Forum: Practical Perspectives

Social impact bonds as public policy: international panorama and contributions to implementation in Brazil

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Despite being launched in 2011, the social impact bond (SIB) is an instrument under development that faces numerous challenges. This article presents the characteristics of SIBs and challenges related to their implementation as mechanisms to finance public projects with a social purpose. After a bibliographical and documentary review, three international cases of SIBs that have completed their maturity cycles, relevant for critical analysis of possible projects in Brazil, were selected. Ethical, methodological, metrics, results, and actor networks are analyzed in the three SIBs. Implications for projects in Brazil were considered from the analysis of these international cases.
Keywords: public policy; social businesses; social impact bonds; impact investments.

Títulos de impacto social como política pública: panorama internacional e contribuições para a implementação no Brasil

Apesar de lançado em 2011, o título de impacto social (SIB, na sigla em inglês *social impact bonds*) é um instrumento ainda em desenvolvimento e que encontra inúmeros desafios. **Este artigo tem como objetivo** apresentar características dos SIBs e desafios relativos à sua implementação como mecanismo para financiamento de projetos públicos com propósito social. Após revisão bibliográfica e documental, foram identificadas e apresentadas as principais críticas ao modelo. Três casos internacionais de SIBs que já encerraram seus ciclos de maturidade foram selecionados para a análise de aspectos éticos e metodológicos, de métricas, de resultados e de atores. Implicações para projetos no Brasil foram consideradas com base nas análises dos casos internacionais.
Palavras-chave: políticas públicas; negócios de impacto social; títulos de impacto social; investimentos de impacto.

Títulos de impacto social como política pública: panorama internacional y contribuciones para la implementación en Brasil

A pesar de haber sido lanzado en 2011, el contrato de impacto social (SIB, acrónimo del término inglés *social impact bond*) es un instrumento inmaduro que enfrenta numerosos desafíos. Este artículo tiene como objetivo presentar las características de los SIB y los desafíos relativos a su implementación como mecanismos para financiar proyectos públicos con propósito social. Después de la revisión bibliográfica y documental, se identificaron y presentaron las principales críticas al modelo. Se seleccionaron tres casos internacionales de SIB que ya completaron sus ciclos de madurez para el análisis de aspectos éticos, metodológicos, de métricas de resultados y de actores. Las implicaciones para proyectos en Brasil se consideraron a partir del análisis de estos casos internacionales.
Palabras clave: políticas públicas; negocios de impacto social; títulos de impacto social; inversiones de impacto.

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1. INTRODUCTION

Social Impact Bonds (SIBs) emerged in 2010 as an alternative mechanism for funding public projects with an explicit social purpose, through private resources (Dey & Gibbon, 2018; Social Finance, 2013).

After establishing efficiency bands, linked to the intended result, the State hires the private sector, pre-setting an amount to pay to that part, if the project achieves certain levels of success, which may be equivalent to the amount invested, in addition to a premium pay. This compensation is based on budget savings for the State. If the project does not achieve the expected result, the burden will be on the private investor. There is an intermediary, which issues bonds to finance the operation. Private investors buy the bonds, which are appreciated or not, according to the success achieved.

Alternatively, investors can celebrate a contract with these intermediaries. A third party assesses the results, in order to ensure impartiality to the process. Service providers will develop the program and carry out the necessary activities to achieve SIB goals, and will be responsible for the relationship with the beneficiary population (Schiefler & Adib, 2016), as Figure 1 shows.

