

# Social Impact Bonds: Developing a Christian Perspective

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**ABSTRACT:** Social Impact Bonds (SIBs), a form of impact investing, were first introduced in 2010 and enable investors to finance innovative projects to create a measurable social benefit. If the project is successful, investors are paid principal plus an agreed-upon return. This paper summarizes the current state of these bonds and concludes with a Christian perspective.

**KEYWORDS:** social impact bonds, SIBs, impact investing, pay for success

## INTRODUCTION

A form of impact investing, the Social Impact Bond (SIB) market began in 2010 with the creation of a bond in the United Kingdom (“Impact Bonds Worldwide,” 2019). A SIB is designed to unite the government, corporate, and nonprofit sectors in funding and delivering creative solutions to persistent social issues such as homelessness, poor educational achievement, and unemployment (La Torre et al., 2019). In brief, a SIB is designed to save government entities money over the long term by providing services and aid to nonprofit organizations for which the government would normally provide funding. If a nonprofit meets the goals laid out in the SIB contract, the government gives investors in the bond their money back, along with a predetermined return on investment. Investors are either private entities, such as Goldman Sachs, or philanthropic organizations, such as the Bloomberg Foundation.

This bridging of sectors and the pay-for-success concept is viewed as a win-win situation for both private investors and taxpayers (Schinckus, 2018). In the United States, the first SIB was established in 2012 as a \$9.6 million loan sponsored by Goldman Sachs and was

ultimately unsuccessful in its goal of reducing recidivism among a select group of incarcerated men at Rikers Island (Olson & Phillips, 2013). The market has grown rapidly since 2012, with 132 SIBs in existence worldwide by the end of 2018, covering issues including agriculture, criminal justice, health, and social welfare (Gustafsson-Wright & Boggild-Jones, 2018; “Impact Bond Global Database,” 2019). Even though the number of SIBs is still small, there is growing interest from all three sectors (Sinclair, McHugh, & Roy, 2019). As a new and growing field, the SIB market has received little attention from Christian researchers. Due to the continued and increasing interest in SIBs as a way to solve persistent social issues, now is the ideal time to address the gap in extant literature and analyze the pros and cons of SIBs in order to develop a Christian perspective toward this financial instrument. After analyzing the pros and cons of SIBs, this paper will suggest that there is biblical support for earning returns on capital in pursuit of social good and for the pursuit of poverty alleviation and other social values as a use of capital, both of which the SIB structure facilitates.

## LITERATURE REVIEW AND DISCUSSION

### SIB Structure and Function

The Christian community has long struggled with the existence of poverty, violent crime, under-educated youth, and other social ills and how or if the government and private sectors should intervene (Belcher, 2016; Hall, 1910; Solomon, 2003). For Christians and others seeking to solve persistent social issues, the concept of a “pay-for-performance” bond is appealing. In an era where traditional philanthropy and government funding is unable to keep up with increased demand for social services, this instrument can also improve accountability and the way in which the impact of a nonprofit’s intervention is measured (Caré & De Lisa, 2019; Gilchrist & Wilkins, 2016).

Social Impact Bonds are also called Pay by Result (PbR) in the UK, Pay for Success (PFS) in the U.S. and Social Benefit Bonds (SBB) in Australia (Edmiston & Nicholls, 2018; Trotta, Caré, Severino, & Migliazza, 2015). To date, the “pay-for-performance” concept of the SIB is most widely embraced in the UK, the U.S., and Australia (“Impact Bond Global Database,” 2019). In the U.S., since the first bond was launched in 2012, SIBs have leveraged over \$91 million in private investments and are being utilized in 39 states (Jones, 2017). As of June 2020, there are 26 SIBs being implemented in the U.S. (“Impact Bond Global Database,” 2020).

SIBs were intended to be a win-win alternative to traditional direct social welfare financing through government debt and taxation. SIBs aim to create efficiencies that maximize social return and economic return for financing social initiatives. The results are mixed so far, but if potential conflicts are mitigated, SIBs have the potential to be win-win project financing instruments.

