



**Social Impact Bonds – October 2015**

# Opportunities and challenges in the Netherlands

## **Context and prospects**

Can SIBs break through in the Netherlands

## **Case studies**

From youth unemployment to health care – structure, outcomes and lessons learned

## **Recommendations**

Key words: collaboration, creating value, transparency, focus on results

“At the launch of the first social impact bond in the Netherlands in December 2013, I met young Rotterdam men and women on benefits – **all of whom had had a rocky start in life but were very keen to get down to work.**”



The Rotterdam social impact bond offered them an opportunity to work towards their future at the Buzinezzclub, which specialises in getting young people from benefits into work, education or their own businesses.

Together with Start Foundation, the municipality of Rotterdam and social entrepreneur Buzinezzclub, ABN AMRO launched the first social impact bond in the Netherlands. To date, other social impact bonds have been agreed and we are investigating areas in which this financial instrument might be appropriate. It gives me great pride that ABN AMRO is a member of this partnership that uses private capital to create opportunities for unemployed youth.

This social impact bond fits right into our social entrepreneurship activities, also comprising our ABN AMRO Social Impact Fund that was created to achieve both financial and social returns through investments. In fact, our Social Impact Fund supports a wide range of social entrepreneurs, while we also advise wealthy clients on investing in social entrepreneurship via Informal Investors Services. Lastly, we are a founding partner of Social Enterprise NL, the leading platform for social entrepreneurs in the Netherlands, and so contribute to a growing market of social investors and entrepreneurs addressing society's challenges.

I had the privilege of talking to the Buzinezzclub youngsters again in July of this year and was delighted to be regaled with many success stories. A good many of them have found jobs, are in full-time education or have started their own businesses – which is wonderful to hear! I confidently expect that we'll be able to use social impact bonds to make a difference in more areas in future.

**Gerrit Zalm**

Chairman of the Managing Board

# Introduction

The Dutch market for social impact bonds (SIBs) is still in its infancy, but its potential to grow into a key public sector funding instrument prompted ABN AMRO to investigate the lie of the land: what are the opportunities and challenges facing SIBs that focus on the fight against crime, labour-force participation, health care, development cooperation and youth care? Drawing on the available literature, interviews and our own experiences, we have arrived at recommendations for investors, intermediaries, (social) entrepreneurs and government agencies across all sectors and the whole range of SIBs. We recognise that these insights might yet need to be fine-tuned in this fledgling market, but hope that this report will contribute to the further development of the SIB market in the Netherlands.

If you are looking for more information or would like to contact us about social impact bonds, please get in touch by emailing us at [Social.Impact.Bonds@nl.abnamro.com](mailto:Social.Impact.Bonds@nl.abnamro.com)

## Ruben Koekoek

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Investment Manager, ABN AMRO Social Impact Fund

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# Social impact bonds



# Introduction

## Doing good by investing

Impact investing is rapidly gaining popularity in the Netherlands. We are talking about investments in companies, organisations or funds with the intention to help achieve social and environmental objectives as well as generating financial returns<sup>1</sup>. Increasingly, investors take into account the consequences of their investments, e.g. banks, institutional and private investors deciding not to invest in cluster bombs or the fur trade. This is a start, of course, but impact investing takes it one step further, as its aim is not to control damage to society but to actively achieve positive social effects.

Figure 1.1 captures the role of impact investing in the investment landscape. Philanthropy is about social goals only, and giving comes with no strings attached. Impact investing is about both social and financial returns; the purpose of socially responsible investing is chiefly financial, but social interests are taken on board, e.g. by excluding child labour. And then there is traditional investing, in which financial objectives take centre stage.

<sup>1</sup> GIIIN definition: 'Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.' See: [thegiin.org/impact-investing](https://thegiin.org/impact-investing)

Figure 1.1

**Impact investing: investing with both social and financial impact**



## Social finance

Impact investors are not alone: a larger community is emerging under the social finance banner, with investors, entrepreneurs, government agencies and intermediaries all looking to make a social impact in a financially viable way. All players have their own roles to play in this particular set-up.

### Entrepreneurs

Social entrepreneurs, for instance, address a social issue in a way that allows them to achieve both financial and social gains, with well-known examples in the Netherlands including Tony’s Chocolonely (slave-free chocolate) and Beebox (home delivery of boxes with fresh organic produce from local farmers).

### Investors

Key members of this investor community comprise a wide-ranging bunch of banks, foundations, family offices and NGOs, the ABN AMRO Social Impact Fund being a case in point.

### Government

Government agencies are indispensable in a well-oiled social-finance community. In the Netherlands, for instance, the municipality of Utrecht has set up a knowledge centre called the Social Impact Factory, while the city of Rotterdam contributes to social entrepreneurship with its CityLab010. In the spring of 2015, the country’s Social and Economic Council (SER by its Dutch acronym)

advised the government on how best to further encourage social entrepreneurship<sup>1</sup>.

## Trailblazers: UK and US

Compared with the Anglo-Saxon world, impact investing in the Netherlands is in its early stages. The United Kingdom, for instance, is known for Big Society Capital, with banks largely financing this institution with dormant bank accounts. In April 2012, Big Society Capital took up its mission on an initial outlay of £ 600 million.

In addition, social finance has become a high-level focus for government agencies across the world. It was already a top priority for the previous Labour government, and the Lib-Dem/Conservative coalition government under David Cameron continued down the same road, with Cameron even using the UK chairmanship of the G8 to put it on the map. This resulted in the birth of the Social Impact Investment Taskforce, which has since published a global report on the subject<sup>2</sup>.

Meanwhile, in the United States social finance has also gained common currency, with President Obama launching the Social Innovation Fund<sup>3</sup> in 2010. Together with its partners, the Fund has since invested half a billion dollars in projects and companies in various local communities in North America<sup>4</sup>.

1 May 2015 advice by the Social and Economic Council of the Netherlands, [https://www.ser.nl/-/media/db\\_adviezen/2010\\_2019/2015/sociale-ondernemingen.ashx](https://www.ser.nl/-/media/db_adviezen/2010_2019/2015/sociale-ondernemingen.ashx)  
 2 See <https://www.gov.uk/government/groups/social-impact-investment-taskforce>  
 3 <https://www.whitehouse.gov/administration/eop/sicp/initiatives/social-innovation-fund>  
 4 Corporation for National and Community Services. See <http://www.nationalservice.gov/programs/social-innovation-fund>



**Ralph de Ruijter**  
Investment Manager at Start Foundation

Start Foundation is a social investor aiming to create, retain and make accessible jobs for socially vulnerable people in the labour market. A key player in the Dutch SIB market, Start Foundation acted as investor in the country's first two SIBs and organised the first Dutch social impact bonds conference.

## Sustainable development through investment

### Traditional types of investment

Investors choose their preferred type of investment based on their investment objectives and the degree of risk they are willing to take. The three best-known investment classes are listed equities, bonds and private equity<sup>1</sup>. These traditional categories of investment are typically quite usable for impact investing also, albeit that their management tends to be a little more labour-intensive. After all, there is more to impact investing than merely gauging prospective financial returns, as social returns also need considering. Any such deal will require more time to prepare. A due diligence<sup>2</sup> will also look into the relevant company's social impact, and even after it is signed the deal will require more extensive measuring than a regular investment.

### Alternative types of investment

Alongside traditional investments, alternative types of investment have also emerged, crowdfunding being a good example: small-amount investments, often in return for a product. A lot of experimenting is being done in the United Kingdom, e.g. charity bonds offering interest based on the social impact that has been achieved. In fact, the UK even has a social stock market: an equity market for socially responsible companies.

Such alternative types of investment facilitate funding for social projects, NGOs or social entrepreneurs that are not eligible for traditional types of investment. Another important type of alternative investment is the social impact bond.

## Addressing social challenges through social impact bonds

### Social impact bonds

A social impact bond (SIB) is a funding instrument that sees private investors pay for an intervention to address a social challenge. How much the government pays investors is linked to the degree to which social and/or financial objectives are achieved<sup>3</sup>. 'Bond' is a rather misleading term here, as SIBs are not bonds but performance contracts between problem owners, entrepreneurs and investors, with the latter shouldering the risk.

Figure 1.2 shows the mechanics of social impact bonds, with four players making up the SIB core: the outcome payer, the investor or investors, the service provider and the target population. The outcome payer commissions the action addressing a social challenge and will pay if pre-agreed outcomes are actually achieved. Outcome payers are typically government agencies, but may also

<sup>1</sup> Private equity is an equity stake in a company acquired outside the stock markets.

<sup>2</sup> A pre-investment investigation of a business establishing the accuracy and veracity of the information presented to the buyer as well as the risks and opportunities facing the business.

<sup>3</sup> Our paraphrase of the definition provided by Social Finance UK: 'A SIB is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of social and/or financial interest to a government commissioner.'



**“A social impact bond sees government, service providers and financial backers come together as partners to resolve a social issue. This new kind of collaboration offers scope for innovative solutions, and Start Foundation is looking for a better social position of the people it helps as its ultimate reward.”**

be insurers or philanthropists. Social investors pay for the intervention and will receive a return if the outcomes are favourable. The service provider is the social entrepreneur, trust or foundation providing the intervention and the target population is the focus of the whole exercise: the people participating in the intervention and hopefully showing better outcomes by its completion.

In addition to these basic players, SIBs are often also set up to include a control group, an intermediary and an evaluator. Comparing target populations with their control groups helps establish whether targeted outcomes have indeed been achieved, while evaluators – e.g. an accountancy firm – are typically brought in for an independent assessment of the outcomes for the target population. Intermediaries often have a role to play in structuring SIBs and are sometimes appointed to manage money flows.

Unemployment is an example of a social issue for which SIBs have been used as a funding instrument. Investors fund a reintegration scheme to get unemployed youth off benefits and into the workforce, and the scheme’s rewards are measured as savings on benefit payments. Any savings so achieved are translated into a repayment to the investors.

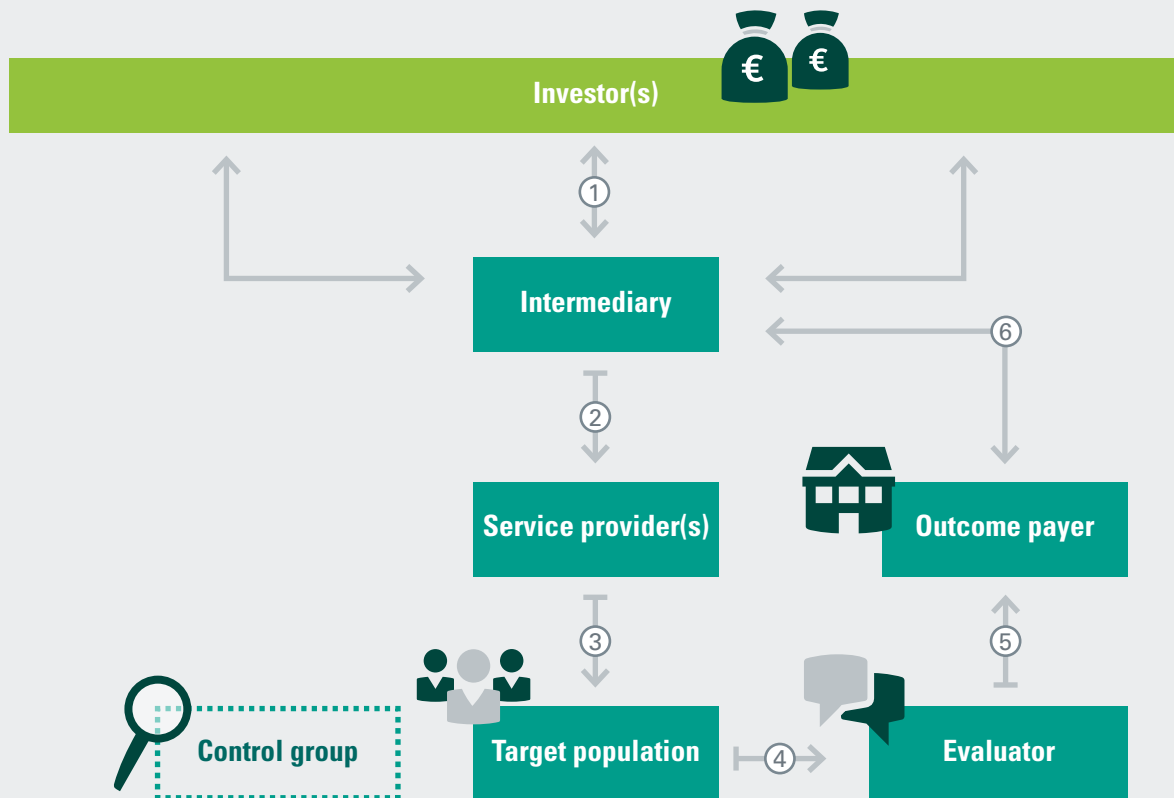
#### Advantages relative to subsidies

When compared with straightforward subsidies, SIBs have a number of benefits, the first of which is that they allow government agencies to invest risk-free: the ‘no cure, no pay’ set-up implies that the government only pays when the desired outcomes are achieved. This principle also means that agreement on objectives is much more clearly delineated: payment agreements typically ensure that such measurements are much more careful than in regular funding of interventions.

Lastly, SIB-based interventions offer a lot more scope for innovation. Regular contracts typically describe interventions in great detail and service providers have to stick to the contract to receive their subsidies. SIBs, by contrast, are all about the outcomes, and if service providers find they need to adjust to achieve agreed outcomes, they can easily do so without renegotiating contracts.

**“Social impact bonds change perspectives: social challenges are no longer seen just as budget issues, they become business cases. As finance experts, banks are adept at deciding whether a business case adds up; and all players have confidence in our ability to do just that.”**

Figure 1.2  
Structure of a social impact bond – example



- 1 Investors transfer working capital to an intermediary or trust/foundation joining them.
- 2 The intermediary pays the service provider(s) responsible for the intervention.
- 3 Service provider(s) work with the target population to achieve the pre-agreed objectives.
- 4 The evaluator compares the outcomes for the intervention group with those for the (historical) control group and calculates savings, if any.
- 5 The evaluator advises all involved of any savings made.
- 6 Based on the outcomes the government agency pays the intermediary, which will distribute such payments across investors.



Eric Zwaard has been committed to serving the public sector for a good 23 years. He is always looking to close the gap between it and the markets, as he feels both parties can learn a great deal from each other. ABN AMRO Public Sector Clients acts as a partner to the country's municipalities and local authorities and helps them address the great challenges they face.



**Eric Zwaard**  
Sector Banker for Public Banking  
at ABN AMRO Public Sector Clients

**Wide range**

SIBs come in all sorts of shapes and sizes and address a wide range of social challenges, including:

- tackling repeat offending (prison recidivism)
- unemployment
- development cooperation
- health care
- youth care

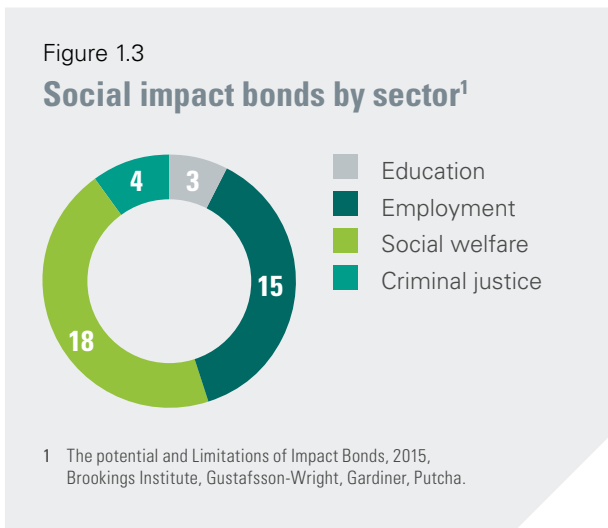
The world's first social impact bond was agreed in the United Kingdom, in Peterborough, with investors funding a scheme to help reduce the re-offending rate and investors receiving a return for reduced re-offending upon release from Peterborough prison.