FIGURE 1   STRUCTURE OF THE SOCIAL IMPACT BOND
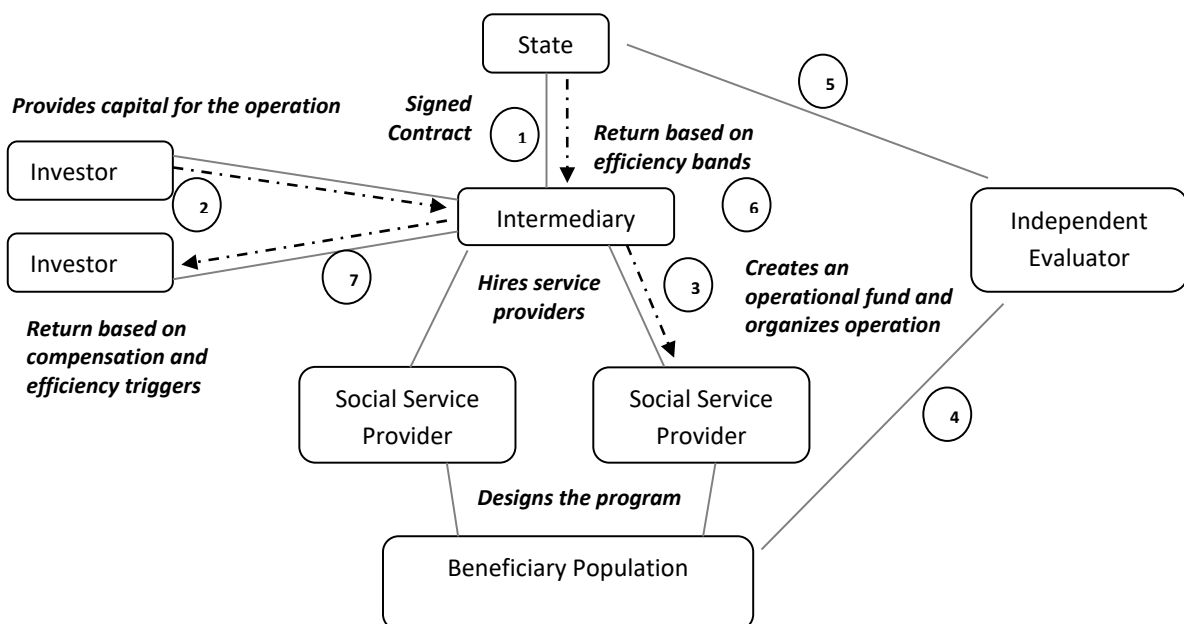
Source: Adapted from Schiefler and Adib (2016).

According to the literature, SIB is an innovative model. It is a new form of payment for providing public services, based on predefined results (Callanan & Law, 2012; Wilson et al., 2020); it attracts private financial resources from the capital market (Dowling, 2017; McHugh, Sinclair, Roy, Huckfield, & Donaldson, 2013; Nicholls & Tomkinson, 2015; Sinclair, Mchugh, & Roy, 2021); it funds public sector's social entrepreneurship projects (Tan, Fraser, McHugh, & Warner, 2021); and it transfers public operational risk to the private sector.

However, a group of scholars criticizes SIB. One of the main reasons is that the instrument has encouraged financialization and commoditization of social policies (Joy & Shields, 2013; Kish & Leroy, 2015; Tse & Warner, 2020), turning social issues into economic ones (Joy & Shields, 2020), and fostering urban policy alignment and selectivity based on cost reduction (Lake, 2015). Among the critics, some argue that the problem is not the instrument's attributes, but how it is implemented, thus recommending a stricter supervision (Toussaint, 2018) and a change of the evaluation metrics definition (Chamaki, Jenkins, & Hashemi, 2019).

In Brazil, academic studies and empirical cases are rare. Although at least two proposals have been developed (Secretaria de Educação do Estado de São Paulo [SEESP], 2017a; Sitawi, 2017), neither was launched so far. One was conceived for the education area, in São Paulo city, and the other, in the state of Ceará, for the health area.

The article presents the challenges of SIB implementation as a mechanism for financing public projects with a social purpose. To this end, it addresses the main criticisms to the model found in the literature, highlights different applications in three international empirical cases, assesses the difficulties faced in implementing two SIBs in Brazil, and discusses the implications of ethical and methodological aspects, as well as results and actors, for the Brazilian context.

The paper brings two main contributions: it presents arguments for critical reflections regarding potential implementations of SIB in Brazil, as an alternative for funding public policies with private resources, especially in scenarios of strong restraint of public expenses; and provides important references for those interested in the topic.

2. LITERATURE APPROACHES: CHARACTERISTICS AND CRITICISMS

The potential of SIBs to contribute for expanding governments' capacity to provide services for social welfare has been the subject of several studies (Chamaki et al., 2019; Toussaint, 2018; Tse & Warner, 2020). Even in childhood, applying the instrument has numerous challenges, but no answers yet (Edmiston & Nicholls, 2018).

Considered by some as an example of social policies' marketization (Berndt & Wirth, 2018), the definition of the SIB project begins by identifying the best policy practices that could solve social problems of high cost to the State, which harm economic competitiveness (Joy & Shields, 2020). Contracts are often based on predefined performance metrics, duration, and fixed costs, which affect calculating investors' expected returns (Toussaint, 2018).