At their core, each SIB involves a contract between a commissioner (typically a government or government entity such as the City of New York) and a commissioning agency (typically a bank or investment firm) (Maier & Meyer, 2017). Unlike traditional bonds, the return is contingent on the outcome of the project being financed (Fraser, Tan, Lagarde, & Mays, 2016). In this way, the SIB becomes a pay-for-performance finance instrument, integrating a private/public partnership, an initial financial investment, and an action plan to solve or ease the impact of a social issue (Trotta, Caré, Severino, & Migliazza, 2015).

The first step of creating a SIB begins with a nonprofit or other organization approaching the neces-

sary government officials or firms to sponsor a bond. Assuming they obtain a sponsor, the entities (one or more nonprofit organizations, a government institution, and an investment institution) agree on the terms of the contract, such as the type of intervention, duration, terms of success, and, importantly, which independent third party will audit the program. During the duration of the bond, this third party will determine if the nonprofit is meeting its required goal and ensure funds are being allocated appropriately. Once the contract has been finalized, the next step is the issuance of the bond, which allows the nonprofit to collect private funds to begin the proposed intervention. During the duration of the bond, the auditor conducts a routine audit on the intervention. At the end of the term of the bond, the evaluator draws up a report, determining whether the bond reached its goals. Assuming the project was a success, the bond, along with interest, is paid back to bondholders. The bond’s sponsor is responsible for paying out the principal plus interest in the case of a successful project. Should the project fail, then no money—not even the original principal of the bond—is paid back, unless there is a guarantor.

*SIB example.* An example of a SIB is the Rikers and Goldman Sachs SIB that was the first in the United States. In 2012, Goldman Sachs Bank’s Urban Investment Group provided a \$9.6 million loan to support the delivery of services that were designed to lower the recidivism rate of 16- to 18-year-old males who were incarcerated on Rikers Island. MDRC, a nonprofit focused on public policy initiatives, served as the intermediary, was the recipient of the loan, and oversaw project implementation. The Osborne Association, a prison reform organization, provided the actual programming in collaboration with Friends of Island Academy. In 2012, it cost an average of \$168,000 to house an inmate for a year (Santora, 2013). If a person did not re-offend and re-enter the juvenile justice system, the savings to the city was significant. The loan was designed to be repaid based on the actual and projected cost savings by the New York City Department of Corrections. The program was independently evaluated by the Vera Institute of Justice, and \$7.2 million of Goldman’s loan was guaranteed by Bloomberg Philanthropies, thereby lowering the risk to Goldman. Based on the terms of the loan, if MDRC’s program was able to reduce recidivism by 10%, the program would break even. The cost of offering the intervention would equal the cost savings from a lower rate of recidivism. If the program reduced recidivism by 11%, the NYC

Department of Corrections would “save” \$1.7 million (Olson & Phillips, 2013). Therefore, if the program was successful, the NYC Department of Corrections would repay Goldman Sachs their loan plus interest with the current and anticipated program savings.

### Appeal of SIBs

*Symbiosis between the three sectors.* From a political perspective, SIBs have broad, bipartisan appeal (Jones, 2017). In an ideal world, the SIB is itself a structure that aligns the interests of government, private investors, and non-profit providers around the delivery of a predetermined set of outcomes (Caré & De Lisa, 2019). Unlike traditional welfare funding, SIBs can be a win-win by funding social innovations while also strengthening the entrepreneurial state by involving private investors (Mazzucato, 2015). In short, as Fraser et al. (2016) summarize, the pro-market proponents of SIBs believe that the instrument can bring potential symbiosis between the corporate, government, and non-profit sectors. A key advocate of SIBs, Cohen (2011) argues that “social enterprise and impact investment could dramatically change the role of the social sector in the way that venture capital and business entrepreneurship did in mainstream business in the 1980s and 1990s” (p. 6).