To give a better view of SIB initiatives currently in place, the following sections will discuss examples of SIBs in these five particular areas, and will go into greater detail on opportunities offered by these policy areas in the Netherlands.

**Key themes for social impact bonds**

As Figure 1.3 shows, by far the majority of SIBs focus on employment and social welfare as their key themes. Social welfare includes such areas as foster care, youth work, assistance to families and the homeless. Other SIBs have been established in the areas of education and criminal justice. The first set of social impact bonds all dealt with criminal justice in one way or another, but five years on only a few that follow this theme are in place.

In health care, SIBs are still at a relatively early stage. The section on health care delves deeper into the opportunities for SIBs in this sector, which should be significant as it has tremendous prevention potential. The youth care section discusses a youth care SIB in great detail.



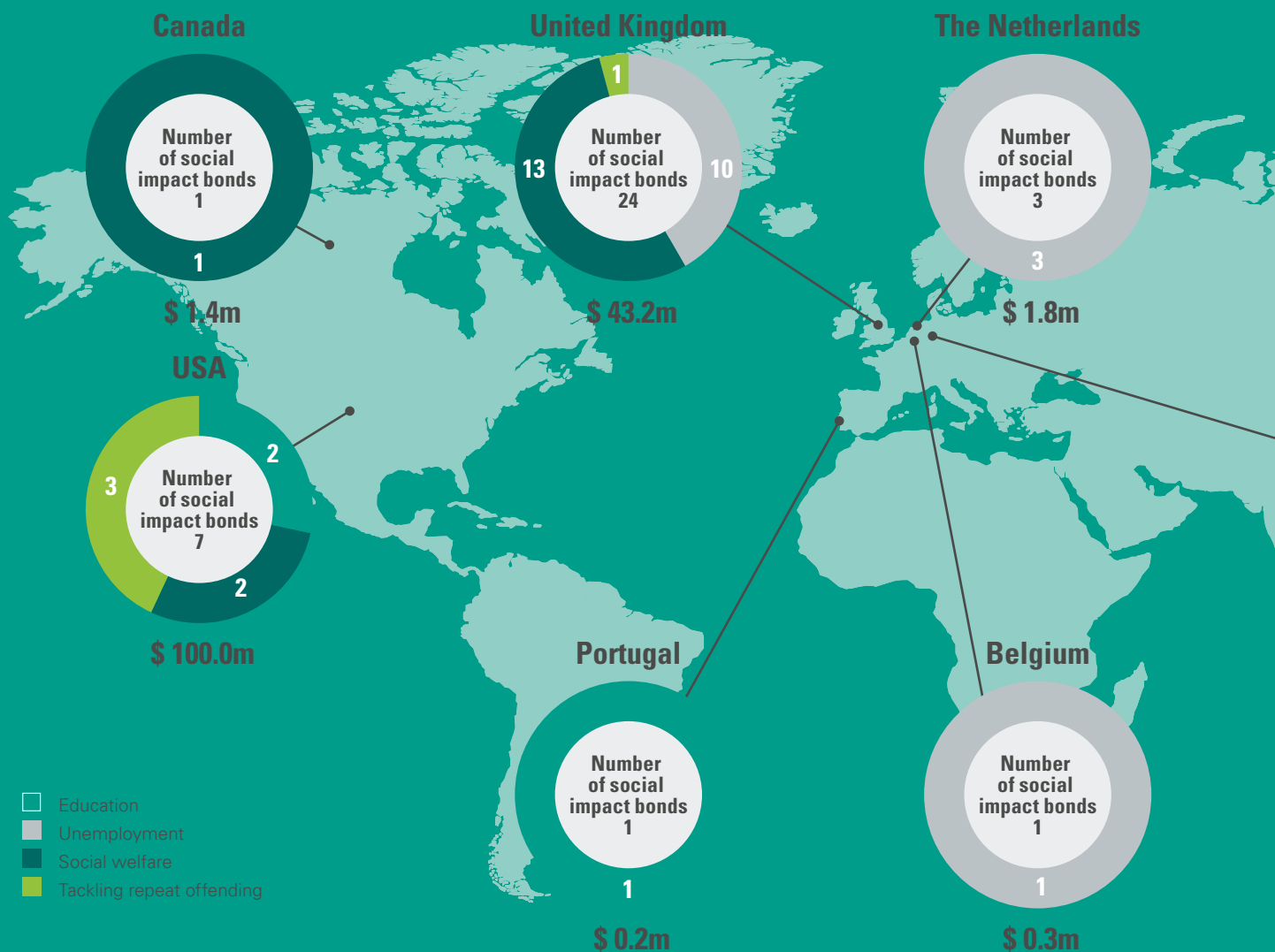


**Emily Gustafsson-Wright**  
Fellow, Brookings Institute

Dr Gustafsson-Wright is a fellow with the Center for Universal Education in the Global Economy and Development program at the Brookings Institute, a leading US think-tank. She has written a seminal report about social impact bonds and is investigating the opportunities offered by this new financial instrument in the context of developing countries.

Figure 1.4

### Known social impact bonds across the world<sup>1,2,3</sup>



<sup>1</sup> The Potential and Limitations of Impact Bonds, 2015, Brookings Institute, Gustafsson-Wright, Gardiner, Putcha.

<sup>2</sup> In a number of cases, the amounts invested in a SIB are not known. These have been given a 0.

<sup>3</sup> Two SIBs launched in the Netherlands after publication of the Brookings report have been added.



**“The United Kingdom has become a global leader on social impact bonds and not just because it implemented the first, but because of the role that its government has played in encouraging their development. Policymakers in the United Kingdom recognise the added value of pay for performance contracts, measuring their impact and the importance of getting private sector commitment, and this has resulted in the development of more than half of the world’s social impact bonds.”**



### Global developments

The past few years have seen policymakers, entrepreneurs and investors across the world get together to promote social progress by way of SIBs. Research<sup>1</sup> by the US Brookings Institute released in July has found 44 SIBs currently under way and – on the available information – over a hundred on the drawing board. One or more SIBs have been reported for the following countries:

- Australia
- Belgium
- Canada
- Germany
- India
- Netherlands
- Portugal
- United Kingdom
- United States

#### Anglo-Saxon lead

Since pioneering the first SIB, the British have stayed firmly in the lead: 24 of the 44 SIBs recorded by the Brookings Institute were agreed in the United Kingdom, with runner-up the United States boasting seven impact bonds. It was not until 2013 that the rest of the world began to follow suit, and the first SIB in Continental Europe was born in Rotterdam, the Netherlands. ABN AMRO and its partners structured the funding instrument to investigate whether the concept would also work outside the Anglo-Saxon world.

<sup>1</sup> Our paraphrase of the definition provided by Social Finance UK: ‘A SIB is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of social and/or financial interest to a government commissioner’.

### Types of social impact bond investors

SIB investments come in many shapes and sizes, and investor types greatly influence the variety available. Banks outside ABN AMRO that have also committed to SIBs:

- Bank of America
- Deutsche Bank
- Goldman Sachs
- Merrill Lynch
- Rabobank
- Triodos Bank (UK)

But there are numerous other investors, typically foundations, family offices and private individuals. A single SIB might have different classes of investors, the most common distinction being that of senior and subordinate investors. As with regular bond holders, the former tend to run less risk than the latter, and accordingly accept lower returns.

#### Charities

Alongside investors expecting a 'proper' return, SIBs often have charities on board to meet a proportion of the funding requirements in the shape of a donation on which they expect no return – although the size of the donation may be linked to the social outcome achieved. Other charities choose not to give a donation but to act as guarantors. Section 2 discusses an example of this latter set-up.

### Does size matter?

Not just the type of investment, but also its size can vary greatly: a mere US \$ 148,000 was committed to the smallest SIB, which was agreed in Portugal, while the largest was established in Massachusetts (US) and amounted to \$ 24.5 million, albeit that donations accounted for the bulk of this particular SIB<sup>1</sup>.

There is a lot of debate about the optimum size of social impact bonds. It is often said in the financial world that small SIBs are not worth the amount of trouble they take to actually put together. However, the experimental nature of this investment instrument often makes smaller SIBs an excellent way of building experience towards bigger deals. What is more, small deals also spark changes in mindsets and measuring across sectors, and their returns are typically much broader than the immediate savings or the social progress linked to the funded social programme.

SIBs are biggest in the United States and are also notably larger in the United Kingdom than outside the Anglo-Saxon world, perhaps simply because the market for SIBs is more mature in these two countries. The United Kingdom's many SIBs are often backed by government funding, especially earmarked to fund any payments – e.g. the Teen and Toddlers SIB described in the section on youth unemployment.

# 'Banks investing in bank robbers'



# Tackling repeat offending

## Situation outside the Netherlands

### Social issue

Fighting crime is top priority for governing bodies of cities and countries across the world. The impact of crime is hard to miss<sup>1</sup>: it does untold damage – emotional and otherwise – to its victims and their loved ones, while many billions need to be spent on private and public security. Offenders arrested for major crimes give rise to expensive criminal proceedings and detention costs. Plus which, the chances of repeat offending are high and the offender might yet cause more damage.

Numerous civil society organisations and political parties have suggested solutions to help reduce crime: from heavier punishment to more police on the beat, to street coaches and resocialisation programmes. In some cases, the outcomes are impressive: Manhattan has become significantly safer in the past few decades and the first outcomes of the Amsterdam Top 600 approach are also encouraging<sup>2</sup>.

One of the big costs in this theme is incarceration. King's College in London puts the number of prisoners in the world at around 9.8 million, almost one-quarter of them in US jails<sup>3</sup>. To help reduce these numbers, a social impact bond (SIB) was established in the United States offering to provide guidance to inmates during incarceration and after their release.

<sup>1</sup> New York Times, Goodman and Baker, 2014. See: [nytimes.com](http://nytimes.com) (New York City murders fall but the police aren't celebrating).

<sup>2</sup> Top 600 facts and figures, Municipality of Amsterdam. See: [amsterdam.nl/wonen-leefomgeving/veiligheid/openbare-orde/aanpak-top600/feiten-cijfers-0](http://amsterdam.nl/wonen-leefomgeving/veiligheid/openbare-orde/aanpak-top600/feiten-cijfers-0)

<sup>3</sup> Kings College 2013, World Prison Population List, 8th edition. See: [web.archive.org/web/20110609165622/http://www.kcl.ac.uk/depsta/law/research/icps/downloads/wppi-8th\\_41.pdf](http://web.archive.org/web/20110609165622/http://www.kcl.ac.uk/depsta/law/research/icps/downloads/wppi-8th_41.pdf)



### Intervention

Nearly half of young offenders incarcerated at Rikers Island Prison in New York will be readmitted within twelve months of their release. Seeking to address this issue, initiator Goldman Sachs announced it would fund an SIB-driven intervention in August 2012, in collaboration with investors, service providers, a philanthropist and an intermediary.

The \$ 9.6 million SIB funded therapy for detained and sentenced adolescents in the 16-18 age group. How much of this was repaid was made contingent on the reduction in the re-incarceration rate. The greater the savings on repeat offending for the City of New York, the more it would repay. If there was no reduction in repeat offences, the approach would be considered ineffective and the city would not have to pay anything.

Goldman Sachs would not be footing the entire bill if the no-reduction scenario were to transpire: the SIB came with an in-built safety net, as Bloomberg Philanthropies put up a guarantee of \$ 7.2 million, limiting the maximum loss to Goldman Sachs at \$ 2.4 million instead of the full amount.

### Structure

Figure 2.1 shows the mechanics of the Rikers Island SIB. Goldman Sachs paid \$ 9.6 million to the bond's intermediary: MDRC, a renowned research agency focusing on social issues such as education, employment and crime<sup>1</sup>. Bloomberg Philanthropies donated another \$ 7.2 million: Goldman Sachs's guarantee. Its conditions specified that it could be put towards guaranteeing new SIBs if the amount was not or only partly used.

The Goldman Sachs \$ 9.6 million then made it to the intervention's service provider, The Osborne Association<sup>2</sup>, in tranches. They started working with these young offenders with the aim of preventing re-incarceration. The Vera Institute of Justice<sup>3</sup> followed the youngsters for two years after their release to measure repeat offending, reporting any reductions in this and concomitant cost savings to the City of New York. New York would then pay MDRC a sum ranging between \$ 0 and \$ 11.7 million and MDRC, in its turn, would pay Goldman Sachs – an amount between \$ 7.2 and \$ 11.7 million, the lower limit being thanks to the guarantee put up by Bloomberg Philanthropies<sup>4</sup>.

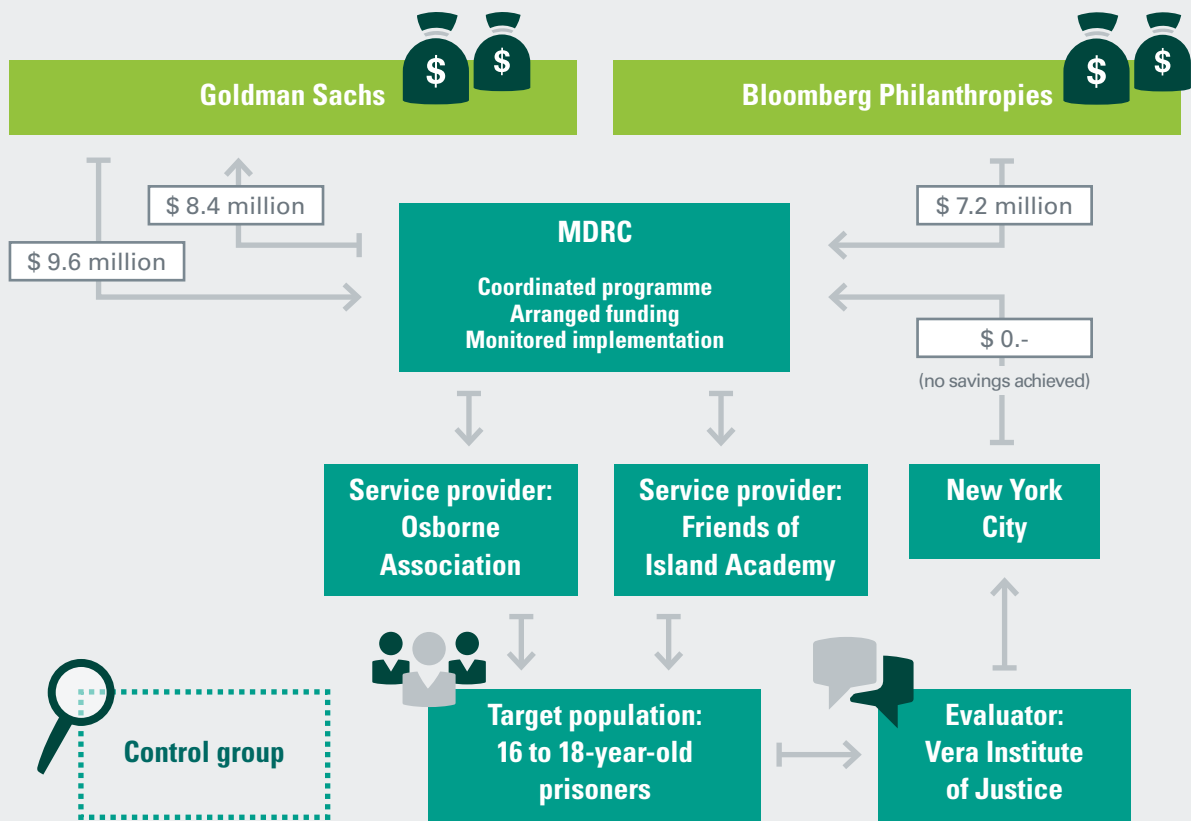
1 Founded by the Ford Foundation and government bodies. Full name: Manpower Demonstration Research Corporation. See: [mdrc.org](http://mdrc.org)  
2 Provides therapy to prisoners and helps them transform their lives. See: [osborneny.org](http://osborneny.org)  
3 A research institute into crime and incarceration. See: [vera.org](http://vera.org)  
4 Rikers Island: The First Social Impact Bond in the United States, Olson, J. and Phillips, A., Community Development Investment Review, April 2013 See: [frbsf.org/community-development/files/rikers-island-first-social-impact-bond-united-states.pdf](http://frbsf.org/community-development/files/rikers-island-first-social-impact-bond-united-states.pdf)



Phillips is in charge of impact investments at Goldman Sachs, whose \$ 150 million Social Impact Fund is 80%-funded by client assets, most of them belonging to high-net-worth individuals. The fund expects to invest 25% of its resources in SIBs in the United States.

