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CSO-State Partnerships and Social Finance: Smart Social Capital and Shared Incentives towards Public-Private Partnership Efficiency Using Social Impact Bonds

Jasper Kim^{*} and Sunghye Kang^{**}

This paper aims to answer two research questions: First, what are the sources of weaknesses found in current CSO-government relationships? Second, how could these weaknesses be remedied to bring better efficiency in social development assistance programs? Applying the Complexity Science framework and Brinkerhoff's related theoretical model to the field of social finance for the first time to the best of the authors' knowledge, this article argues that the implementation of social finance, generally, and social impact bonds (SIBs), specifically, can combine to create "smart social capital"—a new model in which trust is furthered and arguably maximized between relevant public and/or private sector networks in the form of stakeholders, through the efficient combination of shared interests in the form of financial as well as societal beneficial gains by related stakeholders and the community at large.

Keywords: civil service organizations (CSOs), smart social capital, social investment, social finance, social impact bonds (SIBs), public-private partnership (PPP), loosely coupled systems, complexity science, Brinkerhoff

^{*} Corresponding author. Professor, Graduate School of International Studies, Ewha Womans University. Former visiting scholar at Harvard University. Licensed U.S. attorney (Washington, D.C.). Worked previously on structured finance bond products with the investment banks of Lehman Brothers, Barclays Capital, and Credit Suisse.

E-mail : jaskim@mm.ewha.ac.kr

^{**} Independent Researcher. (Parts of this article's earlier sections are based on a conference paper titled, "Transformation of global governance: NGO-government relationships in complexity networks of the aid industry," presented at the 2012 EPIK Young Leaders Conference hosted by the East Asia Institute in August 14, 2012 by the co-author).

E-mail : kangsung89@gmail.com

I. INTRODUCTION¹

The end of 2011 was marked by the fourth High Level Forum on Aid Effectiveness (HLF) held in Busan, signaling yet another attempt to effectively enhance the level of cooperation among civil society organizations (CSOs) and governments in administering development programs. Complaints from non-governmental organizations (NGOs), however, are still directed at the lack of government efforts to actually implement the pledges made at the HLFs. There are noticeable obstacles in working together, identified by both CSOs and governments, which undercut the effectiveness of development programs and result in an overall lack of efficiency in public sector initiatives.

Given these challenges, this paper aims to answer two related research questions: First, what are the sources of weaknesses found in current CSO-government relationships? Second, how could these weaknesses be remedied to bring better efficiency in social development assistance programs? In response to such research questions, this paper argues that the implementation of social finance, generally, and social impact bonds (SIBs), specifically, can combine to create “smart social capital”—a model in which trust is furthered and arguably maximized between relevant public and/or private sector networks in the form of stakeholders, through the efficient combination of shared interests in the form of financial as well as societal beneficial gains by related stakeholders and community at large.(extra period)

In making the analysis, this paper extends the framework of Complexity Science and Weick’s (1976) concept of “loosely coupled systems,” to the field of overseas and domestic development assistance. This term has been applied to the relationships found among organizational elements in various sectors, such as educational institutions, trends in globalization, criminal justice, and international environmental initiatives (Weick 1976; Urry 2003; Sharp 2009; Keohane and Victor 2009). Previous literature has categorized and established various models of NGO-government relationships found in development assistance, based on diverse criteria which include, but are not limited to, means of funding, the type of exchanged services and resources and the level of dominance of one party over another (Gidron and Kramer and Salamon, 1992). Studies have found the strategic interests and power that sustain the relationship (Lister, 2000) and the level of interdependence and diversity among CSOs and governments that work closely together (Brinkerhoff 2002; Coston 1998). Such works have largely been confined to patterns and solutions found within the public sector. This paper, however, draws upon recent concepts established and expanded in the private sector during the post-subprime crisis era. It thus modestly suggests an incentive-based NGO-government partnership, through which to overcome

issues on chronic inefficiencies and the lack of accountability found in development assistance programs.

Part I of this paper overviews the unique role of CSOs (or NGOs) as found in overseas development programs, or Official Development Assistance (ODA). It also examines the overall progress of High Level Forums on Aid Effectiveness and official government pledges on better cooperation with CSOs. This section includes an assessment from CSO policy papers regarding the actual level of implementation made after the HLFs. Results of the analysis identify the challenges faced by CSOs and governments (or states) in working with each other. In Part II, the nature of the NGO-government relationship is analyzed through the Complexity Science framework. Moreover, the features of the relationship are captured by the term, “loosely coupled systems,” which is defined as neither an entirely decoupled nor tightly-bound relationship. Part III explores this concept in greater depth and classifies the obstacles found in NGO-government cooperation, such as difficulties in interest alignment, lack of funding and transparency. Part IV thus suggests social finance and social capital, as opposed to traditional finance, as a modest solution towards better efficiency in the public and private sectors, related stakeholders and social networks, and a more tightly-bound NGO-government relationship. Here, the authors recommend the “CSO-State Brinkerhoff-Style Partnership” as a foundational model for social impact bonds²(SIBs), a subset of social finance utilizing smart social capital that efficiently pursues societal benefits through the network formed among the diverse stakeholders involved. In Part V, this paper concludes that social finance is an effective means through which to enhance efficiency in NGO-government relationships and restore transparency and accountability in development programs.

II. CSOS

Defining the role of CSOs in societal benefit assistance development programs should begin with closer attention to the CSO’s evolving relationship with the government. Rooy (1998) argues that this particular relationship can rarely be portrayed in a “tidy opposition.” Rather, CSOs should be “seen on a moving continuum of opposition and collaboration with particular governments and other brokers of power in the debates over poverty and social justice².” According to Rooy, there are a myriad of functions identified for both sides, and the civil society is merely not to diminish or replace the functions of the state. Instead, in the aid industry, CSOs help bring out the best donor practices and put aid in its rightful place.³ In other words, it is more likely that processes are emphasized over immediate, visible results; support is rightfully placed in areas of most dire need; and CSOs receive proportionate funding.

FIGURE 1. Failures of operationalization & Best Practice

Source: Rooy, 1998, pp.206-208 (diagram by co-authors)

In a 2010 OECD survey on how donors work with civil society, an OECD survey stated various reasons why NGOs would be valuable partners: their proximity to beneficiaries/reaching constituencies, their specific skills and expertise, ability to provide humanitarian assistance quickly, to innovate, and pilot initiatives that can be scaled-up capacity to provide support in fragile states and situations (OECD, 2011) ⁴. NGOs can also better promote education, democracy and advocacy in the DAC country, function as channels of service delivery in developing countries and broaden the geographical and/or thematic focus of ODA⁵. In 2009, most bilateral ODA channeled through NGOs was geared for the provision of food aid, followed by disaster prevention, population policy and reproductive health, emergency response, government and civil society (including women's and human rights organizations), health, agriculture and forestry, business and other services thus reflecting the objectives of donors in working with CSOs, which are mainly humanitarian assistance, governance, strengthening civil society and service delivery. Aid to and channeled through NGOs has also shown a steady increase. (Aid is the subject, singular)

FIGURE 2. ODA provided to and channeled through NGOs by DAC members, 2001 – 2009, USD billion (2008 constant prices)

Source: OECD DAC Statistics, 2011, *How DAC Members Work With Civil Society Organizations: an Overview*.

