

A Work Project, presented as part of the requirements for the Award of a Master's Degree in
Management from the NOVA – School of Business and Economics.

Social Impact Bond (SIB) Feasibility Study

The Berlin SIB

Improving the delivery of social services with enhanced outcomes for refugee employment

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23.05.2018

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Abstract

Numerous immense social and environmental challenges remain unsolved and threaten the well-being and welfare of planet and humanity. In the wake of austerity, contractionary fiscal policies are the norm and public sector spending is scarce. In consequence, impact-driven organizations are chronically underfunded to adequately solve societal challenges. To resolve this issue Social Impact Bonds (SIBs) are an innovative financial mechanism to finance the delivery of social services. This work builds the evidence base for impact investing through SIBs. Therefore, this thesis investigates the SIB model's feasibility for financing the delivery of innovative social services for refugee employment in Germany.

Key words: Social Impact Bonds, Migration, Integration, Employment

Foreword and acknowledgements

I would like to extend my deepest gratitude to António Miguel for the guidance and mentoring over the past months. On top, I am thankful for the warm welcome I received from the team at Maze – Decoding Impact. Naturally, I am very grateful for my family's support during this Master program. Above all, thanks to my dad and my grandma! Special appreciation goes out to LP, Erdmann, Larry B Andersen, and the Accountant. Lastly, none of this would have been possible without my wonderful girlfriend Emma.

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1. Introduction

Today's global migration crisis is fuelled by war and prosecution around the globe. Worldwide more than 65.6mn people are forcibly displaced (UNHCR, 2017). This includes 22.5mn refugees out of which 17% are hosted in the European Union (EU). More than half are children. Germany is the prime destination for asylum seekers and asylum claims and grants skyrocketed in 2015 and 2016 culminating in an intake of roughly 1.2mn refugees in Germany (OECD, 2017). The result is a monumental integration challenge. These problems are numerous and manifold: accommodation, education, employment and determination of legal status. Although, Germany's current economic and labour market outlook favours the integration of refugees, funding for integration remains scarce. This is in no small part due to the high costs associated with integration estimated to be as high as 50bn EUR for the years 2016 and 2017 according to the DIW, the German Institute for Economic Research (DIW, 2016). Moreover, the Kiel Institute for the World Economy (IfW) states the yearly costs for integration at 55bn EUR annually until 2022 (IfW, 2015). Against the backdrop of this juxtaposition SIBs are an innovative means for financing the integration challenge.

SIBs are central to today's impact investing debate. Overall, the strategy for global development is based on three pillars. The UN 2030 Sustainable Development Goals (SDGs), the COP 21 Paris Climate Agreement and the Addis Ababa Action Agenda. Particularly the latter provides guidance on finance and investing to advance progress. The central tenets are to "*strengthen public policies, regulatory frameworks and finance at all levels*" and to "*unlock the transformative potential of people and the private sector*" (Addis Agenda, 2017, p.3). SIBs fit all the above points and thus function as enablers to unlock the private sector's potential in delivering social goods. Moreover, SIBs are not only ideal for financing but to act as means of social innovation as well. Therefore, the SIB model is ideal to finance the delivery of social services and to inform policy-making and regulatory reform. Overall, the need for a sustainable

financial system is more relevant than ever. Therefore, the social investment market and impact investing through SIBs are the necessary enablers to catalyze the force of finance for good. Ultimately, this SIB covers five SDGs:

Figure 1: – Sustainable Development Goals



The proposed research entertains a proactive approach and is a practical contribution to the SIB debate. Overall, the aim of this thesis is to explore the applicability and feasibility of the SIB model for financing social interventions. Doing so this feasibility study is focused on refugee integration and related social services delivery in Germany, more precisely on how to best increase employment rates of migrants. Today, there is an important research gap to fill. Given the social investment market's infancy, actors in the sector are missing practical, empirical evidence and best practices to apply SIBs most appropriately (Dear et al, 2016). Therefore, this paper aims to fill this gap by gathering substantive empirical data through a comprehensive SIB feasibility study. The overarching research question thus formulates: What are the critical success factors of this SIB? To answer this question, this thesis investigates the SIB model for financing social interventions on the subject of refugee labor market integration in Germany. Fundamentally, this thesis is based on the assumption that the power of capital markets can be harnessed to a greater extent than the accumulation of wealth.

2. Methodology

This Masters in Management Thesis is the final product of a Directed Research Internship (DRI) within the Social Impact Bond Research Programme by the former *Laboratório de Investimento Social*, which today is *Maze –Decoding Impact*. The programme aims at conducting feasibility studies for SIBs by *NOVA School of Business & Economics* Master students to develop the European social investment market.

