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The barriers to adopting Social Impact Bonds in the public sector in South Africa

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A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration

05 January 2022

ABSTRACT

Despite the initial popularity that Social Impact Bonds (SIBs) enjoyed in the wake of the 2008 global financial crisis, governments have had lukewarm uptake, with only 138 SIBs worth a total of $441 million having been issued date. Emerging economies, including South Africa, have been especially slow in embracing SIBs, which is puzzling given the fiscal constraints they face whilst still addressing the rising levels of social malaise, including unemployment, illness and homelessness.

This qualitative study explores the barriers to the adoption of SIBs by the public sector in South Africa. The diffusion of innovation theory (DOI) provided the theoretical context. Fourteen semi-structured interviews with subject matter experts, practitioners, and senior civil servants were conducted to explore barriers to adopting SIBs within the public sector in South Africa. The study found that the inability by SIBs to sufficiently align the interests of stakeholders and the narrative associated with SIBs that result in a lack of Government accountability to citizens created barriers to their adoption.

The study contributes to the literature on DOI and public sector innovation by proposing a model to address the barriers to the adoption of SIBs in the public sector in South Africa.

KEY WORDS

Barriers, Social Impact Bonds, Impact Investing, Public Sector, Diffusion of Innovation

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before any degree or examination in any other university. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Name and Surname   Signature

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Chapter 1: Introduction to Research Problem

1.1 Overview

Social Impact Bonds (SIBs), also known as Development Impact Bonds (DIBs), are relatively new performance-based contracts that leverage private social investment and cover up-front expenditure associated with welfare services (Edmiston & Nicholls, 2018; Fry, 2019). Carè and Lisa (2019) describe SIBs as a form of public-private partnership (PPP) which is collaborative, outcome-based and incorporates impact finance logic. SIBs are meant to provide several benefits, including the improved efficiency of social interventions, stemming from strong incentives within the SIB mechanism for all parties to aim for costs efficiency in attaining predetermined outcomes (Liang, Mansberger, Speiler, 2014). SIBs also provide upfront capital for social programs, thereby providing relief to Governments with limited budget flexibility (Fry, 2019; Liang et al., 2014).

With more funding available, social programs can be scaled up, leading to the improved welfare of citizens and improved financial sustainability for implementing partners such as Non-Governmental Organizations (NGOs) and social enterprises (Liang et al., 2014). SIBs have also been said to introduce innovation in social services by allowing implementing partners the freedom to design and implement programs to achieve a predetermined outcome (Fraser, Tan, Lagarde, & Mays, 2018; Liang et al., 2014). Such innovation is also a result of synthesising new ideas and synergy that occurs when partners from diverse spheres of society coordinate their efforts toward a common goal. (Liang et al., 2014; Tan, Fraser, McHugh, & Warner, 2021)

SIBs gained popularity in the wake of the 2008 global financial crisis as Governments were increasingly implementing austerity measures on the one hand whilst needing to address the rising levels of social malaise such as unemployment and homelessness on the other hand (Galitopoulou & Noya, 2016; Tan et al., 2021). Policymakers were attracted by the prospect of harnessing private funding to expand social services to meet the rising demand for social interventions. They also avoided the risk of implementation failure as payments are contingent on the level of achievement of outcomes (Galitopoulou & Noya, 2016; Tan et al., 2021). Despite early expressions of interest, SIBs have not garnered the widespread adoption that was expected; only 138 SIBs worth a total of $441 million have been issued since 2010 (Social Finance, 2021). South Africa has been particularly slow to adopt SIBs when compared to more developed countries, most SIBs were issued in the United Kingdom (UK) and the United States (US) (Social Finance, 2021). Compared to

other emerging economies, South Africa's numbers appear normal; however, its constrained financial position and the vast number of complex social issues it faces suggest that it should seriously consider issuing more SIBs. Therefore, some factors impede a wider adoption of SIBs. Therefore, a study on the barriers to adopting SIBs in the public sector could have broader application to other emerging economies that may face similar obstacles.

1.2 Research Context and Justification

1.2.1 Geographical Context

The study explored barriers encountered in the adoption of SIBs as an instrument by the South African Government, in a bid to address the several social issues it faces. It focused on the South African Government, specifically the Gauteng Provincial Government (GPG). Gauteng is selected primarily because it is among the ten largest economies in Africa, surpassing large economies of countries such as Kenya and Tanzania (Stats SA, 2018). Similarly, Gauteng hosts a mature capital market and has several international financial institutions, that have capacity to participate in SIBs. Finally, like many emerging economies, Gauteng is plagued by complex social issues, including high poverty, unemployment, and social exclusion (Gauteng City-Region Observatory, 2021; National Planning Commission, 2011).

1.2.2 Theoretical Location

The study utilised diffusion of innovations theory (DOI) by Rogers (2003) as the theoretical lens for conducting an exploration of barriers to adopting SIBs. The DOI theory seeks to explain how innovations and other advancements spread over time in societies, from introduction to wider adoption (de Vries et al., 2016; Rogers, 2003; Zhang, 2018). The DOI theory suggests that the way innovations are communicated to sections of society, and the resultant opinions associated with the innovations, are critical factors for the rate at which the innovation diffuses (de Vries et al., 2016; Rogers, 2003; Zhang, 2018).

The DOI theory is apt for this study since opinions associated with SIBs are used in exploring the possible barriers to the diffusion of SIBs within the public sector in South Africa. Specifically, the study used views on the relative advantage (or not) of SIBs over other methods of funding and delivering social services to identify the aforementioned barriers.

1.3   Research Problem

This research sought to explore the barriers to adopting SIBs in the public sector in South Africa, given that they appear to provide a win-win solution for all stakeholders. In addition to receiving upfront private financing, governments hedge against the political consequences of failed program implementation by only paying for successful SIB implementation (Carè & Lisa, 2019; Edmiston & Nicholls, 2018). Governments also stand to benefit from potential cashable savings on program implementation costs and costs forgone as a result of improved citizen welfare (Carè & Lisa, 2019; Edmiston & Nicholls, 2018). Private investors receive an appropriate return on their upfront investment. Implementing partners such as NGOs and social enterprises acquire stable income streams that enhance their sustainability and, beneficiaries benefit from the positive outcomes to their social issues (Edmiston & Nicholls, 2018). SIB implementation seems to bode well for all stakeholders, yet emerging economies' including South Africa have low adoption rates which is puzzling. In contrast developed economies with better-funded social projects have much higher SIB implementation rates. This study, therefore aimed to explore the barriers to adopting Social Impact Bonds in the public sector of South Africa. The study utilised the diffusion of innovations theory.

1.4   Significance of Research

The study into SIBs is significant for several reasons. Emerging economies, including that of South Africa, face severe financial constraints, which have reduced their ability to fund social interventions. South Africa's gross domestic product (GDP) declined by 7.2% in 2020, and an expected R213 billion shortfall in tax revenue collections evidences the dire financial situation (National Treasury, 2021). Furthermore, the national treasury depicts a Government faced with rising social needs due to unemployment and an overburdened public health system exacerbated by low investment due to intermittent electricity supply, low confidence and low capital expenditure by public corporations (National Treasury, 2021). Given the pressures to provide more services from a declining revenue base Government urgently needs to ensure more innovative ways to fund and execute social interventions that address these emerging social challenges (Hartley et al., 2013).

The Gauteng Department of Social Development (DSD), which is charged with providing social services, outsources service provision to non-profit organisations (NPOs), community-based organisations (CBOs) and faith-based Organisations (FBOs) (Department of Social Development, 2021). This operating model has seen the Gauteng

DSD transfer over R2,2 billion to these NPO partners (Department of Social Development, 2021: pp 166). The outsourcing operating model has proved problematic, characterised by poor monitoring and performance and underspending their budget by almost R402 million (Department of Social Development, 2021). Given the increasing demand for social services and budgetary constraints faced by the Government, a study into the barriers to adopting an innovation (SIBs) that could potentially increase the funding for social services enhance effectiveness and reduce costs is particularly significant.

Whilst this study aimed at researching the barriers to adopting Social Impact Bonds in the public sector in South Africa, this researcher was aware that the study also added to the body of knowledge on innovation within the public sector sphere. As such, the research gains significance as literature relating to innovation in the public sector is relatively scarce compared to the literature on technological or business innovation (Hartley., Sørensen., & Torfing, 2013). According to Hartley et al.(2013), the lack of literature has given rise to the myth that private sector organisations are more innovative than their public sector counterparts. This myth has resulted in a movement to instil private sector systems and culture in public sector organisations. This research presents findings that challenge existing myths on public sector innovation inferiority; it, therefore, adds to the literature that sheds light on innovation adopted and diffused in the public sector.

1.5 Purpose Statement

The study aimed at exploring the barriers to adopting Social Impact Bonds in the public sector in South Africa.

Chapter 2: Literature review

This chapter starts with a review of the DOI framework literature before delving into the origins of SIBs as having emerged as a sub-class of impact investments. The structure and mechanism of SIBs and the roles of various parties to a SIB contract will then be reviewed. The geographical dispersion and frequency of SIBs will also be outlined to highlight the lagging behind of emerging economies, including South Africa, in adopting the innovation. Finally, the rest of the chapter is dedicated to a brief review of the SIBs that have been concluded in South Africa and a review of literature narratives concerning SIBs. The narratives will focus on the perceived attribute of the relative advantage of SIBs over traditional social service delivery.

2.1   Diffusion of Innovation Framework

Diffusion is the process by which an innovation is communicated through a specific channel over time among members of a social system(Jordan & Huitema, 2014; Rogers, 2003). Thus, diffusion entails spreading ideas through some medium, over time and amongst members of a social system (Rogers, 2003). Innovation is generally defined as an idea, practice, or object perceived as new by an individual or other adoption unit (de Vries., Bekkers., & Tummers, 2016; Rogers, 2003). Further, in innovation literature, adopting an existing idea for the first time well after it has been adopted and diffused in other jurisdictions still qualifies as innovation (Damanpour, 1991; de Vries et al., 2016)

Contrary to Rogers (2003) approach to DOI, some scholars argue that defining innovation as a creation of an idea or artefact has limited the understanding of DOI and has resulted in innovation and diffusion being studied separately (Vargo., Akaka & Wieland., 2020). Consequently, Vargo et al. (2020) note a shift towards a more systemic perspective of diffusion, hence the exploration of diffusion as a social phenomenon contributing to innovation in the context of complex adaptive systems (CAS) instead of viewing diffusion as a separate and subsequent process. CAS is described by Holland (1992) as being able to evolve, exhibit aggregate behaviour, and anticipate future events. Thus, a CAS can mutate in response to stimuli or anticipation of future events (Holland, 1992; Phillips & Ritala, 2019). However, there is no complete, systematic synthesis of CAS approaches, mainly as they apply to the diffusion process through which knowledge evolves (Vargo et al., 2020). Consequently, the CAS approach to DOI was not used in this study

Numerous other models that explain the DOI exist, including mathematical models such as the bass diffusion model and complex network models, which are used to investigate

the spread of innovations among individuals connected by a network of peer-to-peer influences, such as in a physical community or neighbourhood (Badger, 2013). According to Badger (2013), complex network models have each individual represented as a node in a network. People then adopt innovations based on three factors: personal preference, peer influences and social norms. Mathematical models were not used as the study is qualitative.

The DOI theory by Rogers (2003) was chosen for use in this study primarily because of its flexibility and widespread applicability in diverse disciplines (Greenhalgh, Robert, MacFarlane, Bate, Kryiakidou, & Peacock, 2005). The DOI theory has also stood the test of time with very few changes, with Rogers's Diffusion of Innovations emerging as one of the most cited and influential books in the social sciences (Fallan, 2015; Lund, Omame, Tijani & Agbaji, 2020). All this is a testament to its relevance and explanatory power.

2.1.1 Adopter Categories

Scholars note that adopting an innovation does not happen simultaneously in a social system and how some people are more apt to embrace the innovation than others (Fallan, 2015; Vargo et al., 2020). The DOI theory identifies five adopter categories: innovators, early adopters, early majority, late majority, and laggards with research showing that the adoption of an innovation follows a normal, bell-shaped curve when plotted over time on a frequency basis (Rogers, 2003). If the cumulative number of adopters is plotted, an s-shaped curve results (Rogers, 2003). Figure 2.1 and Figure 2.2 illustrates how adoption data can be represented by either a bell-shaped (frequency) or an s-shaped (cumulative) curve. Zhang (2018), however, explains that some slopes of the s-shaped curves are steeper than others and how similar innovations could exhibit different patterns due to the diffusion process occurring in different social systems. Zhang (2018) also explains how a theoretical construct has advanced DOI termed critical mass, which defines the point when sufficient individuals in a system have adopted an innovation thereby making the rate of adoption self-sustaining. Thus innovations with a steeper s-shaped (cumulative) curve ould reach would reach critical mass sooner than innovations with a gentler s-shaped (cumulative) curve (Zhang, 2018).

Figure 2 1: Diffusion of Innovation Model (Bell-Shaped Frequency Curve)
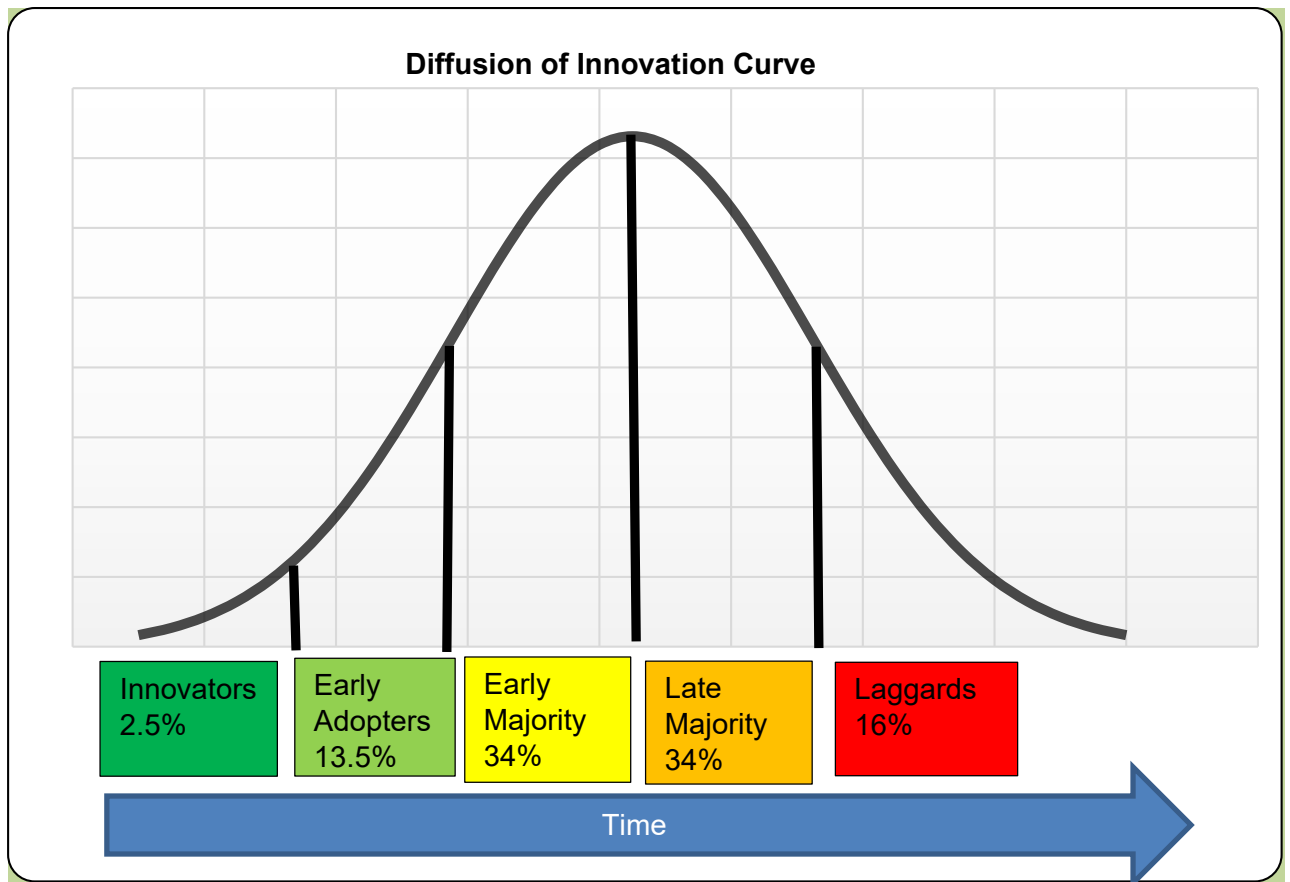
Adapted from: Rogers (2003)

Figure 2 2: Diffusion of Innovation Model (Cummulative Adoption S-Curve)
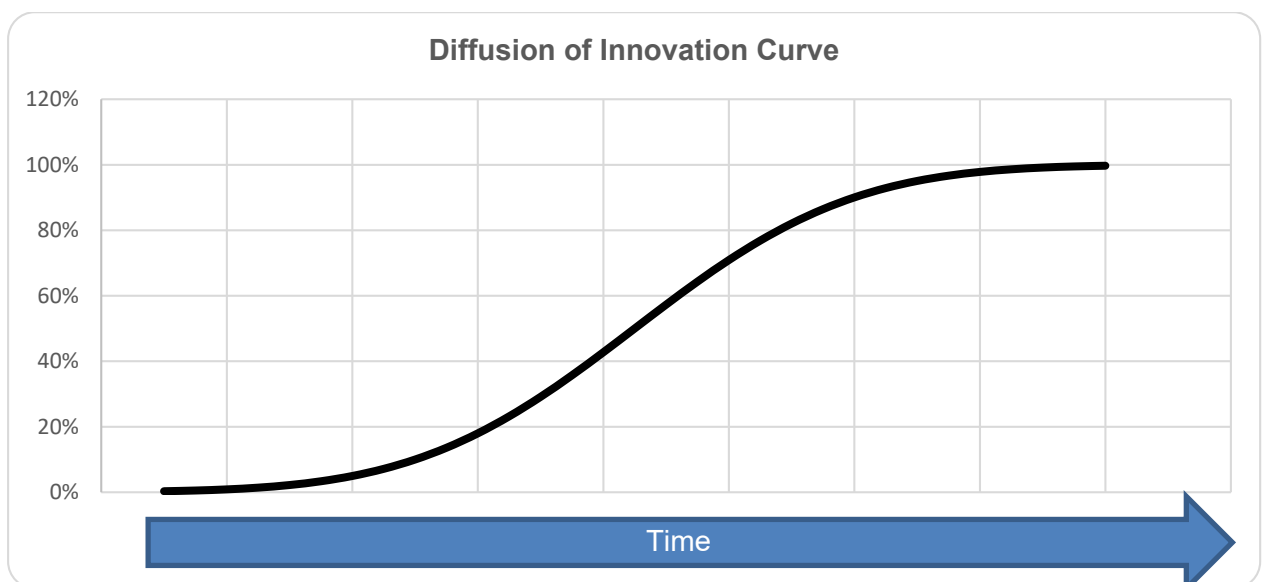
Adapted from: Rogers (2003)

Innovators are characterised as active information seekers and risk-takers requiring little or no prompting to develop or adopt innovations (Lund et al., 2020). The second adopter category, the early adopters, are opinion leaders who are aware of the need to change and are comfortable adopting new ideas and thus do not require information to convince them to change (Lund et al., 2020). The early majority are rarely leaders but adopt innovations before the average person; this category typically needs proof that an innovation works before it is adopted (Lund et al., 2020). In contrast to earlier categories, the late majority is sceptical of change and will only adopt after an innovation is tried and tested by the majority (Lund et al., 2020). The last category is the laggards, who are bound by tradition, very conservative and very sceptical; laggards are also the most demanding group to bring on board(Lund et al., 2020). Ho (2021) suggests that the adopter categories for low-end disruptive innovations should differ from those indicated by Rogers (2030) because classical DOI theory assumes that innovations have superiority over their predecessor (and are, therefore, high-end innovations). He posits that further categorising potential adopters would advance DOI theory and improve the knowledge base on disruptive innovations (Ho, 2021).

2.1.2   The Innovation-Decision Process

The innovation-decision process outlines how the potential adopter seeks and processes information on an innovation to reduce uncertainty about that innovation's advantages and disadvantages (Seligman, 2006; Talke & Heidrich, 2014). The innovation-decision process involves five sequential steps: knowledge, persuasion, decision, implementation, and confirmation (Seligman, 2006; Talke & Heidrich, 2014). In contrast, Shim, Shin and Kwak (2018) suggest that potential adopters may follow different innovation decision-making paths to the sequence specified by Rogers (2003). Shim et al.(2018) cite impulse purchasing situations as an example where a potential adopter experiences a product or service before the affective and cognitive stages. Shim et al.(2018) suggest that heterogeneous decision-making paths could be an area for future research. The innovation-decision process is shown in Figure 2.3.

Figure 2 3: Innovation-Decision Process
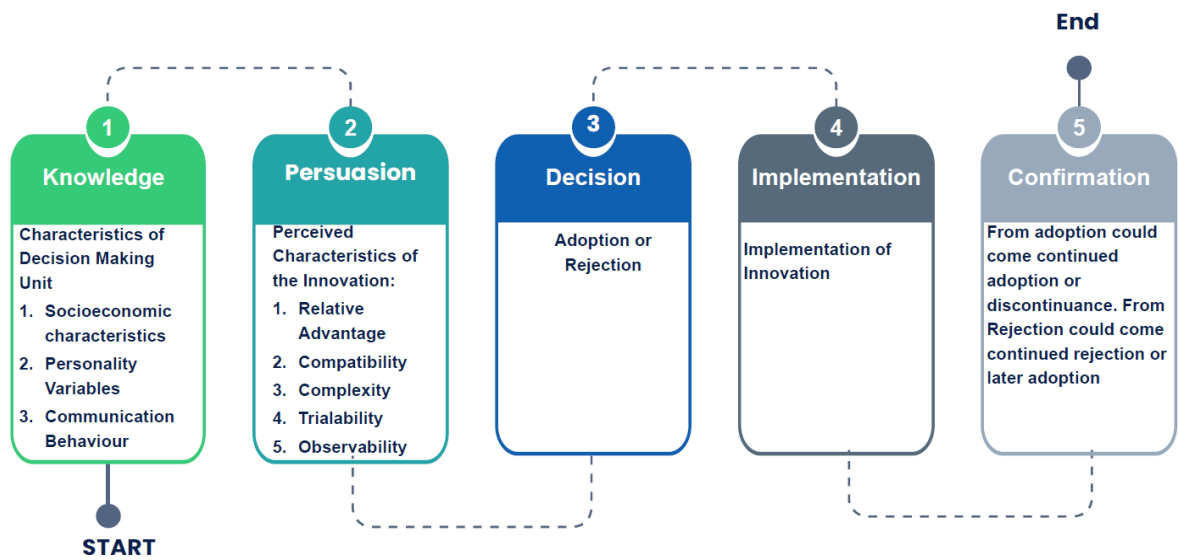
Source: Adopted from Rogers (2003)

2.1.2.1 The Knowledge Stage

In the knowledge stage of the innovation-decision process the potential adopter gains awareness of the existence of an innovation, and seeks information about what the innovation is, how it works and why it works (Seligman, 2006; Talke & Heidrich, 2014). Information concerning an innovation's existence is called awareness-knowledge. Such information is critical as it may spur a potential adopter to learn more about the innovation and eventually adopt it (Seligman, 2006; Talke & Heidrich, 2014). Information on how an innovation works is essential as it determines whether a potential adopter will trial the innovation (Seligman, 2006; Talke & Heidrich, 2014). Information on why an innovation works is not critical for adoption; however, misuse of the innovation due to not knowing why it works may cause its discontinuance (Seligman, 2006; Talke & Heidrich, 2014).

2.1.2.2 The Persuasion Stage

In the persuasion stage, a potential adopter develops an opinion (negative or positive) towards the innovation (Seligman, 2006; Talke & Heidrich, 2014). At this stage, the potential adopter's opinion toward the innovation does not always lead to adoption or rejection of the innovation (Seligman, 2006; Talke & Heidrich, 2014). In contrast with the knowledge phase, which is more cognitive, Rogers (2003) suggests that the persuasion stage is more affective, resulting in perceptions gaining more salience. The potential adopter's perception of the innovation is subject to social reinforcement from peers based on their subjective evaluations (Seligman, 2006; Talke & Heidrich, 2014).

2.1.2.3 The Decision Stage

The decision stage entails the potential adopter choosing to adopt or reject the innovation (Seligman, 2006; Talke & Heidrich, 2014). Rogers (2003) defines adoption as the full use of an innovation and rejection as the decision not to adopt. He infers that innovations that offer a trial or demonstration are usually adopted faster than those that do not provide a test (Rogers, 2003). He also asserts that rejection of an innovation can occur at any stage of the innovation-decision process (Rogers, 2003).

2.1.2.4 The Implementation Stage

The implementation stage is where an innovation is put to use (Seligman, 2006; Talke & Heidrich, 2014). At this stage, the innovation-decision process ends as the innovation ceases to have a distinctly separate identity (Rogers, 2003). It is also at the implementation stage where reinvention or customisation of the innovation occurs to align with the adopter's systems and processes (Rogers, 2003). The level of reinvention is positively related to the adoption rate of an innovation (Rogers, 2003).

2.1.2.5 The Confirmation Stage

During the confirmation stage, the adopter seeks support for their adoption decision and may reverse it if they encounter adverse reports on the innovation (Seligman, 2006; Talke & Heidrich, 2014). Rogers (2003) postulates that adopters generally avoid such negative messages in acts of confirmation bias. Discontinuance can still occur at this stage due to either the rejection of the innovation for a better innovation or the rejection of the innovation due to poor performance (Rogers, 2003).

This study was conducted in the realm of the decision stage of the innovation-decision process. The variables affecting the rate of adoption of an innovation are most salient at the decision stage, as will be discussed in the following section.

2.1.3 Variables Affecting the Rate of Adoption of an Innovation

Within the DOI theory, five variables determine the adoption rate of an innovation. As illustrated in Figure 2.4, these variables are perceived attributes of the innovation, type of innovation-decision, communications channels, nature of the social system, and extent of change agent promotion efforts (Greenhalgh et al., 2004).