Moreover, there is increasing awareness that funding for societal development assistance programs can no longer be centered on the decisions of state alone, but incorporate a network of the diverse actors involved.⁶

In the past several years, a stronger need arose for a clear set of principles for societal development assistance program coordination, verification, and efficacy. Donors identified chronic setbacks such as “lack of co-ordination, overly ambitious targets, unrealistic time, budget constraints and political self-interest⁷” as the main reasons why aid practices were not producing effective results. Such needs were thus addressed in the High Level Forums related to CSOs (HLFs) in Rome, Paris, Accra and Busan in 2003, 2005, 2008 and 2011, respectively⁸.

The Accra Agenda for Action 2008 (AAA) directly addressed the role of CSOs as actors beyond the state in greater detail. Under the principle of Strengthening Country Ownership over Development, paragraph 13 of the AAA states: “developing country governments will work more closely with parliaments and local authorities in preparing, implementing and monitoring national development policies and plans. Under Building More Effective and Inclusive Partnerships for Development, paragraph 20 recognizes CSOs as “independent development actors in their own right,” and states initiatives to “improve co-ordination of CSO efforts with government programs” and “provide an enabling environment that maximizes their contributions to development.”⁹ The Accra Agenda for

Action also revealed commitments of governments to acknowledge and engage with the growing civil society in international development cooperation, in that they “share an interest in ensuring that CSO contributions to development reach their full potential.”

From the civil society’s point of view, however, the actual implementation of commitments made in AAA or even its contents indicate room for improvement. CSOs have voiced their concerns on the absence of time-bound and monitorable commitments and indicators to measure progress on actual actions, which are likely to produce disappointing and limited results (BetterAid, 2009).¹⁰ The overall impression was that CSOs were limited from the start in that CSOs were excluded from key, high-level discussions.¹¹ Moreover, questions still remained regarding the lack of transparency, reliability, and effectiveness of not only CSOs, but the state with respect to societal development assistance programs.

Paragraph 22 of the Busan Partnership for Effective Development Cooperation¹² states that “CSOs play a vital role in enabling people to claim their rights, in promoting rights-based approaches, in shaping development policies and partnerships, and in overseeing their implementation.” It also reflected governments’ commitments to “implement fully our respective commitments to enable CSOs to exercise their roles as independent development actors, with a particular focus on an enabling environment, consistent with agreed international rights that maximize the contributions of CSOs to development.” Regarding the overall commitments agreed in Paris, Accra and Busan, the civil society still calls for better, full inclusion, membership and rights for non-state actors. This includes recognition of CSOs as independent development actors in their own right,” equal representation and space so as to make aid more transparent, reliable and effective (BetterAid2011)¹³. Their demands indicate that the government-CSO relationship must be based on a mutual understanding that CSOs are not to be marginalized, yet given full play to hold donors accountable in enhancing aid effectiveness and reform.

III. THE COMPLEXITY SCIENCE FRAMEWORK

The complexity science framework was initially a means through which to understand the dynamics and processes of change found in a range of physical and biological phenomena (Min, 2006)¹⁴ Such a framework has recently been developed to include concepts through which to understand social, economic and political phenomena, which continue to display complex networks. Here, the underlying assumption is that nations behave as complex adaptive systems in that they are driven mainly by “chaotic” interactions between the interdependent elements of the system. Under the appropriate conditions, however, such

interactions result in *self-organized* structures that “emerge” spontaneously without prior design or external compulsion (Urry, 2003)¹⁵.

Urry (2003) claims that systematic change initiatives in global governance may thus continue to encounter frustration¹⁶ because of the limited scope for top-down, *planned* actions to result in change within the system. As Woods states, the global governance debate is still focused heavily on the reform and creation of international institutions, yet global governance is increasingly being undertaken by a variety of networks, coalitions and informal arrangements, which lie a little further beyond the public gaze and the direct control of governments (Held and McGrew, 2002)¹⁷. Koenig-Archbugiin *Governing Globalization: power, authority, and global governance* (2002) further argues that the world is now faced with a complex architecture of governance that is characterized by a high degree of diversity and complexity – heterogeneous and at times contradictory¹⁸. Increased attention is thus placed on the claim that global social policy is “not a policy to be debated and won in the chambers of the UN or won in intellectual dialogue with Bank experts, but instead a policy implemented in practice by those who find themselves on the projects themselves (Deacon, 2007)¹⁹.”

Such views can thus be juxtaposed with the recent analysis on “multilevel governance” and “devolution,” or the spread of power among non-state actors and its sub units (Min, 2008)²⁰. Similarly, under this framework, international development cooperation is found to display a multi-layer structure, which inevitably incorporates a complex network among diverse actors and regimes (Kim, 2012)²¹. Thus, the concept of development now becomes an open-ended evolving process, driven by a large number of local interactions and uncontrolled by external forces (Rihani, 2002)²². The “self-organized,” patterns produced here are not finite, orderly or predictable (Rihani, 2005,55)²³ but instead situated in between the two extremes of wasteful chaos and stultifying order (137)²⁴.

In other words, the actual agents of aid are now no longer confined to a single entity, despite the fact that development cooperation is still primarily based on taxpayers’ money of the donor country – channeled through to the recipient country from government to government. In addition to the diversification of the stakeholders involved, the complex and multi-layered nature of the issues found in social development assistance program cooperation itself, such as the struggle between humanitarian motives and economic interests, indicate room for these diverse agents from both donor and recipient countries to form new networks, a form of social capital (Kong and Lim 2011; Kim 2012)²⁵. Ultimately, these networks and interactions found within the civil society, or “micro-mobilization” led by the diverse agents, now affect and challenge structures at the macro level (Kong and Lim 2011; Urry 2003)²⁶.

Despite the level of actual complexity, much criticism has been directed at

a bias towards and a reliance on simplistic models that pervade the aid system. As shown in Picture 2, at the global level there are a number of competing and overlapping institutions that shape global social policies – the agencies of the United Nations, Bretton Woods organizations and to name a few – not to mention businesses, broader civil society organizations, NGOs, NODDs (non-DAC-donors), and other private actors, which are increasingly involved in the process (Deacon, 2007)²⁷. This signals a pressing need to better understand the complexities found in the current aid structures and through it enhance the quality of aid practices.

FIGURE 3. Resource flows within the international relief system

Source: OECD DAC, Guidance for Evaluating Humanitarian Assistance in Complex Emergencies, 1999, p.8.

At the heart of all complexity phenomena there is a network of elements and dimensions, and the degrees of interconnectedness, interdependence or patterns of interaction among them are therefore central to understanding complex systems (ODI, 2008)²⁸. Here, the term “loosely-coupled systems” (technically hyphenated when modifying systems) (Orton and Weick, 1990)²⁹ specifically describes the relatively low degree of interdependence between the elements that form an organization. If elements are loosely coupled, they are responsive to each other but each also preserves its own identity and distinctive features. Thus, loosely-coupled systems represent a subset within the complexity science academic literature, used to describe and analyze the interconnection between various actors.

One main example of loosely-coupled systems has been vividly portrayed through the case of an educational organization, more specifically through the example of the counselor's office, which is loosely coupled to the principal's office (Weick, 1976)³⁰. Although most perceive that the principal and the counselor are somehow attached, each office holds its own identity and separateness in that their attachment may be "circumscribed, infrequent, weak in its mutual affects, unimportant, and/or slow to respond." Keohane and Victor have also applied the concept of loosely-coupled systems in explaining the characteristics of a regime complex for climate change. "Semi-hierarchical regimes" are those situated between the spectrum that display fully integrated institutions and hierarchy at one end, and highly fragmented collections of institutions with no identifiable linkages at the other. It has no clear hierarchy or overall architecture, yet many of its elements are linked in complementary ways (Keohane and Victor, 2009)³¹.