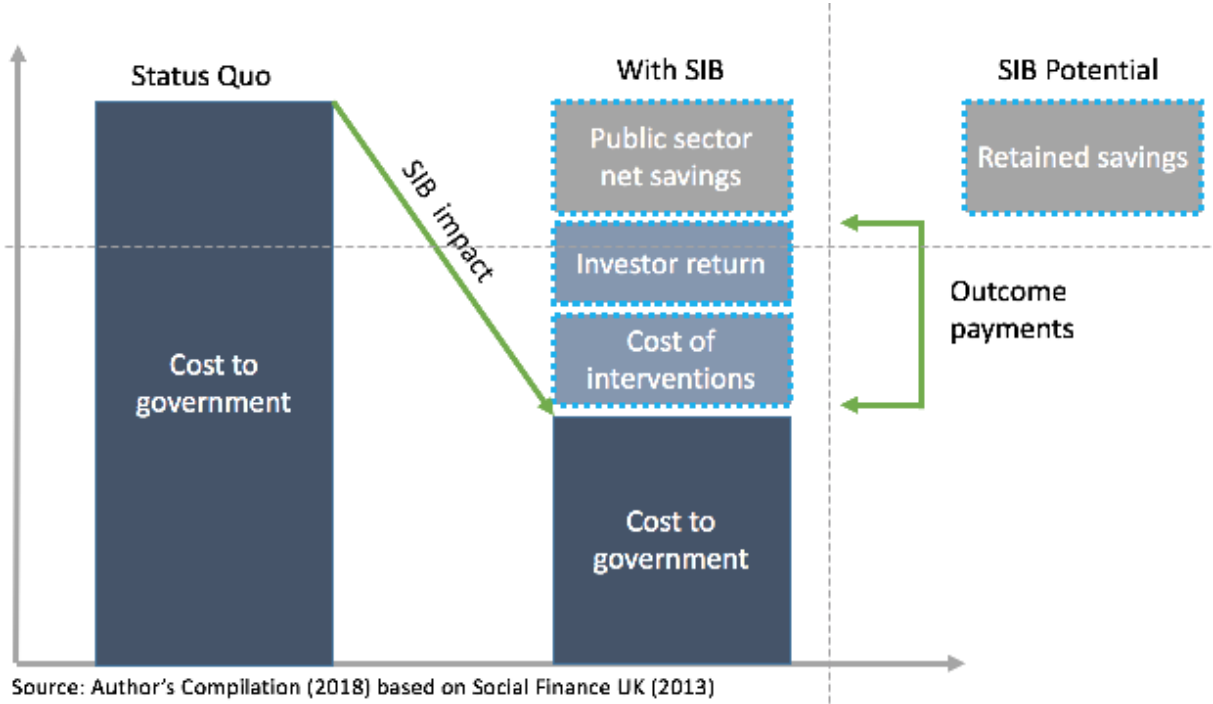
This thesis is based on primary and secondary sources. Primary sources include: European and German national registries on immigration and social benefits as well as interviews conducted by the author with relevant people such as fund managers, social service providers and government officials. Secondary sources are: scholarly research, academic journals, books and newspaper articles. The main methods of data collection are desk research and semi-structured in-person and telephone interviews. Regular workshops on financial modelling and SIBs were part of the DRI. Additionally, fortnightly meetings with the academic supervisor and Director of *Maze* António Miguel were held to provide mentorship and guidance throughout the DRI. To sum up, this feasibility study first, explains the concept of SIBs; second, provides a state-of-the-art literature review on SIBs; third, investigates the public service area to improve and defines the social problem; fourth, identifies an intervention model and establishes outcome metrics; fifth, develops the SIB business case and lastly provides conclusions and recommendations on programme design, procurement and contracting. Structure and methodology are adapted from Social Finance UK best practices (Barclay & Simons, 2013).

3. What are Social Impact Bonds

Pioneered by Social Finance UK in 2010 the concept of SIBs gained traction in 2013 with the launch of the Social Impact Investing Task Force 2013 along the lines of the UK G8 presidency. The OECD finds that *SIBS “combine three core elements in a single tool: entrepreneurship, innovation and investment”* (OECD, 2016, p.4)

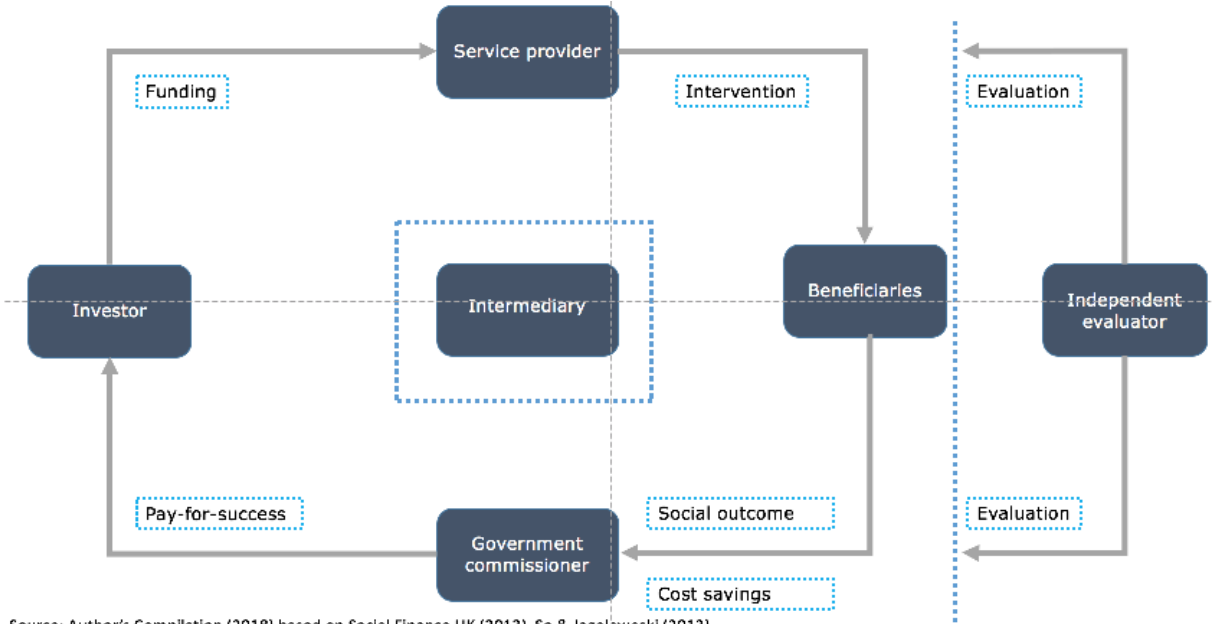
To start off with, the SIB model is an innovative social finance construct based on a pay-for-success regime commissioned by public authorities to provide social services. Whilst the term bond is misleading the model leverages private capital via a simple investment structure to cover up-front costs of welfare services. This improves social outcomes by funding social organizations and accrues future cost savings to society. Costs are outsourced to investors hence decreasing the risk in public service innovation. Furthermore, SIBs represent an opportunity to

do evidence-based social policy to fund social services that are chronically underfunded in the current environment of fiscal recalibration, welfare withdrawal and the overall macroeconomic picture of crisis and cost-cutting states. Therefore, it is imperative that social investments yield the necessary and intended outcomes. Moreover, SIBs are the ideal instrument for early or preventive interventions. In consequence, governments can avert costly reactive interventions to matured social problems. Scholars at the MaRS Center for Impact Investing argue: *“the cost savings generated from tackling the root cause of a negative outcome provides the financial incentive for governments to capture this value and look for new ways to fund it”* (So & Jagelewski, 2013, p.6). Figure 2– Social Impact Bond impact and savings



