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Developing Social Impact Bonds in Belgium

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EXECUTIVE SUMMMARY

This report provides a research and evaluation of the concept of Social Impact Bonds (SIBs) for Belgium. It is based on a review of the extensive literature existing on SIBs as well as on 21 interviews with Belgian people from very different backgrounds, including the core team responsible for the launch of the first-ever SIB in Belgium (Actiris, “DUO for a Job” and Koïs Invest).

For newcomers to the world of socially responsible investments, SIBs work according to a “pay-for-success” mechanism. Private investors finance preventive intervention programs developed by a social service provider and the government pays back the investors only if the program succeeds. The payments are a function of the government’s cost savings and/or extra revenues generated by the program.

As a key advantage, SIBs shift risks away from the government to the private investors. Compared to the public sector, a SIB can also be a good platform to launch innovative social interventions. SIBs are nevertheless complex and costly to launch. SIBs are also considered by some as an unacceptable intrusion of the private sector into the public sector.

Regarding the future developments of SIBs in Belgium, we have come to the conclusion that “the jury is still out”. On the one hand, we have estimated that for the coming five years a minimum of 200 million EUR could be mobilized from the High Net Worth individuals living in Belgium. Knowing the required investment per SIB, we can safely conclude that the availability of funds will not be the limiting factor for the development of SIBs in Belgium. On the other hand, identifying “SIB-ready” social services and providers is not an easy task. Not all social ills can be solved through SIBs. Therefore, carefully choosing interventions on which to test the SIB’s model is extremely important to prove to investors, public officials, and the general public that the model is feasible. To this end, we propose a checklist of five questions to assess the attractiveness of a SIB. Applying this checklist on education-focused SIBs in FWB, we had to conclude that, despite our initial enthusiasm, education does not appear to be the most promising area for SIBs.

In a context of tight budgetary constraints for all governments, we believe that SIBs represent an opportunity and an innovation, which should be further piloted. We have identified many challenges, one of them is whether or not leaders of the public and social sectors in Belgium can develop the conviction, the courage and the skills to launch this kind of innovative financing mechanism. Are they willing to take risks and to confront the opponents with the launch of new SIBs? To address the many challenges we have identified, we have regrouped our recommendations around six main themes.

Whether or not SIBs become a popular approach to scaling up successful social interventions, they have already generated excitement and enthusiasm in a few countries as they have found new ways to address persistent social problems. Our research and expert interviews have led us to the conclusion that SIBs could have some potential in Belgium. If SIBs galvanize a new wave of innovation and pave the way for other alternative models, their impact could be truly significant.

Please bear in mind that because the concept of SIBs is relatively new (2010), information about how - and how well - they could work is currently very limited. We see this report as just the starting point to capture the current state of affairs and inform stakeholders who would choose to invest in SIBs.

Although our findings will be of interest to a diverse audience, our work is primarily geared toward three particular groups: policy makers and decision makers in the public sector looking to create partnerships to scale up evidence-based social solutions; investors interested in combining social impact and financial returns; and nonprofit service providers seeking funds to expand their successful activities.

INTRODUCTION

Imagine that you are the CEO of a nonprofit organization focused on a critical social issue – say, school drop-outs. Your organization has developed a program that has helped 200 school drop-outs to come back and successfully graduate from secondary school. Over time, you have tested and refined your approach and assessed the results. You can demonstrate that your program works and reduces the risk of definitive drop-outs. You would like to scale up your program but you do not have the funding to do so. The private donors that have supported you so far do not have the sufficient financial resources. Moreover, after visiting government representatives, you only have received polite negative answers: you are told that the government has no money available.

Or, you are maybe the CEO of a public institution in charge of “employment and professional training”. You are frustrated by the lack of progress to reduce the large number of long-term unemployed people. You realize that most government programs are tackling the problem too late – they are mostly remedial in nature and are not making a sustainable impact. You believe it is time to try new approaches, especially finding preventive solutions. You have heard about nonprofit associations with successful preventive programs but you are hesitant on how to leverage them. Your board wants to spend money on programs that have been rigorously tested, evaluated and measured; it is not very satisfied by the innovative prevention programs that have been led by nonprofit organizations from the private sector.

Or, you are maybe a wealthy individual hesitant on how to best contribute to the well-being of the communities in which you live. You would be willing to spend significant amounts of money on noble causes but, so far, you limit your donations to nonprofit organizations because you are disenchanted by their lack of professionalism and impact.

Those three stories are often happening for many different social issues, in Belgium included. Nonprofits with successful preventive programs struggle to scale them up. Governments continue to spend money on ineffective remedial programs. Investors limit their

contributions to help address social issues. In these three cases, society loses out. What can be done?

Enter the Social Impact Bond (SIB) – a new approach to tackle the issues that we have just illustrated with these three short stories.

This research is precisely about developing a perspective on SIBs, not only on their development in general - Chapters 1 and 2 - but also on the specific opportunity that SIBs could represent in Belgium - Chapters 3 to 6.

In Chapter 1, we first position the SIBs in the socially-conscious investment world. Next, we provide a description of the SIB mechanism, the different stakeholders involved and the typical process to set up an SIB. Finally, we briefly review the history of the SIBs. The first SIB was launched in 2010 in the UK. Since then, many SIBs have been developed in the USA and in a few other countries, including Belgium in January 2014.

In Chapter 2, we develop a perspective on the overall attractiveness of SIBs by describing both their advantages and their drawbacks. In particular, how to weigh the opportunities of launching new social programs, to shift the financial risks away from the government and to enhance the effectiveness and the efficiency of social services taking into account the complexity and cost of the structure and the process required to set up a SIB. Finally, we propose a list of five questions to be answered to help stakeholders identify their (or their potential partners') strengths and areas relevant to SIBs.

Whereas the first two chapters of this research are mainly based on the international literature from investment banks, management consulting companies, social service providers and foundations, the next three chapters focus on the situation in Belgium. In this regard, the contributions of the 21 people who have shared their databases with us, experiences, observations and recommendations for going forward, have proven to be critical in generating the insights below.

In Chapter 3, we discuss if Belgian investors would be ready to consider SIBs in their investment portfolio. Assessing a nascent market is a tricky undertaking. Which category of investors would be the most interested - the average Belgian investor or the High Net Worth Individual? Based on a set of reasonable assumptions, we try to estimate the

amount of funds that could be invested in SIBs over the next 5 years in Belgium. We also suggest a list of initiatives to be taken by some protagonists to increase the penetration of SIBs in the Belgian investors' portfolios.

In Chapter 4, we dig more deeply into the first Belgian SIB between Actiris and the social service provider “DUO for a Job” called “Garantie financière pour l’innovation sociale en matière d’insertion professionnelle des jeunes en Région de Bruxelles Capitale”. To that end, we have had the opportunity to debrief in details the key protagonists associated with the preparation, setup and launch of this first Belgian SIB. After describing the details regarding the launch of this SIB, we will take a closer look at the contractual arrangements and then assess the alignment of this SIB with the best practices as described in Chapter 2.

In Chapter 5, to avoid remaining too generic, we have decided to assess the opportunity for two SIBs focused on education in FWB (Fédération Wallonie-Bruxelles). The first one is focused on addressing the low success rate of first-year university students and the second on addressing the high rate of repeat students in the primary and secondary schools of the Fédération Wallonie-Bruxelles.

In our last chapter, Chapter 6, we will briefly discuss why the Belgian public sector could be a fertile ground for the development of new SIBs. But more importantly, we will share our recommendations on how to address the challenges we have identified in order to accelerate the development of SIBs in Belgium.

1 SIB CONCEPT OVERVIEW

In this first chapter, we will discuss the following:

- Positioning of SIBs in the socially-conscious investment world
- Description of the SIBs' mechanism and the respective roles of the different stakeholders
- History of the SIBs' development across the world

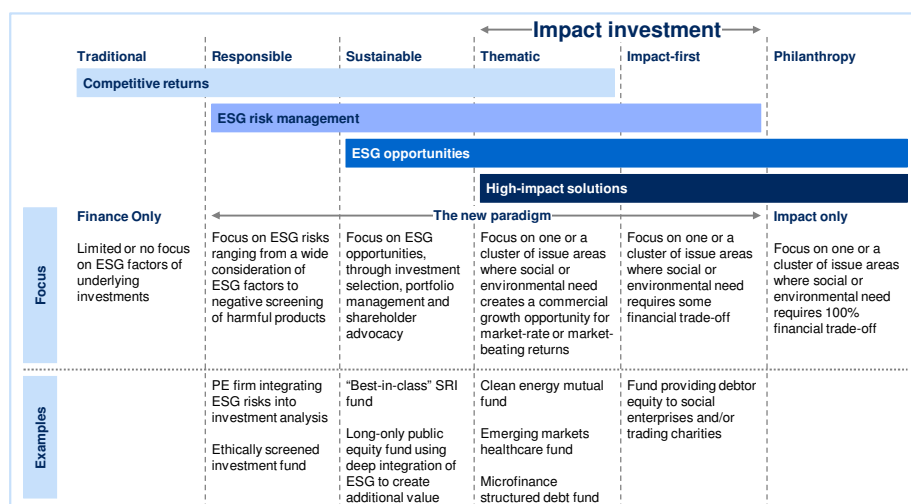
1.1 Positioning of SIBs in the socially-conscious investment world

To call things by incorrect names is to add to the world's misery (Albert Camus).

To help clarify the terms and position the SIBs in the socially-conscious investment world, we will use a map developed by Bridges Ventures in 2013 (see Figure 1). This map is structured around six investment types - *traditional, responsible, sustainable, thematic, impact-first and philanthropy*.

FIGURE 1

Positioning of Impact investment in the socially-conscious investment universe



1 ESG: Social, Environmental and Governance
2 SRI: Socially Responsible Investment

SOURCE: Bridges Ventures, 2013

The six types are separated with dotted lines to recognize that some investors may consider themselves as between or across categories. In the rest of this section, we will detail the six categories building on the Bridges Ventures report.

- **“Responsible” and “sustainable” investment types.** In the ancient times, some religions were already indicating how to invest according to ethical values. More recently, in the 1960s, some investors began to boycott investments related to Apartheid in South Africa. In the 1980s, groups of “socially responsible” investors focused on systematically “eliminating” harmful products and un-ethical practices (such as tobacco, weapons or oppressive regimes). Over time, in addition to ethical motivations, many investors have recognised that, by taking into account Environmental, Social and Governance risks (ESG) into their investment decisions, they could improve the risk return profile of their investment portfolio. Those investors select companies which operate in a more sustainable way – be it through their environmental management, stakeholder engagement or governance practices. Some companies have introduced norms-based investment, i.e. *investment in companies according to their compliance with international standards and norms* (Eurosif, 2012). “Sustainable Investing” is distinguished from “Responsible Investing” because it focuses not just on protecting value against risk but on creating additional value through *an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact*¹.
- **“Thematic” investment type.** “Thematic Investing” goes beyond “Sustainable Investing” by focusing deliberately on some issues – climate change, affordable healthcare, water scarcity, clean energy, green technology (GSIA, 2012) with the intention to make a positive impact. These investors identify situations where a social or environmental need creates a commercial opportunity, with the potential to deliver positive impact and to generate attractive financial returns. The Climate Change Advisors of the Deutsche Bank found in 2012 that incorporating ESG

¹ The Forum for Sustainable and Responsible Investment, *SRI basics*, US SIF website.

criteria is “*correlated with superior risk-adjusted returns at a security level*²” (Deutsche Bank, 2012). Landier and Nair (2008) *compared performance of a responsible portfolio* (of 150 firms) *with the S&P 500 and found that it had slightly superior average returns and only marginally more risk despite having 70% less stocks*³”.

- **“Impact first” investment type and philanthropy.** There are, of course, many pressing social or environmental issues where commercially viable solutions do not present themselves. Traditionally, such issues have been resolved by governments or by philanthropy. Philanthropy can be defined as “*the love of humankind, the act of improving the situation of others through charitable aid or donations*”, not to be confused with the concept of charity, which is “*helping someone or something right now by giving directly to solve the problem, not necessarily through financial contributions*⁴”. Philanthropy is often associated with a long-term vision (Dietlin L. M., 2010). Philanthropy is characterized by its goal, which is not a financial return. Speaking in financial terms, philanthropy guarantees a negative 100 percent return to the investor (interview with Marc Flammang, 2014). Contributions and grants may be restricted to specific projects, but, most of the time, there is a lack of tracking and reporting of the results (McKinsey, 2010). While there continues to be a clear role for public funding and philanthropy, there are situations where a social or environmental need requires only some financial trade-off, rather than complete financial loss. The result is a more scalable solution than philanthropy, as well as an opportunity to bring incremental investment inflows to address social and environmental challenges which governments and philanthropy alone cannot solve. To support these enterprises, the “Impact-first” investor is willing to back sustainable, profitable business models that cannot generate market rate returns either because of the enterprise’s structure or the disadvantaged consumers it targets (or both) (BCG, 2012). Currently, individuals, foundations, and companies mainly use philanthropy

² Deutsche Bank, (2012), *Sustainable investing: establishing long-term value and performance*, June, p.5, 72 p.

³ Landier A., Nair V., (2008), *Investing for change: profit from sustainable investment*, Oxford University Press, 192 p.

⁴ Dietlin L.M., (2010), *Transformational Philanthropy*, Publishers Jones and Bartlett, p.5, 326 p.

to fund social interventions. Impact investments are dwarves compared to philanthropic donations (Eurosif, 2012).

Social Impact Bonds (SIBs) belong to the impact investment category which regroups the “Impact first” and “Thematic” investment types. Objectives of impact investments are typically categorized into three categories (J.P. Morgan, 2013):

- To increase incomes for low-income or excluded people: access to energy, to financial services, to education.
- To improve basic welfare for people in need: access to clean water, affordable housing, conflict resolution, disease-specific prevention and mitigation, equality and empowerment, food security, health improvement, human right protection.
- To mitigate environmental issue: biodiversity conservation, energy and fuel efficiency, natural resources conservation, pollution prevention and waste management.

1.2 Description of SIB mechanism and the respective roles of different stakeholders

As discussed, the concept of impact investing has kept up the interest and enthusiasm of professionals of the world of entrepreneurship and social impact these last years. Under the impact investing’s panel of solutions, one new product that has attracted attention is the social impact bond (SIB). In this section, we will discuss the following: (1) Overall description of the SIB’s mechanism, (2) Roles and responsibilities of the different stakeholders, (3) High-level process to set up a SIB.

- **Overall description of the SIB’s mechanism.** *A SIB can be described as a multi-stakeholder partnership to provide upfront funding for social service providers by private investors instead of by the government*⁵ (ABN Amro, 2013). To put it simply, non-profit social service providers deliver social programs; the government pays the investor only if the program succeeds and generates tangible benefits. SIBs bring together several stakeholders: the government, the SIB-intermediary, the

⁵ ABN Amro, (2013), *Social Impact Bonds opportunities and challenges for Netherlands*, September, p.6, 16 p.

investors, the social service provider; the evaluator and the target population. More specifically, the government (public sector commissioner) contracts with an agent from the private sector (SIB-intermediary), which will raise capital from investors and will invest this capital in preventive intervention programs developed by social service providers. The SIB operates according to the Payment By Results (also called Pay For Success) principle: the government pays back the SIB-intermediary (finally, the investors) only if certain target milestones are achieved. *Performance is rigorously measured by comparing the outcomes of individuals referred to the service provider relative to the outcomes of a comparison or control groups*⁶. The payments to the intermediary are correlated with the cost savings or the extra revenues generated for the government due to the program (Azemati H. *et al.*, 2013).