Although elements of an organization may neither be tightly connected, nor explicitly bounded, this does not necessarily affect its stability. In other words, independent elements of the organization would work harmoniously while remaining physically distinctive. From an organizational perspective, the concept suggests flexibility – even those that seem ideologically incompatible can join forces and create need-based, composite services regarding a social issue (Sharp, 2009)³². However, the counterargument would be that their incompatibility and mere nominal structural links could lead to a quicker disassembling of the exchange relationship. Furthermore, in such structures, rules are often violated, decision are often unimplemented, or if implemented have uncertain consequences, display problematic inefficiencies, and evaluation systems are subverted or rendered so vague as to provide little coordination (Meyer and Rowan, 1977)³³. There is plenty of slack in terms of time, resources and organizational capacity (Urry, 2003)³⁴. As a counterargument to Weick's principal's office analogy, institutions such as primary school or even university educational organizational infrastructures can be viewed as needed, but not always entirely efficient organizations. This may perhaps be due to the fact that not enough transparency and/or coordination exists internally (with related social capital and internal stakeholders, such as teachers, students, and administrators) and externally (with related external stakeholders, such as the community, parents, and state educational funding agencies). Elements influence each other over longer timeframes, and in more subtle ways.

However, earlier work suggests the dysfunctions of loose coupling need not be overemphasized in that it allows some parts of the organization to persist. Similar findings have been made in the study of social structures, such as Hirschman's study on the functions of "slack (1970),³⁵" defined as a gap of a given magnitude between actual and potential performance of individuals,

firms and organizations. “Slack” permits firms to ride out adverse market or other developments as it acts like a reserve – excess costs will be cut, innovations will be more easily introduced. In political systems, “slack” can be found to contribute to stability and flexibility. Granovetter’s (1973) survey of job seekers also suggests “the strength of weak ties³⁶,” whereby a “tie” is defined as a combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services. Findings conclude that weak ties, while often denounced, are in fact indispensable in generating opportunities.³⁷ Thus, perhaps the relevant issue is what level of “slack” would create the most stakeholder value. As such, the authors in this article note that although slack may be helpful, as Hirschman (1970) asserts, a notable level of slack surplus (a state of existence in between loosely coupled systems and systems with strong ties) may arguably be problematic in that the relevant stakeholders may not derive maximum efficacy for the benefit of transparency, sustainability, and verifiability of certain social benefit programs, as will be later described in this article in further detail, which may counter Hirschman’s (1970) claim that “slack” is always or nearly always preferable.

IV. LOOSELY-COUPLED SYSTEMS IN THE AID INDUSTRY

There are noticeable characteristics of loosely-coupled systems that overlap with less interdependence found in partnerships and coordination between autonomous agencies in the aid industry. Several features of the government-NGO relationships reflect the “paradoxical nature” of *loosely*-coupled systems – a state which arises from the implied tension between “determinacy (coupling) and indeterminacy (looseness) (Beekun and Glick, 2001)³⁸.”

For the sake of better accountability and effectiveness in justifying their aid policies, governments have continuously tried to avoid resorting to extremes (Held and Koenig-Archbugi, 2003)³⁹. That is, incorporating NGOs or at times checking and balancing them in the policy making process. NGOs, in turn, have struggled to maintain autonomy while increasing cooperation with government agents. In addition, within the structures of multilevel governance, the networks comprised of various NGOs at multi levels are still scattered, having not yet found “a comparably unifying culture, organization structure, and participation,” around which to stimulate universal support (Kong and Lim, 2011)⁴⁰. Overall, governments and NGOs each hold their share of incentives and challenges in cooperating with each other, resulting in a neither tightly bound nor completely decoupled relationship. However, such system is far from perfect, in which the CSO-government relationship falls somewhere in between the tightly bound or completely decoupled relationship framework.⁴¹ The policy

challenge thus becomes, given the virtues of both systems, what improvements could be suggested to the currently existing relationship framework for the betterment of all stakeholders. (period needed)

1. CSO-State Relationship Policy Challenges: incongruous priorities, disassembling relationships

It is evident that priority sets and core philosophies of aid practices vary among governments and NGOs. Efforts in aid practices therefore have been made largely so as to make most of the distinctive contributions made by each group and find room for cooperation. Such practices are good real-life examples of the flexibility of loose coupling, as mentioned previously, which allows for somewhat incompatible systems to cooperate on a particular issue of importance. (there was an extra space after the word “mentioned”)

However, the non-virtues of the flexibility found in loosely coupled systems can be found in the actual cooperative state of donors and NGOs. Both DAC donors and NGOs have identified main challenges they encounter in working together. In particular, the “lack of accountability and transparency (OECD, 2011)⁴²” in management and funding is a chronic obstacle for both parties. As a result, public projects have long portrayed a lack of meaningful dialogue and clear, specific policies. Despite continuous efforts and official pledges made at the HLFs, donors still acknowledge that actually implementing the HLF commitments on the inclusion of civil society can be “*ad hoc*; perhaps even tokenistic” or at times stuck at “the rhetoric of mere involvement of, or consultation with CSOs (INTRAC, 2010)⁴³.”

In addition, difficulties in interest alignment between NGOs and donors are found in DAC data on NGO funding. DAC currently collects data on two official types of development financing in assessing the member’s level of cooperation with NGOs: aid channeled *to* NGOs and aid *through* NGOs. Aid *to* NGOs covers official funds to be used at their discretion, while aid *through* NGOs covers official funds made available on behalf of the official sector, in connection with purposes designated by the official sector, or known to and approved by the official sector. Research claims that in the former, NGOs are more recognized by both the recipient and donor as a rights-based independent aid agent, as the NGOs themselves exclusively decide priorities, plans, strategy and approach, whether it be inconsistent with the priorities and plans of the donor or government (Worthington and Pipa, 2010)⁴⁴. In the latter, however, it is likely that the NGO becomes a channel through which aid is delivered to the recipient country.

Although an overall increase exists in the aggregate amount of aid made to

and through NGOs, data demonstrates that more aid goes *through* NGOs as project and program funding than *to* NGOs as core support. In the case of the US, in 2009, the amount of aid made “through” NGOs was more than twofold of the aid given “to” NGOs (OECD, 2011)⁴⁵. In their own assessment of the survey, concerns have been voiced on a daunting possibility that donor still perceive NGOs as mere deliverers.⁴⁶ Thus, such diverting approaches to aid between donor and NGO are more likely to result in occasional fallouts rather than a continuous, tightly-bound relationship.

2. Government-imposed heavy conditions on NGO funding

Although DAC members are gradually increasing NGO support, the conditions required for financing are still complex and demanding. This brings into question the underlining level of the reluctance among donors in recognizing NGOs as equal partners.

Despite the upsurge of NGO recognition that followed the 1990s, NGOs still face financial difficulties, which raise their vulnerability to government support. Moreover, NGOs have cited the harsh and heavy conditions for funding as a major challenge in their work with donors (OECD, 2011)⁴⁷. They, the NGOs, view that this practice overtly runs counter to HLF commitments to recognize CSOs as independent development actors in their own right and to create an enabling environment. CSOs claim that they have had to increasingly confront measures by which they are “harassed, intimidated and criminalized, limited in reaching full potential as development actors and ultimately undermining the development effectiveness of all development actors.” (BetterAid and Open Forum, 2011)⁴⁸.

FIGURE 4.49 Percentage of bilateral ODA allocated to and through NGOs by DAC member, 2009

Source: DAC CRS

Note: * Denotes where 25 percent or more of channel codes are blank/not completed. ** Data for the United States on ODA through NGOs are incomplete.

