

# The Potential for Social Impact Bonds in Chile? Exploring New Avenues for the Social Enterprise Sector

**Jonathan Kimmitt**  
Newcastle University  
Business School, UK

**Pablo Muñoz**  
University of Liverpool  
Management School, UK



"This work was supported by the Economic and Social Research Council, Impact Acceleration Account [Grant Ref: ES/M500513/1, Newcastle University]."

# Foreword

Social entrepreneurship holds a significant position throughout the public and private agenda. This type of organisation is seen by policymakers, business leaders, researchers, and practitioners as a key mechanism for tackling complex socioeconomic and environmental challenges.

Following this line, Social Impact Bonds (SIBs) have emerged as an innovative funding tool to work as a smart partnership between the public and private sector, in order to address complex challenges and increase social welfare. However, despite the relevance that SIBs have gained during the last few years, they are still perceived as a 'black box'. Therefore, there is a need to develop a significant understanding of how this system works, who the actors involved are, what kind of outcomes it generates, and if so, how to measure their effectiveness.

This report casts a light on these questions, by exploring and exploiting potential pathways to use SIBs in Chile. In fact, the work provided by Kimmitt and Muñoz is perfectly timed. First, because social enterprises have gained a relevant traction within Chile during the last decade. And secondly, because this report provides an important link with previous evidence generated by Muñoz, Kimmitt, Serey and Velazquez (2016). This research emphasizes the structure (i.e. challenges) and dynamics (i.e. interactions) of social enterprises in Chile to deliver social value.

## Contents

- page 1.** Foreword
- page 3.** Executive Summary
- page 4.** The Context
- page 6.** Social Impact Bonds
- page 12.** Policy Implications  
for Chile: Tackling  
the four challenges

Findings provided by the mentioned research suggest that impact measurement is one of the key drivers to legitimising the 'social promise'. This is a highly relevant contribution to both policymakers and social investors. On one hand, policymakers have the fiduciary responsibility to allocate resources where their programmes may have a relevant effect. If social entrepreneurs measure their impact, then it is easier to determine whether a policy (e.g. subsidies) is working. Also, on the other hand, social investors are always trying to figure out how to reduce the risk in their investments while generating a positive impact. Therefore, impact measurement helps to attract investors because that provides certainty regarding the real effect (or not) that a social enterprise creates through their solutions.



# Executive Summary

Drawing on this logic, SIBs could be a good vehicle in Chile for addressing social challenges with an outcome-based perspective. But, as can be seen in this report, international evidence shows that this type of mechanism (public-to-private contract), can be very complex in practice. Therefore, governments have a growing interest in better understanding the role and effectiveness of SIBs, as well as the risks of its implementation.

Based on this context, this report will be useful to policymakers, social investors, entrepreneurs, researchers, established companies, and any other stakeholder that is seeking to understand how to design and run an outcome-based contract (SIB). It should be noted, however, that this effort should not end up here. As Kimmitt and Muñoz expose later, SIBs are not the target, instead, it is more a medium that might help spur and enhance a social investment market in Chile.

Finally, this report comes during an inflection point in Chile where it is critical to design better tools that lead us to a better future and a better society. How to achieve it? Through a set of policies and innovations that steer us to be more entrepreneurial and experimental in the way social challenges are solved. Thus, in order to unlock the "SIB effect", more evidence is needed. This is where Chile has a privileged position to explore SIBs as a new mechanism.

For all these reasons, I am very pleased to recommend this report as a relevant and timely contribution to everyone who is concerned about how to address long-term social challenges and social welfare.

**Rodrigo Frías**  
Director of Early Investment, Entrepreneurship Division  
Corfo

The 2016 report on the structure and dynamics of social entrepreneurship in Chile<sup>1</sup> identified some of the key drivers of the sector. Since that time, we have embarked on trying to understand what tools and support mechanisms can be put in place to assist the social enterprise sector. In this report, we focus on one specific emerging tool – Social Impact Bonds (SIBs) – and the role it may have in developing the sector. This report is developed by researchers in the UK at Newcastle University and the University of Liverpool and through on going collaborative efforts with social entrepreneurs and higher education institutions in Chile. It is funded by the Economic and Social Research Council, UK.

Social entrepreneurship, as a form of entrepreneurial activity, has grown exponentially in Chile in recent years. This has led to significant public investment in the development of support mechanisms and an entrepreneurial culture that allows this type of entrepreneurship to thrive and, ultimately, for some of the nation's challenging social problems to be alleviated.

Despite this, our study<sup>2</sup> draws our attention to four key challenges facing the sector: investment, business models and growth, impact measurement, and collaboration. This report will unpack those four challenges in more detail and position SIBs as a potential new approach for tackling them. Although investment, business models and growth are not unique to challenges facing 'commercial' entrepreneurs, they are somewhat different in this space where social investment is needed to represent the important social and economic outcomes of social entrepreneurship. As we will identify, impact measurement and collaboration are particularly unique to the sector and require new approaches.

