



## Newsflash

# PPP Chair 10<sup>th</sup> Advisory Board: Social Impact Bonds

### Innovation in risk management, efficiency gains and economies

On 31 May 2016, the PPP Chair at the VUB assembled a tenth edition experts panel to discuss the possible application of Social Impact Bonds (SIBs) in Belgium and its Flanders region. For this edition of the advisory board, Laga invited a number of speakers to share their vision on this form of PPP. The panel members were Pierre-Louis Christiane (Analyst KOIS invest), Jan Vander Elst (Head of Finance, King Baudouin Foundation), Laudy Konings (Director, Deloitte Nederland) and Sjoerd Van der Smissen (Partner, Deloitte Nederland). Kathleen De hornois (Partner, Laga) was the moderator for the evening.

#### **Social impact bonds as a PPP-instrument**

A 'Social Impact Bond' (SIB) can be described as a financial instrument which generates revenues on the basis of achieving agreed social outcomes. Private investors deposit capital to allow a provider of social services to achieve a more optimal social progress compared to an existing situation. When this progress is being realised at a lower cost, the savings are used to reimburse the investors while maintaining a reasonable return on investment.

Foreign examples (US, UK, Canada, Netherlands among others) have shown that SIBs are more often used by the government to support the administration and to have private partners observe the general interest, on a smaller or larger scale.

As a form of PPP, SIBs allow the government to mitigate risks in issues which experience enormous pressure on allocated budgets, and where there is not guarantee for success. This instrument allows the government to manage its risks, strive for societal efficiency gains and realise savings for its budget and for society, doing so in an innovative fashion.

Social Impact Bonds are commonly used in the context of employment policy. The reimbursement and return on investment of private investors is dependant on the obtained results and is financed with government savings in unemployment benefits.

Although SIBs have an extremely wide potential scope of application, they remain relatively rare in Belgium. At present, “Duo For a Job” is the only non-profit organisation in Belgium financed through a SIB (In this PPP, Actiris will compensate the private investor on the basis of the non-profit organisation’s performance). For this purpose, the advisory board asked which aspects can potentially facilitate a kick-start of SIBs in Belgium, looking at past successes abroad.

### **Challenges for SIBs**

Firstly, a SIB remains an investment with an accompanying risk. Reimbursement of the capital is dependent on the success of the funded program. As it remains an atypical financial instrument, many private investors continue to show a certain restraint towards SIBs. Currently, this still causes the potential target audience of social investors to be limited. On the other hand, the investment’s philanthropic character can contribute to the investment’s attractiveness.

Furthermore, launching a SIB remains a policy choice and so the initiative must come from the government itself. Yet, institutional investors can play an important role in facilitating the launch of a SIB, as well as to increase the potential target audience of social (private) investors. In this regard, it needs to be mentioned that niche institutional investors are looking at SIBs with growing interest. However, to help SIBs take-off in Belgium, some voices claim that improved certainty about the regulatory framework is desirable. On the governmental side, the answer to some questions regarding budget technicalities will likely be an important factor in determining whether this instrument will be applied on a larger scale.

Finally, some SIBs require a cooperation between different political levels. This requires a study of which societal benefits are created by a programme funded by the SIB and which political levels will consequently generate savings. This evaluation is not always straight-forward. If a SIB generates societal efficiency gains over different political levels, it cannot be ruled out that those political levels will need to agree on how to divide the costs, before the SIB can be launched.

## Key success factors

The potential of SIBs is large and the results from the first initiatives for which the term limit has expired are nearly exclusively positive. SIBs possess huge possibilities for efficiency gains. Additionally, the scalability can be adapted on the basis of the selection of social partner for the program that will be financed. For this instrument to be successfully issued however, a thorough preparation is key and a few matters are to be taken into account.

- The issuing of a SIB requires a detailed preliminary study to assess the financial feasibility and possible savings. On the basis of this study, a strong business case needs to be developed.
- Prior to the contractual negotiations with potential partners, a few matters need to be studied from a public procurement and state aid perspective.
- The government will pay a certain amount based on the obtained results. It needs to be established in advance what amount can be reimbursed to the investors, taking into account a maximum return on investment, and on the basis of which results the effective reimbursement and return (if applicable) will be decided. It is crucial that evaluation indicators are defined clearly. Furthermore, these indicators may not be subject to external influences, as to assure that they are representative in measuring the results of the program financed by the SIB.

To issue a successful SIB, the involved parties need to proceed carefully and spend sufficient time, energy and resources on the different aspects, and define a clear and definite stance on these aspects, before issuing the SIB.

## About the VUB PPP Chair

The PPP Chair of the VUB conducts research on the potential and successful realisation of PPP-projects. The Chair was founded in 2010 by the Free University of Brussels (VUB), Deloitte, Grontmij and Laga, and was expanded at the end of 2014 with the entry of two new partners: KBC and Triodos Bank. In addition to conducting research within the area of PPP, the Chair organises activities on a periodical basis, in close cooperation with the sponsors (Deloitte, Grontmij, KBC, Laga en Triodos Bank). Chair holder is Prof. Dr. Lieven De Moor of the Faculty of Economic and Social Sciences and Solvay Business School.

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