Nonetheless, the distinctive functions of this “loosely coupled” relationship are best captured in Brinkerhoff’s (2002) study on government-NGO relationships. Here, four types of “government-nonprofit partnerships” are identified based on two criteria: “Mutuality” and “Organization identity (Brinkerhoff, 2002)⁵⁰.” “Mutuality” is defined as interdependence or mutual dependence “which entails respective rights and responsibilities of each actor to the other’s,” in addition to a strong commitment and support for the joint goals, mission and objectives of the partnership. “Organization identity” describes features, which are “distinctive and enduring” in a particular organization, and something that is believed to be essential to long-term success. Out of the four types, the ideal state, or “Partnership,” is found where both Mutuality and Organizational Identity of the government and nonprofit organization are strong.⁵¹

V. BRINKERHOFF’S MODEL APPLIED IN SOCIAL FINANCE

1. Smart Social Capital: A Modest Proposal to Resolve the CSO-State Relationship for Societal Beneficial Assistance Programs

Given the various challenges of the current CSO-state relationship structure, and given Brinkerhoff’s “mutuality” category as one defined as interdependence or mutual dependence “which entails respective rights and responsibilities of each actor to the other’s,” this section offers a possible extension of Brinkerhoff’s mutuality category(no period) (Brinkerhoff, 2002). Specifically, one possible subsection in which the state, NGOs, and broadly CSOs, can find interdependence, commitment, and support for joint goals could exist by incorporating aspects of social finance, generally, and social-impact bond finance, specifically, combining to form a strategic model of smart social capital, in which the various stakeholders, networks, and community enter into various agreed-upon societal benefit programs vis-à-vis shared interests in the pursuit of both financial and societal gain.

Social finance can be defined as the “making of financial investments intended to achieve social objectives as well as well as to deliver financial returns” generally for community projects that obtain a clear social benefit.⁵² By implementing social finance projects, “social capital” is also seen as being increased.⁵³ The stated objectives of social finance and smart social capital include to (1) prioritize of community and other assistance projects that are in need of financial funding; (2) achieve sustainable development in communities and development assistance; and (3) support efforts that can rectify and equalize situations that can include, but not be limited to, disadvantaged persons and unequal social structures.⁵⁴ The authors modestly suggest that the use of social impact bond (SIB) financing,

as described in the following section in greater detail, represents one possible viable and efficient structural approach upon which to attain and maximize such smart social capital.

2. Stakeholders vs. Shareholders: Brinkerhoffian Partnership through Social Finance

Under the traditional purview of finance (“traditional finance,” as espoused in the financial markets and business programs, initiated by the theory of modern corporate structures from Berle and Means (1932) in the early twentieth century), the stated objective of entities and its products and services was a very narrow one: to “maximize shareholder value,” with a focus on “shareholder primacy” (no period) (Roe 2001, Friedman 1970, Berle and Means 1932). Scholar Michael Jensen and business school dean William Meckling (1976) went further by describing shareholders as “principals,” which strongly suggested that shareholders concern should be paramount to other parties, such as employees, customers, and the greater community at large (no period) (Jensen and Meckling 1976). The shareholder, essentially the end investor, was the core concern for the entity, including the entity's board of directors, officers, and employers. The shareholder was also primarily concerned with maximizing returns on investment (ROI), which in turn, generally was construed to mean the pursuit of maximizing one's own individual financial gain, rather than the financial and non-financial gain of stakeholders, including shareholders, but also the state, CSOs, local community, and greater society. For example, the local community in which a private sector entity is domiciled can be a very visible stakeholder, in which social enterprises (both private sector and NGOs) attempt to contribute to the social welfare of a particular project, person or other effort (referred to as “constituents” in social finance *lingua franca*).

However, in the post-subprime crisis era, leading business scholars, including pre-eminent Harvard Business School professor, Michael Porter (2011), has argued for a more expansive definition of “shareholder” to include other parties who may have a relationship between business and society (no period) (Porter, 2011). However, Porter (2011) did not go as far as redefining the traditional finance maxim of “maximizing shareholder value.”

TABLE 1. Social Finance v. Traditional Finance⁵⁵

	Social Finance	Traditional Finance
	Maximize <i>stakeholder</i> * value (* stakeholders include: - constituents (assistance project, program, or persons) - service providers - impact investors - advisors - assessors - community / society)	Maximize <i>shareholder</i> * value (*shareholders are deemed the “equity residual owners” to a particular entity, typically a stock corporation)
Objectives	1) Increase coordination of state-CSOs through social finance investments 2) Seek societal benefits 3) Seek financial benefits	1) Increase coordination of primarily private sector actors (private firms with private consumers) 2) Does not seek societal benefits 3) Seek financial benefits

Applying the purview of Brinkerhoff’s (2002) model, it is proposed here that social finance would fall under the “partnership” matrix section in which “organizational identity” and “mutuality” would be classified under the “high” category. As will be explained in the subsequent section, and as the term denotes, with social finance and smart social capital, a partnership is formed. Unlike in traditional finance models, the social finance model tightens the “slack” and the “loosely coupled systems” structure somewhat, but not unnecessarily so. Rather, such slack adjustment is tightened through the invisible hand of shared incentives, in which the stakeholders to a particular social finance project serves as an additional possible method upon which to increase state-CSO relational structures in an effort to pursue societal benefit, including overseas assistance. Social finance utilizing smart social capital, thus, can serve as one (of several) possible approaches to more highly calibrate the coordination, verification, and sustainability of developmental assistance to local and cross-border communities, constituencies, and/or social projects.

TABLE 2. Brinkerhoff Model: Mutuality Model

Mutuality	
Organizational Identity	<div>1</div> <div>Partnership</div> <div>Social Finance</div> <div>Social Impact Bonds</div>
	<div>2</div> <div>Contracting</div>
	<div>3</div> <div>Extension</div>
	<div>4</div> <div>Co-optation & Gradual Absorption</div>

Source: Brinkerhoff, Government-Nonprofit Partnership: A Defining Framework, 2002

Since social finance is a broad term, as applied to real world assistance projects, one application of the Brinkerhoff (2002) partnership model with respect to the social finance model is the use of “social impact bonds”(SIBs), a subset of social finance, to form smart social capital. As of the writing of this article, little or no previous academic literature existed linking Brinkerhoff’s model with the complexity science framework, social capital, social finance, and SIBs, mostly likely due to the fact that, first, the aforementioned former two concepts represent different academic fields from the latter two concepts, and second, that social finance and SIB financing are relatively new concepts created in just the past few years. The specific structure and explanation of SIBs is explained in the next section below. At the general level, social finance techniques offer a unique method in which the relevant stakeholders (networks) to one or more particular social assistance projects are several actors unified as one cohesive unit. This is accomplished through the shared interests of the various stakeholders (and networks) involved, creating smart social capital, which has verification elements embedded into to ensure that assistance gains are verifiable, transparent, and sustainable.

3. CSO-State Brinkerhoff-Style Partnership Model: Using social impact bonds (SIBs)

A social impact bond is a legal and financial funding structure that is implemented for a particular project or group of persons, or for a "constituency," which represents one of the structure's stakeholders (no period) (Evans, 2012; McKinsey 2012). Such constituency typically would require the need for a specified improvement in an effort to rectify a particular social objective, and one that has traditionally needed and been served by public funds (or NGOs), such as to reduce homelessness, recidivism, and/or the building of infrastructure (such as hospitals and schools) (no period) (Evans, 2012). However, in theory, a much broader constituency and/or assistance projects could exist. Another SIB component is the (social) "service provider" that would provide the assistance, program, or other related effort on behalf of the constituents. Often, but not always, the service provider is a CSO or the state, acting separately or together.