In this way, the report was developed around three overall objectives:

- To identify the four main challenges facing the social enterprise sector
- To explore the potential for SIBs as a potential solution to these challenges
- To identify policy implications concerning the design and implementation of SIBs in Chile

# Social Entrepreneurship in Chile

Social entrepreneurship has grown significantly in Chile in recent years, alongside social movements and calls for action around the creation of social and economic impact in the formation of start-ups. It has captured public attention and attracted a significant number of organizations and institutions of various kinds, which have come together around the core idea of proposing solutions to be considered in their public and private programmes, and plans. Several issues have contributed to its legitimacy, mostly linked to its potential and social movements and initiatives supporting it. First, they have the potential to create social and economic value simultaneously, contributing to the delivery of public services. They are better positioned to confront and recover in situations of crisis and social pressures, building resilience within the enterprise and across the ecosystem. Likewise, they can potentially demonstrate how alternative business models and operating structures can become feasible in the market, and eventually outperform their commercial counterparts.

Many seem to advocate on its behalf, as seen in the surge of B Corps, the emergence of dedicated investment funds and subsidies, and the ongoing debate around an ad-hoc legal framework for them. While promising and exciting, evidence suggests that the social industry is still far from recognising

its promises and actually deliver market and social value. Four challenges and areas of work were highlighted in the 2016 study: business models and distinctive growth, social investment infrastructure, impact measurement and boundary-spanning collaboration.

**Business models and distinctive growth** pertains to the unique ways in which social enterprises create and escalate social value, which is central to improving the competitiveness of social entrepreneurship. As social entrepreneurship grows, it becomes necessary to consider more seriously that this is not just about creating socially friendly companies, where the traditional logic of entrepreneurship "should" work. This is about a different way of creating and delivering social welfare, which requires a type of organizational form and business model appropriate to its unique reality. The majority of the industry believes that the social component of the business influences purchasing decisions, and that profitability is not indeed negatively affected by emphasising the social mission. The social component of the business comes to complement the value proposition, allowing them to gain a better position in the market against products with similar characteristics. Interestingly, while the social industry grows to compete against traditional for-profit companies, decisive competitive strategies seem to remain absent from the range of actions social enterprises use. There are certainly differences between purely social and purely commercial extremes; however, once the social mission has been incorporated into the core of the business, there is a great diversity of grey areas that adds complexity to the sector as well as development opportunities. A hybrid model offers the possibility of combining not only sources of investment, but also different sources of income,

many of which are not available for traditional entrepreneurship. The sector needs to urgently develop robust business models that consider existing opportunities and take advantage of the strengths of social entrepreneurship (rather than focus on solving threats and weaknesses). It requires a business modelling toolkit that considers organizational forms, public-private collaboration, linking of sustainable standards and diversification of income sources, the latter oriented to the improvement of value chains and markets for social entrepreneurship.

**Social investment infrastructure.** While the basic conditions are in place to promote social entrepreneurship and investment, there is still a need to move towards the formalization of more direct intervention instances such as the promotion of new market structures with greater diversity of intermediaries and sophistication in investment tools. Currently, the financing alternatives used by social entrepreneurs begin to fall significantly after 6 months of trading, and the early stages are mainly covered by the entrepreneurs' own capital, friends - family and seed capital. For a rapidly growing industry, it is surprising that only 18% of entrepreneurs receive investment after 24 months. Since social entrepreneurship is focused on solving a social problem, the incentive for traditional investors is low, as the promise of economic return becomes a secondary objective. In other words, there is the challenge of improving the understanding of the problems and those who try to solve them, recognizing the public role played by social entrepreneurs. In this vein, the study highlights four key challenges: the need for a better understanding of the determinants of social investment, the need for a more diversified social investment portfolio, the improvement of investment prospects (i.e. social entrepreneurs capable of leveraging their uniqueness and clarifying their routes to impact and returns) and the need of boundary objects to facilitate the interactions and transactions between social entrepreneurs and (social) investors.

**Impact measurement.** The ability to conduct impact measurement is increasingly a priority for organizations operating in social industries. While

relevant, it remains as one the most intractable practices, not only difficult to grasp but also to be conceptualized. There is a range of tools and frameworks available to social enterprises seeking to monitor and communicate evidence of their social impact, however, the Chilean social industry is still in its infancy. In order to improve social accountability, demonstrate the robustness of their approach to social value creation, attract investment and consolidate their relations with public sector actors (based on impact rather than intentions), the sector is in urgent need of standards and tools for measuring social impact. This involves not only the measurement of social and economic outputs, outcomes and impact, but also the continuous monitoring of goal-oriented actions, achievement of objectives, learning and planning of growth strategies and investment in line with results.

**Boundary-spanning collaboration.** Robust social business models require the development of appropriate mechanisms to open and sustain a close collaborative relationship between social venture and the public sector. Alongside providing seed impact funds, the public sector should advance in the development of commissioning around social needs, rather than simply promoting socially-friendly entrepreneurship (as a little sibling of entrepreneurship). Social impact bonds certainly open up an alternative for financing and income, but there is a great diversity of contractual forms for such commissioning that could be used, that can eventually kick start a social investment market in the country. The report emphasizes the need of more flexible collaboration mechanisms between the social enterprise and the public sector (central and local). The social solutions developed not only require in-depth knowledge of the specific problem it seeks to resolve, but also of the social mechanisms that operate in conjunction with the problem. Alongside such commissioning, the sector should move towards developing mechanisms for alliances, contracts, impact monitoring and measurement, and also elaborate on the ways in which entrepreneurs and government agencies can co-develop solutions with consideration of the complexity of social problems and the need for monitoring systems to evaluate the achievement of the proposed objectives, under such complexity.