Metrics are based on budget savings for the government, which the service provided by the private sector will generate (Gustafsson-Wright & Oborne, 2021). This brings the challenge of quantifying them, especially when the intervention period is very far from the avoided negative

result. Therefore, they lead to incomplete evaluations, by defining results in contracts that should be achieved in the short term, instead of fostering systemic changes (Morley, 2021; Sinclair et al., 2021; Tse & Warner, 2020).

Another challenge is to design SIB while keeping the balance of power among the parties (Morley, 2021). At this stage, investors or intermediaries, who have greater financial ability, have more potential to intervene in defining the term, audience, compensation, and service providers, and must ensure that SIB reaches the public that most needs the service offered in the contract. Among the practices to avoid is prioritizing service provision to audiences whose results are more easily attained, to the detriment of those who really need the services (Gustafsson-Wright & Osborne, 2020).

For the State, there is a risk of assuming the costs of operations, should the contract be interrupted (Toussaint, 2018). For society, it is the risk of excluding part of the population from a public service during project implementation. In SIB contracts, evidence-based assessment often implies a control group, which should not receive the benefits of the service, so as not to compromise the comparison of the results achieved by the selected part to participate in the SIB (Lake, 2015). For third sector organizations, there is a risk of marginalization in selection processes that prioritize those best-prepared (Toussaint, 2018).

In addition to questions, the literature also presents potential solutions. The search for investors who are more aligned with the goal of social impact and willing to receive compensation at below-market rates (Gruyter, Petrie, Black, & Gharghori, 2020) can help reduce problems of ethics or power leverage.

Comprehensive metrics or those with specific filters are additional solutions to avoid adverse selection of target audiences. The South Carolina SIB, whose objective was to expand the health support service to pregnant women, included four different metrics, one of them very specific: coverage of low-income areas. This attendance implied the expansion of services, avoiding adverse selection. All metrics were based on past evidence of risk reduction in the access to the provided service (Tse & Warner, 2020).

At the same time, some authors consider that a regulatory framework is necessary for defining the objectives, evaluation metrics, and evaluators' independence clearly (Broccardo, Mazzuca, & Frigotto, 2019).

In Brazil, this legal approach prevails, addressing mechanisms to deal with challenges in SIBs' implementation, reducing their complexity and facilitating their adoption. Several authors discuss the main legal instruments to enable them in the country (Fonseca, Vasconcellos, & Araújo, 2018; Monteiro & Rosilho, 2017; Quinto, Macedo, & Damasceno, 2016; Schiefler et al., 2016). They argue on the advantages of voluntary partnerships, or the public-private partnership model (Melo-Silva, Lourenço, & Angott, 2021), compared to other instruments, like bidding, to deal with SIB's characteristics, in aspects such as term, object, procedures, and risk.

3. SOCIAL IMPACT BONDS: RELEVANT INTERNATIONAL EXPERIENCES

This section describes cases of three SIBs. We chose them because they have already completed their maturity cycles, and present, through their attributes and implementation processes, examples of criticisms and challenges mentioned before. Other authors already used the selected descriptors (La Torre, Trotta, Chiappini, & Rizzello, 2019; Tse & Warner, 2020): a social problem, intervention's description, actors and investment, metrics, evaluation, and results.

3.1. Criminal justice SIB in England: reducing the recidivism rate at Peterborough prison

Implemented in 2011, the first SIB in the world aimed to decrease the criminal recidivism rate of ex-convicts, at Peterborough prison.

3.1.1. Social problem

The government acknowledged that prisoners serving short sentences were 60% more likely to reoffend, and attributed the main cause to the prioritization of support services to long-term prisoners (Social Finance, 2019).

3.1.2. Intervention and SIB characteristics

There were intensive support services for 3,000 prisoners over 18 years old, sentenced to less than 12 months in prison (Disley, Rubin, Scraggs, Burrowes, & Culley, 2011; Ramsden, 2016; Schinckus, 2018; Walker, 2010). Initially planned to operate during seven years, the service was interrupted after four years, when the government decided to disseminate the tested policy by modifying the approach, and use a diverse network of public service providers and private investors to implement the service (Ramsden, 2016).