Similar to traditional financing methods, the social finance driven SIB structure requires the need for investors.⁵⁶ However, unlike traditional finance investors, in the social finance SIB structure, the typical social finance SIB investor would be a "social impact investor" (an investor that takes into consideration social as well as financial impacts related to the investment made for a particular assistance program). Although not much history and academic literature relating to the SIB market exists, the end social impact investor may include, but not be limited to, a philanthropic organizations or charitable entities (whose interests may by definition and/or mandate be one to satisfy both social as well as financial returns) as well as other non-philanthropic and charitable organizations, such as pension funds, mutual funds, high net worth individuals, insurance companies, sovereign wealth funds, and financial institution end investors, collectively and/or individually.(Evans, 2012).

The next stakeholder in the legal SIB and smart social capital structure is the "intermediary" that serves as the hub that connects the various stakeholders involved. (McKinsey 2012). Often, the intermediary is a private sector financial institution that has experience dealing with similar (but not necessarily identical) legal and financial structures and issues. For instance, a financial institution that has had experience dealing with structure products involving asset backed securities (ABS) or special purpose vehicles (SPVs) may already have some broad familiarity with those existing already related to SIBs (such as Goldman Sachs, which was involved in a recent social finance project in the U.S.). In a typical ABS structure, somewhat similar to the SIB structure, a financial intermediary sets up an entity (e.g., an SPV domiciled in a tax-efficient jurisdiction) that issues structured bonds to investors. (Jobst, 2007).

Evaluation "advisors" are also part of the SIB and smart social capital structure, which provide guidance and advice relating to setting and implementing the SIB's

performance criteria (metrics), particularly between the service provider(s) and impact investors. An independent “evaluator” is also employed in the process. It is the evaluators’ mandate, as objective independent evaluator on an arms-length basis, to determine whether or not the SIB has met its stated objectives. If the independent evaluator’s conclusion is “yes” to the stated objectives—based on predetermined and agreed contractually-agreed upon terms, conditions, and verifiable metrics by all involved stakeholders-- the impact investors are paid principal plus interest. Unlike the evaluation advisors, who play a relatively active, hands-on, day-to-day management type role, the independent evaluator's purpose is to be at an arms-length such that its decisions are objective, fair, and reliable. (McKinsey 2012).

The final, but not least in terms of importance, stakeholders and networks are the local community and greater society relating to the particular program, project, or persons. While the constituents benefit directly from the funding provided by the SIB program, the local community and greater society can also benefit, directly and/or indirectly, from the outcome of the funded constituents.

In broad terms, the main legal SIB and smart social capital structure stakeholders (social and financial networks) include:

- constituents (assistance project, program, or persons)
- service providers
- social impact investors
- intermediary
- advisors
- assessors
- community / society

FIGURE 5. CSO-State Brinkerhoff-Style Partnership Model: Mutuality Through Shared Incentives (vis-a-vis Specific Roles, Agreement, Trust, and Verification)

Encouraging and creating more effective CSO-state partnerships for social assistance projects through smart social capital and shared incentives vis-à-vis specific roles, shared stakeholder agreement, trust, and independent post-project verification—all features present with social finance and SIB-based assistance projects and related funding efforts—is in the authors' view, a viable approach that extends upon Brinkerhoff's (2002) established partnership model.

FIGURE 6. Shared interests

*Shaded area = Shared Interests [Community/Society, Service Providers, Social Impact Investors, Constituents]

The unique financial feature of the SIB is that, first, the service provided for the constituents are initially funded by the end social impact investors (rather than the service provider, which would typically be the state and/or CSO) vis-a-vis the SIB purchase by the impact investors. That is, the service provider--albeit the federal/local government and/or NGO—is not obligated to pay any funding amount upfront. Second, the service provider only provides funding (for the particular service to the constituents) if and only if certain pre-designated post-social assistance project metrics are achieved. If not, then the impact investors bear the loss (up to a certain level).

From the perspective of shared incentives and CSO-state partnerships from a conceptual basis, the benefits of social finance utilizing smart social capital and SIBs include:

- **Target transparency:** service providers, such as government (public) organizations only need to fund projects (services) that are deemed successful. In the past, such abstract terms as “objectives” were difficult to measure. However, under the SIB social finance structure, clear predesignated targets are set, which will typically include quantitative targets (in addition to mere general language). This provides a very clear aspirational target for all parties involved—impact investors, intermediaries, service providers, advisors, outside assessors, and the constituents—upon which to make the relevant analysis and conclude whether the particular project relating to the SIB investment was successful or not. Throughout the SIB transaction tenor (life cycle), the internal advisor provides the necessary due diligence to ensure transparency, while the external assessor calculates and determines whether the project (transaction) has met its stated target levels or not.

- **Economically efficient use of resources:** with the SIB structure, the relevant resources are allocated by the related parties and social networks to the transaction in a relatively efficient manner. The service providers—most likely public entities and/or NGOs only pay for services that are efficient (i.e., have met its predesignated target levels). The social finance impact investors provide (invest) the original funding amount in exchange for the possible (but not guaranteed) economic benefit of a return on investment greater than its original investment amount. According to scholars such as Lynn Stout (2011), this would be the focus of those with a *homoeconomicus* approach. (Stout, 2011).

- **Ethical efficiency:** Traditional finance is predicated on “rational” behavior, which is another way of saying to maximize one’s own benefit through risk-taking in investments (products and/or services) that provide the opportunity to receive profit in exchange for such risk-taking behavior. That is, inter alia, ethical considerations and/or considerations related to other parties not directly privy to a particular financial transaction (i.e., the community) were not considered traditional interests to consider in determining investment behavior (i.e., where to allocate one’s capital). According to scholars such as Lynn Stout (2011), this would be the focus of those with a *homoeconomicus* approach. (Stout, 2011). However, and in contrast, with SIB and other social finance-related transactions, considerations of such other party’s interests are considered. Further, ethical considerations, including moral considerations (linked to “moral capital”) are also driving incentive forces for SIB impact investors, which represents a new approach in terms of deciding how to allocate (invest) capital.

From the perspective of shared incentives and CSO-state partnerships from the perspective of each related stakeholder, the benefits of social finance and SIBs include:

- **Social Impact Investors:** much like investors in traditional finance, investors in social finance transactions would seek to maximize profit. In slight contrast, however, social finance investors would consider not only factors related to maximizing profit, but also positive externalities, such as societal contribution of the investment and investment in smart social capital.
- **CSOs/NGOs:** the incentive for CSOs/NGOs in social finance transactions is that such groups only fund those projects that are successful in terms of meeting certain predesignated metrics. If such metrics are not met, then the end social impact investors fund the transaction.
- **Constituents / Project:** the constituents benefit since funding will be provided, which is clearly a better scenario than if funding is not provided. An additional benefit is that specific metrics are established in the social finance transaction involved such that sustainable and verifiable measures for success are instituted.
- **Greater Society / Community:** the social finance transaction can provide positive externalities in that a specified project receives needed funding. Moreover, the resources for such project combined with the incentive structure of the social finance transaction provides a more efficient way to allocate capital and ensure long-term measurable results that can benefit the local community. Less taxpayer resources may also be utilized since only those projects that do not meet certain predesignated standards related to the project are funded by the government (or NGO, as the case may be).

The virtues of social finance-based CSO-state partnerships can be seen not just on a conceptual and theoretical level, but also at the practical level through various real-world programs in places like the UK and U.S. So far, although it is still in its early stages, the results of social finance assistance programs in such jurisdictions are promising. The next section discusses several such case studies of social finance assistance projects.

