

Social Impact Bonds: A Response

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Reeve, Hrynuik, and Devine’s insightful research into social impact bonds (SIB) is very comprehensive and demonstrates the enigma such bonds pose to all investors, not just Christians. SIB investments are relatively new and are designed to fund social justice programs with a twist, focusing on early intervention and prevention via joint private-government solutions. For example, if SIBs could fund a project to reduce the probability of a person becoming homeless, then resources and taxpayer money could be diverted away from building homeless shelters and towards other critical societal needs (programs moving people to employment prior to homelessness occurring). The twist is that SIB investors assume the risk for holding that bond, earning returns only if key benchmarks are achieved (i.e., homelessness is reduced by a certain percentage), and questions still remain how those benchmarks are set.

THE CORPORATE ISSUER PERSPECTIVE: CLIENT VERSUS COMMUNITY

From the corporate side, SIB structuring can prove technically challenging because funders and intermediaries assume large roles in SIB design, delivery, and benchmark development. Some might claim SIBs could be duplicitous in nature (2 Peter 2:1). Experts who become the architects for SIBs are very heavily involved in modeling outcomes as well as marketing, managing, and monitoring investments. This makes transaction costs high. Due to this complexity, the community the bond is designed to serve may be perceived as getting lost in the conversation. SIB “clients” can become the financiers and not the community who receive the service.

Thomas Aquinas would agree that individuals, governments, and corporations are “bound to advance social justice” issues (Dierksmeier & Celano, 2012). As the authors suggest, the SIB first structured by Goldman Sachs for Riker’s Island was clearly that. However, it was classified as an “alternative” investment which qualified

the bonds for certain exemptions from SEC registration and regulations (Caplinger, 2017). In addition, the Riker’s Island project did not reduce repeat offenders’ incarceration rates. Fortunately for investors, Bloomberg Philanthropies reduced bond losses thanks to a \$6 million guaranty. But what about the “client” or “community” the bond was designed to serve?

Graham (2017) leverages the Freedom of Information Act to take a deep dive into the structuring of outcome and payment weights for a homelessness initiative in London. Based on a five-tiered, weighted metric system for evaluating goals, objectives, and bond payment, one would recognize that the hardest metric to meet and assess (connecting homeless to employment and education) was assigned a 5% weight. Graham also discovered that the majority of homeless people in the UK were not citizens from the UK, so project “success” and payment was weighted 25% toward the transition of “the client” (homeless person) back to their host country. Displacement was supported by the current political regime.

THE INVESTOR PERSPECTIVE: THE WEEDS OF INVESTING

In light of the high transaction costs and potential duplicity, what should Christian investors contemplate before diving into the weeds of public-private partnerships that sponsor SIBs? First, wise decisions require information and Romans 13:1-7 suggests that we should be skeptical of institutions and their motives. Proverbs 15:22 suggests that Christian investors should seek wise counsel and decisions should emerge from faith (Hebrews 11:6) and discernment (1 John 4:1). Investors should investigate the private-public partnerships which sponsor SIBs to determine, to the best of their ability, if the structure addresses a social need that is in alignment with their values.

Second, traditional bondholders are not viewed as “owners” of the firm or as part of the investment com-

munity. As such, while SIB financing could present an opportunity for funding charitable initiatives, will this abrogate the responsibility of the average Christian investor to perform active acts of charity? Thomas Aquinas wrote that “each act of charity disposes to an increase of charity” and “charity makes man more ready to act again according to charity” (ST II-II, 24.6). Genesis 1:27-31 suggests we are stewards of God’s creation and we should actively provide for the poor, making active charitable acts of contribution. While SIB investing may be of good intention, Christians could elect to participate in investments with greater transparency around acts of charity.

MOVING FORWARD AND THE FUTURE OF SIBS

As with the Parable of the Tares (Matthew 13:24-30), investors cannot always root out those investment bankers who construct SIB deals that are ill-intentioned with respect to benchmarking risk and return. The tares were not uprooted but left to grow until harvest. Due to these complexities, what should the average Christian investor do?

Simpler Corporate SIB Design

Perhaps the Christian investor can search for simpler, more transparent investments. Learning from Rikers Island, two simpler quasi-SIB models may provide hope. First, Scotland’s Community Bond Fund is much simpler in design and attracts small investments from the community, thereby creating a loan fund for social enterprises with active involvement and oversight at the community level (Roy et al., 2018). Second, increasing accountability and social metrics is a good thing. In the state of California, an SIB aimed to reduce asthma-related emergencies in children was supported by the California Endowment *prior* to social bond issuance (Shah & Costa, 2013). This model of “grant-to-social impact bond” provides good programs with guidance for collecting data, creating reasonable metrics, and meeting necessary objectives for investor discernment.

The Future of SIB Investing

Even though the average investor cannot actively purchase an SIB, it should be investigated as a possible wave for future investing platforms. Proverbs 24:3-4 suggests that you should not invest in anything you do not understand. If an SIB’s structure or benchmarking is not

transparent, carefully scrutinize your investments if you hold funds at private institutions who structure SIBs. Diversify investments (Ecclesiastes 11:1-2) across securities and funds that may provide acceptable returns based on individual social justice niches (Proverbs 16:8). SIB and corporate bond investors are not considered “owners” of the corporation or project. Investment is more passive. To actively live a faith-filled financial planning structure, financial planners and watch-dog organizations need to analyze and advocate for biblically responsible investments by diving into the details.

As the Gospel of Matthew transitions from the old to the new, SIBs exemplify a new twist to social financing. But, there are many new initiatives that can be closer to home. For example, the Dominican sisters committed \$46 million to seed Climate Solutions Funds in alliance with Graystone Consulting Group, a women-led consulting practice, and Morgan Stanley (Buxton, 2020). It was launched on the fifth anniversary of Pope Francis’ *Laudato Si* and integrated the United Nation’s Sustainable Development Goals.

Breaking with bond market traditions, SIB development may be a story of small beginnings and greater ends. The story of the mustard seed highlights how something that might start small does not stay that way. Perhaps SIB investing is planting a seed which will lead towards greater future returns in solving key societal issues. But like a farmer knows well, it takes time to cultivate and care for the soil for crops to emerge. Continue to invest in charitable acts of community through the gift of time and endorsement of funds that espouse Christian values.

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