Within the past decade, there has been an increased interest in utilizing social impact bonds (SIBs) to finance social service initiatives. SIBs are essentially a public-private partnership that rely on private investor capital to deliver a public service. While some SIBs have successfully generated investor returns, others have been terminated in earlier project stages. This paper contributes to the growing literature and understanding SIB models by analyzing their development and structures as well as three significant case studies in Peterborough UK, and New York and Chicago, USA. It also considers the potential for SIB models in the China context. The findings ascertain the effectiveness of SIBs, highlight its innovative features, and suggest areas for further development.

Keywords: Social Impact, Bonds, Innovative, investment, private, capital.
Introduction

In the past, service organizations, or organizations that aim to make progress within a critical social issue, have followed a traditional financing framework. Under this framework, the service organization first secures funding from individual donors, foundations, or federal and state governments and then implements a program to tackle a critical social issue of interest. The problem with this method is that inherent structural obstacles and strained funding often lead to inadequate public services. More specifically, political pressures to meet in-demand issues also prevent decision makers from bringing effective public services to marginalized population segments (Dear et al., 2016). Social impact bonds (SIBs) are a potential solution to the problems embedded in traditional social financing. On the most basic level, SIBs are a three-way public-private partnership between a donor, investor, and service organization. It is through the added element of an investor that SIBs induce results-oriented service programs (Bridges Impact+, 2014, p. 15).

SIB arrangements follow similar core operating structures, though slight variations exist. The flow of capital usually begins with a financial provision to a service organization by an investor entity, which is particularly important as service organizations often lack adequate funds. The investor’s capital enables the service organization to focus on delivering a social service that targets a specific cause, community, or population segment instead of on fundraising. If the service organization is successful, the donor or government entity enjoys an improved social environment and thus makes a return payment to the investors. In full circle, the investors benefit from the initial investment in the social project (Nicholls & Tomkinson, 2013). The key advantage of the SIB financing model is that it harmonizes the incentives of all three entities involved (donors or governments, service organizations, and investors) (Bridges Impact+, 2014). Figure 1 demonstrates this dynamic. SIBs accordingly follow a performance-based or pay-for-results (PFS) model, meaning that only social programs which achieved a desired result are rewarded. Given the Pay for Success component of SIBs, they are sometimes referred to as Pay for Success initiatives. Evaluation of the SIB project is critical because it determines how returns are allocated (Bridges Impact+, 2014).

SIBs also unlock the opportunity for achieving better outcomes and, as a result, a better social system (Bridges Impact+, 2014). Freer allocation of resources and larger program scopes are a cornerstone of SIB success in these areas. Through the SIB model, donors and governments are enabled to allocate their limited financial resources in ways that focus on project outcomes instead of project funding. Simultaneously, involved donors and government entities can also pursue related innovative preventative services because they not immediately pay for the SIB project (Bridges Impact+, 2014). Service organizations are likewise enabled by SIBs to expand the focus of their efforts beyond the existing focus. In other words, the capital provided by investors enables the service organization to channel the maximum amount of time and finances towards constructing innovative, results-oriented programs and solutions. Likewise, investor participants are enabled to witness progress on a social cause of their liking and obtain a return on investment. The payment-by-results component of the SIB incentivizes the investor to seek out the most promising solution to a pressing social issue (Nicholls & Tomkinson, 2013). While SIB investors must have a high risk tolerance, a successful program can lead to generous repayment from the involved donor or government. Advocates of SIBs argue that they empower outcome payers and service organizations to channel the majority of their resources toward solving critical social issues and encourage less operational distractions (Bridges Impact+, 2014).

In short, SIB solutions approach critical social issues through a unique public-private partnership. Unlike a traditional social finance model, SIBs introduce the investor component. Investor capital is more flexible and can overcome structural barriers that deter governments and service organizations from investing in critically needed social projects. Since investor returns are contingent on project success, a results-oriented approach is emphasized during SIB projects. Given its advantages, SIBs have become an increasingly appealing option in the U.S., especially due to current budget deficits. SIBs have been a hot topic in China recently, and have potential to help marginalized Chinese population segments. With the progression of the twenty-first century, China has embraced an increasing number of privatized business practices. This along with the rise of China’s nouveau rich class enable SIBs to serve as a potential outlet for private capital to be invested in ways that promote domestic development of China.

