DECEMBER 3, 2014

SOCIAL IMPACT BONDS

UNDERSTANDING TRUST RELATIONS & INVESTOR MOTIVATIONS

JAYSHREE VENKATESAN
CHEVENING GURUKUL 2014

Acknowledgments

This white paper on Social Impact Bonds is submitted as a part of the Chevening Gurukul programme 2014 hosted by King's College, London and sponsored by the Foreign and Commonwealth Office, UK. I would like to specially thank Dr. Alexandru Preda for taking the time to provide periodic guidance and inputs on my primary research and to Dr. Kriti Kapila for connecting me to various people in the sector.

I would like to thank Louise Beatty at the UK Cabinet Office for her enthusiasm in providing answers to my long list of questions and connecting me to multiple persons involved with SIBs across the UK. A special thanks to Philip Messere at the Big Lottery Fund, who came all the way to London from Newcastle and provided substantial insights as well as further introductions, Mila Lukic from Bridges Ventures, Edward and Eileen from ATQ Consultants who were very generous with their time and information, Jane Newman from Social Finance for her insights on structuring SIBs and the international experience, Aunnie Patton for her inputs on DIBs in South Africa, Mike Belinsky from Instiglio for his inputs and Geoff Mulgan (Nesta) for sharing his work on the sector.

I would also like to acknowledge the role played by Lina Sonne from Okapi, Madeleine Gabriel from Nesta, Eugene Amusin from Citi Foundation, Dipa Balakrishnan, alumni London Business School and Arthur Wood of Total Impact Advisors for using their professional networks and introducing me to various people. Last, but not the least, I would also like to thank Dr. Jessica Seddon for regularly sending me updates from various media across the world.

Contents

Background[1]

Governments across the world are facing a challenge in providing welfare to their citizens. In the European Union and United Kingdom, there is a pressure to continue financing while managing budgetary reductions, while in Asia, governments are beginning to devise policies for social security. The speed and shift of providing welfare in the developing economies is rapid, and it is important to learn from the history of the Western world. Given the huge budgetary constraints that governments face, there is a need to involve private capital. However, this involvement can be tricky because of the distrust of private capital and its motivations, but equally for private investors, what are the incentives to get involved for muted returns, while taking on risks that are best left to the State? In this paper I have focussed on understanding the relationships between stakeholders that allow SIBs to work, specifically looking at investor motivations and interest. I found that most stakeholders involved in SIBs operate on informal trust relations and are part of a smaller, closed group that knows each other. Second, that SIB investors view the investment differently from a mainstream investment. Both of these have implications on structures that can be used elsewhere, particularly in India, which I have analysed in the last section.

Social Impact Bonds (SIBs), or their counterpart in the developing world, Development Impact Bonds (DIBs)[2] are the result of long standing work in the area of Payment by Results (PbR). PbR instruments are not new[3], but the urgency to use them in the development finance rhetoric increased in the last decade. First, in the aftermath of the global financial crisis[4], the United Kingdom (UK), like many other OECD partners, responded to the financial crisis and the recession thereafter with cut backs in programme and operational budgets[5]. Second, there is a growing realisation that access to markets and finance is insufficient to help low income households break the vicious cycle of poverty. Development rhetoric makes a distinction between 'poor' and 'poverty' and 'vulnerability'[6] (Chambers, 1989), which is now being seen as an important distinction to keep in mind while choosing financing alternatives. Third, several philanthropic organisations in the UK, that have higher formal and legal accountability compared to the Third Sector elsewhere in the world, subscribe to the International Aid Transparency Initiative (IATI)[7]. With greater transparency, there is a higher

[1] I have used reports released until 27 November 2014 as a part of the Literature review for this paper. In addition, I conducted consultations over Skype and face to face with 8 persons in the UK, and 3 others involved in the international development of SIBs. A few of these were recorded, while I took notes in the others, and were mostly in the form of unstructured interviews. I could not meet any service provider or beneficiary involved in a SIB.

[2] Social Impact Bonds (SIBs) are instruments used in the developed world. The equivalent instrument in a developing country context is a Development Impact Bond (DIB).

[3] The United Kingdom has been working on 'Payment by Results (PbR)' instruments since 1997, when the Labour government was elected to power and itself draws from the prospective payments work done in the US in 1984.