At this stage, we want to stress that a SIB is very different from a traditional bond. As a reminder, a bond (commonly referred to as a fixed-income security) is a debt investment in which an investor lends money to an entity (corporate or government) that borrows the fund for a defined time period at an agreed interest rate (coupon). Countries, (semi-)public entities and private companies use them to finance various projects and activities. In Belgium, the “Belgian Debt Agency” is in charge of financing the expenses of the country (and its entities) by issuing products such as linear bonds (OLO’s), treasury certificates, Belgian treasury bills (BTB’s), Euro Medium Term Notes and Schuldscheine (loan agreement, not a security).

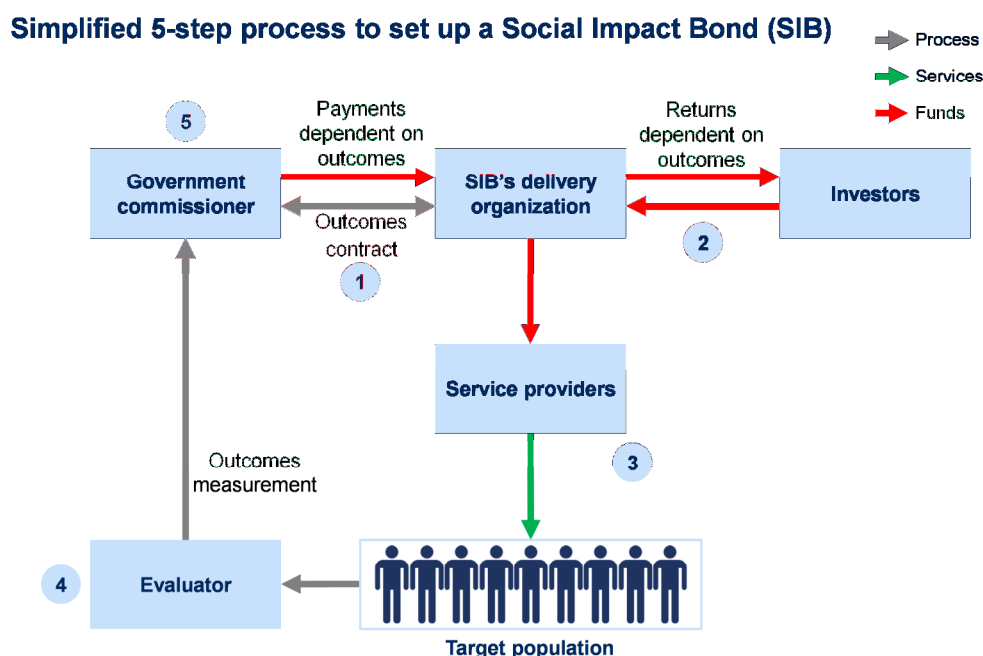
Even though, *a SIB is a debt-structured model, it is not a bond but rather a multi-stakeholder partnership composed of several contracts involving government, investors, service providers and other intermediaries*⁷ (McKinsey, 2012). Furthermore, compared to the main fixed-income securities, a SIB has a coupon, which is not defined at the beginning of the contract and is not as liquid as the main debt instruments are (tradable on the secondary market). Coupons are paid only if social programs meet predetermined performance targets. In section 2.1., we will compare the key features of Traditional versus Social Impact Bonds.

⁶ Azemati H., Belinsky M., Gillette R., Liebman J., Sellman A., Wyse A., (2013), *Social Impact Bonds: lessons learned so far*, April, p.1, 11 p.

⁷ McKinsey, (2012), *From potential to action: bringing social impact bonds to the US*, p.13, 68 p.

- **Roles and responsibilities of the different stakeholders.** A SIB involves the following five stakeholders (see Figure 2).

FIGURE 2



SOURCE: MaRS Center for Impact Investing, 2013

Each of them has specific roles and responsibilities in the set up and the functioning of a SIB:

- **The government (the commissioner)** makes a request to an intermediary in order to develop a SIB. Based on the benefits (extra revenues or cost savings) generated for the government from the SIB, it will repay the principal plus a return on investment to the investors.
- **The SIB-intermediary** is the cornerstone of the project. He or she links all the stakeholders of the project. *The intermediary takes responsibility for identifying qualified non-profit service providers and evidence-based preventive solutions, raising capital from investors to bring the solutions to scale, conducting ongoing*

*project management, and working with the non-profit service providers to ensure effective implementation*⁸.

- **The investors** are seeking both financial and social returns. They provide upfront capital to finance the program. They are looking for new creative opportunities to make investments, which will have a positive impact on society and the environment. They bear the financial risk of success or failure of the overall project. In the case of “success”, they will gradually be repaid their initial investment (“principal”) and some interest rate payments linked to a pre-agreed social impact.
 - **The service provider** is the ultimate recipient of the investment and uses it to deliver preventive solutions to a target population. It is the part of the chain, which creates both financial and social value.
 - **The evaluator** *reviews at the end of the project the constituent treatment group relative to a counterfactual, and reports on whether the target outcomes have been achieved*⁹.
 - **The target population, the constituents** are the people who will benefit from the SIB thanks to an innovative and preventive way to solve a social issue. In many cases, the government previously helped them by a remedial social intervention, which did not bear fruit.
- **High-level process to set up a SIB.** Setting up a SIB is not an easy process. We have identified at least five steps which are described below:
- **Step 1.** After having identified social service issues, the government contracts with an intermediary (a SIB delivery organization) for the setting up of preventive programs to improve the lives of a target population (also called the constituents) and to reduce the need for remedial services. An outcome contract is negotiated that specifically details all aspects of the SIB: goals, returns, and timespan.

⁸ McKinsey, (2012), *From potential to action: bringing social impact bonds to the US*, p.15, 68 p.

⁹ Ibid.

The quality of the contract is critical for the success of the SIB (Kohli J. *et al.*, 2012)

- **Step 2.** The intermediary raises capital from investors who provide upfront capital. Investors are repaid their capital plus a return (which is a function of the savings or revenues generated for the government) if the project meets the objectives
- **Step 3.** The social service provider which has innovative and preventive solutions to address a social issue, agrees to deliver services to a target population and receives multiyear funding from SIB-intermediary.
- **Step 4.** Each year, according to a pre-established agenda, an independent third-party evaluator determines if predetermined performance targets have been achieved.
- **Step 5.** If performance targets are met, the government repays the investors the principal plus a financial return. A success bonus may also be paid by the government to the SIB-intermediary and the social service provider.

The above description may give the impression of a very sequential five-step process. In fact, based on our interviews and research, it seems that the first three steps could happen in parallel or in a different order. In fact, we have seen that the government, the SIB-intermediary, the service provider and the investors can often sit at the same table in order to find a project, which is acceptable and attractive for the different stakeholders. We illustrate those points in more detail when we will describe the Belgian SIB.

1.3 History of SIBs' development across the world

The term “Social Impact Bonds” was first introduced in September 2010 when Social Finance UK, a non-governmental organization, which raises capital to fund social service organizations, officially launched a 5 million GBP SIB to fund work with 3000 male, short-sentence prisoners leaving the Peterborough Prison. This new financial product was issued after a cruel statement of failure: 60% of short sentence prisoners from Peterborough re-offend within one-year post release. Furthermore, they receive little support to

resettle into the community. Under the SIB contract, experienced social sector organizations such as YMCA give continuous coaching and mentoring sessions to prisoners and their families in order to increase their education levels, vocational skills, and confidence to reintegrate into society more easily. In order to determine the effectiveness of the project, the reoffending rate of the Peterborough prisoners will be compared to a control group of 30,000 UK short-term prisoners who are not involved in the SIB project. Financially speaking, investors will receive from the Ministry of Justice and the Big Lottery Fund an annual return capped at a maximum of 13% if reoffending among the prison leavers falls by 7,5%. For example, the contract states that a drop of 10% of reconviction events would generate a 7,5% annualized return for the investor (Social Finance, 2011).

Social Finance did not limit itself to criminal justice but also launched SIBs to address social issues such as vulnerable children, unemployment, homeless, drug rehabilitation etc.

Since then, SIBs have generated a strong interest from different countries across the world: Australia, Canada, Ireland and Israël (Azemati H. *et al.*, 2013).

The European Commission through “Social Innovation Europe” has commissioned a report on SIBs. In February 2013, in a communication to the European Parliament, the European Commission reminds that Europe does not use enough impact investing to solve social issues and explicitly mentions the Social Impact Bond: *“In the social area, Member States still make insufficient use of more innovative approaches to financing, including by using participation of the private sector and financial engineering through instruments such as micro-finance, policy based guarantees and Social Investment Bonds which should strive for budgetary savings”*¹⁰ (European Commission, 2013).

SIB initiatives have also flourished across the United States from California to South Carolina, including Utah and Massachusetts etc. Pay-for-success programs such as SIBs have been considered as one of the top priorities of the Obama administration. In 2013, President Obama decided to allocate a budget of 195 million USD in pay-for-success

¹⁰ European Commission (2013), *Towards social investment for growth and cohesion – including implementing the European Social Fund 2014-2020*, p.6, 23 p.

initiatives in domains such as job training, education, criminal justice, housing and disability services.

The academic world has recently become more and more interested in SIBs, as evidenced by the creation of the Harvard Kennedy School Social Impact Bond Technical Assistance Lab. This laboratory provides pro bono technical assistance for states and local governments, which want to develop SIBs. So far, twenty-eight jurisdictions have applied to the national Social Impact Bond Competition in order to win a SIB Lab support in 2013 (Social Finance website, 2014). *The SIB Lab will provide each winning government with a full-time Government Innovation Fellow to be based for one year in the government agency that is spearheading the city or state's pay-for-success initiative, pro bono advising from Professor Liebman and other senior experts, up to six months of programmer and data analyst time, and a small pool of flexible funding that can be used to remove barriers to implementation of SIB*¹¹ (Gavel D., 2013).

SIBs also arose the curiosity of “non-traditional impact investors” such as Goldman Sachs, which decided to invest 9,6 million USD in 2012 to support the delivery of therapeutic services to adolescents incarcerated on Rikers Island, New York. It was the first time that a commercial investment bank invested in a SIB (Olson J. *et al.*, 2012).

It seems that the development of SIBs is not limited to developed countries. Indeed, “Social Finance UK” and the “Center for Global Development” studied how much SIBs, renamed Development Impact Bonds (DIBs), could affect aid and development finance. In June 2013, those think tanks came to the conclusion that DIBs could raise funds that private donor and government agencies are not able to raise. For example, the Mozambique Ministry of Health has launched in partnership with the two above-mentioned think tanks the Mozambique Malaria Performance Bond. The bond value is estimated between 500 and 700 million EUR with the objective to fund 12 years of malaria interventions reaching up to 8 million people and reducing the malaria prevalence by 75% in the targeted areas (Patton A., 2013).

¹¹ Gavel D., (2013), *State and Local Governments receive assistance to launch social impact bond project across the country*, The Rockefeller Foundation website.

What about Belgium? SIBs have started to generate some interest in Belgium. The King Baudouin Foundation has invested in one SIB in Essex, UK. The SIB aims at helping 380 vulnerable young people over a total period of eight years to avoid care or custody and stay safely at home with their family. In November 2013, the same foundation organized a conference around the theme of impact investing with a specific focus on SIBs. One of the objectives of the conference was to discuss the applicability of impact investing in Belgium.

Finally, in January 2014, a first SIB was launched bringing, together Actiris, Koïs Invest, “DUO for a Job”, Observatoire de l’Emploi and a few hundred unemployed young people living in the Brussels Region. We will study this SIB in detail later.

2 OVERALL ASSESSMENT OF SIBS

In this chapter, we will study the following points in more detail:

- The attractive features of SIBs
- Their potential drawbacks
- The key lessons learned when scanning SIB opportunities

2.1 Attractive features of SIBs

We have regrouped the attractive features around four overarching themes:

- **A preventive approach instead of remedial intervention, combined with shifting risk away from government.** Due to political life and short-term electoral pressure, it is not always easy for governments to take a long-term perspective. In addition, *government social-welfare programs are often remedial in nature. They aim to address negative outcomes after they have already occurred, rather than proactively addressing social needs before they become problems*¹². It is the old adage that one ounce of prevention is worth one pound of cure. But unfortunately, governments often see prevention as theoretical or soft and therefore politicians often focus on emergency intervention, which leads, according to them, to immediate tangible results and outputs, which are much more visible for the voter (Callanan L, Law J, 2012). Furthermore, election strategy is not the only obstacle to early intervention and solving social problems from their roots. In fact, prevention requires large amounts of money and are considered to be more risky. Governments are therefore not inclined to support these risky projects with the taxpayer money (Bafford B, 2012). Public institutions tend to be more risk-averse and to avoid innovative projects. Change and innovation are often seen as uncomfortable, and disruptive for organizations in place. *Political considerations magnify this issue in government; failures may be excoriated in the press, while successes often go unsung. By its*

¹² Callanan L., Law J., (2012), *Will social impact bonds work in the United States?* McKinsey on Society, March, p.2, 6 p.

*nature, innovation is risky and the cost of failure may be too high for those within existing institutions*¹³. With a SIB, private investors bring upfront capital to the projects instead of the government. The government pays back the investors with a conditional return only after the project reaches its target goals, therefore minimizing and shifting the risks to investors who can lose all their money if the targeted milestones are not achieved. That is one of the main advantages of the SIBs compared to the PPP (Public-Private Partnerships), which are often criticized due to the fact that if they go wrong the government must still absorb a large part of the losses (Loder L. *et al.*, 2010).