# Social Impact Bonds

In 2010, the United Kingdom's Ministry of Justice launched the world's first Social Impact Bond (SIB). SIBs have emerged as a new policy tool, which is designed to link the outcomes of social interventions to payments with the risk, in theory, being borne by a private investor rather than through public funds. SIBs are a type of 'outcomes-based' contract, which bring together investors (socially oriented investment), commissioners (government or foundation) and social purpose organisations (such as social enterprise or charities); the investment in such an organization is designed to facilitate their delivery of services. The fundamental idea is that investors provide upfront working capital and if/

when the outcomes of the service being delivered by the social purpose organizations are met, a commissioner will repay the investor at a set rate of return. These outcomes are measured according to particular methodologies such as randomised control trials or use of baseline surveys. Logically, therefore, if the social outcomes are not met, investors stand to lose their investment. The roles of each key player are outlined in Figure 1 and developed from an early report by Gustafsson-Wright and colleagues<sup>3</sup>. As shown in an early report, SIBs can vary in how they are designed and implemented and there is no strict rules or guidance on how they should be designed.



\$300 million global investment

600 - 20,000 beneficiaries each

Figure 2 - Key facts and figure on SIBs<sup>4</sup>

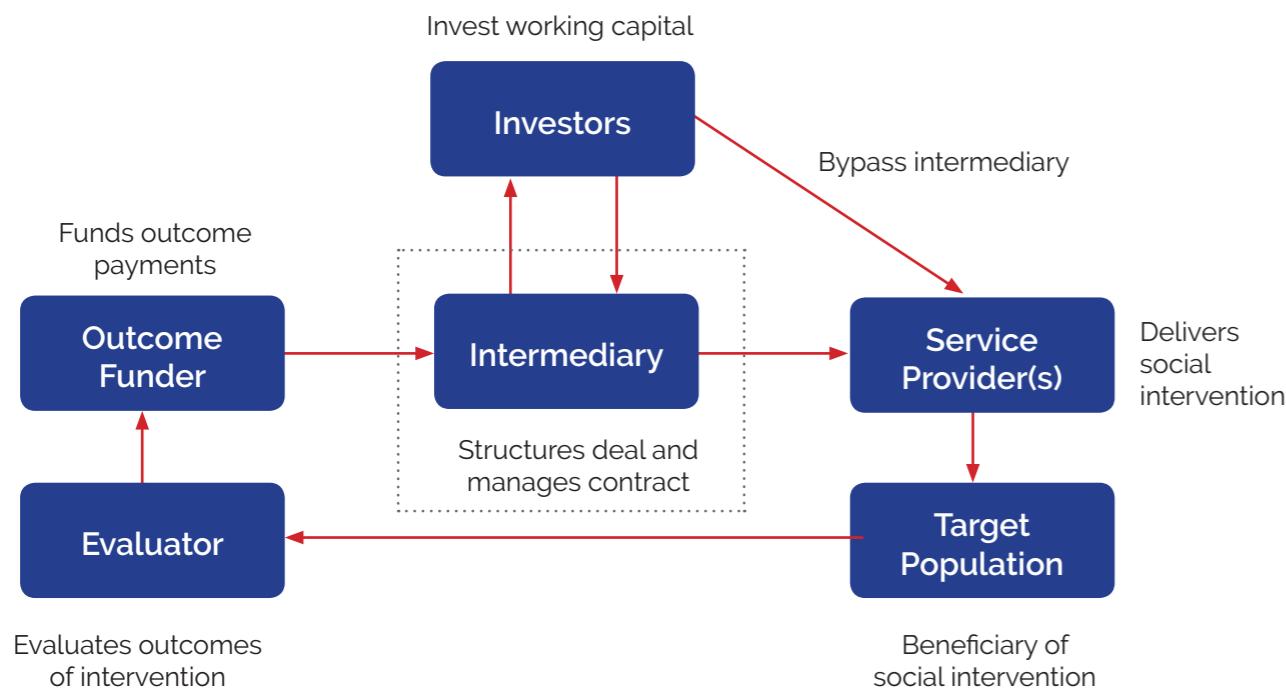


Figure 1 - Basic Model of SIBs

SIBs have proliferated somewhat in recent years; some key facts and figures can be found in Figure 2. As of September 2018, it is reported that there have been 118 impact bonds contracted around the world in a variety of social domains<sup>5</sup>. In developing economy contexts, they are also referred to as "Development Impact Bonds" (i.e. DIBs) with the fundamental difference concerning the lack of a government outcome funder. These outcomes are typically paid by philanthropists and/or foundations. SIBs and DIBs have focused on a wide range of issues including homelessness, jobs and unemployment, girls' education, coffee production, well-being amongst others. For example, the Colombian SIB focuses on increasing employability amongst vulnerable young populations, a seriously challenging problem in Latin America, over the course of a 5 year programme. Regardless, SIBs or DIBs represent approaches for funding and focussing on outcomes. In the following, we will briefly outline the advantages and disadvantages as documented by current research in the area. Supporters of SIBs highlight the importance of bringing new investment into this domain and the alignment of goals between such organizations, government commissioners and social investors.