First, the commissioner agrees on a pay-for-success-based model with all relevant parties such as investors and service providers. Second, the social service provider agrees to receive funds and provide the social service to its beneficiaries. Third, an independent evaluator assesses the outcomes on beneficiaries to inform performance management and analyses whether outcomes targets are achieved. Fourth, in case of successful delivery and achievement of outcomes the commissioner reimburses the investor’s upfront payment plus a premium, which is financed by

a portion of the commissioner’s cost savings. Generally, the financial return is subject to the achieved outcomes. Therefore, the term bond is misleading as the construct is not a bond per se as the return on investment depends exclusively on outcomes. Moreover, SIBs are not subject to interest rate risk or market risk. However, SIBs are still exposed to default and inflation risk. In short, the SIB model functions are illustrated below. Figure 3: SIB model



Source: Author’s Compilation (2018) based on Social Finance UK (2013), So & Jagelweski (2013)

To sum up the main goals of SIB financing models are: First, SIBs align the interests and operations of public, private and social organizations to achieve better social outcomes. Second, SIBs enhance funding to innovate and potentially scale the delivery of social services. Third, the SIB model creates an environment for entrepreneurship and innovation to thrive with a focus on adequate solutions and improved outcomes. Fourth, SIBs have a strong collaborative aspect. Pooling resources and tapping synergies improves the delivery of social services. Fifth, the SIB model allows for more rigour and scrutiny of impact analysis, which in turn lays the basis to improve the effectiveness and efficiency of social services. Sixth, clear and concise outcome measurements catalyse investments into the social sector.

4. Literature Review

In recent years Social Impact Bonds (SIBs) have received much attention from scholars and practitioners alike. Given the relative infancy of this financial construct, practical evidence and in-depth scholarly analysis remains scarce with only few evaluations of on-going SIBs. On the contrary, the global impact bond market is proliferating at high pace. In 2017, 32 new SIBs were procured rising to a worldwide total of 108 SIBs with many more up and coming.

At Brookings Gustafsson-Wright, Gardiner & Pitcha (2015) provide an in-depth analysis of “The Potential and Limitations of Impact Bonds”. Additionally, Emilie Goodall from Bridges Ventures authored “A Practitioner’s Guide” to SIBs (2014). Moreover, in the white paper “Better Outcomes, Better Value”, Bridges Ventures examines the evolution of SIBs in the UK (Bridges Ventures, 2016). At Social Finance UK Barclay & Symons offer a “Technical Guide to Developing Social Impact Bonds” (2013). Furthermore, Dear et al. (2016) from Social Finance UK provide a thorough account of the current state of play of SIBs.

On the one hand, academic literature widely agrees that the SIB financing model allows for improved results by aligning and enabling the three main parties concerned. First, the scheme allows commissioners to “*focus resources on outcomes*”, “*invest in intervention and preventative services*” and to “*stimulate innovation*” (Goodall, 2014, p.7). Second, service providers “*have scope to innovate*” and the ability to “*grow services*” (ibid, 2014, p.9). Third, investors have the opportunity to “*link financial returns to social outcomes*” and to “*catalyse entrepreneurial solutions*” (ibid, p.11). What’s more, SIB financing allow for testing of interventions. Against the background of scarce state funding and the public sector’s reluctance to invest, this is a particularly powerful tool. SIBs provide the opportunity to investigate what works and at which costs whilst limiting the financial risk to the public sector.

Goodall points to a number of case studies such as Career Connect, Utah High Preschool Program, Multi-Systemic Therapy, and Teens & Toddlers Innovation, illustrating the numerous benefits and added-value of SIB-financed solutions for social problems. Moreover, Gustafsson-

Wright et al. attempt a general evaluation of SIBs to date and conclude that SIBs provided the following positive evidence. Generally, SIBs *“focus on outcomes, drive performance management, incentivize collaboration, build a culture of monitoring and evaluation, invest in prevention and reduce risk for government”* (Gustafsson-Wright et al, 2017, p. 13). On the other hand, SIBs missed to provide evidence to *“crowd in private funding, achieve scale, support experimental interventions and sustain impact”* (ibid, p.13).

Academic and practical reflections on SIBs also produced various critiques. Amongst the most prominent concerns is the fear of privatization of public service delivery. In short, the argument is that private investors make profits on social problems. Mission drift within social organizations due to profit motives is another major concern. In addition, critics argue that the SIB model’s strong focus on outcomes is not positive at all as it leads to a form of cherry picking as only easily solvable problems are addressed (OECD, 2016, p.19). Moreover, the market for SIB financing is limited as pay-for-success schemes work best when cashable savings incur to the government. Others point out that *“the focus on cashable savings needlessly imposes the economic logic of the investor onto the government commissioner”* (Brown, 2013). In turn, this limits a SIB’s purpose to saving the government money, whilst in fact the other important purpose is to drive public sector intervention. Along those lines, the save-today-pay-tomorrow has its drawbacks as commissioners tend to be sceptical about how and when savings materialize in the future. Today’s limited evidence base aggravates this concern. To sum up the argument Brown holds that, *“focusing on cashable savings risks limiting the scope and viability of SIBs as well as misrepresenting their main purpose which is to drive social innovation”* (ibid, 2013).