- **SIBs enhance transparency around the efficiency and effectiveness of the public sector.** The public expenditures in Belgium represent 55% of the GDP of the country (Eurostat, 2013). Both the taxpayers and the public services providers have an interest to know what is the social output generated by the public expenditures financed by the taxpayer. Managing and measuring the public sector's output is often a difficult task. One frequently heard criticism of public services is the lack of transparency of the actions taken as well as the results achieved. The governments around the globe often lack the resources to track the results, which generates a lack of clarity for the programs financed and often operated by the public sector (ABN Amro, 2013). By bringing around the table the government, investors and independent auditors to agree on clear objectives and to analyze their fulfillment, the government should be in a better position to improve its efficiency and effectiveness.
- **An opportunity in a context of tight budget constraints.** In periods of budget cuts where social intervention is facing tough times to fund its programs, SIB represent an innovative opportunity for government authorities to raise money in order to honor their social commitments and reach objectives successfully. However, we must remain cautious. It would seem that attempts have been made in order to use them to modify or even replace public funding. For example, in 2011, the British government announced the issue of SIB to support early intervention services after

¹³ Loder L., Mulgan G., Reeder N., Shelupanov A., (2010), *Financing social value: implementing Social Impact Bonds*, January, Youth Foundation, p.12, 35 p.

cutting budgets initially allocated to support young families (National Union Research, 2012). The benefits are not restricted to the government. It also gives oxygen to the social delivery organizations. Social Impact Bonds can help the social service providers to raise new capital. Indeed, nowadays, their directors spend more time on applying for subsidies than running the programs, which hinders the efforts to have an impact and badly affects the interventions (ABN Amro, 2013). Social service providers often may not be able to raise funds from commercial finance for several reasons. The organizations may *lack a sufficient track record of delivery; have social missions that cause concerns among commercial lenders; exist in a segment that commercial lenders cannot serve; or require a long lead-time to repay investors*¹⁴. As a consequence, we may end up with situations where social delivery organizations will not be able to receive funding from commercial lenders despite the fact that their programs are viable. Social investors are able to lend because they are more patient, show better understanding for the service providers and have a superior knowledge of social business models than their commercial counterparts (BCG, 2012)

- **SIBs can help diversify an investor's portfolio.** SIBs and the successfulness of the projects supported are not correlated with traditional asset classes (Bafford B., 2012) and therefore can diversify the portfolio, which is the easiest and most cost effective method of improving the risk and return trade-off of an investment portfolio. As it is often the case with alternative investments, adding non-traditional assets can move the Markowitz efficient frontier (up and left) and therefore deliver higher returns for a given level of risk, or for a given return a lower amount of risk. Intuitively, it is easy to understand the fact that SIBs' risk return profile is much less correlated with traditional financial indicators. For example, the successfulness of a project that aims to decrease the reoffending rate among young prisoners depends mainly on the project management skills of the social service provider rather than depending on macroeconomic issues (interest rate, inflation, unemployment, GDP) which affect to a larger extent the other traditional asset classes. However, we must remain cautious

¹⁴ The Boston Consulting Group – Big Society Capital, (2012), *The first billion: a forecast of social investment demand*, September, p.6, 35 p.

due to the fact that SIBs are relatively new investment products and comprehensive data sets are not yet available to substantiate this hypothesis. In any case, we recommend to invest in several SIBs rather than in only one. The Figure 3 compares the key features of Traditional versus Social Impact Bonds.

FIGURE 3

Comparisons between “Traditional” and “Social Impact” Bonds

SIMPLIFIED

Characteristics	Traditional Bonds	Social Impact Bonds (SIBs)
Years of existence	▪ Since the Renaissance period	▪ Since 2010
Typical duration	▪ From 0 to perpetuity; ~5 years	▪ 3 to 10 years; ~5 years
Investors objectives	▪ Risk/return optimization	▪ Social impact orientation
Key stakeholders	▪ The issuer (company, governments) and the investor	▪ Investors, SIB-intermediary, social service provider, government, evaluation agency
Marketability	<ul style="list-style-type: none"> ▪ Most of the time can be easily traded ▪ No need to hold to maturity ▪ Information readily available on key characteristics (credit risks,...) 	<ul style="list-style-type: none"> ▪ So far, not publicly traded ▪ Typically held to maturity ▪ No information readily available on key characteristics ▪ Relatively opaque
Cash-flows	<ul style="list-style-type: none"> ▪ Typically, fixed annual coupon ▪ Repayment of principal at maturity or as specified in issuing prospectus 	▪ Coupon and repayment of principal are contingent upon results achieved by social service provider
Risk	<ul style="list-style-type: none"> ▪ Credit risk typically lower than equity risk ▪ Interest rate risk (if not held to maturity) 	▪ So far, no historical data available but, a priori, risk could be as high as equity risk

SOURCE: Synthesis of multiple sources and interviews

2.2 Potential drawbacks of SIBs

We have regrouped the potential drawbacks around six overarching themes:

- **SIBs are complex and costly to launch.** As described earlier, SIBs involves several stakeholders. Even if, in the case of a successful project, it is the investors who are the only ultimate beneficiaries of the return (given by the government as a portion of the savings generated), all the stakeholders (SIB-intermediary, social service provider, evaluator) receive a management fee. In addition to these fees, SIBs require extra organization costs to enable the running of the structure (a lawyer must establish a complex legal structure), which could be too costly for small or medium scale SIBs. (ABN Amro, 2013). According to Callanan L. and Law J., *as a result, the SIB is a more expensive way to scale programs than if government simply*

*contracted directly with a service provider*¹⁵. But, with bigger SIBs of 20-30 million EUR, the organizations costs will be easier to absorb. However some argue that SIBs of this scale are suitable for the USA but not for small countries of continental Europe such as The Netherlands or Belgium. (ABN Amro, 2013). This complex structure unfortunately bears not only a heavy financial cost but also creates important timing issues. It is not easy to get all the different parties (private and public, investors and social service providers) around the table and to come to an arrangement. Kyle McKay wrote the following lines: ...*”The complexity of these contracts and the number of intermediaries is the primary reason why the project took two years to develop...¹⁶”*. *Social impact bonds are novel and essentially in an asset class of their own. As a result, their increased use will require the creation of new laws, a proper regulatory environment, and, potentially, additional independent monitoring agencies. Additionally, it is a sure bet that lawsuits will emerge from social impact bonds in cases where investors disagree with how results were measured. In the end, these factors will amount to additional costs for taxpayers*¹⁷ (Hicks S., 2014).

- **SIBs may sometimes be considered as an intrusion of the private sector into the public sector.** In numerous countries, the citizens view partnerships between the private and public sectors in an unfavourable light. As discussed earlier, SIBs consist in investing money in public services by private investors. The public officers are often distrustful of the private sector because they associate it with words such as “greedy returns”, “dismissals”, “a dog eat dog world” etc. They may consider that every intervention of companies has a hidden agenda. A good example of that is the financing of academic chairs within universities. One considers that it may adversely affect the independence of our universities; therefore, according to them, education must resist the siren calls of the private sector and continue to be

¹⁵ Callanan L., Law J., (2012), *Will social impact bonds work in the United States?* McKinsey on Society, March, p.1, 6 p.

¹⁶ McKay K., (2013), *Evaluating SIBs as a new reentry financing mechanism: a case study on reentry programming in Maryland*, January, p.3, 18 p.

¹⁷ Hicks S., (2014), *Social Impact Bonds: innovative public finance or pie in the sky?* March, Committee for Economic Development website.

underfinanced. Furthermore, the SIB-supporters often consider them as a new way to professionalize the government: expanding the scale of government actions, tracking the results etc. As a public officer, it is not necessarily a pleasant experience to have private investors bringing putting a SIB proposal on your desk. *It can be seen as a statement of failure* (interview Marc Flammang). Finally, some people may consider that SIB-investors (such as Goldman Sachs investing in a SIB for Rikers Island's prison) do not care about having an impact or working for a better world but rather doing it “for promotional purposes” or redeeming themselves after the excesses of the financial world.

■ **SIBs carry numerous risks and challenges for the different stakeholders:**

- Reputational risk for the social service provider: if the program does not achieve its targeted outcomes, the perception of failure may badly affect the social service provider for future funding. (MaRs, 2013) Social Impact Bonds have been under the spotlight for a while, and there are great expectations surrounding them. The first failures will be rapidly known.
- Execution risk. By definition, SIBs are partnerships between several stakeholders: the government, SIB-intermediary, social service provider, evaluator. *Multi-party, cross sector initiatives introduce new complexities for many organizations. Execution problems may occur as a result of unclear delineations of authority and accountability or poor communication and information systems*¹⁸.
- Investor's risk. SIB is not suitable for every investor. From the interviews that we did, Social Impact Bonds would mainly attract investors due to their “innovative sense”. The return is not the main focus. They are illiquid and are considered by many as not yielding enough to justify their risk. One solution would be to package them with other assets and backing them by foundations. *This will create a more profitable SIB, but also more risk diversion because of the different*

¹⁸ MaRS Centre for Impact Investing, (2013), *Social Impact Bonds: technical guide for service providers*, November, p.9, 32 p.

*projects that can be packaged, to make it more interesting for investors*¹⁹. (ABN Amro, 2013)

- **SIBs are only suitable for use in projects that can be quantified with clear metrics.** As noted earlier, for Social Impact Bonds, the different stakeholders must decide the different objectives at the beginning. A return will be given only if certain milestones (the results of the project are compared with a control group) are achieved. Therefore, the data surrounding the societal problem must be reliable and available. For example, for some societal issues, experts do not agree on the numbers. For these kinds of projects, a SIB would not be appropriate.
- **SIBs are not suitable for every societal problem.** SIBs are a new concept that emerged roughly five years ago. Everyone is talking about SIBs. They unleash passions but we do not really have data and feedback about their success. Nevertheless, it seems that the SIBs are not the best solution for certain types of societal problems. The most often-cited are re-entry (transition of offenders from prisons back into the community) programs which are not necessarily profitable. Most studies show that it is *not possible to have a re-entry SIB, even under highly optimistic assumptions, that is budget neutral for the government and at the same time pays enough dividends to the investors to make it profitable for them*²⁰. The main reason is that even if re-entry programs (for example, a program that may decrease by 10% the recidivism of a population of 250 prisoners over five years) may decrease the number of prisoners, they cannot create a large reduction of prisoners that would close a jail. The result will be that one needs to close only a wing of the prison while keeping the rest of the prison (McKay K., 2013) Nevertheless, one SIB for re-entry could be applied to Belgium. Indeed, Belgium has a prison overcrowding problem (118% in 2007) and therefore needs to rent cells in the Netherlands, in Tilburg, (in 2009, this number was estimated at 500 cells) for a budget of 30 million EUR per year, which represents 60,000 EUR per prisoner per year (Daussy L., 2009)

¹⁹ ABN Amro, (2013), *Social Impact Bonds opportunities and challenges for Netherlands*, p.10, 16 p.

²⁰ Ibid.

- ***Operating in a capital market may make it difficult for social impact bonds to spur innovation.*** *Investors with a medium to high degree of risk-aversion, which is typically the majority of investors, will likely be drawn to investing in programs with a proven record of success in order to increase the likelihood that they will realize returns. If this practice becomes widespread, social impact bonds will be restrained in their ability to encourage bold new ideas²¹.* (Hicks S., 2014)

2.3 Key lessons learned when scanning SIB opportunities

Before expanding the SIB market in Belgium, it is important to use the lessons learned from earlier SIBs. The way for developing a SIB is not confined to a single approach. Two main options occur. Either it is the government authorities, which will do a screening of the social issues suitable for a SIB and then draft a request for proposal, or it is the social service providers that will analyze the feasibility of a SIB and then submit it to government for consideration (MaRS, 2013). Finally, it may also be investors who are curious about SIBs and want to discover this innovative product by launching a project. They will themselves try to find a social issue, which could be tackled through SIBs.

Depending on the specific situation in each country and region, the background of the people who will initiate the process to set up a SIB can vary. It can sometimes be a change leader in the public administration, a social entrepreneur who wants to start, to expand or to scale up his or her social service, or any group of committed, skilled and well-networked individuals who want to make a difference to address challenging social issues.

We have identified at least five questions, which should help assess whether or not the setup of a SIB could be an attractive option. If the answer to any of those questions is negative, then the successful set up of a SIB could seriously be at risk.

- **Question 1. Is there a social problem to be solved with respect to a well-targeted population?** *A SIB aims to solve a social issue for a target population. Social issues may be prioritized based on their fit for a preventive approach, the propensity*

²¹ Hicks S., (2014), *Social Impact Bonds: innovative public finance or pie in the sky?* March, Committee for Economic Development website.

*for quantifiable outcomes, or the potential for government cost savings or cost avoidance as a result of addressing the social issue*²² (MaRS, 2013). The problem may be, for example, that in the French-speaking Community of Belgium the students from disadvantaged schools and precarious neighborhoods score much lower on the PISA tests (which assess the youth outcomes on three domains: reading, mathematical literacy and scientific literacy) than their Flemish counterparts. These adolescents are more likely to become unemployed and to slide into poverty. *The ideal target population must be a group underserved or ineffectively served in the current system, with poor outcomes associated with significant government expenditures to address the problem*²³ (MaRS, 2013).

- **Question 2. Are there significant gains (cost savings, extra revenues) to be expected for the government?** SIBs can generate government cost savings by putting in place prevention programs, which cost less in the long term than the annual government's remedial programs. The financial attractiveness of a SIB can be measured as the *difference between the more expensive remedial program and the less expensive preventive program, which represents the upper limit of the taxpayer benefits that SIB can deliver*²⁴. In fact, this quick estimation must also roughly forecast the fees and potential return asked in a SIB structure (McKinsey, 2012). Furthermore, there are gains from SIBs that are difficult to quantify. They will not be used in the financial planning but they can be used to support the launch of the project. These are known positive side-effects (ABN Amro, 2013).
- **Question 3. Is there a public sector leader willing to consider new approaches?** First of all, the initiator of a SIB must ensure that the public sector representative is open to outcomes-based contracting (where payments are made if agreed social outcomes and certain milestones are achieved). Thus, the government authorities must be open to and motivated to developing a SIB with the private sector. *It is also important to work in conjunction with an engaged public sector leader, through access*

²² MaRS Centre for Impact Investing, (2013), *Social Impact Bonds: technical guide for service providers*, November, p18, 32 p.

²³ Ibid.

²⁴ McKinsey, (2012), *From potential to action: bringing social impact bonds to the US*, p.22, 68 p.

to data and discussion, in order to develop outcome metrics and target population definitions ²⁵ (Social Finance, 2013).

- **Question 4. Are there innovative interventions with a preventive focus to solve the identified social problem?** The papers that we read do not mention if the interventions made by the service provider must compulsorily be innovative. In fact, one considers that the SIBs are a perfect platform to test new preventive approaches that support vulnerable groups (KPMG, 2013). In a traditional situation, the government would not be ready to put the public money at risk by trying new innovative prevention approaches. When one analyses the first Belgian Social Impact Bond, Actiris (Brussels agency for employment) and Kois Invest rely on the innovative “DUO for a Job” organization. “DUO for a Job” gives a new approach to the professional insertion of migrants compared to previous ones: an experienced retiree is matched with a migrant jobseeker in order to connect the migrant with a local network and facilitate his/her professional integration (EVPA, 2014). But this need for innovative intervention must be questioned. In fact, a SIB that uses a proven intervention program carries primarily an execution risk, whereas a SIB that uses an unproven innovative program carries both an execution risk but also a model risk, making it more difficult to raise funds. (McKinsey, 2012) From the interviews that we did, it seems that there is one main difference between bringing a SIB in continental Europe and in the Anglo-Saxon world. SIBs are considered mainly in the USA as a solution to expand proven preventive programs. Therefore, the social service providers must keep a clear track-record of their programs in order to attract investors otherwise they will be seen as too risky. (Callanan L., 2012)
- **Question 5. Can SIBs’ social impact be measured and compared with non-SIB affected control groups to establish a clear relationship between intervention and results?** First of all, the treatment group must be clear enough in order for the service provider not to cherry-pick participants in the project and also so that one can easily see the impact on the target population of the intervention performed by the service provider at the assessment step (KPMG, 2013). The population must also

²⁵ Social Finance, (2013), *A technical guide to developing social impact bonds*, January, p.9, 32 p.

be sufficiently large that the effect of the program could demonstrate statistically significant results for the participating sample. *The goal is to define a target population whose outcomes could be significantly improved by a prevention-based service*²⁶ (MaRS, 2013). So, one must find the right balance. One of the risks is that if the target population is too diffuse, it will be impossible to evaluate the impact of the SIB or if it is too narrow, it will not be “interesting enough” to receive a dedicated service and develop a SIB (Barclay L. *et al.*, 2013). One of the reasons behind this meaningful number of constituents needed is the fact that a SIB involves a complicated structure (compared to a traditional “action” for which the government contracts one service provider), where each of the stakeholders asks for a fee or a portion of return (McKinsey, 2012).