**Andrea Phillips**  
 Vice President of Goldman Sachs and  
 Head of the Goldman Sachs Social Impact Fund

Figure 2.1  
**Structure of the Rikers Island social impact bond**



**“This funding mechanism has all eyes trained on outcomes. Granted, targeted outcomes were not achieved at Rikers Island, but the social impact bond has prompted us to measure and share outcomes, and to do everything within our power to improve the intervention. We note that governments and investors are very keen to collaborate on this type of investment.”**

### Outcomes

In July 2015, Bloomberg Philanthropies and Goldman Sachs reported that there had been no significant change in the number of re-incarcerations of former Rikers Island prisoners and so Goldman Sachs was not paid by the City of the New York. Goldman Sachs did not lose all of its money: only \$ 7.2 million of the \$ 9.6 million was actually spent on the intervention. \$ 2.4 million did not get spent, as the final year of the intervention was scrapped. The contract specified that the project partners had the opportunity to terminate the deal early if the intervention failed to yield a satisfactory outcome. The \$ 7.2 million actually spent by Goldman Sachs was covered up to \$ 6 million by the Bloomberg Philanthropies guarantee and Goldman Sachs lost a total \$ 1.2 million. The City of New York did not pay a thing.

### Lessons learned

It is disappointing, of course, that the assistance offered to these young offenders failed to work, but this example does allow us to draw key conclusions about the funding model:

- SIBs are clearly risky investments. Granted, they are called bonds, but they do not come with the same risk profile. In fact, regular bonds are typically ranked among the lowest-risk asset classes, whereas SIBs are considered high-risk investment products. Repayment and returns are linked to human behaviour, which is extremely difficult to predict. Andrea Phillips, Vice President at Goldman Sachs, comments: “Both our colleagues and customers understand that investments such as these are very risky, and us not achieving the target outcomes hasn’t made them any less keen about future SIBs.”
- Independent assessment has established that this particular intervention is not effective enough for this particular target population, and government and/or investors should first investigate where they had best put their capital before committing new money in similar interventions. Independent collection and measurement of the data helps to save on future spending.
- Lastly, the intervention has not cost the government a dime, as it was unsuccessful. No need for taxpayers to foot the bill<sup>1/2</sup>.

<sup>1</sup> Financial Times, 13 July 2015. See: [ft.com/cms/s/0/5eee5f46-293e-11e5-8613-e7aedbb7bdb7.html#axzz3gR87UCs9](http://ft.com/cms/s/0/5eee5f46-293e-11e5-8613-e7aedbb7bdb7.html#axzz3gR87UCs9)

<sup>2</sup> What we learned from the nation’s first social impact bond, 2 July 2015, Huffington Post. See: [http://www.huffingtonpost.com/james-anderson/what-we-learned-from-the-\\_1\\_b\\_7710272.html](http://www.huffingtonpost.com/james-anderson/what-we-learned-from-the-_1_b_7710272.html)

**“The Ministry of Security and Justice is in the process of changing all its subsidy commitments from best-effort to outcome-based agreements. That said, it is impossible to pin down providers in the social field on tough outcome agreements, as they might go bankrupt if the outcomes are poor – particularly the smaller players. Social impact bonds offer us the opportunity to give smaller service providers a chance while still insisting on tough outcome agreements.”**

## Situation in the Netherlands

### Tackling repeat offending

Obviously, crime in the Netherlands is a totally different story. The United States ranks second in the world in terms of the number of prisoners as a percentage of the total population: 707 Americans out of every 100,000 people are behind bars. In the Netherlands, by contrast, that number is only 82, making it a country with relatively few prisoners<sup>1</sup>. However, that does not mean that crime is negligible in the Netherlands. The Ministry of Security and Justice’s Research and Documentation Centre (WODC by its Dutch acronym) estimates the cost of crime to Dutch society at € 31 billion a year, with some € 6.7 billion spent by the government on fighting crime.

A successful intervention in the area of fighting crime can bring untold benefits to both the government and society, both financial and non-financial. It is no coincidence that the first SIBs in both the UK and the US – at Peterborough and Rikers Island prisons respectively – were established to reduce recidivism.

### SIB possibilities

In the Netherlands, too, there are SIB opportunities in the area of fighting crime. Some neighbourhoods in Dutch cities are known for their higher crime rates, for instance, where gangs of youths are known to operate. As early as 2013, research was done to see if a youth gang could be tackled by way of a social impact bond.

As it turned out, the target population was very hard to define: who should be included? And what crimes should be measured? The structure became very complex because of multiple outcome payers for savings on police enforcement, benefits, incarceration and damage caused. And so the proposed approach was abandoned and recidivism became the key focus.

In the Netherlands it is particularly the young who commit crimes. Figure 2.2 shows the number of registered offenders to go up steeply between the ages of 12 and 19, while the number drops equally quickly afterwards and halves by the age of 30. Many offenders stop committing crimes after this age, as they enter a phase in their lives of responsibility and steady jobs, homes and relationships. The same pattern applies to ex-offenders.

<sup>1</sup> World Prison Brief 2014. See: <http://www.prisonstudies.org/world-prison-brief>

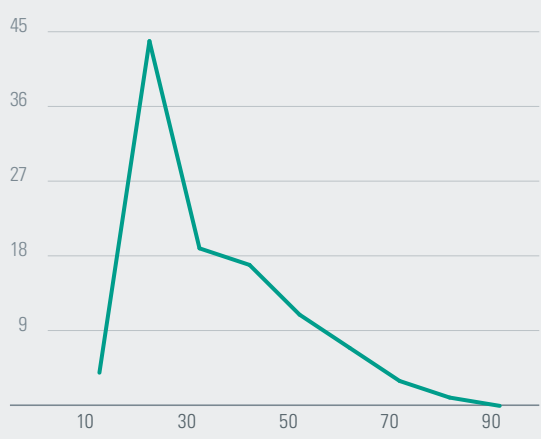


Together with a team of government officials at the Ministry of Security and Justice, Van Breemen is investigating the possibilities for establishing a SIB for ex-offenders.



**Dennis van Breemen**  
Portfolio holder for integrity and gambling, he is also responsible for coordinating international affairs, research and innovation

Figure 2.2  
**Number of registered offenders in the Netherlands (2005) per 1,000 inhabitants, by age<sup>1</sup>**



<sup>1</sup> Jennissen, 2009, WODC, Criminaliteit, leeftijd en etniciteit ('Crime, age and ethnicity'). See: file:///branchesnamespace.solon.prd/branches/P/Global/Users/ko6260/Userdata/Documents/ob277\_vollledige\_tekst\_tcm44-225797.pdf

Reducing re-offending by getting people into work

Figure 2.3 shows to what extent employers are willing to take on job candidates with specific backgrounds: Start Foundation's Profile Acceptance Scale clearly demonstrates that ex-offenders are the least likely to be accepted by employers. It is an ambitious challenge, then, to get former prisoners into work in order to reduce repeat offending.

Agreeing objectives and financial arrangements

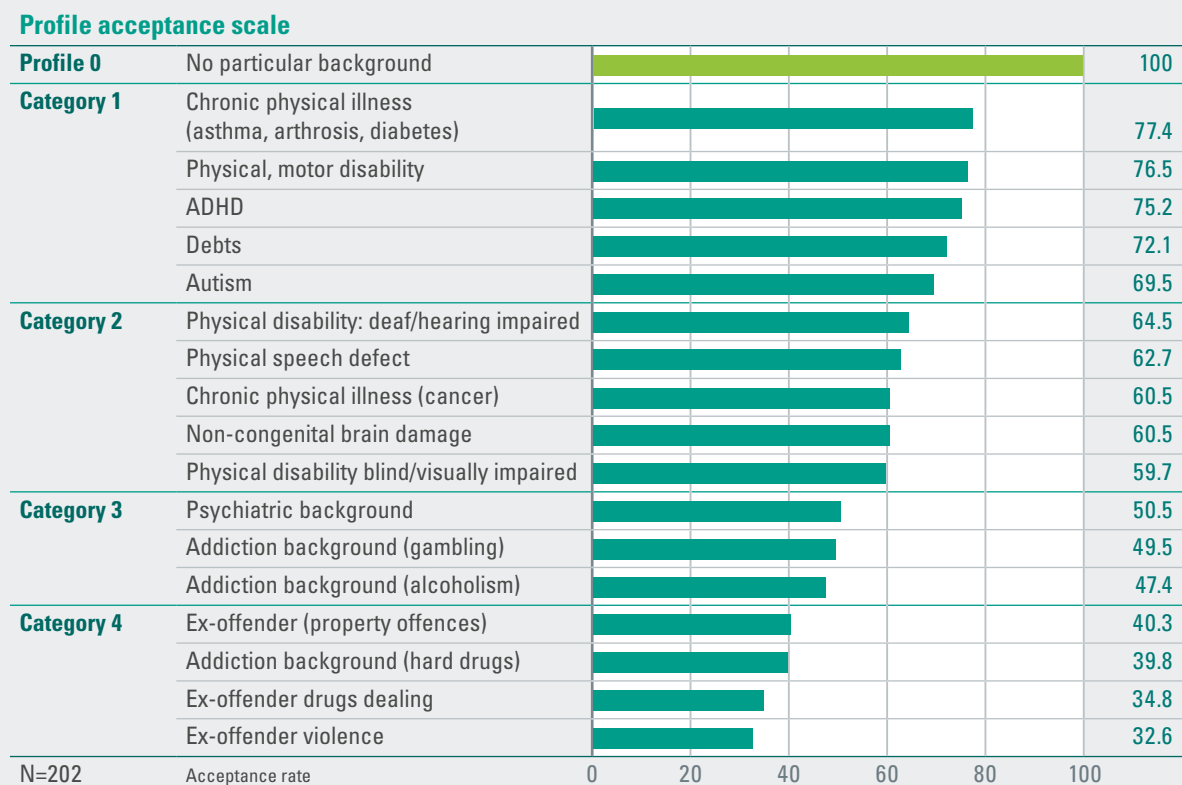
It might be worthwhile for the Ministry of Security and Justice to investigate whether this issue can be addressed with a social impact bond. In this particular case, the Ministry would decide what outcomes it wished to pay for – reduced repeat offending and saving on benefit payments, for instance. The key is to agree on what exactly will be measured.

The next step will be to arrive at a consensus on the parameters to be measured and the measurement methods used, taking on board that not all savings will benefit the Ministry of Security and Justice. For one thing, any reduced dependency on benefits will benefit the municipality in which the former inmate lives, while insurers stand to gain from a fall in crime and material damage. Putting together a SIB will turn into an extremely complex affair if all these parties are invited to join as outcome payers.

"SIBs are an excellent funding instrument in many cases, but they're no panacea for all ills to be addressed in a public-private collaboration. And perhaps it's not such a good idea to scale up too early, as the risk of failure is pretty significant in the early stages. Why not keep projects relatively small-scale and test whether they can be replicated elsewhere? Perhaps get local investors on board – this would enhance engagement and keep a lid on the risks."

Figure 2.3

### Start Foundation's profile acceptance scale<sup>1</sup>



<sup>1</sup> Source: Profile acceptance captures social value contributed by employers, Start Foundation, March 2014

Buckens heads up the ABN AMRO Social Impact Fund and invested in the Netherlands' first SIB in collaboration with Start Foundation. The ABN AMRO Social Impact Fund also invests in Dutch social entrepreneurs such as Beebox, WAAR and BigMove.



**Eric Buckens**  
Director of the ABN AMRO Social Impact Fund

There is a return if more is saved on repeat offences and benefits than the intervention actually costs. Such returns will then be divided between the Ministry, any other outcome payers, the investors and the service provider. If the total amount saved is below the cost of intervention – or if the intervention fails altogether – the investors stand to lose some or all of their investment.

### Challenges

Of course, rehabilitation of prisoners is a prime objective of many government agencies and civil society bodies, from the country's rehabilitation service, to Prison Fellowship The Netherlands, Exodus and The Foundation 180.

The key challenge is to set up the SIB in such a way that the outcomes can be measured as accurately as possible, and so that the scheme allows for optimum innovation as it progresses. Accurate measurement necessitates a collation of various data flows, such as local authority unemployment figures and the Ministry of Security and Justice's recidivism figures.

### Recommendations

Outside the Netherlands, multiple recidivism-focused SIBs have been implemented and their outcomes have proved the efficacy of this method in funding measurable and outcome-focused interventions. The US case highlights the fact that SIBs in this arena are not just a good way to share the risks of interventions with investors – they also entail major risks. A SIB targeting repeat offending is a possibility in the Netherlands as well, albeit that it would present very specific challenges. Although several parties stand to benefit from reduced repeat offending, any SIB would do well to limit the number of outcome payers, e.g. to the Ministry of Security and Justice, possibly working in tandem with municipalities. And, to make full use of the flexibility advantage, the SIB should run longer than regular subsidies, providing scope to make improvements as the scheme progresses.

# Teens take responsibility





# Youth unemployment

## Situation outside the Netherlands

### Social issue

In the wake of the financial crisis, unemployment in Europe has risen sharply in the past few years and, worse still, youth unemployment has grown way ahead of unemployment in the total workforce. The problem is most pressing in Southern Europe: around half of all young people in Greece, Italy and Spain have no jobs<sup>1</sup>. Even ignoring the higher expense for the welfare state, this situation is affecting the future prospects of the younger generation and might well spark social unrest.

A precondition of a successful social impact bond (SIB) is that the intervention's outcomes are easy to define and measure, allowing for concrete agreements with an outcome payer. This precondition is easy to meet in the area of unemployment, which explains why many SIBs have been established in this arena, with youth unemployment being the most notable focus. It is also the area in the Netherlands where most SIB progress has been made to date.

