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SOCIAL IMPACT BONDS 2.0?

CHINA WATCHES NEIGHBOURS DEVELOP HOME-GROWN SIBS FOR WELL-BEING AND INNOVATION





The first Social Impact Bonds were launched about ten years ago. Much has happened since. Economic and social upheavals followed the 2008 financial crisis. Then came the COVID-19 pandemic.

These events compounded new and increasing social needs including ageing populations, the rise of long-term health conditions such as diabetes, high rates of unemployment for young people, a mental health epidemic, plus loneliness across the generations and homelessness. This transformed landscape makes now a timely moment to think again about Social Impact Bonds and their future development.

This series of briefings on the future of Social Impact Bonds has been produced by the Policy Evaluation and Research Unit at Manchester Metropolitan University and the Price Center for Social Innovation at the University of Southern California. The series editors are Professor Chris Fox and Professor Susan Baines from the Policy Evaluation and Research Unit and Professor Gary Painter from the Price Center for Social Innovation.

CHINA WATCHES NEIGHBOURS DEVELOP HOME-GROWN SIBS FOR WELL-BEING AND INNOVATION

'Well-being' hybrids developed in Japan and Hong Kong, alongside scaled SIBs in Singapore, may appeal to Chinese interests in social engineering and growth.

Chih Hoong Sin, who advises Asia Pacific countries, explains how their governments are focussing SIBs on life satisfaction and innovation when higher public spending, alone, falls short of achieving goals.

Some Asia Pacific countries, concerned about how to enhance the well-being of dissatisfied citizens, are turning to Social Impact Bonds – and their emphasis on outcomes – to plug the gap between hopes and actual public sector delivery.

In the region's high-income countries, public spending is plentiful, so the emphasis by Western SIB pioneers on cashable savings is not a main concern. These countries also seem less drawn, than Anglo-American SIB innovators, to market-style public sector reform. Rather, these Asian countries tend to focus on how SIBs can be adapted to work with, or around, existing bureaucracies – oiling the machinery – and can support innovation at scale.

These different emphases in Asia Pacific models, and the hybrids they are leading to, may prompt attention from China, which, though slow to adopt SIBs, has expressed interest in how they might support social engineering. China may also be drawn to these more technocratic, less ideological SIB models because they suggest ways

to increase population satisfaction, while retaining accountability and control at a central level.

JAPAN SHIFTS SIBS TO CORE GOVERNMENT PROJECTS

Japan, for example, is a mature welfare state, able to manage generous levels of public spending. However, it still scores poorly against the subjective dimensions of well-being that go beyond income. So, over the last couple of years, it has set aside its initial, more Western-style use of SIBs that developed multiple, difficult to replicate, small-scale, hyperlocal projects. Instead, Japan is focussing its second wave of SIBs on core government priorities, such as the roll-out of digital, technology-assisted healthcare.

This change makes sense, given the needs of Japan's ageing population. It has led to SIBs being used to develop, for example, technology-assisted care for people to manage diabetes as well as remote approaches to screening, and aftercare, for colo-rectal cancer.

PERU Policy Evaluation & Research Unit

The Policy Evaluation and Research Unit at Manchester Metropolitan University is a multi-disciplinary team of evaluators, economists, sociologists and criminologists. We specialise in evaluating policies, programmes and projects and advising national and local policy-makers on the development of evidence-informed policy. We have a long-standing interest in social investment and Social Impact Bonds. See www.mmuperu.co.uk for details of relevant publications.

USC Price Sol Price Center for Social Innovation

The Sol Price School of Public Policy at the University of Southern California is a leading urban planning, public policy, public administration and health policy and management school. The Sol Price Center for Social Innovation is located within the School and develops ideas and illuminates strategies to improve the quality of life for people in low-income, urban communities.

‘Japan’s second wave of SIBs focuses on core government priorities, such as digital, technology-assisted healthcare.’

The Japanese gear shift has drawn new players into SIBs, not seen elsewhere. Digital telecommunications providers have become interested because they supply the enabling technology to get SIBs into people’s homes. Healthcare insurers are also involved because, in Japan, employers contribute to healthcare premiums which may be impacted by such SIB-funded preventive healthcare programmes. Rapidly, SIBs in Japan have been transformed from a cottage industry, interested in projects such as after-school clubs, to much larger scale programmes that attract major commercial players.

SIBS IN HONG KONG FOCUS ON PUBLIC WELL-BEING

In Hong Kong, enhancing well-being is seen as even more urgent than in Japan and is prompting SIB innovations, tailored to that political and cultural context. Responsibility for SIBs has been allocated firmly inside the Hong Kong government, albeit through a convoluted accountability structure. A couple of projects have gradually been developed. However, these have been slow to get going because the administrative structures and cultures are still orientated towards administering grant-funded programmes.

