Social Impact Bonds: A Social Impact Investment Approach to Facilitating Community Development

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Abstract

Community development is a field of practice that encompasses many disciplines and has special resonance for social work. Although the definition of the term community development is not consistent throughout the literature, this article proposes a definition that broadly conceptualizes the term as the synthesis of solidarity, agency, and community well-being. The role of social indicators to measure the impact of community development initiatives is discussed. Social impact bonds, a form of social impact investing, are presented as a tool to encourage a more holistic approach to community development. This is achieved by moving beyond individual program output measures and focusing on community-level outcomes. The limitations of social impact bonds are also discussed as is their relevance within the larger social work context.

Keywords: community development, social impact investing, social impact bonds, Grand Challenges for Social Work

The field of community development is broad and encompasses many domains of practice, from planning and public health to economic development, but has always had special resonance for social work. Although the definition of what can be included in the field is expansive, the spectrum of activities in which practitioners engage is much more limited (Dorius, 2011). How success is measured relative to these activities is even narrower, and we argue that this limited conceptualization of community development is problematic for the field. This article seeks to (1) conceptualize community development broadly as the intersection of solidarity, agency, and community well-being, (2) discuss how the utilization of social indicators can lead to community change, and (3) present a framework based on social impact investments, specifically social impact bonds, to guide policy and research in a manner that moves the field of community development forward in a productive way.

Conceptualizing Community Development

There is significant debate in the literature about the definition of community development (Dorius, 2011; Matarrita-Cascante & Brennan, 2012; Summers, 1986). The term itself is imprecise and is often utilized interchangeably with other terms such as "social development, "community building," "economic development," "community practice," and "community economic development" to name a few (Midgley, 2014; Weil, Reisch, & Ohmer, 2013; Rothman, 2007). In spite of the variance within the literature, it is apparent that any definition of community development must be as universal as possible in order to allow for generalizability to a diverse array of communities.

Bhattacharyya (1995, 2004) offers a broad and generalizable definition of community development as solidarity and agency. He defines solidarity as consisting of a common social identity as well as social norms, both of which are strong enough to result in emotional impact on individuals if either are violated. Agency relates to the capacity of the community to work together to achieve some mutually defined goal. Giddens (1984) discusses agency within the context of power and frames agency as more than the capacity or ability to act. He states that deciding to abstain from involvement is a valid choice and constitutes the utilization of one's agency. Hustedde and Ganowicz (2002) elaborate on Giddens' definition by expanding agency to include capacity building for decision making, community intervention, and reflection upon the interventions.

Although this is a good starting point, it is important to note that community development initiatives go beyond focusing exclusively on solidarity and agency. It can be argued that the purpose of community development initiatives is to improve community well-being, and it must be acknowledged that community development as solidarity and agency is not inherently good or positive (Dorius, 2011, Taylor, 2003). Taylor (2003) discusses the negative aspects of community that can lead to exclusion, discrimination, and persecution. Examples of this can be seen in the existence of neighborhood gangs, hate groups, and totalitarian regimes, which all demonstrate solidarity and agency. This issue can be addressed by expanding the definition to incorporate the concept of community well-being as a component of community development.

Community well-being is a nebulous term (McCrea, Walton & Leonard, 2014, 2015). It includes a wide range of potential social, economic, cultural, and other issues that are identified by community members as being important (Cox, Frere, West, & Wiseman, 2010). This definition can be further elaborated through socioeconomic factors, such as household income or home ownership rates that focus on specific, material improvements in the lives of community members (Biddle, 2014; Lee, Kim, & Phillips, 2015).

The concepts discussed above can be synthesized to form a definition of community development that is comprised of (1) solidarity, (2) agency, and (3) community well-being. This definition can then be examined through the lens of social indicators.

Operationalizing Community Development Outcomes through Social Indicators

The results of community development activities are often measured in terms of program-level outputs (e.g., number of jobs created, housing units built, number of people at a community planning meeting) (Schuchter & Jutte, 2014). These program-level outputs are easily counted and reported, but do not provide rich description of community-level change. Dorius (2011) noted that many funders and organizations engaged in community development work have stopped trying to use scientific measures to evaluate organizations and instead rely on self-evaluation that is not generalizable to the implementation of similar efforts in other communities.