This section first discusses a youth unemployment-driven SIB in the United Kingdom, which generated a large number of measured outcomes but did not lead to immediate savings, and then moves on to the Rotterdam SIB, which measured a single outcome that directly relates to a saving.

In the Anglo-Saxon countries, the term typically used to describe unemployed young people in the ages of 16-24 is 'not in employment, education or training' (NEET). Youngsters between 16 and 18 are not eligible for benefits, while a proportion of young adults who still live at home have not signed up for benefit payments, meaning that they fly under the local authority's radar and are typically not supported. All these young people have one thing in common: they are unable to fully leverage their potential, to the detriment of their immediate environment and society as a whole, but mostly to their own opportunities. A social impact bond in Manchester is trying to address this: Teens and Toddlers.

### Intervention

The UK charity Teens and Toddlers (T&T) rehabilitates vulnerable youngsters by entrusting them with the care of a toddler. The programme collaborates with a local nursery in connecting teens with toddlers, one element in a wider programme that sets up the teens with a T&T mentor and prepares them for jobs or further education<sup>2</sup>. In Manchester, a SIB was established to fund this innovative programme, focused on 1,152 14 to 16-year-olds. Measurements include improvements in performance and truancy levels, and inflows into further education or employment are also tracked.

<sup>1</sup> European Commission, April 2015. See: [ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics)

<sup>2</sup> [teensandtoddlers.org](http://teensandtoddlers.org)

**“In addition to receiving funding, service providers are also given an opportunity to significantly enhance the capabilities of their organisation because of the wide range of parties collaborating in a SIB.”**

## Structure

The initial outlay on the social impact bond amounted to £ 0.8 million, and the first government pay-outs were earmarked for further funding of the programme. Total pay-out could reach £ 3.3 million<sup>1</sup> if all youngsters achieved the maximum possible pay-outs and the investors were to be repaid by the £ 30 million innovation fund established by the UK Department for Work and Pensions (DWP).

Figure 3.1 shows the amounts the Department committed to paying on what outcomes, but the actual amounts will be lower as potential SIBs offered discounts in the bidding process. Unfortunately, there will be no public disclosure on the amounts eventually paid for the various improvements in achievements.

## Outcomes

Teens and Toddlers boasts several positive outcomes, but these do not all generate immediate monetary benefits for the Department for Work and Pensions, the SIB’s problem owner. A number of them reduce costs: if young people are educated and find jobs as a result, benefit payments shrink. Other outcomes bring savings to other government departments: less crime reduces the bill for investigation and incarceration, and thus benefits the government, though not specifically the Department for Work and Pensions.

Figure 3.1

### Pay-out KPIs

#### Scorecard

Improved attitude to school <sup>1</sup>	£ 700
Improved behaviour at school <sup>2</sup>	£ 1,300
Stop persistent truancy	£ 1,400
Obtain first qualification	£ 900
NQF level 1 qualification <sup>3</sup>	£ 1,100
NQF level 2 qualification	£ 3,300
NQF level 3 qualification	£ 5,100 not T&T
First employment incl. training	£ 3,500 not T&T
Sustained employment (26 weeks)	£ 2,000 not T&T

Participants can score only once on each item and the maximum pay-out is £ 11,700.

- 1 As measured by teacher.
- 2 As measured by teacher.
- 3 National Qualification System, typically used in the United Kingdom to measure student progress.



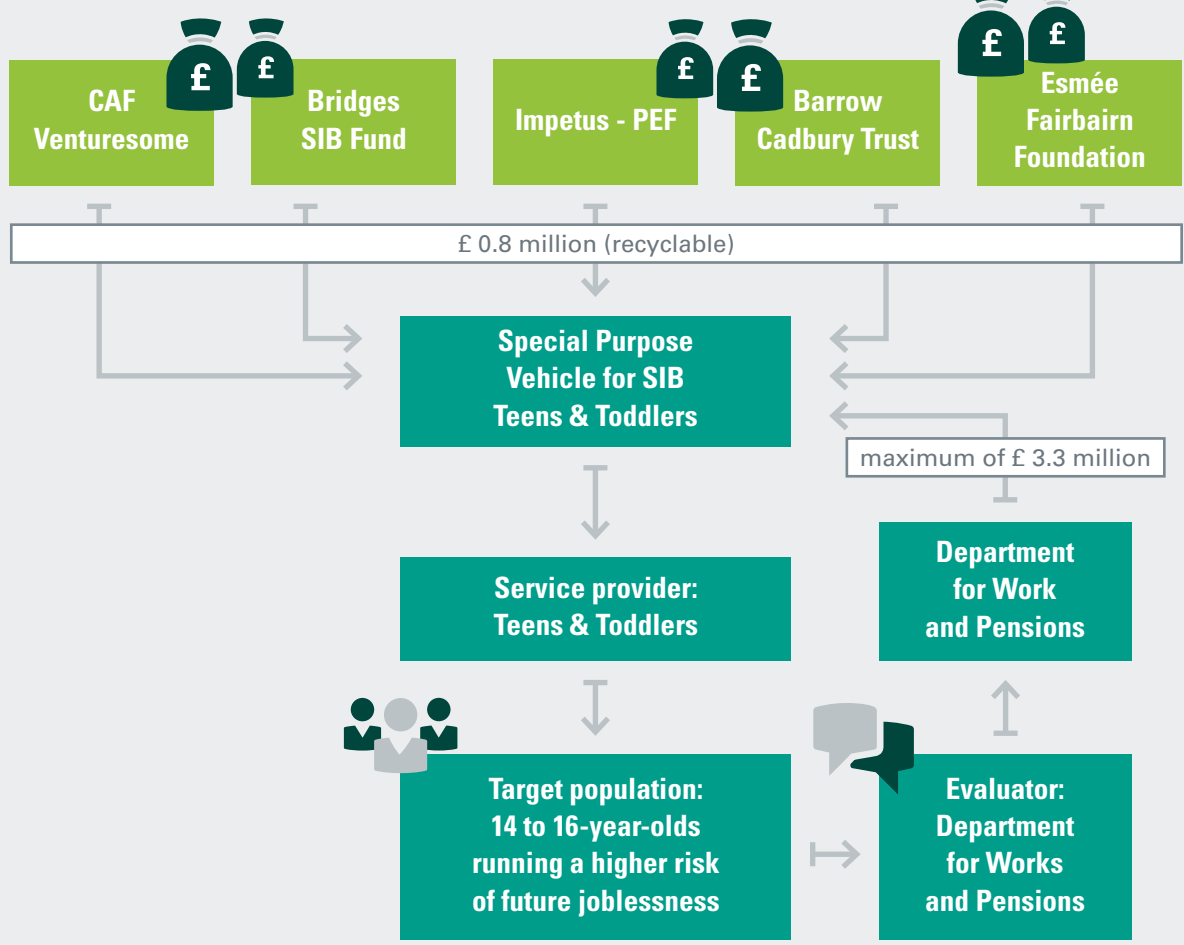
Vennema, an analyst with Social Finance UK, has worked on measuring the outcomes of the Teens and Toddlers programme and previously contributed to Continental Europe's first SIB on behalf of ABN AMRO. He is the owner of Social Impact Consultancy.



**Björn Vennema**  
Analyst at Social Finance UK

Figure 3.2

Structure of Teens and Toddlers social impact bond





**Leo van Loon**  
 Founder Director of the Buzinezzclub

Van Loon helps youngsters on benefits find jobs or start their own companies. Together with coaches from the corporate world, he and his charges try to discover their passion and to achieve their objectives step by step. The Buzinezzclub is now active in Rotterdam, a cluster of six towns and cities in and around Dordrecht, and in The Hague.

The scheme of course also brings savings to players outside the government, e.g. insurance companies. Less theft means fewer claims under home contents insurance and insurers save on claim settlements. As it is extremely hard to get all the relevant players to commit to pay-out agreements, the Department for Work and Pensions created a special £ 30 million innovation fund to be in charge of all pay-outs.

#### Indirect benefits

Aside from socially desirable outcomes that generate immediate savings, other outcomes will not percolate into savings until much later, education being a case in point. A child's school report is hard to translate into less unemployment or better jobs and higher income tax revenues. Projections for such future benefits draw on academic research, putting a price tag on reduced truancy or qualifications gained.

Some outcomes do not generate savings at all, but can still be classified as socially desirable, such as increased happiness levels reported for the target population. This could also feature in a list of agreements: the Department could offer a certain amount if surveys reveal that programme participants are 10% happier than at the start of the intervention.

At the end of the day, it is the problem owner that defines which outcomes are sought, what price the problem owner is willing to pay and how these outcomes should be measured.

#### Lessons learned

Most youngsters in the first cohort of the Teens and Toddlers programme achieved these objectives: the number with a first qualification rose to 75%, while attitude and behaviour also improved. In April 2015, a fresh social impact bond under the Teens and Toddlers programme got under way<sup>1</sup>.

It is particularly interesting to see how the Teens and Toddlers programme manages to make tough outcome agreements on relatively 'soft' outcomes. These T&T SIBs are not just about cost savings – their scope is much wider and targets the social welfare and development of the children in the target population. The programme looks beyond potential savings and also factors in the value that these SIBs might create. This is made possible because the pay-outs are not the domain of a single municipality or government agency, demanding that outcomes directly reflect cost items. Instead, pay-outs are made from an innovation fund that the government specifically created for this purpose.

<sup>1</sup> See: <http://www.charitytimes.com/ct/two-social-impact-bonds-exceed-targets-return-investor-capital.php>

“With social impact bonds we’re no longer a mere service provider, we’re partners to the local authority and investors, and between us we can create the best possible programme and achieve more outcomes with our youngsters.”

## Situation in the Netherlands

### Dutch youth unemployment

Unemployment may be edging down in the Netherlands, but the country still has 603,000 jobless people<sup>1</sup>, 6.9% of the workforce. To date, the Dutch economic recovery has failed to show up in the number of people on welfare: 377,000 at the end of 2014<sup>2</sup>. Unemployment is a regional phenomenon, and jobless numbers are typically even higher in the bigger cities. In the third quarter of 2014, for instance, 12.6% of the Rotterdam workforce was unemployed. In addition, young people are much more likely to be out of work: a hefty 11%, and as high as 24% for young people from ethnic minorities.

In the Netherlands, benefits are paid by local councils, and all jobless people on benefits have their own personal contacts – called ‘client advisers’ – to help them find new jobs. Many local authorities fund small-scale projects to help young people find work.

### Potential social impact bond

The first Dutch SIB in the area of youth unemployment was established in Rotterdam. In 2013, youth unemployment in Rotterdam was as high as 16%, while the outcomes of the various interventions were not always measured accurately. The Rotterdam municipal council turned youth unemployment into an area of focus and started working with private parties to help achieve its goals. Then city councillor Marco Florijn initiated a SIB: “The social impact bond was a way for us to find an efficient business solution for challenges in the social arena, and working with social investors that do not normally play any part helped us to look at these challenges with completely different eyes.”

### Structure

The mechanics of the Rotterdam SIB are as follows. ABN AMRO and Start Foundation pay for a two-year scheme to help 160 young people get off benefits, to the tune of € 640,000. Another € 40,000 was needed to establish the SIB and measure its outcomes. The youngsters embark on a process of discovering where their interests lie and work towards finding a job, setting up their own business or starting training. The Buzinezzclub makes these youngsters part of a community of coaches, advisers and potential employers.

<sup>1</sup> Statistics Netherlands, August 2015 press release <http://www.cbs.nl/en-GB/menu/themas/arbeid-sociale-zekerheid/publicaties/artikelen/archief/2015/werkloosheid-verder-gedaald.htm?Languageswitch=on>

<sup>2</sup> Statistics Netherlands, Werkloosheid en gerelateerde cijfers (‘Unemployment and related figures’), 18 June 2015. See: <http://www.cbs.nl/nl-NL/menu/themas/arbeid-sociale-zekerheid/publicaties/arbeidsmarkt-vogelvlucht/default.htm>

After an intensive six-month programme including a traineeship, personal coaching and group training, the youngsters will receive guidance and assistance for another twelve months. To evaluate the success of the programme, Ortec Finance has developed a formula based on historical data to gauge how long a subject would normally be on benefits – a personalised projection factoring in the length of time they have been on benefits and the level of education previously received.

The time these young people spend on benefits is compared with the projected duration by cohort. To ensure that outliers do not distort the overall picture, calculations are based on the median, and the local authority can save € 39.40 for every day a social benefit recipient comes off benefits sooner than predicted.

If the savings exceed their outlay, the SIB's investors stand to receive a return, and if the Buzinezzclub gets these youngsters off benefits three months faster they will get their money back. From three months upwards, any savings will be divided between the investors, the Buzinezzclub and the local authority<sup>1</sup>. How much the Buzinezzclub receives from the investors depends on its achievements. Figure 3.3 shows how the SIB works in more detail.

## Outcomes

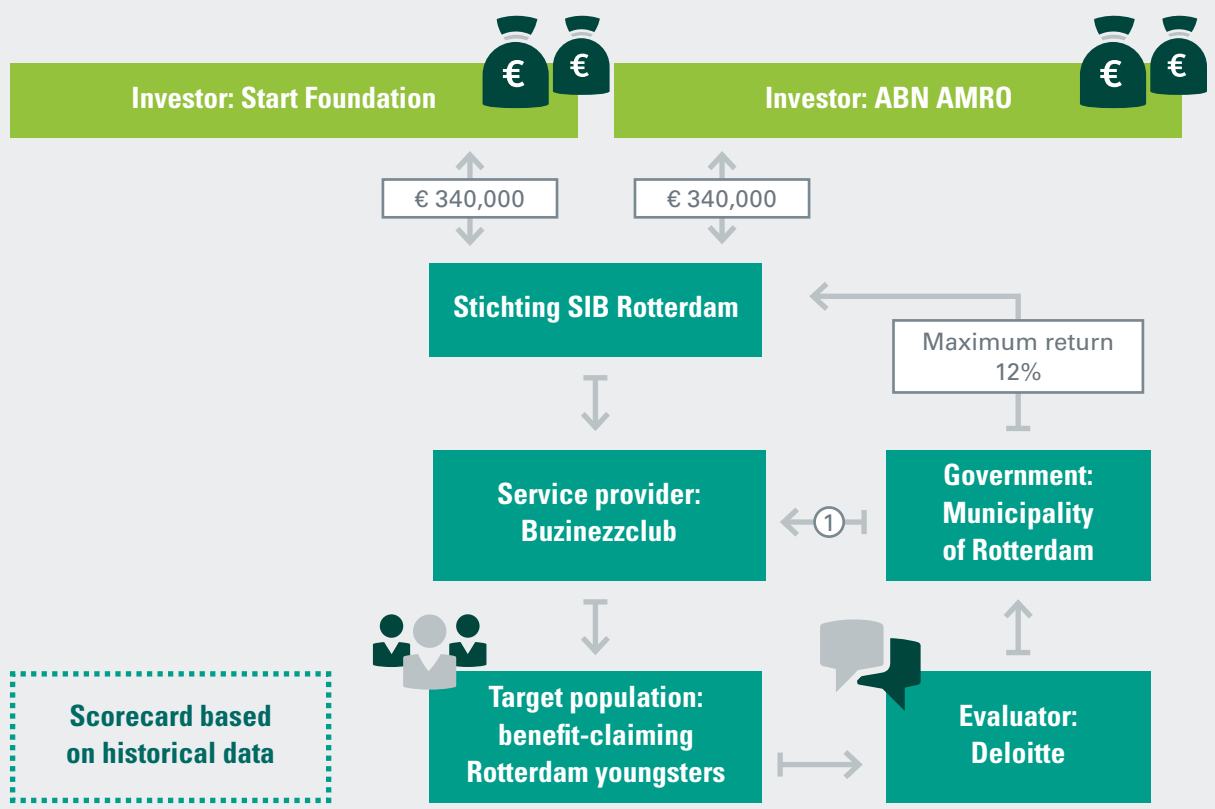
The first year saw 80 youngsters go through the programme, with one cohort starting in March and another in October of 2014. Every quarter, Deloitte evaluates to what extent they are off benefits. The full programme will be offered to 160 youngsters and we will not know until 2017 whether they come off benefits earlier than expected. The programme will be complete when it has been ascertained whether the youngsters' move off benefits has been sustained, and its overall success will not be clear until then: i.e. have both social and financial outcomes been achieved?