3.1.3. Actors and investment

SIB was issued by the Ministry of Justice, which, together with the Big Lottery Fund, paid for the results. Thirteen private foundations and philanthropic groups invested 5 million pounds in the intervention. The service provider, One Service, gathered five private and non-governmental organizations (NGOs). Services lasted for 12 months, for three cohorts of 1,000 released people, who voluntarily joined SIB.

While the pilot project operated in two cohorts through a model of payment by results, the third cohort received services from One Service, which was compensated for service rendered. This enabled the continuation of the pilot project until 21 community rehabilitation companies (CRCs) – private entities – took over, supervising the rehabilitation of low and medium risk ex-convicts.

QinetiQ and the University of Leicester were the independent evaluators. Social Finance acted as an intermediary organization (Social Finance, 2015).

3.1.4. Result metrics and evaluation

The performance was measured through the reduction in the recidivism rate of prisoners who received the intervention, over twelve months after release, compared to a control group composed of other offenders with similar characteristics and crime stories. The assessment reports are public (Disley et al., 2011; Ministry of Justice of the United Kingdom, 2017).

The results showed decreases in the recidivism rate of 8.6% and 9.7%, for the first and second cohorts, respectively. The weighted average of the two cohorts was 9.0%, sufficient to trigger a final payment and consider SIB successful. There was no advance payment, since the condition was to reach a reduction of 10% per cohort (Ministry of Justice of the United Kingdom, 2017).

3.2. Education SIB United States: intervention program in pre-school education

This is a reference SIB for interventions in education at early childhood (Canning, 2017; Stump & Johnson, 2016).

3.2.1. Social problem

One of the problems faced was the need for special education services to reduce learning deficits for children from low-income families in Salt Lake City, state of Utah. There was evidence that preschool education programs, not offered in the region, could help reduce the learning gap among students (Dubno, 2011), at a cost of US$ 1,700 per year, compared to US$ 2,600 per child receiving special education.

3.2.2. Intervention and SIB characteristics

The objective was to implement preschool education, based on the previously developed high quality preschool program, at the Granite district. Three thousand five hundred preschool children (3-4 years old) from public schools were divided in seven cohorts, each receiveing 1 or 2 years of intervention (Stump & Johnson, 2016). Started in 2013, the program should last for 7 years, when students from the first cohort would have completed the sixth grade.

3.2.3. Actors and investment

Salt Lake City and the state of Utah represented the Government. Goldman Sachs U.S. and the Pritzker Family Foundation invested US$ 7 million. Private companies provided the service. The independent evaluator was Utah State University, and the United Way of Salt Lake acted as intermediary.

3.2.4. Result metrics and evaluation

Before admission to the program, students took the Peabody Picture Vocabulary Test. Those who achieved a score of 70 or less entered the risk cohort, with a high probability of using special education services in the future. According to the results, investors would receive 95% of the expected savings per year and per student who would avoid special education, between kindergarten and the 7th grade

(payforsuccess.org). There was no control group. All children received preschool education support, but the assessment of results was based on the risk group.

There were criticisms to this test, mainly for harming those for whom English was not the first language. This metric led to the assessment of children who would need special education without attending preschool, identification of the impact, and of payment (Tse & Warner, 2020). For new SIBs, the legislation defined a maximum limit of 5% on the market rate of government bonds.

As long-term policy outcomes, in 2016 the government expanded preschool vacancies, allocating nearly US$ 11.7 million over 3 years of federal funds (Pay for Success, 2017), recognizing the value of public policy for the quality of education and cost reduction for the State (Tse & Warner, 2020).

3.3. SIB Education Portugal: Junior Code Academy

This was the first social impact bond in Portugal, created in 2015.

3.3.1. Social problem

In 2012, about 35% of Portuguese 15-year-old students had already failed at least once, and 7.5%, more than once. Each failed student costs, on average, € 2,000 to the Lisbon City Council (Maze Impact, 2018).

3.3.2. Intervention and SIB characteristics

With the purpose of improving school performance and raising retention rates, Lisbon City Council decided to test the Junior Code Academy pilot project through a SIB, implementing it in three schools, two in regions of social vulnerability. By doing this, the Council intended to create evidence base on the impact of computer programming on students' cognitive development (Laboratório de Investimento Social, 2015), in addition to assessing whether the SIB model could be useful to finance other public interventions (Maze Impact, 2018).

Code for All developed the educational program that teaches the basics of computer programming to elementary school students, adapting them to the teaching of Mathematics and Portuguese (Maze Impact, 2018).

