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# Social Impact Bonds or the pyromaniac State

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**The subject of "social impact bonds" was first raised by Mathieu Dufour in his article, "Are NGOs the sole purveyors of honourable intentions", published in the previous issue of this review. Here, Joël Le Corre takes a closer look at this mechanism, examining it from the perspective of companies, which are the first to use it, focusing mainly on the State's role in implementing a policy which, although innovative, is contested by NGOs.**

While a number of organizations are showing interest in social impact bonds (SIBs)[1], many others view them with distrust. In his book, *L'Adieu à l'humanitaire?,* Boris Martin carried out an in-depth study of recent developments in the world of humanitarian assistance, from the big comeback of States to the arrival of the corporate sector[2] – as well as the potentially explosive nature of this setup. But when he went to press, SIBs in France were still a project waiting to be implemented. This is no longer the case and – given the rapid pace at which French policy is evolving, shifting from maintaining a monopoly over the "public good" to seeking "social impact investments" in the space of a few decades, it is time for a critical assessment of the situation. The consequences for non-profit organizations, operators of the new policy, need to be measured against the commitments they have made.

## Social impact bonds: the Trojan horse of public policy financialisation

Social impact bonds are complex financing instruments involving a government or public body, a target population, private or social investors and/or philanthropic foundations, intermediary companies, private non-profit or for-profit service providers, as well as consultants, advisers, legal experts and other independent evaluators. Explained more simply by Boris Martin, "the technique consists in getting private investors to finance social outcomes that the public stakeholder (government, local authority or public institution, for example) buys back with interest after the event"[3].

Theoretically, the risk is borne by the investors who, provided the desired social outcomes are achieved, are repaid the principal as well as a negotiable premium which has reached as much as 13% per annum for American SIBs financed by… Goldman Sachs.

[1] Such as Alima whose financial director, Mathieu Dufour, writes: "Launched in France in 2016, this initiative, we feel, was long overdue after it was tested, but now that after several hundred million euros have been expended, it has proven to be a success everywhere in the world". See Mathieu Dufour, "Are NGOs the sole purveyors of honourable intentions?", *Humanitarian Alternatives*, n°6, November 2017, p. 34, http://alternatives-humanitaires.org/en/2017/11/17/are-ngos-the-sole-purveyors-of-honourable-intentions/

[2] Boris Martin, *L'Adieu à l'humanitaire ? Les ONG au défi de l'offensive néolibérale*, published by Editions Charles Léopold Mayer, November 2015 [in French], now downloadable from: http://docs.eclm.fr/pdf_livre/374adieuahumanitaire.pdf See p. 84-88 for CIS/SIB.

[3] *Ibid.*, p. 84-85.

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The objective is to achieve measurable results in the social sphere and reduce the costs that the public commissioner would otherwise have incurred. The financial gains made are supposed to pay the intermediary, ensure a satisfactory return for the investor and provide savings for the public authority.

In the example of the London-based SIB, London Homelessness, described to perfection by Christine Cooper and her colleagues[4], the desired "social" outcome is to provide shelter for homeless people in central London. The commissioner is the Greater London Authority, the payer is the Department for Communities and Local Government, the investors are represented by a consortium of philanthropic and charitable organisations, the intermediaries are the company, Social Finance Ltd, and the Dutch bank, Triodos, and the delivery agencies and service providers are the charities, *St Mungo* and *Thames Reach*. The target population is made up of a list of 830 homeless people, referred to as "inbetweeners". The operating method is based on "navigators", employees with temporary work contracts whose job is to help homeless people find accommodation, possibly employment, or even to return to their home countries. A prior determination of how much the presence of these people on the streets costs the public authority forms the baseline for evaluating the programme. The database used for this cost determination comprises information entered by a whole range of agencies. As for the tribulations of each "inbetweener", they are measured by an indicator defined to justify the (non-)repayment of the capital invested and its premium. If the social outcome is achieved, the return on investment recommended by the intermediaries for this SIB is 12% per annum. Thus, according to Christine Cooper, "the application of specific selection criteria to the […] database represents a means by which human capital could be identified, improved, worked on and/or made into a source of profit" [5].