Indeed, SIBs are seen as a financially innovative solution in a public sector context that is not typically regarded as such<sup>6</sup>. Thus, SIBs are a collaborative tool for bringing together key stakeholders with a common goal<sup>7,8</sup>; a clear link to one of the challenges facing the social enterprise sector in Chile. Indeed, Lowe, Kimmitt, Wilson, Martin and Gibbon, 2018<sup>9</sup> identified that SIBs perform a particularly unique function at a policy level by aligning the varying 'discourses' between collaborators. SIBs, therefore, represent a narrative of public sector reform and a development of outcome-based contracting or 'payment by results'<sup>10</sup>.

Beyond collaboration, they also represent a potentially important new form of capital for social purpose organisations such as social enterprises and the voluntary sector. This form of capital is quite unusual for the sector because it is typically large scale and works over a long-time scale. In addition, the private sector involvement is also seen as a method for improving 'rigor' amongst social purpose organizations in terms of their capacity to manage such contracts and do the requisite data collection to meet performance outcomes.

However, SIBs have also been the subject of criticism. McHugh and colleagues<sup>11</sup> discuss SIBs as part of a "neo-liberal" shift towards how the public sector delivers services by essentially financialising social outcomes. Thus, the role of business and the private sector represents a controversial topic, discussed at notable depth within the UK. This private sector mentality has led to further criticisms regarding how organizations and individuals are managed in these types of contracts and the negative outcomes associated with

performance management. Again, we will return to this topic when discussing performance measurement and the challenges of performance management<sup>12</sup> within SIBs. In short, the micro-management associated with trying to attain complex social outcomes has been criticised within the broader philosophical debate<sup>13</sup> as well as their high transaction costs. As such, those who criticise SIBs suggest that such a complex mechanism does not necessarily need to be created to fund social purpose organizations.

**Table 1 – Benefits and Challenges for Stakeholders**

Stakeholder	Advantages	Disadvantages
Service Providers (e.g. social entrepreneurs, voluntary sector, not-for profits, charities)	Service providers receive typically large long-term capital investment. A number of established SIB programmes have been designed around 5-7 years of funding.	The performance management of social outcomes can hold organizations accountable for outcomes they're not necessarily in control of which can elicit gaming behaviours  Tend to focus on a narrow set of outcomes that can be 'proven' and tested.
Investors (e.g. social investors, philanthropists, foundations)	SIBs represent new investment opportunities that blends social and financial returns.	Complicated mechanisms with high set up costs; requires a lot of design work to make the contracts suitable.
Beneficiaries	Beneficiaries receive a service, potentially for a longer duration than previously	Requirement of intensive data collection to generate outcome data
Commissioner (e.g. government, foundation)	With the initial risk being borne by investors, the risk of investing in social projects is reduced and payments only made when outcomes are met	SIBs have high set up costs and therefore upfront investments are required  Seen by some as politically controversial

## Case Example

HealthSIB (anonymised) is a SIB programme focusing on the improvement of long-term health conditions and well-being in a Northern City in the UK. The service is designed to complement medical services in one part of the city, by linking particular individuals into community services with the aim of improving their long-term health conditions and well-being. The focus is on being healthier, active and developing positive relationships. The underlying rationale is that when individuals are better able to manage their own health conditions then this will reduce their reliance on medical services thus reducing their cost to the health service. The practice of being referred into these services is known as 'social prescribing'.