One reason for the broad appeal of SIBs in the U.S. is the concept of social return on investment, which means that the cost of an intervention should be less than the cost of services provided had the intervention not occurred. As an example, the city of Denver spends \$7.3 million a year on 250 homeless individuals. This includes covering the costs of an average of 56 nights in jail, emergency room services, and other supporting social services. In 2016, the city issued a SIB for \$8.6 million for permanent housing subsidies for this group of 250 people. Hypothetically, if all 250 individuals remained in homes, the full cost of the program would be realized early in year two. The “social return on investment” in year two would be \$6 million and the full \$7.3 million would be realized in year three (Urban Institute, n.d.). The “savings” or SROI justified the city spending some of the “savings” to pay for the development of the SIB. Therefore, the SIB is designed to be preventative in nature, meaning that while the service provided is costing the government, the results will reduce the more significant costs that would have been incurred by the government if the intervention had not occurred (McKay, 2013). In essence, the government’s “savings” on additional services is used to generate an improvement in social outcomes (Fraser et al., 2016).

*Transferring financial risk.* SIBs can also transfer the financial risk of failure for interventions from the state to the private and social sectors (Fraser et al., 2016). This concept is particularly important in light of current cuts in government spending (Griffiths & Meinicke, 2014) as a SIB shifts “responsibility for the design and delivery of welfare policy from the state” (Sinclair, McHugh, & Roy, 2019, p. 11). For all of these reasons, the three sectors can see SIBs as an adaptable financial instrument to solve a variety of social needs (Schinckus, 2018).

*Encouraging innovation.* Proponents of SIBs also highlight that the instruments are designed to encourage innovation and provide services that are more personalized or customized than what the government can provide (Fraser et al., 2016). The involvement of private funding in the SIB process can also lead government agencies to believe that there is an additional layer of evaluation “rigor” and performance management that is not found in typical nonprofit interventions (Edmiston & Nicholls, 2018). This is further emphasized by the added incentive of financial returns that focuses attention on improving the performance of the intervention and subsequent reporting (Mulvaney & Krieglger, 2014). By participating in SIBs, nonprofits are forced to move beyond “service inputs, outputs and processes” to focus on “quantifiable social outcomes” (Edmiston & Nicholls, 2018, p. 59). Ideally, these initiatives will increase competition in public service reform, increase quality, and enhance social outcomes (U.K. Cabinet Office, 2014).

*Access to private capital.* Nonprofits often advocate for SIBs because it gives them access to private capital. As Maier & Meyer (2017) state, the appeal of the SIB is that they “will enable private financial investors to align the pursuit of financial benefits with the pursuit of social benefits, thus offsetting the anti-social aspects of financial capitalism” (p. 2). Nonprofit organizations have historically relied on philanthropy, typically a combination of foundation, corporate, and individual support, and fees for services (Chang, Tuckman, & Chikoto-Schultz, 2018). However, there is increasing competition for limited funds (Harangozo & Zilahy, 2015) while demand for services continues to increase and become more technical and specialized (Chen & Krauskopf, 2013). In fact, approximately 40 percent of U.S. nonprofits struggle simply to meet their budget on an annual basis (Malatesta & Smith, 2014). Social Impact Bonds are of increasing interest to the nonprofit sector because they provide another way to raise much-needed funds.

## Challenges of SIBs

Difficulties of determining SIB success or failure. Critics of SIBs point out that, by and large, they are a failure (Fraser et al., 2016; Sinclair, McHugh, & Roy, 2019). Warner (2012) suggests that it can be difficult to determine a bond's success or failure simply because SIB contracts are not public data. Since there is currently limited empirical data, Fraser et al. (2016) emphasize, "We are left to assess the respective plausibility of each of these narratives from what is already known in related fields" (p. 15).