**Big society and the socialfinance market**

Initially devised by an economist from New Zealand at the end of the 20th century, the principle of social impact bonds was introduced into the United Kingdom by Sir Ronald Cohen, a British businessman, often referred to as the "father of venture capital and social investment"[6]. In 2007, he founded Social Finance UK, a private London-based organization working to create a social investment market in the UK.

The first social impact bond, aimed at reducing re-offending among prisoners, was launched in 2010 under Gordon Brown's New Labour government, shortly after the sub-prime crisis. But it was under David Cameron's conservative government and as part of its Big Society project that SIBs really took off. The three pillars of this Big Society, as announced by the British Prime Minister in a speech on July 19th, 2010, are fostering a culture of voluntarism and philanthropy, reforming public service by "getting rid of centralised bureaucracy" and opening it up to new providers like charities and companies, while "creating communities of daring people in neighbourhoods taking again charge of their own destiny[7]".

This announcement was made against a backdrop of bank bailouts and recession caused by the crisis of 2008 which had resulted in a dramatic reduction in public and social budgets, as well as

[4] Christine Cooper, Cameron Graham and Darlene Himick, "Social Impact Bonds: The securization of the homeless", *Accounting, Organizations and Society*, vol. 55, November 2016, p. 63-82.
[5] *Ibid.*, p. 78. The authors draw on Michel Foucault's lectures on neoliberalism: Michel Foucault, *Naissance de la biopolitique, Cours au Collège de France 1978-1979*, Gallimard/Seuil/EHESS, coll. Hautes Études, 2004, p. 221-244.
[6] Ronald Cohen, https://en.wikipedia.org/wiki/Ronald_Mourad_Cohen
[7] David Cameron, "Le vent nouveau de la Big Society", *Le Monde Diplomatique-Manière de voir*, n° 153, June-July 2017, www.monde-diplomatique.fr/mav/153/CAMERON/57546

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in public financing to the third sector. One of the tools of this Big Society policy was the social impact bond.

Contested in the United Kingdom, where already severe inequalities – the fruit of several decades of New Public Management – were increasing, David Cameron sought international recognition to lend legitimacy to his choices, while strengthening his internal policy with legislation and white papers. In 2013, under the United Kingdom's presidency of the G8, Cameron appointed Sir Ronald Cohen as chairman of the Social Impact Investment Taskforce which brought together G8-country representatives mandated by their governments. The Taskforce's final report was entitled "*The invisible heart of markets"*. For Sir Cohen, "the world is on the brink of a revolution in how we solve society's toughest problems. The force capable of driving this revolution is social impact investing which harnesses entrepreneurship, innovation and capital to fuel social improvement"[8]. In his speech of January 23rd, 2014 at the Mansion House in London, he evaluated the United Kingdom social impact investment market at 150 billion pounds (€170 billion) per annum, an amount equivalent to around half of the government's social budget[9].

**Imported to France**

In France, Hugues Sibille, former executive vice-president of the Credit Cooperatif mandated by the minister, Benoit Hamon to represent France on the G8's Taskforce, wrote a report supporting the introduction of social impact bonds[10]. He evaluated the market in France as being smaller than in the UK but, as the report included the whole of Sir Cohen's Mansion House speech, he was no doubt seeking to imply that France's ambitions could be reviewed upwards. This report was submitted to the Secretary of State for Trade, Crafts, Consumer Affairs and the Social and Solidarity Economy, Carole Delga, in September 2014, who promptly announced that "no further action would be taken" and that "the search by solidarity investors for short-term social impact should not be allowed to undermine the pillars of France's social impact investment model: sustainable solidarities built around social enterprise and national solidarity mechanisms, as well as the essential role of public services"[11]. Her successor, Martine Pinville, did not show the same disinclination. In March 2016, her office launched a call for tenders for social impact bonds, along the lines of a social innovation talent contest, with submitting investors free to decide the theme of their proposal.