## Lessons learned

Continental Europe's first SIB made headline news and garnered a lot of attention from policymakers. To date, the intervention's outcomes are favourable and the evaluation measures are functioning well, with Deloitte measuring outcomes and discussing them every quarter – meetings that are felt to be constructive and that provide new insights.

<sup>1</sup> *Financieel Dagblad*, 19 December 2013; 'Private investeerders profiteren mee van succes Rotterdamse werklozen' ('Private investors benefit from the successes of Rotterdam's unemployed').

Figure 3.3  
Structure of Buzinezzclub Rotterdam social impact bond



1 Premium if target population stays off benefits sustainably.

ABN AMRO has gained the following insights to apply to new SIBs:

- **Preference for longer-term contracts.** With the SIB now running smoothly for two years, it is time to consider longer-running contracts as these offer more scope to introduce innovations and improvements while the intervention progresses – provided that government agencies, investors and (social) entrepreneurs are willing to enter into longer-term agreements of course. Government agencies, in particular, may encounter obstacles when it comes to agreeing financial liabilities way into the future.
- **Optimising evaluation measures.** The evaluation method is functioning well and can serve as a baseline for new measures that factor in more individual data, as the quality of the evaluation measure depends on the quality of local authority data. For even better measurements it is essential that the local authority keep even more accurate track of the reasons claimants go off benefits, as well as personal data.
- **From savings to social welfare.** To remain viable, SIBs can only pay out on a few parameters but it might be interesting to also track and manage on other parameters. One would hope that the intervention has more of an effect on these young lives than merely getting them off benefits. Are they ill less often, do they feel better, do their debts shrink? None of these represent immediate savings for the local authority, but they would be key successes for the subjects themselves – and highly beneficial to society at large.

### Next steps

Since the launch of the Rotterdam SIB, two new employment-based SIBs have got under way in the Netherlands: the municipality of Utrecht agreed a € 734,000 SIB with The Colour Kitchen, Start Foundation and Rabobank Foundation, and the city of Rotterdam agreed a second SIB with Social Impact Finance, Deloitte, Werkplaats Rotterdam Zuid and FondsDBL. The total maximum revenues have been pegged at € 13 million, with a smaller initial outlay. Savings will be recycled back into the programme.

It is good to note employment SIBs moving forward and developing, with both Utrecht and Rotterdam demonstrating that SIBs are repeatable and scalable. Other cities are working hard to follow their example and take the funding instrument a step further.



Health care: prevention is better than cure

# Prevention is better than cure



# Health care

## Situation outside the Netherlands

### Social issue

Health care is a hotly debated issue across the world. In the United Kingdom the National Health Service (NHS) has been on the public agenda for years, and the United States has adopted the Patient Protection and Affordable Care Act ('Obama Care') after decades of political wrangling. The debate may be different from one country to the next, but there are similarities as well. One of these is that health care is typically about curing people who are ill. So there are massive gains to be made in prevention. A health impact bond (HIB) is a type of social impact bond, with health care being the social domain.

In Fresno in the state of California a HIB has been agreed, whose effectiveness will be proven in a pilot project. If successful, the HIB will be scaled up.

### Health impact bond: asthma in Fresno

In the city of Fresno 20.2% of children between the ages of five and 17 have asthma. Twenty of these patients end up in emergency care every day with three of those visits turning into hospital stays, making asthma the main cause of hospital admissions and costing an average \$ 35 million per annum. In fact, some children end up in the emergency department virtually every week; not enough information is provided and low-income families in particular tend to leave treatment too late for fear of hospital charges.

### Intervention

This type of social impact bond is a first, and its partners therefore agreed to run a pilot. Once the outcomes – and thus also the HIB's savings – prove to be measurable, the project will be scaled up. The pilot programme includes 200 young patients from low-income households, and the selected cohort is known to pay 1.5 emergency visits to hospital per year, with 50% of those visits ending in hospital stays.

Community health workers will visit the children's homes, assess triggers for asthma and implement solutions that may include cleaning or removing carpets and other dusty objects, monitoring the use of medication and suggesting behavioural changes to parents, for instance if they smoke around their children.

Monthly follow-up phone calls will be made to the parents to monitor progress, while the health visitors will return every quarter to provide assistance and monitor compliance with best practices. After two years, the historical data will be compared with the pilot group's hospital visits and stays, as well as with the cost of treatment. Projected savings include a 30% reduction in emergency visits and a 50% fall in hospital stays, a saving of \$ 5,000 per child per year.

### Structure

The pilot phase will cost \$ 660,000. As this is just a test, no outcome payer is involved at this stage, but the idea is to get an insurance company on board if the pilot proves successful. Social Finance Inc. is running the project and will monitor progress, and social enterprise Collective Health has taken on responsibility as service provider, providing social workers and health experts to help the families. The initial investment in this proof-of-concept project has been stumped up by investor The California Endowment. The intention is to scale up to 3,500 children with the same investors if savings are indeed recorded. The outcomes are as yet unknown.

### Lessons learned

One particularly interesting aspect of this HIB is that a relatively low-cost pilot study is being run first to prove its potential for success for both investor and outcome payer, and that the project will not be scaled up until it has. This might prove a viable method for other HIBs and SIBs to adopt, particularly in areas with little experience with this instrument such as health care.

**“The Dutch health care sector is in flux, shifting from curing disease to creating healthier populations. HIBs fit this trend perfectly and might just give that little extra push the sector so sorely needs.”**

## Situation in the Netherlands

### Dutch health care

Massive demand is causing health care to be a major drag on Gross Domestic Product (GDP) in the Netherlands, to the tune of 13% in 2014. The CPB Netherlands Bureau for Economic Policy Analysis<sup>1</sup> predicts that this might well rise to 31% in 2040, caused by ageing among other factors – an untenable situation and an important signal for change.

“The health care sector in the Netherlands is far too invoice-driven,” notes Anja van Balen, Sector Banker for Healthcare at ABN AMRO. “Whereas the question should really be: how can we achieve a Dutch population that is as healthy as it could possibly be?” This matches the more preventive approach typical of a health impact bond (HIB), while outcomes are well monitored. To an extent this is happening already, but too little and not often enough. Hospitals and health authorities would be well-advised to share best practices arising from HIB-funded interventions.

### Three improvement objectives

HIBs fits in with the Triple Aim<sup>2</sup> that Donald Berwick of the Institute of Healthcare Innovation<sup>3</sup> (IHI) first defined in 2008:

- 1 improving the health of populations;
- 2 improving the individual experience of care (including quality and satisfaction);
- 3 reducing the per capita costs of care.

### The importance of collaboration

Triple Aim envisages a responsible reduction in the massive cost of health care in many countries, while still ensuring quality. For many health care organisations, not all three goals are equally important, and Berwick stresses the importance of collaboration between organisations that do not typically seek each other out: schools, hospitals, employers and municipal social agencies should find new ways to work and monitor progress together.

Key enablers might well be informal, such as neighbourhood initiatives, but formal and government-driven enablers also have a role to play. HIBs could prove a major driving force, as relatively small projects might prove that Triple Aim can work in the real world.

IHI itself lists five preconditions for a successful Triple Aim:

- 1 focus on individuals and families;
- 2 redesign of primary care services and structures;
- 3 population health management;
- 4 cost control platform;
- 5 system integration and execution.

1 <http://www.cpb.nl/persbericht/3211095/zorguitgaven-blijven-stijgen>

2 [content.healthaffairs.org/content/27/3/759.full](http://content.healthaffairs.org/content/27/3/759.full)

3 [ihi.org/engage/initiatives/tripleaim/pages/default.aspx](http://ihi.org/engage/initiatives/tripleaim/pages/default.aspx)

Banker Anja van Balen has been serving the Dutch public sector for well over eight years, building bridges between the bank and the health care industry, and translating health care rules into funding requirements within the bank. Conversely, she communicates the bank's rules and requirements to health care providers.



**Anja van Balen**  
Sector Banker for Healthcare at ABN AMRO  
Public Sector Clients

#### Learning by trying

In the Netherlands population health management trials are being set up, with health insurers receiving fixed fees for a region's residents. Preventive funding models such as HIBs might work well in such an environment, as they could save money for insurers. In the current health care model, prevention only means extra costs to insurers as they themselves do not benefit from any savings made. The Maastricht area is now running a trial, or 'living lab', called Blue Care<sup>1</sup>, a joint project by health insurer VGZ, social organisation Huis voor de Zorg and a partnership of GPs. More such living labs could create just the right climate for HIBs.

#### e-Health

Another trend changing the face of health care in the Netherlands is the rise of a range of health and care apps, and the rapid development of smart medical tools – e.g. devices that measure glucose levels in tears. First Derm is a mobile service allowing people to send two pictures of an affected skin area for a certified dermatologist to look at to see if a skin spot might be malignant – not just reducing the cost of primary care but also encouraging earlier diagnosis, long before the full onset of an illness, simply by identifying warning signs. The emergence of such apps and various activity trackers should allow for even more effective use of resources, and encourage more active demand for such programmes, creating a bottom-up preventive take on health care – a positive development for HIBs.

#### Potential health impact bond (see Figure 4.1 for its structure)

In 2011, Isabelle Lebrocqy, the founder of oPuce, was diagnosed with bowel cancer and found herself without a job shortly after her diagnosis. Once recovered, she discovered how hard it was to return to paid employment after a cancer diagnosis. To make a difference, she founded oPuce, a social enterprise helping former patients to once again fully participate in the workforce. As life after cancer requires more attention, she also initiated European research into cancer survivorship and put the 'cancer and work' theme on the political agenda in the Netherlands.

Every year in the Netherlands, 80,000 people are diagnosed with cancer, some 40,000 of these in employment (according to the Dutch cancer foundation's committee in charge of flagging and tracking new cancer cases, the Signaleringscommissie Kanker, KWF Kankerbestrijding, 2011) and these numbers are growing. The good news is that cancer is becoming more treatable and is increasingly resembling a chronic ailment – which makes it all the more essential that cancer survivors continue to be able to get jobs. And that is often where things go wrong: one in four cancer patients loses their job, for a number of reasons. First of all, employers often have insufficient information on handling people with cancer, while lingering after-effects of cancer treatment, such as tiredness and concentration issues, can play a part and necessitate a gradual rebuilding of their resilience. ArboNed, TNO and oPuce have joined forces with ABN AMRO to investigate the possibilities of launching a HIB to address the issue, proposing an intervention in which cancer patients receive help and guidance from

1 <http://www.zio.nl/home/blauwe-zorg/>



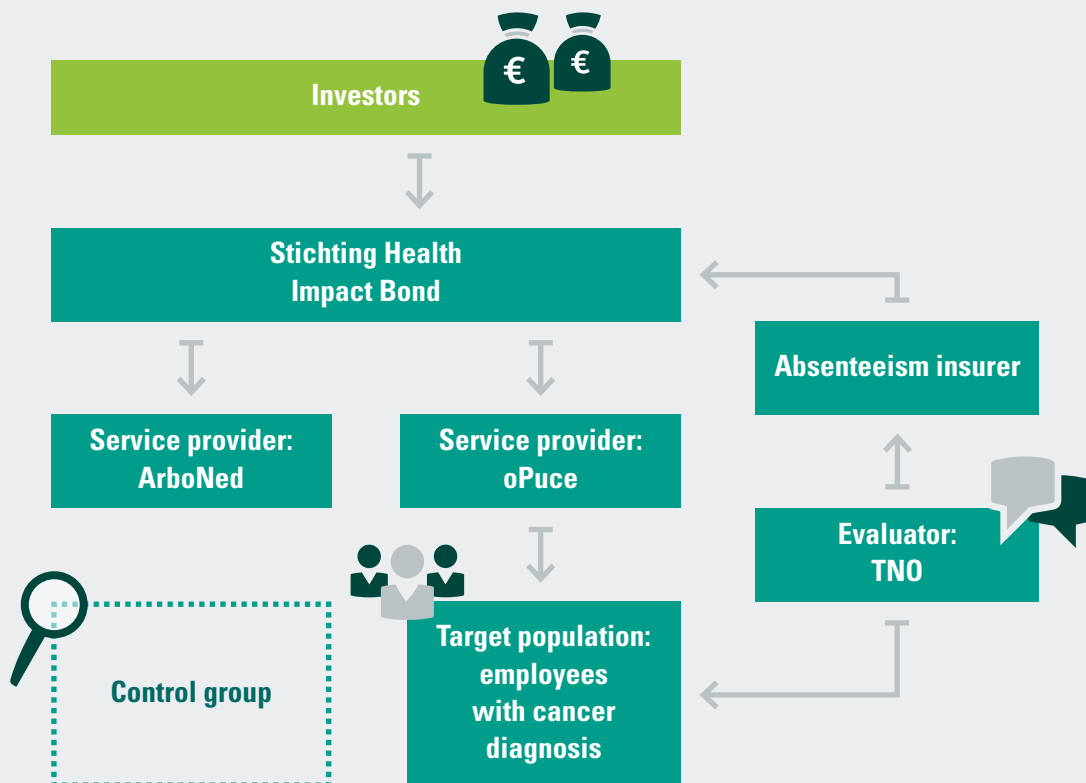
Vermeer actively engages with solutions to social issues in her role at Society Impact. She was commissioned by ZonMw to research the viability and applicability of health impact bonds in the Netherlands, which she carried out in collaboration with EY<sup>1</sup>.

**Freija Vermeer**  
Social Dealmaker at Society Impact,  
and Consultant at Van de Bunt

<sup>1</sup> [zonmw.nl/uploads/media/RapportHIBZonMw3042015\\_01.pdf](https://zonmw.nl/uploads/media/RapportHIBZonMw3042015_01.pdf)

Figure 4.1

### Potential health impact bond



“The value of health impact bonds is that stakeholders engage in a different kind of dialogue by focusing on the relationship between the intervention, the achievements and the savings in the health care arena. The purpose of a health impact bond is to scale up the intervention and to benefit more patients. It’s important that private parties, the government and health insurers commit to achieving savings on health care and facilitate funding of promising interventions.”

the company medical officer, the employer and a job coach, typically also a cancer survivor, to reintegrate in their current position, or to find alternative, appropriate employment with their current employer if the job no longer suits them.