Additionally, it is important to note that the structure of social impact bonds vary with each contract that is signed, and this makes it difficult to accurately compare SIBs as a group (Caré & De Lisa, 2019). Currently, there is room for significant variation in the construction of the terms and partners and a lack of common evaluation measures. While Tan et al. (2015) suggest that current data on SIBs does not demonstrate that SIBs are more innovative or provide better outcomes than traditional and conventionally funded social service interventions, other researchers suggest that research on SIBs has been largely conceptual thus far, with the majority of data coming in the form of evaluation reports (Fraser et al., 2016). In short, it may simply be too early to definitively determine success or failure of this bond market.

**Misaligned interests.** A key challenge of SIBs is the misalignment of interests. In theory, a SIB utilizes private investment to fund a social intervention. In reality, the investment involves at least one broker who is incentivized primarily by the premise of a return on investment (Sinclair, McHugh, & Roy, 2019). The incentive structure is further complicated by the fact that a typical SIB has five key actors: the investor, intermediary, non-profit provider, independent evaluator, and government entity, and each actor has its own interests that differ from those of the others (Maier & Meyer, 2017).

Central to the misaligned interests is the premise that the investor bears financial risk and the nonprofit provider bears reputational risk. If the nonprofit does not achieve the stated objectives, they will be known for failing the terms of the SIB. If this occurs, the investor will not receive its anticipated return. This can incentivize both the investor and the non-profit provider to act opportunistically and focus on selecting individuals who are most likely to achieve the agreed-upon goals (Pandey, Cordes, Pandey, & Winfrey, 2018). Evaluators are also interested in the success of the SIB, as their reputation and business model rely on the creation of even more SIBs. As such, they may be inclined to focus on evalua-

tion criteria that are easier to satisfy. Nonprofits will also generally seek to lengthen the term of the bond in order to ensure they are capable of achieving the promised results (Sinclair, McHugh, & Roy, 2019).

**Cost.** SIBs are viewed as an interesting solution because the ultimate goal is to align the interests of numerous actors—private investors, evaluators, nonprofits, and government entities—to make a difference in a social issue (Caré & De Lisa, 2019). However, the transfer of risk from the government subsidizing or outsourcing service provision to a nonprofit comes at a cost. The investors drawing up the SIB as well as the evaluators require fees, and recent evaluations indicate that the transaction costs for SIBs have been higher than those of other funding instruments (KPMG, 2014). A challenge is that these instruments are one-off financial vehicles that require significant time and effort to develop, and this can increase transaction costs with little opportunity to reduce them over successive transactions (Jones, 2017). The U.K. is making progress by attempting to use standardizing methods for creating several SIBs at one time (Ronicle, Fox, & Stanwort, 2016). Others (Antadze & Westley, 2012; Nicholls, 2013) call for standardization of how impact is measured, communicated, and assessed, using, for instance, the Global Impact Investing Rating System (GIIRS). A secondary issue is the difficulty of effectively calculating risks associated with a SIB. As McKay (2013) discusses, one planned SIB focused at reducing recidivism in Maryland would have increased operational risks to the government through increased transaction costs as well as the complexity of the contract.

**Commoditization of social services.** Another challenge with SIBs is that the nonprofit's desire to meet stated outcome goals may cause them to focus on attaining those goals at all cost, regardless of what is in the best interest of their beneficiaries (Maier & Meyer, 2017). Ultimately, the economic system needs to serve human beings and recognize that all humans are created in the image of God (Tucker, Drake, & Adragna, 2017). Related to this, Edmiston and Nicholls (2018) demonstrate that some non-profit service providers feel constrained by the inherent micro-management of the SIB structure and believe that this inhibits their ability to pursue their social mission. Fraser et al. (2016) point out an inherent conflict of values between the private and the nonprofit sector and suggest that the values and norms of the private sector (and financial institutions in particular) may unduly influence the values and norms of the nonprofit sector. Perhaps most significant is the fact that the SIB is in no