The first two bonds were ratified on November 24th, 2016 in the presence of President Hollande. They focused on training for auto-entrepreneurs – another item in the neoliberal glossary – in deprived urban and deserted rural areas. Thus, ignoring warnings from the *Haut Comité à la Vie Associative*[12], [High Council for Associations], the *Collectif des Associations citoyennes* [Citizen

[8] *Impact investment: the invisible heart of the markets. Harnessing the power of entrepreneurship, innovation and capital for public good*, p. 1, http://www.socialimpactinvestment.org/reports/Impact Investment Report FINAL%5B3%5D.pdf[author's translation].

[9] Sir Ronald Cohen, *Revolutionising Philanthropy: Impact Investment*, Mansion House speech, Thursday 23 January 2014, http://www.portlandtrust.org/sites/default/files/newsfiles/revolutionising_philanthropy_impact_investment_-sir_ronald_cohen_-_mansion_house_speech_-_jan_2014.pdf [author's translation].

[10] *Comment et pourquoi favoriser des investissements à impact social ?, Innover financièrement pour innover socialement*, French Committee report on social impact investments September 2014, www.economie.gouv.fr/files/files/PDF/RapportSIIFce_vdef_28082014.pdf

[11] Carole Delga, Secretary of State for Trade, Crafts, Consumer Affairs and the Social and Solidarity Economy, Press release n°069 of 14 September 2014 http://proxy-pubminefi.diffusion.finances.gouv.fr/pub/document/18/18037.pdf

[12] Opinion of the Haut Conseil à la vie associative [High Council for Associations] concerning the call for "social impact bonds" projects, 2 March 2016, http://www.associations.gouv.fr/IMG/pdf/Avis_du_HCVA_relatif_a_l_appel_a_projets_SIB_02-03-2016.pdf

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Associations Group] [13] and even from the OECD[14], the French government forged ahead. Today, there are around ten SIBs operating in France. In 2017, the number of closed SIBs worldwide was evaluated at 25 (including 19 in the UK) and the number of active SIBs at 67 (including 13 in the UK). Another 29 were in the pipeline in various countries. Adaptations of SIBs have also been developed for use in other contexts. Known as Development Impact Bonds or Humanitarian Impact Bonds, they are promoted and even implemented by the UNDP and the ICRC. But they work in exactly the same way as a SIB: private investors pre-fund projects and public, national or multi-national commissioning bodies "buy" the outcomes.

**Strong but ignored objections**

The enthusiastic communication material found on SIBs is mainly the work of intermediaries – audit companies, financial and legal engineering specialists (KPMG, Deloitte, etc.) – who we might suspect of being particularly in favour of seeing more of these bonds. But the scientific analyses or activist viewpoints are emerging mainly from the Anglo-Saxon countries as they have the most hindsight. These workings include an exhaustive study by Dexter Whitfield[15], various publications by research lecturers Michael J.Roy, Stephen Sinclair and Neil McHugh[16], the particularly interesting study by Christine Cooper, Cameron Graham, and Darlène Himick[17] mentioned earlier, as well as articles by Mildred E.Warner from Cornell University. In France we can cite the workings of researchers from the *Institut Godin*[18] and Frédéric Marty who have carried out meta-analyses of SIBs in Anglo-Saxon countries, or those of Nicole Alix and Eve Chiapello on the concept of social impact[19]. Criticisms are aimed at the cost of setting up SIBs, the complexity of the areas of intervention and difficulty in measuring the social outcomes, the manipulations and instrumentalization involved in the payment of these outcomes and the political and ethical questions raised.