The use of social indicators can help shift the focus of community development work from program outputs to community outcomes. Social indicators are measures that provide information about some aspect of the well-being of a community, often relying on aggregated statistics of multiple programs in the community and community demographics linked to program outcomes. Examples of social indicators include more traditional, community wide measures such as area median income, housing values, and employment rates. Yet social indicators are a broad group of community well-being measures that can focus on a wide range of issues such as neighborhood quality and stress (Montpetit, Kapp, & Bergeman, 2015), neighborhood disorder (Gutman, McLoyd, & Tokoyawa, 2005; Marco, Gracia, Tomás, & López-Quílez, 2015), community and resident satisfaction (Jorgensen, Jaimieson, & Martin, 2010; Talò, Mannarini, & Rochira, 2014), subjective social status (Jackman & Jackman, 1973; Shaked, Williams, Evans, & Zonderman, 2016), and measures of discretionary time and time poverty (Goodin, Rice, Bittman, & Saunders, 2005; Williams, Masuda, & Tallis, 2016).

The social indicators movement began in the 1960s and reached its peak in the 1970s (Carley, 1981; Flynn & Wells, 2014; Land, 1975). At the time, the focus was on collecting and compiling data. A lack of models for integrating the information into larger systems analyses led, in part, to the decline of the movement (Gruenewald, 1997; Phillips, 2003). In spite of these challenges, the use of social indicators seems to be on the rise once again (Lee, Kim, & Phillips, 2015). As a result of this trend, it appears likely that the use of social indicators will increase at an even greater rate over the next few decades. We hypothesize that social indicators will be important for community development work moving forward for reasons including:

- Increased accessibility and use of portable, personal computing devices (e.g., laptops, tablets, smartphones) has fundamentally changed the ability to collect, store, and analyze large quantities of data.

- The proliferation of big data has made an enormous amount of information available for analysis.

- Personal computing devices allow for more extensive, clearer, easier, and immediate communication worldwide. This includes the ability to share large quantities of data in a way that was not previously possible.

- There is a growing recognition by local communities of the importance of social indicators. This is evidenced by anecdotal observations of an increasing number of community organizations collecting data that has not previously been collected.

- The growing trend in social impact investing (to be discussed below) demands a more detailed analysis of social indicators to inform these initiatives.

Given the increased availability and increased ease of using social indicators, these measures provide an excellent opportunity to better understand the broader community impact of community development initiatives.

Social Impact Bonds

As previously noted, the lack of data acquired through a scientific methodology is a challenge faced by many funders of community development initiatives (Dorius, 2011). As communities fail to effectively answer the question of what funders receive for their investment, changes in the funding landscape continue to negatively impact community development efforts. For example, federal funding allocations for community development initiatives in real dollars continue to decrease while demand for these resources increases (United States Department of Housing and Urban Development, 2014). In an era of budget cuts and reduced government spending, communities will likely face pressure to find new and creative ways to argue for additional investment.

Social impact investing is a broad category of tools and methods that involve private investment in initiatives that will benefit the larger community (Daggers & Nicholls, 2016). More specifically, social impact investing is the investment of funds in a project or organization that will lead to both a financial and a social return on that investment (OECD, 2015). The underlying concept behind social impact investing is that in addition to a possible financial benefit to the investor, the investment will have a positive social and/or environmental impact (Höchstädter & Scheck, 2015; Clarkin & Cangioni, 2016).

History and Function of Social Impact Bonds

Social impact bonds (SIBs) are one form of social impact investing. They were first used in United Kingdom in 2010 and in the United States in 2012 (Humphries, 2013; Liebman, 2011). SIBs are financing tools for social programs that are designed to attract private-sector investment by providing a financial incentive when programs achieve pre-established goals (Schinckus, 2015). The basic underlying premise of SIBs is that prevention is more cost effective than a post hoc intervention. For example, investing in high quality preschool that improves children's reading readiness is premised to be less expensive for taxpayers than years of special education and tutoring in public schools for children who struggle to gain literacy later. Social impact bonds pay out to investors when a predetermined target is hit—for example, when a certain percentage or threshold of SIB-funded preschoolers have acceptable reading readiness scores. In this case, the social investors would receive a profit, and the preschool would potentially be more attractive to additional bond investors for additional funds as well as to traditional nonprofit grant funders. The profit payment made to the investor would be paid by the local government or school district. This payment would be less than the amount needed to provide reading remediation services to those children in the future. As a result, the children become better readers, the investors make a profit, and the local government or school district saves money. If preventative measures can be utilized to reduce negative consequences and increased intervention costs that would occur later, public funders can stretch their dollars further and communities will see greater benefit (Cox, 2012).