Miraldo, M, Goddard, M, Smith C, Peter., September 2006, "*The Incentive Effects of Payment by Results*", CHE Research Paper 19, Centre for Health Economics, University of York., accessed on 15 September 2014 at http://www.york.ac.uk/che/pdf/rp19.pdf

[4] However, while the UK government announced that it intended to cut the amount spent each year by about £ 83 billion i.e. 14% of all public spending by 2015, the Chancellor of the Exchequer, Rt Hon George Osborne, MP in a press release issued on 22 June 2010, hastened to assure voters that the coalition government would be different and would keep in mind vulnerable populations were not the hardest hit. (OECD 2011)

[5] OECD (2011), Restoring Public Finances, Special Issue of the OECD Journal on Budgeting, Volume 2011/2, OECD Publishing, Paris

[6] Chambers, Robert., *Vulnerability: how the poor cope.,* IDS Bulletin, Volume 20 Number 2 (1989), edited by Chambers, Robert.

[7] Ibid.,

accountability on funds donated, tending to shift philanthropic capital to fund areas where impact can be measured.

Social Impact Bond (SIB)/Development Impact Bond (DIB)[8] is a type of Payment by Result (PbR) contract where the initial capital is provided by social investors to service providers, and then get compensated by commissioners or outcome funders, when a set of metrics is achieved as a consequence to the service provided. The relationship between the various stakeholders in a SIB contract are outlined in Appendix 1. The diagram shows one of the possible ways in which SIBs operate, but the actual structure can take many different forms, as is evident through conversations with people in the sector.

Stakeholder relationships and Trust

The ecosystem around SIBs is a complex combination of formal contracts and informal trust mechanisms, which seemingly brings together the state, private investors and service delivery organisations, mostly in the Third Sector, by 'aligning everyone's incentives'.

The 'cobra effect' and 'skin in the game'

Supporters of SIBs argue that by specifying outcomes, and not activities, commissioners are providing service delivery organisations the space to innovate services to adapt to dynamic local contexts, in a manner that defined metrics would be achieved. This argument makes the following assumptions:

1) Metrics that have been selected are correct
2) Service providers are capable of innovating without support
3) Service providers will select delivery mechanisms which are best for beneficiaries

The risk of not achieving outcomes usually lies almost entirely on investors who provide the initial capital. In most other investment scenarios, investors make up for this by conducting their own due diligence. However in the case of SIBs, this may be done by an intermediary. Often, the intermediary is involved in designing the metrics and helping the service delivery organisations develop a plan to achieve these outcomes. The intermediary is paid by the entity who engages them. While intermediaries can check financial health and systems and processes of service providers, there is a degree of implicit trust on service providers and intermediaries, who are paid upfront and do not have pay out related to outcomes. The moral and legal liability of choosing incorrect outcomes lies with commissioners, while the financial risk lies with the investors, leaving the service delivery organisations and intermediaries lacking any 'skin in the game'. To overcome this, in some SIBs, the service providers take a small stake as investors. For instance, this is a structure that is followed in the 'rough sleepers SIB' where St. Mungo's and Thames Reach are service providers and investors. This, however, requires service providers to have deep pockets.

Choosing metrics is generally perceived as difficult and time consuming requiring technical specialisation. Currently, investors trust that the commissioner, or the intermediary on behalf of the

---

[8] The word 'bond' that is associated with the instrument is a bit of a misnomer, since the actual instrument works like a mezzanine or quasi-equity instrument in terms of risk of return and liquidity, as is seen in the next section. The term Social Impact Bond was coined by the Young Foundation.

Mulgan, G, Reeder, N., Aylott, M. and Bo'Sher, L., Social Impact Investment: the challenge and opportunity of Social Impact Bonds., Published November 2010, revised March 2011., accessed on October 17th 2014 at http://youngfoundation.org/wp-content/uploads/2012/10/Social-Impact-Investment-The-opportunity-and-challenge-of-Social-Impact-Bonds-March-2011.pdf commissioner, has selected the best metrics. When metrics are selected incorrectly, they can result in perverse behaviour[9], creating a risk of discontinuation of the programme.

The informality and implicit trust relationship that exists between commissioners and service delivery organisations, or between investors, commissioners and intermediaries, is unusual, but not impossible in the First World context where state regulation and legal devices are fairly powerful. One reason for the implicit trust relationships that we observe in the context of SIBs is that contracts are evolving, and therefore law is "*too imprecise and too costly*[10]"to capture all the details through agreements. Therefore, investors, commissioners and service delivery organisations tend to be known to each other and form a small trusted group who draw on each other's expertise and co-collaborate. It remains to be seen whether this group will expand to include other participants who were hitherto unknown to one of the parties involved, and if so, what mechanisms will develop. Such informality and reliance on close circles is frequently observed in circumstances of high risk and uncertainty, and a parallel can be drawn from the banking industry[11]. It has been observed that bankers tend to deal with close associates, or rely on reputational systems to extend their networks, to assess who is 'credit-worthy', particularly for small business owners where an impact in their social life can influence their ability to repay a loan.