way accountable to service users or the people for whom the intervention is designed (Edmiston & Nicholls, 2018). As Sinclair, McHugh, and Roy (2019) summarize, “SIBs reflect the fallacy that only that which can be directly observed and measured is real and important” (p. 12). As an example, the final evaluation of London’s Homelessness SIB, designed to link 830 long-term homeless individuals to social services, had no metric to gauge increases in the emotional and mental health of participants, even though the study indicated how important this was to the homeless individuals in the study (Mason, Lloyd, & Nash, 2017). Finally, Warner (2012) points out that while the nonprofit sector is very transparent in terms of their financial and program reporting requirements, SIB contracts are not public. This lack of data for reasons of commercial sensitivity can diminish the amount of oversight that the public has over nonprofits and can also impede the ability to determine the success or failure of a specific SIB.

**Failure to solve the underlying problem.** As outlined earlier, an issue with SIBs is the potential misalignment of interests. In order to demonstrate success, nonprofit providers have an incentive to agree to goals that can be met. This can lead nonprofits to focus on incremental change over systemic change (Cooper, Graham, & Himick, 2017). Ideally, SIBs would give non-profit providers the ability to innovate and provide customized services to their clients (Fraser et al., 2016). However, nonprofits can be tempted to select individuals who are most likely to succeed at the intervention or ensure that the intervention itself is minimal enough to be accomplished (Maier & Meyer, 2017).

This also means that if a SIB does not actually “solve” the social issue for which it was created, the instrument becomes a suboptimal investment of tax-payer dollars (Maier & Meyer, 2017). Sinclair, McHugh, and Roy (2019) suggest that SIBs continue to focus on the “symptoms and manifestations” of social issues rather than on the underlying causes (p. 6). This is again evidenced by the London Homelessness SIB that focused primarily on measurable outcomes such as the number of people who became employed and the number of people who were housed in permanent housing vs. emotional well-being. Edmiston and Nicholls (2018) suggest that these challenges may be partly due to the fact that the complexity of SIBs and its focus on one or more specific goals can take funding away from front-line service provision and limit the autonomy of some front-line practitioners.

Currently, SIBs revolve around interventions that are technical in nature rather than transformational (Sinclair, McHugh, & Roy, 2019). Maier & Meyer (2017) cite the example of a school readiness initiative in Utah that involved the state of Utah, the United Way, Goldman Sachs, and several nonprofit providers. The bond was meant to improve school readiness and therefore save taxpayers the cost of special education for children who would otherwise enter grade school at a disadvantage. The main outcome measure was a students’ score on a standardized test. The final results indicated a 99% success rate. Since this rate is unheard of in similar programs, an investigation discovered that 109 of the 110 students in the program who had been defined as “at risk” actually were not and would not have been considered eligible for special education had they entered grade school without the school readiness program (Popper, 2015). Part of the challenge of establishing valid measures is that there are few, if any, comparative baselines, and it is nearly impossible to establish the relative success of one intervention compared to another (Edmiston & Nicholls, 2018).

**SIB fever.** Another challenge is what Maier & Meyer (2017) term “SIB fever” (p. 6). A conceit of mimetic isomorphism, SIB fever indicates that government agencies of all sizes are seizing upon the concept to “solve” social issues without regard for whether this instrument is the best possible solution for the issue at hand. In response to this, Fraser et al. (2016) suggest that all entities entering a SIB contract need to complete an *ex ante* assessment of the pros and cons of the SIB, rather than simply assuming that it (or any SIB) will provide a win-win solution. In reality, Murray & Gripper (2016) state that non-profit organizations may not have the necessary financial skills or systems to manage the more complex instrument of a SIB. In response to these concerns, the National Council of Nonprofits (2016) created a “Principles for Consideration of New Funding Mechanisms” to help nonprofits fully understand and consider the risks and benefits of funding options such as SIBs. Another indicator of SIB fever are SIBs who have not met their outcomes, such as the Goldman-Sachs bond with Rikers, which is touted as being a “highly useful tool” even though ultimately unsuccessful (Anderson & Phillips, 2016).