4. Case Studies: Shared incentive-based partnerships through SIBs and Social Finance

From a broad purview, the social finance market has been in existence for just the past several years. The field is therefore in its early development stage, at both the local and international level. Up to this point, the social finance assistance projects have been at the local level, in which the stakeholders have been domiciled in the same domestic jurisdiction. However, as the latter part of this section suggests, no conceptual limit exists such that social finance and smart social capital partnerships cannot be implemented for cross-border, global-scale social assistance programs.

5. SIB Partnership and Assistance: Current Stage (Local Level Applying Basic Structured Finance)

The first social finance and smart social capital project involved a social recidivism reduction program for 3,000 short term prisoners at HM Prison Peterborough, located north of London, UK. According to Social Finance UK (2011), the social finance project transaction terms involved a return to investors of a rate as high as 13 percent if recidivism fell by more than 7.5 percent. (Social Finance, 2011)

One of the first social finance projects in the U.S involved a program in the Rikers Island prison, which Goldman Sachs providing \$9.6 million in funding.⁵⁷ Under the terms of the deal, if recidivism falls by more than 10 percent, then Goldman Sachs can earn as much as \$2.1 million in premium (above and beyond its principal investment amount).⁵⁸ However, if recidivism does not fall by its social finance target rate of more than 10 percent, then Goldman Sachs could lose as much as \$2.4 million. Other social finance projects include those involving the U.S. states of Massachusetts, Los Angeles, and Wisconsin.⁵⁹

The idea of bringing efficiency into the public sector through social finance is gaining increasing bipartisan political support, with \$100 million proposed to be allocated in the past two U.S national budgets for support. Given that the U.S. government has made efforts towards procuring funding for social finance projects, it is not inconceivable that other local governments in developed and developing countries as well as IGOs (such as the United Nations, World Bank) could also aim to procure similar budgetary funding appropriation.

Typically, such social projects, such as recidivism programs, are funded in the U.S. by state and local bond issuances—through “traditional” financing—which has returned 10.6 percent as of August 2012 year-on-year.⁶⁰ However, one main difference between traditional and social finance is that, in traditional finance, the government (at the state and/or federal level) would have to fund the given

project, irrespective of whether the designated project met a specific success target rate (in many cases, such target rates are not even set in a traditional finance funding schemes). In contrast, with social finance transactions up to the writing of this article, only those projects that have met or surpassed specified verifiable target rates are funded by the public sector. For clarity, the lack of such specified verifiable target rates would mean that the structure, generally, and the transaction, specifically, would not fall under the ambit of a social finance transaction. However, in a social finance structure and transaction, the government and/or NGO only funds “successful” projects, predefined as only those projects that have met or exceeded its specified target rates, specifically, funding only the “winners” and not funding the “losers” in the transaction (which would be borne by the end investors).⁶¹

In sum, although social finance may not be a perfect solution for the greater challenges facing CSOs and the public sector to further smart social capital, its basic tenets may prove to be a valuable alternative in certain circumstances to incentivize societal benefits utilizing a public-private sector social assistance projects, programs, and/or persons.

VI. CONCLUSION

Public efforts to improve society by CSOs and the public sector provide positive benefits to society, and as such, serve as beneficial contributors to the local and global communities. Despite such good faith efforts by CSOs (including NGOs) and the public sector, several challenges still exist. First, a lack of transparency exists related to certain public projects and constituents in certain circumstances in terms of what funds were used and why, which represents some perceived weaknesses of loosely coupled systems. Second, a lack of funding exists for such public projects due to lack of government and/or CSO funding. Third, even with the funding that is procured for public projects in general, not all needed projects and constituents are served due to limited funding and resources. Fourth, the connection between NGOs and the government are not always aligned. Fifth, even assuming that interest alignment and funding issues are in congruence and funding is provided, not all such projects implement a specific target for a specific timeframe by which to measure success of any given project, thus creating the possibility of funded projects receiving relatively little attention and accountability subsequent to funding.

The authors of this article modestly suggest, drawing upon previous related literature and findings relating to loosely-coupled systems, complex systems, and Brinkerhoff's (2002) partnership model, that the use of social finance and

smart social capital generally, and social impact bonds specifically, may represent one possible solution to such challenges. With SIBs, the end social impact investors provide the initial funding relating to a particular project and/or constituency (rather than the government and/or CSO, which would be the typical case without the advantage of a social finance mechanism), resolving some (but clearly not all) of the funding challenges for needed public works projects that benefit society.

In such suggested social finance structure, the relevant CSOs/NGOs and government body(ies) involved would only need to provide financing if and only if a specific target (i.e., for example, by reducing recidivism by 20 percent in 5 years for a specific constituent group) is met, else the social impact investors bear all or a proportion of the loss. Thus, CSOs and/or the government only fund those projects that are deemed “successful” as measured by certain predetermined metrics agreed upon by all the stakeholders to a particular social finance project—including the service providers (NGOs, government), constituent (project to receive funding), and end investors (who are willing to forsake a certain portion of financial gain in exchange for adding to funding a project that may, but is not guaranteed to, result in some form of societal benefit).

Such social finance structure would also, in many but not all ways, further transparency since the relevant stakeholders would be fully aware of what money is used for what service. It also helps to bring the public sector and CSOs into greater alignment and clearly defined roles and responsibilities. The social finance structure also expands funding for public projects due to the fact that investors would be incentivized to invest in SIBs, partly, but not entirely, for the social impact investor’s individual economic interest, which in turn, helps society’s interest because the SIB social investor is providing the funding for society’s benefit through a particular SIB purchase (in a unique juxtaposition of individual and societal shared interests and incentives). Finally, because the measure for success in social finance structures up to this point have included a specific metric at a certain point in the future by which to measure success, funding for public projects will not only be more easily procured, but the efficiency rate of the project may also be notably improved on a sustainable basis, during and beyond the time that funding is procured for a particular project or constituent group (up at least to the time at which the project is measured to see if its target level has been met).

By utilizing social finance, as modestly proposed by the authors, greater transparency, efficiency, and sustainability can be achieved to maximize benefits to society. In the Endnotes and References, I made some spacing and punctuation changes.

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Appendix

TABLE 1. Aid through NGOs, 2007-09, USD million (disbursements)

DAC Member	2007	2008	2009
Australia	157	2	195
Austria	75	68	67
Belgium	113	137	155
Canada	-	217	585
Denmark	96	164	126
Finland	128	150	173
France	28	33	106
Germany	788	940	993
Greece	-	1	5
Ireland	147	156	153
Italy	109	121	118
Japan	5	58	81
Korea	1	1	4
Luxemburg	-	74	77
Netherlands	479	543	453
New Zealand	0	28	25
Norway	784	853	863
Portugal	3	4	5
Spain	-	1439	922
Sweden	430	494	640
Switzerland	262	319	340
United Kingdom	-	637	745
United States	3267	4438	6239
EU Institutions	639	759	1455
Grand Total	7509	11637	144523

Source: DAC Creditor Reporting System

Note: “-” denotes where 25% or more of channel codes are blank/not completed.

TABLE 2. Aid to NGOs, 2007-09, USD million (disbursements)

DAC Member	2007	2008	2009
Australia	14	190	58
Austria	1	2	2
Belgium	146	168	181
Canada	0	0	55
Denmark	108	43	55
Finland	8	10	3
France	54	58	12
Germany	0	0	0
Greece	0	0	0
Ireland	150	192	102
Italy	21	2	8
Japan	3	137	240
Korea	7	9	8
Luxemburg	0	8	8
Netherlands	1011	1222	1027
New Zealand	0	27	24
Norway	0	0	0
Portugal	3	7	4
Spain	0	29	20
Sweden	295	271	137
Switzerland	132	135	140
United Kingdom	963	345	323
United States	0		0
EU Institutions	0	2	0
Grand Total	2917	2857	2406

Source: DAC Creditor Reporting System

Note: “-” denotes where 25% or more of channel codes are blank/not completed.

