Social Impact Bond



“Social impact bonds lack liquidity. Once you’ve bought it, you’re stuck with it for years. You can’t sell it if you need your money back”

Andrew Hunter Johnson *Head of charities, BlackRock*

n - or just wrong in principle?

The easy wins and the interests of the hardest-to-reach

Eccles says the Peterborough pilot bond focuses on the hardest-to-reach, and that other projects will need similarly rigorous metrics, he says. “We focus on how often people reoffend, rather than whether they reoffend,” he says. “If we’d based it on whether you reoffended, the incentive would have been to stop working with you as soon as you did anything wrong.” For example, a bigger return is earned for someone who committed 10 offences last year and only commits two this year than for someone who committed two last year and none this year.

Any system for measuring success works in favour of easy wins, says Demarco. “Behind any social impact bond are money men who want a return,” he says. “They will look around and say ‘who’s going to give me that return?’ And that’s just not the way a charity or social enterprise should be run.” People don’t fit into neat categories, he says, and some need more help than others.

The tension between charitable work and private profit

The need for private finance flows from the need for charities to win government contracts, says Eccles. “If you take a government contract it’s inevitable that you will be asked to measure something,” he says. “The sector wants the government to procure according to outcomes and impact, which are hard to measure, rather than outputs and inputs, which are much easier. If we want procurement according to outcomes, it will take years to measure. This means a cash-flow problem. The social impact bond is a way to solve that problem.”

The moment you procure for profit, says Demarco, you lose the connection between providers and beneficiaries. “I object in principle to the idea that helping poor people is a dividend-based activity,” he says. “This is a value-based sector we work in, and when I hire someone for community work I want to look into their eyes and see that they’re doing it because they want to help people. If you do this work for profit, instead of because of your morals, you lose the connection you need to do it successfully.”

Does private money cost more in the end?

Eccles believes it will be difficult to persuade the government to fund more early intervention work directly. “The government is very risk-averse,” he says. “Trying something new over a long period is a dangerous thing for it, because it’s difficult to justify if it doesn’t work.” The social impact bond, he says, allows that risk to be taken neither by charities nor government, but by people who have money. “We think something like a social impact bond should be used for a risky proposition with no track record, in order to help develop a track record,” he says.

Demarco says social impact bonds are aptly compared to the private finance initiative, which attracted private finance to public schemes such as building hospitals, but also meant high repayments. “Social impact bond contracts are complicated,” he says. “And because they involve all sorts of consultants and money men, they’re expensive. It would be much cheaper if the government could fund this itself. It still safeguards its money, but rather than strict targets, you have a case worker who meets you regularly, and you talk about whether you’re achieving your objectives.”