The success of the intervention can be measured by comparing the target population with a control group not in the programme. The proposed HIB will measure resilience, social welfare and health of the cancer survivor. If successful, the intervention should reduce the number of working days lost to sickness absence, which would be good news for both cancer survivor and health insurer – making the latter the most logical outcome payer.

### Challenges

Despite the many obvious benefits and opportunities, not a single HIB has been established in the Netherlands to date. There are many reasons, a few key sticking points being<sup>1</sup>:

- **Causality.** Like any other SIB, HIBs are based on intervention, outcomes and savings. In many cases it is hard to identify an immediate causal relationship between these three elements and even more so to determine its impact. And with impact being a saving on pay-out, the model collapses without a clear relationship.
- **Measurable data.** The effects of an intervention will need tracking and measuring, which is not always possible over a short time scale. In addition, both health provider and health insurer need to be able and willing to release data, with privacy laws often getting in the way of data being shared with all stakeholders in a HIB, making it impossible to adequately measure its effect.
- **Population coverage.** In the Netherlands, insurance companies in HIBs will never have 100% coverage of a population in a selected area, precluding a proportion of the population from joining the intervention if the insurer does not collaborate with its competitors.

By encouraging prevention, HIBs can contribute to a healthier population and help save on health care costs. Most health care schemes across the world are all about cure rather than prevention – one of the biggest challenges HIBs face. What is more, HIBs typically face great complexity in terms of players, with the outcome payer potentially a municipality or a health insurance company. If the latter, only patients insured with the outcome payer will be able to participate, as the insurer does not benefit from its competitors' customers being included in the target population – and the HIB will not be able to cover the entire target population in this case.

It would appear that, in Dutch health care, the time is not yet right for alternative types of funding that facilitate measurement. Once population health management starts to make inroads into the Dutch health care system, HIBs are likely to become more attractive to potential HIB partners, but this will probably take a while to happen.

### Recommendations

At this point, pay-outs are still based on treatment numbers. HIBs, by contrast, attempt to find the most effective method, which in some cases might well entail fewer treatments – potentially reducing the HIB's success rate as, financially, hospitals have nothing to gain from fewer treatments. And so any HIB should factor in hospitals and pay them a proportion of the money saved or a premium per participating patient. An independent evaluator should ensure that the scheme does not just involve patients who are expected to show greater health gains.

If measurability is an issue, a Fresno-style pilot scheme might be the answer, reducing both initial outlay and risks as it would not scale up until the HIB is a proven success.





# New funding possibilities

# Development assistance

## Situation outside the Netherlands

### Foreign development assistance

Development impact bonds (DIBs) are set up in exactly the same way as social impact bonds, but with the outcome payer not a local government but a private party or charity. DIBs might in fact produce returns, but local governments often do not have the resources, expertise or willingness to act as outcome payers. DIBs therefore typically have external investors or 'funders' footing some or all of the outcome payment bill. These funders could be a wide range of different organisations or companies, e.g. charities, development banks, companies or foreign governments.

This complicating factor makes DIBs more difficult to structure, particularly as they need to factor in the different legal structures of the stakeholders. Not surprisingly, only two DIBs have been established to date, although the possibilities would seem endless: in 2013, \$ 135 billion was spent on development assistance<sup>1</sup>.

The perennial question in development assistance is whether the money is spent effectively. DIBs are certainly not claiming to be the ultimate solution to all problems in development assistance, but they can prove beneficial to existing funding mechanisms in some cases, as their social impact is measured directly and is part and parcel of the funding arrangement. This may be an attractive feature for a donor agency looking to enter into new partnerships, to test the intervention and to check that it meets the requirements of the various funders that are looking for demonstrable results.

<sup>1</sup> <http://www.theguardian.com/global-development/2015/apr/08/foreign-aid-spending-2014-least-developed-countries>

A key stumbling block for DIBs is that governments are often unable to act as outcome payer; hence the fact that only two DIB pilots are now up and running. To date, the outcomes of the two pilot schemes are unclear, although these pilots do give an idea of the type of player that might be involved and of the possible indicators informing pay-outs.

### Social issue

In India, 3.7 million girls do not attend school. In Rajasthan, a state in north-west India, on the border with Pakistan, 40% of girls stop going to school before year five and education levels are pretty poor for those who stay on. Only 15% of primary school children are able to read a simple story in Hindi. Uneducated girls are three times more likely to contract HIV, earn 10% less and typically marry three years earlier than girls who have had some kind of education.

### Intervention

Educate Girls is a locally active NGO running a programme to give 20,000 children – boys as well as girls – better access to education and promote better test scores.

### Structure

Children's Investment Fund Foundation was the outcome payer in this development impact bond, with UBS Optimus Foundation acting as its investor and Educate Girls as the programme's service provider. Instiglio managed the project, coordinated communication between stakeholders and advised the DIB on design choices for success metrics, targets and performance indicators, as well as providing performance management services to the NGO.

### Outcomes

The DIB uses two performance indicators:

- 1 the school retention rate for girls;
- 2 the number of years girls stay in education.

As we have noted, uneducated girls run a higher risk of contracting HIV, marry younger and earn less. However, any savings made by reducing these risks will not become apparent until years after the start of the intervention, and the question is whether these can be factored into the DIB's pay-out framework. No information on this particular issue has been disclosed, and neither have any (preliminary) outcomes of the pilot.

On behalf of FMO, Sanders and Mahbouli are investigating how the development bank can play a role in establishing development impact bonds.

**“People sometimes assume that social returns come at the expense of financial returns, but development impact bonds actually marry the two – a very interesting proposition for investors such as FMO.”**

### Lessons learned

This pilot scheme was a test case in more ways than one: the first DIB as well as the first education-based DIB in a developing country. Its purpose was mainly to build a track record for DIBs, to create momentum and to experiment with a new funding model in international development aid. Its creators also wanted to test hypotheses on how to structure this model as effectively as possible and how to get the various stakeholders involved. The outcomes of the tests have not yet been released.

## Situation in the Netherlands

### Dutch development assistance

The United Nations suggest an aid target of 0.7% of gross national product<sup>1</sup>, but few countries make the grade. In 2009 the Dutch development aid budget was still at 0.8%, but the percentage was cut to 0.68% in 2013 and to 0.6% in 2014. Lillianne Ploumen, the Dutch Minister for Foreign Trade and Development Cooperation, aims to further professionalise development cooperation and sees key roles for Dutch trade and business.

Encouraging economic activity in developing countries, corporate social responsibility and international investments are the key policy goals of the current coalition government<sup>2</sup>. To underpin its policies, the government has set up the Dutch Good Growth Fund, for which it has earmarked € 750 million between 2014 and 2016. This fund provides loans to entrepreneurs in low and middle-income countries, and to Dutch companies that are looking to forge partnerships with or wish to export to these countries.

### Potential development impact bonds

Various organisations are investigating the possibilities of establishing DIBs from the Netherlands. One of them is the Amsterdam-based United Nations Common Fund for Commodities (CFC), one of the initiators and promoters of DIBs. CFC recently launched an international pilot DIB, coordinated from its Dutch premises. A range of other DIBs are also in development, but none of them are yet in place.

<sup>1</sup> [oecd.org/dac/stats/the07odagnitarget-ahistory.htm](http://oecd.org/dac/stats/the07odagnitarget-ahistory.htm)

<sup>2</sup> <https://www.rijksoverheid.nl/documenten/beleidsnotas/2013/04/05/wat-de-wereld-verdient-een-nieuwe-agenda-voor-hulp-handel-en-investeringen>

**Martine Sanders**

Capacity Development Officer for Asia & Eastern Europe at Dutch development bank FMO

**Hatem Mahboui**

Investment Officer for Micro & Small Enterprise Finance at Dutch development bank FMO

**Social issue**

The Asháninka are an indigenous people living in remote villages in one of the most biodiverse areas of the planet: the rainforests of the Peruvian-Brazilian Amazon. They get their food from the forest, but extremely limited infrastructure, poor health care and limited education mean that they live below the poverty threshold. To make matters worse, last year nearly 70% of coffee plantations were devastated by an outbreak of *hemileia vastatrix*, a fungus causing 'coffee leaf rust', causing a 50% drop in production.

**Intervention**

The Rainforest Foundation UK supports local farmers to get the fungus under control and has started to build facilities for planting new crops of fungus-resistant coffee strains. Its other aim is to improve the quality of Asháninka cocoa by helping to improve the infrastructure for the post-harvest process, while also rehabilitating the 20 hectares of coffee plantation that were recently lost to coffee leaf rust – an area providing a livelihood to some 40 coffee farmers.

**Structure**

The UN's CFC, the Schmidt Family Foundation and the Rainforest Foundation UK together implemented a DIB to fund the project, their aim being to support indigenous communities in the Peruvian Amazon to rehabilitate their agricultural land. The three stakeholders also help these communities to improve their techniques for growing coffee and cocoa. The Common Fund for Commodities is the outcome payer in this particular arrangement, which will pay the investor Schmidt Family Foundation depending on the achievement of project indicators as agreed in the contract. The Rainforest Foundation UK is the service provider (see Figure 5.1).

**Challenges**

DIBs originated in the Netherlands face the same problems as those originated anywhere else in the world: local governments are unable to act as outcome payers, and external parties will have to be brought on board that do not always act from the same social interest or that are used to funding their social programmes differently. What is more, even if the local authority is not the outcome payer, it is essential that it back the intervention and collaborates.



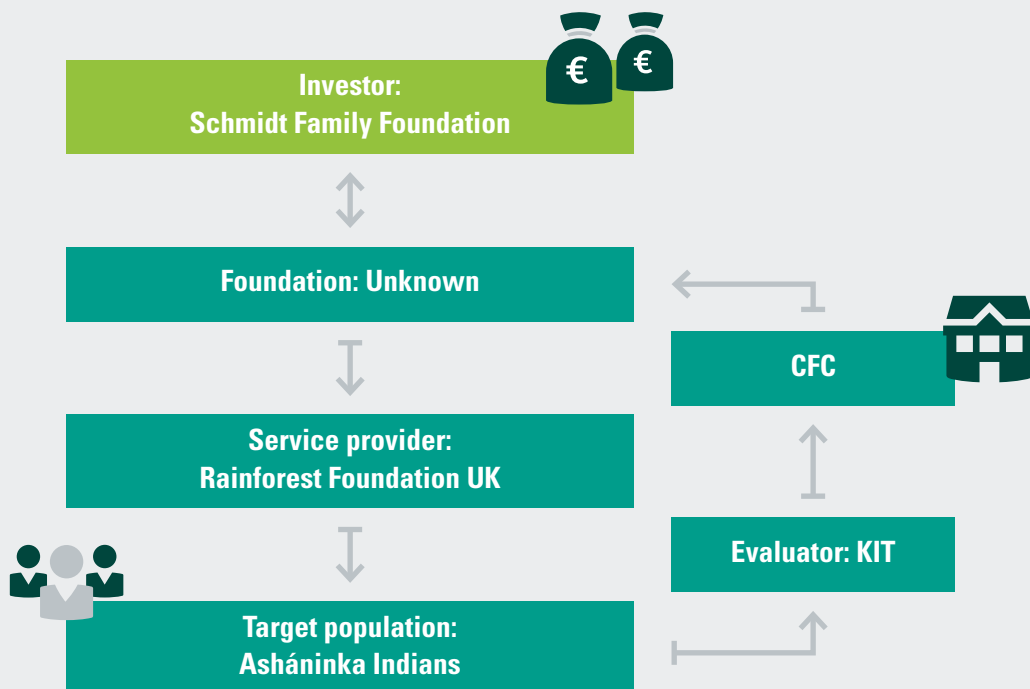
On behalf of the Ministry, Gaemers focuses on innovative funding solutions for development assistance.

### Johannet Gaemers

Senior policy official at the Department of International Financial Institutions of the Dutch Ministry of Foreign Affairs

Figure 5.1

### Structure of Asháninka DIB





**“If development impact bonds can help us shift our focus from output to outcome efficiently, we’ll consider it an interesting funding instrument.”**

Foreign outcome payers need to make sure that the targeted outcomes have broad local support, and knowledge of local conditions and sensitivities is a prerequisite. Successful examples could really make a difference, but as things stand all DIBs are still in their implementation or pilot phases.

### **Recommendations**

DIBs are a perfect match for the current Dutch government’s development assistance policies, which envisage key roles for private parties and external money flows. DIBs would be established a lot more quickly if more private parties put themselves forward as outcome payers, and there are plenty of Dutch multinationals that fit the profile and could structure DIBs in close collaboration with investors, development assistance organisations and the Dutch Ministry of Foreign Affairs. The Koninklijk Instituut voor de Tropen (KIT) has initiated steps to get these potential stakeholders together in knowledge sessions<sup>1</sup>.

1 <http://www.kit.nl/sed/news/piloting-a-pilot-using-financial-mechanisms-to-deliver-results-in-development/>

# Preventing care placement through appropriate action

A photograph showing a man and two children in a kitchen. The man is leaning over a young boy, both looking at a tablet computer. A young girl is sitting at a wooden table in the background, also looking at a tablet. The scene is brightly lit, suggesting a home environment.



# Youth care

## Situation outside the Netherlands

### Social issue

A range of factors can cause children to grow up in an unsafe environment, which has far-reaching repercussions for the children, families and society at large. Youth care has been tasked with ensuring the safety of children, a remit that is approached differently across countries, but also shows similarities: governments stepping in and getting involved in families, invited or uninvited. If the worst comes to the worst, children may require care placement, a final resort with major implications for the involved parties and entailing high social costs.

### Intervention

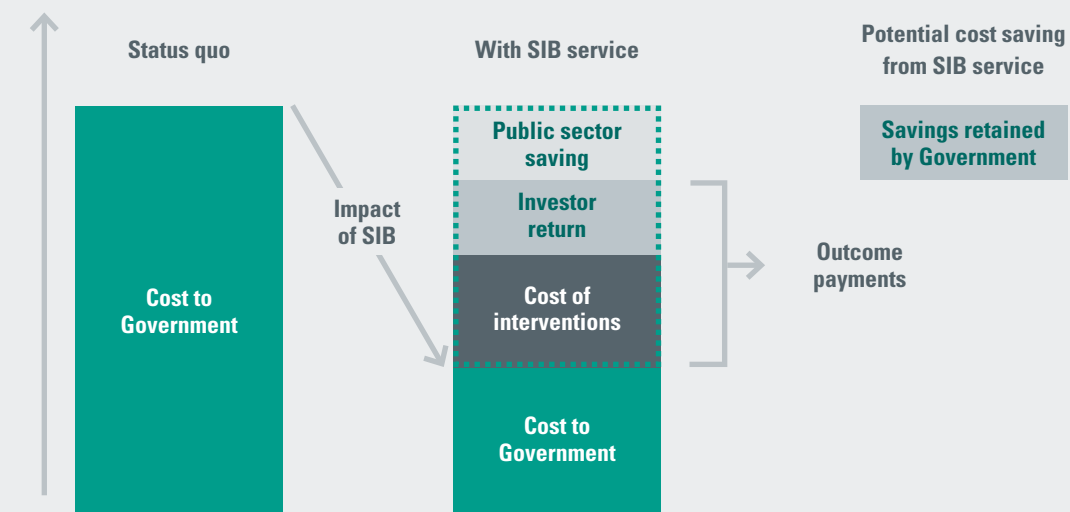
In the county of Essex in the United Kingdom, Action for Children, a youth care NGO, is pursuing an innovative method – Multi-Systemic Therapy (MST) – to help heal relationships between children and their brothers, sisters and parents. The key difference between this and other youth care initiatives is that the therapy is provided at an early stage, i.e. before crisis erupts. Action for Children provides MST to 380 young people between the ages of 11 and 16.