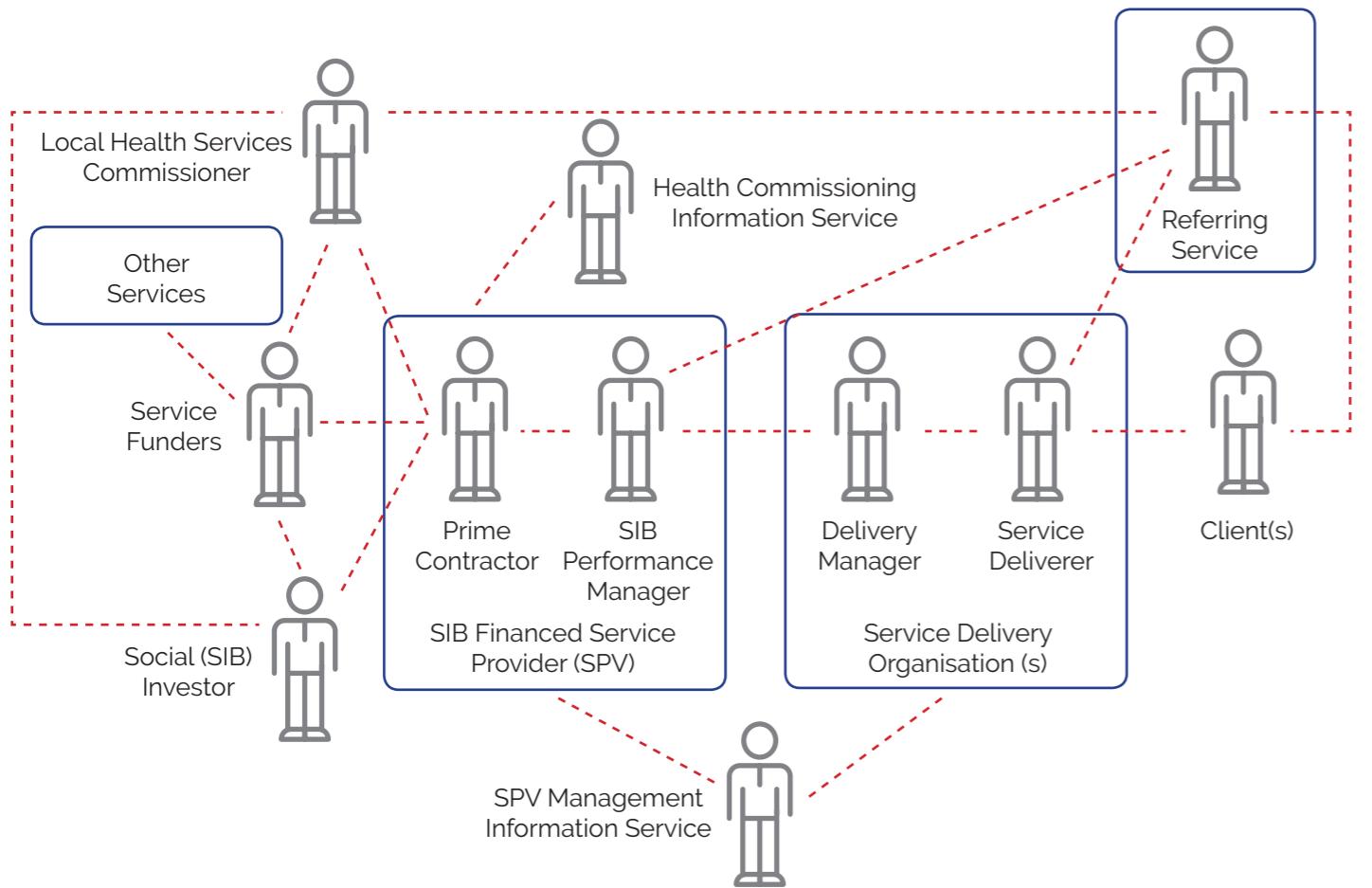
The programme began its life in its development in 2011 with the local Clinical Commissioning Group (CCG) responsible for the payment of outcomes – a CCG is a health body responsible for the planning of health care services in a local area. The initial working capital for this work is provided by one of the key actors in the social investment space in the UK. HealthSIB went operational in April 2015 with 7 years of funding which will reach out to 11,000 beneficiaries. Therefore, it represents a significant investment in this type of activity and its subsequent impact. The impact of the intervention and its payments are triggered in two ways: (1) through the numbers recruited by service providers and their subsequent improvement in well-being scores (the programme uses a standard accepted well-being measure here); and (2) through reduction in secondary care costs (i.e. hospital admission). It is the latter, which commissioners regard as particularly crucial to reduce their expenditure and improve the health of their populations. This is measured by comparing hospital admissions in one part of the city with another part.

Figure 3 highlights the set of relationships and interactions between all the key stakeholders. At the top of the map, we have the local service health commissioner (i.e. the state) who is primarily interested in reducing hospital visits

and thus pays for these outcomes. Below, we have the operational vehicle or 'Special Purpose Vehicle' – a new organization created to manage the SIB programme. The social investor provides the working capital to this organisation who then manage the next set of organisations – 'Service Delivery Organisations' – who actually run care programmes in the community and work with clients. Above, these providers also have a relationship with GP practices – referring services – for whom they rely upon for referrals into their programme. The social investor will make payments to the operational vehicle when referral and well-being targets are met. The idea being that once well-being improves (outcome 1) then hospital admissions will subsequently reduce (outcome 2).

To observe the effects of the programme on hospital admissions, the SIB necessitates data comparison between hospital admissions in one part of the city (where the intervention takes place) and another part of the city (where the intervention is absent). This is said to provide a more reliable data comparison in a quasi-experimental methodological design. As Figure 3 highlights, there are also a number of other players in this space such as social services and other types of well-being provision, which is not directly involved in the programme. Despite this, they may actually have a role to play in determining these outcomes, as we will discuss later. Important to note also are the 'supporting funders' who provided a lot of the initial grant funding for the development of the whole SIB.





**Figure 3 – Map of HealthSIB**

## Lessons HealthSIB

From our analysis of this particular SIB, we believe there are three particular issues that are intrinsic to how SIBs are designed and implemented: complexity, attribution and performance management. The challenges of complexity set the context in which social interventions take place with attribution and performance management inherently related to it. These reveal challenges with establishing a SIB but as we will discuss later, what can be done to mitigate these.