A Brief History: Development of the SIB Over Time (2010 – 2016)

SIBs were born out of the need to overcome structural barriers that prevent important social services from reaching marginalized populations and communities. SIBs are still a relatively new concept; the first SIB was implemented less than a decade ago in September of 2010 (Dear et al., 2016). The first entity to introduce the SIB financing model was Social Finance.
UK, an organization established in 2007 with the goal of exploiting untapped opportunities that lie in the relationship between social progress and capital markets. Social Finance UK initiated the very first SIB in response to the discovery that scarce resources prevent governments from funding innovative social programs and from evaluating the methodologies and outcomes of their previous programs (Dear et al., 2016). This pioneer SIB was launched in Peterborough, UK during September of 2010 and was designed to reduce local cyclical recidivism patterns. It was planned for a total of 3,000 short-sentenced ex-offenders of Peterborough to be provided with rehabilitation services through investors’ private funding (see below case study for detailed design of the SIB). Currently, the case of the Peterborough SIB continues to inspire countries worldwide to experiment with SIB financing. Shortly after the implementation of this first SIB, a series of other SIBs were launched throughout the UK in 2012 covering a range of topics from the education of disadvantaged young people to homelessness. Social Finance US was subsequently founded in 2011 and Social Finance Israel was founded in 2013, both of which aim to provide social and financial returns by linking investors with service organizations and governments. Following this, the first SIB was launched in the United States in 2013 and the first Israeli SIB in 2015. Other countries that have adopted SIB solutions include Germany (2013), Canada (2014), India (2015), Switzerland (2015), and Sweden (2016) (Dear et al., 2016).

In the grand context of social reform, SIBs fit into recent shift away from centralized, neo-Keynesian social welfare solutions and towards market-based approaches. In the aftermath of the global Great Recession of 2008 to 2010, a number of key countries were forced to follow strict austerity programs, and so the effectiveness of limited government expenditure became increasingly paramount. SIB models, under this context, are an appealing option because the results-based SIB structure unlocks drastic savings for financially strained governing institutions (Nicholls & Tomkinson, 2014). In the less advantaged areas of China, especially western regions, attractive SIB models might help expand the scope of social services when government budgets leave gaps. As of June 2016, a total of 60 SIBs have been launched in 15 different countries. Data is available for the first 22 SIB projects, and of these, 21 projects (95%) report that the SIB yielded positive social outcomes, 12 projects (54%) report that they have made outcome payments, and 4 projects (18%) claim to have fully repaid investor capita (Dear et al., 2016). As for the remaining 38 projects, recall that since many of these were just recently implemented they will not reach maturity for another few years. Evaluative data and results will therefore not be available for another few years. Since investor return is dependent on evaluative data, SIB project returns cannot be allocated until these results are made available.

In some cases, data may be available for an on-going project and so investors must still wait until full repayment. As data for existing SIB projects are made available, these statistics will reflect a more accurate depiction of SIB financing (Dear et al., 2016).

Recent SIB Developments

Evaluation techniques are among the most critical components of the SIB. Without properly measuring the results of the programs, it is not only challenging to determine the investors’ returns but also it is challenging to determine the effectiveness of the SIB-funded project. Consequently, as an increasing number of SIBs are implemented, methodologies to analyze their social impact and evaluate related data are becoming increasingly sophisticated. SIBs are essentially playing a leading role in forging the useful connections between data, research, and decision making. Readily available databases are being developed as a direct result of SIB needs so that policymakers can access key statistical indicators during the decision-making process. One example of this is the UK government’s Unit Cost Database, an online resource which aims to support the SIB movement and provides over 600 estimates of social issue costs (Dear et al., 2016). In the future, it is hoped that entities and organizations interested in implementing social projects can utilize the data and evaluative techniques developed from SIB models in assessing the potential of their own programs (Dear et al., 2016).

Despite the early successes of first SIBs, there is still more to ascertain about their operations, functions, impact, and optimal applications. Currently, a major SIB trend is operational designs that maximize investor capital turnover rates. Already, in just the past half-decade or so, there has been tremendous progress in bringing returns as quickly as possible to investors. The very first SIB project in Peterborough required that investors wait four years before possible repayment, but subsequent SIB projects have provided investors with pay as soon as the project exhibited signs of early success through measurable statistics. Moreover, the scope of areas covered by SIB projects has expanded over the years. While the first SIB focused on recidivism, later SIB projects have tackled critical social issues like homelessness and education for the disadvantaged. Certainly, there is ample room for researching the most impactful and cost-effective areas to implement SIB financing. It would also be useful to ascertain which social issues SIB financ-
ing alleviates most effectively. As knowledge and understanding of SIB programs and their specific impact expands, it can be expected that SIB-financed social programs will cater to upcoming discoveries and evaluations (Dear et al., 2016).