As for the beneficiaries, they are never involved in developing these projects and the services provided do not necessarily meet their needs, as these are formatted first and foremost to suit the expected outcomes. Treating people as if they are "fictitious commodities", to use Karl Polanyi's expression, can only undermine social cohesion. According to Christine Cooper and her colleagues the London Homeless SIB, "as an ostensibly market-based solution to a social problem, […] carries with it the plethora of neoliberal rationalities. It 'cures' homelessness not by 'curing' society but by removing society from the equation."[20]

Given the amount of money in play in SIBs and the technical competence required, the delivery agencies – NGOs, charities or "social" enterprises – need considerable expertise and management capacities. Only the biggest organizations can hope to be eligible. The costs avoided

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13 Collectif des associations citoyennes, *Les Contrats à Impact Social: des SIB à la française !,* http://www.associations-citoyennes.net/?p=7662

14 OCDE, *Social Impact Bonds: Promises and Pitfalls*, http://www.oecd.org/cfe/leed/sib-seminar-2015.htm

15 Dexter Whitfield, *Alternative to Private Finance of the Welfare State: A global analysis of Social Impact Bond, Pay-for-Success and Development Impact Bond project*. 2015, Adelaide: Australian Workplace Innovation and Social Research Centre, The University of Adelaide, www.european-services-strategy.org.uk/wp-content/uploads/2015/09/alternative-to-private-finance-of-the-welfare-state.pdf

16 Michael J. Roy, Neil Mc Hugh, Stephen Sinclair, "Social Impact Bonds : evidence-based policy or ideology?", *in* Bent Greve (ed.), *Handbook of Social Policy Evaluation*, Edward Elgar Publishing, March 2017, www.researchgate.net/publication/313889147

17 Christine Cooper *et al.*, "Social Impact Bonds…", art. cit., p. 80.

18 Emmanuelle Besançon, Sylvain Celle, Nicolas Chochoy, Thibault Guyon et Yannick Martell, "L'investissement à impact social : vers une financiarisation de l'économie sociale et solidaire ?", XVe rencontres du RIUESS, Reims, Institut Godin, May 2015, http://base.socioeco.org/docs/besancon_chochoy.pdf

19 Eve Chiapello et Nicole Alix, "La mesure de l'impact social comme nouvelle panacée : l'industrie financière veut 'changer la vie'", *Les voyelles*, April 2014, www.les-voyelles.org/2014/04/24/la-mesure-de-limpact-social-comme-nouvelle-panacee-lindustrie-financiere-veut-changer-la-vie-2/

20 Christine Cooper *et al.*, "Social Impact Bonds…", art. cit., p. 80.

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are due in part to "the distinctive way these entities are structured, made up of voluntary workers and committed employees, accustomed to self-sacrifice, highly qualified, cheap and flexible"[21], who carry out public interest missions in place of civil servants. Their immersion in the world of business and finance may lead to institutional isomorphism, a loss of values and of the sense of the action.

Democratic accountability and transparency are absent. The State outsources both its services and its control functions, such as the steering and evaluation of public policies, for example, entrusting them to market players. By embedding these projects in the accounting systems of financial markets, "the State loses some of its ability to evaluate critically its own activities from a human and policy perspective"[22]. According to observers, what really motivates SIBs in Anglo-Saxon countries is not the desire to improve public policies, but to increase the amount of private investment in the financing and delivery of public services.

**From public good to social impact: what are the perspectives for French NGOs?**

There is general agreement that those countries with the highest level of social protection, and so of Keynesian redistribution, withstood the 2008 crisis better than the rest, and that those with the most philanthropic institutions are the least egalitarian, so why has France decided to head down the dangerous road of financialising its social policies?

Under President Hollande, factors may have included pressure from and political vicinity to the *milieu* of the Social and Solidarity Economy, reified by the eponymous law of 2014, but which Mathieu Hély says doesn't exist as it is too heterogeneous and heteronomous[23]. Because of the growth it generates in terms of jobs and worth, and its supposed effectiveness, its authorised representatives are demanding more means and greater access to credit. But there are other reasons such as those exposed by Michel Feher, who believes that "by resorting to the bond market to balance their budgets, political leaders [...] have become dependent on the confidence that investors are willing to accord them […]. The abrogation of regulations, tax relief, reductions in public spending through privatisation and the cancellation of certain social programmes are the type of action that kindles their enthusiasm"[24].