**Complexity Dynamics.** Social interventions (e.g. the activities and missions of social enterprises and such organizations) take place in complex systems. As identified by Knight et al (2017), complex systems are characterized by their unpredictability and emergence, path dependence and contextual nature. This means that the outcomes of those

operating within a system are unpredictable but are also shaped by their histories. This unpredictability is bound by the context, whereby one particular social intervention may not work the same in one context as it does in another.

This has implications for SIBs broadly as well as HealthSIB. Given the narrow design of a SIB or outcomes-based contracts more generally, they take little account of the relationship between the wider system and the social intervention being funded. This relates to the narrow outcomes focus identified in Table 1. This means that the effectiveness of a provider's service/product may not necessarily be because of those activities. These activities sit within broader contextual and system dynamics that also shape the nature of those activities. The (even small) effects of the system may expedite or be detrimental to what an organization is aiming to achieve.

For example, in the context of the HealthSIB, the comparative methodology used for analysing hospital admissions in two parts of the city, was undermined to an extent when new social prescribing initiatives emerged in the comparator group. Thus, one of the challenges for SIBs is that they often try to tightly control and narrow this complexity but in reality, it is difficult to escape. This has been hinted at as an issue in other DIBs such as Village Enterprise in Uganda which sets ambitious outcomes targets yet it is conscious that outcomes could easily be affected by issues outside of their control such as a bad harvest<sup>14</sup>. Similar potential issues were reported in the Educate Girls DIB, highlighting the need for comparative data but the inescapable effect of outside sources on the outcomes under scrutiny<sup>15</sup>.

**Attribution.** The consequence of this inherent complexity is that attribution of outcomes – central to a SIB contract – are difficult to attribute to the intervention itself. In a complexity-world, outcomes are the emergent properties of complex systems and not just because of particular interventions. This is apparent in the example highlighted above where the emerging effects of other service provision was impacting upon the SIBs ability to 'prove' that it had achieved the appropriate outcomes. Thus, it raises the issue of being cautious of other reported outcomes in SIBs and DIBs – such as the enrolment figures for the Educate Girls in India – and whether that can be attributed specifically to the DIB<sup>16</sup>.

The relationship between attribution and complexity are further accentuated because of the importance of context. This means that how a particular social intervention works may be very different in one place as to another. Therefore, the scope and scale of the intervention across multiple areas is important when considering attribution. In some cases, such as in HealthSIB, it is contained within one broad geographic area, but some organizations may operate over multiple areas, which are systemically different to another, requiring a variety of approaches and therefore understanding of outcomes. This is consistent with our work trying to understand the different context-sensitive pathways of social entrepreneurs in Chile where it appears to be taken for granted or embedded into how the organization works. This can have quite significant ramifications for the effectiveness of the organization<sup>17</sup>.

**Performance Management.** In such a context of complexity and attribution challenges, managing the performance of those executing a particular programme can be very challenging – something which was demonstrated in the HealthSIB. In this SIB, this work was carried out by the manager of the Special Purpose Vehicle but it has been shown to occur elsewhere in other SIBs. The performance management of the contract has proven challenging in SIBs because they demand the hitting of outcome targets which trigger payments. This is a serious challenge when the need for data to show that targets have been met is inconsistent with the reality 'on the ground'. Although such outcome measures are agreed within the contract, as previously highlighted, it is unpredictable and emergent in a complex environment. Therefore, when limited flexibility is built into the contract then tensions arise through the performance management of that contract.

One further evidenced outcome of this performance management is how the providers (e.g. social enterprises) behave when they are under pressure to meet performance targets. The results have demonstrated aspects of 'gaming' to produce the necessary data to trigger payments, which are not as useful as outcome measures which can be used for internal learning and patient care. For such organizations, SIBs elicit the need for an extra level of data collection, which can also be onerous. This is driven by the SIB mechanism, which necessitates the necessary data to 'prove' outcomes but this research, amongst others, (Lowe and Wilson, 2017), show that these requirements can actually alter the behaviour of those being performance managed. This can also put those doing the performance management in a SIB in a very challenging position where they are tasked with balancing the important work that social-purpose organizations are doing with the financial demands of the contract.

# Policy Implications for Chile

## Tackling the four challenges

Based on insights from this particular SIB example, below, we highlight the intersection between these intrinsic issues and the four challenges facing social enterprises in Chile. Table 2 emphasises that investment, business models, impact measurement and collaboration needs to be friendly to the complexity of social interventions that governments/investors seek to support. This has important ramifications for understanding how financial instruments, such as SIBs, are placed into these delicate environments.

These implications are important in the Chilean context irrespective of whether it selects a SIB model or looks at other types of commissioning approaches. SIBs represent only one type of 'outcomes-based' contract whereby funding is tied to the achievement of particular social outcomes from an intervention. SIBs have typically only been developed in those environments where commissioners have been unwilling to take on the risk of such projects because its effectiveness is not entirely clear. Consequently, it is investors who assume this risk. But in other circumstances, where commissioners are more convinced of the effectiveness of a service, then it is possible that it can be funded directly in an outcomes-based format. However, the lessons to be learned are broadly consistent.