Trust in the State

The involvement of the State creates a feeling of trust and legitimacy, so other players feel safe to begin to take risks, albeit to a limited extent, with each other[12]. This is seen in the relationship between the investors and the commissioner, where the expectation is in the event the estimate of actual savings falls short of the actual savings, the commissioner may go out of pocket to provide returns to the investors, especially because these are early days and there is a desire to grow the market. The UK government, on its part, has been making significant investments that indicate their long term commitment to building the SIB ecosystem.

Creating a market

As a step towards growing the social investment market, including for SIBs, the UK government started CSIB (Centre for Social Impact Bonds) with a commitment of £70 million[13] to support investment through various funds including the Social Outcomes Fund (£ 20 million). In addition, Big Lottery Fund launched a £40 million 'Commissioning Better Outcomes'[14] Fund to support local commissioners to

---

[9] An instance of incentives causing perverse behaviour is illustrated succinctly through an anecdote from the colonial era in Delhi, where members of the Indian Civil Service were concerned with the high number of accidental deaths due to cobra bites, caused by the high incidence of cobras in surrounding forest and farm lands. Their solution was to provide incentives to private players, which was a bounty for every dead cobra. The supply of dead cobras did rise, but because local farmers turned entrepreneurs and decided to set up cobra farms. When they realised that the scheme was not working the way they envisioned, they decided to stop paying for dead cobras, which resulted in all the farms releasing cobras into the wild, increasing the risk of cobra bites[9] to the population, a result far from the desired outcome. Anecdote adapted from Talbot, T and Barder, O., *Snakes on a log frame: Cobra effects and Payment by Results*., accessed on 23 November 2014 at < http://www.cgdev.org/blog/snakes-log-frame-cobra-effects-and-payment-results >

[10] Cook, Karen S. Cooperation without trust?/Karen S.Cook, Russel Hardin,Margaret Levi., The Russell Sage Foundation series on trust; v9, ch 5, pp 83.

[11] Ibid., ch 3, pp 48-49

[12] Ibid., ch 8

[13] UK government data, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321483/2014_Social_Investment_Strategy.pdf., Accessed on 22 November 2014

[14] More information can be found at http://www.biglotteryfund.org.uk/sioutcomesfunds

develop SIBs. The UK Government also launched a Social Investment Tax Relief[15], as a move to engage a more diverse set of investors. Incubators have been financed to ensure that a pipeline for SIBs is created. All of these investments indicate an intent to develop the market and attract further investments.

There are 17 SIBs that have been launched in the UK, while 15 are in development and 11 more in early stages of conceptualisation. While the initial SIBs were commissioned by the government, there are also a number of proposals that are now emerging from service delivery organisations who see this as a funding tool. Proposals, though, often get stuck at the stage of finding commissioners and defining appropriate metrics that need to be achieved. This throws light on an interesting dynamic of trust, or the lack of it thereof, when the commissioner is not the originator of the proposal, but is instead mooted by the service provider.

Peterborough SIB

The first SIB was supposed to mature in 8 years, including data verification and analysis. The outcome based funders were the Ministry of Justice and Big Lottery Fund. However the Peterborough SIB was brought to a premature end earlier this year, where interim results showed that recidivism was short of the target 10% (refer Appendix 2 for details).

Distrust: the negative of trust

The premature end of the Peterborough SIB and the manner in which the commissioner handles investors may impact credibility of SIBs, the commissioner, and the resultant risk borne by investors. It could be argued that the results when the SIB was brought to an end were lower than the agreed target, and therefore the investors need not be compensated. Second, one might also argue that the target of 10% for recidivism that was fixed in the project was far too high since interim results showed that recidivism had dropped to 8.5%. Having agreed to the initial number of 10%, the latter is possibly not an argument that will hold stead. However, the fact that the SIB ended prematurely due to a change in the government policy creates barriers to expanding the set of investors beyond charitable foundations and trusts. It remains to be seen if the investors in the Peterborough case would recover any of their initial investment. Should the government decide to compensate the investors for the premature end of the SIB, this could create challenges for other commissioners, since it creates a precedent to compensate investors in the face of changing policy, if a SIB be were brought to an end in a similar fashion.

There is also a feeling of distrust of intermediaries and the value that they add in a SIB transaction. Some investors, when spoken to, mentioned that intermediaries tend to charge rates that are hard to justify, and while they admitted that there is technical expertise that they bring to the table, this could be built in-house over a period of time.