Types of SIBs

An SIB financing scheme is a public-sector contract that attempts to yield improved social outcomes and also repays investors with a portion of the saved funds (Gustafsson-Wright et al., 2015; Ramsden, 2016). At the time of writing, several SIB contract designs are used more often than others, though variations do exist. In terms of development models, the two most widespread frameworks are the individual transaction impact bond and the impact bond fund. The individual transaction impact bond provides one outcome payment contract to an investor or special purpose vehicle who can direct capital flows to investors. The impact bond fund, in contrast, provides for a series of outcome payment contracts. Service providers and intermediaries can bid on a rate card that determines discounted outcome payments rates. Afterwards the outcome payer selects the winners. Unlike an individual transaction impact bond, an impact bond fund enables an outcome funder to set a multitude of SIBs in place (Gustafsson-Wright et al., 2015).

In addition to these two development frameworks, outcome funders usually pick from one of three SIB contract management frameworks: direct, intermediated, or managed. First, the direct contract framework is a direct contract between the outcome payer and the service provider wherein contract funding is provided by an investor. Capital flows from the investor to the service provider and investment returns are contingent on the evaluation of the SIB program. Approximately 33% of SIBs utilize a direct contract framework (Bridges Impact+, 2014). Figure 2 illustrates the direct contract framework. One unique feature of the direct impact structure is that the service provider adopts a leading role. For instance, under this framework, performance management is conducted in-house by the service provider (Gustafsson-Wright et al., 2015).

Intermediated SIB framework is the second type of SIB contract and also constitutes the most common type of SIB. Approximately 42% of all SIB frameworks are classified as intermediate. Unlike a direct contract model, the intermediated contract involves an investor-owned special purpose vehicle whose function is to intercept the direct relationship between the outcome payer and service provider (Ramsden, 2016). Capital flows begin with an investor group, which can constitute of both lead and co-investors, who then contribute contract funding to the special purpose vehicle. The special purpose vehicle then directs the capital to both a performance manager and a prime service provider. The outcomes payer directs capital flows to the special purpose vehicle contingent on project evaluation, which in turn is directed to the investors (Bridges Impact+, 2014). Figure 3 demonstrates an intermediated SIB framework. Intermediates SIB contracts are similar to that of direct SIB contracts in that both allow service providers and investors to originate the social impact bond. The main difference is that in the intermediated contract framework this entire process is intermediated by a special purpose vehicle (Bridges Impact+, 2014).

The final most common style of SIB design is a managed contract framework. In this case, an outcomes payer hires a prime contractor, like an intermediary, which is responsible for contracting service providers. The prime contractor also mobilizes contract funding from investors and guarantors towards a contracted service provider or any sub-contracted service providers. Just as in other SIB models, the outcome payer forwards return to the prime contractor based on the success of the SIB project. Unlike the direct framework, the intermediary agency intercepts return capital flows from the outcomes payer to the investors and guarantors (Bridges Impact+, 2014). Figure 4 concisely portrays the complications of this particular financing process. Managed SIB framework is unique in that performance management is led by the prime contractor and that the social impact bond is originated with the prime contractor rather than the service provider and investors. Accordingly, investors working under a managed framework back the prime contractor instead of the service provider. For outcome payers interested in outsourcing as much of the SIB performance management as possible, the managed contract framework is the optimal route (Bridges Impact+, 2014).

Case Studies

Case Study 1 – UK Peterborough, Ex-offenders Project

The idea for the first SIB pilot, which would eventually become the Peterborough SIB, was engendered from discussions among the Council on Social Action, a committee organized by the UK Labour government to spearhead social action initiatives. Alongside policy-makers, a multitude of organizations were invited to partake in the discussions, including Social Finance UK. Among the topics discussed by government and organizational representatives, financing social action became an increasingly important issue (Nicholls & Tomkinson, 2013). By 2008, the Council on Social Action initiated a conversation with two of the participating directors of Social Finance UK. Topics discussed concerned the feasibility of a social finance model funded via government
savings and derived from measurable outcomes. Through over 300 hours of pro bono legal discussions with professional advisors, Social Finance UK cooperated with government contacts to develop the early frameworks of what would later become the world’s first SIB (Nicholls & Tomkinson, 2013).