In Table 2, we identify how the four themes can be developed according to complexity, attribution and performance management issues previously identified. This emphasises that contractual accountability must accommodate learning in multi-stakeholder relationships. This should occur by allowing service providers to collect meaningful and useful data on their organization's performance (**impact measurement**) that enhances their own learning about the environment they are immersed in. This involves recognising that the 'social problem' that one organization is involved in alleviating is naturally tied to other social problems elsewhere in the complex system. The effectiveness of one organisation's **business model** in one part of the

country may vary when one takes into account local dynamics, cultures and other issues. The spirit of **collaborative** learning from meaningful impacts is likely much more beneficial for the development of the system than isolated social interventions and narrow outcome contracts which distort reality and potentially become more onerous for all involved.

Therefore, the measurement of outcomes within these contractual mechanisms are central. We previously identified that the majority of social enterprises in Chile are not engaged in impact measurement but it is worth stressing that these outcomes (and **impacts**) need to be meaningful, not onerous and therefore not potentially 'gamed'. In a learning environment, this will be less likely to occur because the potential coercive impact of performance management may be less severe as trust becomes an important ingredient in complementing the nature of the contract. This is important between the management of an intermediary and service providers but also between **investors**, commissioners and others involved.

Whilst the above provides general recommendations for SIB development in Chile there are additional infrastructural apparatus, which are likely necessary to support the social enterprise sector and such funding models. The UK has established a number of thematic funds including, for example, the Life Chances Fund, from the Department for Culture, Media and Sport to tackle issues around drug and alcohol dependency, children's services, early year's provision, young and older people's services, and healthy lives. £80 million was allocated to this fund. In Chile, the focus of government investment is perhaps less clear. We know from our research that the vast majority of social enterprises work in education related organizations. Although this is where much of the activity exists, it is not clear if this is actually the most critical area of investment and focus.

	Investment	Business Models and Growth	Impact Measurement	Collaboration
Complexity	Investment is complexity-friendly; viewed as adaptive and facilitating emerging circumstances	Importance of Context: Business models adapt and change in complex contexts	Outcomes (and impact) are viewed as emergent properties of complex systems and attached to other social problems	Learning drives collaboration through improvement and adaptation
Attribution	Investment is flexible and accommodating of attribution issues	Business models adapt and learn from outcomes	Outcomes (and impact) are not attributable to single interventions but the system	Programme outcomes are relevant for instigating learning and developing trust
Performance Management	Investment is separated from the performance management of the SIB contract	Business models are performance managed to drive continuous learning and improvement	Outcomes (and impact) are used to instigate learning and adaptation to new knowledge	Horizontal accountability and learning drive performance

Table 2 - Implications for SIBs in Chile

Such a focus in investment from the government perspective is also likely to be an important step in improving the social investment infrastructure. At present, most social enterprises principally receive informal investment, which limits their potential scope and scale. The creation of an outcomes fund with a distinct focus is likely important in incentivising new social investment into the market because it is government who repay the working capital that those investors provide to run and scale social programmes.

## Getting started: identifying and prioritising social issues

In setting up social impact bonds, the identification and prioritisation of social issues and target groups constitute a fundamental building block. Social problems are complex, difficult to define and evolve alongside social interventions and other life circumstances<sup>18</sup>. The delineation of an investment

tool designed to tackle a social problem should examine the extent of social issue adequacy and problem-SIB fit. The risk of failing to identify, prioritise and assess focal social issues and target groups are considerable transaction costs at best or absolute infeasibility in the worst case scenario. This is particularly relevant to emerging countries new to such instruments or lacking ad-hoc institutional frameworks.

The question then of how to identify social issues in the early design of a social impact bond becomes paramount. In the following, the authors recommend a basic social impact bond diagnostic tool for emerging economies<sup>19</sup>. The tool is divided into four diagnostic categories: problem-solution scope, political-regulatory environment, stakeholder involvement, and impact providers. Each of these is disaggregated into three subcategories. Table 3 provides an overview of categories and subcategories of the diagnostic tool<sup>20</sup>.

**Table 3. Identifying and prioritizing social issues: Diagnostic tool**

Diagnostic category	Subcategory	Description
Problem-solution scope	Problem significance	Level of vulnerability of the affected target groups.
	Provision quality	Quality of current provision of social services for target groups.
	Provision innovation requirements	Level and urgency of innovation required by social service provision, either in terms of approach to social service delivery or the delivery itself.
Political-regulatory environment	Political agenda priority	Level of political willingness to address the target social problem / group and innovate in social service provision.
	SIB entry barriers	Level of legal, regulatory and ethical entry barriers for the development and functioning of the SIB.
	Regulatory issue complexity	Degree of complexity of the regulatory landscape underlying the social issue / target group under consideration.
Stakeholder involvement	Investment availability	Extent of presence, pertinence and availability of social investment and investors.
	Collaborative scope	Degree of group awareness, interconnectedness and openness of prospective SIB actors*.
	Stakeholder alignment	Extent to which prospective SIB actors* share views on social issue, collaboration and learning.
Impact providers	Impact-driven service providers	Amount of impact-driven providers operating in the problem-solution space or potentially interested in entering the space.
	Outcome delineation	Extent to which the desired outcomes for the target group are clearly defined.
	Providers' accountability capacity	Extent to which prospective impact-driven providers are capable of measuring their impacts and assess the means through which those impact were created.