During 30 weeks, 65 students between 8 and 9 years old received one class from Junior Code Academy, which ended in 2016 (Miguel, 2016).

3.3.3. Actors and investment

The Lisbon City Council was the public actor, the Calouste Gulbenkian Foundation financed the intervention with 120 thousand euros (UBS, 2016), Code for All developed and implemented the project, and the New University of Lisbon was the independent evaluator, while the Social Investment Laboratory was the intermediary (Laboratório de Investimento Social, 2015).

3.3.4. Result metrics and evaluation

Two metrics we defined for this SIB: a 10% improvement in logical reasoning and problem-solving ability, and a 10% increase in aggregate academic achievement in Portuguese and Mathematics. The two results were compared to a control group.

As for logical reasoning, the intervention had a positive impact in all schools, but did not achieve a 10% improvement. Goal 2 was attained, with an improvement over 10% in Portuguese and Mathematics performance. With metrics partially reached, the investor was repaid around 25% of his initial investment (Maze Impact, 2018). The project was considered a success as a complementary learning method (Miguel, 2016), enabling the design of a public policy, by expanding the intervention through two new SIBs (Social Finance, 2017).

BOX 1 — CASE SUMMARY

SIB name	SIB Peterborough	SIB Pre-school Program Utah	SIB Junior Code Academy
Country - region	England - Peterborough	United States - Utah	Portugal - Lisbon
Year of contract	2011	2013	2015
Duration (months)	84	84	20
Social Problem	High rate of recidivism among ex-convicts who received short sentences	Special education needs of children from low-income families	Unsatisfactory school performance
Operation area	Criminal justice	Education	Education
Sector	Prisoners with short sentences	Intervention in early childhood	Complementary learning – computer programming
Target audience	2,000 prisoners	3,500 children between 3-4 years old (low income)	65 students, three elementary schools
Actors: government	Ministry of Justice and *Big Lottery Fund*	Salt Lake City (cohort 1) and Utah State (cohorts 2-5)	Lisbon City Council
Actors: intermediary	*Social Finance UK*	*United Way of Salt Lake*	Social Investment Laboratory
Actors: investors	13 private foundations and charitable institutions	*Goldman Sachs and Pritzker Family Foundation*	Calouste Gulbenkian Foundation
Raised capital	5 million pounds	7 million US dollars	120 thousand euros
Payment for results	Per cohort and year	Per cohort and year	At the end of intervention

Source: Elaborated by the authors.

4. ANALYSIS AND DISCUSSION

Box 2 shows a comparison between relevant elements, selected from the literature mentioned before. Then, we discuss and identify potential learnings for Brazil.

BOX 2   USED CRITERIA

Criterion	*SIB* Peterborough	*SIB* Pre-school program Utah	*SIB* Junior Code Academy
Ethics (transparency, asymmetry of information and power)	Public contract	Only public reports; information asymmetry	Public contract
Methodology: social exclusion	Use of a control group	No control group	Use of a control group
Metrics: amplitude, avoiding adverse selection of subjects	Wide metrics: considers all ex-convicts as audience	Restricted metrics, based on test with questioned validity	Metrics enabling amplitude: improvement of logical thinking and school performance
Results: systemic or occasional change and innovation	Interrupted and changed into a long-term policy (systemic)	Interrupted and changed into a long-term policy (systemic)	Learning was used for future changes (systemic)

Source: Elaborated by the authors.

4.1. Cases in Brazil

4.1.1. SIB for the health area, in the state of Ceará

The purpose was to de-hospitalize up to 1,200 long-term patients – stay equal or longer than 30 days – from public hospitals in the Metropolitan Region of Fortaleza, releasing beds for 10,800 patients. A feasibility study was carried out, and the potential SIB was structured, involving different instances of the State Government of Ceará (Sitawi, 2017). During contract design, state elections occurred. Although the governor was re-elected, the Secretary of Health changed, and political support for the project decreased, leading to its subsequent cancellation (Agusti Strid & Ronicle, 2021).

4.1.2 SIB for the education area, in the state of São Paulo

The purpose was to decrease the school dropout and failure rate of high school students of the state network, in São Paulo metropolitan area. Under the project, 12,000 students from 122 schools located in vulnerable regions would receive private lessons (SEESP, 2017b).