Investment in MST provides much earlier support to families that are not doing too well. The intensive three to five-month programme requires a greater commitment on the part of the therapists working at Action for Children, and that means more money. However, if these early interventions are shown to avoid the need for other far-reaching measures, MST will help save on the massive costs of care placements and foster families.

**“We judge the achievements of the service provider, Action for Children, not only on the savings from avoidance of care placements, but also on the wider outcomes for young people including reductions in offending, improvements in school attendance, in mental health, and in family functioning. In this way we make sure that we focus on the social welfare of the youngsters, as well as on realised savings for the local authority.”**

Figure 6.1

### Calculating the financial viability of social impact bonds (Social Finance UK)<sup>1</sup>



<sup>1</sup> Barclay and Simons, 2013

Bryson works at Social Finance UK (SF UK). SF UK collaborates closely with government agencies, NGOs and investors in addressing social challenges. Bryson is the Lead Director responsible for the Essex County Council social impact bond.



**Tim Bryson**  
Director of Social Finance UK

Placing a child in care in the United Kingdom costs between £ 20,000 and £ 180,000, depending on the length of the placement and whether the child goes to a foster family or a children's care home. On average, care placements cost £ 117,520<sup>1</sup> implying that major savings can be made if fewer children are taken away from their families. If the cost of the total number of care placements prevented is higher than that of the prevention programme, a social impact bond (SIB) might well be the way to go.

But saving costs is not the exclusive purpose of this programme. It aims for children to have a safe and happy childhood, so it also measures other aspects such as school achievements and how happy these young people report they feel.

### Structure

The Essex County Council social impact bond looks as follows: a total of £ 3.1 million was invested in the SIB by nine investors, the best known being Big Society Capital (£ 825,000), Bridge Ventures (£ 825,000) and Germany's Social Ventures Fund (£ 250,000)<sup>2</sup>. Their money was transferred into the account of a special purpose vehicle (SPV) managed by intermediary Social Finance UK.

The SPV pays Action for Children for the NGO's intervention of three to five months, with the youngsters followed for another 30 months and outcomes measured (see Figure 6.2). Essex County Council (ECC) paid a proportion of the savings based on the following outcomes:

- reduction in number of care placement days;
- reduction in school absences and improvement in achievement;
- fewer convictions for indictable offences;
- greater reported happiness.

Measurements are carried out on all four parameters, but the payment matrix is based on only one: the average number of care days saved, as a reduction directly saves costs for problem owner Essex County Council (ECC). What is more, a SIB paying out on a single parameter is a lot easier than a set of parameters.

That said, a great deal of effort is put into measuring the other parameters, with daily contacts with schools about absences, lists of any offences kept for all youngsters and questionnaires completed both at the start and the end of the programme. Intermediary Social Finance UK collects all data and discusses the outcomes in quarterly meetings with the service provider, investors and ECC, with the aim of further fine-tuning the programme.

<sup>1</sup> A guide To Social Impact Bond Development: Supporting Vulnerable Children, Barclay and Simons, Social Finance UK 2013.

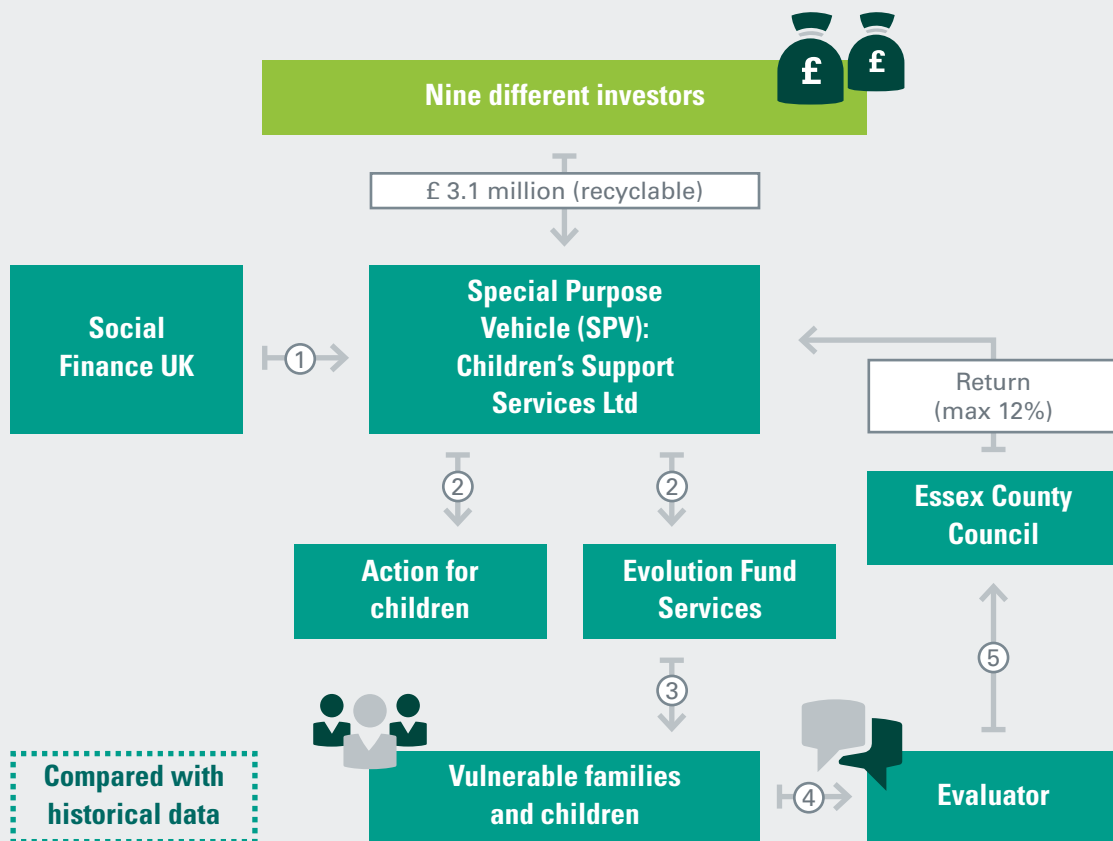
<sup>2</sup> Shardul Oza, 2013. See: [instiglio.org](http://instiglio.org) (analysis of the social impact bond in Essex).



**Marc Dinkgreve**  
Knowledge Ambassador at  
Youth Protection Amsterdam

Health care psychologist Marc Dinkgreve has been with Youth Protection Amsterdam since 2002, first as Regional Director and since 2010 as Knowledge Ambassador and Programme Manager for professionalisation and family-oriented case management. He heads up the research programme and is responsible for collaboration with Dutch universities and domestic and international knowledge partners.

Figure 6.2  
**Essex County Council social impact bond**



- 1 Manages SPV
- 2 Programme costs
- 3 Service to target population
- 4 Measures outcomes
- 5 Communicates outcomes

**“Our mission to keep every child safe means that we want to deliver even better youth care, but this requires extra investments at a time when there is no money. A social impact bond may be a solution, as the local authority only has to pay up when savings have been achieved.”**

### Outcomes

If investors' objectives are met, they stand to receive an 8-12% return<sup>1</sup>. A total of 380 young people were enrolled in the intervention in 20 cohorts. Thirty months after the start of a cohort the final outcomes are measured and any pay-outs to investors made. The programme will take a total five years to complete and go through all cohorts, with the final measurements for the last cohort released eight years after the start of the intervention. The degree of success is compared with historical data and there is no control group in place. Investors stand to lose their entire outlay if no significant improvements are recorded.

### Lessons learned

Social Finance UK has stated that no outcomes are as yet available, as the 30 months following the intervention have not yet been completed for the first cohort, but that preliminary figures are encouraging.

With this being the first local SIB, a lot of lessons have already been flagged. Social Finance UK emphasises the importance of organising and measuring the intervention as locally as possible, making the local community feel that it owns the intervention. Another bit of advice is to keep it simple.

Payment may be based on the reduction in the number of days in care, but other parameters are also carefully measured and service providers managed on them. Detailed metrics are evidence, showing which methods work and which do not. Future interventions will be able to draw on all this data.

## Situation in the Netherlands

### Dutch youth care

In the Netherlands, youth care changed dramatically with the adoption of the Youth Care Act<sup>2</sup> on 1 January 2015, whose aim was to combat fragmentation and compartmentalisation of youth care and which gave local authorities a central, coordinating role. Under the new law, local authorities are responsible for youth care, juvenile probation and rehabilitation, and implementation of protective measures ordered by the juvenile courts<sup>3</sup>.

### Youth Protection Amsterdam

In Amsterdam and its surrounding areas, Jeugd-bescherming Regio Amsterdam ('Youth Protection Amsterdam') is responsible for the care of around 3,200 families, two-thirds of which are receiving voluntary assistance. In one-third of these cases the assistance is related to a decision imposed by the courts, such as being placed in custody, forced care placement or a juvenile rehabilitation measure.

1 [http://data.gov.uk/sib\\_knowledge\\_box/essex-county-council-children-risk-going-care](http://data.gov.uk/sib_knowledge_box/essex-county-council-children-risk-going-care)

2 Youth Protection Amsterdam factsheet, November 2014

3 <http://redactie.nji.nl/youthpolicy/Factsheets/Youth%20Care.pdf>

In the past couple of years, Youth Protection Amsterdam has developed a new and successful approach underpinned by its mission to keep 'every child safe'. Described as 'intensive family-oriented case management' or 'generic family-oriented work', it assigns a case manager to every family, who works with the family to draw up a plan putting the safe development of the children centre stage. These so-called 'family managers' or social workers themselves work in small teams of six to eight people, and the outcomes of this new method – in which families receive more intensive help and guidance sooner – are impressive: the number of children taken into custody dropped by 50%, the number of young people in rehabilitation programmes by 45% and the number of forced care placements by as much as 60%<sup>1</sup>.

These outcomes are major improvements in the lives of the children and families affected and also entail huge savings. (The Essex example gives some idea of the cost of a care placement.)

### Potential social impact bond

Youth Protection Amsterdam is looking to take this a step further and introduce even more intensive support and guidance. The proposed approach, if successful, would save a lot of money but it is proving hard to find the funds, as the local authority will see its costs on youth care rise smartly before it starts to make savings, if any. In fact, many municipalities still pay youth care institutions per care placement – a perverse incentive if ever there was one: it is in the interest of both children

and their families to prevent care placements as much as possible. Payment per care placement means that a youth care institution can get into financial trouble if it manages to prevent court decisions on care placements. Amsterdam is lucky enough to no longer have this system in place: Youth Protection Amsterdam is paid for the care provided per family.

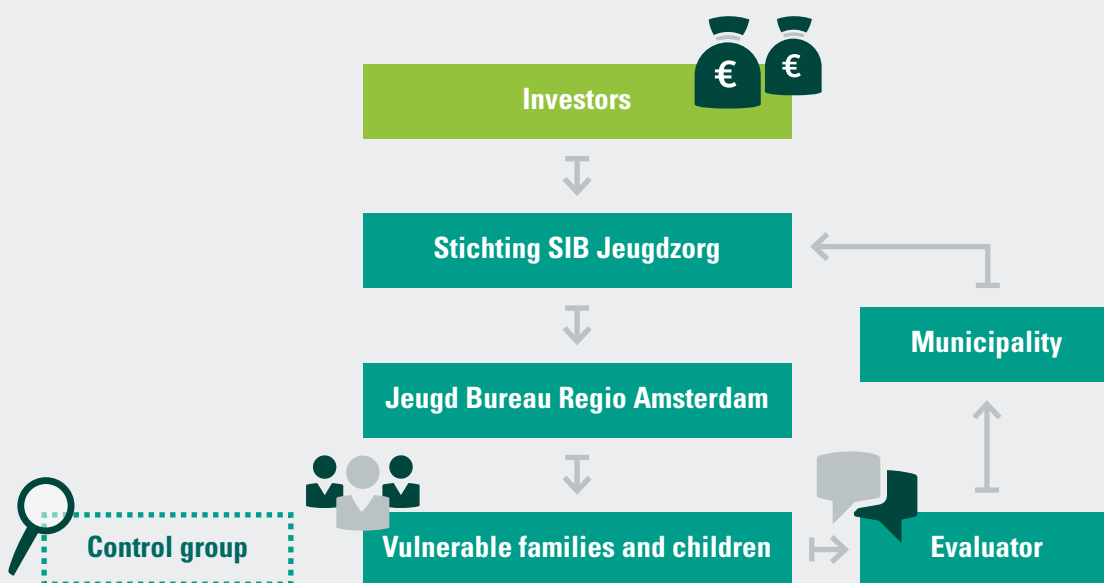
A social impact bond could help Youth Protection Amsterdam improve its service even more. Youth care is the primary responsibility of the local authority and it would make no sense to fund it completely by SIB, but investors might pay for the extra expense of a more intensive approach. Once the SIB is in place and their caseloads are reduced to ten instead of 14 families, family managers will have more time to spend per family. After two years, an evaluator will then assess how these families are doing compared with a control group still being served by family managers with higher caseloads.

### Determining targets

The investors could agree with the problem owner – the local authority in this case – on what achievements would be eligible for a pay-out, which in the case of youth care could be:

- reduction in the number of civil-law measures;
- experience of social wellbeing and sense of safety and security on the part of child and family;
- school achievements and reduced absences of the child.

Figure 6.3

**Sample youth care social impact bond**

### Challenges

The local authorities, investors and service providers will have to agree target achievements and appropriate pay-out levels, but it would be advisable to look beyond savings only. What matters, after all, is that the child feels safe again and can develop fully, and this should also feature high on the list of targeted achievements between the various parties. The biggest challenge is to design a payment matrix reflecting the goals of the local authority in carrying out the intervention in the first place, without making things too complex for the SIB's outcomes to be measured properly.

### Recommendations

Youth care is a very suitable theme for a social impact bond, in which the safety and social well-being of young people should of course take centre stage alongside the potential cost savings to be made. For local authorities a SIB might prove one way to facilitate more intensive contact with families and lower caseloads for family managers, while the impact bond – once agreed and if successful in Amsterdam – might also pave the way for other cities to emulate Amsterdam's youth care approach. All interventions should be supported by solid academic research, ensuring objective measurement of outcomes and preparing the groundwork for future improvements in youth care.