\* Outcome funder, investors, SPV, impact-driven providers, lawyers and impact evaluators

## Conclusion

In this report, we have set out the potential for Social Impact Bonds as a mechanism for tackling the challenges identified in the social entrepreneurship sector in Chile. In doing so, we outline the key building blocks of SIBs and emphasise what we can learn from the literature and case examples. This calls for a complexity-informed approach to investment, business models, impact measurement and collaboration. We hope that this report and the wider evidence on the efficacy of outcomes-based funding provides a fruitful platform for understanding the investment and support of the growing social industry in Chile.



# References

1. Muñoz, P., Kimmitt, J., Tomás, S., Velázquez, L. 2016. Estructura y dinámica del emprendimiento social en Chile: Reporte 2016.
2. Ibid.
3. Gustafsson-Wright, E., Gardiner, S., Putcha, V. 2015. The potential and limitations of impact bonds: lessons from the first five years of experience worldwide. *Global Economy and Development* at Brookings.
4. Information gathered from a variety of published sources by Brookings Institution.
5. <https://www.brookings.edu/blog/education-plus-development/2018/09/25/a-landmark-month-for-impact-bonds-in-education/>
6. Dowling, E. 2017. In the wake of austerity: social impact bonds and the financialisation of the welfare state in Britain. *New Political Economy*, 22(3), 294-310.
7. Maier, F., Barbetta, G. P., & Godina, F. 2017. Paradoxes of social impact bonds. *Social Policy & Administration*.
8. Nicholls, A., and Tomkinson, E. 2015. The Peterborough Pilot Social Impact Bond in Nicholls, A., Paton, R., and Emerson, J. (Eds.). *Social Finance*. Oxford University Press.
9. Lowe, T., Kimmitt, J., Wilson, R., Martin, M., and Gibbon, J. 2018. The institutional work of creating and implementing Social Impact Bonds. *Policy & Politics*.
10. Fraser, A., Tan, S., Lagarde, M., and Mays, N. (2018). Narratives of promise, narratives of caution: A review of the literature on Social Impact Bonds. *Social policy & Administration*, 52(1), 4-28.
11. McHugh, N., Sinclair, S., Roy, M., Huckfield, L., and Donaldson, C. 2013. Social impact bonds: a wolf in sheep's clothing? *Journal of Poverty and Social Justice*, 21(3), 247-257.
12. Lowe, T., and Wilson, R. 2017. Playing the game of outcomesbased performance management. Is gamesmanship inevitable? Evidence from theory and practice. *Social Policy & Administration*, 51 (7), 981-1001.
13. Fox, C., and Albertson, K. 2011. Payment by results and Social Impact Bonds in the criminal justice sector: New challenges for the concept of evidence-based policy? *Criminology and Criminal Justice* 11, 5, 395-413
14. <https://www.devex.com/news/new-dib-brings-in-big-donors-provides-biggest-test-of-model-to-date-91137>
15. Sturla, K., Shah, B., McManus, J. 2018. The Great DIB-ate: Measurement for Development Impact Bonds. *Stanford Social Innovation Review*. Available at: [https://ssir.org/articles/entry/the\\_great\\_dib\\_ate\\_measurement\\_for\\_development\\_impact\\_bonds#](https://ssir.org/articles/entry/the_great_dib_ate_measurement_for_development_impact_bonds#)
16. Boggild-Jones, I., Gustafsson-Wright, E. 2018. A landmark month for impact bonds in education: Two new initiatives focus spending on results. *Brookings Institution*. Available at: <https://www.brookings.edu/blog/education-plus-development/2018/09/25/a-landmark-month-for-impact-bonds-in-education/>
17. Kimmitt, J. & Muñoz, P. 2018. Sensemaking the "social" in social entrepreneurship. *International Small Business Journal*, 36(8), 859-886
18. Ibid.
19. Kimmitt, J. Muñoz, P. 2018. Towards a social impact bond diagnostic tool for emerging economies. Working Paper.
20. The complete diagnostic tool is available from the authors upon request.



## Authors

**Dr Jonathan Kimmitt** is Lecturer in Entrepreneurship at Newcastle University Business School in the United Kingdom. His research focuses on issues related to entrepreneurship, international development and poverty, as well as social entrepreneurship and microfinance.

**Prof. Pablo Muñoz** is Professor of Entrepreneurship and Director of the Centre for Entrepreneurship at University of Liverpool Management School in the United Kingdom and visiting professor at Universidad del Desarrollo in Chile. His research focuses on sustainable/social entrepreneurship, enterprise and local development and alternative forms of organising and value exchange.