Figure 2 4: Variables Affecting Rate of Adoption of Innovation
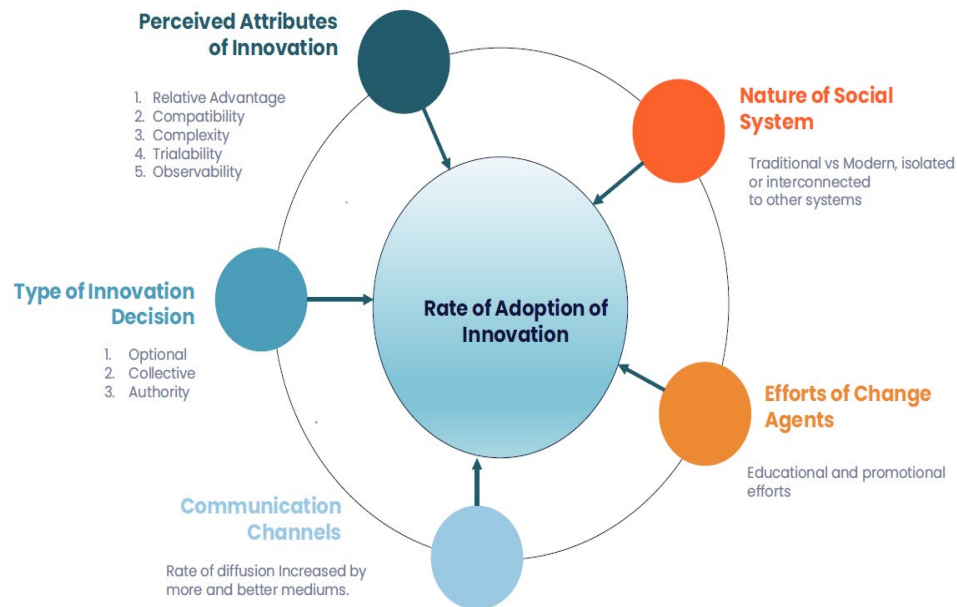
Adapted from: Rogers (2003)

According to Rogers (2003), 49%-87% of the variance in the rate of an innovation's adoption is explained by the perceived attributes of the innovation variable. The study was therefore anchored within the theory of this variable.

de Vries et al.(2016) identify several variables that affect the rate of adoption of an innovation classified under environmental, organisational, innovation and individual antecedents to the diffusion of innovation in the public sector. These variables or antecedents are drawn from several theoretical models, and de Vries et al.(2016) suggests that in the future, researchers could combine the variables for more robust theoretical frameworks.

2.1.4   Perceived Attributes of an Innovation

An innovation has five perceived attributes: relative advantage, compatibility, complexity, trialability, and observability (de Vries et al., 2018; Rogers, 2003). The relative advantage attribute describes the extent an innovation is perceived superior to its predecessor (de Vries et al., 2018; Rogers, 2003). Relative advantage manifests in several ways, including profitability, timesaving, usability, and social prestige and innovations with a higher perceived utility tend to diffuse faster from an adopter point of view (Rogers, 2003). Of the five perceived attributes of innovation, the strongest predictor of an innovation's adopotion rate is the relative advantage of the innovation (Rogers, 2003). Consequently, the study

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further narrowed its theoretical location to the relative advantage of SIBs over traditional social service funding and delivery methods.

2.1.5 Conclusion on DOI Framework

The DOI framework was selected as the basis for the study despite the existence of other frameworks that explain innovation diffusion because of its flexibility, robustness and its success in explaining diffusion phenomena in diverse disciplines over time (Fallan, 2015; Greenhalgh et al., 2005; Lund et al., 2020).

Research developments in DOI theory have introduced CAS concepts to better account for the dynamic and complex feedback relationship between innovation and diffusion (Vargo et al., 2020). The introduction of CAS concepts will then see Innovation and diffusion being studied together instead of diffusion being studied after innovation (Vargo et al., 2020). Zhang (2018) describes how a new theoretical construct, "critical mass", has advanced DOI theory by defining the point at which the adoption rate is self-sustaining. He suggests innovations with a steeper s-shaped (cumulative) diffusion curve ould reach would reach critical mass sooner than innovations with a gentler s-shaped (cumulative) diffusion curve (Zhang, 2018). This study was qualitative and therefore did not apply this advancement. Concerning the categorisation of innovation adopters, Ho (2021) suggested that the adopter categories for low-end disruptive innovations should be different from those indicated by Rogers (2030).

Ho (2021) postulates that because classical DOI theory assumes that innovations have superiority over their predecessors, existing adopter categories cannot apply for low-end disruptive innovations. Recategorising potential adopters with low-end disruptive innovations in mind would advance DOI theory and improve the knowledge base on disruptive innovations (Ho, 2021).

Shim et al.(2018) suggested that potential adopters may follow different innovation decision-making paths to the sequence specified by Rogers (2003) as would occur with impulse purchasing situations. Therefore, Shim et al. (2018) suggested that heterogeneous innovation decision-making paths could be future research areas.

Finally, de Vries et al. (2016) identified several additional variables that affect the rate of adoption of an innovation. They classified these variables as environmental, organisational, innovation and individual antecedents to the diffusion of innovation in the public sector (de Vries et al., 2016). These variables or antecedents are drawn from

several theoretical models, and de Vries et al. (2016) suggested that in the future, researchers could combine the variables for more robust theoretical frameworks.

Figure 2.5 depicts the location in the DOI framework where the study resides.

Figure 2 5: Location of Study within DOI Framework

DOI Theory

The study is generally couched within Rogers (2003) Diffusion of Innovation theory

The Innovation-Decision Process

Within the DOI theory the Innovation-Decision Process describes the five steps to adoption (knowledge, Persuasion, Decision, Implementation and Confirmation) The study is based within the **PURSUASION** stage of the Innovation-Decision process

Perceived Attributes of an Innovation

Within the pursuasion stage of the Innovation-Decision Process the Perceived Attributes of an Innovation (Relative Advantage, Compatibility, Complexity, Trialability and Observability) are salient in persuading a potential adopter to trial an innovation. The study is then located in the **RELATIVE ADVANTAGE** attribute as it is the strongest predictor of adoption among the five attributes

Source: Authors Compilation

2.2 Impact Investing and the Origins of SIBs

GIIN (2017) defines impact investments as investments made into companies, organisations and funds to generate social and environmental impact alongside a financial return. Impact investing has investors that fall within a continuum from impact first investors to financial first investors and blended value investors in-between (Bugg-Levine & Emerson, 2011; Rangan, Appleby, & Moon, 2012). Impact first investors are primarily driven by the need to create societal value whilst financial first investors seek financial returns as their priority; blended value investors seek a balance between societal value and financial returns (Bugg-Levine & Emerson, 2011; Rangan et al., 2012). Rangan et al. (2012) distinguish impact investing from socially responsible investing (SRI) by stating that SRI screens for harm rather than seeking out a positive impact. Therefore, impact investments are identified according to the specific intent to contribute to a positive social or environmental impact, alongside a financial return (IFC, 2021). SIBs are investment

instruments within the realm of impact investments (Mendell & Barbosa, 2013; Tse & Warner, 2020). Figure 2.6 illustrates the spectrum of capital forms from financial first (financial-only) through to impact first (impact-only).

Figure 2 6: Capital Spectrum

	Financial Only	Responsible	Sustainable	Impact		Impact Only
	Delivers Competitive Financial Returns					
		Mitigates ESG Risks				
			Pursues ESG Opportunities			
				Focusing on Measurable High-Impact Solutions		
Examples		-Private Equity firm integrating ESG risk into investment analysis -Ethically screened investment fund	-Best in class SRI fund -Long-only public equity fund using deep integration of ESG to create additional value.	-Publicly listed fund dedicated to renewable energy (wind farms, solar farm) -Microfinance structured debt fund (loans to microfinance institutions)	-Social Impact Bonds (SIBs)/Development Impact Bonds	-Fund providing quasi-equity or unsecured debt to social entreprises or charities	-Grant funding

Adopted from: Bridges Fund Management (2015)

2.2.1 Sizing the Impact Investment Market

The International Finance Corporation (IFC), in 2021 estimated the size of the impact investing market at $2,281 billion and explained how Impact investing had experienced a boost in popularity during the COVID-19 pandemic due to increased awareness of climate change and social issues such as unequal access to healthcare plus racial and gender inequality (IFC, 2021). The IFC (2021) also noted a marked shift in the way institutions invested, as investors increasingly recognized that companies with strong economic, social and governance (ESG) practices performed well during the pandemic.

According to the IFC (2021), the size of the impact investing market is equivalent to only about 2% of global assets under management (AUM), thereby relegating impact investing to niche status despite attracting increasing interest. The IFC (2021) contends that growth of the market for impact investing could be faster if regulatory challenges such as fiduciary responsibilities and the permissibility of considering environmental or social factors in selecting investments are addressed in countries such as the US. The development of clear impact metrics that allow economic and social contributions of investments to be measurable and enable investors to improve their development effectiveness and demonstrate accountability has also been cited as a catalyst for the market's growth (IFC, 2021).

2.3 Social Impact Bonds

The Council on Social Action (CoSA) initially conceived the SIB concept in 2007 to address several of the UK's most urgent social issues (Chamaki et al., 2019; Liang et al., 2014). In coming up with the SIB concept, the CoSA recognised that the Government faced challenges concerning the funding of social programs and that these programs often failed due to poor oversight (Chamaki et al., 2019; Liang et al., 2014). The CoSA came up with an innovative instrument whereby private investors provide the funding required for social programs, and the government then pays investors a return, which is generated from the savings that the program achieves, that is based on the level of success that the program has attained (Chamaki et al., 2019; Liang et al., 2014). If the program fails, the investors risk losing a portion, or all, of their investment (Chamaki et al., 2019; Liang et al., 2014). Hence, the government and taxpayers are freed from the financial risk of the program failing, while private investors, who are willing to take on that risk, receive a return if the program succeeds (Chamaki et al., 2019; Liang et al., 2014).

SIBs, which gained popularity post the global financial crisis of 2008, are, in essence, multi-stakeholder, pay-for-performance (PfP) contracts whose appeal lies in the provision of upfront funding and the transfer of risk as repayment is only due on successful implementation (Dixon, 2021; Ramsden, 2016). The outcome funders, who are usually Government, will only pay the private investors upon achievement of predetermined outcome targets; by doing so, the Government transfers the risk of implementation failure to the private investor (Dixon, 2021; Ramsden, 2016).

SIBs, despite their misleading name, do not follow the financial logic of a bond as they are not debt instruments but rather behave like equity as investors only earn a return on successful implementation of a SIB (Fraser et al., 2018). Liang et al. (2014) concur, stating that because outcome payments for SIBs are based on the service provider's performance, similar to how equity returns depend on the performance of a firm's management team, SIBs may have more in common with equity than bonds.

Successful SIBs are widely touted as having the potential to save the Government's substantial amounts of money, not only because of greater efficiencies but also due to focusing on preventative interventions to solve social issues at their root, rather than addressing the symptoms (Edmiston & Nicholls, 2018; Nicholls & Tomkinson, 2013). Figure 2.7 below illustrates how such savings would accrue through the successful implementation of SIBs. Increases in spending on preventative interventions represented

by outcome payments would ultimately result in retained savings for the Government due to more significant decreases in curative spending. According to Nicholls and Tomkinson (2013), cost savings should exceed the cost of the SIB. In practice, however, evidence indicates that SIBs may not be entirely cost-neutral (Carter, Fitzgerald, Dixon, Economy, Hameed, & Arioldi, 2018).

Figure 2 7: The Theoretical Value-for-Money Calculation by Government
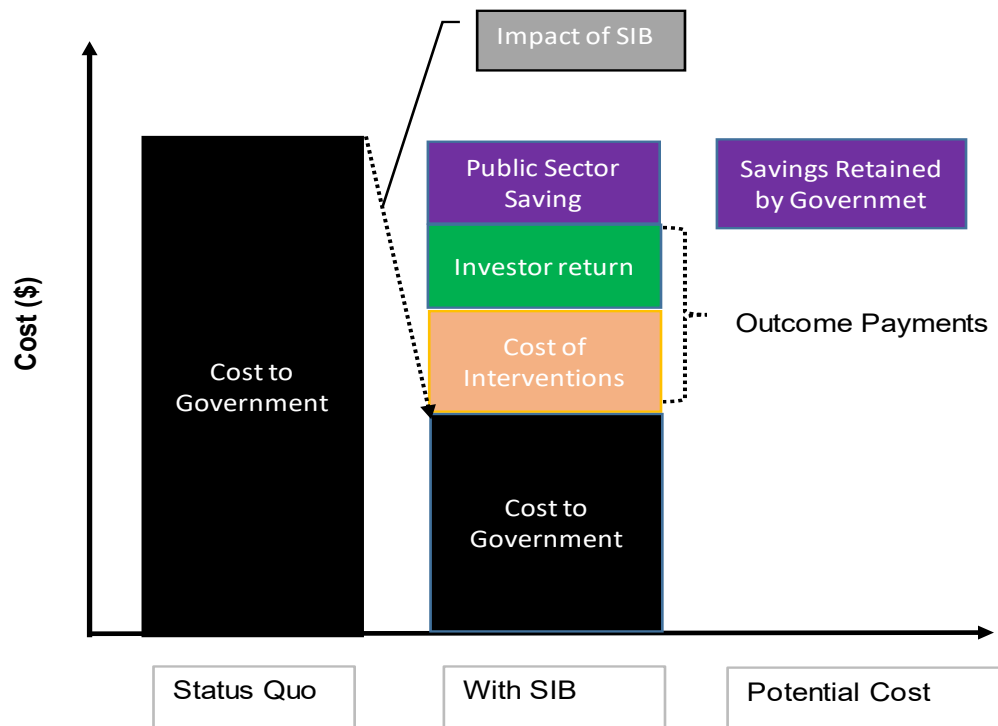
Adopted from: Barclay and Symons (2013) and Nicholls and Tomkinson (2013)

The first SIB on record was issued in the UK in 2010 through a partnership between the Ministry of Justice and Social Finance UK (Liang et al., 2014; Ramsden, 2016). SIB proceeds were used to finance a prisoner rehabilitation program at Peterborough Prison to reduce reincarceration rates and entailed St Giles providing training and employment to 3,000 young adult inmates serving short sentences (Liang et al., 2014). Since then, several other SIBs have been issued in every continent, with most SIBs being issued in Europe and North America (Social Finance, 2021).

2.3.1 Social Impact Bond Models and Structure

According to Galitopoulou and Noya (2016), two models for SIBs have emerged thus far - SIB funds and Individual SIBs. The difference is that SIB funds can issue multiple

contracts for the same or similar social issues whilst individual SIBs proceed on one payment contract at a time (Galitopoulou & Noya, 2016). Individual SIBs are the predominant model used globally (Galitopoulou & Noya, 2016).

In terms of structure, Galitopoulou and Noya (2016) identify three main structures for individual SIBs, namely a direct, intermediated and, managed structure. Galitopoulou and Noya (2016) note that there is no clear distinction between the intermediated and managed SIB save for the fact that in an intermediated SIB, the intermediary can invest directly in the SIB; unlike in the managed structure. In terms of predominance, Galitopoulou and Noya (2016) observe that SIBs implemented in the US are primarily structured as managed SIBs, whereas most SIBs are intermediated in the UK. Galitopoulou and Noya (2016) also highlight that roles and responsibilities of parties to a SIB are not governed by any set of rules and that variations of duties exist across SIBs.

2.3.2   Impact Bond Mechanism and Participants

Figure 2.8 below depicts the mechanism of a typical SIB and its participants. The investors provide upfront financing for the program and earn a return only if the desired outcomes are achieved; failure to achieve desired outcomes result in the investor incurring a loss (Liang et al., 2014). However, investor losses may be mitigated, as Galitopoulou and Noya (2016) find; investors and intermediaries may have capital protection mechanisms and investment guarantees in place. Investors may still earn returns on their investment regardless of the SIBs outcomes depending on the extent to which the investment was covered (Galitopoulou & Noya, 2016).

Intermediaries' primary tasks include convening all stakeholders involved in the mechanism to get consensus regarding the transaction process, raising funds from investors for the program, selecting appropriate service providers to implement the program, and handling their payments (Galitopoulou & Noya, 2016; Liang et al., 2014).

Service providers receive payments for program design, implementation of the program and may also be responsible for providing data related to them (Galitopoulou & Noya, 2016; Liang et al., 2014). The Government or SIB commissioner (also called outcome funder) pays investors from the savings generated from successful SIBs; no payment is made if the SIB is unsuccessful (Liang et al., 2014). The independent evaluator's role in the structure is to measure the outcome of the SIB and verify whether predetermined outcomes have been met (Liang et al., 2014).

Figure 2 8: Social Impact Bond Mechanism and Participants
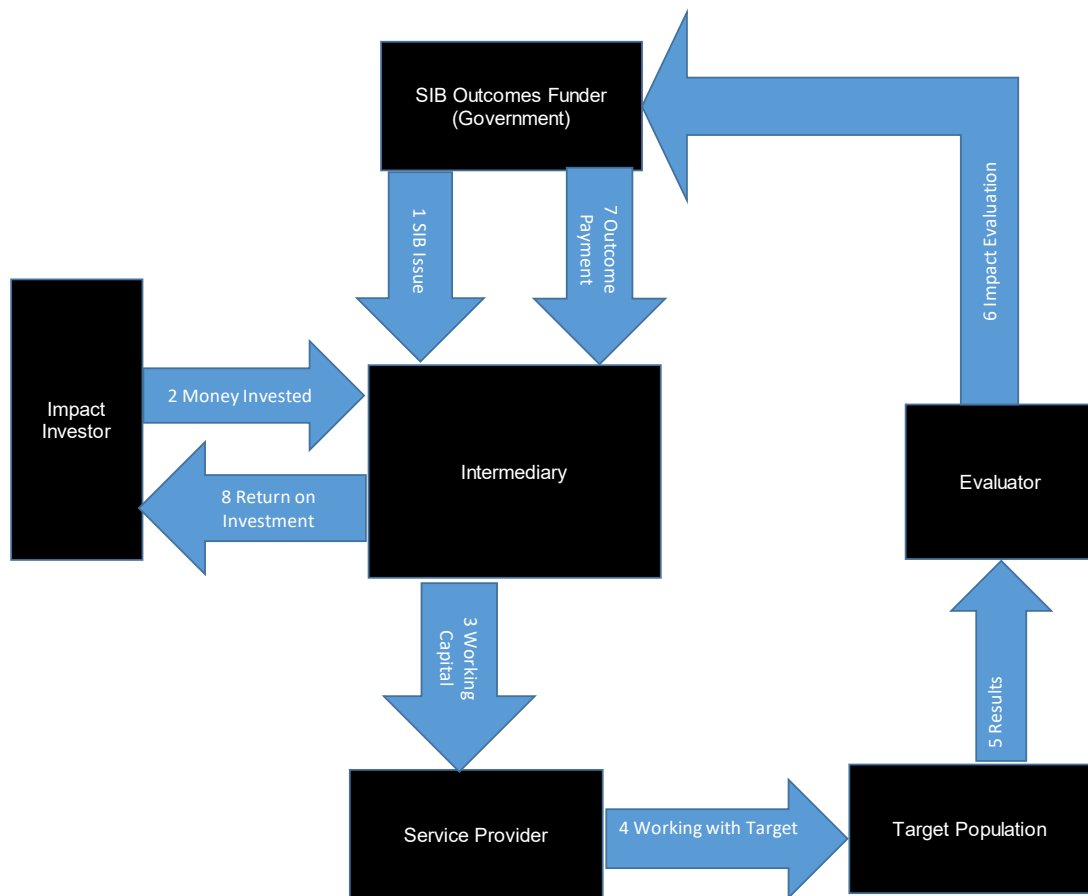
2.4 Global Distribution of Social Impact Bonds

Globally, 138 SIBs worth $441 million have been issued since 2010 (Social Finance, 2021). Figure 2.9 and Figure 2.10 below illustrate the distribution of SIBs globally. The UK has launched the most SIBs, 47, followed by the United States (US) with 26 SIBs. South Africa, Congo, Uganda, and Cameroon are the only African countries to have launched SIBs, with each country having issued one SIB each. In terms of the value of the SIBs issued, Figure 2.9 shows the US having issued SIBs worth more than twice the value of the UK despite launching fewer SIBs. In Africa, the Congo has the highest value of SIBs, $27 million, followed by Cameroon $2,5 million, Uganda $2,4 million, and South Africa $0,54 million. South Africa also has three SIBs at the development stage in early childhood development, HIV prevention amongst sex workers, and small and medium enterprises (SME) development (Social Finance, 2021). Overall, the data seems to indicate a tentativeness by the emerging market Governments, including the South African Government, on adopting SIBs.

Figure 2 9: SIBs Launched by Country

Number of SIBs Launched
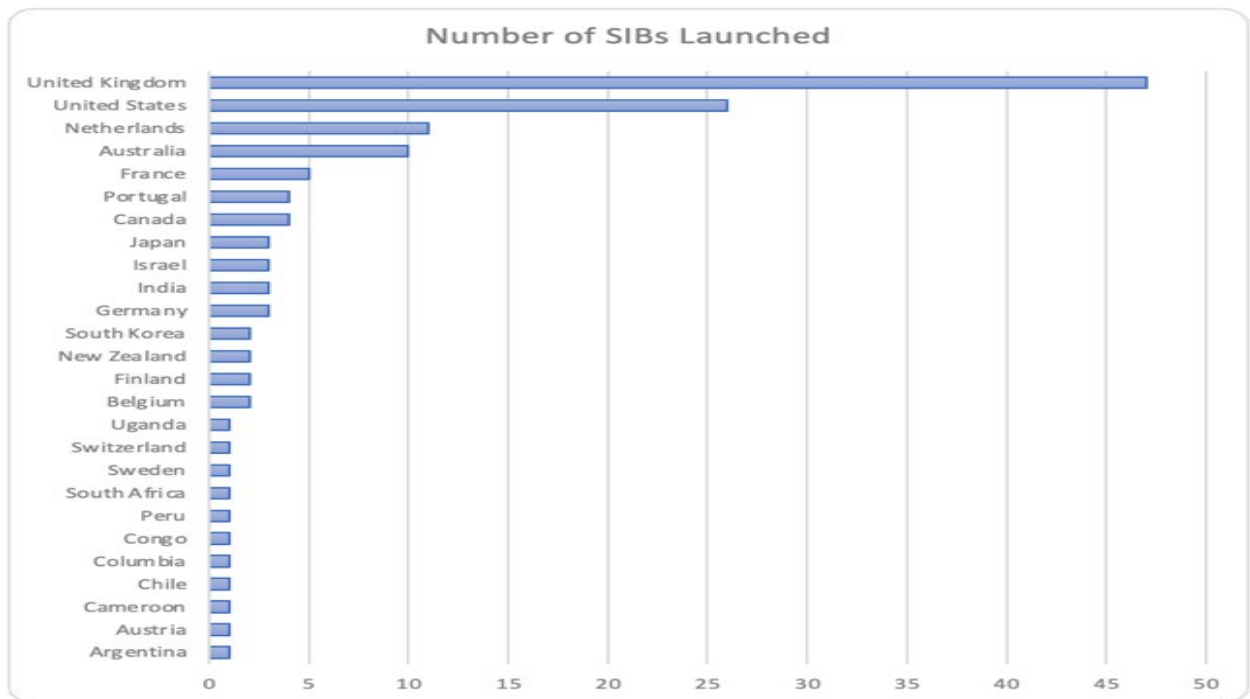
Source: Authors Compilation Data from Social Finance (2021)

Figure 2 10: SIB Value by Country

Value of SIBs Launched (Millions US$)
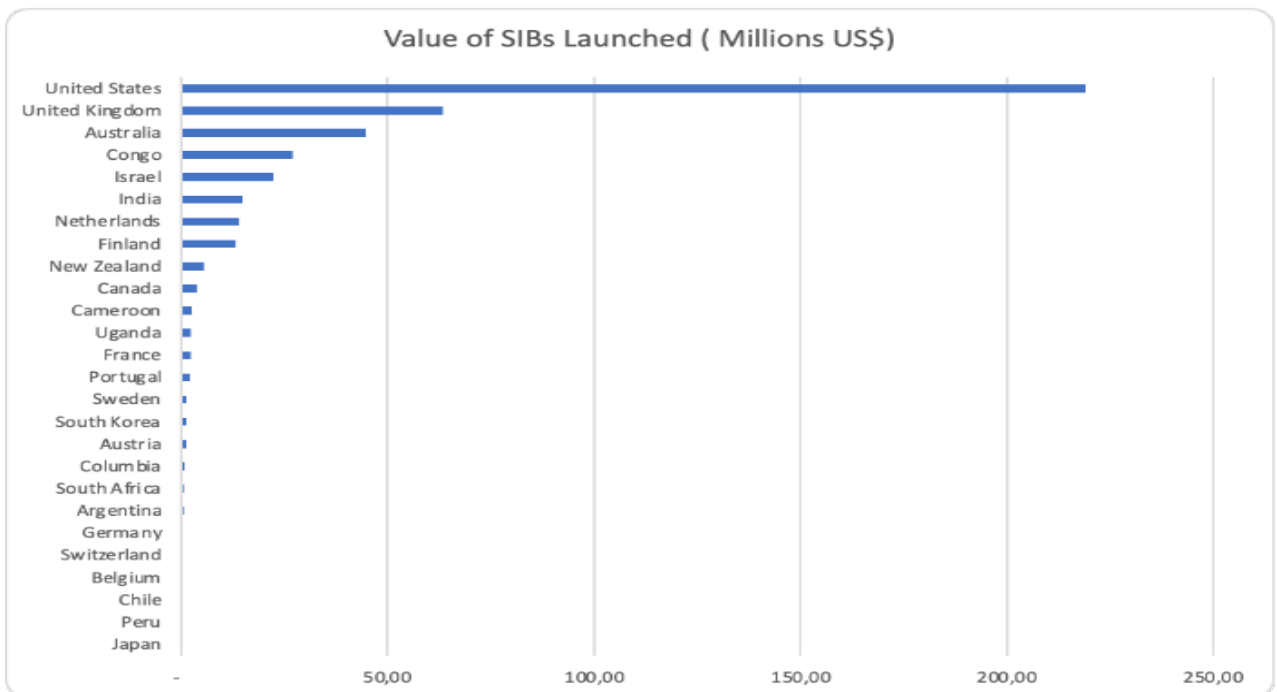
Source: Authors Compilation Data from Social Finance (2021)

The SIB statistics confirm that in terms of adopter categorization, the UK and the US would probably fall into the category of innovators or early adopters, whereas the likes of South Africa, Peru and other countries that have not implemented SIBs may be termed as the late majority or laggards.