The outcomes must be directly linked to the target population and also be quantitative because at the end of the project an evaluator will review these outcomes against a counterfactual (establishes the baseline of what happens in the absence of a SIB). The counterfactual can be established in several ways but in fact the approach mainly used draws on past outcomes through projections. Of course, all the stakeholders of the project must accept this counterfactual (KPMG, 2013). Finally, using a true control group (without projection) seems better in order to evaluate the relationship between the intervention and its results. In fact, there are several other factors that can influence the outcomes such as confidence and the recovery of the economy (ABN Amro, 2012).

²⁶ MaRS Centre for Impact Investing, (2013), *Social Impact Bonds: technical guide for service providers*, November, p18, 32 p.

3 FUNDS AVAILABLE FOR SIBS IN BELGIUM

What is the potential for SIBs in Belgium? Given the lack of research papers and publications on this topic with a specific focus on Belgium, this chapter relies heavily on the input received from the 21 people who kindly agreed to be interviewed and to share their databases, experience, observations and recommendations going forward with us. In this first chapter, specific to Belgium, we will analyze whether there would be investors in Belgium willing to invest in such atypical and innovative investment products. We will also try to provide an estimate of the capital supply which could be made available.

We have based our research on the three following tasks:

- Suitability of SIBs for the average Belgian investor?
- Suitability for the High Net Worth individuals?
- Ways to increase the funds available for SIBs

3.1 Unsuitable for the average investor?

The average Belgian investor, when allocating their portfolio, cares about three dimensions: return-risk ratio, liquidity and potential tax incentives. In addition, the minimum amount to be invested should also be taken into consideration.

- **Return-risk ratio:** The average Belgian investor is characterised by its high-risk aversion. Legg Mason, an US-asset management company, conducted a survey in 2014 with investors from around the world. According to the results, 83% of the Belgian interviewees declared themselves as very conservative, compared to a world average of 65%. The consulting company pointed out that the average Belgian investor is seeking an annual average return of 6,9%, while getting 4% at the end. These figures are confirmed by interviews with people having day to day experience with these issues. From our interview with Xavier Van Campenhout (Petercam), it seems that, nowadays, banks feel that their Belgian clients are much more worried about their return and the future than ten years ago. They realise that they are going to live longer in a financial world of low risk-free rates and low government bond

rates. Furthermore, they have questions about our society model, the West's prominence, the marginalization of Europe. As a consequence of this, the average Belgian investor cares first about its return before paying attention to the social impact.

- **Liquidity:** *Liquidity refers to the ability to turn investment assets into spendable cash in a short period of time without having to make significant price concessions to do so*²⁷ (CFA, 2014). Harris (Harris, 1990) associates liquidity with four interrelated dimensions: width (the cost per share of liquidity), depth (number of shares that can be traded at a given price), immediacy (captures how quickly a given number of shares can be traded at a given cost) and resiliency (a measure of the ability to trade at minimal price impact). Cash and money market instruments (such as T-Bills) are considered as the most liquid assets compared to alternatives investments (real estate, hedge fund, private equity), which are the least liquid and can therefore carry significant liquidity discounts. *Illiquid investments in hedge funds and private equity funds, which typically are not traded and have restrictions on redemptions, are not suitable for investors who may unexpectedly need access to the funds*²⁸ (CFA, 2014). The study from Legg Mason shows that the Belgian investor is less attracted (national attraction rate: 19%) to the non-traditional investments than its counterparts (29%) (Legg Mason Asset Management, 2014). A comparison can be drawn between SIBs and private equity (low liquidity because not traded on a market, a “complicated” structure which involves several stakeholders held together with an average 5-year partnership contract from which it is difficult to exit). Based on that, SIBs score poorly on the liquidity dimension.
- **Tax considerations:** Even to a lesser extent than the liquidity aspect, the tax treatment (tax exemption or tax deferral) of various types of investments must be taken into consideration. A fine example of this is the Belgian Tax Shelter that promotes the production of audiovisual works by providing incentives for Belgian investors. They may have the advantage of a tax exemption amounting to up to 150% of the amount invested (Buron A-M., 2003). A study from 2010 proves to a certain extent

²⁷ Kaplan, (2014), *CFA Schweser Notes Level 1 Book 4*, p.188, 335 p.

²⁸ Ibid.

that this tax shelter increased the funding of the Belgian audiovisual industry by 330 million EUR over six years (Simon P-A., 2010). Nevertheless, we do not think that it would be suitable to implement tax and other fiscal incentives for Social Impact Bonds. As described earlier, the SIBs are an innovative way for governments to raise capital without bearing the risk of failure of the project. In fact, tax incentives (aimed to boost SIBs) are resources that are not receivables by the government and go against the concept of risk shifting from government to investors, a concept that SIBs promote.

- **Minimum amount to be invested.** Finally, even if an average investor was ready to put money on the table to support a project with a clear social impact, he or she would presumably not be able to put the minimal amount required on the table. As discussed earlier, SIBs are complex products with a costly structure. The different stakeholders must discuss together around the table to come to an arrangement in terms of return, time horizon etc. Therefore, it is not possible to have dozens of investors around the table. As an example, the first SIB launched in Belgium for Actiris (see later) gathered investors which had to invest 50,000 EUR minimum. But, in the future, maybe, it will be possible to gather several small investors thanks to crowdfunding, as it is the case for real estate crowdfunding where several “investors” put amounts of 2,000-5,000 EUR in order to build a house and manage it as a financial asset (in order to rent it or selling it with a capital gain). Due to the fact that crowd funding is still in its infancy in Belgium and that there is an unfavorable Belgian regulation regarding crowd funding, which blocks amounts above 100,000 EUR, we will not include crowd funding in our initial forecasts of the supply of capital for SIBs in the next five years in Belgium.

To conclude this chapter, for the foreseeable future, we consider that SIBs are not suitable for the average Belgian investor. So, we will not include it in our estimation of the supply of funding for SIBs in Belgium.

3.2 Potential for High Net Worth individuals

We conducted several interviews with private banking specialists and investment fund managers. We received the confirmation that the High Net Worth Belgian individuals

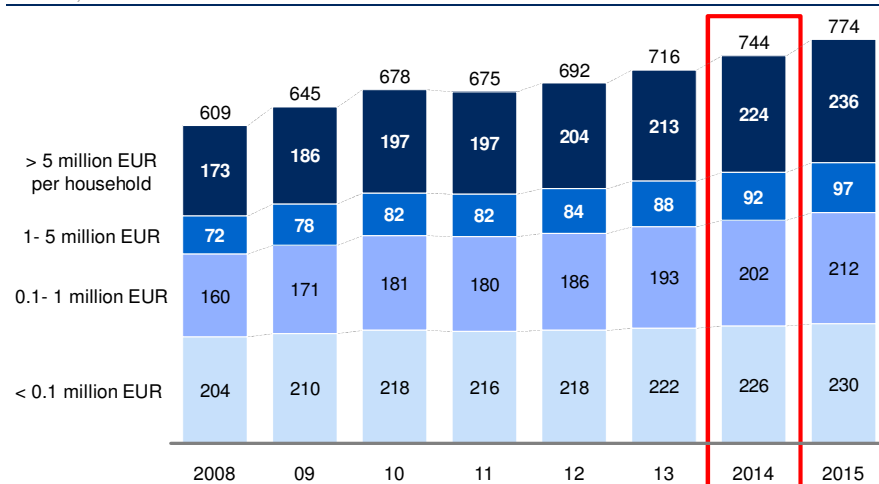
with more than 10 million EUR of asset under management may show interest in SIBs. To estimate the amount of money which could be invested in Belgian SIBs, we have followed a 5-step approach:

- **Step 1: Estimating the “wealth pool” of Belgian households.** Onshore Personal Financial Assets (including life insurance and pension but excluding real estate) located in Belgium have been estimated at 744 billion EUR in 2014 (see Figure 4). This amount is the addressable wealth of the Belgian private individuals.

FIGURE 4

Estimating the wealth pool of Belgian households

Onshore Personal Financial Assets (PFA)¹, Belgium
2008-15, EUR billions



¹ Including Life Insurance and Pension

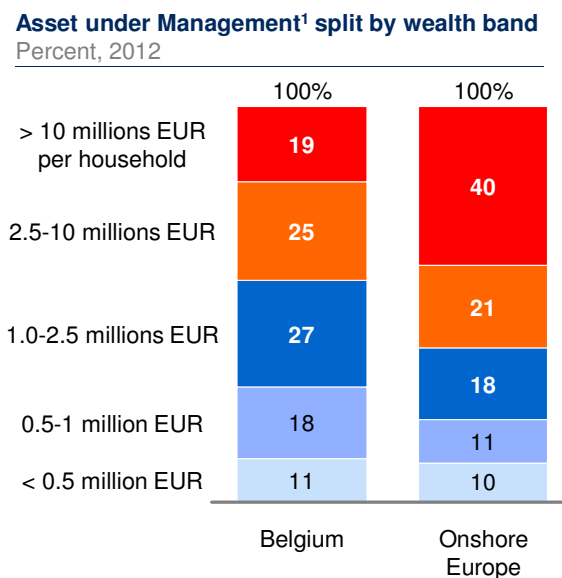
SOURCE: McKinsey, 2012

- **Step 2. Estimating the wealth pool of high net worth individuals with more than 10 million EUR of Onshore Personal Financial Assets (including life insurance and pension but excluding real estate) located in Belgium.** Indeed, based on interviews with several private bankers, it seems that impact investing products (characterised by high risk, low liquidity) would only be suitable, in a first step, to the upper-range of the high net worth individuals (called “deep pockets”). From our interviews, a reasonable target would be individuals with more than

10 million EUR. These investors have enough of a “cushion” and are therefore ready to allocate an amount to impact investing. In fact, based on the interviews done, it seems that for these investors return is not a priority. They are curious about impact investing products such as SIBs. They like the idea of investing in “pay for success models”, investing in innovative models pursuing social objectives rather than focusing on the return aspect. Based on the same research, the wealth pool of high net worth individuals with more than 10 million EUR is estimated to represent 19% (see Figure 5) of the total amount, i.e. 135 billion EUR.

FIGURE 5

Estimating the wealth pool of Belgian households per wealth band



¹ Including Life Insurance and Pension

SOURCE: McKinsey, 2012

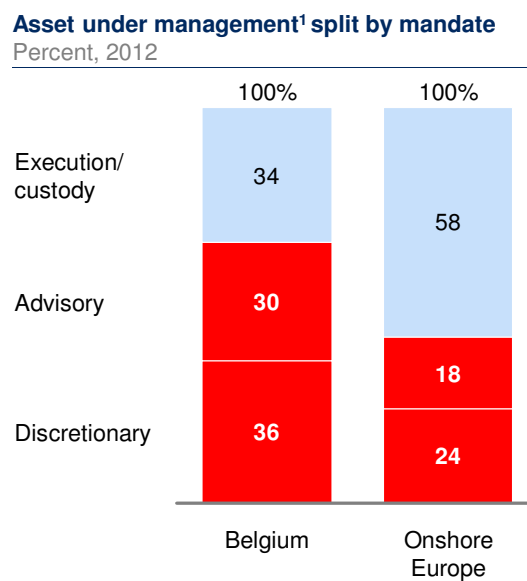
- **Step 3. Estimating the high net worth individuals of > 10 million EUR with discretionary or advisory private bankers relationships.** The Belgian assets under management are divided into the three following categories (see Figure 6):
 - **Discretionary (36%):** *discretionary managers are given the power to decide upon stock selection and to undertake transactions within the portfolio as*

necessary, according to an investment mandate agreed between the investment manager and the customer²⁹

- **Advisory (30%):** after having decided the optimal portfolio allocation, the investment manager cannot make any change in the portfolio's asset allocation without the red light of the customer. It may also be the customer who does its own transactions while asking for the investment manager's advice.
- **Execution / custody (34%):** the customer has the money in the private banking section of the bank. But, in terms of asset allocation, he or she takes decisions without an investment manager relationship.

FIGURE 6

Estimating the wealth pool per type of private banking relationship



¹ Including Life Insurance and Pension

SOURCE: McKinsey, 2012

Given that SIBs are complex products, investors must be convened by an experienced private banker who has expertise in impact investment. Therefore, we make

²⁹ Joint Money Laundering Steering Group, (2010), *Discretionary and advisory investment manager*, p.88.

the assumption that SIBs can only be proposed when private bankers have been given a discretionary or advisory mandate by their clientele, i.e. 66% of the amount calculated at the end of Step 2. This amount equals 89 billion EUR.

- **Step 4. Estimating the amount dedicated to impact investing.** Based on some internal market researches with their private bankers in Belgium (interview with M. Flammang), the Degroof Bank estimates that their HNW clients would be ready to allocate 5 to 10% of their investment portfolio to impact investing products. The Degroof Bank is the pioneer bank in impact investing in Belgium; it created its “Impact Investing and Philanthropy” department in 2004 and developed privileged relationships with several organisations specialised in impact investing such as the European Venture Philanthropy Association, JP Morgan Social Finance, the Blue Orchard fund etc. The bank has the know-how in terms of guiding the client through his or her impact investment decision. But Banque Degroof is only n°4 in the private banking ranking behind BNP Paribas Fortis, KBC and Belfius. These three banks have knowledge about sustainable investments but much less about impact investing. In order to develop impact investing, they will need to develop the know-how, which takes time and effort. Therefore, we can assume that in Belgium, impact investing will rise linearly from ~0% to 2,5% over a 5-year period.