According to Bridges Ventures the SIB model is steadily growing more efficient (2016) and *“SIB-funded programmes have already had a powerful positive impact”* (ibid, p.6). Nonetheless, the white paper recognized scope for improvement in three important areas. First,

the market needs to grow more efficient. Changing role of intermediaries from all-rounder market makers to specialist advisors, “*preventing conflicts of interest, speeding up development times, reducing costs*” (ibid, p.6). Second, the SIB model needs to be applied more broadly. Widening its scope would unlock vast opportunities for social outcomes and it “*may even prompt a paradigm shift in the way we tackle big social challenges*” (ibid). Moreover, the authors state that “*there is a substantial opportunity for outcomes contracts in improving existing services, i.e. in helping commissioners achieve better results where they already have a targeted spend*”. Third, SIBs need to create more value. The authors argue that for SIBs to “*succeed at scale*” the model needs to enhance social and financial outcomes for commissioners vis-à-vis alternative financing mechanisms. To that end, “*if the SIB fails to deliver demonstrably better results than the commissioner’s ‘best available comparable option’, the additional cost to the government should always be zero*” (ibid, p.6).

Bridges Ventures points to the fact that the “*best outcomes contracts use staggered payments*”. That is to say that commissioners “*pay for milestones reached along the way*” provided that each milestone is a step towards the achievement of the ultimate outcome, which is shared by investor and commissioner. Results include discipline on the provider, greater efficiency, reduced working capital needs, keep costs down and feedback, evaluation and adaption (Bridges Ventures, 2016).

In their “Technical Guide to Developing SIBs” Barclay & Simons (2013) portray the SIB development process. It’s important to note that SIBs “*will not apply in all circumstances*” and “*in many areas, traditional funding (...) remains most appropriate*”. Therefore, proper investigation whether a SIB model is applicable is paramount. To do so, the two scholars set out an eight-step SIB development framework. First, it’s crucial to “*assess the service area that needs reshaping*”. Ideally, this is a “*discussion as to whether an outcomes contract (...) is the best way to commission services*”. Consequently, the output should be an “*agreement to*

explore social investment options as part of the service redesign” (ibid, p.7). Second, SIB developers have to *“define the social issues”*. A *“defined target population and engaged commissioners”* should be the deliverables. To achieve these outputs analysis of population, macroeconomic, and social trends as well as costs is essential. Moreover, *“stakeholder engagement”* is vital *“to understand strategic objectives”* (ibid, p.7). The third point, namely the *“definition of outcome metrics”* deserves special attention so as to *“ensure success of interventions”* (p.7). These should be linked to investor payments to align interests, maximize the chance of success generating the right incentives for all parties involved. Fourth, *“defining the interventions”* determines not only which organization receives funding but also shape and scope of social service delivery. Fifth, *“assessing the value-for-money case”* ensures the social and economic feasibility of the SIB financing model. The goal is on the one hand to *“deliver cashable resource savings”* and on the other hand to *“finance innovation”* (p. 20). The main question is: *“Does the financing model generate savings to the local authority and a return for investors in an acceptable time frame?”* (ibid). Sixth, *“programme design”* portrays a *“detailed operating plan and payment terms”* to *“form the basis of the SIB contract”* (ibid, p.21). The operating plan builds on the *“initial recommendations made in the value-for-money case to a detailed plan”* taking into account various steps such as caseload assumptions on initial capital expenditure or set-up costs, coordination with existing services and service delivery partners as well as performance management. Moreover, illustrating clearly the payment mechanism is vital to ensure correct reimbursement of investors. To that end the timing of payments and above all appropriate outcome metrics and outcome measurement are crucial. The ultimate output of the programme design is the term sheet that *“summarises the main elements of the SIB contract”* (ibid, p.23) to kick off the investment raising. Seventh, *“procurement”* of an SIB vary and types of contracts include Special Purpose Vehicles (SPVs) or direct contracts between commissioner and service providers. Generally, however, the public

sector commissioner will launch an official procurement process to initiate procurement in order to officially contract a “*social-investment backed provider to deliver the SIB outcomes contract*” (ibid, p.24) (For a more detailed overview please see: Commissioning Social Impact Bonds, Social Finance UK, 2011). Eight, “*contracting*” is the last part of SIB development with two main outputs. One, “*the development of the SIB outcomes contract*” and two, “*the principles behind the SIB governance structure*” (ibid, p. 25). The prior relates key contract clauses such as objectives, investment amount, time frame, intervention, etc. whereas the aim of the latter is to “*ensure that the relative needs of each party*” are met. This happens generally on two levels. First, on the strategic level this means i.e. “*review of contract performance*” or “*implications of wider policy development*” (ibid, p. 26). Second, on the operational level contracting includes simple “*contract management, review of referral processes, multi-agency advice on cases*”, etc. (ibid). Lastly, the signed contract allows for the start of formal fundraising to initiate the intervention. To sum up, academia and practitioners alike agree that SIBs are an attractive means of funding the delivery of social services vis-à-vis financially constrained public budgets. However, controversial aspects remain, which is why feasibility studies such as this are imperative to the success of SIBs and essential to prevent the simple privatization of public services. All in all, the design, applicability and feasibility of a SIB construct determine its success.

4. Understanding the Social Problem

Although asylum applications have decreased in 2017, the chances of successfully and sustainably returning most migrants to their countries of origin are very slim. Most are here to stay. Therefore, there is a need for comprehensive and cohesive long-term integration. Currently, the situation is not adequately addressed. Furthermore, the issue of migrant integration is ambiguous and relates to housing, education, job access, healthcare, high public spending, cultural differences, and many more. Whilst all of these aspects deserve attention,

