

The first German Social Impact Bond (SIB): The Augsburg pilot project

What can be done to make projects aimed at overcoming social challenges more effective and efficient? A pilot project in Augsburg may provide an answer to this very question. Launched in September 2013, it is the first project of its kind in Germany (and even in Continental Europe) to be implemented as a Social Impact Bond. The project is based on an agreement made with the public sector stipulating payment of a premium if predefined, empirically measurable objectives are achieved. Implementation is made possible through the support of non-profit financiers, whose upfront funding plus a small amount of interest is only repaid if the project is a success. Specialized organizations, e.g. non-statutory welfare service agencies, assume responsibility for operational implementation, while a neutral evaluator determines whether the objectives have been successfully achieved. The Eleven Augsburg project was initiated by the Bavarian State Ministry of Labor, Social and Family Affairs, and Integration (Bayerisches Staatsministerium für Arbeit und Soziales, Familie und Integration, StMAS) and Juvat gemeinnützige GmbH, a non-profit subsidiary of the Benckiser Foundation Future.

The Social Impact Bond helps disadvantaged adolescents find employment and apprenticeship opportunities

The pilot project focuses on disadvantaged, unemployed adolescents who fall into the transitional category between needing vocational support and youth welfare services – an area that includes a relevant number of adolescents who tend not to be or are no longer being reached by the offerings available from the German Federal Employment Agency (Bundesagentur für Arbeit), Job Centers, or German Youth Welfare Offices. This target group initially flies under the radar because it is hardly visible. However, as years go by, it becomes drastically less likely that these adolescents will find an apprenticeship or employment, thus resulting in significant consequential costs for the public sector. Since the previously supported measures were unable to reach these adolescents, the situation lent itself to starting an exemplary pilot project using a Social Impact Bond.

How does a Social Impact Bond work?

The pilot project is based on an agreement between Juvat and the Bavarian State Ministry of Labor, Social and Family Affairs, and Integration (Bayerisches Staatsministerium für Arbeit und Soziales, Familie und Integration, StMAS). The agreement stipulates that during the term of the project a defined number of adolescents will be placed in apprenticeships or gainful employment – and that they will remain in these positions for more than nine months. The clearly formulated provisions regarding the objectives to be achieved and the characteristics of the target group guarantee that the success of the project can be definitively measured.

Two factors are critical to the success of implementing a Social Impact Bond: the public sector must make a clear, political declaration of intent and it must define a specific problem. The key performance indicators (KPIs) are directly derived from the content of the project and can be defined either in absolute figures or in terms of relative improvement (for example as compared to a control group). It is crucial that the field of action and the financial framework be defined by the public sector and not by any other involved parties such as the intermediary or the independent financiers. This allows the public sector to retain control over its sovereign tasks and fine-tune them with clearly formulated objectives. The incentive for the government to commission an SIB may be to avoid consequential economic costs by financing preventative measures – or the desire to additionally offer specific services and pay for them based on their success. In any case, the prerequisite for successfully structuring a SIB is to clearly define the relevant KPIs prior to starting the project, thus making the success measurable.

Four non-profit financiers provide upfront financing

The upfront financing for the pilot project in Augsburg is being provided by four non-profit organizations: BMW Foundation Herbert Quandt, BHF-BANK Foundation, BonVenture gemeinnützige GmbH, and the Eberhard von Kuenheim Foundation of BMW AG. These financiers are not only responsible for funding the SIB, but also assume the entire default risk. They are repaid their funding plus a small amount of interest if the defined KPIs are achieved. In the context of the upfront financing for the pilot project, there is one special characteristic that sets it apart from the current debate over the significance of private investors and the role they should play in implementing Social Impact Bonds: only non-profit organizations are investing in this project. This has two advantages: On the one hand, it brings about the much called for collaboration between civil society and the public sector. On the other hand, it reduces the often legitimate concerns about profit-driven private investors.

Individual support and guidance for adolescents

The four project partners entrusted with the operational implementation of the SIB – Ausbildungsmanagement Augsburg; Kinder-, Jugend- und Familienhilfe Hochzoll; apeiros e.V.; and Joblinge gemeinnützige AG München – have brought together target group-specific program modules from the areas of youth welfare, vocational support, and career guidance services. The participating adolescents are given a safe environment in which to anticipate the obstacles they can expect to face as they look for an apprenticeship or employment. They can then become aware of these obstacles and gradually develop stable options for dealing with them. After receiving intensive support and guidance, the adolescents are ultimately placed in an apprenticeship program or employment situation with follow-up support services.