Utilizing SIBs in Community Development to Facilitate Community Change

As SIBs become more well-known they have the opportunity to provide significant and extensive positive impacts on community development work by pushing community development professionals to view their work more holistically. Through the monetization process that is inherent in SIBs, community development professionals will be incented to focus on social indicators that effectively measure community well-being in the form of community outcomes and not just program outputs. This can be done by focusing on the broader social and economic impacts that occur beyond the immediate population for which services are being provided. It is important to note that this is not an approach currently taken by existing SIBs, but it is feasible approach that could have substantial positive implications for communities.

To better understand how this approach to implementing SIBs could benefit communities, it is useful to use terminology from the field of economic development. When economic developers discuss job creation, they categorize jobs as direct, indirect and induced. Direct jobs are those created by way of the target firm. Indirect jobs are jobs created by other firms that act as suppliers to the target firm. Induced jobs are jobs created as a result of spending that flows from direct and indirect jobs (Pollin & Garrett-Peltier, 2011). The same terminology can be utilized to better conceptualize potential savings created via SIBs. Direct savings would be the savings of program A over program B, i.e., savings in direct expenditures due to the efficiency of one approach or program over another. Indirect savings would be the savings from not having to provide additional services to an individual in the future.

Direct savings through efficiency may seem to be the most important factor. If a less expensive social program can meet the same target outcome as a second, more expensive social program, then the first social program may seem more attractive. However, indirect savings that reduce the need for either social program in the future can move to the forefront if SIBs provide a cash infusion that allows a massive scaling up of a highly effective program that prevents negative outcomes and greatly reduces the need for costlier, community-wide, tax-funded intervention at a later date. Moreover, induced savings then exist as positive externalities for the community. Quality of life for the whole community improves when community members are (for example) generally literate thanks to high quality preschools and generally employed because firms in the community are creating jobs. If cash infusions for social programs became widely available through SIBs, tracking direct, indirect, and induced savings in a given community becomes a new way to look at community change and quality of life beyond simply counting the direct savings of a single program, however efficient and evidence-based that program might be. SIBs can help create the demand for the community development sector to operationalize and measure social indicators that can be used as indirect and induced savings within SIB financing structures. The relationship between these concepts as they relate to the example of funding high quality pre-kindergarten as discussed above is illustrated in Figure 1.

The authors acknowledge that this approach needs additional development and that significant additional social science research is necessary to fully understand all the connections and potential cost savings. We highlight induced savings as one positive by-product of the SIB approach. Focusing on the induced savings that can result from utilizing SIBs can encourage additional research on important, although previously understudied, areas of research. It will be incumbent upon social science researchers to ensure that tools for measuring social indicators provide accurate and useful information in order to allow for the utilization of SIBs in a way that proactively targets interventions that create induced savings.