this SIB investigates the feasibility of an intervention to tackle labour market integration. The reason for this lies in the high costs incurred to the government. Unemployment generally results in three main cost drivers for the government: first, expenditure on unemployment and social benefits; second, administrative costs associated to benefit payout; and third, missed tax revenue. The Center for Economics Studies (CES) estimates the annual government costs per refugee to be 19.181.00 € (CES, 2015). The DIW, however, states the costs per refugees to be an estimated 12.000.00 € per annum (DIW, 2015). Under conservative estimates this amounts to 12.000.000.000.00 € annually, with much higher negative externalities and spill-overs as a result of unsuccessful integration (Bratsberg et al, 2016). The situation is complicated, expensive and is further entangled by two main systemic root causes. First, an under supply of language courses and long waiting times for these and no work-related courses. Second, the inability of migrants to navigate the multi-faceted and complex German job market. Moreover, local authorities are pressured to deliver social services to migrants such as training, housing, healthcare and employment and pay-out of benefits. However, these agencies have little experience, are overburdened and underfunded. In consequence, human, social and economic capital is wasted. This is particularly absurd given that roughly 1mn jobs are vacant in Germany today. In sum, the situation demands innovative public policies, fresh financing and social service delivery at its best. The question now is, how to provide solutions to solve the language skills issue and the job market access problem. However, there is opportunity in adversity. Through this SIB, two social ventures with a strong and proven intervention model can be financed to provide social services to migrants and prevent the situation from aggravating and prevent exacerbated future costs to state and society. Innovating for better migrant outcomes is essential for the functioning of the German society, economic growth and individual well-being. Therefore, this thesis suggests a long-term preventative approach targeting the needs of

migrants and promoting their integration addressing the two main problems namely, language skills and job market entry.

To guarantee the best possible results of this SIB, it is crucial to adequately frame and scope the target audience. To that end, this SIB takes into account the following considerations. First, the geographical scope is the city state of Berlin, for two reasons: one, it is the German state with the highest unemployment rate (migrants and natives); two, it is the state with the highest per-capita migrant influx. Second, only migrants from the age of 18 to 29 are considered, as those are most likely to render the highest cost savings to the state in the long-term. Third, all participants have to have the legal right-to-stay and must be receiving unemployment and social benefits according to German law.

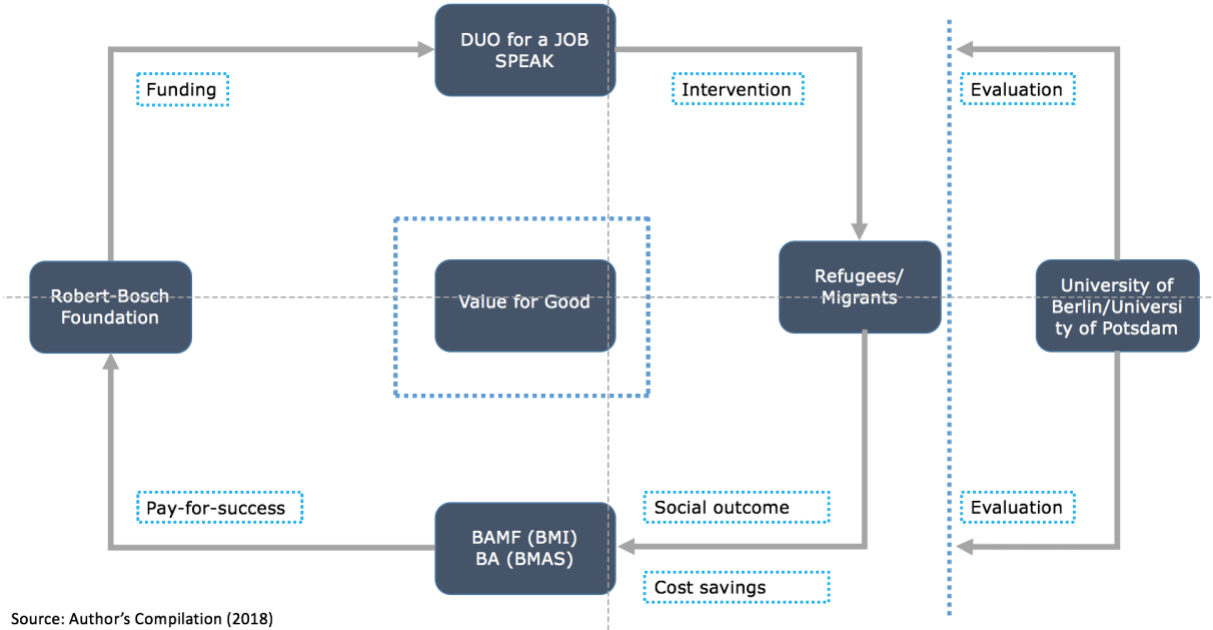
Currently, outcomes for refugees looking for employment in Germany show a mixed picture. Today, around 9% of registered job seekers are refugees (OECD, 2017). The Bundesamt für Migration und Flüchtlinge (BAMF), that is the state office for migration and refugees, provides language and integration courses, with lukewarm results. The BAMF budget for integration courses in 2017 was 1.020.000.000.00 €. Moreover, methods of data collection are inadequate and their services are not likely to improve without drastic innovation (Schroeder, 2017). BAMF courses typically conclude with the DTZ, a final test awarding A2 or B1 certifications. 40.08% pass with B1, whilst another 33.7% receive A2. These numbers are not tangible at all as they include an unspecified number of retakes. Even worse, many do not even sign up for these tests, which is also an unknown number. In sum, outcomes and outcomes measurement at the BAMF are questionable at best. Next, the Bundesagentur für Arbeit (BA), that is the state agency for employment, is responsible for providing labour market entry assistance and services. Whilst no clear data is available on how successful the BA is in putting refugees into work, it is known that in March 2018, the BA had a y-o-y success rate of 13.04% to employ the age group 15 to 25. This includes refugees and natives alike. What's known from other EU

countries, the success rate of refugee labour market integration in the first year ranges from 15%-25% (OECD, 2017). The Belgian employment agency Actiris has a success rate of roughly 25% (Simonart, 2018). To sum up, the efficiency of German labour market integration could be better comparing Belgium and Germany. To conclude, the the Federal Audit Office stated in 2017 that one should assume that “a large chunk of the committed funds missed the mark” (Zeit, 2017), which demonstrates the need for innovation and enhanced efficiency of social services. A 2016 BAMF survey found that professional integration is the most desired wish amongst refugees (Worbs und Bund, 2016). Thus, the next section illustrates this SIB’s intervention model to facilitate labor market entry of refugees.