The investor view

Broadly the set of investors in SIBs in the UK can be categorised as <u>Social Investment Banks</u>, which include Big Society Capital, Deutsche Bank Social Finance, J.P. Morgan Social Finance and the European Investment Fund; <u>philanthropic foundations</u> like Esmee Fairbarn Foundation or the Panahpur Trust and <u>Local Authority Pension Funds</u> like Merseyside Pension Fund. While SIBs combine financial returns with the social returns, these returns are not commensurate with the risk profile of the instrument.

[15] Ibid., Individuals making an eligible investment can deduct 30% of the cost of their investment from their income tax liability.

Stretching the pound (or dollar or rupee)

There were several reasons that were provided when various stakeholders were asked what is motivating these investors to take muted returns. One reason is that these would have provided grant funding in any case to the same set of service providers. Participating in a SIB allows the possibility to recover the principal with some return, albeit muted, which allows "*much more to be done with a single pound"*. For providers of philanthropic capital who are continually seeking donors, the prospect of not eroding a corpus can be compelling.

Culture shift

The focus of outcomes within service delivery organisations is forcing them to build systems and processes that bring in greater accountability and enhance the culture of transparency. For philanthropic investors, this culture shift is often far more significant than the financial return from their investment.

Early days need patient capital

SIBs are not instruments that will yield results within a short span. In fact the fastest launch from conception to first data collection has been about 15 months, with the average total tenure being about 8 years. Since the long term results of these instruments remain to be seen, and given the long gestation period, the involvement of social minded investors who are not driven by the financial returns alone might be the most appropriate. Further, most SIBs tend to affect beneficiaries who are extremely vulnerable, who might be poorly affected by the involvement of commercial investors in such projects, who tend to operate with short term goals and display a lack of patience.

Mental accounting and the social meaning of money

Even within the social finance investor class, it appears that grant making desks usually view SIBs as an interesting investment proposition while treasury desks, which make investments of the corpus find the risk-return profile of SIBs do not match their requirements. The varied response between the two sets, both belonging to the same fund, can be explained through the concept of mental accounting[16], used by Thaler (1999) to "*describe the entire process of coding, categorising and evaluating events"*. The behaviour of the two desks can be explained by understanding the utility that they get from making the investment. Grant making desks, which view SIBs as a way to potentially recover their initial investment, operate on acquisition utility[17] i.e. the value that a consumer places on receiving the good (social impact in this case) as a gift. On the other hand, treasury desks operate on transaction utility i.e. the perceived value of the 'deal', which is the difference between the amount paid and the reference price for the good. While it might seem counterintuitive for the same organisation to view the funds differently, this also arises from their defined roles.

Zelizer[18] (1989) explains this phenomenon as the value that money acquires due to its end use. If one were to view money in its traditional utilitarian sense, then both sets of decision makers should be driven by the risk-return argument. However, communities have also attributed other values that lead to the argument "*how much money is less important than which money"*. For example: a £1000

---

[16] Thaler, R., *Mental accounting matters.,* Journal of Behavioral Decision making, 1 September 1998, pp 183-206, Published by John Wiley & Sons, accessed at http://www.uibk.ac.at/economics/bbl/lit_se/lit_se_ss06_papiere/thaler_%281999%29.pdf on 1 November 2014

[17] Ibid.

[18] Zelizer.Viviana., *The Social meaning of money: Special monies*, The American Journal of Sociology, Vol 95, No 2 (September 1989), pp 342-377, published by The University of Chicago Press, accessed on November 23, 2014 at http://cas.umkc.edu/econ/economics/faculty/wray/631Wray/Zelizer.pdf

paycheck is different from £1000 stolen from a bank vs. £1000 borrowed from a friend, and the treatment of each of these will differ. Grant making desks are possibly willing to accept muted financial returns from SIBs because they are compensated by the accompanying social impact, while investment desks view the investment through the traditional 'risk-return' argument.

This brings us to the question if SIBs can ever attract mainstream, commercial investors. While one cannot rule out the possibility, it should be kept in mind that SIBs work like a project finance instrument in their cash flow and returns are expressed in IRR[19] terms. This implies that IRR is higher when cash flows are accelerated. Hypothetically, if one were to have commercial investors, there is a risk that SIBs lose their 'patient capital' nature, which could create perverse incentives.

India and DIBs

The social investment market in India is still evolving and in the past few years, impact investment and philanthropy have started growing together. For instance, Intellegrow raised USD 1.8 million (~£ 1.15 million) from the Michael and Susan Dell Foundation, and major global foundations like Bill and Melinda Gates Foundation, Rockefeller Foundation, amongst others, have been investing in for profit ventures that align with their philanthropic programmes.