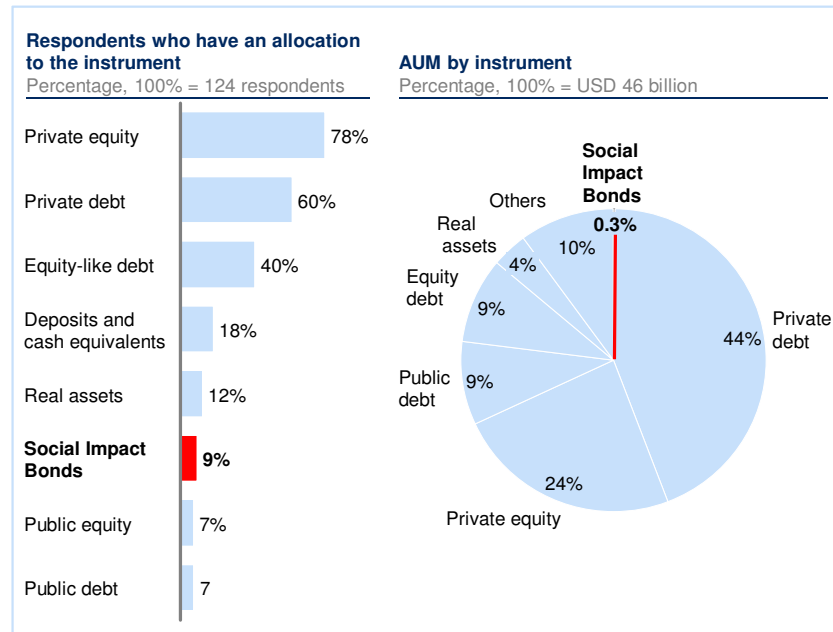
- 2015: 0.5 %, i.e. 445 million EUR
- 2016: 1 %, i.e. 890 million EUR
- 2017: 1.5%, i.e. 1335 million EUR
- 2018: 2 %, i.e. 1780 million EUR
- 2019: 2.5%, i.e. 2225 million EUR

- **Step 5: Estimating the amount dedicated to SIBs in the impact investing portfolio.** Each year, J.P. Morgan Social Finance (J.P.Morgan, 2014) conducts an impact investor survey, which gathers data and market perspectives from 125 investors totaling 46 billion USD in impact investing. The most recent comprehensive survey has identified the following trends related to SIBs:

- SIBs (created in 2010) represent 0.3% of impact investors' portfolio nowadays (see Figure 7).

FIGURE 7

Estimating the amounts of impact investing dedicated to SIBs



SOURCE: J.P. Morgan, 2014; Global Impact Investing Network, 2014

- A significant percentage of investors want to increase their SIB positions (see Figure 8).

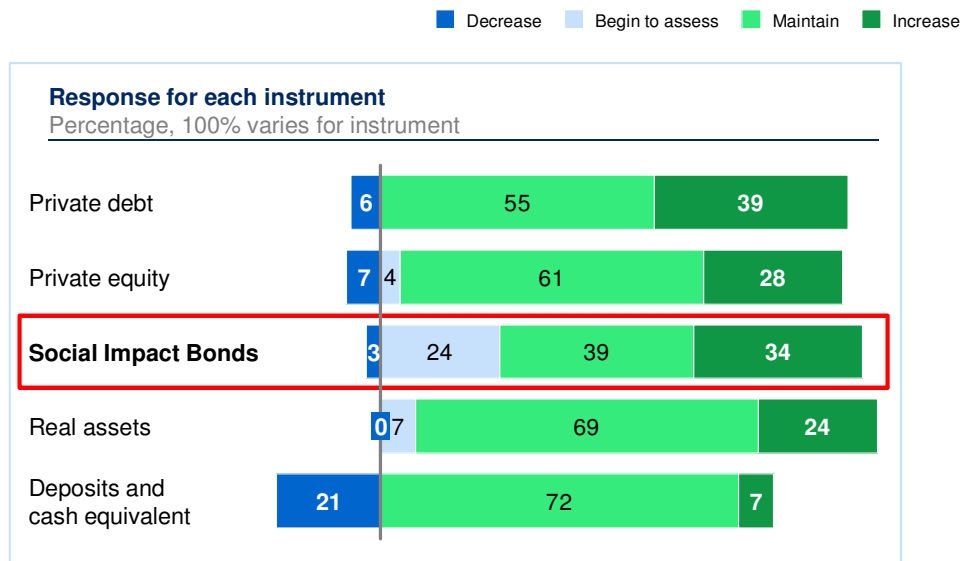
Due to the fact that impact investing is not well-developed in Belgium and only proposed by one private bank to its clients, SIBs will not cannibalize other impact investment strategies (private debt, private equity etc.) Therefore, our five year target for impact investing in Belgium will be 10% of the impact investing portfolio. This corresponds to the same percentage allocated by Impact Investors to Equity-like debt investment products, i.e. same level of risk associated to a SIB. We anticipate a growing percentage from 1% the first year to 10% after 5 years. Those percentages apply to numbers calculated at Step 4 and lead to the following amounts:

- 2015: 1% of 445 million EUR, i.e. ~4 million EUR
- 2016: 2% of 890 million EUR, i.e. ~18 million EUR

- 2017: 3% of 1335 million EUR, i.e. ~40 million EUR
- 2018: 5 % of 1780 million EUR, i.e. ~90 million EUR
- 2019: 10% of 2225 million EUR, i.e. ~220 million EUR.

FIGURE 8

Change of allocation plan over the next year, by instrument



SOURCE: J.P. Morgan, 2014; Global Impact Investing Network, 2014

Of course, these numbers are just estimates. But, at least, they give us a first indication that significant amounts of money could be invested in SIBs by Belgian HNWI. The people we have interviewed were not surprised by our numbers: they even shared with us that 220 million EUR is probably an underestimation!

3.3 Ways to increase funds available for SIBs

Finally, we have identified several levers, which could be activated to increase the fishing pool from 220 million to maybe up to 2 billion EUR:

- Studies tend to show that Belgian investors are interested in sustainable investments and impact investing products. The issue does not lie on the supply of capital but

rather on the banks' side. It seems that banks are not particularly interested in promoting those products (Bayot B. *et al.*, 2014). Therefore, increasing the institutional capabilities of Belgian banks with regard to impact investments products would be beneficial:

- Thought leadership: publishing data and research for investors in order to increase the visibility of SIBs and reassuring the investors about these new products (one of the problems of impact investing and sustainable investments is the lack of information for the investors, which creates lots of misconceptions with regard to risk and return).
 - Principal investments: investing the bank's capital in order to achieve both a financial and impact return. SIBs could be a way for banks to show their commitment to society by creating investment structures, which aim to solve social issues.
 - Client advisory: presenting impact investment products to clients, thus allowing the clients to have a closer relationship with their bank.
- Increase visibility and attractiveness of SIBs in the impact investment portfolio of products for existing HNWI > 10 million EUR of assets under management. As said earlier, SIBs are a new impact investing tool created in 2010 and the investors may show mistrust or ignorance about SIBs. For example, they may think that impact investing limits itself to micro-credits, which account for a fifth of impact investment assets. (J.P. Morgan, 2014)
 - Increase visibility and attractiveness of SIBs in the impact investment portfolio of products for 10 million EUR > HNWI > 1 million EUR of assets under management, leveraging traditional private banker channels. In order to come to a reliable estimation of the SIBs market, we made cautious assumptions by taking into account only the segment of HNWI of more than 10 million EUR. In fact, as shown in Step 3 of the market estimation, the range 2,5-10 million EUR represents 25% of assets under management, i.e. 185 billion EUR. These investors should be able to invest some money in impact investing

- Increase the inflows of smaller amounts by developing crowdfunding channels. A good example would be the real estate crowdfunding where several “investors” put amounts of 2,000 -5,000 EUR in order to build a house and manage it as a financial asset (in order to rent it or sell it with a capital gain). But Belgian crowdfunding is limited by a regulation which blocks amounts above 100,000 EUR.

4 COMPREHENSIVE ANALYSIS OF THE FIRST SIB IN BELGIUM

The objective of this chapter is to document what had already been done in Belgium with regards to SIBs. In particular, we have taken a closer look at all the protagonists associated with the preparation, the setup and the launch of the first ever SIB launched in Belgium. The “Garantie financière pour l’innovation sociale en matière d’insertion professionnelle des jeunes en Région de Bruxelles Capitale” SIB is focused on the integration of young migrants on the Brussels job market . Our objective was to understand the challenges and the lessons learned from this first project.

In this chapter, we will successively (1) review the genesis and the story behind the launch of this project, (2) assess the alignment of this SIB with the best practices listed in Section 2.3. of this report, (3) review the details of the contractual arrangements and (4) draw some lessons learned to keep in mind when considering SIBs in Belgium.

4.1 Genesis and story behind the launch of Actiris SIB

We will first present the team which is behind this initiative. Then, we will review each of the protagonists which this team has identified to set up the SIB: the government contractor, the social service provider and the investors. As you will read, this social venture required a lot of open-mindedness, persistence, multi-faceted skills, energy and time commitment from many individuals who one way or another wanted to do “good for society”. The entire process took two years from the initial idea to the successful launch of the Actiris SIB.

- **An SIB-intermediary think-tank team consisting of young impact entrepreneurs, sometimes named Social Impact Bond Intermediary Organization (SIBIO).** It all began in 2012 when an informal think tank based in Brussels started to analyse the possible implementation of SIBs in Belgium. They met several government representatives and a few social service providers to test their potential interest. In addition, Thomas Dermine, one of the members of the team, while studying at Harvard for a Master in Public Policy made a technical feasibility study under the supervision of Professor Jeffrey B. Liebman (“Social Impact Bonds” expert and

Barack Obama's economic advisor for social innovation). In June 2013, with the financial support of the King Baudouin Foundation and a few other advisors, a full-time team of two analysts was fielded in order to launch the first SIB in continental Europe at the beginning of January 2014.

- **Finding a government contractor: first contacts with Actiris.** The high (20.8%) unemployment rate in the Brussels region is a burning social and economic issue. The situation is even worse for youth unemployment, which has peaked at 31.7%! The Brussels government and the social partners have given the responsibility to Actiris, with an annual budget of 75 million EUR to improve the matching between employers and job seekers. The team contacted Gregor Chapelle, the CEO of Actiris, to test his interest in launching a SIB. Mr. Chapelle, who also graduated from the Kennedy School of Government at Harvard University, immediately showed a strong interest. Indeed, as CEO of Actiris, he strongly believes that when decisions are taken regarding unemployment and “return to work” programs, one must take into consideration the opportunity cost of unemployed people, i.e. when people have a job, this generates significant tax flows for the government through employer contributions and employee income taxes. With a budget under pressure and a high population growth, the SIB-proposal was aligned with Actiris's objectives as set out in Brussels government agreement³⁰ and in Actiris's management contract³¹. Mr. Chapelle gave the green light to further investigate the idea. In this initial phase, his management committee which consists of representatives from trade unions and employers had not been consulted yet.
- **Identifying and selecting a social service provider: “DUO for a Job”.** The team pre-selected six innovative projects which aim to foster youth professional

³⁰ *“La Région doit faire face à une grave détérioration de ses finances à la suite de la crise économique et financière. Cette détérioration est aggravée par le sous-financement structurel de la Région. Dans ce contexte, la Région doit de toute façon conduire une politique de parcimonie (économie et éventuelles recettes nouvelles) pour lui permettre de retrouver à terme son équilibre financier”.* Accords de Gouvernement 2009-2014, *Un développement régional durable au service des bruxellois*, p.7.

³¹ *“... veiller particulièrement à l’optimisation des moyens confiés par le Gouvernement, à l’allocation optimale et transparente des ressources humaines et matérielles ainsi qu’à la mise en œuvre d’une culture de résultats afin d’atteindre la finalité d’insertion d’un maximum de Chercheurs d’Emploi et de répondre aux besoins de recrutement des Employeurs”.* Contrat de gestion d’Actiris 2013-2017 (Art. 7), *Engagements généraux d’Actiris*, 17 p.

reintegration in Brussels. These projects were evaluated on four criteria: (1) the target population of the project, (2) the cost per one unemployed person and the total cost of the project, (3) the quality of the management of the social service provider and (4) the adequacy with the foreseen SIB structure. At the end, the team decided to select “DUO for a Job” highlighting three differentiating aspects when compared with the five other service providers:

- The originality of the coaching interventions which “DUO for a Job” uses. They have proven their worth abroad but did not exist in Belgium yet;
- The quality of the management team which could put forward its dynamism and its significant past professional experience ; and
- The adequacy of the project with respect to the SIB mechanism due to its innovative character and its ease of evaluation.

■ **Finding investors: Kois Invest.** After having found a government contractor (Actiris) and a social service provider (“DUO for a Job”), the team started the search for investors interested in supporting the project. For the initial phase of the project, the amount to raise was evaluated at 234,000 EUR to be called semi-annually during two years. Through personal networks, the team quickly identified Kois Invest, an investment company specialized in impact investing projects. Kois Invest brought together other investors such as the Bank Degroof Foundation. This Foundation is one of the leading financial institutions to support entrepreneurship and education projects to promote prosperity in Belgium: the “DUO for a Job” project was fully in line with their objectives.

■ **Bringing everyone together at the same table: launch of the SIB.** Before bringing everyone around the table, Mr. Chapelle needed to ensure that the Actiris management committee agreed with the launch of the SIB project. Mr. Chapelle and Mr. Laloux have indicated to us that this was a difficult challenge. In fact, the management committee was afraid that this SIB may give a signal to all the existing partners of Actiris that from now on Actiris would follow a “payment by result” approach. In addition, the union leaders were very suspicious and even reluctant to study the idea any further: they considered the proposed SIB-project to be an

intrusion of the private sector into the public sector. Before moving forward, the trade unions imposed the following conditions:

- The public sector (Actiris) must keep the entire control of the SIB. Actiris must be in charge of the scope of the project, the working arrangements and the evaluation criteria.
- This project can only be a pilot, a first experience. It is out of the question that all the future partnerships of Actiris should become “payment by result” oriented.
- The SIB project cannot negatively impact the government funds given to Actiris. Unions did not want to come to a situation where the government decides to decrease the subsidies to Actiris after having issued such SIBs.

The different stakeholders gathered to negotiate and agree on many features of the proposed SIB: how many years? The proposed returns in function of impact? The amount of funds to be raised? How to measure the impact? This has been a time and energy-consuming process. But, at the end, this two-year process led to the successful launch of the first SIB in Belgium. Congratulations to all the protagonists!

Today, this steering group has been institutionalized, i.e. the protagonists meet every six months to review progress and take corrective actions if necessary. *Those repeated interactions are essential to develop a trust-based relationship between the different stakeholders* (interview of Frédéric Simonart, co-founder of “DUO for a Job”).

- **Addressing the legal aspects: Stibbe.** The law firm supported the project for professional reasons (a SIB is an innovation with specific legal requirements) but also for its societal impact (Interviews with Mr. Chef and Mrs. Mathy). One of the key legal challenges was to avoid that the SIB would be qualified as a Public-Private Partnership (PPP). For this reason, Stibbe has examined several possible structures:

- A direct structure between Actiris and the private investors. This option was abandoned because the risk of qualification of the SIB as a PPP was too high.