5. Identifying a Strong Intervention Model

To start off with, the status quo of social services aimed at professional integration needs to be improved. Whilst BAMF and BA alongside jobcenters are working hard to achieve better outcomes, two main problems with the status quo are identified. First, the BAMF is not measuring outcomes adequately. It is not known how effective language and integration courses are. Second, the BA and jobcenters are not efficient enough, resulting in high government costs. To tackle both aspects, this intervention model combines the two main promises of a SIB. On the one hand, this intervention offers innovation for better outcomes measurement, on the other hand this intervention offers cashable cost savings by delivering better outcomes vis-a-vis state services. To tackle the two-sided issue of insufficient language skills and inadequate knowledge to navigate the job market, a two-pronged approach is suggested. First, the Portuguese social business SPEAK perfectly addresses the language skills issue. Second, the Belgian social venture DUO for a JOB has established a track record of successfully providing mentorship to migrants facilitating job market access. This section explains first the two interventions and how better outcomes are achieved. Second, the services of SPEAK and DUO are combined for

the intervention model of the SIB. This graph presents an overview of potential players involved: Figure 4: Berlin SIB model



Source: Author's Compilation (2018)

SPEAK is a Portuguese-founded social business headquartered in Lisbon operating in 10 European cities with a customer base of 13.900 people from 147 countries. SPEAK is a “linguistic and cultural program”, which aims to “promote the inclusion and sense of belonging of migrants, refugees and expats, so that they live in harmony with their communities” (SPEAK, 2017, p.2). SPEAK language courses span three months, covering 18 90-minutes classes and courses are given by migrants and locals for migrants and local within each community with a minimum of four and a maximum of 15 students (ibid, 2017). First, language courses are aimed to “break the language barrier with an informal and innovative methodology”. Second, the creation of “networks between migrants/refugees and locals” to promote integration. In detail, SPEAK states that participants have a 15% “improvement in the sense of belonging to the local community”, a 30% “decrease in linguistic barriers” and a 40% increased “sense of valorization of culture of each participant” (ibid, p.3). Additionally, SPEAK just expanded to Berlin in 2017. SPEAK differentiates itself through being a very low-cost alternative as the program costs only 25,00 € per participant, and through an online2offline business model with which

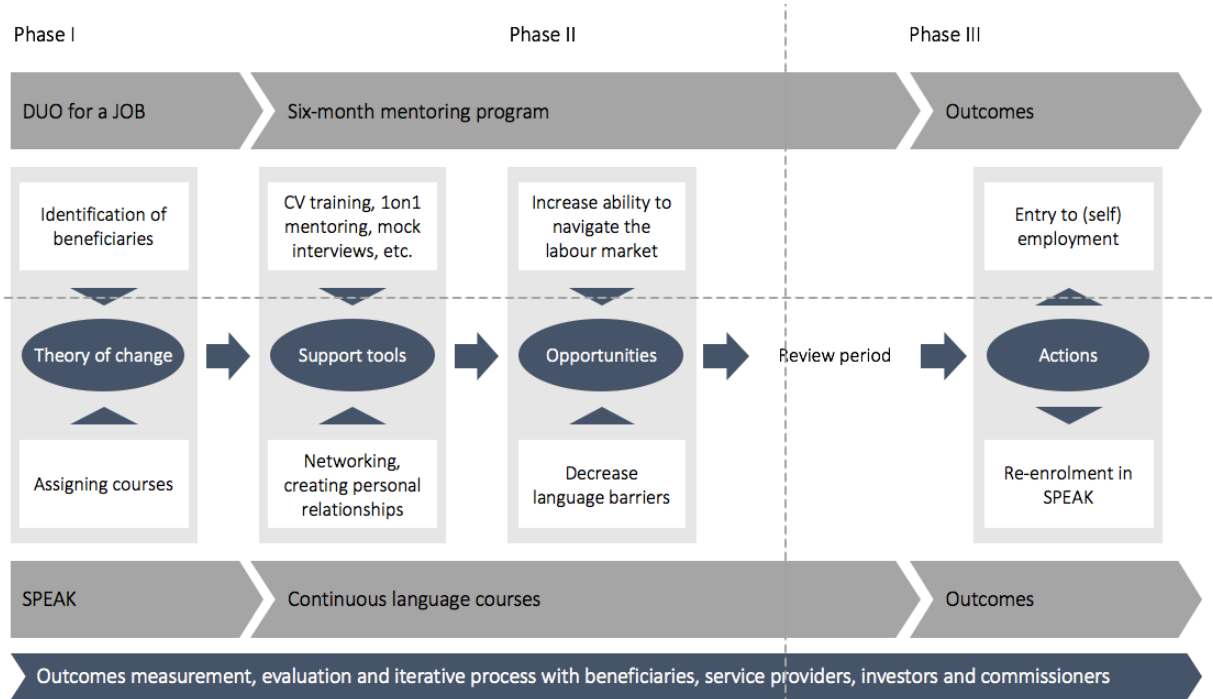
administrative costs are minimized. “Removing the target population’s purchasing power from the equation” creates a clear connection between social impact and sustainability. Ultimately, SPEAK’s financial returns depend on the ability “to satisfy the largest possible number of participants” (ibid, p.7). The major drawback of SPEAK’s intervention is that its outcomes are hard to measure. Aforementioned outcomes are measured through qualitative participant questionnaires. SPEAK courses do not conclude with an officially approved language test and certificate based on CEFR, the Common European Framework of Reference for Languages. Interestingly, however, the company is looking for funding to scale their German operations. Ultimately, this is the ideal case for SIB-financing as the company provides innovative solutions to a public service area that needs reshaping.