Although SIB looks promising on paper, teacher unions, the school community, and academics criticized the project heavily (Cassio et al., 2018). One of the problems mentioned was the use of the control group, which would prevent schools from receiving other public interventions.

After public consultation by the Secretariat of Education, the State Government of São Paulo suspended SIB implementation, arguing the "need for a broader debate regarding its opportunity, convenience, and feasibility" (Governo do Estado de São Paulo, 2017).

5. DISCUSSING THE ASPECTS PRESENTED IN BOX 2

5.1. Ethics, transparency, and information asymmetry

As evidence of transparency, there was publicity of the evaluation and implementation reports of Peterborough and Lisbon SIBs. In the case of Utah, the lack of contract's disclosure shows asymmetry of information between the population and others involved. There were questionings about its methodology and results based on the reading of reports (Popper, 2015). As for Peterborough, the intention was to reduce power imbalance among the actors, by involving prisoners in the development of the model, to ensure that it would meet their needs.

The São Paulo SIB presented a public notice with the terms of the contract, besides having an external evaluator to validate the results (SEESP, 2017a). However, despite a public consultation in 2017, Agusti Strid and Ronicle (2021) identified communication problems with stakeholders of the education system, in the case of this specific SIB.

5.2. Methodology

In Peterborough and Code Academy cases, there were control groups. According to Morley (2021), this mechanism can lead to social exclusion. However, in Peterborough, participation in the treatment group was voluntary, and all had their behavior assessed (Social Finance, 2011), thus preventing exclusion.

As for São Paulo, there was a proposal to use a control group, fostering the exclusion of participants from this group. An alternative would be to apply interventions already tested in the same geographical area, instead of control groups (Agusti Strid & Ronicle, 2021).

5.3. Metrics

In the Peterborough SIB, the model discouraged the selection of easy cases, by linking payment to reducing the number of all recidivisms. In Utah, the metrics range did not avoid adverse selection, made right at SIB beginning, overestimating the size of the treatment group. The Portuguese SIB, in turn, did not consider students who dropped out of school prior to project completion, which may have affected the results (Maze Impact, 2018).

The mechanisms for evaluating SIB results in São Paulo could combine qualitative assessments, which enable identifying how and why some indices contribute (Gruyter et al., 2020). On the other hand, the defined metrics were broad, avoiding adverse selection. They expected to increase the

completion rate of a cohort of 12,000 students, but there could be no drop in school performance, in the external evaluation applied by the State.

5.4. Results

Peterborough changed the initial model, allowing the project to continue. In the case of Utah, the intervention led to a change in the local public policy, with the government expanding vacancies for preschool. In Portugal, learning has generated elements for long-term policies.

Regarding the results identified in São Paulo, there were learnings to overcome structural barriers for building a SIB ecosystem, in partnership with all those involved (Agusti Strid & Ronicle, 2021).

6. FINAL REMARKS

This article presented an integrated view of the most relevant aspects associated to SIBs, by discussing the main challenges of their implementation, based on a literature review and on three paradigmatic international cases, distinct in several factors, such as area of activity, social problem, etc. Based on it, we analyzed two Brazilian cases.

The analysis showed that challenges are repeatedly integrated. A relationship that assumes power imbalance among the actors can interfere in the definition of metrics and methodology, leading to higher ethical risks, with differences in the various contexts analyzed.

In the Brazilian context, the São Paulo SIB showed difficulties for implementation, generating important lessons on the need to involve members of the school community in designing the contract. In Ceará, the lack of government support was decisive for the project failure. In addition to promoting the necessary political articulation, the government must compensate the investor for the results and return the capital invested. In Brazil, since the instrument is implemented at the state level, the articulation brings challenges for overcoming the structural barriers of local agents.

In addition to political instability, the absence of a regulatory framework for SIB contributed to the difficulties (Adib, Freitas, Letelier, Mitidieri, & Schiefler, 2019). Therefore, Senate Bill No. 338, of 2018, has the purpose of providing legal certainty, enabling the creation of a specific commercial company for SIBs execution, restricting the financial risk to the hired entity and to external funders, and exempting the public authority from any obligation other than payment for the results achieved.

This article contributed to the emerging debate on a new form of intervention in the social area, and the implications of its ethical and methodological options for results in the public arena. Future studies may deepen the research on other SIBs, whose characteristics may inspire models that help funding social policies, thus responding to the challenges mentioned here.

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