- The creation of an intermediary structure to act as the recipient of the funds. In this option, this intermediary structure issues the bonds and gives the money to Actiris. Moreover, this structure supervises the process during the entire life of the project. At the end, this option was not retained because it was unclear which “partner” should lead the intermediate structure:
 - The investors (Kois Invest) would have appreciated the right to monitor closely the project but, at the end, they considered that it was not their role to control on a day-to-day basis the advancement of the project.
 - With the government agency in the lead (Actiris), this would have increased the risk for the SIB to be qualified as a PPP. Some opponents could have said that the government agency was using this structure to “hide” a pre-financing operation.
 - For the social service provider “DUO for a Job”, given its straightforward legal structure (ASBL), this would have complicated their existing governance structure.
- Finally, the retained option consisted in preparing three contracts linking the three entities: Actiris, the private investors and “DUO for a Job”. The contracts stipulate that “DUO for a Job” is responsible for gathering the initial funds and that Actiris, if the targeted milestones are achieved by “DUO for a Job”, will pay “DUO for a Job” so that it can reimburse the investors – the initial investment and the agreed-upon coupons.

Another indirect legal issue was that, given the enthusiasm of the protagonists of the launching team, too much funding was about to be collected thereby increasing the risk that the SIB would have been considered as a public offering (“Appel public à l’épargne”). This would have meant publish several additional documents (“Prospectus”) which would have been extremely time-consuming (an extra six months) and costly. Given that the team did not want to miss the opportunity to be the first to launch a SIB in Continental Europe, it decided to limit itself to be a “pilot project” with “a small circle of investors”.

“SIBs raise some new issues and questions” (Interview Irène Mathy). Today, for the public authorities, there exist only two main mechanisms: the public contracts (“marchés publics”) and the subsidies. SIBs would add a third category, because they introduce the concept of “possible reimbursements” if and only if certain milestones are achieved (result-oriented approach). *“The best would be to have a legal framework that we could use over and over. It would legitimize the operation and secure it”* (Interview Irène Mathy).

4.2 Alignment of Actiris SIB with best practices

In Section 2.3, we listed five questions which should help assess whether or not the setup of a SIB could be an attractive option. If the answer to any of those questions is negative, then the successful set up of a SIB could seriously be at risk. We propose to apply the test to the Actiris SIB we have just described.

- **Question 1. Is there a social problem to be solved with a well-targeted population? Yes, the unemployment rate in the Brussels region is too high.** The high (20.8%) unemployment rate in the Brussels region is a burning social and economic issue. The situation is even worse for youth unemployment which has peaked at 31.7%! The objective of this SIB is to encourage social entrepreneurs to innovate and therefore tackle this unacceptably high unemployment rate. This is fully aligned with Actiris’s vision as described in its Management Contract and with the youth guarantee scheme of the European Commission i.e. *“youth employment is a priority for the Commission but it must be clear there is no single solution – with the Member States we have to act urgently to put into practice the combination of measures which have been agreed, that work and that will bring results³²”* (European Commission, 2013).
- **Question 2. Are there significant gains (cost savings, extra revenues) to be expected for the government? Yes: 33,000 EUR per year per activated job seeker.** The net savings for the government generated after the activation of a job seeker is estimated at ~33,000 EUR per year per unemployed person seeking a job.

³² European Commission, (2013), *EU measures to tackle youth unemployment*, June, p.4, 4 p.

Key items include the cost savings on unemployment stipends, the extra revenues on social security payments by the employer and the employee as well as the employee's income tax. The Actiris management and the SIB-team indicated to us that the 33,000 EUR gains should in theory be further divided between the Federal and the regional levels. The 6th reform of the Belgian State has not simplified the calculations.

■ **Question 3. Is there a public sector leader willing to consider new approaches?**

Yes, the CEO of Actiris. When the team contacted the CEO of Actiris to test his interest in launching a SIB, he could have answered no: he did not. Moreover, the CEO agreed to put all his hierarchical weight and leadership to convince his management committee, including the union leaders, to study the idea further. Remember, initially, they were all very suspicious and even reluctant: they considered the proposed SIB-project to be an intrusion of the private sector into the public sector. At least three people whom we have interviewed (Etienne de Callatay, Stéphane Laloux and Laurent Ledoux) have insisted on the importance of having left-wing leaders from the French-speaking Belgian public sector willing to push such innovations.

■ **Question 4. Are there innovative interventions with a preventive focus to solve the identified social problem?**

Yes, the social service provider “DUO for a Job” seems to be up to the task. It was created in Brussels in November 2012 upon the initiative of four 30-year-old friends. “DUO for a Job” focuses on newly arrived immigrants. They have very different profiles: some of them are highly educated but cannot find a job in Belgium because their foreign degrees are not validated in Belgium, or they are disoriented because they fled their countries because of wars and oppressive political regimes. The “DUO for a Job” coordinators organise information sessions with organisations responsible for taking care of those newly arrived immigrants (e.g. the Belgian Red Cross). The newly arrived immigrants volunteer to participate in the “DUO for a Job” coaching program. On one side, the coordinators meet the candidates for a two hour individual meeting in order to screen the candidates based on their career plans, character, desires and needs. On the other side, the coordinators also meet with the would-be mentors to screen their profes-

sional experience, the profile of the immigrants they primarily want to work with, cultural or gender preference. A three-day intensive training is also organized. Finally, the coordinators assemble the duos. A mentor can only take one mentee under his or her wing. They meet each other during two hours on a weekly basis and this, during six months. After the six-month period, an evaluation is done based on the initial action plan. Hopefully, the job seeker will have found a job.

- **Question 5. Can the SIB social impact be measured and compared with non-SIB affected control groups to establish a clear relationship between intervention and results? Yes, reliable data is available in Belgium on those aspects.** In the case of the Actiris SIB, the results with the job seekers mentored by “DUO for a Job” will be compared with a large control group (6,200 job seekers with similar characteristics but who did not get the support from “DUO for a Job”). This assessment will be led by an independent, reliable and well data-equipped institution “Observatoire de l’Emploi Bruxellois”. Furthermore, an external organisation such as university researchers will check the accuracy of the methodology used by the “Observatoire de l’Emploi Bruxellois”.

4.3 Details of the contractual arrangements of Actiris SIB

To measure the impact, **the metric** will be the one-year reemployment rate which is defined as either the people who have accumulated more than 90 days of employment within one year after the program has ended or the people who have obtained a permanent contract within one year after the program has ended.

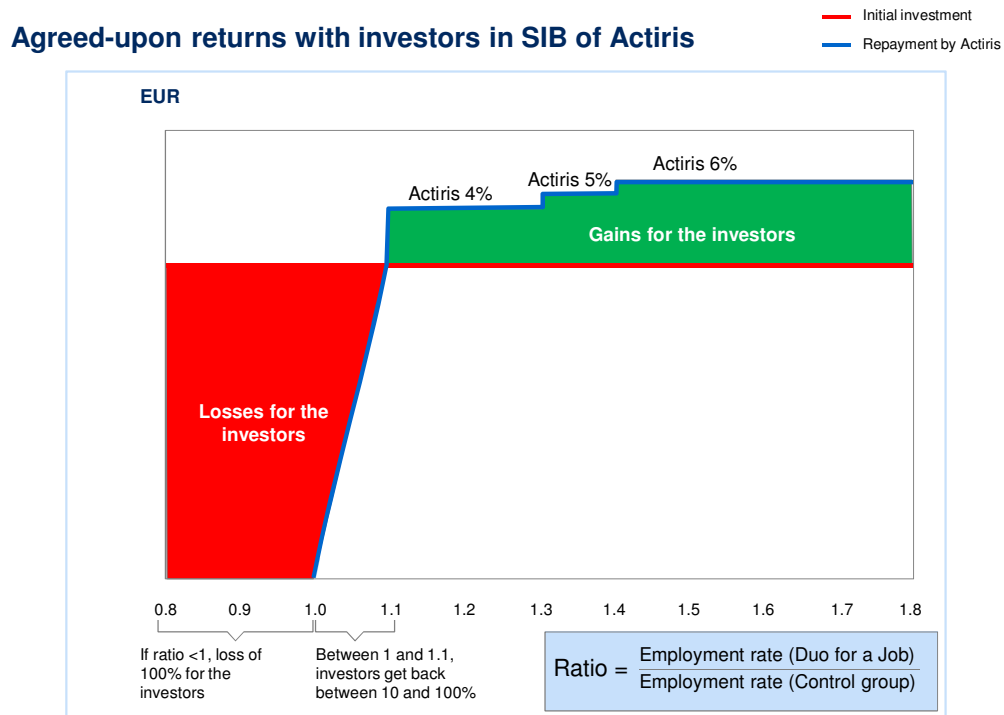
To evaluate the impact, the metric will be compared between two groups:

- **Treatment group:** 180 people from the target population (18-30 years old, non-EU nationality, registered at Actiris) who follow the “DUO for a Job” coaching.
- **Control group:** 6,200 people with similar characteristics at the treatment group.

This will allow the definition of a valuation **ratio** defined as the 1-year employment rate in the treatment group divided by the 1-year employment rate in the control group.

Based on the relative value of the ratio, the following returns have been agreed-upon (see Figure 9 & Figure 10)

FIGURE 9



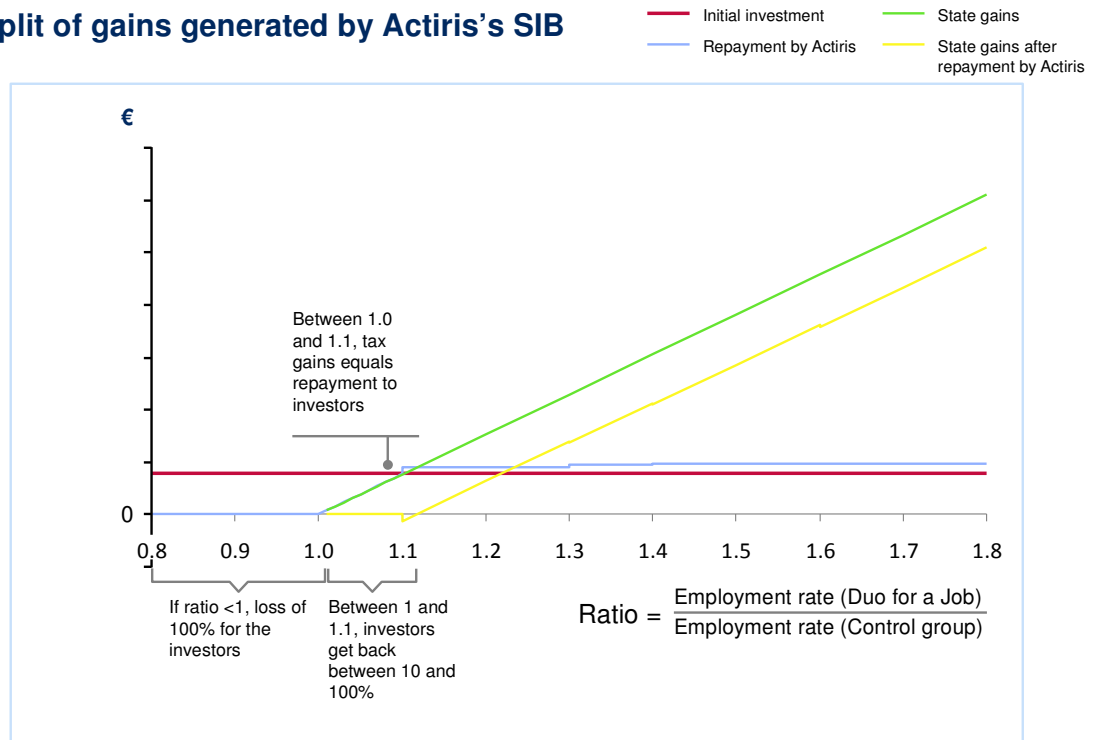
SOURCE: Actiris, 2013

- **Ratio < 1.** This means that the program “DUO for a Job” does not provide added value in terms of reintegration: the investor loses the full original investment and Actiris does not pay anything. The return for the investor is -100%.
- **1 < Ratio < 1.1.** This means that the program “DUO for a Job” increases the professional integration by 0% to 10%, the investor gradually gets back between 0% and 100% of his or her original investment. The return for the investor varies between -100% and 0%.
- **Ratio > 1.1.** This means that the program “DUO for a Job” increases the professional integration by more than 10%. The return to the investors will gradually increase from 3% to maximum 6% when the program increases the integration by more than 60%. Figure 10 shows the “beauty” of the SIB’s mechanism. When the

social provider exceeds agreed-upon targets, the State is the big winner, giving only a small portion of the savings to the SIB's investors.

FIGURE 10

Split of gains generated by Actiris's SIB



SOURCE: Actiris, 2013

Several stakeholders whom we have interviewed have explicitly asked us to keep some contractual arrangements confidential. This is why the numbers of the ordinate axis of Figure 9 & Figure 10 have been removed.

5 OPPORTUNITY FOR SIBS FOCUSED ON EDUCATION IN FWB (FÉDÉRATION WALLONIE BRUXELLES)?

Identifying “SIB-ready” social services and providers is not an easy task. As seen in the previous chapters, not all social ills can be solved through SIBs. There needs to be a clear problem, identifiable control group, measurable outcomes, and easy-to-define, short term savings generated for the government to make these work. Therefore, carefully choosing interventions on which to test the SIB’s model is extremely important to prove to investors, public officials, and the general public that the model is feasible. In the USA, the federal government and the states’ governments that are pushing for SIBs have chosen the following intervention areas that they think fit these criteria: workforce development, homelessness, criminal justice (juvenile and adult) and education. These interventions – and their potential to become strong SIB programs – are evaluated according to a matrix of required elements (see Figure 11).

FIGURE 11

Matrix of required elements for potential SIB programs

Field of intervention	Problem definition	Desired outcome	Target population	Output or Outcome metrics	Potential for returns
Workforce development	Un- and under-employment of workers	Increased full time employment, higher wages and quality benefits	The un- and under- employed in a certain region	Jobs, wages, quality and type of benefits, hours worked per week	Yes, large savings from reduced unemployment insurance and other welfare benefits
Homelessness	Chronically homeless individuals who rely on a large number of “cure” social services	Permanent housing and access to necessary health care	Chronically homeless individuals, mainly in cities	Placements in permanent housing, health care spending	Yes, large savings from more efficient health care delivery & reduced costs from temporary housing
Juvenile justice	Juvenile offenders who are more likely to spend part of adulthood in jail	Reduced recidivism rates for juveniles and successful reentry into society	Recent or soon to be released offenders in a certain region	Reduced recidivism rates, employment and education rates	Yes, savings from variable per-prisoner costs, law and enforcement costs, and eventually closed cells/prisons
Education	Lack of quality public education that is not adequately preparing students	Higher achievement levels and outcomes for children	Children in public schools	Test scores (PISA, CEB), drop-outs rates, employment rates, income levels	Yes, but long term and harder to track and attribute to one intervention

SOURCE: Bafford B., 2012

In the Belgian context, Actiris SIB belongs to the field of intervention called “Workforce development”.

In the course of our research, we have decided to assess the opportunity for developing SIBs focused on education in Fédération Wallonie-Bruxelles. As we will find out, SIBs in the education field face the greatest challenge because they stir controversy over metrics and outcomes that might raise legitimacy claims about the model. Indeed, there is a constant debate on how to measure the link between the overall performance of an education system (“outputs”) and its inputs, in particular the respective roles and responsibilities of the teachers, the school principals, the parents and the students. To assess if SIBs could be a promising innovation in this area, we will apply our checklist of questions as discussed in Section 2.3 to two concrete ideas: (1) a SIB to tackle the high failure rate of 1st year university students, and (2) a SIB to tackle high grade repetition and drop-out rates at schools. The Figure 12 provides a synthesis of our initial assessment of the suitability of those two potential SIBs and the “Actiris-DUO for a Job” SIB.