Since the upfront financiers have assumed the default risk, the work of the project partners is reliably secured for the entire duration of the project. The participants benefit from the services offered no matter what – even if the agreed objectives are not achieved. Thanks to the secure financing and the unbureaucratic structure of the SIB pilot project, the project partners can completely focus their energy on the content of their work. Moreover, the ability to enter into partnerships without restrictions boosts the effectiveness, efficiency, and lasting impact of the implemented measures.

A neutral, third-party evaluator is absolutely essential

Since the public sector subsequently pays the agreed premium only if the predefined objectives are achieved, the evaluation of the SIB plays a pivotal role. The agreed target premium will only be paid to the financiers after success of the project has been determined by a neutral, third-party evaluator – in this case the Munich-based law firm Dr. Mohren & Partner. At the same time, an additional process evaluation conducted by the University of Hamburg provides important insight into the functional mechanisms of pay for success models.

The intermediary is contractual partner to the public sector

Juvat gemeinnützige GmbH assumes the role of an intermediary in the Social Impact Bond. It negotiated and concluded the contractual agreement with the public sector, recruited the investors, involved the project partners responsible for implementation, and worked together with the Bavarian State Ministry of Labor, Social and Family Affairs, and Integration (Bayerisches Staatsministerium für Arbeit und Soziales, Familie und Integration, StMAS) to commission the selected evaluators. It is currently supervising the implementation of the project and holding talks on setting up other Social Impact Bonds at the municipal, regional, and national level in Germany and neighboring countries.

The recirculation of funds increases the possibilities for social engagement

The public sector has limited funds with which to tackle its growing number of responsibilities for society as a whole. Social Impact Bonds such as the pilot project in Augsburg have the ability to match abundantly available capital – especially charitable capital – with suitable projects. Because public funds are claimed only if predefined objectives are achieved, it is guaranteed that tax money is not spent without significant benefit for the people in need. Social Impact Bonds can significantly contribute to increasing the effectiveness and efficiency of work in the social sector. Successful SIBs can thus serve as tools that use effective projects to do an even better job of reaching even more people in the future.

Fact-Sheet Social Impact Bond in Augsburg / Germany

Partner Public Sector:	Bavarian State Ministry of Labor, Social and Family Affairs, and Integration (Bayerisches Staatsministerium für Arbeit und Soziales, Familie und Integration)
Intermediary:	Juvat gemeinnützige GmbH (Non-profit subsidiary of Benckiser Foundation Future)
Non-profit Financiers:	<ul style="list-style-type: none">- BHF-BANK Foundation (BHF-BANK-Stiftung)- BMW Foundation Herbert Quandt (BMW Stiftung Herbert Quandt)- BonVenture gemeinnützige GmbH (Non-profit subsidiary of the BonVenture Group)- Eberhard von Kuenheim Foundation of BMW AG (Eberhard von Kuenheim Stiftung der BMW AG)
Project Partners in Augsburg:	<ul style="list-style-type: none">- apeiros e.V.- Ausbildungsmanagement Augsburg- Kinder-, Jugend- und Familienhilfe Hochzoll- Joblinge gAG München
Evaluator:	<ul style="list-style-type: none">- Success Evaluator: Law Firm Dr. Mohren & Partner (Sozietät Dr. Mohren & Partner)- Process Evaluator: University of Hamburg (Universität Hamburg, Fakultät für Wirtschafts- und Sozialwissenschaften)
Timeline:	09/2013 – 12/2015
Target Group:	Unemployed adolescents aged under 25 years in the Augsburg region with <ul style="list-style-type: none">- no current school attendance or completed compulsory education,- no ongoing or successfully completed apprenticeship,- no current occupation,- no contact to the employment agency or no participation in agency programs over the last two years before being in touch with the project
Predefined Targets:	During the timeline of the project placement of at least 20 members of the target group <ul style="list-style-type: none">- into work or apprenticeship (in both cases subject to social insurance and contribution)- for more than 9 months- in the city of Augsburg, the district of Augsburg or the district of Aichach-Friedberg
Return in case of success:	Maximum Return (Intermediary to Financier): 3 % overall during the timeline of the project

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