Next to SPEAK, DUO for a JOB is a social business that provides intergenerational coaching to young migrants helping them to enter the local job market. This mentoring programme “facilitates the future employment of young people” whilst providing elderly citizens with the opportunity to engage. DUO started with SIB financing in 2014 in Brussels, Belgium, a region with high youth unemployment, particularly amongst migrants and one of Europe’s lowest employment rates of elders aged 55-64. DUO combines these two problems and creates an opportunity in which knowledge is retained and passed on towards people lacking the skills and experience to find employment. DUO is highly successful and has programs in all major Belgian urban areas and is venturing into Italy and France. In 2016, the number of duos grew by 60% y-o-y. Overall, DUO’s impact culminates in a 44% employment rate after six months and a 53% employment rate after 12 months accompanied by a 22% and 20% access rate to trainings and placements, respectively. DUO’s intervention is twice as successful as the current service delivery of Actiris, the Brussels region employment agency (Simonart, 2018). Roughly a quarter is in permanent jobs and a third is in temporary contracts. On the other hand, 27% remain unemployed. However, another 18% return to education and some turn entrepreneurs

and start their own business. Currently, the organization is financed completely through endowments and grants of which 80% are from the private sector and 20% from Actiris, the commissioner of the DUO SIB. This share is constantly increasing according to Frédéric Simonart, CEO and founder of DUO. The intervention itself is simple. Over a six-month program pairs of mentors and mentees are formed, which have at least four weekly contact hours. These are free for mentors and mentee to share, discuss and work individually. On top, the programme includes CV reviews and workshops, practice interviews, career coaching, speech therapy and a housing guide. In Belgium mentees are provided with introductory courses to business administration and entrepreneurship in partnership with the social organization Youthstart. However, the true value lies in personal activities and support such as translation, proof-reading, accompanying mentees, legal, administrative and accounting help or simply a trustful person. Furthermore, at the beginning of each cohort, the mentors receive in-depth training and are constantly supported throughout the program by DUO staff. Combining SPEAK and DUO to improve labour market access of refugees in Germany leads to the following intervention model.

The program methodology merges the mentorship programme of DUO and SPEAK's language courses. The SIB-financed target group continuously takes part in the 6-month DUO mentor program until employment is found. On the side, the target group joins SPEAK language courses. Both interventions work towards the same aim, namely fast-track refugees' entry to the labour market. The program lasts four years, with each duo lasting six months accompanied with continuous SPEAK courses over the span of four years. The program is designed to cover five cohorts, each starting semi-annually. In sum, each cohort is in the program for two years. In short, the base case scenario of the intervention employs 943 people out of 1000 after four years, compared to 712 employed through current public services. 231 more people in employment or outcomes that 23,1% better vis-à-vis current public services.

To assess the success of this intervention the following measurement framework is most suitable. To start off with, a reference group is set up and surveyed over the intervention’s time frame. This reference group follows status quo public services provided by BAMF, BA and jobcenters. Next to that, the target group following the intervention’s various cohorts is examined at the end of each duo, that is each six months. Similarly, stocktaking of the government’s service provision is conducted via semi-annual assessment of the reference group. As a result, this clear and concise framework allows for the precise measurement of the intervention’s success. The data gathered throughout the SIB can be easily compared to large data pools of BAMF and BA. Moreover, objective measures include BA statistics showing the number of refugees receiving unemployment and social benefits. The following graph demonstrates the client journey of the target group. Figure 5: SIB intervention model



Source: Author’s Compilation (2018)

To conclude this intervention rests on qualitative and quantitative business-oriented assumptions. These are further explained in the next section to illustrate the economics of the intervention and how the financials play out over the four-year program.

6. Developing a SIB Business Case

This business case analysis rests on a dynamic financial model built with Excel. This model is the key output of this work and lays the ideal basis for further applied, real-life investigation of the problem set in order to realize this SIB. Above all, the excel simulates the financial and social returns of this SIB financing model. Overall, the financial model proves the compelling business case of this SIB. Ultimately, the financial model connects the funding flows necessary for DUO and SPEAK to deliver their services and achieve social impact. Additionally, the model reflects on the intervention costs, the required up-front investment, the cost savings accrued to the government, and the investor returns. Figure 1 in the What are Social Impact Bonds? Section illustrates the value-for-money calculation rationale. Please see the annex for a precise breakdown of inputs and outputs of the model.

The financial model includes four sheets: an input sheet for general data, program inputs specifying success rates of intervention cohorts and status quo services, an outcomes input sheet showing the revenues and costs of intervention vis-à-vis status quo, and a sheet showing the financial statements from an investor perspective. The necessary assumptions and data to model the intervention costs were gathered through interviews with SPEAK COO Pedro Tunes and DUO CEO Frédéric Simonart. Other caseload assumptions stem from interviews with BA and BAMF employees as well as available scholarly literature. The core part of the model is the financial statements sheet. Combining inputs such as intervention costs, status quo costs, intervention outcomes and project length, cohort size, state tariff, taxes, cash flow delay, the financial statements allow for insights regarding the total delivery costs, investor requirement, project surplus and investor IRR. The following scenario analysis portrays three different cases in an optimistic scenario, a base case and a pessimistic scenario. This provides the reader with an overview of caseload assumptions, the critical variables and their sensitivity.

Table 1: Scenario analysis

	Pessimistic	Realistic	Optimistic
Intervention Model			
Inputs			
Intervention Success Rate	50%	60%	70%
State tariff	80%	80%	80%
Time to Outcome	6 Months	6 Months	6 Months
Refugee Costs	12.000,00 €	12.000,00 €	12.000,00 €
Cohort Size	1200	1200	1200
Project Overview			
Refugees Employed	1065	1131	1171
Maximum Contract Value	3.766.048,77 €	5.370.279,15 €	6.656.397,57 €
Project Costs	2.453.500,00 €	2.258.000,00 €	2.040.700,00 €
Investor Requirement	-751.813,51 €	-669.901,92 €	-616.630,14 €
Financial Outputs			
IRR	33%	142%	260%
Investment Multiple	1,7x	4,7x	7,4x
Potential lowest state tariff for 1% IRR	68%	44%	33%
Outcomes per target	17.846,75 €	19.379,07 €	20.998,27 €