FIGURE 12

Assessing the suitability of social services for 3 SIBs in Belgium

Key questions to be asked	SIB to tackle high failure rate of 1 st year university students	SIB to tackle high grade repetition and drop-outs at schools	SIB Actiris “Duo for a Job” to increase job rates
Social problem with a well-targeted population?	✓?	✓✓	✓✓
Significant gains for the government?	✓?	✓✓	✓✓?
Strong public sector leader?	?	?	✓✓
Existence of innovative interventions?	✓?	✓?	✓
Measurable impact?	?	?	✓

SOURCE: Synthesis of multiple sources and interviews, 2014

5.1 Improving the success rate of first-year university students in FWB

This issue of “How to improve the success rate of first-year university students in FWB?” is high on the political agenda of the government of the FWB. In the most recent Déclaration de Politique Communautaire 2014-2019, it is clearly stated that *“le Gouvernement de la FWB entend aussi tenir compte des besoins spécifiques et urgents, tels que l’aide à la réussite des étudiants de première génération... L’échec dans le supérieur provoque des dégâts humains importants parmi les étudiants, sans compter les coûts que cela engendre pour la société et les familles. Le Gouvernement concentrera ses efforts sur le premier bloc du premier cycle”* (FWB, 2014). In this context, we have decided to study in more details the “Passeport pour le BAC” organized by the Louvain Academy and the multiple initiatives organized by the Faculty of Economic, Social and political Sciences and Communication at the Université Catholique de Louvain in Louvain-la-Neuve. The story could be the following...

Imagine you are a professor at a Belgian university. At the beginning of the academic year, full of enthusiasm, you are teaching first-year university students. Unfortunately, you know in advance that less than 30% of them will succeed at the end of their first academic year. Even more depressing, only a few of the successful students come from the most socio-economically disadvantaged families. For you, it is clear: the school system of the Fédération Wallonie-Bruxelles does not adequately prepare its students to university studies. Generally speaking, the only students who will get a fair chance to succeed come from socio-economically advantaged families which can afford expensive coaching and remediation courses.

Confronted with this unacceptable inequity, you decide to take the bull by the horns. With some other motivated professors and with the consent of your university board, you decide to put in place an innovative program in order to increase the success rate of first-year university students, e.g. the “Passeport pour le BAC” (set up in 2007 to foster the success rates of first-year students of the Académie Louvain - UCL, FUNDP, Saint Louis, FUCAM). Your program consists of preliminary tests, remediation sessions during the year, debriefing sessions after the exams, working sessions to improve the work methods etc. Your pilot project has borne fruits by clearly demonstrating that the students attending your program are more successful compared to those who do not. You are

convinced that through this increased success rate you are generating significant value for the government and society at large: avoidance of university costs at ~8,000 EUR per student per academic year and collection of additional social security contributions and taxes thanks to enhanced revenues and salaries. For those reasons, you are convinced that scaling up your program should be a priority of the government. Unfortunately, after visiting government representatives, you only receive a polite negative answer: the government of the FWB has no money available...

Fortunately, you have heard about some enthusiastic social entrepreneurs who are pushing the concept of SIBs. You have contacted them. They have agreed to meet you but they have asked you to prepare an answer to five precise questions. You are a bit stressed but we have helped you prepare your answers in the context of this research: good luck for your exam!

- **Question 1. Is there a social problem to be solved with respect to a well-targeted population? Answer: yes but...** Failure at universities of the FWB is a real issue. The average pass-rate for first year university students is roughly 41% (CREF, 2011). Numerous observations have been made around that issue (Demeulemeester L., 2001). For example, the probability of success is highly and positively correlated with the education level of the parents, especially the mother. Children from blue-collar workers are largely underrepresented at university. However, given the diversity of factors that influences success rate (motivation, secondary school, nationality, gender and socio-cultural environment...), the targeted population in the case of one SIB may not be that clear. Therefore, going forward, it will be essential to define the targeted population more precisely.
- **Question 2. Are there significant gains (cost savings, extra revenues) to be expected for the government? Answer: yes but...** Higher education failure is costly for society at large (Hindriks, 2013; OECD, 2010). The following items must be taken into account:
 - The opportunity cost of delayed professional inactivity taking into account wages of young university graduates, contributions to the social security (employer and employee), the employee's income tax plus the VAT on his or her consumption.

Although estimates can vary, ~25,000 EUR per year seem to be an acceptable average based on multiple Belgian researches.

- However, in Belgium, given the current reform of State between the Federal and the Regional / Community levels, most of the benefits will go to the Federal level while the costs will be borne by the Communities. It is doubtful that Flemish political parties would accept to transfer funds from the Federal level to the Community level for promoting the success of students in French-speaking universities (interview Philippe Maystadt).
- The public funds allocated by the Fédération Wallonie-Bruxelles to each university – on average ~8,000 EUR per year per student. However, in FWB, university funding is packaged into a fixed budget (“enveloppe fermée”) which is then divided across the different institutions in proportion of their number of students. It is not the absolute number of students which matters but more the relative share of students per institution. Therefore, we cannot take into account savings on those public funds when estimating the cost of failure (interview Etienne de Callatay).
- The total costs and impact associated with the remediation program. For example, the cost of running “Passeport pour le BAC” amounts to ~400 EUR per student who follows the program. Today, 10% of the UCL students participate in the remediation program. However, it is very likely that there is a selection bias: those in the program are maybe those who need it the less! (interviews Patricia Vandamme, Valérie Wathelet).

In conclusion, while we have identified items to be taken into account to quantify the savings and the revenues generated for the government, further work is required to develop an attractive value proposition for the different levels of government (Federal, Communities / Regions).

- **Question 3. Is there a public sector leader willing to consider new approaches and a university motivated to fight against the “high failure rate among first-year students”?** **Answer: unclear.** Government officials and universities are well aware that the future prosperity of Belgium will depend on the quality of its

education system, in particular at university level. Today, universities are asking the new government of the FWB to get additional funding to reflect the increase in the number of students (over the last 10 years, the public funding per university student has decreased by 15% in the FWB). However, for universities, is it that clear that the success of first-year students is a core priority? Based on some of our interviews, the answer is far from obvious. Their reasoning goes as follows: in today's financially constrained environment, the universities of the FWB are confronted with an ever increasing numbers of students (including those coming from abroad). Given that they are not allowed to introduce admission tests, they have little incentive to reduce the failure rate of first-year university student. As we can see, this is a complicated and delicate issue which needs to be further researched.

- **Question 4. Are there innovative interventions with a preventive focus to solve the identified social problem? Answer: yes.** We will not give all the details on how the “Passeport pour le BAC” program works (some preliminary tests, remediation sessions during the year, debriefing sessions after the exams, working sessions to improve the work methods), but, it seems that it bears fruit. The next two figures show the results of the program in two different faculties: Faculty of Motricity (UCL) and Faculty of Sciences (UNamur). Students did the “Passeport pour le BAC” initial test and then, some of them followed the remediation program (while others did not): the first group succeeded much better than their counterpart who did not (see Figure 13 & Figure 14).

FIGURE 13

Comparison of academic results – Without or With remediation program¹

Université Catholique de Louvain (UCL)

Faculty of Motricity Sciences	Without remediation	With remediation	
Academic year 2010-11	89 students	89 students	Delta
Average of initial test	10.13	10.13	0
Academic average (final)	8.8	11.5	+2.7
Physics course average (final)	7.2	9.9	+2.7
Final academic success (# students)	34	52	+18
Final physics course's success (# students)	26	39	+13

¹ Remediation program: "Passeport pour le BAC"

SOURCE: UCL; Passport pour le BAC, 2012; Romainville M. et al., 2012

FIGURE 14

Comparison of academic results – Without or With remediation program¹

Université de Namur (ex-FUNDP)

Faculty of Sciences, FUNDP	Without remediation	With remediation	
Academic year 2010-11	59 students	59 students	Delta
Average of initial test	11.49	11.49	0
Academic average (final)	6.9	10.1	+3.2
Physics course average (final)	6.4	10.0	+3.6
Final academic success (# students)	17	29	+12

¹ Remediation program: "Passeport pour le BAC"

SOURCE: FUNDP; Passeport pour le BAC, 2012; Romainville M. et al., 2012

- **Question 5. Can the SIB be measured and compared with non-SIB affected control groups to establish a clear relationship between interventions and results? Answer: difficult.** Based on our interviews with the people involved in this remediation program, it seems that evaluating its impact over a five-year period would be extremely difficult. Despite the fact that each university has a lot of relevant data about its student population, the study trajectories of students vary a lot. For example, some students stop in October, others in February (after the first session) or in September (after their second or third session). Some succeed in their first year but afterwards they reorient themselves towards other studies. There are also students transferring from one university to another university (for example, getting a Bachelor degree in one university and then transferring to another one for their Master's degree). Those complicated and diverse trajectories make it very difficult to measure and compare the true impact of the remediation program with non-SIB affected control groups (interview Patricia Vandamme).

In conclusion, taking into account the preliminary answers to those five questions, the feasibility of a SIB to address this issue appears to be low.

5.2 Reducing grade repetition in the schools of the FWB

The issue of reducing grade repetition in the schools of the FWB is also very high on the political agenda of the government of the FWB. In the most recent « Déclaration de Politique Communautaire 2014-2019 », it is clearly stated that « *Les priorités du Gouvernement seront de lutter contre l'échec scolaire... Vu le coût global engendré par le redoublement, la mise en œuvre de projets pédagogiques permettant de le réduire sera de nature à dégager des moyens pour renforcer l'accompagnement des élèves, la remédiation des difficultés d'apprentissage et la prise en charge individualisée... Le Gouvernement mettra à disposition des écoles qui souhaitent développer des alternatives au redoublement, des moyens d'encadrement supplémentaires pour assurer la remédiation...* » (FWB, 2014). In this context, we have decided to conduct a first assessment on the interest of developing a SIB to tackle grade repetition in the schools of the FWB. At this stage, we will simply try to give a preliminary answer to our five key questions; we are not referring to a specific social provider.

- **Question 1. Is there a problem to be solved with respect to a well-targeted population? Answer: Yes.** Grade repetition is a problem in the school system of the FWB. According to PISA 2012, an average of 47.8% (in 2009, 46%) of 15-year old students from the FWB reported they have repeated grades at least once: the highest percentage in the OECD countries! And this, despite the fact that the disadvantages of grade repetition are numerous (Baye A. *et al.*, 2014). Indeed, the effectiveness of grade repetition is not proven at all: it seems that students who repeat grades improve their results, but less so than the students (with the same background and challenges) who move up to the next grade. The education systems with the lowest grade repetition rates are the systems which score the highest on the PISA tests. Moreover, repeating students build a negative image of themselves. Grade repetition increases the long-term risk of dropping out of the school system as well as the inequity of the school system. Grade repetition mainly affects students with the lowest socio-economic background or with parents of foreign origin. This should help define the targeted population for the SIB.

- **Question 2. Are there significant gains to be expected for the government? Answer: Yes.** Grade repetition is costly particularly if you combine the costs of providing an additional year of school to the students with the opportunity cost of delaying the students' entry on the job market. As discussed in the previous section, due to the institutional complexity in Belgium (Federal versus Communities / Regions), we will not take into account this opportunity cost. Looking at the evolution of the grade repetition rates over the last 10 years and the schooling costs per student per year, we can deduct the associated costs for the FWB. As we can observe, they are very significant costs, 421 million EUR for the 2011-2012 academic year (see Figure 15)!

FIGURE 15

Evolution of grade repetition rates, and their associated costs

Fédération Wallonie Bruxelles, Belgium

Grade repetition %	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Kindergarten	1.4	1.5	1.5	1.5	1.1	1.1	1	0.9
Primary school	4.5	4.4	4.3	4.6	4.4	4.3	3.9	3.9
Secondary school	13.2	13.4	13.6	14	13.7	15.3	15.3	14.6
Associated costs EUR millions								
Kindergarten	6	6	7	7	5	5	5	5
Primary school	44	44	45	51	49	50	49	51
Secondary school	274	284	298	318	317	365	372	365
Total	324	335	350	377	372	422	427	421

SOURCE: Performance indicators, FWB, 2013

- **Question 3. Is there a public sector leader willing to consider new approaches to fight grade repetition in primary and secondary education? Answer: maybe but...** As we can read in the DPC³³ 2014-2019 (FWB, 2014), the government is deeply concerned about the high grade repetition rates. Key protagonists in the school systems, including most of the teachers and the school principals, are constantly seeking new ways to tackle grade repetition and school drop outs. Some could be interested in launching a SIB to deal with those issues. However, we can anticipate that any public sector leader who would consider launching a SIB in the school system will immediately be accused of allowing the intrusion of the private sector into the public sector. The argument of opponents will be centered around “we do not need private money to fix an issue which is and should remain exclusively under the responsibility of the public sector”. At the same time, at the periphery of the school system, social service providers focused on preventing school drop

³³ Déclaration de Politique Communautaire

outs or on offering after-class remediation lessons may have more chances to succeed in launching a SIB: private funding at the fringe of the school system might potentially be more acceptable.

- **Question 4. Are there innovative interventions with a preventive focus to solve the identified social problem? Answer: Yes and No.** There are several levers to fight against grade repetition and school dropouts. First and foremost, education experts would recommend applying the best practices within the school system itself (Mourshed, 2007):

- Get the right people to become teachers because the quality of a school system cannot exceed the quality of its teachers.
- Focus on improving instruction in the classrooms: build practical skills during the initial training to become a teacher, provide coaches in schools to support teachers, foster a culture of continuous improvement among teachers, enable teachers to learn from each other.
- Select and develop effective school directors (“every school needs a great school leader”): develop the directors’ instructional leadership skills and focus directors’ time on improving the instructional skills of their teachers.
- Ensure the best possible instruction for every child: set high expectations for what each child should achieve, monitor schools and intervene in the schools not performing satisfactorily, monitor and intervene at student level, in particular to compensate for impact of poorer family environment.

Those best practices are well-known and well-documented. They are not truly “innovative”. But somehow, they are not implemented in each and every school of the FWB. As a result, new protagonists have started to offer their services:

- On a “For-profit” basis, there are companies from the private sector (e.g. Cogito, Educadomo, My Sherpa, Admitis...) or individuals such as (pre-)(retired) teachers or more senior students. It is estimated that 10% of the Belgian children take private lessons! In 2010, the consolidated revenues of those activities have been estimated at ~300 million EUR. Over the last years, the sector has been professionalizing itself: residential weeks, home drill sessions, certified teachers etc. An

important issue is that this “private sector” is mainly and only affordable for the most socio-economically advantaged population.

- In the “Not-for-profit sector”, hundreds of homework schools (“écoles de devoirs”) are taking care of thousands of children in the FWB. Most of the time, they work on tight budgets in difficult circumstances (poor facilities, low teacher salaries). The financial contributions asked to the parents are low.