2.5 Outsourcing, Pay-for-Performance (PfP) and Private-Public Partnerships (PPP)

The question that is sometimes asked is whether SIBs constitute outsourcing, PfP or PPP arrangements. Neither of these arrangements is novel, as they have been used long before SIBs were conceived. SIBs appear to exhibit elements of all three types of contracts, as shown below.

2.5.1 Outsourcing

Government outsourcing entails the transfer of the production of goods and services previously provided by the Government to non-Governmental organisations (Alonso, Clifton, & Diaz-Fuentes, 2017). Organisations, including Governments, often outsource to attain cost efficiencies, focus on core competencies, risk transfer, gain operational flexibility and fulfil political ideologies, amongst other reasons (Damanpour, Magelssen, & Walker, 2020)

In common with SIB arrangements, outsourcing involves transferring activities from the Government to external service providers. Outsourcing also entails a transfer of some risk (financial and operational) to the external service provider, as does SIBs. It is noteworthy that the Gauteng DSD employs outsourcing arrangements as their primary service delivery method.

2.5.2 Pay-for-Performance

SIBs have elements of PfP contracts as they are financing mechanisms in which the investor return is determined by the extent to which pre-determined outcome targets are met (Burand, 2013; Pastore & Corvo, 2020). Burand (2013) differentiates the typical Government PfP contract from a SIB arrangement by noting the following:

1. The attainment of performance outputs typically triggers Government PfP contract payments instead of achieving outcomes as in SIBs.

2. In Government PfP arrangements, the Government and Contractor share the financial risk. In a SIB setup, the financial risk transfers to the investor who provides the upfront capital for the social services.

3. The time horizons for typical PfP arrangements are short, whereas SIBs are structured for more extended time horizons to match the periods for outcomes to materialise.

2.5.3   Public-Private Partnership

PPPs are typically long-term relationships between the public sector and multiple private sector actors (Shaoul & Stapleton, 2012; Wojewnik-Filipkowska & Wegrzyn, 2019). In PPPs, there is a transfer of risk (financial and operational) from the Government to the private sector and have aspects of PfP as the private sector partners benefit by achieving predetermined outcomes (Caldwell, Roehrich, & Gerard, 2017; Shaoul & Stapleton, 2012). PPPs take various forms, of which SIBs are one of the forms (Liang et al., 2014; Social Finance, 2016).

2.6   SIBs issued in South Africa

2.6.1   Impact Bond Innovation Fund (IBIF)

The first SIB was issued in South Africa in 2018 by the Western Cape Department of Social Development (DSD) with matched funding provided by Apex HI Charitable Trust (Social Finance, 2021). The three-year R7,5 million SIB focused on Early Childhood Development (ECD) and aimed at improving outcomes in early childhood (Bertha Centre, n.d.; Social Finance, 2021). The SIB mechanism was managed by the Intermediary partnership of m2m and Volta Capital, and the service provider was the Western Cape Foundation for Community Work (FCW) (Bertha Centre, n.d.; Social Finance, 2021). The Standard Bank Tutuwa Community Foundation, Future-growth Asset Management, and LGT Venture Philanthropy were the investors in the SIB (Bertha Centre, n.d.; Social Finance, 2021).

2.6.1.1 Performance Targets

Per Khan (2021b), FCW had to meet three targets to trigger payment;

1) Recruit 1,000 children into the programme per year and retain these children in the programme over each year (recruitment and retention).

2) Ensure beneficiaries attend at least 50% of the programme over the year, measured by attendance records, and;

3) Ensure success against the Early Learning Outcomes Measure (ELOM) assessment tool, which measures the extent to which ECD programming is adequately preparing children for Grade R.

2.6.1.2 Outcome and Learnings

The IBIF SIB successfully met most of its outcome targets, with investors earning an average, annualized pro-rata return of 14% out of a maximum of a possible 16% (Khan, 2021b). The returns made were two percentage points from the maximum potential return of 16% due to slight underperformance by FCW on the attendance target in year one and having missed the ELOM (outcome) targets in years one and two (Khan, 2021b). However, the general view was that there was mispricing of risk in the IBIF SIB as almost all the outcome payments for the DSD were linked to easily attainable delivery targets (Khan, 2021b). The risky target, ELOM, constituted less than 10% of the entire schedule of payments. It was pointed out that investors will have to shoulder a greater risk to be attractive for the Government in the future (Khan, 2021b).

The stellar financial returns were somewhat offset by the high legal costs of contracting, due diligence, and the opportunity costs implied by the long set-up period (Khan, 2021b). Overall, the set-up of IBIF was complex, costly and beset with lengthy delays (Khan, 2021b). A second SIB with different service providers and government partners but the same investors and intermediaries was supposed to launch together with the IBIF SIB but collapsed due to inequities by the local service provider and disagreements on complicated outcomes measurement (Khan, 2021b). Concerning efficiency, Khan (2021b) report that the unavailability of rigorous data from the period before the IBIF SIB from the DSD made any assessment difficult. However, Khan (2021b) confirms that the DSD paid more for successful SIB outcomes than the version of the programme that the DSD funded previously on an input basis and that it reached fewer beneficiaries.

Khan (2021b) also noted that the IBIF SIB did not bring new money to the ECD sector. It did not roll out services to previously unserved beneficiaries but successfully demonstrated that high-quality interventions could be scaled up via SIBs (Khan, 2021b). Despite the seemingly high costs associated with the SIB, the actual value of successful ECD delivery lay in potentially preventing a host of future problems, including youth unemployment, crime, poor health and a reduced tax base, which is difficult to quantify (Khan, 2021b).

2.6.2 Bonds4Jobs (B4J)-Pilot

The Bonds4Jobs pilot SIB launched around the same time as the IBIF SIB in 2018. The R124,5 million SIB was scheduled for four years, providing employment services to young work-seekers from disadvantaged backgrounds (Khan, 2021a). The Covid-19 pandemic and the ensuing national lockdown resulted in the early termination of the SIB in July 2020, halfway through the implementation period (Khan, 2021a). The participants in the B4J SIB pilot are listed in table 2.1.

Table 2 1: Bonds4Jobs SIB Pilot Participants

SIB Issuers	Gauteng Provincial Government (GPG)
	The Jobs Fund (National Treasury)
	Yellowwoods
	The First Rand Empowerment Foundation (FREF)
	The Allan Gray Orbis Foundation Endowment
Investors	The Standard Bank Tutuwa Community Foundation
	Hollard
	Brimstone Legacy Fund
	Clientèle Life
	Oppenheimer Generations (OG)
	UBS Optimus Foundation (UBS)
Service Providers	Harambee Academy
	WeThinkCode
	Explore Data Science Academy
Intermediaries	Bonds4Jobs
	Harambee Youth Employment accelerator
Evaluators	PwC
	Moore

Source: (Khan, 2021a)

2.6.2.1 Performance Targets

The Bonds4Jobs SIB had overall annual job placement targets of 600 for round one and 5,400 for round two (Khan, 2021a). Targets were defined annually, based on Harambee Accelerator's labour demand forecasts from partner employers (Khan, 2021a). Specific

criteria governing the duration of the work contract, the type of job, and the candidate's age were applied during the measurement of targets (Khan, 2021a).

2.6.2.2 Outcome and Learnings

The B4J SIB proved to be more efficient at getting people into jobs than other youth employment programmes funded by the GPG (Khan, 2021a). In addition, Khan (2021a) found that, on average, 50% of working capital costs in the B4J SIB went toward paying for stipends to trainees, thereby increasing the chances of beneficiaries completing the programmes as they can cover transport and buy food.

It was also noted that although the costs of placing a beneficiary into a job were five times more expensive through the B4J SIB than with the GPG's traditional partners, the jobs obtained through the B4J SIB were more complex and paid significantly more than the minimum wage (Khan, 2021a).

There also seemed to have been mispricing of risk within the B4J SIB as 86% of the targets were met despite curtailment of the SIB due to the Covid-19 pandemic (Khan, 2021a). The intermediaries, however, disputed this view, stating that investors assumed a significant risk as the outcome targets were linked to beneficiaries ultimately being absorbed into employment after training (Khan, 2021a).

Although the B4J SIB has begun to shift how unemployment is addressed by providing demand-driven training and inclusive hiring practices, structural issues in the labour market remain (Khan, 2021a). The structural problems, including low economic growth, a highly concentrated economic structure, and a nascent small business sector, cannot be addressed by SIBs (Khan, 2021a). Therefore, SIBs tended to focus on micro-level issues, including improving individuals' skills and work readiness and helping employers get better employees (Khan, 2021a).

2.7 Narratives on SIBs

Sentiment towards SIBs in extant literature appears mixed, with scholars acknowledging the benefits of SIBs and pointing out that they are not a panacea to social issues (Galitopoulou & Noya, 2016; OECD, 2015). A limited role for SIBs raises the question of whether SIBs are destined to be mainstream or niche innovation. The following narratives on SIBs are based on the perceived attributes of SIBs with a particular focus on the relative advantage attribute of SIBs over traditional social service delivery.

According to Rogers (2003) the perceived attributes of an explain 49%-87% of the variation in the diffusion speed of an innovation. Further, the relative advantage attribute that measures the innovation's superiority over its predecessor is the strongest predictor of innovation adoption amongst the five characteristics of innovation described by Rogers (2003).

2.7.1 Relative Advantage of SIBs to Traditional Service Delivery Methods

Concerning SIBs, the relative advantage attribute would measure the extent to which SIBs are perceived to be more efficient, cost-effective or impactful than traditional methods of funding and executing social services. This subsection will discuss scholars' conflicting arguments on the relative advantage of SIBs over conventional funding and implementing social services.

2.7.1.1 SIBs Align Stakeholder Interests

Carè and Lisa (2019) find that SIBs create an incentive structure that aligns stakeholder interests around delivering predetermined outcomes. Broccardo and Mazzuca (2019) explain how the complex design of SIBs conjoins several parties in a system within which they must reconcile their different interests to achieve project goals, as no party involved would single-handedly succeed in completing the project goals. Broccardo and Mazzuca (2019) also highlight the ability of SIBs to capture socially emerging needs and convert these needs into a scheme that involves multiple stakeholders. They argue that SIBs may be the only example of a finance–social services co-production link capable of doing such.

Other scholars dispute that SIBs foster collaboration; Ormiston et al.(2020) found that service providers are marginalized in SIBs, and there is an imbalance in knowledge and power dynamics among stakeholders. Maier and Meyer (2017) also suggest that a SIB mechanism, like any contract, can only induce a partial alignment of the stakeholder interests. Whilst conceding that interest alignment in a SIB is strong due to their outcome-based incentives, they maintained that each actor continues to have divergent interests with those of the others (Maier & Meyer, 2017). Maier and Meyer (2017) find that "forced" alignment of interests results in a partial displacement or modifying of previous interests. Maier and Meyer (2017) argue that the Government and NGO service providers exercise agency for the taxpayers, respectively beneficiaries. Such displacement of interests may not always be consistent with their fiduciary responsibilities (Maier & Meyer, 2017). They maintain that the best-case scenario is the consummation of a psychological contract

precluding stakeholders from pursuing a hidden agenda at the cost of others (Maier & Meyer, 2017).

Joy and Shields (2013) also find knowledge and power dynamics imbalances between the participants in a SIB mechanism. They question the ability of NGOs and social enterprises to collaborate, given that they would have had to bid for contracts competitively (Joy & Shields, 2013). Also, due to these conflicts of interest between parties involved and the often turbulent relationship between Government and NGOs, Joy and Shields (2013) doubt that SIB projects can run as smoothly as envisioned. Buttressing the conflicting interests argument, Tse and Warner (2020) assert that formal SIB contracts align only particular interests of the five key actors: investor, intermediary, social-service provider, evaluator, and public agency. They point out that only two or three stakeholders (the public agency, the intermediary, and often the investor) usually participate in the original SIB contract negotiations, thereby actively placing their stakes into the contract (Tse & Warner, 2020).

2.7.1.2 SIBs Promote Innovation

SIBs are celebrated as having the ability to foster innovation in providing social services. Some scholars note that the structural aspects of SIBs, particularly those that require coordination and integration, appear to encourage social innovations (Broccardo & Mazzuca, 2019; Ramsden, 2016). SIBs promote service innovation by focusing on outcomes rather than on process inputs and outputs, in what is referred to as a "black box" approach (Arena, Bengo, Calderini, & Chiodo, 2016). SIBs do this by creating a flexible environment that incentivizes service providers to invest in quality improvements that increase the expected return on investment as the impact of the project outcome becomes greater (Broccardo & Mazzuca, 2019). Broccardo and Mazzuca (2019) also find that diversity among service providers required in SIBs results in improved performance, which is also an advantage. Significantly, SIBs can foster innovation through the network of relationships formed for their operation. Arena et al. (2016) explain how SIBs can exploit the synergies between different parties by reconfiguring the service delivery structure and creating opportunities for cross-fertilisation of ideas between Government departments.

Despite the well-documented innovation advantages SIBs embody, Ramsden (2016) notes that the same flexibility that allows for innovation may be abused to game the system by various means, including selecting beneficiaries who are easier to service. Joy and

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Shields (2013) also dispute the earlier assertions of flexibility and innovation in SIBs; they contend that adherence to the strict results framework that SIBs require may dissuade a service provider from responding to unique and unpredictable needs. Joy and Shields (2013) instead advocate for a co-creation of result frameworks. Edmiston and Nicholls (2018) also voiced this point of contention. In practice, funders and intermediaries become heavily involved in designing the initiatives they choose to finance, thereby reducing service providers' discretion to innovate (Sinclair, McHugh, & Roy, 2021). The result is that a highly pressured environment is created, which forces service providers to focus on providing better data to support the achievement of outcomes rather than promoting collaboration, innovation, and discretion (Tse & Warner, 2020).

2.7.1.3 SIBs Transfer Risk from Public Sector to Investor

Another significant benefit of SIBs is their ability to effectively transfer project risk from the commissioner of the SIB to the investor (Edmiston & Nicholls, 2018; Galitopoulou & Noya, 2016). The investor is only paid upon the project meeting its outcomes, and thus if the project is a failure, the investors and not the public sector or service providers bear the cost (Galitopoulou & Noya, 2016). In practice, however, Galitopoulou and Noya (2016) find that capital protection and guarantee mechanisms and early termination clauses of the SIB contract may be in place, mitigating the risk assumed by investors. Tan et al. (2021) also find little evidence in practice of investors bearing the entire risk of the success of a project; they note that the public services contracting process is complex and payments are not entirely based on outcomes. Galitopoulou and Noya (2016) also find that investors often transfer the residual risk of program failure and total capital loss by securitising a part of their investment. The blending of various types of investors, each requiring different levels of return based on the amount of risk taken on, also safeguards the investors return (Galitopoulou & Noya, 2016).

Tan et al. (2021) note that besides assuming project risk, investors also carry the risk that the Government may default on paying back the investors even if the agreed outcomes are attained, as would be the case during a financial crisis. This risk does not detract from the desirability of SIBs, as investors can obtain guarantees in the form of full or partial protection of principal or guarantee of outcome payments in the event of such default (Tan et al., 2021).

2.7.1.4 SIBs Mobilise new Funding and Enhance Sustainability

Broccardo and Mazzuca (2019) find that SIBs are crucial in funding social projects that would otherwise not be financed and realized, especially during times of austerity when Government priorities lie elsewhere. Liang et al. (2014) also note that because Government social spending focuses on dealing with the consequences of social issues rather than the root cause of those problems, SIBs could provide additional funding by encouraging private investors to supply upfront capital for preventative interventions. Liang et al. (2014) suggest that increased funding would enable programs to scale up and result in additional savings from increased economies of scale.

On sustainability, it is argued that because of the market discipline within SIBS and the presence of a culture of monitoring and evaluation, which also impacts staff motivation, the sustainability of service providers is enhanced (Edmiston & Nicholls, 2018; OECD, 2015). The flexibility and forward planning that upfront multi-year funding provides also bolsters a service providers financial sustainability; service providers often lead to a precarious existence characterised by economic uncertainty (Edmiston & Nicholls, 2018; OECD, 2015; Patton & de Wit, 2015).

2.7.1.5 SIBs Increase Program Efficiency and Effectiveness

The efficiency and effectiveness that SIBs bring to social programming arise from the involvement of private investors who bring about the necessary market discipline to ensure that costs are contained, and a culture of measurement and feedback is inculcated within the programmes (Edmiston & Nicholls, 2018).

Sinclair et al. (2021) suggest that there is little evidence to conclude that SIBs effectively address social needs; they contend instead that SIBs are a success of advertising and marketing rather than substance. They attribute the narrative of greater effect on the dominance of commodification and financialisation of social policy and society (Sinclair et al., 2021). Sinclair et al. (2021) argue strongly for removing market logic in social policy.

2.7.1.6 SIBs Reduce the Cost of Social Programs

In favour of SIBs, Liang et al. (2014) suggest that they may reduce the costs borne by Governments for social services in the long run. Such cost savings would result from avoiding costly remediation programs in the future that would otherwise have been carried by the Government (Liang et al., 2014). Liang et al. (2014) also argue that despite the Government ultimately footing the bill when a social program meets its goals, the

deferment of such payment is an attractive feature to cash-strapped governments. Dowling (2017) disputes the idea of future savings by avoiding remedial programs as being speculative. Dowling (2017) points to the uncertainty of realizing such savings in the future as a basis for dispute.

2.7.1.7 SIBs as a more Effective Mechanism to finance Sustainable Development Goals (SDGs)

South Africa is a signatory to the United Nations (UN) SDGs and has committed to the achievement of the goals therein with various sections of the National Development Plan (NDP) aligning to specific SDGs (DPME, 2019). SDG 17 Partnership for Goals, calls for a global partnership for sustainable development. The OECD (2020), in its framework for SDG-aligned finance, states that SDG alignment serves the dual purpose of mobilizing resources for the implementation of the 2030 Agenda (SDGs) and a value proposition for impact seeking private sector actors. Kabli, Rizello, & Trotta, (2021), through an analysis of SIBs, shows that SIBs are entirely consistent with the aims of SDG-based financial partnerships models. This compatibility with SDG 17 is a significant advantage of SIBs over traditional social service delivery models as they contribute to the Government's achievement of SDGs.

2.7.1.8 SIBs Fail to Capture the Complexity of Social Problems

SIBs are accused of being reductionist and oversimplifying inherently complex social problems (Sinclair et al., 2021). Sinclair et al. (2021) liken the society in which SIBs operate to a complex adaptive system (CAS) and argue that such systems behave in a non-linear fashion to interventions. They suggest that small changes in starting conditions or interventions can have significant and unexpected effects, and such systems involve feedback loops (Sinclair et al., 2021). SIBs operate on the assumption of a linear cause and effect basis; thus, the non-linear nature of complex adaptive systems means that the sequence of occurrence of particular results is unpredictable, bringing into question the appropriateness of SIBs in addressing social issues (Sinclair et al., 2021). Joy and Shields (2013) concur with this view and add that SIB's emphasis on preventative interventions in addressing intractable societal problems risks framing the issues too narrowly as an individual's lack of self-responsibility. Similarly, Tse and Warner (2020), citing SIBs in the early childhood development (ECD) field, note how SIBs emphasise pre-school parenting skills but not the broader support structures required for childhood development, such as parental leave and access to quality childcare. Tse and Warner (2020) attribute this

narrow focus on the outcome indicators and the propensity of SIBs to target behavioural interventions on relatively weaker beneficiaries instead of powerful upstream actors within the market or public service delivery system.

Dixon (2021) also found the performance management regime employed within SIBs to be rigorous and complex to the point of being described by service providers as "onerous" and "intimidating". The performance management, which is supposed to provide flexibility to service providers, provided a traditionally linear, reductionist framework (Dixon, 2021).

2.7.1.9 Contracting Complexity and High Set-up Costs Associated with SIBs

Heinrich and Kabourek (2019) argue that many SIBs are not progressing due to several factors, including technical capacity constraints, complex modelling and projecting of returns for investors, complex contractual arrangements, data access limitations, and set-up costs. The high set-up costs of SIBs relate to the upskilling of Government staff on program evaluation and partnership building and scoping the information technology requirements (Edmiston & Nicholls, 2018; Joy & Shields, 2013). The costs associated with the set-up of SIBs also escalate due to the need for feasibility studies and experimental piloting of projects before they are scaled up (Edmiston & Nicholls, 2018). However, in their analysis of SIBs, Pandey, Cordes, Pandey, and Winfrey (2018) suggest that set-up costs may account for a substantial share of total cost in the initial years, but these costs may not be so high over the project's life. Maier et al.(2018) support this view and suggest that as SIBs become more common, there is bound to be some standardisation, which reduces transaction costs. Maier et al. (2018) indicate that the key to lowering SIB transaction costs is issuing more SIBs.

Also, adding to the complexity, the legal and policy environment for SIBs is undeveloped and does little to promote SIBs. Arena et al.(2016) argue that existing laws and policies constrain the SIB ecosystem by reducing the number and type of organizations that can participate in fostering innovation and diversity in supply chains. They also find that current laws and regulations prescribe a public procurement model that favours the criterion of "the lowest price" rather than the quality of the intervention. Such legal requirements would bring the public sector funders into conflict with service providers whose mandate would be quality of intervention.

Other scholars argue that the benefits of SIBs do not outweigh the complexity and cost of their implementation (Mulgan, Reeder, Aylott, & Bosher, 2010). They point to the cost of

capital for private investors being higher than Governments as one of the reasons why Government should directly finance social programs (Arena et al., 2016).

On the possibility of broader adoption of SIBs, Joy and Shields (2013) suggest that the resultant largescale public sector layoffs and legal battles may prove too costly and time-consuming to be of benefit. They conclude that the loss of stable and well-paid jobs will have wider negative economic consequences if SIBs are implemented wholesale (Joy & Shields, 2013). Service providers would also face similar costs to update their skills and systems to participate in projects (Sinclair et al., 2021).

2.7.1.10 Unsuitably Long Investment Duration and Attribution Challenges

Scholars find that even though the design of SIBs does not constrain the duration of a SIB contract, potential investors consider longer-term contracts as higher risk (Liang et al., 2014; OECD, 2015). Longer-term contracts compromise the attribution effect of SIBs as mitigation scholars suggest that intermediate output goals be tied to limited investment returns (OECD, 2015). Related to attribution challenges, Galitopoulou and Noya (2016) stress the importance of appropriate indicators and accurate measurement as each outcome is priced using cost data. Additionally, impartial and credible validation of the achievement of outcomes by independent assessors is critical (Galitopoulou & Noya, 2016).

Galitopoulou and Noya (2016) note the potential of SIBs to promote a culture of monitoring and evaluation in social service delivery, facilitating evidence-based policymaking. However, such a culture may not take root due to the challenges in attribution that result from the selection of inappropriate outcome indicators (Tse & Warner, 2020). These indicators are static and do not reflect the emergent nature of genuine social outcomes, so they are typically inappropriate (Tse & Warner, 2020). Fox and Morris (2021) go as far as to question the efficacy of SIBs in addressing social issues; they point to a misalignment of performance measures to SIB objectives and the costs related to detailed evaluations as some of the causes. Fox and Morris (2021) suggest that future SIBs should be smaller with more tightly defined services and measurement indicators. Patton and de Wit (2015) suggest that such an emphasis on data and accurate measurement may be the reason why some emerging economies without a solid monitoring and evaluation culture baulk from implementing SIBs. Patton and de Wit (2015) further suggest that the lack of a monitoring and evaluation culture in developing countries can be attributed to the lack of

reliable Government data and the limited capacity of NGOs to collect and evaluate the data.

2.7.1.11 SIBs Reduce Government's Democratic Accountability to the Public

Sinclair et al. (2021) postulate that the Government's responsibility to select and oversee service providers is diminished via the process involved in arranging a SIB, as an intermediary assumes these responsibilities. Sinclair et al. (2021) argue that SIBs result in the Government outsourcing the services that address social problems and the responsibility for selecting a provider, thereby eroding the public and democratic accountability trail. The loss of a direct relationship between the service provider and the Government weakens its ability to oversee or influence service provision or act to remedy malpractice (Sinclair et al., 2021). Dowling (2017) suggests that because investors seek to ensure that their investments are successful, they are sometimes afforded the right to replace service providers if they fear that outcome targets will not be achieved. Dowling (2017) suggests that this level of power and decision-making enables investors to shape social policy according to their interests to ensure a financial yield. This shift in power, according to Dowling (2017) constitutes a process of de-democratisation that turns private financial investors and financial markets into public policy-makers.

From a PPP perspective, Shaoul and Stapleton (2012) argue that PPP-type arrangements such as SIBs do not allow for the level of scrutiny and oversight required of Government projects and therefore undermine the social contract between the Government and its citizens.

2.7.1.12 Unintended Consequences of SIBs

A major potential drawback to SIBs is their ability to result in negative externalities; for instance, they could disrupt the market for social service provision by disrupting or replacing incumbents (OECD, 2015). Such disruption and replacement occur despite the net economic benefits that result from their implementation, achieved through increased social investment supply (Broccardo & Mazzuca, 2019; Galitopoulou & Noya, 2016).

(Broccardo & Mazzuca, 2019) also, identify the undue influence of investors in the choice of outcome indicators and the design of the SIB's financial structure. This influence, borne out of an interest to manage their risk, often results in selecting outcomes with quantitatively easier to measure indicators at the expense of more meaningful outcomes that may not be easily measurable (McHugh, Sinclair, Roy, Huckfield, & Donaldson,

2013). Another unintended consequence of SIBs is the cherry-picking of beneficiaries based on ease of service by service providers. Such practices result in the most vulnerable and needy in society being overlooked due to the difficulty, cost and time involved in serving them (Broccardo & Mazzuca, 2019; McHugh et al., 2013; OECD, 2015). Significantly, Patton and de Wit (2015) find that the most vulnerable and needy cohorts in developing countries often presented multiple risks, including abject poverty, poor health and education, and high unemployment, making them complex to serve with a SIB. Citing an example of an ECD intervention in a developing country Patton and de Wit (2015) assert that program designs would also need to address concurrent risks within the cohorts such as malnutrition and disease. This suggests that despite the best intentions, the most deserving cohorts may still be unfeasible for a SIB which is usually narrowly focused on a limited number of issues.