### **Biblical Considerations**

SIBs remain appealing and their use has been growing in spite of the concerns noted in the prior section. In evaluating biblical considerations, we found that SIBs can be

a useful tool to advance Godly objectives, such as poverty alleviation, by financing innovative techniques to improve homelessness, unemployment, and education, along with other desirable social outcomes within the framework of a capitalist system. Bénabou, Ticchi, and Vindigni (2015) discovered that the more strongly an individual identifies as being a religious person (i.e., believing in God, stating that religion is important, believing that having God in one's life is important, and attending church regularly), the less likely he or she is to support or trust innovation. As we discuss a Christian perspective of SIBs, one needs to take into account any bias one might have to automatically discount financial instruments that are seen as too novel.

**Biblical support for lending capital for poverty alleviation.** Jesus' Parable of the Talents in Matthew 25:14-30 is an oft-cited passage suggesting that God wants us to earn a return on his capital through good stewardship of resources. The beginning of the parable says, "It will be like a man going on a journey, who called his servants and entrusted his property to them" (verse 14). Jesus is telling us that we are entrusted with God's resources. This is consistent with several passages in the Old Testament wherein God calls us to be good stewards over the resources that he has provided (Genesis 2:15, Proverbs 27:18), and makes it clear that everything we have ultimately belongs to God (Deuteronomy 8:17-18, Leviticus 25:23-24). Since the resources we have do not belong to us, Christians should seek to use the capital we have available to invest to earn a return in support of the desires of our Creator. Within this framework, the concept of a SIB—earning returns on capital in pursuit of social good—is supported by the concept of good stewardship.

**Use of capital.** Does it matter to God what we invest in? Is it sufficient to earn an attractive return when we lend our capital, or does the ultimate use of those resources matter? The Parable of the Talents continues from above as each of the servants are given talents and, upon the master's return, are judged based on how they used the resources with which they were entrusted. The Parable is an assurance that Jesus will return and that we will be called to give an account of our faithfulness with his gifts. As Christians, we are expected to wisely invest God's resources to earn a return and not be fearful, leaving our capital sitting idle. It is acceptable, and we are encouraged to earn a return according to this passage, but what, specifically, we invest in also matters. This concept is noted in Proverbs 16:8 ("Better is a little with righteousness than vast revenues without justice"), Ephesians 5:11 ("Take no part in the unfruitful works of darkness, but instead expose them"), and Psalm 112:5 ("It is well

with the man who deals generously and lends, who conducts his affairs with justice"). Other relevant passages in support of investing ethically include Proverbs 28:20 and 1 Corinthians 10:31.

If earning a return and using our capital to support activities that are righteous and serve God are both important, then what are some good investments to further the work of God on earth? SIBs are designed to encourage investment into areas of social need and have been frequently used to finance programs that target various forms of poverty alleviation, including homelessness, prison recidivism, unemployment, and education (Caré & De Lisa, 2019). Jesus spoke often about helping the poor and oppressed (Luke 14:14, Mark 10:21). More specifically, the Bible speaks to helping the poor help themselves (e.g., providing opportunities for the less fortunate to improve their circumstances through their own actions). As Belcher (2016) points out, the Bible states that laziness and idleness are not to be encouraged and that while we are called to contribute to the welfare of the poor, it is the responsibility of the able-bodied poor to view aid as temporary and be willing to work. SIB programs that are designed to provide long-term solutions to poverty through training for employment, or those providing opportunities for the impoverished to improve their current lot, are consistent with this core biblical principle.