From this scenario analysis one can conclude that the key variable is the intervention's success rate. On top, the realistic and optimistic scenarios allow for an increase in retained earnings for the state as IRR and investment multiples are very positive. It's important to note, that although cohort size remains constant, investor requirement goes down due to an increase in success rate. In other words, cash flows occur earlier so that less upfront funding is needed for a shorter period of time. Similarly, investors are paid out earlier. Moreover, 22.443 people in Berlin were eligible to start the integration course in 2017 with subsidies from the government (BA, 2017). Being eligible for a subsidized integration course means one is receiving unemployment and social benefits. In consequence, one can deduce the market size for this intervention. In turn, demand for this intervention is high and the more people participate, the higher the investor IRR and the social outcome. In the base scenario the up-front investment amount required from investors to start the project amounts 669.901,92 €. Investors are paid back a premium on their investment representing an IRR of 142%. Moreover, investors start receiving payments 11

months after their up-front investments and break-even 23 months after the investment. Furthermore, the project has a total surplus of 3.144.479,15 €. If the government pays a 100% tariff on the outcomes, no cashable savings are retained by the state, but still a social problem is solved. With an 80% pay-out as simulated in the scenarios, 2.515.583,32 € are paid out to investors whereas 628.895,83 are cashable savings for the state. This means that the government departments that will financially benefit if the social outcomes are achieved are first, the state agency for employment under the supervision of the state ministry of interior, and second, the state office for migration and refugees under the supervision of the state ministry of employment and social affairs. Due to complex country-specific relationships between the German federal government and states, who share the financial burden for above mentioned social services, further research needs to be conducted to identify which state entity is the most feasible commissioner. To conclude, the financial modelling portrays feasible costs and benefits of the intervention. The following section sums up the main findings and concludes with final recommendations.

7. Conclusions and Recommendations

Today, the conditions for integrating refugees into the German labour market are very positive (OECD, 2017). However, due to rigid public sector structures an answer to the integration question is only coming about slowly. Against this background, SIBs are the ideal tool for public sector innovation. This SIB combines the dual purpose of SIBs as it first, aims to innovate the BAMF's language and integration courses through SPEAK and second, accrues cost savings to the government through more efficient services. Hence, this SIB is the perfect case study to further build the evidence base of social investment in Germany.

The track record of both social businesses demonstrate the potential of SPEAK and DUO, but further empirical data is needed to validate the underlying assumptions of this SIB and to test the overall working hypothesis of the intervention model. To that end, a small-scale pilot is

recommended to inform further financial modelling and to improve the intervention model of this SIB. As the UNHCR finds, “*one particularly cost-efficient way of providing support is through mentorship programmes*” (OECD, UNHCR, 2018, p.18). In their most recent joint publication OECD and UNHCR underline the importance and (cost-)effectiveness of mentorship programmes similar to DUO’s (ibid), which further underpins the adequacy of this intervention. Due to the limits of this paper further research, in the form of aforementioned pilot needs to be conducted before this SIB can be realized. According to the OECD, continuous integration efforts should “*improve frameworks for integration management*” through “*data gathering, transparency of information*” and adequate “*measuring and evaluation*”. (OECD, 2017). Moreover, “*enhanced collaboration amongst actors*” is likely to facilitate better outcomes (ibid, 2017). Other than that, the OECD points to the importance to “*leverage civil society*” to bridge cultural divides and foster integration. The intervention proposed by this SIB touches on these pillars. First, this SIB provides new approaches to data collection, measurement and evaluation. To improve a SIB model’s success, transparent, tangible information of outcomes is essential to evaluate impact. Therefore, a clear measurement framework with concise outcome metrics is at the heart of this SIB and can improve the BAMF’s outcomes measurements. Second, combining actors from the social, public and private sector, this SIB fosters collaboration amongst stakeholders to align interests and to streamline efforts to achieve greater results. Third, this SIB leverages civic engagement through DUO’s mentorship program. It’s recommended that further refugee integration efforts include employers as well. Generally, SIBs have a two-fold purpose: on the one hand, that is to save government money and on the other hand to drive innovation in the social sector. This SIB’s two service delivery organizations approach this two-fold purpose. First, the DUO intervention delivers a social service more efficient and effective than current state-run provision of services. Second, the SPEAK intervention provides an innovative approach to language teaching.

Innovation is much needed in the competency area of the BAMF as their service provision is not scientifically surveyed. Hence, no clear data is available on the success of these services. What's known, however, is that outcomes are not as good as they potentially could be with SPEAK. Therefore, implementing SPEAK with transparent and accountable data collection methods and tangible statistics will innovate the service area of language course provision. Lastly, it is crucial to design this intervention in a way that allows “*systematic monitoring of performance and collection of data*” (Barclay & Simons, 2013). Therefore, a rigorous case-management system and clear governance structures of the financial construct and service providers is recommended. It's important to note that this paper acknowledges limitations due to its limited length and scope. First, the financial model is based on qualitative and quantitative assumptions. Although these are very conservative, their explanatory power is limited. The model does not account for a precise breakdown of cost factors, due to the limited amount of valid data attainable. Second, the interaction with potential commissioners was limited due to unclear competencies within the BAMF and BA. Additionally, potential investors were not approached during this feasibility study, however, SPEAK and DUO are both in need of funding and are generally open for SIB funding in Berlin. Hence, the next steps en route to implementation should be to discuss the project with all stakeholders in more detail, particularly with commissioners and potential investors to bring aforementioned pilot underway. To conclude, the Berlin SIB feasibility study demonstrates that SIB financing is appropriate and attainable for financing innovative solutions for the labour market entry of refugees in Germany. Lastly, the World Investment Report 2014 finds, the investment gap for achieving the SDGs amounts to 2.5tn USD. Therefore, SIBs are a potential instrument to channel investment towards achieving the SDGs. This feasibility study thus lays the basis for implementing the Berlin SIB to work towards the SDGs and to achieve better outcomes for refugees.

8. References

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