Still, another factor against SIBs is their potential to be exclusionary. Investors' outcome payments are deferred; hence, investors need to use their resources to fund programs (Mulgan et al., 2010). Such arrangements exclude potential investors whose constitution places restrictions on the use of reserves and those who cannot raise funds for participating in SIBs (Mulgan et al., 2010). Deferred payment mechanisms inherent in SIBs could potentially reduce the pool of investors who can join SIBs, limiting their adoption rate.

An equally significant unintended consequence of SIBs is the 'wrong pocket problem". Arena et al. (2016) find that with SIBs, the public entity that bears the cost of the SIB is not necessarily the one that realizes cashable savings as project outcomes may not be clearly ascribable to one single entity's budget. Such a situation could result in an unwillingness by public officials to enter into SIBs, especially when performance is measured on issues that include cost savings.

Similar to the "wrong pocket problem." Patton and de Wit (2015) find that sustaining political interest in SIBs in the long to medium term is challenging. Using the example of ECD interventions, Patton and de Wit (2015) assert that even if SIBs demonstrate significant success, politicians won't see the effect on job creation in the short term. Consequently, politicians may shift focus away from early education to quick result issues like unemployment (Patton & de Wit, 2015).

Finally, Joy and Shields (2013) find that the failure to achieve pre-defined outcomes and the discontinuance of investment in a SIB may result in serious welfare issues in the future.

They challenge the practice of investors abandoning a failed SIB and assert that as long as the SIB's actual outcomes prevent the worsening of a social problem or contribute to improvements in social justice and opportunity over time, they should be maintained (Joy & Shields, 2013).

2.8 Conclusion

This chapter outlined the theoretical framework, DOI, underpinning this study and highlighting the areas of development and future research. The impact investment field was also examined, with the impact investing market being sized at only 2% of global AUM (IFC, 2021). The history of SIBs was also traced to the UK, where the first of its kind was commissioned to combat recidivism in young adults(Liang et al., 2014; Ramsden, 2016). The chapter also looked at the geographic distribution of SIBs and revealed that significantly more SIBs are issued in developed countries such as the UK and the US than emerging economies such as South Africa (Social Finance, 2021). The statistics on SIBs issued was overlaid on Rogers (2003) innovation curve, thereby categorizing South Africa and a majority of emerging economies as laggards in adopting SIBs.

South African SIBs issued to date were briefly reviewed, namely the IBIF SIB and the B4J SIB (Bertha Centre, n.d.; Khan, 2021a; Social Finance, 2021). The two SIBs were a success, especially for the investors, but were hampered by long delays and high transaction costs (Khan, 2021a, 2021b). The B4J SIB was also prematurely closed due to the Covid-19 pandemic (Khan, 2021a). The issuers of the two SIBs expressed a sense that the outcome targets were not appropriately priced in terms of risk as they felt that the outcome targets were not sufficiently challenging (Khan, 2021a, 2021b).

A central theme arising from the literature is the cautious acceptance of SIBs as an investment and innovation. There is no universal agreement by scholars on whether SIBs represent an improvement on traditional methods of social service delivery. These dissenting views could be emanating from the relative lack of evidence of the performance of SIBs as they are still relatively new. Further, much of the current literature on SIB performance consists of commentary papers located in grey literature or evaluation reports produced or funded by interested parties (Wilson, Fraser, Kimmitt, Tan, McHugh, Lowe, Warner, Baines, & Carter, 2020). This situation makes identifying a dominant narrative more difficult.

Issues that were clearly identified as drawbacks of SIBs as an innovation included the high set-up and transaction costs and the complexity of the SIB mechanism compared to

traditional social programming (Edmiston & Nicholls, 2018; Heinrich & Kabourek, 2019; Joy & Shields, 2013). These drawbacks were confirmed in the reports on the South African SIBs (Khan, 2021a, 2021b). Other disadvantages such as the undue influence by investors and intermediaries as well as a possible regression of a social problem once the SIB matures or is terminated could be inferred from the South African SIB reports.

Several problems associated with SIBs which could act as barriers to their adoption were also identified by various scholars. Carè and Lisa (2019) and Maier and Meyer (2017) find a potential for exacerbating the principal-agent conflict between the Government and other stakeholders. Other scholars such as Galitopoulou and Noya (2016) highlight shortcomings relating to measurement and attribution of outcomes, the potential of SIBs to exclude smaller NGOs and social enterprises, and the absence of a critical mass of guiding precedents are more reasons why the rate of adoption could be slow.

Tse and Warner (2020), in their critique of SIBs, are perhaps unrealistic in their expectation that the purview of SIBs can be expanded to more than a narrower focus on the beneficiary. This researcher finds such expectation akin to seeking to make SIBs the "silver bullet" that the OECD (2015) maintains they are not.

Based on the arguments presented, it is evident that SIBs are flawed and that their early expectations may have been too high. It is also apparent that the potential benefits that SIBs present are promising, as evidenced by the results of the two completed SIBs, and, on balance, far outweigh the drawbacks and risks. Therefore, when using the DOI (Relative Advantage) lens as a measure, it is not apparent that SIBs are superior to traditional service delivery methods. Consequently, one cannot predict if the relative advantage of SIBs suggested in some narratives would be sufficient to persuade policy-makers to overlook some of the drawbacks and trial and adopt the innovation. Still, the diffusion of SIBs to the public sector in South Africa and other emerging economies remains essential.

Chapter 3: Research Questions

This chapter suggests research questions based on the literature review. The literature review focused primarily on reviewing the perceived relative advantage or superiority of SIBs over traditional social service provision to identify possible barriers to the adoption of SIBs by the public sector in South Africa. Various scholars suggest arguments for and against SIBs; these arguments add to or detract from the perceived relative advantage of SIBs, as pointed in DOI literature. Based on such views, the following research questions were be examined:

Research Question 1: To what extent does the non-alignment of stakeholder interest detract from the perceived relative advantage of SIBs?

The literature cited in this study suggests an alignment of interests within SIBs (Broccardo & Mazzuca, 2019; Carè & Lisa, 2019). However, there is also a suggestion that such alignment is incomplete and that less powerful actors in the SIB mechanism, such as service providers, are side-lined (Joy & Shields, 2013; Maier & Meyer, 2017; Ormiston et al., 2020; Tse & Warner, 2020). Evidence from the B4J SIB also suggests that the service providers interests were overlooked, resulting in the collapse of a SIB that was supposed to launch in tandem with the B4J SIB (Khan, 2021a). It also appears that the interests of the investors in both the IBIF and B4J SIBs trumped those of the Government as they were able to negotiate outcome targets that were relatively easy to achieve given the pay-out rate (Khan, 2021a, 2021b). Such undue influence in selecting outcome targets could result in misalignment between outcome indicators and objectives or the selection of easier beneficiary cohorts to service (Fox & Morris, 2021; McHugh et al., 2013; OECD, 2015). It would appear that the co-creation of the results framework with all parties, as suggested by Joy and Shields (2013), would address much of the alignment problem; however, the two SIBs do not evidence successful co-creation.

Given that stakeholder alignment affects critical elements of the SIB mechanism, including selecting outcome targets, indicators and outcomes payments rates, non-alignment within SIBs may detract from the perceived relative advantage of SIBs and create a barrier to their adoption.

Research Question 2: How does SIBs inability to completely capture the complexity of social problems affect their desirability (relative advantage) to the public sector?

Several scholars suggest that SIBs oversimplify complex social problems and, as a result, frame these problems so narrowly as to only provide a partial solution (Joy & Shields, 2013; Sinclair et al., 2021; Tse & Warner, 2020). This criticism is also alluded to in the B4J SIB report, whereby an interview participant suggested that unemployment in South Africa has structural underpinnings and that SIBs alone cannot solve the problem (Khan, 2021a). Because complex issues have elements of emergence, there are criticisms that an emphasis on attaining static outcome targets may stifle service providers from innovating to address the problems as they arise (Broccardo & Mazzuca, 2019; Ramsden, 2016; Sinclair et al., 2021).

Issues related to selecting outcome indicators are also salient as SIBs will typically implement programs with interventions that can be measured to the level of detail required for verification. As a result, more intangible outcome targets that may be more socially significant may be left out (Broccardo & Mazzuca, 2019; McHugh et al., 2013). SIBs with unsophisticated outcome targets and indicators may be unsuitable for addressing complex social problems.

The apparent inability of SIBs to adapt their activities in response to changing circumstances and the unpredictability of complex social issues brings their effectiveness into question. According to DOI theory, the public sector may be reluctant (not be persuaded) to trial SIBs if they perceive them to be inferior or lack a relative advantage over traditional service delivery methods.

Research Question 3: To what extent does the perceived lack of Government accountability in SIBs detract from the perceived relative advantage of SIBs?

Some scholars argue that a shift in power from the Government to the private investor occurs when a Government commissions a SIB (Dowling, 2017; Sinclair et al., 2021). The basis of this argument is that the investor may also acquire the right to determine how programmes operate instead of service providers (Dowling, 2017; Sinclair et al., 2021). Therefore, the investor manages public policy for their private gain. Sinclair et al. (2021) further suggest that because the Government assumes a hands-off approach to service delivery in a SIB, delegating authority to the service provider, the chain of accountability to the public is abdicated. The Government can then not oversee and intervene in the SIB should challenges arise (Sinclair et al., 2021). The B4J SIB was terminated owing to the Covid-19 pandemic, as the costs to the Government of continuing would have been prohibitive (Khan, 2021a). There is no evidence to suggest that the Government

intervened in the provision of the service nor that it had enough information on its options. Governments have a statutory responsibility for the implementation of services and thus an understanding of how current legislation allows for such accountability in a SIB environment would be required.

Relating to accountability, some scholars find SIBs exclusionary due to the deferred nature of outcome payments, which preclude potential investors with restrictive constitutions from partaking in SIBs as investors (Mulgan et al., 2010). Similarly, it has been contended that SIBs can destabilise the service delivery market by creating new service providers to replace incumbents (Galitopoulou & Noya, 2016). Such exclusions are by nature undemocratic as they deny citizens a voice in social service delivery.

It appears that Government participation in SIBs is active only in the formative period. Other stakeholders then take a more active role once the contract is signed. The perception that Government may be abdicating its mandate to the private sector may render SIBs undesirable and create a barrier to their adoption. This is because the governing party that forms government may not be willing to risk the support of its constituents.

Chapter 4: Research Methodology

4.1 Overview

The previous chapters demonstrated that despite the need for supplementary funding and a multi-stakeholder approach to addressing many of South Africa's complex social issues, there has been scant uptake in SIBS. The preceding chapters also demonstrated how perceptions on whether SIBs represent a step forward from traditional social service provision differ among scholars. Using the DOI theoretical framework, focusing on the attribute of the relative advantage of SIBs, this study intends to answer the overall question: What are the barriers to adopting SIBs in the public sector in South Africa? The research questions are (1) To what extent does the non-alignment of stakeholder interest detract from the perceived relative advantage of SIBs? (2) How does SIBs inability to completely capture the complexity of social problems affect their desirability (relative advantage) to the public sector? (3) To what extent does the perceived lack of Government accountability in SIBs detract from the perceived relative advantage of SIBs?

An inductive approach and an interpretivism philosophy underpinned this study, as will be discussed in this chapter. The present chapter describes the research design, strategy, data collection, analysis procedures, and the process used to analyse transcripts from the interviews to reveal codes and themes concerning the research questions presented in Chapter 3.

4.2 Research Design

4.2.1 Type of Study

The methodology for the study was qualitative, as it allowed for in-depth, open-ended interviews and written documents to inductively generate rich narrative descriptions and construct case studies (Hennink, Hutter, & Bailey, 2020). The current research sought to explain the low uptake of SIBs; the study, therefore, aimed to explore barriers to the adoption of SIBs in the public sector in South Africa using the DOI framework as developed by Rogers (2003). Therefore, a qualitative study was ideal for exploring the possible barriers to the adoption of SIBs by the public sector in South Africa. It allowed for an open frame approach to information gathering, resulting in a rich diversity of views (Saunders & Lewis, 2017).

The study's purpose was exploratory as it sought to find possible explanations for the slow adoption of SIBs in South Africa. Saunders and Lewis (2017) assert that exploratory

studies are ideal for new phenomena where full-scale research is not yet intended, but insights that will inform research design are sought. SIBs are still relatively novel, and an evidence base is still being developed; hence an exploratory approach is consistent with the study's objective (Edmiston & Nicholls, 2018; Wilson et al., 2020). The intention was that future researchers would investigate the leads and possible solutions suggested from the study with greater precision.

4.2.2   Research Philosophy

The research philosophy for this study was Interpretivism. Al Riyami (2015) argues that Interpretivism adopts a relativist ontology in which a single phenomenon may have multiple interpretations rather than a truth that a measurement process can determine. Creswell (2012) then explains how researchers gain a deeper understanding of the phenomenon and its complexity in its unique context with the interpretivism perspective instead of generalising the knowledge base for the whole population. Interpretivism philosophy ties in nicely with obtaining diverse views to address the research questions.

4.2.3   Research Approach

Based on the literature review in Chapter 2 and the resultant three research questions presented in Chapter 3, the study aimed to identify the barriers to adopting SIBs in the public sector in South Africa. This researcher obtained in-depth interview data and secondary data to shed more light on the obstacles to adopting SIBs in the public sector in South Africa.

Therefore, the research approach hereunder was inductive. Saunders and Lewis (2017) define inductive research as theory building from data analysis. The research started from a blank slate and sought to theorize based on analysis of the collected data, which is an inductive approach by definition (Saunders & Lewis, 2017).

The study was a mono method defined by Saunders and Lewis (2017), as it only used semi-structured interviews as a data collection tool. A semi-structured interview is ideal for inductive approaches as it allows participants to tell their own stories, thereby making for a richer repository of insights (Saunders & Lewis, 2017).

4.2.4   Research Strategy

The study employed a qualitative research interview strategy by administering semi-structured interviews with participants within the Gauteng Provincial Government,

Academics, and practitioners in impact investing. Semi-structured interviews enabled this researcher to obtain information on theory development (Saunders & Lewis, 2017). Semi-structured interviews benefit from encouraging participants to tell stories from their point of view (Saunders & Lewis, 2017).

4.2.5 Time Horizon

The study was cross-sectional. Therefore, it involved analysing data from a population at a particular point in time - a snapshot (Saunders & Lewis, 2017). Saunders and Lewis (2017) also highlight how cross-sectional studies allow multiple groups to participate, making it ideal for this study where different stakeholders' views were canvassed.

4.3 Research Scope

South Africa and, to some extent, emerging economies that are yet to embrace SIBs fully formed the basis of this study's scope.

4.4 Population

Saunders and Lewis (2017) define a population as a complete set of group members. For the sake of this study, the population comprised all stakeholders in the SIB ecosystem. These parties will have included the Government Departments, investment firms, law firms, service providers, intermediaries, outcome funders, investors, development consulting firms and technical experts. All these entities and/or individuals may be located across the globe.

4.5 Unit of Analysis

A unit of analysis is the object described by variables about which inferences are made; these are often individual persons but may other things such as groups, political parties, newspaper editorials, and so on (Vogt, 2011). In this study, the organization was that object and, therefore, the unit of analysis. The semi-structured interviews were conducted with individuals in their capacity as official or unofficial representatives of the organisations they associate with.

4.6 Sampling Method and Size

Despite the appearance of being broad, the potential population of interviewees was relatively narrow, given that relatively few SIBs have been issued worldwide and even fewer still in developing economies. Purposive and snowball sampling methods were used, given the potential difficulty obtaining quality and relevant interviewees. Purposive

sampling, also known as judgmental sampling, relies on the researcher's judgment when selecting the units to be studied (Sharma, 2017). According to Parker et al. (2019), snowball sampling is one of the most popular sampling methods in qualitative research, and it is premised on networking and referral. Researchers use their social networks to establish initial links, with sampling momentum developing from these, capturing an increasing chain of participants (Parker et al., 2019). The emphasis in selecting potential interviewees was on who would have insights into the barriers to adopting Social Impact Bonds in the public sector in South Africa.

Potential interviewees were selected with consideration to the following criteria: one) subject matter expert in impact investments and Social Impact Bonds or two have been involved in creating, implementing, or evaluating a Social Impact Bond, alternatively, three civil servant responsible for funding, policy, or implementation of social programs.

4.6.1   Sample Size

The sample was drawn from the population. A total sample size of 14 participants was finally interviewed. Interview participants from the Gauteng Provincial Government and National Treasury were obtained via referrals from classmates. After that, this researcher sought out interview participants of SIBs and SIB pilots in South Africa and beyond. This researcher also used LinkedIn to identify potential participants who were then mailed, explaining the purpose of my study and requesting an interview. This researcher sent 11 LinkedIn interview requests and secured four interviews, with the remainder either not responding or declining to interview. This researcher was also referred to 15 more potential participants from six initial interview participants, 8 of who eventually agreed to an interview. This researcher could not secure an interview with any investor who had invested in a SIB. Still, this researcher was satisfied that the interviewed investment professionals and impact investment consultants adequately articulated the SIB investor perspective.

The participants in the interview process are presented in Table 4.1. This researcher has used aliases and has disclosed limited demographic data to maintain the anonymity of participants.

Table 4 1: Summary of Interview Participants

Pseudonym	Organisation	Interviewee Criteria	Location
Interviewee 1	National Treasury Department	Technical Expert with experience in SIBs	Pretoria
Interviewee 2	Consulting Firm	Impact Investment Technical Expert	Johannesburg
Interviewee 3	SIB Intermediary	Experience in SIB	Johannesburg
Interviewee 4	Investment Firm	Investment Expert	Johannesburg
Interviewee 5	Investment Firm	Investment Expert	Cape Town
Interviewee 6	Gauteng Provincial Government	Technical Expert with expertise in SIBs	Johannesburg
Interviewee 7	SIB Service Provider	Experience with SIB	Johannesburg
Interviewee 8	SIB Outcome Funder	Experience with SIB	Cape Town
Interviewee 9	Consulting Firm	Technical Expert with expertise in SIB	Johannesburg
Interviewee 10	Consulting Firm	Technical Expert with expertise in SIB	Johannesburg
Interviewee 11	Government	Technical Expert	Poland
Interviewee 12	Consulting Firm	Technical Expert with experience in SIBs	Columbia
Interviewee 13	University Research Centre	Technical Expert	Cape Town
Interviewee 14	SIB Outcomes Funder	Experience with SIBs	Johannesburg

Source: Authors Compilation

4.7   Measurement Instrument

The measurement instrument for this study was the semi-structured interview. The semi-structured interview is a data collection method in which the interviewer varies the order in which a set of predetermined guiding questions are asked (Saunders & Lewis, 2017). The interviewer takes on a more organic approach where specific questions may be omitted and or other questions added as the interview progresses (Saunders & Lewis, 2017). Semi-structured interviews benefit from obtaining a rich diversity of views due to the open-ended nature of the questions asked (Saunders & Lewis, 2017).

Saunders and Lewis (2017) emphasize the importance of obtaining informed consent from participants before interviews as participants have the right to withdraw participation from the interview whenever they wish. Saunders and Lewis (2017) also have a guide on the types of questions to use in discussions. Saunders and Lewis (2017) list the questions as introductory, probing, specifying, direct, indirect, structuring and interpreting. The questions' type and order of use depended on participants' responses, and a pilot was conducted to test the technique and check questions for clarity and bias, as Saunders and Lewis (2017) suggested.

4.8   Data Gathering Process

Online interviews via zoom and telephonic interviews were set up with potential participants. This researcher also sought face-to-face interactions where the participant was comfortable doing this. All interviews were initially scheduled to last between 30 and 45 minutes; however, some lasted over an hour. The interview guide was referred to for themes to be covered.

The researcher sought referrals from members of his cohort for participants within the Gauteng Provincial Government and National Treasury. The researcher also sought participants who had experience with SIBs in South Africa. To get such participants, the researcher identified the organisations that had experience in SIBs from publicly available research reports by Intellidex. The researcher used his professional network to obtain referrals to the relevant officials within the organisations who could assist with an interview. Finally, the researcher performed a LinkedIn search with the keywords "Social Impact Bonds" and sent out interview requests by direct mail to subject matter experts. After each interview, the researcher would ask the participant for a further referral, thereby snowballing the number of participants.

The researcher conducted two in-person interviews, with the rest being conducted via videoconference on Zoom. The researcher recorded all interviews and transcribed them using Otter.ai, a speech-to-text transcription application that uses artificial intelligence and machine learning. The researcher then reviewed the text transcripts and clarifications were sought from interview participants before uploading them to the thematic analysis application, ATLAS.ti.

4.9   Analysis Approach

Thematic analysis using computer-aided qualitative data analysis software (CAQDAS) specifically, ATLAS.ti was used. In preparing the data for thematic analysis, care was taken to ensure that details on the date, time and place of data collection were accurately included and that information was anonymized.   Thematic analysis entails looking for recognisable reoccurring topics, ideas, or patterns (themes) occurring within the data that provide insight into communication (Hawkins, 2018). Themes give a more complete picture of the communication experience under investigation, particularly the barriers to the adoption of SIBs within the public sector in South Africa.

The researcher used a six-phased thematic analysis process as suggested by Nowell, Norris, White, and Moules (2017). The process is iterative and reflective and develops themes over time through a back and forth between phases. The various activities in each of the Phases are meant to enhance the trustworthiness of the thematic analysis (Nowell et al., 2017).

Phase 1: Familiarisation with Data.

The researcher immersed themself with the data to gain familiarity with the depth and breadth of content. Immersion primarily involved repeated reading of the 14 transcripts and audio recordings to identify any early patterns in the data before commencing with coding. As recommended by Nowell et al.(2017), the researcher endeavoured to remain faithful to Interviewee accounts and remained vigilant of their preconceptions and biases.

Phase 2: Generating Initial Codes

Having familiarised with the data, the researcher embarked on a process of inductive thematic analysis in generating initial codes. Nowell et al. (2017) recommend that researchers identify critical sections of text and affix labels to index them related to a theme or issue in the data during coding.

In generating codes, the researcher looked out for responses suggesting root causes or barriers to the subject of each of the research questions. This was done as follows:

Research Question 1: To what extent does the non-alignment of stakeholder interest detract from the perceived relative advantage of SIBs?

Some of the questions asked of the interviewees (see Appendix 2) sought views on the causes of the non-alignment of stakeholder interests. Responses to this question provided the primary basis for creating codes (see Appendix 3). Other codes were generated to indicate the interviewee's perception of whether SIBs could still be adopted by the public sector in South Africa, given the shortcoming stated in the research question.

Research Question 2: How does SIBs inability to completely capture the complexity of social problems affect their desirability (relative advantage) to the public sector?

Some of the questions asked of the interviewees (see Appendix 2) sought views on the causes of SIB inflexibility. Responses to this question provided the primary basis for creating codes (see Appendix 3). Other codes were generated to indicate the interviewee's perception of whether SIBs could still be adopted by the public sector in South Africa, given the shortcoming stated in the research question.

Research Question 3: To what extent does the perceived lack of Government accountability in SIBs detract from the perceived relative advantage of SIBs?

Some of the questions asked of the interviewees (see Appendix 2) elicited responses that gave insights into the basis for the perception. Answers to this question provided the primary basis for creating codes (see Appendix 3). Other codes were generated to indicate the interviewee's perception of whether SIBs could still be adopted by the public sector in South Africa, given the shortcoming stated in the research question.

The researcher identified 78 codes before narrowing them to 58 by merging interchangeable codes and deleting redundant ones. Through an iterative process of review, analysis and rationalisation, the researcher further reduced the number of codes to 27 (see Appendix 3). The researcher also developed a codebook with a detailed definition of each code to maintain consistency in the way data was coded.

Phase 3: Searching for Themes

Nowell et al. (2017) describe this phase as sorting and collating all the potentially relevant coded data extracts into themes. Themes are identified as abstract entities that bring

meaning and identity to a recurrent experience and its variant manifestations (Nowell et al., 2017). The researcher employed an inductive approach in generating the themes. The researcher grouped the codes for each research question into themes that closely resembled the content discussed within the codes.

The grouping of codes for research question 1 resulted in five umbrella themes (see Appendix 4a). These themes were "Lack of Market Depth", "Information and Power Asymmetry", "Lack of Trust.""Lack of Enabling Legislation" and "Public Sector Culture". A similar approach was performed for research questions 2 and 3 which yielded three and one themes (see Appendix 4a). The themes for research question 2 were "High Perceived Risk", "SIBs Lack Flexibility", and "Public Sector Culture.". The theme for research question 3 was "Political Imperative".

The researcher then designated the umbrella themes as provisional barriers to the adoption of SIBs by the public sector in South Africa, pending a review of the interview data contained within each theme, also referencing the literature in chapter 2. The review was done in chapter 6 of the report and is detailed under phase 6 below.

Phase 4: Reviewing Themes

The fourth phase entailed the researcher reviewing the coded data extracts for each theme for a coherence pattern. In keeping with Braun & Clarke (2006) recommendation, the researcher assessed the validity of individual themes to determine whether they accurately reflected the meanings evident in the data set as a whole. The researcher systematically refined the themes based on the outcome of the review. The researcher tested the referential adequacy of the themes by comparing the raw data to the developed themes to ensure that the data backed all conclusions.

Phase 5: Defining and Naming Themes

Nowell et al. (2017) recommend theme names that are punchy and immediately convey a sense of what the theme is about. At this phase, the researcher, in addition to naming the themes, performed a detailed analysis, identifying the story told by each theme. The researcher identified eight themes that collectively describe the barriers to the adoption of SIBs in the public sector. The final representation of the themes adopted from the codes is presented in Appendix 3.

Phase 6: Producing the Report

The final phase entailed the researcher writing up and discussing the thematic analysis results with reference to the literature review in chapter 2 and the research questions in chapter 3.

In Chapter 6, the researcher reviewed the interview data under each theme (provisional barrier) through the lens of Rogers DOI framework, specifically through the relative advantage lens. This entailed reviewing the interview data to assess whether, given the provisional barriers, SIBs still presented as superior to traditional forms of social service funding and delivery. Reference was also made to the literature review in Chapter 2 of the report.