Meanwhile, a conflation of grievances, voiced during the country’s riots in 2020, highlighted a need to improve people’s lives quickly. There is now a consensus that business as usual is no longer an option. The private sector, observing the institutional bottleneck within Hong Kong’s bureaucracy, sees the potential of SIBs being led outside the public sector.

In Hong Kong, business and people with high net worth are discussing opportunities to operate as SIB outcome payers, not just as investors. Rather than seeing SIBs as government-led projects, they want to create a system where the private sector funds social returns that are seen as urgently needed to support political stability in Hong Kong. These business interests are also not averse to working in partnership with government. The significance of these developments goes beyond Hong Kong – these private sector players possess transnational capital. They are interested in what they can learn and then apply to the greater China region.

Meanwhile, China has been exploring different vehicles, including SIBs, for advancing specific outcomes identified as state priorities. For example, it engaged in its first social bond last year (not a Social Impact Bond), but it has generally found it far more challenging to frame social projects through innovative financing. Beijing will be closely watching SIB developments in Hong Kong and Japan.

It will be interesting to see how the development of private sector outcome payers operates in Hong Kong. Much of the discussion is currently done behind the so-called ‘bamboo curtain’, but there are already model prototypes. These would not be the first SIBs to have an outcome payer in the private sector. In the UK, the Bank of America wanted more evidence for the success of its corporate social responsibility programme aimed at youth development. It commissioned a SIB, where it is one of the outcome payers.

SINGAPORE EXPLORES SIB INSURANCE ADAPTATION

Like other mature, high-income, south east Asian economies, Singapore has generous public expenditure. And like Japan, it is drawn to SIBs, less to reform public sector practice, than as a way to innovate at scale, using existing ways of working. The Government has no shortage of funds for research and development, but it seeks private sector expertise to collaborate around innovation.

In its current exploration of SIBs, Singapore looks likely to abandon those parts of them, as we know them, that are considered less useful and it is looking, instead, to add elements that are suited to Singapore’s context. There are no small projects envisaged – the SIBs discussion in Singapore focusses on programmes at scale. Additionally, given the availability of cheap, public capital, the traditional SIB way of bringing in investors looks complicated, time-consuming and unnecessary, so it has been dropped.

One approach being explored in Singapore is to reconfigure SIBs as Social Impact Guarantees. SIGs replace SIB investors with SIG insurers. They are liable to pay out if an outcomes-based contract fails to deliver the outcomes agreed. This approach would allow Singapore’s public sector procurement process to operate as normal, rather than requiring administrative reform in order to accommodate SIBs. Instead, insurance, which everyone understands, could simply be tacked on.

ASIAN SIBS HAVE SOME FLAWS

None of these Asia Pacific hybrid models is perfect. There are question marks against all of them. Japan has put in place key structural enablers around its



SIBs – such as investment and outcomes funds – that are familiar in other countries. However, as large commercial players have moved in the SIB scene, Japan has not built capacity in the social sector. The intermediary market is under-developed, and the current roles played by key intermediaries may lead to potential conflicts of interest, or at least the perception of conflicts. There is a risk that SIBs in Japan – lacking the better developed checks and balances that exist in, for example, Britain – could just become little more than technical instruments that make things work for vested interests.

In Singapore, the expectation that social investors play an insurance function could mean that the close collaboration and flexible adaptation within projects, which are features of traditional SIBs, will be designed out of the model. It's not clear how

'Asian experimentation highlights possibilities for adapting SIB models to fit better into national cultures and bureaucracies.'

these dynamic elements would be retained in SIGs. Meanwhile, in Hong Kong, the private sector as outcomes payer remains an interesting idea that awaits implementation.

Nevertheless, experimentation in Asian countries highlights the possibilities for adapting SIB models to fit better into national cultures and bureaucracies and, thus, to operate at scale. SIBs in western countries struggle to operate at scale. They might learn that adapting the model can sometimes prove more fruitful than being stuck with small projects that whistle in the wind against resistant bureaucracies.

Dr Chih Hoong Sin is Chair of Traverse (formerly the Office for Public Management – OPM), where he is also Director of Innovation and Social Investment.

Chih Hoong has been authoring a blog series on his work to support stakeholders in Abu Dhabi in exploring and implementing outcomes-focused programmes, including Social Impact Bonds. This is hosted by the UK Government Outcomes Lab. The first blog in the series may be accessed via this link: <https://golab.bsg.ox.ac.uk/community/blogs/growing-international-innovation-local-ecosystem-requires-strategic-approach/>

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