**Lending money.** SIBs are bonds used to lend money for social improvement projects, and the Bible has significant content warning of the dangers of borrowing excessively or not repaying debt (Proverbs 22:7, Ecclesiastes 5:5). The Bible does not identify lending as a categorical sin (Beed & Beed, 2014). It demonstrates that lending can often be a great blessing (Psalm 112:5, Psalm 37:26) but warns against lending with interest to the poor (Exodus 22:25, Leviticus 25:35-37) or expecting repayment from those less fortunate (Luke 6:34). SIBs are different from traditional debt in that repayment of principal is not required or expected unless the project is a success as determined by predetermined goals and validated by an external evaluator. The bond is used to mitigate the risk of a social improvement project by involving multiple entities and having independent evaluators and, in some cases, a financial guarantor. Traditional debt adds risk for the borrower, whereas the opposite is true with a SIB. This important characteristic of a SIB makes it a more equity-like security and eliminates some of the key lending concerns outlined in the Bible. SIB borrowers are also generally governments or government agencies and would not normally be considered impoverished or unable to pay.

A key danger in lending through a SIB is that the individuals positioned to benefit from the SIB may be viewed as little more than tools to earn a return and be treated like a commodity. Idolizing money or a return on the SIB could further drive this negative behavior (1 Timothy 6:10). It is therefore important for members of the nonprofit executing the program to have compassion for the lives being impacted (Philippians 2:3) to ensure true success.

*Risk for investors.* What about risk? Does the Bible support risky investments with the potential for total loss upon failure? SIBs will not pay a return in the form of interest but will also not repay principal unless the outcome of the project is determined to be successful by a third-party monitor. The Bible supports using wisdom and diligently considering investments but also encourages bravery, courage, and boldness when performing the work of God (1 Chronicles 28:20, Ecclesiastes 11:1-6). The concept of bravery, courage, and boldness is demonstrated in several key stories in the Bible. The book of Esther shows the Queen's bravery as she risks death to confront her husband, King Ahasuerus, with a request to block Haman's order to kill all the Jews in the kingdom (Esther 4). In Joshua 1:9, God admonishes Joshua to ". . . be strong and courageous. Do not be afraid; do not be discouraged, for the Lord your God will be with you wherever you go." With this blessing, Joshua courageously led the children of Israel into the Promised Land, defeating their enemies and apportioning the land among the tribes. While the Bible does not explicitly support highly risky investments, the admonition to act boldly and courageously may indicate an opportunity to pursue an investment that has some risks if the focus is also on a greater social good or, more specifically, a God-honoring cause.

*Interest and return on capital for investors in SIBs.* In a free-market capitalist system, the return available to investors in SIBs should be sufficient to reward investors for the riskiness of the project being undertaken and fairly consider the likelihood that the project may fail. The data on overall success rates for SIBs to date is incomplete but sufficient to suggest that many have not been successful. However, even when a SIB is not successful, the process of developing and implementing the SIB can still be a benefit to the parties involved as well as to those receiving the services provided by the SIB (Porter, 2015). A lack of early success may result in investors assigning higher risk premiums to future issuances, driving up interest rates on the bonds. Is there a point where rates could be too high?

A frequent criticism of microfinance institutions (MFIs), an impact investment initiative undertaken by many Christian-led organizations such as Opportunity International and Hope International, has been the "high" interest rates charged to the impoverished recipients of their loans. Ezekiel 18:1-18 condemns excessive interest and, for Christians, this an important consideration. MFIs counter that "high" is a relative term and that the rates are market clearing, sufficient to attract capital seeking a fair return and still aid the population they are seeking to assist (Saunders, 2017). Excessive interest is hard to define, but it is most likely to occur in imperfect markets where lenders have a clear negotiating advantage. The issue for SIBs is a slightly different one as the users of the capital are not "impoverished" but rather governments seeking a superior cost-saving solution and SROI. The returns offered and interest rates charged on SIBs are designed to offer savings (if successful) to the government entity, and a path forward for additional savings with continued investment, without any real capital at risk as the risk is borne by SIB investors. Given this construct, lenders are negotiating interest rates with a sophisticated "borrower," and the return, however high it may be, is unlikely to be in excess of a market clearing price. As an example, the first SIB that was launched in the UK had interest rates ranging from 2.5-13% (UNDP, 2016). At their core, the SIB construct would allow Christians to follow the instructions in Isaiah 1:17 to "Learn to do right; seek justice. Defend the oppressed. Take up the cause of the fatherless; plead the case of the widow."