The structure of a SIB fund would need to keep in mind the implicit trust relationships that stakeholders share in the Indian context, so that the final structure is one where incentives are indeed aligned. There are several philanthropic organisations and trusts, both Indian and global, that fund projects in parallel to the government. For instance, the Gates Foundation finances programmes to the tune of $ 28 million in the area of sanitation, while the Indian government allotted about $ 7 billion in the 12th 5 year plan for the same purpose. DIBs could be structured to measure the impact of all this funding to the sector in a manner that aligns incentives, which would benefit both the Foundation and the government. Learning from investor behaviour in the UK, it would also be helpful to understand the various investor segments in the Indian context for DIBs. Last, we need to consider the missing infrastructure that is needed for a mature social investment market.

Proposed DIB structure

There is a need to 'market-make' due to the novelty of the instrument. Other challenges in finding investors could be the long tenure of the instrument and the fear of policy change during the tenure of the DIB, which might affect outcome payments. However, if the State were to market make by launching a fund[20], for instance, where they either take the First Loss Default Guarantee (FLDG), or provide a small percentage of risk capital, other social investors might invest, since the risk of policy change is somewhat addressed. As in the UK example, for long term stability, it would behove the industry to create a fund that is at arms-length through an SPV.

Who could these social investors be? As discovered in the UK context, the investors are most likely to be those who are willing to accept muted returns. A recent report released by Cap Gemini and RBS Wealth Management Services revealed that the number of High Networth Individuals (HNWIs) and

[19] The IRR or Internal Rate of Return of a project is the discount rate at which the net present value of costs (negative cash flows) equals the net present value of the benefits (positive cash flows) of the investment.

[20] The United Kingdom's Big Society Capital (BSC), formed in 2011, is an important facilitator of this type of social investing. Formed in 2011 by the U.K. government, its goal was to foster a marketplace of intermediaries and investors in the social sector, enabling investors to deepen their engagement with communities as well as generate capital to be used for future investment.

Ultra-High Networth Individuals (UHNWIs) has increased by almost 60%[21], with 2 million individuals worldwide being added to this segment from 2013 alone. Further, this growth is the highest in emerging economies like India, where there seems to be a growing feeling of responsibility to make investments that have social impact. First generation HNWI and ultra-HNWIs are more likely to invest for financial and social return compared to their parents, who would contribute to recognised charities, making this a likely segment to target.

This leaves the other large stakeholder category, namely the commissioner or outcome based funder. Given the possibility of frequent policy changes and the fear that the government might renege on outcome payments, there may be a need for alternate outcome funders. Earlier this year, in April 2014, the Government of India implemented a Corporate Social Responsibility (CSR) law that require companies to spend 2% of their average profits over the past three years on social development. While there are several large corporates that fund social initiatives through a CSR department, it is estimated that about 6000 small and medium sized enterprises that did not have any CSR activity would now be expected to comply. Further, the prescribed 2% of average profits for the last three years would triple the funds available per annum from an estimated £0.6 billion to £ 1.8 billion. Since these are funds that cannot be used in any profit making ventures, they can be used to test innovative models and take greater risk than for profit models. These are also funds that can be utilised to build several missing infrastructure gaps in the Indian context.

Missing infrastructure

Assessment metrics for service delivery organisations

There are about 2 million not-for-profit agencies that operate in India, under a variety of legal forms including Trusts, Societies and Section 25 companies, with several others set up in response to the recent CSR ruling. It is critical to have independent rating agencies who can certify quality, governance and ability to deliver services of all these organisations. Further, there is need to develop a rating mechanism that can rate organisations on their ability to manage long term relationships and scale their activities. In terms of reporting, India can learn from the 'glass pockets' approach of reporting followed by philanthropies in the UK.

Data on unit costs

The UK government has a detailed analysis of unit costs in delivering services to vulnerable populations, which makes it fairly simple to calculate the cost benefit should these services be delivered by a service delivery organisation to achieve metrics outlined. This is a system that must be adopted if DIBs are to succeed in the Indian context.

Missing partners

Specific training to enable knowledge transfer of specific monitoring and evaluation, structuring for development impact bonds should take place through partnerships with key players in the UK. For instance, a skill that is essential in the context of DIBs is that of identifying the correct metrics that will determine the outcome to be financed. There may also be a need to design the intervention with the delivery organisation.