- **Question 5. Can the SIB be measured and compared with non-SIB affected control groups to establish a clear relationship between interventions and results? Answer: difficult.** In the private sector, the impact on the results of the students is often “claimed” to be positive. As a result, the private market is expanding fast despite the fact that, to our knowledge, no independent study has been published to prove or disprove the positive impact on the results of the students. Similarly, in the “Not-for-Profit sector”, some studies show that the homework schools tend to have a positive impact on students’ results but again, those studies are very sketchy (Houssonlogé, 2008). Fundamentally, given that students continue to attend school while they receive additional support outside the school system, it is very difficult to establish a clear relationship between those off-school interventions and the final results of the students.

In conclusion, taking into account the preliminary answers to those five questions, the feasibility of a SIB to address this issue appears to be low, although a bit higher than addressing the high failure rate of first-year university students. Clearly, further research is needed to push the thinking further. But, overall, as it has been researched in other countries like the USA, the education sector may not be the most attractive field to launch SIBs.

Finally, based on this short research, we have better understood the difficulty of launching new SIBs as well as the need to mobilize committed and skilled social entrepreneurs and other intervening parties for a long period of time (~2 years in the case of Actiris).

6 RECOMMENDATIONS TO ACCELERATE THE DEVELOPMENT OF SIBS IN BELGIUM

A recent study from the FEB (Federation of Enterprises in Belgium) (Timmermans, 2014) indicates that public spending in Belgium has increased from 48.2% of GDP in 2007 to 54.1% in 2014. In this study, the FEB strongly disagrees with the people arguing that this increase in public spending has led to more efficient and more effective public services. First, the FEB points out the fact that the operational costs of the Belgian public services are higher than their European counterparts (+0.9% of GDP representing ~ 4 billion EUR). Second, the FEB points to multiple international sources (World Bank, World Economic Forum, OECD) which clearly demonstrate that public services in Belgium are of lower quality compared to neighboring countries, and this, in almost all sectors (justice, public safety, economic affairs, education...). The FEB concludes that with higher operational costs and lower quality, the public services are less efficient than the other European countries. The FEB advocates “A global efficiency agreement” for the Belgian public sector. In 2009, a study from the Itinera Institute (Hindriks, 2009) had already proposed “10 ways to modernize the public services”, among which, the need to be clear on the objectives to be achieved or the need to establish an independent agency to assess the performance of the public services.

In the context of this research, we have not performed a thorough analysis of the efficiency and effectiveness of the public sector in Belgium. But, clearly, it seems that some areas of the Belgian public sector could be a fertile ground for the development of new SIBs. Indeed, we have seen that SIBs have the potential to implement market-driven solutions to the inefficiencies found in government spending and social services. If successful, SIBs could catalyse large-scale social changes. But SIBs are far from a silver bullet. As discussed with the many people we have interviewed, there are many challenges that need to be addressed before other SIBs can be implemented effectively on a large scale in Belgium.

We have tried to understand those key challenges and to identify ways to address them. In fact, we believe that those barriers are not insurmountable. Based on our research and interviews in Belgium, we have identified six main challenges and recommendations:

- Encourage public sector leaders and social service providers to be open to innovations such as SIBs.
- Ensure that stakeholders from the private sector adopt a respectful and comprehensive attitude towards the public sector.
- Increase awareness of the financial sector on the long-term benefits of impact investing.
- Adapt budgetary rules of the public sector to facilitate longer term contracting.
- Manage public expectations and create space for failure of the first SIBs in Belgium.
- Reform the roles and responsibilities across the Belgian public sector.

6.1 Encourage public sector leaders and social service providers to be open to innovations such as SIBs

The main barrier for establishing SIBs in Belgium is a problem of closed-mindedness (interview Laurent Ledoux). Politicians, government officials, union leaders and social service providers often consider SIBs as an intrusion of the private sector in the public sector: “It cannot be! It is like putting the wolf to guard the sheep”! This point was already discussed in Section 2.2. Such opinions are particularly alive in Belgium. Why? Several people whom we have interviewed indicated that one of the reasons is that SIBs bring “pay for results” mechanisms. Yet, most of the public services and social service providers in Belgium do not work with results-driven approaches (Bernhard R. *et al.*, 2011). Thus, SIBs can be considered as a threat to their traditional way of operating. It is only in 1999, in the context of the Copernic Reform, that the Belgian public services decided to use more quantitative metrics. The Copernic Reform highlighted the importance of measuring the achievement of targets by using tools such as Balanced Scorecards, KPIs (Key Performance Indicators). But, the battle is far from being won. Social service providers still often rely on qualitative rather than quantitative metrics. For example, *in the case of reoffending prisoners, traditional social service provider will claim*

that is not a real failure because, thanks to the coaching, the prisoners could feel themselves helped, listened to, could interact again with their family... In Belgium, given the “cultural” reluctance towards the private sector, can we find 50 to 500 social service providers with the skills and the will to launch SIBs? (interview Etienne de Callatay). To address this issue, we recommend supporting all the initiatives which intend to raise the overall caliber of the management teams in the Belgian public and social sectors, in particular, to attract new leaders open to optimize the functioning of the government and social services.

6.2 Ensure that stakeholders from the private sector adopt a respectful and comprehensive attitude towards the public sector

As already discussed, foundations, banks, investors or venture partners must understand that “results oriented programs” are far from being fully accepted in the Belgian public sector. In addition, they must be aware that the public sector suffers from more constraints than the private sector, in particular with regards to public tendering and budgetary rules. Therefore, the private stakeholders must understand that they cannot “rush things” and they should accept that representatives from the public and social sectors remain in the lead. The representatives of the private sector must develop long-term trust-based relationships by building credibility in a few selected social areas and by demonstrating a genuine and unselfish interest to solve a few specific issues. The management team of Actiris indicated to us that they truly appreciated the way the young entrepreneurs of the SIB’s intermediary organisation scored well on the human side, i.e. good understanding of the points of view of different public stakeholders, humility, commitment and sensitivity towards their personal issues. In the case of Actiris, it went as far as using vocabulary which comes across as less financially minded. For example, instead of “Obligation à Impact Social”, they have named the Actiris SIB “Garantie Financière pour l’Innovation Sociale”! The advisor to the CEO of Actiris, initially dubious about the SIB’s project, said that this has been a rewarding experience for him, raising fundamental questions such as: what is my ideal for society? What should be the respective roles of the public and the private sector? This project carries an important symbolic value for him. Building on this positive experience, it is clear that bringing together SIB-intermediaries should be encouraged to develop an ecosystem favourable to SIBs, in particular to

build bridges between the public and the private sectors. Furthermore, *SIB-intermediaries can bring agility, energy and resources to lead the many tasks required to launch a SIB: the public institutions may not be well equipped to fulfil all those tasks* (interview Stéphane Laloux).

6.3 Increase awareness of the financial sector on the long-term benefits of impact investing

Today, financial institutions are hesitant to open a department devoted to impact investing (including SIBs). They consider it as a waste of money and do not see the long-term potential benefits such as attracting new clients interested in societal impact or increasing the motivation of their own staff. To be fair, the high-cost administrative and due-diligence process needed to set up a SIB represent a clear obstacle in terms of profitability for the bank. In addition, fraud can also happen in this field and banks must manage their reputational risk (for example, 20 million EUR of funds have been misappropriated by the former CEO of the ASBL Village n°1 Reine Fabiola). Therefore, without management's commitment, all impact-investing initiatives will finish in a dead-end. *A few inspiring and open-minded leaders are needed to get things moving* (interview Laurent Ledoux). Today, in Belgium, KBC and Belfius are active in the Socially Responsible Investment field but there seem to be three main players in the Impact Investment field: the Bank Degroof with its Impact Investing & Philanthropy department which has existed since 2004, BNP Paribas Fortis via its microcredit platform called MicroStart and the Bank Triodos. Clearly, broader support and momentum in the Belgian banking sector is required.

6.4 Adapt budgetary rules of the public sector to facilitate longer term contracting

Currently, most budgeting contracts from the federal state or from the other public entities (regions, communities, provinces, municipalities...) do not span more than one year because of appropriations laws. As the law stands, most funds are only made available to entities of the public sector for a one year period. Every budget, which has not been spent, cannot be carried forward for the next financial year. In the case of the Actiris SIB, this meant that the initial amount of 234,000 EUR needed to be pre-financed at the time

of the launch and to remain available during the entire life of the SIB. The Actiris union leaders considered this pre-funding of 234,000 EUR as a waste of money because this amount could not be spent immediately. If sufficient funds cannot be allocated by the government over the longer-term life of the SIB, investors will perceive more risk in the future cash flow, undermining the effectiveness of the structure. In order to facilitate longer term contracting and provide a level of comfort for all the stakeholders, two options could be considered (Bafford, 2012). One option is to pass legislation to allow for contracting that can promise funding in five to ten years' time, should the intervention prove successful. Another option is for each department that receives Pay for Success funding to amend their appropriations language to allow funds obligated for SIBs' projects to remain available for disbursement during several years. Such proposed legislation should also take into account the new accounting rules and constraints recently set by the European Commission, in particular, the rules as set under the name SEC 2010. In the context of this thesis, we have not studied this point any further.

6.5 Manage public expectations and create space for failure of the first SIBs in Belgium

The suspicion around this new product will bring a heightened level of scrutiny and pressure for it to succeed – or to fail. There are some deep concerns about the level of enthusiasm surrounding SIBs. By now, it should be clear that this is not a structure that can be launched overnight. Gaining buy-in from the government, investors, and service providers will take considerable time and energy. Patience will be required should the first (or first few) SIBs fail to hit their predetermined metrics so that the model is not struck down before it has a fair chance to prove its potential. The World Economic Forum Report identifies the following risk for the impact investment sector: *“a risk in attempting to accelerate the supply of capital into impact investments is the potential for good capital to chase bad deals and potentially create a bubble³⁴”*. Overexcitement could create this kind of bubble (Palandjian T. *et al.*, 2013). Transparency and information flow will be critical. *The hope is that with this information widely disseminated, judgments will shift*

³⁴ World Economic Forum, (2013), *From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors*, September, p.6, 38 p.

from a binary choice of success or failure to a more nuanced assessment. If the question can be reframed from “does this model work?” to “how can we learn from early failures to refine and improve the model?” SIBs will have a much better chance at long-term success. In the end, it is the responsibility of all parties involved to remain cautiously optimistic about the potential of the SIB and manage the expectations of other stakeholders should the SIB fail³⁵ (Bafford, 2012).

6.6 Reform the roles and responsibilities across the Belgian public sector

As we know, the organization of the public sector in Belgium is complex. In particular, there are different levels of responsibilities between entities: federal, regions and communities, provinces, (inter-)municipalities. This does not facilitate the launch of SIBs. As an example, in the case of Actiris, the benefits of finding a job for an unemployed person are mainly the unemployment benefits, the social contributions by the employer and the employee, the personal income tax and some VAT revenues. In the context of the 6th reform of the Belgian State, it has been estimated by the Actiris SIB team that 90% of those benefits will go to the Federal State and only 10% to the Brussels Region. This is far from being ideal if we want to reinforce accountability and responsibility among the different public entities. We are well aware that removing this obstacle would require a 7th reform of the Belgian State: this might take longer than the first 5 obstacles we have listed above! Finally, *“it is fundamental to have a legal framework in order that SIBs achieve their takeoff in Belgium ”* (Interview Irène Mathy). *The best solution would be a cooperation agreement between the different legislators (Federal, Regions and Communities)* (Interview Hadrien Chef).

³⁵ Bafford B., (2012), *The feasibility and future of social impact bonds in the United States*, Sanford Journal of Public Policy, Vol 3. Issue 1, Spring, p. 12, 19 p.

CONCLUSIONS

The objective of our research was to study the concept of Social Impact Bonds (SIBs) and their potential in Belgium.

SIBs are newcomers in the world of socially responsible investments and they work according to a “pay-for-success” mechanism. Private investors finance preventive intervention programs developed by a social service provider and the government pays back the investors only if the program succeeds. The payments are a function of the government’s cost savings or extra revenues generated by the program.

At first sight, SIBs seem to be an attractive and quite innovative concept. But this new financing mechanism of social services also has some drawbacks. SIBs are complex and costly to launch but also, they carry a “political dimension” which can hamper their development: they may be considered by some as an unacceptable intrusion of the private sector into the public sector.

By taking a closer look at the launch of the first Belgian SIB (Actiris, “DUO for a Job” and Kois Invest), we have understood that it is critical to assemble a large group of committed, skilled and open-minded people with very different backgrounds (public, social and private sectors, different areas of expertise and different political sensitivities). Launching a SIB is a truly pioneering job: you need entrepreneurs willing to take risks. This Actiris-“DUO for a Job” team has led the way and shown that launching SIBs in Belgium is a feasible opportunity!

Given their risk return profile, we believe that SIBs are not well suited for the average Belgian investor. On the other hand, based on some prudent hypotheses developed together with private bankers, we have estimated that in five years, a minimum of 200 million EUR could be mobilized from the High Net Worth individuals living in Belgium. Knowing the required investment per SIB, we can safely conclude that the availability of funds will not be the limiting factor for the development of SIBs in Belgium.

Identifying “SIB-ready” social services and providers is not an easy task. Not all social ills can be solved through SIBs. Therefore, carefully choosing interventions on which to

test the SIB's model is extremely important to prove to investors, public officials, and the general public that the model is feasible. To this end, we propose a checklist of five questions to assess the attractiveness of a public or social service to launch a SIB. To be more concrete, we have studied the attractiveness of launching SIBs in the education area. Unfortunately, we had to conclude that education should be de-prioritized: education does not appear to be the most promising area to launch another SIB.

By international standards, the public and social sectors in Belgium could improve their overall effectiveness and efficiency. In a current environment of tight budgetary constraints for all governments, we believe that SIBs represent an innovation which should be piloted further. But, as discussed, there are many challenges that need to be overcome. We have made six recommendations to address those challenges and hence to accelerate the development of SIBs in Belgium.

This research is based on a comprehensive review of the SIBs' related literature (roughly 70 documents and articles) and on a rich set of face-to-face interviews conducted over the last 3 months in Belgium with 21 people from very different backgrounds (government agencies, social service providers, public-private foundations, legal advisors, private bankers, management consultants, SIB researchers and impact investors).

We are well aware that our work carries some limitations. Generally speaking, SIBs are recent innovations and thus, they do not yet have a proven track record backed up with extensive quantitative data. Even more limiting, in Belgium, so far, there is only one "tiny" experiment. Getting a direct feedback from politicians and labor unions would also bring additional perspectives. Therefore, we see this report as just the starting point to capture the current state of affairs and inform stakeholders who would choose to invest in SIBs.

Whether or not SIBs become a popular approach to scaling up successful social interventions, they have already generated, in a few countries, excitement and enthusiasm for finding new ways to address persistent social problems. Our research and expert interviews have led us to the conclusion that SIBs have some potential in Belgium. If SIBs galvanize a new wave of innovation and pave the way for other alternative models, their impact could be truly significant.

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