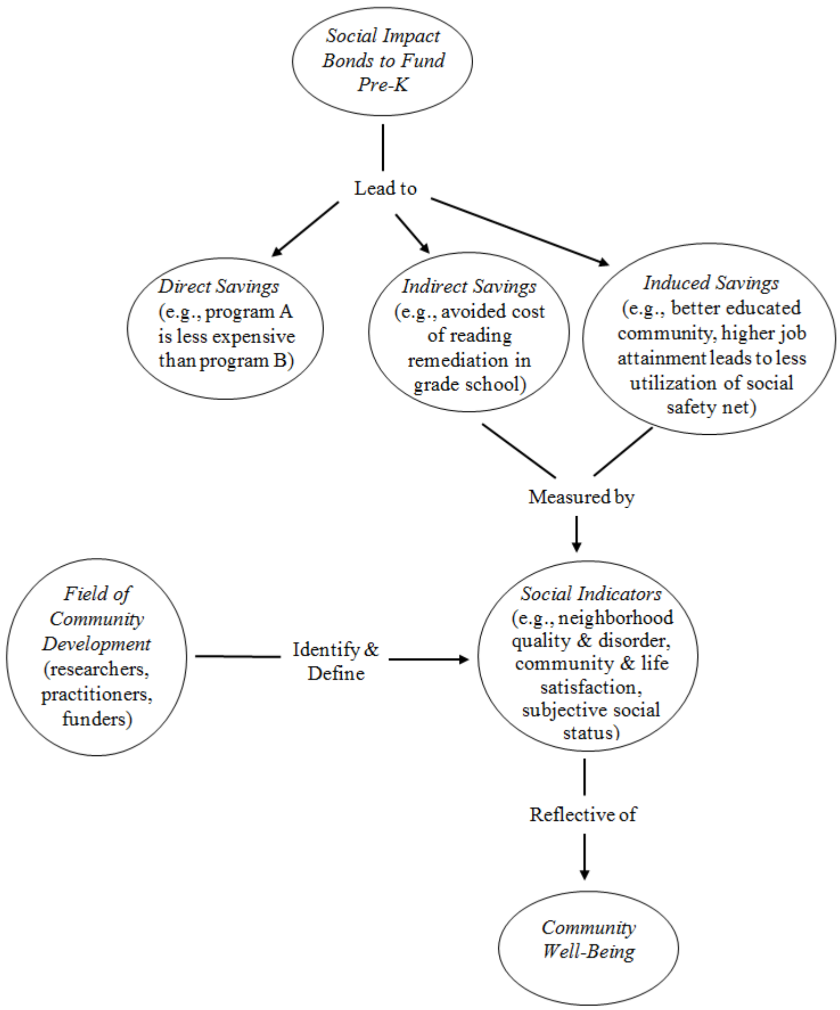

Figure 1. Conceptual map of social impact bonds for pre-kindergarten reading readiness and the connection to community well-being. © Jason T. Carbone

Conclusion

The American Academy of Social Work and Social Welfare (AASWSW) has identified grand challenges for social work which include social innovation to reverse extreme economic inequality (Lein, Romich, & Sherraden, 2015) and using technology to drive innovation in social work (Berzin, Singer, & Chan, 2015). We believe that social impact investing is a potential way to restore social work's portfolio in community development while responding to grand challenges to innovate in social work through better use of financial and technological tools.

Social work scholars have criticized SIBs as extending the well-documented problems of privatization and managerialism in social work (Abramovitz & Zelnick, 2015). Scholars have also expressed concern that the length of time social interventions can take to implement can mean that holders of social impact bonds may be paid out of public resources even when a seemingly successful intervention that met its SIB-defined target outcomes turns out not to have strong effects later (Ogman, 2016). Lastly, social impact bonds simply have not been widely implemented for all the attention they have generated, suggesting that at best SIBs are in the early adoption phase of diffusion (Rogers, 2003) or worse simply a negligible, overhyped development that means little to community well-being (Arena, Bengo, Calderini, & Chiodo, 2016). We share these concerns and note that the most successful social impact bond that supports a highly effective and impactful social program still marks a new extension of the profit imperative into a hitherto largely public or nonprofit arena.

Therefore, we in no way seek to offer an unqualified endorsement of social impact bond financing. But we argue here that social impact investing through SIBs merits further experimentation and testing based on its potential to improve community development through indirect and induced savings as well as through direct savings. We also surmise that SIBs will continue to attract attention in the United States and in U.S. social work. We are encouraged by recent research on SIBs in English-speaking countries which suggest that SIBs tend to be used in the United States, United Kingdom, and Australia primarily to scale up evidence-based interventions that have good outcomes from pilot testing (Clifford & Jung, 2016). This research also found that the approach to SIBs in Australia was truly focused on social innovation for public services, where SIBs were used to fund initial trials of new programs but where successful programs were then absorbed into public social services and funded by taxes (Clifford & Jung, 2016). This model offers promise that in addition to direct, indirect, and induced savings, SIBs can co-exist with and even reinforce a strong welfare state where public responsibility for social welfare is clear and unambiguous.

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