*Oversight and monitoring.* A key biblical component of investing that is present and integrated into the structure of SIBs is the establishment of an independent auditor to determine if the project has been a success. As Proverbs 21:5 states, "The plans of the diligent lead to profit as surely as haste leads to poverty." Christians are called to be diligent in their investing, to appropriately monitor their investments, and to not be lazy or foolhardy with God's capital (Matthew 25:26-27). The presence of the independent auditor helps to ensure that the project undertaken by the SIB is being undertaken with honesty and integrity and that results will not be falsified. Even with the independent auditor, Christians investing in SIBs should be diligent about researching the project's prospects for success in advance of putting God's capital to work.

## CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

Social Impact Bonds are a unique financial instrument that may provide a partial solution to the alleviation of persistent social issues. However, as an emerging area, SIBs provide a number of opportunities for additional research. First, a standard measure of evaluation might be created in order to keep all the parties involved in the SIB in check and to increase the success rate among SIBs. The United Nations published its Sustainable Development Goals (SDGs) in 2015 that lay out a standard for progress in key social areas through 2030. The challenge is that there are 200 data points that are applied globally, and some may or may not be effective measures for local SIBs. In addition, if the UN became a major funder of SIBs, it would potentially provide them with power over the global focus of a rising financial sector. Additional research on the work of the World Bank and IMF in utilizing SIBs with the UN'S SDGs could lead to the development of a standard measure.

In a world where the general population is not familiar with SIBs, there is currently limited opportunity for individuals to invest in SIBs. However, as knowledge of SIBs grows, there will be increased opportunities for individuals to diversify their portfolio to pursue social values. Related to this, a platform could be developed to crowdfund SIBs and source capital from individual investors. Registering SIBs in the United States under Reg CF would provide some degree of regulatory oversight and an additional layer of monitoring, providing for appropriate disclosure of the risks of investing in a SIB for the retail investor. Crowdfunding could effectively allow "society" to choose which "social impact" projects get funded through a more broadly democratic process. Additional research on the pros and cons of building a crowdfunding platform could expand opportunities for individual investors.

The "for-profit" needs of SIB investors may alter the behavior of the nonprofit administering the program, complicating the nonprofit's best intentions for social good by creating a need to focus on quantifiable outcomes. The nonprofit may also have an incentive to "game" the outcome to ensure success, since failure could make it challenging to attract new investment in the future. These information asymmetries may create power imbalances and conflicts of interest, supported in research by Morley (2019). Therefore, additional research on the faith perspective of the nonprofit is necessary to determine

if faith-based nonprofits respond to these incentives differently than secular organizations.

Finally, given the fact that SIBs are created by a number of parties and always include a government agency (Impact Bond Global Database, 2020), there is not much regulation of this market in the United States as of right now. However, one critical issue noted by Mazur (2017) that needs further research is in the area of tax treatment and whether earnings from investing in SIBs that succeed or fail should be taxed. Regardless of the end result, there needs to be a cohesive tie to the current tax system, and the legislation should not be made in isolation as that can lead to loopholes that allow for potential exploitation and abuse of the new tax code. An additional issue given the number of parties involved is extraction of fees, including who is receiving the fees and what can be done to reduce overall transaction costs for establishing a SIB.

SIBs present an opportunity for the Christian community as investors, as members of nonprofits administering the programs, or as members of the communities impacted by the programs. There is biblical support for lending capital using the SIB structure, earning returns on capital in pursuit of social good, and for pursuing poverty alleviation as a use of capital. Christians involved in SIBs should be vigilant in making and monitoring investments (not blinded by the pursuit of wealth) and careful to show compassion and concern for the population of people impacted by the SIB project.

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