For Matthieu Hély, "social enterprises are becoming the private delivery agents of public policies on behalf of a neoliberal State that is organizing its own defection from managing the public good"[25]. The blurring of lines between public and private in the domain of social utility "is the product of long-term efforts to de-legitimise the missions of the social State and legitimise the corporate sector's contribution to the production of public assets [26] […]; efforts which have led to a divorce from the republican heritage of the 1901 law on associations, whereby third sector organizations were seen as civic and democratic institutions, as well as from the tradition of a social State in which the third sector contributed towards extending the public authority's missions in many areas […]"[27].

[21] Emmanuelle Besançon *et al.*, "L'investissement à impact social…", art. cit., p. 322.
[22] Christine Cooper *et al.*, "Social Impact Bonds…", art. cit., p. 81
[23] Matthieu Hély, "L'économie sociale et solidaire n'existe pas", *La vie des idées,* Essais et débats, 11 February 2008, http://www.laviedesidees.fr/IMG/pdf/20080211_ecosolidaire.pdf
[24] Michel Feher, *Le temps des investis. Essai sur la nouvelle question sociale*, La Découverte, 2017, p. 19-20.
[25] Matthieu Hély, "L'économie sociale et solidaire peut elle ré-enchanter le travail ?", *Agir par la culture*, 7 October 2014, http://www.agirparlaculture.be/index.php/reflexions/237-l-economie-sociale-et-solidaire-peut-elle-re-enchanter-le-travail
[26] Matthieu Hély, "L'économie sociale…", art. cit.
[27] Mathieu Hély, "Le travail salarié associative est-il une variable d'ajustement des politiques publiques?", CNAF, Informations sociales, vol. 4, n° 172, 2012, p. 34-42, http://www.cairn.info/revue-informations-sociales-2012-4-page-34.htm

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NGOs' fragile economic model may well need revising, but this does not make social impact bonds a good idea. They are instruments designed to convert third sector agencies to a neoliberal vision of the social sphere at a time of severe restrictions in public budgets. And neoliberalism has been shown by Pierre Bourdieu to be "a programme of destruction of those collective structures standing in the way of pure market logic"[28].

According to Karl Polanyi, the three principles at the heart of any process tying the economy to society are reciprocity, redistribution and the market[29]. Where redistribution is the responsibility of the State, reciprocity is a matter for the solidarity sector. For Jean-Michel Servet, a Polyani reader, reciprocity is not simply a relationship of give and take; it is about being part of a social whole with the interdependence of actors. More than just generosity, it should be interpreted as concern for others – and not confused with a mathematical calculation of equivalencies[30].

As France prepares to launch a reform of corporate purpose with a view to reconciling the market and the public good, it is time for third sector organizations to come together to define and take ownership of the notion of social utility, in France and abroad, and agree on a social State model with which they can confer.

** This article solely expresses the author's views.*

*Translated from the French by Mandy Duret*

**Biography**

**Joël Le Corre** • M.D. and member of Doctors of the World's board. After two years of national service aid work in Yemen, he spent his whole career in the Seine Saint-Denis in charge of departmental and municipal health and social services. At the same time, he carried out several humanitarian aid missions in Ethiopia, Somalia and Romania and oversaw the first decentralised cooperation programme between a French and an Ethiopian city. After he retired, he joined Doctors of the World as a medical coordinator, working in Niger and Yemen.


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28 Pierre Bourdieu, "L'essence du néolibéralisme", *Le Monde diplomatique*, March 1998, p. 3, www.monde-diplomatique.fr/1998/03/BOURDIEU/3609

29 Karl Polanyi *La grande transformation* [The Great Transformation], Gallimard, Bibliothèque des Sciences Humaines, foreword by Louis Dumont, 1983, p. 71-86.

30 Jean-Michel Servet, "Le principe de réciprocité chez Karl Polanyi, contribution à une définition de l'économie solidaire", *Revue Tiers Monde*, 2007/4, n° 190, http://www.cairn.info/revue-tiers-monde-2007-2-page-255.html