Rethinking tax incentives

The government needs to rethink tax structures to ensure that funds flow towards social finance from private investors. In more developed economies, this is seen in the evolving role of the modern

[21] "World Wealth report 2014", published by Cap Gemini Wealth Management Services and RBS Wealth Management Services., accessed on 17 November 2014 at < https://www.worldwealthreport.com/download >

government and the move towards tax incentives to encourage private participation. A set of incubators that could help translate initial ideas for DIBs to implementation models are also necessary.

Regulation and the regulator

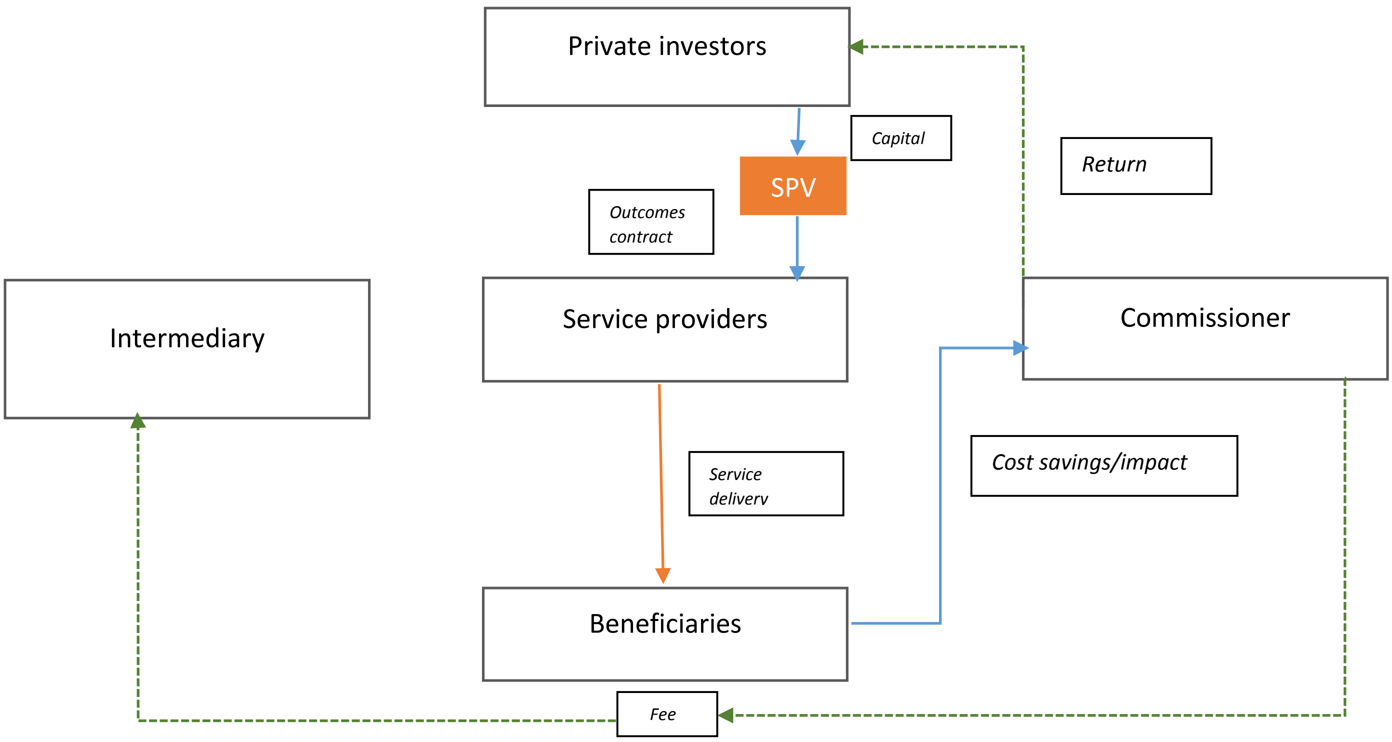
Given the nature of the instrument, SIBs/DIBs currently lie in an unregulated space as far as financial regulation in India is concerned. This can pose significant risk and dissuade investors from stepping in. This is an issue that needs to be resolved before the first DIB can be launched in India, since the cost of failure might just be far too high to bear in this case.