ENDNOTES

- ¹ The terms “civil society organizations” (CSOs) and non-governmental organizations (NGO) are used interchangeably to mean both national NGOs and international NGOs. The terms “government” and the “state” are also used interchangeably to refer to the public sector, and denote the same term.
- ² Rooy, Alison. 1998. *Civil Society and the Aid Industry*. London: Earthscan.p.202.
- ³ Ibid p.207
- ⁴ OECD DAC. 2011. How DAC Members Work With Civil Society Organizations: an Overview. pp. 14-18
- ⁵ Ibid
- ⁶ In this sense, viewed positively, NGOs are viewed as the agents of aid who effectively fill the governance gaps in such societal development assistance programs. This also coincides with the growing skepticism on various aid initiatives, mostly the inefficiencies and adverse impact it has on the beneficiary party. As Easterly’s infamous statement goes – “the plan is to have no plan” – NGOs and their piecemeal projects are praised to have more preferable structures and processes to effectively reach those who are in need the most. In addition, NGOs are at the front line of aid, functioning as channels conveying real-life information to donors at one end and delivering aid to recipients on the other, from whom they have earned trust and intimacy
- ⁷ “The High Level Fora on Aid Effectiveness: A history,” OECD DAC, accessed July, 2012, <http://www.oecd.org/dac/aideffectiveness/thehighlevelforaonaideffectivenessahistory.htm>
- ⁸ The second HLF was the first time both donors and recipients agreed on concrete commitments, as set forth in the five principles of the Paris Declaration – Ownership, Alignment, Harmonization, Managing for results and Mutual Accountability. Although the Paris Declaration did not explicitly state the role of CSOs in improving aid effectiveness, it placed partner countries’ ownership of policies and programs at the centre of international reform agenda. However, due to this somewhat crude recognition of “the contributions” of CSOs, the civil society viewed the declaration to be limited largely to aid delivery, created without the involvement of CSOs, and thus laden with inherent short-comings, both in terms of process and outcomes. Prior to the following HLF held in Accra, September 2008, the Open Forum for CSO Development Effectiveness was launched in June 2008. It originated in the concerns raised in preparations for the forum, an initiative led by an international group of 25 CSOs towards a bottom-up approach to development. This would later develop into a platform for CSO discussions on minimum standards for an “enabling environment” in which to do their work. In addition, the Istanbul CSO Development Effectiveness Principles agreed at the Open Forum’s Global Assembly in Istanbul, September 28-30, 2010, were groundbreaking standards upon which donor governments would recognize CSOs as effective development actors. (The Paris Declaration on Aid Effectiveness and Accra Agenda for Action 2008). Meanwhile, as the third HLF progressed, donors and governments assessed the progress made in the implementation of commitments made in the Paris Declaration.
- ⁹ The Paris Declaration on Aid Effectiveness and Accra Agenda for Action. 2008.
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- ¹¹ Ibid p.14
- ¹² Busan Partnership for Effective Development Cooperation Fourth High Level Forum on Aid Effectiveness. 2011.
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- ¹⁷ Held and McGrew. 2002. *Governing Globalization: power, authority, and global governance*. Polity Press

- ¹⁸ Ibid p. 62
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- ²⁴ Ibid p. 137
- ²⁵ Kong, Suk-Ki and Lim, Hyun-Chin. 2011. Let's Build a New World Order: Tripartite Dynamics of Inter-State System, World Capitalist Economy and Global Civil Society. *Korean Journal of Sociology*. 45(4). pp.1-20; Kim, Taekyun. 2012. The Social Construction of International Development Cooperation: The Politics of Global Governance and Network Complexities. *International Development and Cooperation Review*. 4(1). p. 9
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- ³⁵ Hirschman, Albert. 1970. *Exit, Voice and Loyalty*. Cambridge: Harvard University Press.
- ³⁶ Granovetter, Mark. 1973. the Strength of Weak Ties. *American Journal of Sociology*. 78(6): pp. 1360-1380.
- ³⁷ Strong ties, on the other hand, were found to bring overall fragmentation. Clearly, some "slack" is needed so that coordination can have some elements of flexibility, freedom, and coordination.
- ³⁸ Beekunand Glick. 2001. Organization Structure from a Loose Coupling Perspective: A Multidimensional Approach. *Decision Sciences*. 32(2). p. 228
- ³⁹ Held and Koenig-Archbugi. 2003. *Taming Globalization: Frontiers of Governance*. Polity Press. p. 130-159. (as cited in Kim, Taekyun, the Social Construction of International Development Cooperation: The Politics of Global Governance and Network Complexities)
- ⁴⁰ Kong, Suk-Ki and Lim, Hyun-Chin. 2011. Let's Build a New World Order: Tripartite Dynamics of Inter-State System, World Capitalist Economy and Global Civil Society. *Korean Journal of Sociology*. 45(4). p. 14
- ⁴¹ The strong interests of NGOs to preserve autonomy also serve as incentives to distance themselves from governments. Initially, NGOs have long demanded that donors offer and nurture a better environment for NGO aid practices. Governments in turn have largely agreed to these demands, recognizing the need to continue financial support and enhance the sustainability and legitimacy of NGOs. Thus, the involvement of the civil society in policy dialogue and political advocacy have mostly been viewed to be a growth area, with most donors seeking to support spaces to enable

civil society involvement, both at the domestic and international level. Kong and Lim, *Let's Build A New World Order: Tripartite Dynamics of Inter-State System, World Capitalist Economy, and Global Civil Society*, p. 14

However, NGOs have also demanded that they be recognized as *independent* actors in the aid industry, refusing to be rendered as mere executors of government aid policies. Prior to the fourth HLF, Open Forum outlined recommendations from the civil society regarding substantial progress in four interdependent areas of reform, one of which was that "governments should affirm and ensure participation and full diversity of CSOs as independent development actors in their own right." Better Aid & Open Forum for CSO Development Effectiveness, "CSOs on the road to Busan: Key messages and proposals," p.6-7. This was also included later in the final draft of the Busan Partnership. With further interdependence, many NGOs fear of being drawn into the priorities of donors, sometimes to the detriment of their original aims, detracting them from the role of pressuring better donor-government-citizen accountability in aid practices⁴¹. Moreover, recent criticisms claim a tradeoff between the priorities of the aid effectiveness approach and efforts to strengthen a diverse and vibrant civil society. Critics have pointed out that too much emphasis on donor harmonization and alignment between aid policies of the government and civil society may in fact deter the currently distinctive role of NGOs as watchdogs and innovators. INTRAC, "Legitimacy and Transparency for NGOs." A mechanistic application of the aid effectiveness principles that disregards the characteristics of NGOs would render NGOs as mere "subcontractors" or tools through which to execute government policies.

⁴² OECD DAC. 2011. How DAC Members Work With Civil Society Organizations: an Overview. p. 35

⁴³ INTRAC. 2010.Civil Society Policy and Practice in Donor Agencies: an Overview Report Commissioned by DFID. p. 11

⁴⁴ Worthington and Pipa. 2010. International NGOs and Foundations: Essential Partners in Creating and Effective Architecture in Making Development Aid more Effective. Policy Brief for Brookings Blum Roundtable, Brookings Institute.