After the review and discussion, if the interview data within a theme suggested that SIBs remained superior to traditional forms of social service funding and delivery, the provisional barrier was discarded. Conversely, the provisional barrier was confirmed when the data within a theme suggested that SIBs did not appear to have a clear advantage over traditional forms of social service funding and delivery.

The researcher then used the confirmed barriers to propose a model for overcoming the barriers to the adoption of SIBs within the public sector in South Africa.

4.10 Quality controls

Several measures were taken to ensure dependability, credibility (internal validity), transferability (external validity), and study authenticity. Concerning dependability, this researcher endeavoured to be consistent in deportment and how questions were put to participants to avoid influencing how questions were addressed. According to Frey (2018), a study's results are dependable if they can be reproduced under a similar methodology.

Credibility relates to the study results' trustworthiness, and the more trustworthy or defensible a study is, the more generalizable it becomes (Frey, 2018). The study tried to increase credibility by soliciting reviews from the supervisor and comparing results to available literature for consistency. Interviewee validation entailed returning transcribed interviews with interview participants to authenticate their accuracy.

Frey (2018) defines transferability as the degree to which the research results can be extrapolated or replicated in similar contexts. It follows that from a qualitative perspective, transferability is the responsibility of the one doing the generalizing. The researcher

thoroughly described the research context and assumptions central to the research, enhancing transferability, as Frey (2018) recommended.

Authenticity relates to whether the research is worthwhile and its impact on members of the culture or community being researched (Given, 2008). To enhance authenticity, (Given, 2008) suggests that interviewees have equal access to the research inquiry to avoid bias by developing research relationships beyond stereotypical roles of question-asking and question answering from the outset of the research. Given (2008) argues that adopting this approach would result in participants becoming responsible for the cultural reproduction of the research inquiry in which they have a part and have a more substantial investment in ensuring that the inquiry outcomes are authentic. Given (2008) states how this approach avoids marginalization during the inquiry process and ensures that all participants' views, concerns, and perspectives are represented throughout the research process. This researcher sought to cultivate such a research relationship with all interview participants.

4.11 Ethical Considerations

The researcher used semi-structured interviews to obtain the information required to explore the barriers to adopting Social Impact Bonds in the public sector in South Africa. Being bound by the GIBS ethical principles, the researcher made an application for ethical clearance approved by the MBA Research Clearance Committee on 20 September 2021 before commencing with the data collection process. Thus, ethical approval for human subjects was granted as there was minimal risk to the human participants involved in the study.

The researcher made sure to send out an informed consent form explaining the purpose of the study and explaining why the prospective participant was selected. The informed consent form also disclosed that the researcher was a university student and shared details of the research supervisor. The informed consent letter also revealed the time investment required of the prospective participant and a statement to the effect that there would be no remuneration for participation. After that, during the interview and before discussing the questions, the researcher would reiterate that the discussion is optional and that the participant is free to withdraw with no consequences. The researcher also explained that the information shared during the meeting would be recorded with no identifiers to ensure anonymity.

4.12 Field Issues and Limitations

Gaining access to investors who have been involved in SIBs proved particularly challenging and represented one of the main limitations of this study. The SIB investors approached by this researcher did not respond to email requests for interviews. The inclusion of impact investment professionals somehow mitigated the shortcoming.

Another critical limitation of the study is inherent within the DOI framework and the literature on which the study is based. Most innovation literature is subject to pro-change bias or the assumption that the target population is open to change and thus interested in evaluating innovations (Laukkanen, 2016; Talke & Heidrich, 2014). Although this study inherited the pro-change bias, the interviews effectively mitigated it. The researcher ensured that the questions posed did not assume a predisposition or interest in considering SIBs by the interviewees.

Saunders and Lewis (2017) state that Semi-structured interviews require skilled interviewers to conduct them effectively without introducing bias. This researcher, with limited experience with such interviews, avoided leading questions. Consequently, the researcher periodically reviewed interview recordings to improve the interview delivery.

SIBs are a relatively new concept and have not been widely used in South Africa. As a result, some interview participants did not have extensive or in-depth expert-level knowledge to address some of the conceptual questions fully. To address this limitation, this researcher explained some of the concepts to interview participants to help them engage with the research questions.

The researcher also encountered some issues with transcription accuracy with the transcription application Otter.ai. The researcher had to extensively review each of the 14 transcripts and correct incorrectly transcribed sections. Also, related to the transcription accuracy, the researcher struggled with some interviewees' accents and constantly double-checked the sense of inputs.

4.13 Data Storage

All data, including transcripts and summaries of interviews, was given codes and stored separately from any participants' names or other direct identification. The research information will be kept on a secure cloud-based server for ten years, and only University of Pretoria research personnel will have access to the files.

Chapter 5: Results

5.1 Introduction

This study aimed at exploring barriers to adopting Social Impact Bonds in the public sector in South Africa. The literature review in Chapter 2 formed the basis of the research questions formulated in Chapter 3. This Chapter presents the results of the data collection and thematic analysis conducted to answer the research questions. The findings are shown in the order of the research questions set out in Chapter 3.

5.2 Approach to Addressing Research Questions

As explained in detail in chapter 4, the researcher designated the umbrella themes as provisional barriers to adopting SIBs by the public sector in South Africa, pending a discussion of the interview data contained within each theme, referencing the literature in chapter 2 including the DOI theory. This chapter presents interview data contained under theme (provisional barrier).

5.3 Results: Research Question 1

To what extent does the non-alignment of stakeholder interest detract from the perceived relative advantage of SIBs?

The researcher sought to find out from the interviewee whether a SIB with stakeholder interests that are not aligned would render SIBs unattractive to the public sector in South Africa, thereby creating barriers to their adoption. This question is important given that the effective operation of a SIB mechanism relies on all stakeholders being aligned. Alignment makes it easier for the stakeholders to reach a consensus on selecting outcome targets, indicators, and payment rates. The extant literature suggests incomplete alignment between the stakeholders, and thus this research question explores the desirability of SIBs given the poor alignment. The desirability of SIBs relates directly to Rogers (2003) DOI framework and the attributes of the Innovation, which factor into the rate of an innovation's adoption. Desirability refers specifically to the perceived advantage attribute of the innovation.

Figure 5 1: Research Question 1: Findings and Results
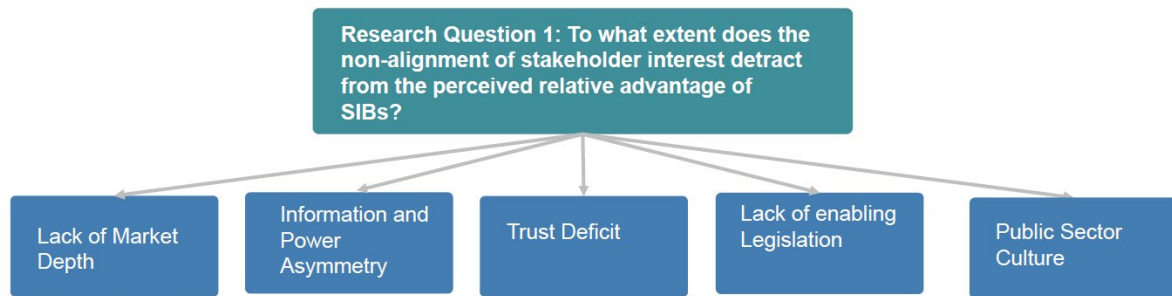
Source: Authors Compilation

Table 5.1 explains the selection of the various barrier themes for research question 1. A detailed analysis including the sub-themes and details of interviewees contributions to each theme is presented in Appendix 4b. The themes that emerged relatively strongly were "Lack of Market Depth" and "Information and Power Asymmetry", as shown in Table 5.1. The themes "Trust Deficit" and "Lack of Enabling Legislation" were moderately supported in comparison with half of the interviewees surfacing these themes. The data presented weak signals for the "Public Sector Culture" theme; however, this researcher deemed the theme qualitatively important enough to be a stand-alone theme.

Table 5 1: Research question 1 Themes

Theme	Explanation of the theme	Interviewee frequency (how many interviewees mentioned this theme)	Overall frequency (how often it came up across all interviews combined)
Lack of Market Depth	This theme refers to instances when interviewees mentioned barriers to SIB adoption that suggest a lack of market depth	13	46
Information and Power Asymmetry	This theme refers to instances when interviewees mentioned issues that indicates an	12	29

	imbalance in power and information between SIB participants		
Trust Deficit	This theme refers to instances when interviewees mentioned a lack of trust in the Government	7	20
Lack of Enabling Legislation	This theme refers to instances when interviewees mentioned legislative hurdles to SIB diffusion	7	10
Public Sector Culture	This theme refers to instances when interviewees mentioned public sector business cultue as hurdles to SIB diffusion	4	4

Source: Authors Compilation

5.3.1 Lack of Market Depth

A theme that came out quite strongly in the data was the lack of market depth as one of the barriers to the adoption of SIBs by the public sector in South Africa. The theme was mentioned by 13 interviewees and came up in discussions 46 times. The lack of closer alignment amongst stakeholders was put down to several factors, including the high costs of setting up the SIB mechanism, the complexity and time-consuming nature of the set-up process, amongst other factors. The codes (sub-themes) associated with or cause the lack of market depth are explored below.

5.3.1.1 High Transaction Costs

Several Interviewees identified the high transaction costs of setting up a SIB as a factor leading to a lack of alignment. This view was expressed by Interviewee 2. Interviewee 2 was sceptical about whether the benefits of delivering social services via a SIB exceed the final cost to the Government.

Interviewee 2

"I suppose there is that attraction to the model for Governments that you can try something innovative, and if it doesn't work, you don't have to pay. But in the end, if it works, you pay more, of course, you've paid for all the structuring, yes. And you pay not just for the costs that the investor has to pay the service delivery, but you're paying the investor some return on their investment as well. So, in the end, it costs more, and I'm not sure that the benefits justify the cost."

Qualifying the assertion that high transaction costs would derail alignment, Interviewee 8 argued that transparency and ensuring that the extra layers of costs are well justified and understood would prevent high costs from being a barrier to adoption for the public sector.

Interviewee 8

"So I think those are some of the barriers that spring to mind, for me, and I think, you know, having the clear case for those additional layers of cost, and you know, it might well be that it's perfectly justified and make sense, etc. But I think that it just all needs to be very transparent and have a clear case for it."

Interviewee 14 had a different experience from Interviewee 2 and insisted that the SIB mechanism be cost-effective with sufficient preparation and research and minimal outside consultants' use.

Interviewee 14

"I think, you know, it is highly complex, in terms of the work and contracting all the different parties. And we were so fortunate that XXXX (outcome funder) had done that research. And XXYY was the technical intermediary. We could really work together and do that (SIB set-up) ourselves, which resulted in our bond being quite cost-effective because these things can be hugely expensive, which I think is a barrier."

Interviewee 1 also felt that although the high costs associated with SIBs were a barrier to their adoption by the public sector, they attributed the high transaction costs to the novelty of the innovation and its stage in the product lifecycle. Interviewee one posits that because SIBs are relatively new, there is insufficient proof of concept, market depth, or competition to drive the costs down. Interviewee 1 assured that the transaction costs associated with SIBs would come down with time and evidence of successful SIB implementation.

Interviewee 1

"At the time, at the moment, there's no depth in the market to reduce that cost, there's no competition in the market. The innovation that I was talking about earlier hasn't come through. So, there's nothing to naturally reduce the costs as it would in a normal market system. Yet, anyway, that will come over."

5.3.1.2 SIBs are Complex to set-up

The high transaction costs were also attributed to the complexity of SIBs. Some Interviewees asserted that the complexity of SIBs was also a cause for the lack of alignment amongst the stakeholders in the SIB mechanism. Issues with selecting appropriate metrics to measure outcomes and the applicable rate of return for each outcome achieved are highly complex. The problems mentioned earlier in selecting metrics could result in disagreements and tensions between outcome funders and investors. Interviewee 8 confirmed that SIBs were a highly complex solution to deliver, adding costs.

Interviewee 8

"I think the first thing is just the complexity. It's not a simple solution, you know, to deliver. And so, currently, there's a lot of work being done by people to really try and kind of build and test etc., data, which is really important. But, you know, if you look at the kind of the costs required, and the complexity in terms of the different stakeholders, all the things you've pointed out, so the alignment of interests is quite complicated."

Interviewee 2 was particularly scathing of SIBs, stating that they were unnecessarily complex and tended to be understood by the people who structured them, thereby creating a situation where there could not be complete alignment.

Interviewee 2

"So, it's not a question of motivation. But I think it's sometimes what people think. Well, firstly, either they come out of the investment space, where complexity and innovation are just what you do, you know, hey, I'm an investment banker; this is what investment bankers do, we build complicated structures that nobody can understand."

The lack of awareness of SIBs among decision-makers in the public sector was also highlighted as a barrier by Interviewee 13. Interviewee 13 suggests that this lack of understanding exacerbates the complexity of SIBs.

> **_Interviewee 13_**
>
> _"I can only name a handful of people that I know, in this professional space, and I work in economic development that know what social impact bonds are, like. And so if you go and speak to say the Minister of Education about social impact bonds, they won't necessarily say no, but to be able to set it up, there are so many people that need to know about them, and they are quite a complex structure to be able to get to a point where everyone's comfortable with it."_

5.3.1.3 Setting up SIBs is Time Consuming

Related to the cost and complexity of SIBs is the time it takes to set up the mechanism. The complexity of SIBs means that more time is spent on understanding them and setting up the legal and operating structure around them, which also comes at a cost. The long set-up time for SIBs may constitute a barrier for the public sector who may want an immediate intervention. Investors may be comfortable with such delays citing due diligence and risk mitigation. Interviewee 3 explained how it took a year to set up the SIB they were involved in.

> **_Interviewee 3_**
>
> _"So, you know, it did take us probably about a year before we got everyone across the line, you know, all of the kind of nitty-gritty, the contracting the capital stack and who gets paid first and when and how and, you know, understanding all the risks. I think that that becomes quite challenging."_

5.3.1.4 Blending Investors to Reduce Costs

A few Interviewees confirmed alignment amongst stakeholders. Interviewee 3 explained that by assembling a team of like-minded, socially conscious investors and blending them according to the required return, they were able to satisfy the outcome funders and the investors and keep the SIB cost-effective.

> **_Interviewee 3_**
>
> _"We had first-loss investors; we had a capital guarantee investors. There were three levels of investment, which then created this blended capital stack. that would_

make the bond more attractive and more cost-effective for the outcome spender, essentially, which should technically be Government, but there were many outcome funders, social and private and Government."

5.3.1.5 Deeper Pool of Outcome Funders Required

In order to enable the blending of investors, some Interviewees suggested that a deeper pool of outcome funders was required. Interviewees, therefore, indicated that the shortage of outcome funders needed to partner with the Government in supplying the outcome funding for SIBs as a barrier to their adoption. An increased supply of SIBs would improve the evidence base upon which potential investors would make an investment decision and reduce the perceived risk. An improved evidential base would also result in cost reductions as innovations in services come through; this would be a catalyst for greater alignment amongst the participants. Interviewee 6, when commenting on the B4J SIB pilot on youth employment, lamented the lack of a marketplace or a fungible marketplace. He also noted that skills development was not aligned to employer requirements, and as a result, SIB type interventions did not generate the requisite interest from potential outcome funders.

> ***Interviewee 6***
>
> *"I think, on balance, you need a deeper pool of intervention owners, and you need a deeper pool of people that are able to fund SIBs; you need a marketplace. So, one of the problems in South Africa is you either don't have a marketplace, or you've got a market that isn't strictly fungible. We don't (have a marketplace) because we don't do workforce development well. We mainly do what we call skills development, which is very certification driven.*

Underlining the need for more outcome funders, Interviewee 1 questioned the sustainability of the SIB model if Government was the only major funder. Interviewee 1 indicated that although the investor provides upfront funding, Government still needs to come up with outcome payments. If other outcome funders do not support the Government, it could reach a point where it cannot afford SIBs.

> ***Interviewee 1***
>
> *"How sustainable is the model? Because government is going to turn around one day and tell you we don't have any money left?"*

Concerning the lack of depth in outcome funders, interviewee 6 pointed to the fragmented nature of funding available for social issues such as youth unemployment as the cause. Interviewee 6 claims that there is R200 billion made available by Government to address unemployment, but because the money is not pooled and focused toward specific interventions, it is unavailable for SIBs. This shortcoming is a contributing factor to the lack of alignment amongst stakeholders.

> ### Interviewee 6
>
> *A whole chunk of incredibly fragmented funding goes into the various corporate expenditures under the BEE scorecards. it comes together as this R200 billion, but the challenge that you experience is nothing unifies the system in a way that creates the incentive for that money to either pool by itself, or to be pooled by people that know how to access it, claim it, organise it etc"*

Interviewee 6 also highlighted the fragmented nature of the public sector systems that coordinate and consolidate the funding available for social projects. Interviewee 6 suggests that such fragmentation of systems is detrimental to creating the supply side of SIBs.

> ### Interviewee 6
>
> *"You still find yourself asking is R200 billion enough do we have to be spending a trillion, but then you're starting to get into entire percentages of GDP figures, and you're actually way out of whack with what anything globally will tell you is necessary. So, what's the problem? It's, there's a major issue with resource coordination so that R200 billion you can put it all on one slide or one document. Still, it's a bunch of disconnected and fragmented systems."*

5.3.1.6 Insufficient numbers of Competent Service Providers

Another sentiment that emerged from the interviews was that there were not enough competent service providers, which was a limiting factor on the number and type of SIBs that can be launched at any time. The shortage of capable service providers also drives up the risk of a SIB and consequently the cost to the outcome's funder. As mentioned before, high costs detract from the attainment of alignment of stakeholders, thereby making SIBs less attractive for the public sector. Interviewee 14 suggested that the effectiveness of service providers in meeting outcome targets is limited as the SIB project would not be their primary area of focus.

Interviewee 14

"What I would say is, if we want to look at effectiveness of this (SIBs), of these interventions, we kind of have to look for organisations that have been able to do much more than what they were contracted to do beyond the funding, because it kind of looks like beyond the funding, people divert the attention to something else."

5.3.1.7 Perceived High Risk

In combination, the barriers to adoption mentioned above elevate the riskiness of SIBs to investors, thereby reducing their appeal to institutional investors such as the Public Investment Corporation (PIC). Interviewee 10 also suggests that the recent spate of high-profile poor investment decisions by the PIC has reduced its risk appetite.

Interviewee 10

"If you look at the PIC, for example, they're not going to be in this space, they're thinking about making sure that they are taking care of large institutional pools of capital, people's pension funds. The likelihood that they're going to go in this space is quite thin, it's limited. And then, if we also think about just the history in the track of what's been happening within the PIC, the appetite for risk is probably going to be quite constrained right now; there's not a player that would easily look at that space."

5.3.2 Information and Power Asymmetry

The second theme to emerge from research question one relates to the information and power asymmetry between the parties to a SIB mechanism. Interviewees suggested that such information and power asymmetry are detrimental to the alignment of interests and detract from the desirability of SIBs for the public sector. The following sub-themes expand on this overall theme.

5.3.2.1 Outcome Targets Are Not Challenging

Some SIBs, such as the B4J pilot, had outcome targets that some outcome funders later bemoaned as not challenging enough for the rate of return offered. Such statements would indicate a lack of alignment between the parties to the SIB. Interviewee 6 affirmed that some targets were not challenging enough; it also appeared that their suggestion to make the outcome targets more challenging were not taken on, implying the existence of power dynamics.

Interviewee 6

"So, the way I positioned it is, I proposed to them, and they didn't use this. In the second or third iteration of the bond, you create a full-stack financial structure; you create an additional incentive to serve the most disadvantaged. So, if you do this, you get X; you do this with kids from deprived areas, you get extra. And that was a way to compensate you for the cost of that; that's the logic I think that would work."

5.3.2.2 Information and Power Asymmetry

Interviewee 8 suggested that outcome target setting was not so straightforward in South Africa due to the absence of reliable data on the track records of service providers (mainly NGOs). They suggested that information asymmetry could exist between the service providers and the outcome funders. Interviewee 8 also indicated that the targets could be made more challenging with each round of the SIB as performance reports come in.

Interviewee 8

"It's always a process of negotiating around targets because of the way they are set, and it's always that dance between stretching a little bit and what we know they (service provider) can comfortably achieve etc. So, what we've seen in some instances is that once we've done a first-round or first kind of relationship engagement, then we can see what's possible. And after that, you can set a higher target."

Paradoxically, Interviewee 12 suggests that a three-year restriction on the time Government can allocate budget to any specific project precludes it from seeking ambitious outcome targets.

Interviewee 12

"SIBs are focused on achieving outcomes and to achieve outcomes It requires a lot of time. And some Governments, for instance, in the South Africa Government, have some budgetary rules that don't allow the government to allocate budget to any specific project for more than three years. So that is an obstacle in the sense that if you want a SIB that has very ambitious targets and probably requires more than three years of implementation, then you are not going to secure public funding due to these budgetary rules."

There were diverse responses on which stakeholder is most dominant in setting the outcome targets. Interviewee 2 suggested that investors dominated the setting of outcome targets as they were usually better prepared and more resourced than any other party. Such a situation would likely discourage the Government from entering SIB arrangements.

> ***Interviewee 2***
>
> *"Investors manage risk, and their lawyers manage risk, and they negotiate agreements about what we will pay, under what circumstances and so on so that it tends to be that they come into these negotiations with an advantage of the experience."*

Interviewee 2 also suggested that service providers, usually NGOs, have little say in determining targets and are content to be part of the SIB set-up. Interviewee 2 suggested that service providers get bullied or strong-armed into submission.

> ***Interviewee 2***
>
> *"You know, often the non-profit doing the delivery is just kind of got stars in their eyes because they're doing this interesting, complicated deal that, in a sense, they get bullied."*

The view that service providers are passive partners in a SIB is contradicted by Interviewee 9, who finds that service providers are assertive and play an active role in outcome target selection. Interviewee 9 seemed to suggest that the power the service provider yielded was due to the expert knowledge they had on the social issue to be addressed.

> ***Interviewee 9***
>
> *"XXX (service provider) had the power to actually tell the end product (outcome funder) that you can't get that. You're being racist over that; you're discriminating. There's inequality in what you're saying because the following happens. Why? Because I managed to employ specialists in certain areas who then created these criteria based on a scorecard developed by XXX University."*

Interviewee 14 suggested that service providers could dominate, especially large ones. According to Interviewee 14, performance managing large service providers may present challenges, as would setting outcome challenging targets for such service providers.

Interviewee 14

"But my view is the implementing agents can still dominate, in a way, if it's a big animal. You don't get to monitor them as effectively or to the detail that they should be monitored for you to make sure that that value comes out of what an implementing agent gives you as progress reports and information on key performance indicators."

Contrary to the views expressed by other interviewees, Interviewee 8 maintained that in their experience, the various stakeholders of a SIB have sufficient common cause to make the mechanism work. They argued that the overriding interest of all stakeholders was the successful implementation of the SIB, and parties were willing to subordinate selfish interests to align on outcome targets.

Interviewee 8

"I think it's multifaceted, would be my answer. So, let me try and address the different facets in terms of when we talk about aligned interests. So in terms of the kind of outcome goal that we are trying to achieve, I think there was definitely alignment in terms of everybody agreeing around the parameters they were trying to achieve. So that might not be the case, in another SIB."

5.3.3 Trust Deficit

The lack of trust in the Government emerged as a theme in responses to research question 1, specifically concerning the barriers to alignment. The trust deficit between stakeholders also increases the need for evidence of successful SIBs to provide assurance. Lack of trust results in a slow-down of demand for SIBs by would-be investors and outcome funders. As a result, the body of evidence for successful SIB implementations would then be unlikely to improve, thus setting off a downward spiral for SIB adoption by the public sector.

Some Interviewees have suggested that the lack of trust by investors and outcome funders is due to the high levels of corruption within Government. Interviewee 10 posits that the private sector is unlikely to be associated with any corruption and, therefore, would have little incentive to invest in Government funded SIBs.

Interviewee 10

"I think the main issue in South Africa is corruption. So, for the private sector, where the issue starts, once they feel that there's any element of corruption or outflow of capital that cannot be accounted for, they lose interest. And I think when you're working with SIBs because it's being co-financed by, you know, multiple partners, it becomes so tough. If you don't have the trust, It's going to be a little bit difficult to get these types of products out there."

Interviewee 4 also identified a lack of trust between potential investors, outcome funders and the Government as a reason there cannot be an alignment of interest. Interviewee 4 felt that until the spectre of Government interference was almost certain in SIBs.

Interviewee 10

"I'm not sure there is alignment between all those people. I think there's a mistrust for the Government. You've got genuine do-gooders, NGOs, and people who carry out the actual groundwork of social impact who have great intentions; then you have the Government. I think there's a lot of government interference and at least mistrust."

The need for an evidence base to demonstrate proof of concept and build trust was articulated by Interviewee 5. Interviewee 5 described a virtuous circle of investment, impact and returns, resulting in more investor interest and the scaling up of the use of the SIB innovation.

Interviewee 5

"So one of the things that social impact bonds were meant to achieve was the flow of capital. The idea was over the long term worthy projects proved themselves because you first start with the pilots; if successful people get paid, they get rich, they get happy. Next, you launch a bigger pilot or the next iteration; the initial factors will have me reinvest because the model is proven. It's proven to be successful in the past, and we extrapolate into the future."

In support, Interviewee 6, based on their experience with a SIB pilot, argued that it was not enough to demonstrate proof of concept and that proof had to be at a sufficiently large scale.

Interviewee 6

"The success factor was proving that it (SIB) could work. The failure point was that the version that did work was probably a little bit too niche. So you need to demonstrate its viability in a much more mass scale."

5.3.4   Lack of Enabling Legislation

The lack of enabling Legislation was a theme identified in most interview discussions on the barriers to the adoption of SIBs by the public sector. According to Interviewees, current legislation precluded the public sector from fully engaging with SIBs except through special purpose entities and other unique arrangements.

Further, data from Interviewees suggest that due to the lack of enabling legislation, the public sector cannot readily commission SIBs and therefore finds it difficult to align interests with other stakeholders who are not subject to similar restrictions. It can also be argued that the absence of SIB specific legislation results in the lack of trust as arrangements may be open to interpretation and manipulation.