Appendix 1: How SIBs/DIBs work

SIBs/DIBs bring together multiple stakeholders in a partnership. The first is the commissioner, who is someone who is ready to pay for measurable outcomes of a project. In the UK context, this is usually the Government, either at the local, regional or national level[22]. The prospect of this future cash flow attracts capital from an initial set of 'investors', who form the second stakeholder category. Investors are the set of institutions, individuals or fund, who provide up front capital to a project. Most projects engage service delivery organisations, the third stakeholder category, who are engaged for their expertise in delivering services in a particular area, and because they understand the context of the beneficiary group. The beneficiary group form the fourth stakeholder category, but do not have any incentives in the manner in which a SIB operates. The fifth stakeholders are intermediaries, who could be arrangers/structurers for the transaction, or monitoring and evaluation agencies or fund managers or perform a variety of roles like due diligence of service providers and so on. Intermediaries bridge the operational gaps in the delivery of SIBs. Since the role of the intermediary varies from transaction to transaction, their fee payment structure differs.

A simple diagram to illustrate the various stakeholders and their relationships is outlined in Figure 1 below

Figure 1: Relationship between stakeholders in a SIB/DIB

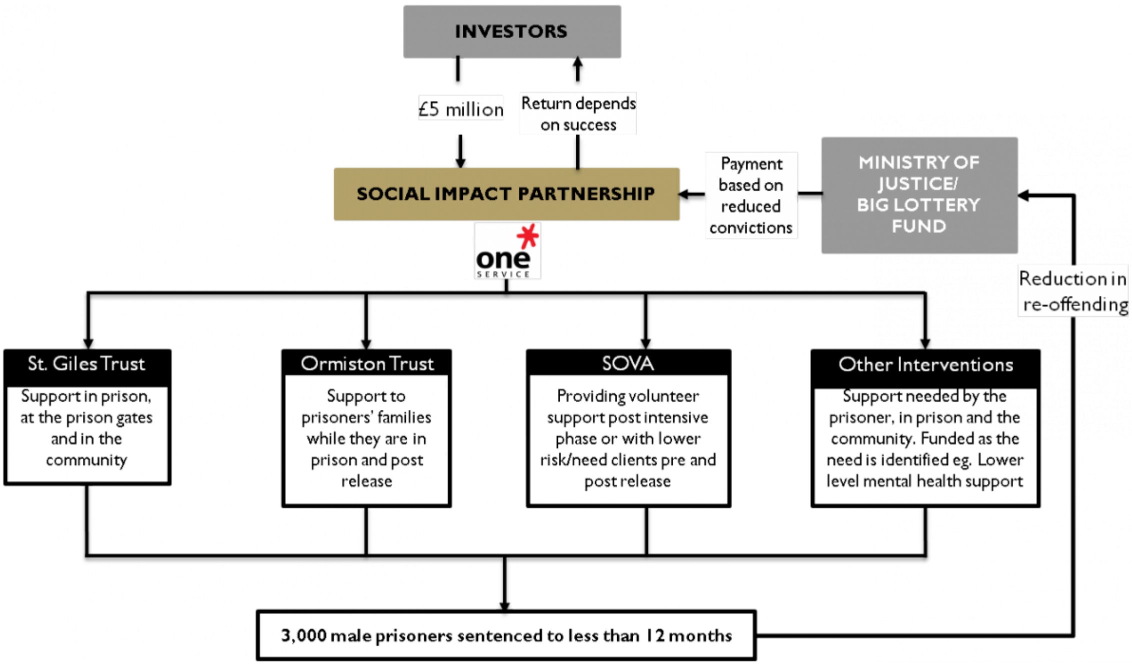


[22] A detailed list of SIBs in the UK/EU can be found at http://data.gov.uk/sib_knowledge_box/map. There are 17 that are operational, 15 that are in development and 11 that are at an early stage of exploration. This does not include the DIBs in South Africa, United States, Colombia and India.

Appendix 2: The Peterborough pilot

The first SIB was launched in September 2010 at Peterborough Prison to fund rehabilitation services for short sentence prisoners released from the prison, with the aim of preventing these prisoners from falling back into crime once they were released. 17 charitable organisations[23], agreed to come together to provide the investment for the pilot, a sum of £ 5 mn, which would be repaid with a return if recidivism dropped by 10% over a period of 12 months, or an average of 7.5% over all three cohorts. The programme was supposed to run over three cohorts of 1000 prisoners each, and the pilot including the period for data verification and analysis was estimated at eight years. The outcome payments would be paid by the Ministry of Justice and Big Lottery Fund. Social Finance, as the intermediary created a Special Purpose Vehicle (SPV) called One Service, to deliver the package of services that were required. Earlier this year, the Peterborough experiment was called off because of the emergence of a new national policy for the same target group, called 'Transforming Rehabilitation', making the SIB irrelevant. In intermediate results that were published from the Peterborough pilot, recidivism had dropped by 8.5%, which was short of the pre-defined target of 10%.