⁴⁵ OECD. 2011.How DAC Members Work With Civil Society Organizations: an Overview. p.27-31

⁴⁶ In other words, when faced with two different priority sets, donors are still likely to prefer their own.

⁴⁷ Ibid

⁴⁸ Better Aid and Open Forum for CSO Development Effectiveness. 2011.CSOs on the road to Busan: Key messages and proposals. p. 6

⁴⁹ According to OECD statistics, in 2009, members (excluding the EU institutions) allocated USD 15.5 billion or 13% of total aid disbursements to and through NGOs, but with the individual ratio of bilateral aid channeled to and through NGOs ranging from 32% (Luxemburg) to 2% (Korea, Ireland) per member country. Heavy conditions imposed on government funding to NGOs retard the growth of the civil society, especially those that are relatively new or whose core values do not necessarily correspond to the government's main interests. This somewhat abusive practice of governments may be viewed as a useful means through which to keep the growing influence of NGOs at bay. The result is likely to be an imbalanced relationship between government and NGOs – drifting farther away from the possibility of building tighter ties.

⁵⁰ Brinkerhoff, Jennifer. 2002. Government-Nonprofit Partnership: A Defining Framework. *Public Administration and Development*, 22. p. 19-30

⁵¹ Brinkerhoff's example of the "Partnership" is of one established between INMED (International Medical Services for Health) Brasil, a separately registered Brazilian NGO, and the Ministry of Education and the Ministry of Health. INMED works closely and successfully with both ministries in treating children for parasitic infection, teaching them about health and hygiene to prevent re-infection, and training them to take these health lessons to their families and communities. As this paper earlier concluded, in "loosely coupled systems," even those that seem ideologically incompatible can join forces and create need-based, composite services regarding a social issue⁵¹. Similarly, the INMED partnership is also formed "on a case-by-case basis as need and opportunities arise." Here,

the government agencies base their policies on INMED's existing program, information and expertise, rather than imposing their own structure or requirements. The autonomy of the NGO is preserved in that INMED Brasil is free to proactively lead the partnership based on its own findings. Meanwhile, the main strategy of INMED's health program relies heavily on access to the government education system – granted by the government agencies involved. Here, the comparative advantages of both actors are maximized through an adequate level of interdependence and distinctiveness. Although INMED relies on core government support, this does not automatically imply that the NGO is to be *vertically* placed under existing government structures. Instead, it continues to function fully as an *independent partner* and a provider of invaluable information.

⁵² Social Finance and the Credit Union Movement in Ireland, October 28, 2005, (full text available at <http://www.finance.gov.ie/documents/publications/cuac/cumovement.pdf>).

⁵³ “Social capital” is defined as the “networks, norms and social trust contribute to the well-being and social spirit and well-being of a community, which facilitate coordination of activities and cooperation for the mutual benefit of the community.” *Ibid.*

⁵⁴ *Ibid.*

⁵⁵ Under the social finance model took the conceptual framework one step further by redefining the maxim of “maximizing shareholder value” held by the traditional finance model school of thought, with the newly-formed social finance school of thought maxim of “maximizing *stakeholder* value.” The replacement of “shareholder” with “stakeholder” is not insignificant since it strongly suggests a much broader framework of actors involved in decision-making processes, specifically, that the goal of a firm may be more than just to increase profits for a narrow bandwidth of select shareholders. Moreover, the definition of “value” is also notably broader under the social finance model than the traditional finance model, since it incorporates social as well as financial considerations. As mentioned, some may view the concept of loosely coupled systems with skepticism, noting that such relational structure may lack true impact on a particular project, may not possess verification metrics upon which to measure the sustainable success factors of a particular constituency or project, and still does not proffer new lines of funding for such constituency or project.

⁵⁶ McKinsey & Co., McKinsey on Society, From Potential to Action: Bringing Social Impact Bonds to the U.S.: A 12-month research and analysis into the opportunity for social impact bonds in the U.S., May 2012 (available at <http://mckinseysociety.com/social-impact-bonds/>).

⁵⁷ *Social Impact Bonds: I'll put 2.4m for redivism to fall*, The Economist, August 6, 2012, available at <http://www.economist.com/blogs/democracyinamerica/2012/08/social-impact-bonds>.

⁵⁸ *Ibid.*

⁵⁹ Deprez, Esma E. and Kaske, Michelle, *Goldman Sachs Inmate Bet Fuels Social Impact Bonds: Muni Credit*, Bloomberg News, August 21, 2012, available at <http://www.bloomberg.com/news/2012-08-21/goldman-sachs-inmate-bet-fuels-social-impact-bonds-muni-credit.html>.

⁶⁰ <http://www.bloomberg.com/news/2012-08-21/goldman-sachs-inmate-bet-fuels-social-impact-bonds-muni-credit.html>

⁶¹ Currently, social finance transactions have been at the domestic level utilizing a relatively straightforward bond issuance structure involving prisons and prisoners. However, going forward in the next development stage of SIBs and social finance, each of these levels can be broadened to take advantage of further societal benefits. Stakeholder Diversification: While the transactions have largely involved domestic players for a domestic issuance for a relatively small number of social impact investors, the stakeholders can in theory and practice involve multi-jurisdictional parties. For instance, the investors, issuer, project (constituents), service providers, assessors, and advisors could, if needed, be located in different states. In particular, having the investor base broadened to maximize investment into the particular social finance project would be beneficial to all parties involved. Moreover, the bond issuance entity, which would be structured by the service provider to minimize tax obligations related to bond payments. One way to do this is to have such entity registered and domiciled in a tax-efficient jurisdiction (this could be at the local or international level; the spirit being to minimize applicable tax obligations, thus decreasing SIB-related expenses, and increasing revenue and profit to further societal benefits). Moreover, multiple public entities and NGOs/CSOs could become involved as service providers on any one or more particular social finance projects, at the local or global level (pooling resources, knowledge, experience, social networks, and funding capital). Thus, a project

(constituents) in Vietnam could have service providers located in New York and Brussels, investors in the UK, Australia, and UAE, with assessors and advisors in Switzerland and Canada. As a matter of practice, such assessors and advisors often include audit and accounting firms that have the experience and reputation to provide neutral and transparent analysis of the project, such as PWC (UK), Deloitte (U.S.), Ernst & Young (UK) and KPMG (Netherlands). **Constituent Expansion:** Many of the currently limited number of social finance, SIB projects involved prisons, recidivism programs, and incarcerated persons. In theory, however, the constituent that receives social finance funding through SIB issuances can be an unrelated group, project, and/or activity. Using the current and past social finance transactions as barometers for potential future success, any project that requires, yet lacks, requisite funding could serve as a possible social finance projects. Such area can be extremely broad, from improved schools, construction of hospitals, to cross-border ODA (overseas development assistance) efforts. **Structural Sophistication:** The current social finance structure is relatively straightforward, similar to a so-called plain vanilla “structured finance” transaction. However, the currently used structure could also have certain sophisticated financial features that could help improve the system and assist in increasing the potential investor base, thus expanding funding pool levels. Specifically, a separate entity (counterparty) could be sought and incorporated into the transaction as a credit default swap (CDS) counterparty. With a CDS counterparty, the investor could be protected (insured) against the possible default of the issuer and/or issuer’s SIB (in exchange for a predesignated CDS premium), instilling further confidence into the structure, increasing the impact investor base. The same or separate counterparty could also be utilized to enter into a foreign exchange (FX) and/or interest rate swap (IRS), based on the stakeholder’s needs and risk appetites. The structure could also develop later into one that involves a credit rating (AAA, Aaa, etc.) by a credit rating agency, which would also instill investor confidence.