Interviewee 11 was categorical that the lack of legislation is the biggest obstacle to the adoption of SIBs by the public sector. Interviewee 11 argues that the alignment without a legal framework will not result in greater adoption of SIBs by the public sector.

Interviewee 11

"If you don't have a proper legal framework, you are not able to conduct social impact bonds. Of course, you might talk about the complementarity of the aims of the different sides of the model here like investor, municipality, the service provider, or the institution which is to evaluate and the bonds organiser, who is the who is to put it all together and to make them talk together. But the legal framework, in my opinion, the legal framework is the biggest obstacle."

Contrary to Interviewee 11, Interviewee 13 believes that even though the legislative vacuum would affect alignment as the public sector stakeholders would need a legislative reference point to justify their entry into SIBs, it would not affect adoption. Interviewee 13 parallels Uber's ride-hailing platform business, which operates without enabling legislation in many countries, including South Africa. Interviewee 13 also highlights the need for SIBs to have a track record that would inform any future legislation.

Interviewee 13

"2014 was the same year that Uber had their first taxis in Africa, well South Africa, at least. And like back then, there was no legislation that allowed them to even function as they were. And there's still real complexities around the legislation, especially in terms of employment, like, the driver's employees? What benefits do they have? How should these Ubers be licensed and that sort of stuff? But you wouldn't say, Okay, let's get rid of Ubers."

Interviewee 1 highlights practical complications that Government faces without progressive legislation on SIBs. Interviewee 1 explained that because the achievement of outcomes is unknown to the Government when the budget is drawn up, funds are borrowed from the market to meet contingent liabilities created by SIBs. In the event that the service provider fails to fully meet outcome targets, the Government would fail to spend its budget and would be incurring wasteful expenditure for the interest expense on borrowings. Public sector decision-makers may also be reluctant to venture into SIBs due to potential negative actions that would follow in such instances.

Interviewee 1

"Can you imagine what will happen for public finance? They would be scared every year putting a budget. What do you budget? How do you go back to Parliament and say I said, I'm going to spend R300 billion this year, but because of outcomes not being achieved, I only spent R115 billion?"

5.3.5 Public Sector Culture

Closely linked to an enabling legislative framework, the theme of culture change within the public sector also emerged. Interviewees argued that there had to be a change in the way the public sector does business—the identified changes related primarily to the procurement of service and agility.

Interviewee 11 suggested that outsourcing aspects of service delivery, as is required by SIBs, are a new phenomenon within the public sector. They said that civil servants needed to get accustomed to this new way of working before SIBs could fully be adopted in the public sector.

Interviewee 11

"The other thing is that there are cultural and social obstacles as people do not see the purpose of such innovative solutions. And I don't mean the solution itself like solutions to the problem because it's brought into life in a structural way, but the dedicating of tasks from the Government or municipal level to the non-profit organization. It's not obvious."

Bolstering the argument for culture change with the public sector, Interviewee 13 argues that civil servants are more apt to "throw money" at a problem than look for innovative solutions that may exist. They say that for innovations such as SIBs to gain traction within the public sector, there needs to be a culture shift towards trying new solutions to intractable problems.

Interviewee 13

"The way Government functions on a project, let's say, they want to tackle matric marks coming out of townships in Cape Town. And you set up social impact bonds that have that impact. The government won't automatically recognize that as a tool or mechanism to do that sort of thing. What they'd instead do is pay money directly into the education system that then repeats the cycle. "

Related to Interviewee 13's comments, Interviewee 12 suggests that the prevailing culture within Government concerning procurement was to exhaust the budget with no consideration to value-for-money. Interviewee 12 attributes this practice to how performance is assessed within the public sector -one is primarily evaluated on their ability to spend an allocated budget. If SIBs are to take off within the public sector, performance management systems would need to be revised in favour of outcome-based measures and value-for-money. By so doing, a more results-oriented culture can be fostered.

Interviewee 12

"Many public authorities and Governments have the incentive to spend all the money on services. So when you face this new mechanism (SIB), where you have actually have to procure differently, where you have uncertainty about whether you're going to spend your money or not, because it depends on the outcome. Of course, there's a risk that the outcomes are not achieved. When you meet and put in front of a public authority, all this uncertainty and this new mechanism create discomfort."

5.3.6 Summary of Research Question 1 Findings

With the first research question, perspectives were solicited on whether a SIB with stakeholder interests that are not aligned would constitute a barrier to the adoption of SIBs by the public sector. Various themes emerged that seemed to suggest that a lack of alignment could result in a failure to diffuse SIBs within the public sector. There was strong sentiment that the time and financial resources required were high due to factors such as the complexity of setting up SIBs. Interviewees, therefore, felt that the market for SIBs was insufficiently deep to witness a reduction in SIB transaction costs.

Interviewees also suggested that because of information and power asymmetry between the participants in a SIB, there was unlikely to be an alignment of interests without some parties subordinating some of their interests. The information asymmetry was attributed primarily to unreliable data on service provider performance. This results in outcome targets being set without complete information. Power asymmetry arose mainly due to differences in resources and experience, which had investors influencing the selection of outcome targets and the implementation of the programs.

The lack of trust in the Government's ability and will to safeguard resources from corruption and not interfere in SIB activities also came up as a theme. Such lack of confidence is fuelled by the lack of enabling legislation and the shortage of success stories of SIBs in the South African context. The lack of trust in the Government manifests itself as a high-risk assessment for SIBs and the dearth of potential outcome funders and investors for SIBs.

The absence of enabling legislation was another important theme to emerge in this chapter. The lack of legislation was cited severally as one of the significant barriers to the adoption of SIBs by the public sector. The restrictions placed upon the Government by current legislation are also why potential SIB partners lack confidence that SIBs are a service delivery methodology that the Government would like to use in the future.

Finally, the culture within the public sector was recommended for change if SIBs are to be adopted successfully. Interviewees pointed to how performance is measured in the public sector as one of the drivers of a culture that prioritises budget expenditure at the expense of efficiency and impact. Some Interviewees also pointed at the need to introduce civil servants to the concepts underlying SIBs and the resultant outsourcing of some erstwhile core functions of Government departments.

5.4   Results: Research Question 2

How does SIBs inability to completely capture the complexity of social problems affect their desirability to the public sector?

The researcher sought the perspectives of interview participants on whether SIBs are too simplistic in their framing of social issues. Furthermore, the researcher asked participants whether such a narrowing made SIBs any less effective or desirable for the public sector.

The research question elicited almost universal agreement that SIBs narrowed the scope of the social issue but varied responses on whether such a narrowing of scope made SIBs less effective and thereby less desirable by the public sector. Figure 5.2 illustrates the themes that emerged from responses to research question 2. Appendix 7 also depicts the relationship and interplay between codes that constitute the themes for this research question.

Figure 5 2: Research Question 2: Findings and Results

Research Question 2: How does SIBs inability to completely capture the complexity of social problems affect their desirability to the public sector?

High Perceived Risk

SIBs Lack Flexibility

Public Sector Culture
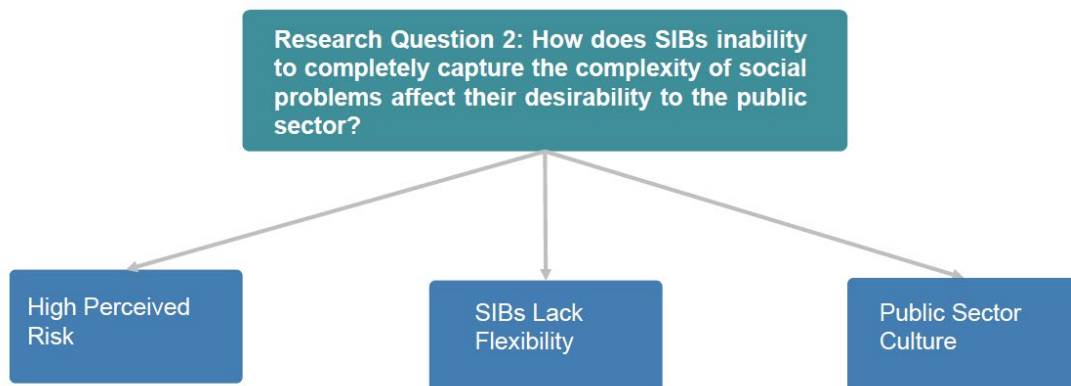
Source: Authors Compilation

Table 5.2 explains the selection of the various themes for research question 2. Appendix 4c presents a more detailed analysis including the sub-themes and details of interviewees contributions to each theme is presented in Appendix 4c. The themes that emerged were "High Perceived Risk" and "SIBs Lack Flexibility", as shown in Table 5.2. As explained under research question 1 findings, the data presented weak signals for the "Public Sector Culture" theme. This researcher proposes that the theme is by nature important enough to still stand alone.

Table 5 2: Research Question 2 Themes

Theme	Explanation of the theme	Interviewee frequency (how many interviewees mentioned this theme)	Overall frequency (how often it came up across all interviews combined)
High Perceived Risk	This theme refers to instances when interviewees mentioned barriers to SIB adoption that suggest a high risk rating by investors	10	25
SIBs Lack Flexibility	This theme refers to instances when interviewees discussed whether SIBs lack of flexibility would affect adoption by the public sector	11	25
Public Sector Culture	This theme refers to instances when interviewees mentioned public sector business cultue as hurdles to SIB diffusion	4	4

Source: Authors Compilation

5.4.1 SIBs Lack Flexibility

A significant theme that arose from the interviews highlighted SIBs lack of flexibility. Interviewees inferred that the inability of SIBs to capture the complexity and dynamic nature of social issues was related to their limited flexibility. Stable and measurable outcome targets are also required to enable the SIB mechanism's financialisation and attract potential investors. Also compounding the rigidity of SIBs is the poor data

environment prevailing in South Africa, which precludes the use of SIBs for data-heavy interventions and raises the perceived risk of SIBs among investors.

Interviewee 12 highlighted the benefits of SIBs in public policy formulation as overriding any concerns one may have over the narrowing of the scope for SIBs that may result from having insufficient measurable and auditable outcomes. Essentially, Interviewee 12 asserts that the learnings and resultant impact from doing even limited interventions very well outweigh the drawback of not being able to do more sophisticated activities.

Interviewee 12

"Personally, what I think about social impact bonds is that beyond the transaction itself, achieving the outcomes you'd have on a given contract, what you get out of these impact bonds are the learnings that you can later scale up to public policy. So, for instance, you can learn, for example, doing the training under methodology, A is better than doing training under methodology B."

While acknowledging the limitations on SIB scope brought about by the need to employ measurable outcome targets, Interviewees still maintained that SIBs were very well suited for particular interventions, such as those requiring specific binary outcomes. Interviewee 8 cited cornea transplants as an example of the kind of interventions more suited for SIBs. According to Interviewee 8, after a cornea transplant, the patient either regains their eyesight or not, thereby making for clear and measurable outcome targets.

Interviewee 8

"And I think where there's an easier kind of fit where you have an intervention that says, for example, a medical intervention, where you are providing cornea transplants, at the end of that the person can either see, or they cannot see, it's a very kind of discrete contained trackable, measurable kind of intervention. So, I think those kinds of interventions can be very effective."

When challenged on why SIBs focus mainly on the downstream beneficiary and essentially overlooks other, often more powerful parties to a social issue, Interviewee 11 argued that SIBs are meant to be part of a multi-sectoral approach to addressing social issues. Hence according to Interviewee 11, the narrow focus of SIBs is not a drawback, and neither does it make them less attractive.

Interviewee 11

"When the Ministry of Social Development has to deal with alcoholism, what they do is they procure social services that are focused on the beneficiaries, the people who actually need to deal with this alcoholism problem. There are other public authorities in the Government that actually deal with other things with advertising or regulating alcohol companies."

Interviewee 11's perspective was disputed by Interviewee 2, who suggested that because of SIBs inability to capture the complexity of social issues, SIBs were more suited for simple interventions. According to Interviewee 2, this failure to capture complexity detracted from their desirability for the public sector. Interviewee 2 suggests that SIBs cannot incorporate learnings and feedback from past activities, making them rigid and formulaic.

Interviewee 2

"Whereas, you know, in a way that most innovative stuff is often going to be a bit more complicated than that, you know, and kind of require assessments about what did we set out to do? What did we achieve? What did we learn from it? What can we do better next time? You can't build that stuff into social impact bonds. So, it just has, again, a kind of emphasis on a series of technical outputs that fit in a log frame; that is a terminal strategy."

Interviewee 7 also questioned whether SIBs are practical tools in addressing social issues such as unemployment due to their limited scope. Interviewee 7 also questions the participants' motives whilst failing to see the long-term benefit of SIBs and other PfP structures to address complex social issues.

Interviewee 7

"I don't think they achieve what people think they achieved, you don't get employment out of a project like the XXXX, and as you said, unemployment is not a cause and effect relationship. And when you think about it, there are stringent requirements for an organization being part of a project like the XXXX. And is it worth it? Are people doing it for a good cause, or are they doing it for their selfish reasons? So, I think in my view, the Government must look for other ways other than social impact bonds."

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Interviewee 3 maintained that there could be some degree of flexibility in a SIB and that the amount of upfront capital raised was determined in part by the outcome targets. Having flexible targets could therefore jeopardise the ability of SIBs to attract investors who would want some level of certainty concerning outcome targets.

Interviewee 5

"They can be flexible depending on how you set up your contracts with your stakeholders. The challenge is that those targets will determine the amount that you will raise in capital upfront."

Interviewee 5, when asked about the acceptability of midterm outcome target changes for investors, said that such adjustments were not new. They stressed that investors would need to do their due diligence on the new targets. Such changes could trigger risk pricing changes and could delay implementation. It appears that increased flexibility could come at the expense of nimbleness and cost.

Interviewee 5

"If it's a change in metric, investors would need comfort that the metric is robust, and that it's proven that it's a metric that is meaningful. So, I mean, that's a sort of due diligence that would need to happen when the change has been requested."

In support of interviewee 5, Interviewee 3 mentioned how they introduced flexible outcome targets in the SIB in which they were involved. They initiated an annual review of the SIB performance, informing targets for the next year, making the SIB responsive to external conditions. Parties to the SIB could exit the SIB if the new outcome targets or SIB performance did not meet their expectations.

Interviewee 3

"There was definitely flexibility within that capital investment envelope that would allow us to shift the targets. But what we had was we had a three-year SIB while it was initially meant to be over four years. And the first year, we had done as a pilot and a test to consider some learnings and then post that we have contracted all the stakeholders for three years. Every year we had to meet certain requirements for those contracts to roll over automatically."

Interviewee 1 also finds flexibility regarding the rate cards and not necessarily relating to the actual outcomes targets. Interviewee 1 also finds that because the Government is not

accustomed to paying investors for social services, there was uncertainty on a fair rate of return within the public sector. Such uncertainty would be a barrier to the adoption of SIBs in the public sector.

Interviewee 1

"In our case, there is an annual renegotiation of the rate card. Because if I said to you, please pay me on an outcome of, let's say, mother to child transmission of HIV. You're going to give me a cost. But as the outcome funder, I want to have a feel for your actual costs in the coming year. And I can only do that at the end of the year. If we had agreed on R50,000 initially, but your actual costs are R40,000, you can't charge me R50,000 anymore because your actual cost is only R40,000."

5.4.2 Public Sector Culture

Interviewees highlighted the bureaucratic culture within the public sector as one of the factors why SIBs cannot be flexible and responsive to changes in the social issue they intend to address. The perspectives of interviewees are presented below.

Governments lack of agility and bureaucracy was found by Interviewee 6 to exacerbate SIBs lack of flexibility. Interviewee 6 points to Governments divisionalised systems as the source of the slow decision making and action. Interviewee 6 further suggests that special purpose entities promise to accelerate public sector processes.

Interviewee 6

"We never quite got it onto a full pay for performance basis, which is also quite difficult to do because the problem there is that you get this lumpiness when the money has to be disbursed. So you can say let's do pay for performance, but then you've got to make sure the government is ready to respond with agility, we've never been though, and half the reason you work with private sector partners is that, to be honest, Government isn't that agile."

Interviewee 6's views on the bureaucratic nature of Government is supported by Interviewee 5, who postulates that innovations such as SIBs face long-winded approval processes, and their adoption within the public sector would be difficult as a result.

Interviewee 5

"The government is a bureaucratic organisation, highly bureaucratic; there's very little room to introduce new ways of doing things. Even if a new idea does sort of

gain some kind of traction, it would have to cross so many boundaries or so many levels of approvals before it's actually approved."

5.4.3 Perceived High Risk

Interviewees also surfaced the theme of the perceived riskiness of SIBs that arises from various factors, including public sector bureaucracy and a poor data environment. In response to the high-risk assessment, investors would proactively seek to manage the risk down and, in so doing, create the perception of dominance in decision making.

Interviewee 13 bemoaned the poor data environment within the public sector, making it difficult to define and measure more sophisticated outcome targets and making SIBs riskier for investors. A poor data environment would make SIBs less sophisticated, unresponsive, less valuable and unattractive to the public sector.

Interviewee 13

> *"The systems in England allow for measuring re-incarceration rates. So, they can track and say, right, of this group of prisoners that got released last year, three have come back. That sort of level of data, to be able to do the reporting on that, becomes very important for executing a social impact bond. And so, if you've got problems in data collection or how reporting happens, that immediately means that poor data can dismantle your entire underlying contract."*

Interviewee 1 also found that a poor data environment that ostensibly prevails in South Africa creates a barrier to the adoption of SIBs by the public sector. Interviewee 1 doubts whether there is readily available credible data for determining baseline conditions. They also suggest there is likely to be a lack of alignment among the stakeholders over issues relating to targets. Such disagreements may well elevate the perceived riskiness of SIBs by Investors and create a barrier to the adoption of SIBs.

> ***Interviewee 1***
>
> *"What is the source of the information that informs the payment? Does StatsSA have information like that? Probably not. If you're going to get it, you're going to get it from a survey done by some NGO. Is that credible? Is that wide enough? What are the terms of reference for that survey that you're going to use? I don't know, is a survey going to be done periodically to continue using it for the three years of the project implementation?"*

The active role that investors would take in managing the perceived risk associated with SIBs is articulated by Interviewee 5, who suggested that investors would prefer less complicated outcome targets for the service provider.

> ***Interviewee 5***
>
> *"If an asset class like social impact bonds were to become more mainstream. I think it's a matter of cleaning up what measurement tools can be used and putting it in simple terms that investors can quantify and understand and might feel are attainable from a risk perspective."*

5.4.4   Summary of Research Question 2 Findings

Interviewees to research question two almost unanimously confirmed that SIBs are narrowly framed and not as responsive to changes in the environment in which they operate. This narrow framing was attributed to the need to have auditable outcome measures to monetise the SIB. The lack of reliable data on metrics was also found to play a part in the narrowing of the scope of SIBs and their relative lack of sophistication. While acknowledging the lack of flexibility of SIBs, most Interviewees argued that such a lack of flexibility would not necessarily detract from their adoption by the public sector.

Interviewees also identified the bureaucratic culture within the public sector as a barrier to the adoption of SIBs. Interviewees argued that the elaborate and long drawn out processes to approve new ideas stood in the way of SIB adoption within the public sector. They also suggested that because the public sector was not agile, the operations of SIBs that are predicated on innovation and efficiency would be hampered.

Interviewees also suggested that the poor data environment and public sector bureaucracy creates a high investment risk environment. The private sectors' desire to manage investment risk would most likely result in them dominating the SIB decision-making processes. Such power may result in further narrowed and easily attainable outcomes targets that may not favour the public sector.

5.5   Results: Research Question 3

To what extent does the perceived lack of Government accountability in SIBs detract from the perceived relative advantage of SIBs?

Since SIB result in Government as the outcome payer, playing an active role in the setting up of the SIB and being less involved once the outcome targets have been agreed with

the investors, intermediary and service providers. When the SIB activities have commenced, the service providers and intermediary take on a more visible and active role in implementing the social interventions leading to claims of financialisation of social service and the abdication of accountability for public social services by the Government.

The research question sought views on whether such claims of financialisation of social service and the resultant lack of accountability by the Government in a SIB structure would make SIBs less attractive to the public sector. Responses to this research question varied. Some Interviewees felt that SIBs did indeed lead to a reduction in accountability by Government, thereby making them less acceptable or desirable by the public sector. Other Interviewees felt that even though there was a reduction in Government accountability, there was still a desire within the public sector to harness the benefits of SIBs. Still, other Interviewees discerned no such reduction in accountability. They felt the perception of such a decrease in accountability would not affect the adoption of SIBs by the public sector. Figure 5.3 illustrates the themes that emerged from researching question 3.

Figure 5.3: Research Question 3: Findings and Results
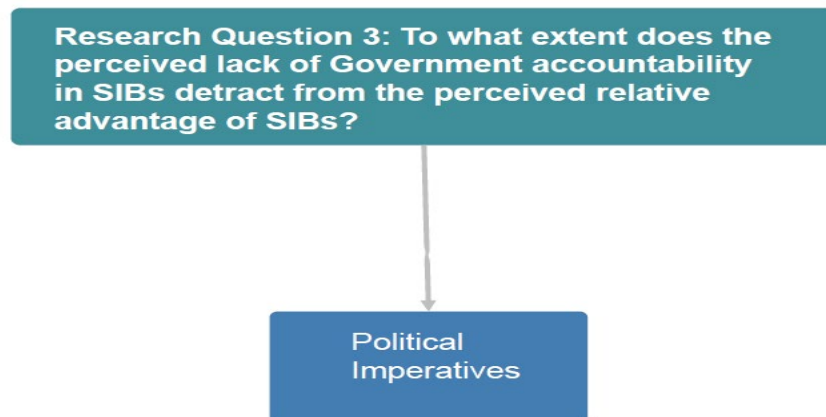
Source: Authors Compilation

Research question 3 had a single theme that emerged relating to political considerations; hence it was called "Political Imperatives". Table 5.3 shows the interviewee frequency and overall frequency for this theme. A detailed analysis of the theme, including a presentation of the interviewees who contributed to the theme and its sub-themes (codes) is in Appendix 4.d.

Table 5 3: Research Question 3 Theme

Theme	Explanation of the theme	Interviewee frequency (how many interviewees mentioned this theme)	Overall frequency (how often it came up across all interviews combined)
Political Imperatives	This theme refers to instances when interviewees discussed factors affecting SIB adoption that suggest political implications of adoption were considered.	11	20

Source: Authors Compilation

5.5.1 Political Imperatives

The following sub-themes explain and make up the overall theme.

5.5.1.1 Resistance Due to Fear of Job Losses

In addition to finding that SIBs reduced Government accountability, Interviewee 7 suggested that the prospect of job losses would render SIBs unattractive to the public sector. Interviewee 7 noted the profit motive pursued by the private sector as being inconsistent with the public sector ethos in South Africa, which is heavily influenced by trade unions. Interviewee 7 suggested that conflict between the trade unions and the private sector would be inevitable, and the ructions would potentially draw in the Government. Interviewee 7 then postulates that because the governing African National Congress (ANC) is in a tripartite alliance with the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU), it would be reluctant to antagonise its alliance partners.

Interviewee 7

"The reality is that when they take over, the private sector typically executes efficiently and effectively because they're out there to get good numbers and profits. They are

driven by different objectives when you compare them to the Government. So, I think
that will cause many problems and probably strike actions in labour and put at risk
something like that (SIBs). So, I think it's going to cause a lot of problems. If
Government continues, and if COSATU and other unions step in, it might be
problematic."

5.5.1.2 SIBs do not Make Government Less Accountable

Interviewee 8 disagreed that the Government became less accountable upon using SIBs. They argued the Government was already outsourcing extensively and that the only difference was that an investor was being introduced.

Interviewee 8

"The reality is a SIB is using service providers who are already doing that work. Right?
It's not like they are suddenly getting service providers to deliver services that the
Government was previously doing. So that service delivery is already happening,
outside of Government would be my one kind of view. And because Government can't
do it all. I wouldn't have kind of cause for concern around that from that perspective."

5.5.1.3 The Electorate is Against the Privatisation of Public Services

Interviewee 5 suggested that given the existence of a narrative that SIBs represented privatisation of public services, there would be resistance to this form of service delivery from the electorate. Interviewee 5 references instances where the private sector was contracted to perform some social services for the Government but enriched themselves whilst providing sub-standard services. According to Interviewee 5, these instances of abuse and self-enrichment have turned public sentiment against similar public-private partnerships, including SIBs. Given the potential for resistance, the Government would presumably be less willing to risk electoral support and adopt SIBs.

Interviewee 5

"To the extent that there's a perception of privatization of social services, or other
social good, or commercialization of it, then that'll definitely be a barrier, given our sort
of political setup in this country. If that's people's impression, it will never gain traction
around the electorate. Some people might be able to benefit, but they don't appreciate
being made cash cows. We learned that with BOSSASA and Net1 debacle."

5.5.1.4 Government Reluctant to Cede Autonomy

Interviewee 5 argued that the Government would be reluctant to give up its prerogative to dictate social policy. They suggested that getting past this reluctance would be the biggest hurdle for the adoption of SIBs by the public sector in South Africa.

Interviewee 5

"That, probably for me, would be the biggest reason because honestly, I've been arguing that government is resistant to giving up its autonomy to set policy or to dictate what solutions communities need."

Interviewee 12 found that the perception of diminished Government accountability and responsibility was prevalent amongst civil servants. Interviewee 12 suggested that civil servants were reluctant to endorse arrangements that would have them assume a hands-off approach to service delivery because of this perception. Such reluctance could present a significant internal obstacle to the adoption of SIBs by the public sector in South Africa.

Interviewee 12

"I have encountered that. And I guess the situation I have encountered is not where the citizens are concerned about the Government giving up that type of responsibility. But the Government is worried about keeping up that responsibility."

5.5.1.5 Perception of Financialisation is Country Dependent

Interviewee 11 finds that the perceptions of financialisation and shifting accountability from the Government to the private sector could create barriers to adopting SIBs in the public sector. Interviewee 11 suggested that resistance to implementing SIBs is more likely to emanate from communist or left-wing leadership countries. In contrast, countries with more centrist or right-leaning leaders were more receptive to the idea of SIBs. Interviewee 11 also suggested that resistance could be overcome by having a Government department; usually, one tasked with innovation, being designated as a champion for SIBs with the duty to advocate for their adoption.