Figure 2: Structure of Peterborough SIB[24]



[23] Include the Barrow Cadbury Foundation, Esmée Fairbairn Foundation, Friends Provident Foundation, Panahpur Charitable Trust and Tudor Trust. As quoted on < http://data.gov.uk/sib_knowledge_box/ministry-justice-offenders-released-peterborough-prison> , accessed on 22 November 2014

[24] Op cit., http://data.gov.uk/sib_knowledge_box/ministry-justice-offenders-released-peterborough-prison, accessed on 22 November 2014

Appendix 3: References

Barclay, L & Symons, T (2013): A technical guide to developing social impact bonds. Social Finance, January 2013. Online, accessed 20 September 2014 at http://www.socialfinance.org.uk/sites/default/files/technical_guide_to_developing_social_impact_bonds.pdf

Big Lottery Fund: http://www.biglotteryfund.org.uk/sioutcomesfunds

Bridges Ventures (2014, October), *Choosing Social Impact Bonds, a Practitioner's Guide*

Cabinet Office (2013a) Social impact bonds (SIBs): a Payment by Results model, Cabinet Office Centre for SIBs Knowledge Box. Accessed 28 September 2014 at http://data.gov.uk/sib_knowledge_box/social-impact-bonds-sibs-payment-results-model

Cabinet Office (2013) A detailed list of SIBs in the UK/EU can be found at http://data.gov.uk/sib_knowledge_box/map> ,accessed on 22 November 2014

Chambers, Robert. *Vulnerability: How the Poor Cope*. Brighton, UK: Institute of Development Studies, University of Sussex, 1989.

Cook, Karen S., and Russell Hardin. *Cooperation without Trust?* New York: Russell Sage Foundation, 2005.

Hardin, Russell. *Trust and Trustworthiness*. New York: Russel Sage Fondation, 2002.

Miraldo, M, Goddard, M, Smith C, Peter., September 2006, "*The Incentive Effects of Payment by Results*", CHE Research Paper 19, Centre for Health Economics, University of York., accessed on 15 September 2014 at http://www.york.ac.uk/che/pdf/rp19.pdf

Mulgan, G, Reeder, N., Aylott, M. and Bo'Sher, L., Social Impact Investment: the challenge and opportunity of Social Impact Bonds., Published November 2010, revised March 2011., accessed on October 17th 2014 at http://youngfoundation.org/wp-content/uploads/2012/10/Social-Impact-Investment-The-opportunity-and-challenge-of-Social-Impact-Bonds-March-2011.pdf

Nicholls, A. & Tomkinson, E. (2013) The Peterborough Pilot Social Impact Bond Oxford: Saïd Business School, Oxford University. Accessed 01 October 2014 at http://emmatomkinson.files.wordpress.com/2013/06/case-study-the-peterborough-pilot-social-impactbond-oct-2013.pdf

OECD (2011), Restoring Public Finances, Special Issue of the OECD Journal on Budgeting, Volume 2011/2, OECD Publishing, Paris

Ronicle, J, Stanworth, N, Hickman, E, Fox, T (November 2014), Social Impact Bonds: The State of play: Commissioning Better Outcomes evaluation.

Rotheroe, A (2014) Lessons and opportunities: perspectives from providers of Social Impact Bonds. New Philanthropy Capital, 20 June 2014. Accessed 10 November 2014 at http://www.thinknpc.org/publications/lessons-and-opportunities/

Talbot, T and Barder, O., *Snakes on a log frame: Cobra effects and Payment by Results*., accessed on 23 November 2014 at < http://www.cgdev.org/blog/snakes-log-frame-cobra-effects-and-payment-results >

Thaler, R., *Mental accounting matters.,* Journal of Behavioral Decision making, 1 September 1998, pp 183-206, Published by John Wiley & Sons, accessed at http://www.uibk.ac.at/economics/bbl/lit_se/lit_se_ss06_papiere/thaler_%281999%29.pdf on 1 November 2014

UK government data, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321483/2014_Social_Investment_Strategy.pdf., Accessed on 22 November 2014

"World Wealth report 2014", published by Cap Gemini Wealth Management Services and RBS Wealth Management Services., accessed on 17 November 2014 at < https://www.worldwealthreport.com/download >

Zelizer.Viviana., *The Social meaning of money: Special monies*, The American Journal of Sociology, Vol 95, No 2 (September 1989), pp 342-377, published by The University of Chicago Press, accessed on November 23, 2014 at http://cas.umkc.edu/econ/economics/faculty/wray/631Wray/Zelizer.pdf

Zelizer, Viviana A. Rotman. *The Social Meaning of Money*. New York: BasicBooks, 1994.