Most recent developments in the Netherlands

# Most recent developments in the Netherlands



# Highly promising environment for SIBs

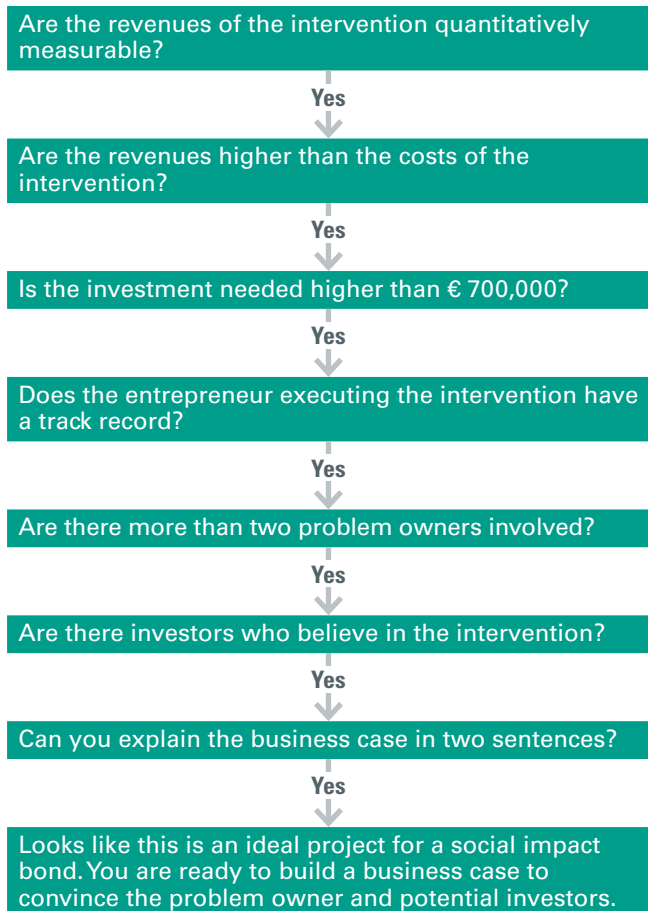
At this juncture, there are three social impact bonds (SIBs) in place in the Netherlands, all in the employment arena, making this country not just the first in Continental Europe with a SIB, but also one of the most active markets after the United Kingdom and the United States.

## ABN AMRO criteria for social impact bonds

Not all social challenges can be tackled with SIBs. The most important criteria for a SIB are for the intervention to be measurable and scalable, and to have a limit on the number of stakeholders needed to make it happen. SIBs also require a positive business case: this might mean a compelling financial case, but possibly also – as we saw in the Teens and Toddlers example – that the government is willing to put a price tag on social impacts. Add in the financial revenues in real terms and we are talking a positive overall case. ABN AMRO has created a social impact bond decision tree to help establish at a glance whether a SIB is a suitable funding instrument (see Figure 7.1).

Figure 7.1

### Is my project suitable for a social impact bond?



No → NOT SUITABLE. A SIB should have a measurable outcome in order to construct a deal that all parties involved can agree on.

No → NOT SUITABLE. Investors will only invest in a project when there is a potential return.

No → DIFFICULT. Structuring a social impact bond is a costly and time-consuming operation. If the investment is € 1,000,000, the cost of setting up a SIB will be too high relative to the potential return.

No → DIFFICULT. If the entrepreneur can show a track record it is easier for the investor to calculate the risk profile of the project and thus easier to negotiate a deal with the right risk/return ratio.

No → DIFFICULT. The more parties are involved, the more complicated it will be to structure and negotiate a deal.

No → GET TO WORK! Explain your ideas to impact investors in order to get feedback on your plan.

No → GET TO WORK! Make sure you have a short pitch to explain the intervention, the potential results and the structure of your particular SIB.



**Marco Florijn**  
Director of Seastarters

As the Rotterdam City Councillor for Work, Income, Health Care and Government, Florijn was responsible for Continental Europe's first social impact bond. He now heads up Seastarters.

## Snapshot of the Dutch social investor community

The Netherlands has a relatively strong community of social investors, and it pioneered impact investments for microfinance. The country also has a lot going for it to make SIBs a success, including a cooperative government, private investors well disposed to the method, and a favourable climate for social entrepreneurs that might act as SIB service providers.

### Government

Dutch local authorities and government agencies are visibly keen to innovate in social entrepreneurship, and are particularly interested in SIBs. The cities of Rotterdam and Utrecht have taken the lead and other municipalities are working hard to follow in their footsteps. At national level, various ministries are looking at different ways in which SIBs might be realised.

### Intermediaries

A range of intermediaries see market opportunities in SIBs, each in their own way. The Society Impact platform<sup>1</sup> focuses on collaboration and knowledge-sharing between various players in the sector and particularly on building bridges between investors and governments.

Social Impact Finance acts on behalf of investors to agree contracts with municipalities, while Twynstra Gudde, a leading consultancy for the public sector, also offers its expertise to help create SIBs<sup>2</sup>.

### Driving forces

Numerous players are committed to a specific element of the business case for SIBs. Deloitte, Ortec Finance and Van Doorne played a crucial part in the creation of the first SIB, while EY, Pimbaa and SEO have also collaborated on SIBs and adjusted their services to fit the new funding model.

### Social entrepreneurs

The service providers are perhaps the most important players in this SIB community, and they tend to be social entrepreneurs that are keen to see results. One example is Leo van Loon, who heads up the Buzinezzclub, and describes SIBs as an excellent way to put outcomes instead of inputs centre stage.

An active investor and initiator of SIBs, ABN AMRO helps to write business cases, shares its experiences in the SIB market and co-creates SIBs together with its partners.

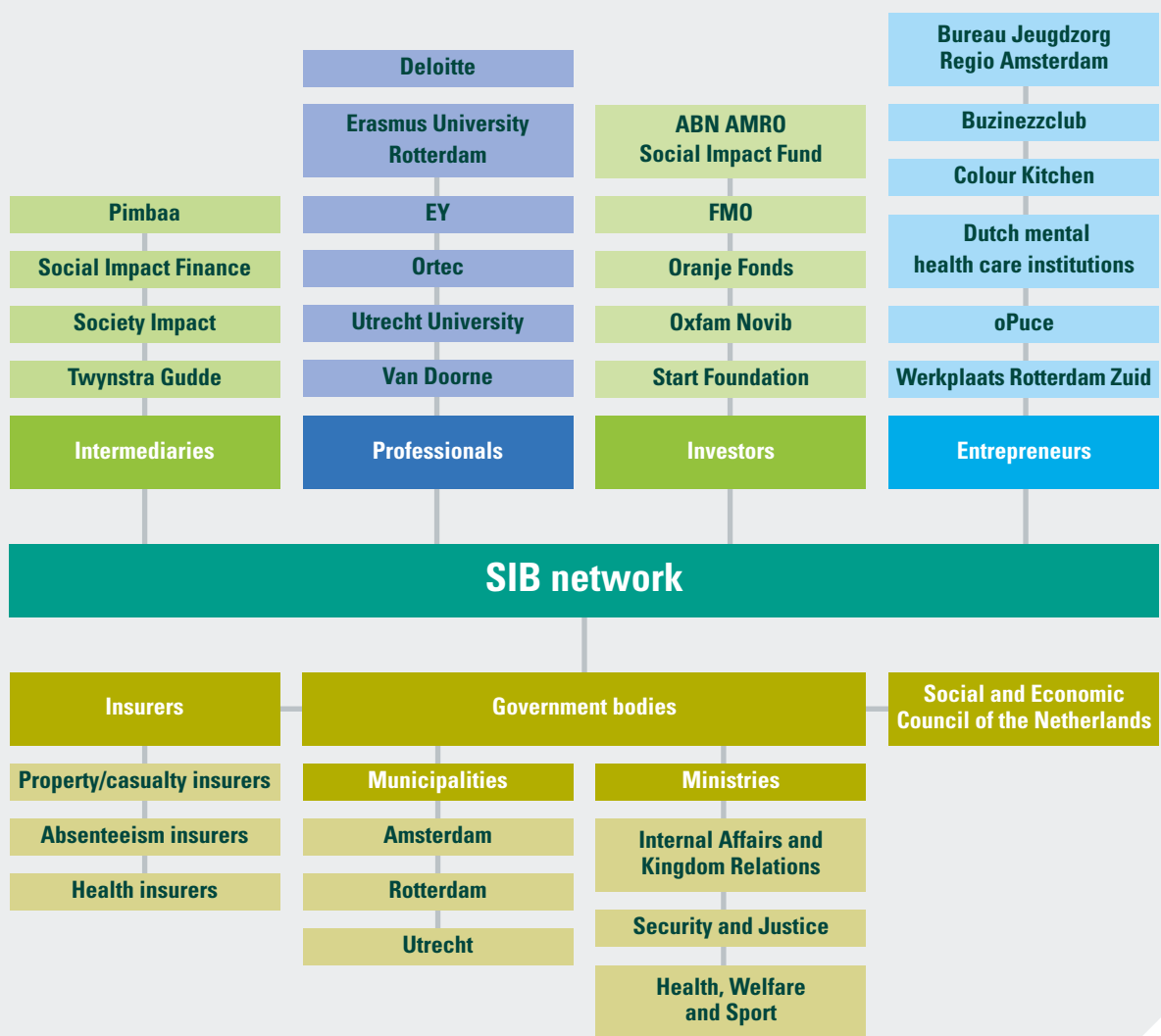
<sup>1</sup> [societyimpact.nl](http://societyimpact.nl)

<sup>2</sup> See: <http://www.twynstragudde.nl/social-impact-bonds-leiden-tot-financiele-en-maatschappelijke-besparingen> ('Social impacts bonds lead to financial and social savings')

“Different types of partners provide new perspectives on problems and solutions. Social impact bonds help local authorities to arrive at agreements about the municipal executive’s budget policies. In the physical domain such as infrastructure they have long been used to earmark funds for the longer term. Not so in the social domain, but social impact bonds allow us to do just that.”

Figure 7.2

Snapshot of the social impact bond network in the Netherlands



**“When agreeing to a social impact bond, the government doesn’t pay for a commitment or inputs but for social outcomes, such as a reduction in unemployment, falling crime or a healthier population. To do this, it is imperative that we measure impact better, as better social impact metrics will help both social entrepreneurs and governments to address social challenges more efficiently.”**

## Opportunities in the Netherlands

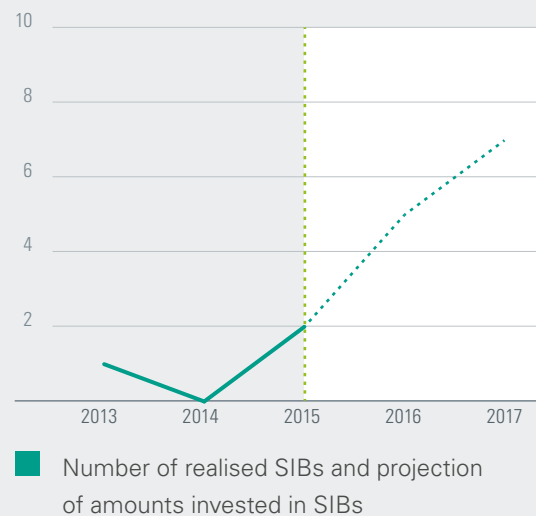
With the first three SIBs up and running in the Netherlands, it is pretty hard to guess where this market is heading, albeit that we see a significant number of opportunities. In the words of former city councillor of the city of Rotterdam Marco Florijn: “A tremendous challenge are the four laws<sup>1</sup> that local authorities now have responsibility for as part of decentralisation. Social impact bonds can be a key way to tackle the consequences of decentralisation, as they cut across domains and shift the focus from executing laws to the social well-being of citizens. Family managers, for instance, can now use a single intervention to focus on work, school achievements, parental support and health.”

The first SIB in the Netherlands was established in 2013, with the second and third created in 2015. As more local authorities, ministries and insurers find their way to this new type of funding, the number of SIBs should gradually grow, ABN AMRO projects.

ABN AMRO sees a lot of opportunities for the Dutch market, and in all sectors described in the previous sections.

Figure 7.3

### Current social impact bonds and projections



Van Praag is Maersk Mc-Kinney Møller Professor of Entrepreneurship at Copenhagen Business School. She is also Professor of Entrepreneurship and Organisation at the University of Amsterdam and crown-appointed member of the Social and Economic Council of the Netherlands. As chair of the Council's Social Entrepreneurship Committee she has produced advice on the subject to the Dutch government.



**Mirjam van Praag**  
**Professor of Entrepreneurship**  
**Crown-appointed member of the Social and Economic Council of the Netherlands**

#### Employment

At this point, by far the largest number of SIBs focus on employment, making it easier for financial backers to gauge the risks and invest in this area.

#### Development assistance

Development impact bonds closely reflect the current Dutch government's development assistance policies, which envisage a major role for private parties.

#### Fighting crime

SIBs allow the Ministry of Security and Justice to effectively manage on outcomes, for instance on the return of ex-offenders back into work and into society.

#### Youth care

SIBs allow local authorities to promote innovation in youth care despite decentralisation pressures.

#### Health care

This sector probably holds out the greatest potential for SIBs/HIBs in view of the size of the market and the problem of rising health care costs. At the same time, it has proven the hardest market in which to agree impact bonds because of its complex structure, and requires excellent collaboration between insurers, local and national government.

The investor community for SIBs in the Netherlands is gradually taking shape, though few deals have been agreed to date – and all of these focus on fighting unemployment. Compared with the United Kingdom, Dutch SIB development is still in its infancy, but various sectors show great potential for addressing social challenges with new SIBs.

# Promoting social impact bonds in the Netherlands

A man and a woman are seated at a wooden table in a meeting room. The man, on the right, is wearing a light green polo shirt and has a beard. The woman, on the left, is wearing a blue denim shirt. They are both looking at a document on the table. The background shows bookshelves and a blurred office environment.



# Recommendations

It takes a partnership of governments, (social) entrepreneurs and investors to establish a social impact bond, and it is essential that all parties in the sector – and not just government – do their bit to take this market further. Drawing on interviews with market parties and its own experiences, ABN AMRO would make the following recommendations:

- **Shift focus from savings to creating value**

Employment-based SIBs have been focusing on savings to be made from tackling the problem, but the social issue ranged much wider: at the end of the day, any SIB will attempt to achieve improvements for a specific target population. In the area of youth care, for instance, the key priority is to give youngsters a safe and carefree childhood, and any savings made are a secondary matter. It is therefore imperative that intrinsic values are assigned to a SIB's non-financial objectives.

- **Measure as many factors related to progress and social well-being as are experienced by the target population, but keep the payment matrix simple**

Not all outcomes can show up in the payment matrix for fear of making the model too complex, but make sure you measure as many as possible – only then will you find out whether outcome agreements have come at the expense of other important outcomes of the intervention. Besides, new interventions may benefit from lessons learned.

- **Focus on deals and make them transparent**

The only way for the market to develop is by agreeing new deals, and this deserves the most urgent attention. In some cases, SIBs have been on the drawing board for two years, whereas experience in the United Kingdom shows that SIB development time can be cut to a period of six to twelve months. The more transparent their structures, the quicker social impact bonds can be created, and the more others can learn from earlier SIB experiences. Investors should follow in the footsteps of government in this respect.

- **Get more financial professionals involved in establishing social impact bonds**

To set up a SIB different worlds will have to pull together, and all stakeholders will need to look at the situation from both a social and a financial perspective. And so governments and government agencies will need more financial professionals and intermediaries to become SIB experts, while governments, investors and (social) entrepreneurs should share their expertise.

- **Set up a fund to pay out for the outcomes of social impact bonds**

SIBs are an excellent way to address several social challenges at the same time – e.g. getting ex-offenders back into employment as well as reducing repeat offences; or lowering the number of care placements as well as addressing family debt in youth care. The problem is that such savings and objectives typically fall into the remit of more than one government department or agency – and are often covered by different budgets even within such agencies or departments. A repayment fund helps, as Teens and Toddlers has proved. It becomes less important where exactly the savings are made if a national SIB fund is in place, and the fund becomes the outcome payer. In addition, fund managers can help regional and national politicians structure SIBs, while initiating government agencies could channel their SIB-driven savings into the fund.

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