Interviewee 11

"So, for instance, in Argentina, which had a previous administration, which was left-wing believed that the state should nationalise most of the social services provided to the population. It was very hard to launch a SIB and, that created a lot of frictions

during the negotiation; the Government was not used to paying an investor, especially for providing social services. So that gave a lot of frictions. But on the other hand, you have other countries that have different political settings, such as Colombia, which now has a right-wing president. He is one of the key drivers of SIBs through his mandate of innovation."

5.5.1.6 Government Wants Some Wins

This sub-theme identified responses that affirmed that Government is keen to have a good story to tell as far as social service delivery is concerned and that any perceptions of lack of accountability would not deter it from adopting SIBs.

Interviewee 4 felt that because the Government is keen to show more cases of success in dealing with the myriad of social issues that South Africa faces, it will be more willing to try out SIBs. Interviewee 4 also reiterated the sentiment that there would be insufficient demand amongst the investor community to provide the capital required to fund SIBs at scale.

Interviewee 4

"So, there's the making of social impact products that you could package into a social bond, social impact bond. That's one end of the spectrum. And then, on the other end, is the demand. I think Government is dying to do more. I think you've got lots of NGOs and do-gooders who are dying to do more and who are looking for funding. And what you don't necessarily have is enough demand for social impact bonds to feed money into these projects and package enough bonds."

5.5.2 Summary of Research Question 3 Findings

Interviewees generally recognised that political considerations could determine whether the public sector adopts SIBs. Some Interviewees felt that the perception of a reduction in accountability was unfounded because the Government was already outsourcing significant portions of its service delivery mandate. Still, other Interviewees argued that the prospect of job losses and a reluctance to antagonise political allies would deter the public sector from adopting SIBs. Sentiment amongst some of the Interviewees was that the biggest obstacle to adopting SIBs could be the loss of the right to determine the type of intervention to be applied in communities. The political persuasion of the party in power was also cited as an enabler or barrier to the adoption of SIBs. Leftist parties were found to be more resistant to SIBs than centrist or right-leaning parties.

Chapter 6: Discussion

6.1 Introduction

This chapter discusses the findings resulting from the semi-structured interviews presented in chapter 5. The discussion will reference the DOI theory and the literature review in Chapter 2. The findings and discussion in this chapter will follow the sequence of the research questions as they are presented in Chapter 3.

6.2 Discussion Process

As explained in detail in chapter 4, the themes for each research question are provisionally designated as barriers to the adoption of SIB by the public sector in South Africa pending discussion. This chapter will review the interview data under each theme (provisional barrier) through the lens of Rogers DOI framework, specifically through the relative advantage lens. This entails examining the interview data against literature from chapter 2 and the DOI framework to assess whether SIBs still present as superior to traditional forms of social service funding and delivery.

After the review and discussion, if the interview data within a theme suggests that SIBs remained superior to traditional social service funding and delivery forms, the provisional barrier was discarded. Conversely, the provisional barrier was confirmed when the data within a theme suggested that SIBs did not appear to have a clear advantage over traditional forms of social service funding and delivery.

The discussion process will result in answers to the research questions and shed light on the barriers to the adoption of SIBs by the public sector in South Africa.

6.3 Discussion: Research question 1

To what extent does the non-alignment of stakeholder interest detract from the perceived relative advantage of SIBs?

Research question 1 intended to get perspectives from Interviewees as to whether the lack of alignment of stakeholder interests would detract from SIB's relative advantage, thereby creating barriers for their adoption by the public sector. This question is important given that the effective operation of a SIB mechanism relies on all stakeholders being aligned. Alignment makes it easier for the stakeholders to reach a consensus on selecting outcome targets, indicators, and payment rates. The question also sought to uncover the barriers to alignment.

Interviewees identified several sources of misalignment of interests that could create barriers to the adoption of SIBs by the public sector. The seeds of misalignment fall under five umbrella themes: lack of market depth, information and power asymmetry, trust deficit, lack of enabling legislation, and public sector culture.

6.3.1 Lack of Market Depth

Interviewees affirmed the findings of Edmiston and Nicholls (2018) and Joy and Shields (2013) when they found the setting up of SIBs to be complex and costly. The complexity of setting up SIBs also resulted in extended delays before the commencement of SIB activities which also added to the costs and opportunity costs for outcome funders, as found by Khan (2021b). One interviewee also suggested transparency and openness in justifying the costs would ensure that alignment is not affected. This statement is consistent with the suggestion by Maier and Meyer (2017) that a psychological contract that precludes all parties from pursuing hidden agendas could be a way of aligning parties. Yet other interviewees suggested, like Liang et al. (2014), that transaction costs decline over time as service innovations come through.

As mentioned above, the complexity of setting up a SIB contributes to the high transaction costs. Some Interviewees also suggested an insufficient pool of competent service providers (NGOs) capable of working with the complexity of SIBs. Patton and de Wit (2015) found it similarly. A combination of complexity and lack of sufficiently competent service providers capable of working with complexity results in a high-risk rating by investors who, in turn, would require a higher rate of return for their investment. Interviewees indicated they had sought a blend of investors with different investment objectives from impact first to financial first and blended value to lower the cost for outcome funders. Interviewees also indicated insufficient potential funders and investors.

Other Interviewees attributed the lack of market depth to the lack of awareness of SIBs in the public sector. Rogers (2003) lists awareness as the first stage in the innovation decision-making process (see Figure 2.3), and without awareness, it is not surprising that there would be little appetite for SIBs. Still, other Interviewees suggested that funding that could potentially go into SIBs was not fungible in that it was purposed for projects that would not appeal to potential investors and funders. Further, it was pointed out that the Government had vast sums of money (R200 billion) locked up in many separate entities that could not be immediately mustered or coordinated for a common objective.

The lack of a sufficiently large market for SIBs (funders and investors) would therefore hamper the alignment of stakeholders interests as the returns required by commercial investors (due to high-risk assessment of SIBs) would be too costly for the Government.

Figure 6.1 is a graphical representation of the above narrative and how the codes interact.

Figure 6 1: Lack of Market Depth
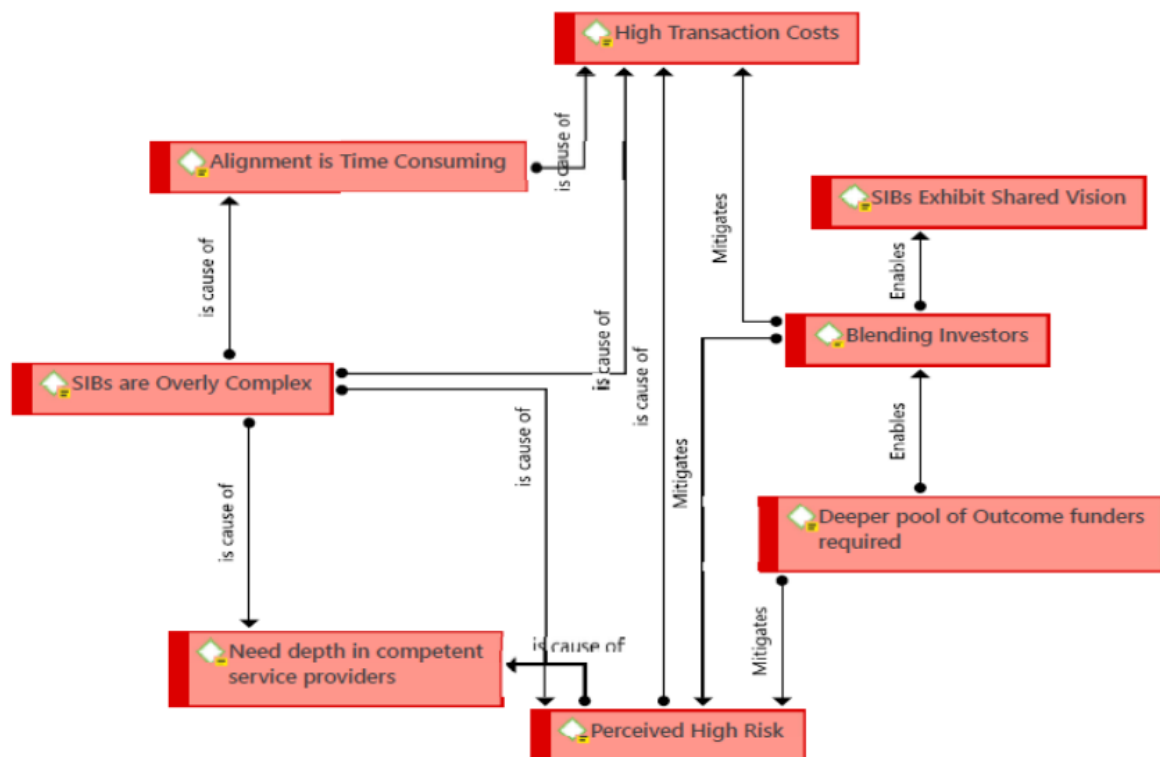
Source: Authors Rendition

Using Rogers (2003) DOI framework and looking at the issue of high transaction costs, it does not appear as if SIBs can be any cheaper than current service delivery models used, such as outsourcing which the Gauteng DSD (2020) uses most. It also appears that the time required, as a result of complexity, to set up SIBs is excessively long and unsuitable for interventions that require a quicker turnaround. Further, the dearth of competent service providers able to work with complexity renders SIBs impractical for many public sector organisations. Because SIBs in this case do not appear to have an advantage over traditional forms of social service funding and delivery, one may confirm lack of market depth as a barrier to the adoption of SIBs.

6.3.2   Information and Power Asymmetry

The lack of credible information on the service provider's track record created an asymmetry of information between service providers and other stakeholders. According to Interviewees, the lack of credible information resulted in relatively unchallenging outcome targets being set in earlier rounds of a SIB. More challenging outcome targets were set in later rounds based on service provider performance. This finding is consistent with Broccardo and Mazzuca (2019) and McHugh et al.(2013), who argue that investors exert undue influence in setting outcome targets to ensure their return. Paradoxically, it was suggested that it would not be entirely against the Government's immediate interests to have easy-to-achieve targets, given that the Government can only commit funds to a specific issue for a maximum of three years. Challenging outcome targets would require more than the prescribed time to yield results. Under the current legislative framework, it follows that should the Government want to address complex issues, they would have to look beyond SIBs.

Consistent with Joy and Shields (2013) and Tse & Warner (2020) point on power imbalance amongst stakeholders, the data suggested that service providers often had little influence in target setting, especially if they were relatively small or lacked the industry reputation. Evidence also emerged that large, reputable service providers could also have the power to influence the setting of outcome targets in their favour.

Figure 6.2 is a graphical representation of the above narrative and how the codes interact.

Figure 6 2: Information and Power Asymmetry
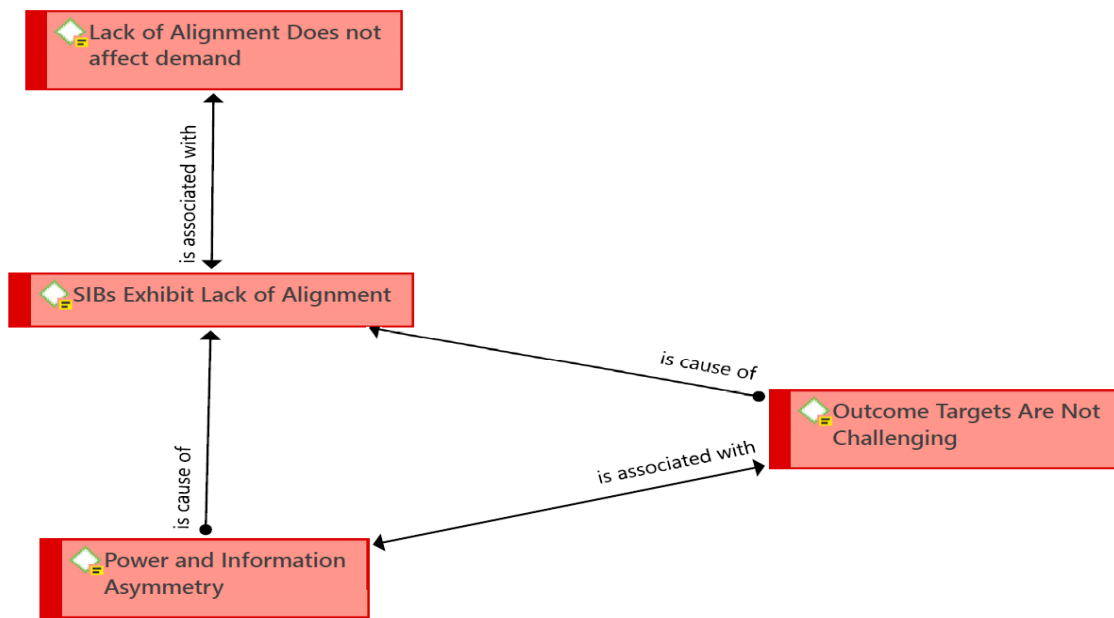
Source: Authors Rendition

Using Rogers (2003) DOI framework, it does not appear as if SIBs offer a compelling alternative to current service delivery models used, such as outsourcing. Setting unchallenging targets neither benefits the Government nor does attempting to operate SIBs in a poor data environment. SIBs do not seem to have a relative advantage; hence, one may confirm Information and power asymmetry as a barrier to the adoption of SIBs in the public sector.

6.3.3 Trust Deficit

A unique theme not addressed as part of the literature was the lack of trust in the Government. The perceived inability by the Government to address corruption is seen as a barrier to the adoption of SIBs in South Africa. The data indicated that potential investors and outcome funders need assurance that SIBs can be successfully implemented in South Africa; hence more pilots need to be implemented at a sufficiently large scale. Such observations on the need for evidence support earlier propositions that South Africa falls with laggards in the DOI model. Rogers (2003) categorised the laggards as very sceptical and demanding a lot of evidence to convince them to adopt an innovation.

Applying the relative advantage lens by Rogers (2003) to SIBs in this instance would result in the Government opting for their traditional forms of service delivery. The lack of trust in Government may still enable Government to outsource services but would probably

preclude it from attracting investors or outcome funders. According to DOI theory, SIBs would not have relative advantage in this situation. Consequently, the lack of trust is confirmed as a barrier to the adoption of SIBs in the public sector in South Africa.

6.3.4 Lack of Enabling Legislation

The lack of enabling legislation emerged as a significant barrier to the adoption of SIBs in the public sector in South Africa. Based on Interviewee data, existing legislation needs to be modified or new laws promulgated to enable the public sector to participate in SIBs fully. The findings are consistent with Arena et al.(2016), who highlighted the exclusionary aspects of the current legislation on a global level. Although some Interviewees suggested that the absence of enabling legislation would not harm the growth of the SIB market, citing the Uber case, there is a critical difference in that the Government is directly funding SIBs, unlike in the Uber instance. Public finance management is bound by legislation, and it is unlikely that much growth in the SIB market can occur without changes in the laws and regulations that impact SIBs. SIB participants will find it challenging to align interests under the current legal regime as they are bound differently by the law. This researcher also suggests that by not promulgating appropriate legislation and policies, the Government misses out on an opportunity to legitimise SIBs further and build trust, promoting the market's growth.

Applying the test for relative advantage, it would appear that Government would prefer social service delivery methods that do not have grey areas and could fall foul to current legislation. SIBs therefore do not appear to have a relative advantage, therefore the lack of enabling legislation can be confirmed as a barrier to the adoption of SIBs in the public sector in South Africa.

6.3.5 Public Sector Culture

Interviewees surfaced the idea that the prevailing culture within the public sector would need to change for SIBs to stand a chance at being accepted and adopted. Results suggested that trying new ideas to solve problems was alien to the public sector. Therefore, innovative solutions such as SIBs may not garner support amongst the staff of public institutions. One may argue that the legislation and regulations may have shaped the prevailing culture within the public sector. Arena et al. (2016) has found that such laws and rules run contrary to the goals of SIBs in areas such as procurement, where they value lowest cost providers at the expense of quality; cultural differences will likely hamper the alignment of stakeholder interests. The lack of agility by the civil service was also

identified as a problem for the operation of SIBs. This finding is consistent with that of Joy and Shields (2013) who asserted that Government employees would need to be retrained in mass to enable them to work with SIBs.

Applying the relative advantage test it would appear that SIBs also do not have the edge of traditional methods of service delivery. The public sector culture would then be confirmed as a barrier to the adoption of SIBs in the public sector in South Africa.

6.3.6   Research Question 1 Conclusion

Based on the results above, one may conclude that inability of SIBs to align the various stakeholder interests sufficiently detracts from the perceived relative advantage of SIBs. One can also conclude that the inability to align interests creates barriers for the adoption of SIBs by the public sector in South Africa. The misalignment of stakeholder interests creates obstacles, including lack of market depth, information and power asymmetry, trust deficit, lack of enabling legislation and the public sector culture. Overlaying the results to the attributes of the innovation section of the DOI framework, it appears that SIBs do not possess a relative advantage over the traditional methods of outsourcing used by the Government (outsourcing) as far as the alignment of stakeholder interests go. This conclusion is not entirely surprising as one would expect that as more participants are added to a contracting arrangement, the more complex the task of aligning the various interests.

6.4   Discussion Research Question 2

How does SIBs inability to completely capture the complexity of social problems affect their desirability to the public sector?

Research question 2 explored whether SIBs are too simplistic in framing social issues and whether such a narrowing made SIBs any less effective or desirable for the public sector. Findings on this research question were consistent with the arguments of Sinclair et al. (2021) in that SIBs reduce complex social problems due to the need to have auditable outcome targets. A detailed discussion of the findings is presented per the significant themes that emerged.

6.4.1   SIBs Lack Flexibility

The data seemed to confirm that SIBs lacked the flexibility to reflect social issues' complexity and dynamic nature in their outcome targets and activities. In common with Sinclair et al. (2021), the researcher found that the requirement by investors for

measurable outcome targets in an environment characterised by insufficient reliable data precluded the use of SIBs for data-heavy and sophisticated interventions. However, most Interviewees do not think SIBs lack of flexibility affects their effectiveness, nor is a barrier to their adoption of SIBs by the public sector. Interviewees generally found as Edmiston and Nicholls (2018) did, public policy and programming benefited from the learnings gleaned from the SIBs. Such Interviewees argued that the benefits for public policy and programme effectiveness outweighed the inability to implement more sophisticated interventions. The findings also affirm the statement by Galitopoulou and Noya (2016) that SIBs are not a panacea to society's grand challenges but rather a narrowly targeted solution.

Other findings, however, challenged the assertions of Joy and Shields (2013) and Tse and Warner (2020) that SIBs targeted behavioural interventions on relatively weaker beneficiaries over powerful upstream actors. They instead suggested that complex societal issues require multifaceted approaches and that SIBs should be considered complementary to other efforts. Interviewees also indicated that SIB's narrowed scope of intervention would not make them less appealing to the public sector.

Still, some Interviewees reported that SIBs they had worked in had a semblance of flexibility in setting targets. Interviewees explained how the performance of each round of a SIB implementation is reviewed and the targets and rate cards adjusted accordingly. Such flexibility allows for progressively more challenging outcome targets to be pursued with each round of the SIB.

Applying the test for relative advantage it would appear that SIBs would be preferred if for the benefits they bring to public policy making as well as for the fact that SIBs are effective for the narrow interventions they are designed for. Therefore, the lack of flexibility in SIBs is not a barrier to the adoption of SIBs in the public sector in South Africa

6.4.2   Public Sector Culture

The findings highlighted the bureaucratic culture within the public sector as one of the factors why SIBs cannot be flexible and responsive to changes in the social issue they intend to address. The findings also indicate that the Government is aware of such a culture, had set up special purpose entities specifically for SIBs, which were form-breaking in that they were agile in their decision making.

Public sector culture, bureaucracy in this instance, does not detract from the perceived relative advantage of SIBs. Therefore, a bureaucratic public culture is not a barrier to the adoption of SIBs in the public sector in South Africa.

6.4.3   Perceived High Risk

The researcher also found the public sector bureaucracy and a poor data environment increased the riskiness of SIBs to investors. Consistent with the findings of Broccardo and Mazzuca (2019), investors would move to seek to manage the risk down proactively by advocating for less sophisticated and more accessible to achieve outcome targets. This finding also suggests that, by and large, the beneficiary cohorts selected for SIB intervention would not be the most in need, as indicated by Patton and de Wit (2015). Also, as Patton and de Wit (2015) suggest, selecting vulnerable and needy cohorts may probe too risky for investors as they would probably present a number of social issues that interact and would need concurrent treatment. For example, the unemployed youths could also be malnourished.

Perceived High Risk does not detract from the perceived relative advantage of SIBs. Therefore, perceived high risk is not a barrier to the adoption of SIBs in the public sector in South Africa.

6.4.4   Research Question 2 Conclusion

The data suggest that the inability of SIBs to cater to complexity and change does not affect its effectiveness, nor does it affect the likelihood of SIB adoption by the public sector. It appears that the users of SIBs are aware of the limitations and do not have expectations that SIBs be more sophisticated. Evidence-based public policymaking and programming benefits derived from using SIBs seem to outweigh any concerns over their lack of flexibility. Concerning the DOI theory and the perceived attributes of innovation, the shortcomings of SIBs regarding flexibility do not seem to affect their advantage over outsourcing. Consequently, the lack of flexibility in SIBs does not make them less attractive to potential adopters. It does not create barriers to the adoption of SIBs by the public sector in South Africa.

6.5   Discussion Research Question 3

To what extent does the perceived lack of Government accountability in SIBs detract from the perceived relative advantage of SIBs?

The research question sought views on whether claims of financialisation of social service and the resultant lack of accountability by the Government in a SIB structure would make SIBs less attractive to the public sector. The theme emerging from responses was political imperative.

6.5.1 Political Imperative

Responses to this research question varied. Some Interviewees agree with the findings of Sinclair et al. (2021) and Dowling (2017). They postulate that by outsourcing social services and giving up the responsibility for selecting and managing the service provider, the public and democratic accountability trail is eroded. Some Interviewees suggested that should the narrative of the privatisation of social services gain traction amongst the ANC's political allies, who are trade unionists and communists, there would be a push-back against SIBs. The sentiment expressed was that COSATU and the SACP would be wary of job losses in the public sector and that the ANC would capitulate to their demands to abandon SIBs. This sentiment is not far fetched as Joy and Shields (2013) warned of large scale public sector layoffs in the event SIBs usage is scaled up. The ANC may not want to lose the support of the public sector and its alliance partners, given that its majority in elections has been steadily declining over the years.

Other Interviewees argued against the suggestion that the ANC would choose political expediency over service delivery. They correctly argued that the Government was already outsourcing most of its social service delivery. The difference to be noted though is that with outsourcing, the Government often pays for a service, whereas in SIBs, they pay for an outcome. The level of Government involvement in the two is also different, with the Government being more involved in performance managing the outsourced service than is the case with SIBs. Therefore, it would follow that the level of responsibility diminishes as one moves from outsourcing to PPP arrangements such as SIBs.

Contrary to those who argued that the ANC would abandon SIBs, some Interviewees suggested that the ANC was desperate for success stories and that SIBs presented a low-risk way of scoring some wins with the electorate. This reasoning is consistent with Edmiston and Nicholls (2018) and Galitopoulou and Noya (2016). They find that the financial and operational risk is transferred from the public sector to the investor in a SIB as payment is contingent on the achievement of outcomes.

Still, other Interviewees suggested that SIBs would be abandoned because the electorate was against all forms of outsourcing in the wake of high profile scandals where private

sector partners enriched themselves and failed to perform the services to the required standards. It seems unlikely that if SIBs are abandoned, it will be due to the scandals as suggested. The Government does not seem to be pulling back on outsourcing, as evidenced by the data in the annual report by the DSD (2021).

With regards to perceived relative advantage, the drawbacks for the Government related to the perception of lack of accountability to citizens appear to outweigh those of other methods of social service provision. Therefore, political imperatives are barriers to the adoption of SIBs in the public sector in South Africa.

6.5.2 Research Question 3 Conclusion

It appears that the narrative to the effect that SIBs erode Government accountability through the outsourcing of not only the execution of social services but also the policy mandate detracts from the desirability of SIBs and creates a barrier for the adoption of SIBs. The political imperatives of the ANC's tripartite alliance partners, COSATU and the SACP are seen as left-wing, which would put them at odds with SIBs as far as they represent a privatisation of public goods and services. SIBs would not present any relative advantage over traditional forms of Government service provision when looked at through the lens of the DOI theory.

Chapter 7: Conclusion and Recommendations

7.1 Introduction

This chapter presents the concluding arguments for the study on the barriers to the adoption of SIBs by the public sector in South Africa. Like many emerging economies, South Africa is beset by a multitude of complex social issues that the Government has neither the financial resources nor the technical capacity to address by itself. SIBs have shown much promise in their ability to crowd-in investor capital, foster innovation, reduce Government spending and increase the sustainability of service providers (Edmiston & Nicholls, 2018). Despite the promise of SIBs and the limited financial capacity of South Africa and other emerging economies, there has been a slow uptake of SIBs. This study used Rogers (2003) DOI framework by looking at the attributes of the SIB innovation, particularly the relative advantage (or disadvantage) of SIBs compared to the method used by Government to roll out social services. This chapter will summarise the research findings and their implication for policymakers and businesses, propose a framework for Government advocates of SIBs to address the barriers to SIB adoption, limitations in this study and opportunities for future research.

7.2 Research Findings

The principal research findings were that barriers to the adoption of SIBs had their genesis in the inability of SIBs to reconcile the interests of the various stakeholders and adequately and the perception that SIBs subverted the social contract between the Government and society at large. Interestingly, the limitations of SIBs in capturing the complexity of social issues and the resultant narrowing of the problem definition was found not to affect the desirability of SIBs.

7.2.1 To what extent does the non-alignment of stakeholder interest detract from the perceived relative advantage of SIBs?

The study, employing Rogers (2003) DOI framework, found that the inability of SIBs to align the various stakeholder interests adequately detracted from their desirability and created barriers to the adoption of SIBs by the public sector in South Africa. The resultant barriers were: lack of market depth, information and power asymmetry, trust deficit, lack of enabling legislation, and the public sector culture precluded the alignment of stakeholder interests.

7.2.2 How does SIBs inability to completely capture the complexity of social problems affect their desirability to the public sector?

The study, employing Rogers (2003) DOI framework, found that the inability of SIBs to cater to complexity and change did not affect its effectiveness nor the likelihood of SIB adoption by the public sector. It appeared that the potential adopters of SIBs are aware of the limitation and value the benefits to evidence-based public policymaking and programming derived from using SIBs over any concerns over their lack of flexibility. Also, it appeared that the public sector culture as far as it relates to bureaucracy also did not affect SIBs perceived relative advantage among potential adopters. Further, the perceived high risk of SIBs was assessed to have been already priced into SIBs, thereby resulting in narrower scopes. Consequently, the perceived high risk did not affect SIBs perceived relative advantage among potential adopters.

7.2.3 To what extent does the perceived lack of Government accountability in SIBs detract from the perceived relative advantage of SIBs?

The study found that the perception that SIBs erode Government accountability detracted from their desirability and created barriers to the adoption of SIBs by the public sector in South Africa. The political imperatives of the ANC's tripartite alliance partners, COSATU and the SACP were seen as left-wing and contrary to the essence of SIBs as far as they represent a privatisation of public goods and services. Consequently, the political imperatives would affect SIBs perceived relative advantage among potential adopters.

7.3 Proposed Model for Overcoming Barriers to the Adoption of SIBs by Public Sector

The research identified several essential elements that are required to overcome the identified barriers to the adoption of SIBs in the public sector. Figure 7.1 illustrates the proposed model to overcome the barriers to adoption identified in the findings.

Figure 7 1: Proposed Model for Overcoming Barriers for Adoption of SIBs in the Public Sector
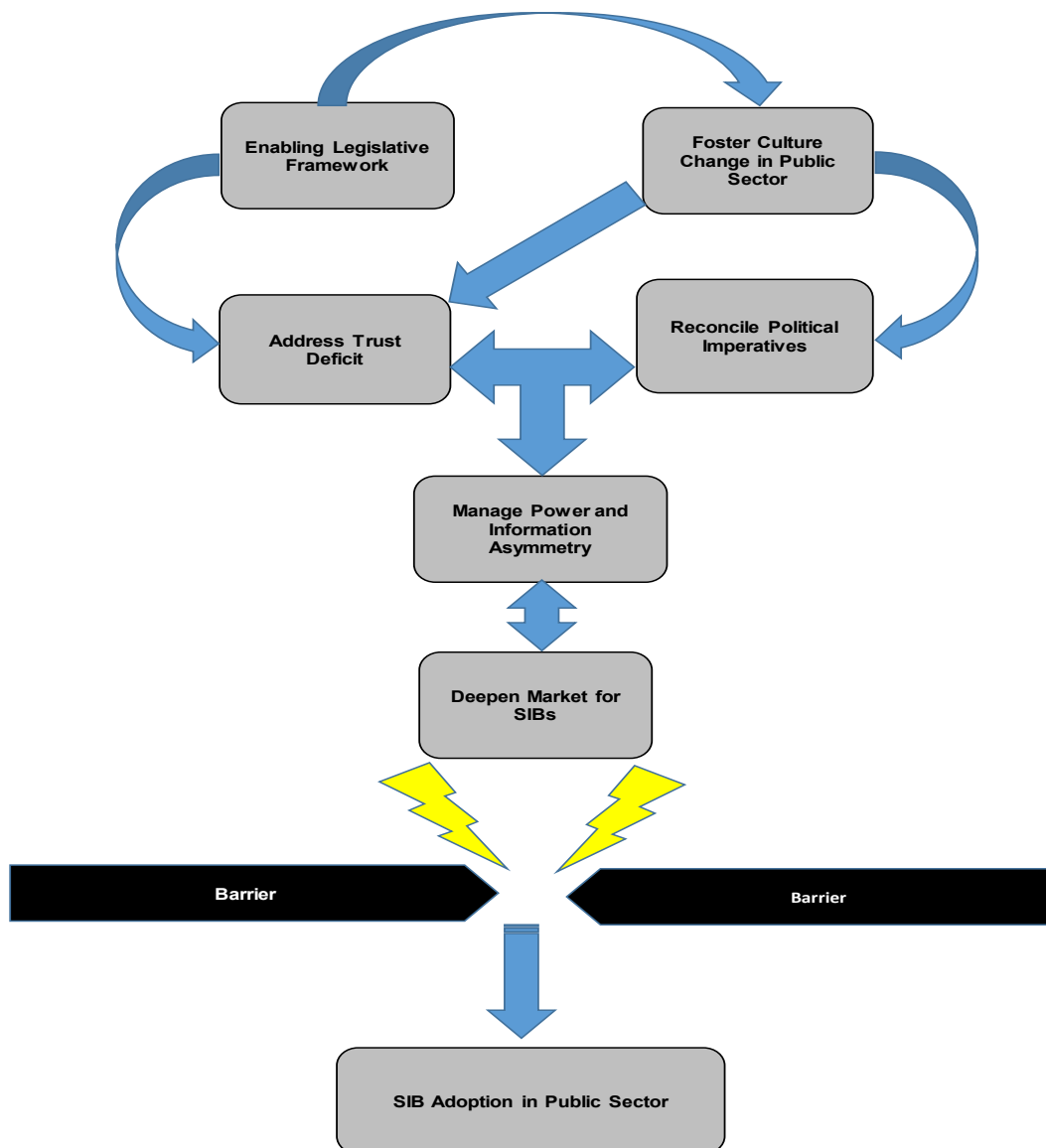
7.3.1   Enabling Legislative Framework

The promulgation of enabling laws and regulations will ease legal restrictions to public entities investing in SIBs. The laws and regulations restricting the period for which funds can remain committed and procurement rules that emphasise the lowest cost criteria over effectiveness may need to be reviewed. The approval and authorization procedures and regulations would also need to be streamlined to make Government processes more agile and responsive.

7.3.2   Foster Cultural Change in Public Sector

Addressing the legislative framework would also serve as the impetus for cultural change in the public sector. Once legislative barriers are removed, the grey areas over what the public sector can and cannot do would be cleared up and empower civil servants to be more decisive. To get the public sector to be more agile and responsive, the performance management system could be reviewed to reward responsiveness and drive behaviour changes. The streamlined approval and authorisation regulations would help cement the changes in behaviour.

7.3.3   Address Trust Deficit

The research findings identified the lack of trust in the Government as one of the barriers to the increase in investors and outcome funders. Rebuilding trust is a long and sometimes complex process; however, specific measures can be immediately be taken. The clarification of the legal environment around SIBs would increase the levels of trust for the private sector. However, more would need to be done to assure the private sector that the Government is serious about combatting corruption. Changes to how the Government conducts business would also go a long way to address the trust deficit. A more responsive and less bureaucratic public sector would build trust in their competency and ability to work with SIBs.

7.3.4   Reconcile Political Imperatives

The reconciling of political imperatives is decidedly complex. However, the task of getting the different interests in the Government to agree on the need to adopt SIBs would be made easier once enabling legislation is in place. Creating a more trusting environment with the private sector will also provide the backdrop for easier negotiations, as would a culture more attuned to business enablement in the public sector. Further, appointing an appropriately senior and widely respected political figure to advocate for SIBs would also smooth the political approval process.   Reconciling political imperatives would also reinforce the levels of trust between the Government and the public sector.

7.3.5   Manage Power and Information Asymmetry

The power and information asymmetry between participants in a SIB mechanism was identified as one of the barriers to the adoption of SIBs by the public sector. This asymmetry can arguably be addressed as a combination of the abovementioned elements are addressed. Improvements in the legislation and a more open and trusting environment

would address power and information asymmetry. As the number of successful SIB implementations increases and the instruments for measurement of impact becomes more reliable and sophisticated, information and power asymmetry levels should decrease.

7.3.6 Deepen the Market for SIBs

The deepening of the market for SIBs entails stimulating the demand for SIBs by investors and outcome funders. Investors and funders would require a reduction of the risk associated with SIBs. Implementing a combination of the abovementioned measures would decrease the riskiness of SIBs and result in increased demand which would translate into more SIBs implemented. A larger body of SIBs in issue would demonstrate the benefits and drawbacks for the public sector and hopefully result in the broader adoption of SIBs by the public sector.

7.4 Contribution

The study looked to identify the barriers to the adoption of SIBs in the public sector in South Africa by looking at the research problem through the lens of the DOI framework as developed by Rogers (2003). The use of the DOI theoretical framework differentiates this study from other work, such as that by Patton and de Wit (2015).

7.5 Implications for Policymakers

The research findings have implications for policymakers responsible for setting up much of the ecosystem for SIBs. Policymakers would need to play an advocacy role to promote SIBs in public sector circles and legislators whose role will be to enact the legislation that would create a conducive environment for the proliferation of SIBs.

It would also be incumbent on policymakers to appoint a SIB champion whose job it will be to advocate and promote SIBs. Such an individual may have to create a multi-sectoral platform whereby different stakeholders identify practical measures to address the barriers to the adoption of SIBs as specified in the study.

7.5.1 Implications for Business

If SIBs are to be adopted in the public sector, the private sector would need to consciously decide to allocate a more significant proportion of investable funds to impact investment. The relative market size for impact investments is just 2% of the total assets under management, and if SIBs are to be more mainstream, the public sector should actively

seek to create the demand for SIBs. Once an active market is created and more observable SIBs are launched, thereby creating a track record, the pricing of risk would become more straightforward and less contentious. The diffusion and adoption of SIBs in the public sector would therefore be more rapid.

7.6 Limitations of the Study

The limitations of the study are listed below:

7.6.1 Generalisation

As the study is qualitative and exploratory, its findings are not appropriate for generalisation as the sample selected for data collection is not representative of the population-non probabilistic selection methods were used. The model proposed is not predictive and does not represent a step by step method for addressing the barriers to the adoption of SIBs in the private sector.

7.6.2 Time Horizon

The study was cross-sectional; as such, it represents perspectives at a point in time that may well change in the future. The study can, therefore, not be transferrable into the future.

7.6.3 Potential Interviewees

The study could have benefited from the perspective of the beneficiaries and potential beneficiaries of SIBs. Ethical clearance to this stakeholder group would have been complicated and overly restrictive for this study if at all granted.

7.7 Recommendations for Future Research

The study's findings surfaced an essential barrier to the adoption of SIBs in the public sector related to how political agendas may obstruct their adoption. Future research could focus on how the innovation-decision types affect the adoption or rejection of innovations in the public sector. Rogers (2003) identifies three decision types, an optional decision, collective decision and authority innovation decisions are forced on an organisation by someone in power.

An investigation into the dynamics of how innovation decisions are made and who influences the adoption or rejection of innovations would be necessary if the public sector is to become more innovative.

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APPENDIX 1a: Ethical Clearance

Gordon Institute of Business Science
University of Pretoria

Ethical Clearance Approved

Dear Cuthbert Tinavapi,

Please be advised that your application for Ethical Clearance has been approved.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Ethical Clearance Form

Kind Regards

This email has been sent from an unmonitored email account. If you have any comments or concerns, please contact the GIBS Research Admin team.

APPENDIX 1b: Informed Consent Letter

I am currently a student at the University of Pretoria's Gordon Institute of Business Science, where I am undertaking my research as part of my MBA requirements. The title of my research is **Public Sector Innovation and the Barriers to Adoption of Social Impact Bonds in South Africa.** Using Rogers Diffusion of Innovations framework, the study will explore the barriers to the broader adoption of Social Impact Bonds in South Africa. Social Impact Bonds are a subset of impact investments where investors provide the upfront capital for social intervention projects and are paid a return contingent on achieving predetermined outcome targets. Although Social Impact Bonds present the Government with several opportunities, including innovating and scaling up social service delivery and saving on future social service costs, their adoption rate in South Africa is low by global standards.

You have been selected to participate as an interviewee in this study because you are either a subject matter expert in impact investments and Social Impact Bonds or have been involved in creating, implementing, or evaluating a Social Impact Bond. Alternatively, you may have been selected because you are a civil servant responsible for funding, policy, or implementation of social programs. The study aims to obtain up to fourteen participants.

There are no discernable risks to participation in this study save for the potential inconvenience of giving an hour of your day and possibly having to participate via videoconference or teleconference. There will be no direct benefit to you from participating in this research study. The anticipated use of your participation in this study is to provide insight into the barriers of broader Social Impact Bond adoption in South Africa.

Should you agree to participate in this study, you will be asked your views on how perceptions concerning the superiority or otherwise of Social Impact Bonds over traditional social service delivery methods could affect their adoption by the Government. Our interview will last around 45 to 60 minutes. **Your participation is voluntary, and you can withdraw at any time without penalty**.

The records from this study will be kept as confidential as possible. All data will be reported without identifiers (respondent and organisation name will be anonymous). All transcripts and summaries of interviews will be given codes and stored separately from any names or other direct identification of participants. Research information will be kept on a secure cloud-based server, and only University of Pretoria research personnel will have access to the files. Only those with an essential need to see names or other identifying information will access that particular file. After the study is completed, the data will be retained for ten years and destroyed after that.

Should you have any concerns, please get in touch with my supervisor or me. Our details are provided below.

Researcher: Cuthbert Tinavapi

Research Supervisor: Dr Anthony Wilson-Prangley

Email: 10093363@mygibs.co.za

Email: prangleya@gibs.co.za

Phone: +27 83 310 8378

Phone: +27 11 771 4325

Signature of participant: _____

Date: _____

Signature of researcher: _____

Date: _____

APPENDIX 1c: Consistency Matrix

Research Question	Literature Review	Data Collection Tool	Analysis
To what extent does the non-alignment of stakeholder interest detract from the perceived relative advantage of SIBs?	Khan (2021a) Khan (2021b) Carè and Lisa (2019) Broccardo and Mazzuca (2019) Ormiston et al.(2020) Joy and Shields (2013) Tse and Warner (2020) Fox and Morris (2021) McHugh et al.(2013) OECD (2015) Maier and Meyer (2017) Maier et al. (2018) Rogers (2003) Social Finance (2021) Liang et al. (2014) Heinrich and Kabourek (2019) Arena et al. (2016) Mulgan et al. (2010)	Semi-Structured Interviews. Literature Review	This question seeks to answer whether the alignment or lack thereof could be a barrier to the adoption of SIBs by rendering SIBs inferior to traditional methods of service delivery.
How does SIBs inability to completely capture the complexity of social problems affect their	Khan (2021a) Sinclair et al. (2021) Tse and Warner (2020) Broccardo and Mazzuca (2019) Ramsden (2016) McHugh et al. (2013)	Semi-Structured Interviews. Literature Review	This question seeks to gather information on the perceptions of interview participants as to the adequacy of

desirability to the public sector?	Rogers (2003) Social Finance (2021) Arena et al.(2016)		SIBs as a method of addressing complex societal problems.
To what extent does the perceived lack of Government accountability in SIBs detract from the perceived relative advantage of SIBs?	Dowling (2017) Mulgan et al.(2010) Galitopoulou and Noya (2016) Sinclair et al. (2021) Maier and Meyer (2017) Rogers (2003) Patton and de Wit (2015)	Semi-Structured Interviews. Literature Review	This question seeks to get interview participants views on whether SIBs disenfranchise citizens by limiting Government accountability and citizen voice.

APPENDIX 2: Main Interview Guide

Research Question 1: To what extent does the non-alignment of stakeholder interest detract from the perceived relative advantage of SIBs?

- In your experience, what are the barriers to alignment that you have encountered?
- In your knowledge and experience, how aligned are stakeholders in a SIB?
- How important is it for SIB outcome funders that stakeholders are aligned?

Research Question 2: How does SIBs inability to completely capture the complexity of social problems affect their desirability to the public sector?

- In your experience, how flexible are SIBs in capturing the complexity of social problems?
- In your opinion what are the root causes of the lack in flexibility in SIBs?
- How feasible is it to modify outcome targets during the term of a SIB?
- What would make SIBs more responsive to the evolving nature of societal problems?
- How feasible is it for Government to use SIBs given their apparent inflexibility?

Research Question 3: To what extent does the perceived lack of Government accountability in SIBs detract from the perceived relative advantage of SIBs?

- Which of the governing party's partners are most likely to oppose SIBs?
- In your view, how far-reaching within the public sector is the perception that SIBs makes Government unaccountable to its citizens for public service?
- In your view, what would it take for the Government to go against the perceptions of privatisation of social services that come with the introduction of SIBs?

APPENDIX 3: Code List

# of Codes	Second Order Codes		# of Codes	Third Order Codes
1	Alignment: Blending Investors		1	Blending Investors
2	Alignment: Box Ticking		2	High Transaction Costs
3	Alignment: Cocreation with Leadership		3	Lack of legislative framework
4	Alignment: Costly		4	Lack of Trust
5	Alignment: Cream Skimming		5	Need to demonstrate success
6	Alignment: Lack of legislative framework not an impediment		6	Outcome Targets Are Not Challenging
7	Alignment: Lack of Trust		7	SIBs are Overly Complex
8	Alignment: Need to demonstrate success		8	SIBs Exhibit Shared Vision
9	Alignment: Not tax efficient		9	Lack of Alignment Does not affect demand
10	Alignment: Outcome targets not challenging		10	Deeper pool of Outcome funders required
11	Alignment: Overly Complex		11	SIBs Exhibit Lack of Alignment
12	Alignment: Service Provider Push Back		12	Alignment is Time Consuming
13	Alignment: Service Providers are Bullied		13	Power and Information Asymmetry
14	Alignment: Shared Vision		14	Need depth in competent service providers
15	Alignment:Budget Uncertainty		15	Perceived High Risk
16	Alignment:Deeper pool of Outcome funders required		16	Need for Culture change in Government
17	Alignment:Fragmented Funding		17	Investors Inherently Desire Certainty
18	Alignment:Fragmented Systems		18	Investors assert dominance in decision making
19	Alignment:Lack of alignment		19	Partially Flexible
20	Alignment:Service Providers dominate		20	SIB not suited for some interventions
21	Alignment:Time Consuming		21	Government is Beaurecratic
22	Alignment:Transparency is important for Alignment		22	Poor Data Environment
23	Allignment: Power and Information Asymmetry		23	SIBs do not make Government unaccountable
24	Compelling Value proposition for adoption		24	Government Wants Some Wins
25	Dependent on outcome funders goals		25	Resistance due to fear of job losses
26	Effectiveness: Need depth in competent service providers		26	Perception on Financialisation Depends on Country
27	Low Demand: Corruption		27	Government Reluctant to Cede Autonomy
28	Low Demand: NGO funds Spread thin			
29	Low Demand: Perceived High Risk			
30	Low Demand: Regulatory Hurdles			
31	Low Demand:Impact has low financial return			
32	Low Demand:Reluctant to go into another SIB			
33	Need for Culture change in Government			
34	Product Lifecycle: Costs will reduce with time			
35	Risk Management: Investors Inherently Desire Certainty			
36	Risk Management: Investors Prefer Tangible Targets			
37	Risk Management: Need competent service providers			
38	Risk Management: Outcome targets need to be more focused			
39	Risk Management:Investors assert dominance in decision making			
40	Risk Management:Investors Require Assurances on Project			
41	SIB Flexibility: Does not affect demand			
42	SIB Flexibility: Does not affect desirability			
43	SIB Flexibility: Not practical to have too much flexibility			
44	SIB Flexibility: Partially Flexible			
45	SIB Flexibility: SIB not suited for some interventions			
46	SIB Flexibility:Context Specific			
47	SIB Flexibility:Government is Beaurecratic			
48	SIB Flexibility:Poor Data Environment			
49	SIB Flexibility:SIB not a more effective mechanism			
50	SIBs do not make Government unaccountable			
51	Financialisatation of Public Services: No kegal Framework for SIBs			
52	Financialisation of Public Services: Government Wants Some Wins			
53	Financialisation of Public Services: Resistance due to fear of job losses			
54	Financialisation of Public Services: SIBS Required due to Magnitude of Problems			
55	Financialisation of Social Services: Opportunities for SIB use			
56	Financialisation of Social Services: Perception on Financialisation Depends on Country			
57	Financialization of Public Services:Electorate against it			
58	Government Reluctant to Cede Autonomy			

APPENDIX 4a: Themes

Research Question	Code	Theme		Themes	Colour Code
Research Question 1	Blending Investors	Lack of Market Depth		Lack of Enabling Legislation	
	High Transaction Costs			Information and Power Asymmetry	
	SIBs are Overly Complex			Trust Deficit among Stakeholders	
	SIBs Exhibit Shared Vision			Lack of Market Depth	
	Deeper pool of Outcome funders required			High Perceived Risk	
	Alignment is Time Consuming			Political Imperatives	
	Need depth in competent service providers			Public Sector Culture	
	Perceived High Risk			SIB Lack of Flexibility	
	Lack of Trust	Trust Deficit among Stakeholders			
	Need to demonstrate success			The codes under each research question are colour coded to their corresponding umbrella theme	
	Outcome Targets Are Not Challenging	Information and Power Asymetry			
	Lack of Alignment Does not affect demand				
	SIBs Exhibit Lack of Alignment				
	Power and Information Asymmetry				
	Need for Culture change in Government	Public Sector Culture			
	Lack of legislative framework	Lack of Enabling Legislation			
Reseach Question 2	Investors Inherently Desire Certainty	High Perceived Risk			
	Investors assert dominance in decision making				
	Perceived High Risk				
	Poor Data Environment				
	Partially Flexible	SIB Lack of Flexibility			
	SIB not suited for some interventions				
	Government is Beaurecratic	Public Sector Culture			
Research Question 3	SIBs do not make Government unaccountable	Political Imperatives			
	Government Wants Some Wins				
	Resistance due to fear of job losses				
	Perception on Financialisation Depends on Country				
	Government Reluctant to Cede Autonomy				

APPENDIX 4b: Theme Analysis - Research Question 1

Theme	Explanation of the theme	Sub-themes/Codes in the overarching theme	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Interviewee frequency (how many interviewees mentioned this theme)	Overall frequency (how often it came up across all interviews combined)	Research Question
Lack of Market Depth	This theme refers to instances when interviewees mentioned barriers to SIB adoption that suggest a lack of market depth	Sub-themes include:																	
		Blending Investors	✔		✔								✔					4	1
		High transaction costs	✔	✔	✔			✔	✔	✔		✔	✔		✔			8	1
		SIB Complexity		✔	✔		✔	✔		✔		✔		✔				9	1
		Shared Vision			✔			✔						✔		✔		6	1
		Deeper Pool of Outcome Funders Required	✔					✔				✔					13	4	1
		Alignment is Time Consuming	✔		✔				✔									4	1
		Need a deeper pool of Competent Service Providers	✔				✔						✔			✔		5	1
		Perceived High Risk	✔			✔						✔		✔				6	1
		Total															13	46	
Information and Power Asymmetry	This theme refers to instances when interviewees mentioned issues that indicates an imbalance in power and information between SIB participants	Sub-themes include:																	
		Outcome Targets not Challenging						✔		✔	✔							8	1
		Lack of Alignment does not Affect Demand for SIBs		✔		✔							✔		✔		12	4	1
		SIBs Exhibit Lack of Alignment	✔	✔					✔	✔		✔		✔				7	1
		Power and Information Asymmetry		✔					✔	✔					✔			10	1
		Total															12	29	
Trust Deficit	This theme refers to instances when interviewees mentioned a lack of trust in the Government	Sub-themes include:																	
		Lack of Trust				✔				✔		✔						6	1
		Need to Demonstrate Succes	✔				✔	✔		✔		✔			✔		7	14	1
		Total															7	20	
Lack of Enabling Legislation	This theme refers to instances when interviewees mentioned legislative hurdles to SIB diffusion	Sub-themes include:																	
		Lack of Enabling Legislation	✔		✔	✔		✔					✔	✔	✔		7	10	1
		Total															7	10	
Public Sector Culture	This theme refers to instances when interviewees mentioned public sector business cultue as hurdles to SIB diffusion	Sub-themes include:																	
		Need for Culture change in Government											✔		✔		4	2	1
		Government is Beaurecratic					✔	✔										2	2
		Total															4	4	

APPENDIX 4c: Theme Analysis - Research Question 2

Theme	Explanation of the theme	Sub-themes/Codes in the overarching theme	Interviewees														Interviewee frequency (how many interviewees mentioned this theme)	Overall frequency (how often it came up across all interviews combined)	Research Question
			1	2	3	4	5	6	7	8	9	10	11	12	13	14			
High Perceived Risk	This theme refers to instances when interviewees mentioned barriers to SIB adoption that suggest a high risk rating by investors	Sub-themes include:																	
		Investors Inherently Desire Certainty					✔						✔					5	2
		Investors Assert Dominance in Decision Making			✔		✔	✔		✔							10	5	2
		Perceived High Risk	✔			✔						✔			✔			6	1&2
		Poor Data Environment	✔		✔		✔	✔	✔			✔	✔					9	2
		Total															10	25	
SIBs Lack flexibility	This theme refers to instances when interviewees discussed whether SIBs lack of flexibility would affect adoption by the public sector	Sub-themes include:																	
		Partially Flexible	✔		✔				✔	✔			✔					8	2
		SIB not suited for some interventions		✔	✔		✔		✔	✔		✔	✔	✔	✔	✔	11	17	2
		Total															11	25	
Public Sector Culture	This theme refers to instances when interviewees mentioned public sector business cultue as hurdles to SIB diffusion	Sub-themes include:																	
		Need for Culture change in Government										✔		✔			4	2	1
		Government is Beaurecratic					✔	✔										2	2
		Total															4	4	

APPENDIX 4d: Theme Analysis - Research Question 3

Theme	Explanation of the theme	Sub-themes/Codes in the overarching theme	Interviewees														Interviewee frequency (how many interviewees mentioned this theme)	Overall frequency (how often it came up across all interviews combined)	Research Question
			1	2	3	4	5	6	7	8	9	10	11	12	13	14			
Political Imperatives	This theme refers to instances when interviewees discussed factors affecting SIB adoption that suggest political implications of adoption were considered	Sub-themes include:																	
		SIBs do not make Government unaccountable		✔	✔	✔			✔	✔	✔			✔	✔			9	3
		Government Wants Some Wins				✔		✔	✔		✔	✔						6	3
		Resistance due to fear of job losses							✔								11	1	3
		Perception on Financialisation Depends on Country												✔				1	3
		Government Reluctant to Cede Autonomy					✔							✔				3	
		Total															11	20	

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APPENDIX 5: Research Question 1-Network