One of the first challenges faced by Social Finance UK was to locate a social issue that not only imposed high costs on society, but was also open to innovative preventative programs. Per the research of UK experts, criminal justice was presented as an optimal choice; 2008 statistics showed that just after one year, around 60% of released UK prisoners were guilty of committing another offense. Social Finance UK addressed this issue through close collaboration with not only the UK Ministry of Justice and Her Majesty’s Treasury, but also with criminal justice experts, relevant organizations, prison personnel, and even investors (Nicholls & Tomkinson, 2013). These early conversations and referrals helped engage target communities and build connections that were critical to the Peterborough project’s success (Bridges Impact+, 2014). As the pilot SIB continued to develop, public entities such as the Justice Committee and the Labour government garnered legal support. In 2010, Peterborough was announced by the UK Ministry of Justice as the SIB’s target location. The Big Lottery Fund, a non-departmental public body, following the UK Ministry of Justice’s lead, allocated a 5 million euro budget to the project (Nicholls & Tomkinson, 2013; Big Lottery, n.d.).

As seen through Figure 5, the first SIB in Peterborough involved outcome payers, service providers, and investors. According to its structure, Social Impact Partnership, a special purpose vehicle created for the new SIB, would receive payments from the UK Ministry of Justice and the Big Lottery Fund conditional on at least a 7.5% reduction in recidivism rates among male, short-sentenced prisoners from Her Majesty’s Prison in Peterborough (Nicholls & Tomkinson, 2013; Social Finance Limited, 2014). Social Finance UK also created One Service to manage support services for prisoners both within the Peterborough prison and within the communities upon release (Bridges Impact+, 2014). Through financial resources contributed by a total of 17 investors and foundations, One Service provided living, health, employment, and drug rehabilitation services to offenders throughout the life of the SIB pilot (Social Finance Limited, 2014). In particular, 3,000 male ex-offenders over the age of 21 who had been sentenced for less than a year were the target of One Service’s programs (Dear et al., 2016; Nicholls & Tomkinson, 2013). The group of 3,000 offenders was separated into three segments: the first took place after two years or upon the discharge of 1,000 prisoners, the second took place after the first ended, and the third would have taken place after the second. In total, the project was expected to last an approximate seven years (Nicholls & Tomkinson, 2013; Social Finance Limited, 2014).

In September of 2010, the SIB project was officially launched. As expected, the first cohort of 1,000 lasted two years from September 2010 until May 2012 (Social Finance Limited, 2014). At the start of the Peterborough SIB, only 100 prisoners were qualified for the SIB services and One Service initially aimed to interact with approximately 30% of them (Nicholls and Tomkinson, 2013, pg. 14). As the project evolved, its leaders, enabled by flexible investor funding, steadily increased engagement levels, or the rates of offenders who voluntarily utilized One Service support and resources. They also adapted the program design’s shortcomings by working with One Service and its partners to create agencies focused on prisoner accommodation, mental health, and job search (Social Finance, 2014). These services were modeled via through the gate support, or an intervention process that begins within prison and continues upon release. One Service employed four main agencies to obtain through the gate support: St. Giles Trust, Sova, Ormiston, and Mind. St. Giles Trust provided knowledge, direction, advice and support, and prisoner risk-assessment, Soya offered volunteer mentor services, Ormiston provided services focusing on maintaining family ties for prisoners and their families, and Mind provided therapeutic sessions to prisoners (Disley & Rubin, 2014; Nicholls & Tomkinson, 2013). Over the course of each segment, engagement levels in cohort 1 rose from 37% to 74% and engagement levels in cohort 2 rose from 71% to 86% (Social Finance, 2014). Innovative developments were also introduced into the SIB services after the initial project implementation. A flagging system in collaboration with the police, for instance, aided One Service to keep ex-offenders engaged. Through the flagging system, if a police officer encountered an ex-offender, the phone number of One Service would automatically appear next to the ex-offender’s name on the Police National Computer database. The Peterborough SIB leadership also found that regular conversations with prison staff further ensured high engagement levels and the overall effectiveness of One Service’s programs (Nicholls & Tomkinson, 2013).

Concerning cohort 1, the Peterborough SIB achieved an 8.4% reduction in the frequency of reconviction among the prisoners (Dear et al., 2016). Although this reduction was below the 10% target required for triggering an outcome payment for the first cohort, it was above the 7.5% target required for an outcome payment for the final
Recidivism Project
Case Study 2

In the United States, the Obama administration considered SIBs as a potential PFS public services financing solution. For American public officials and government entities, SIBs are a useful tool that can be used to understand which social programs and services are effective without risking resources (Costa, 2014). The Adolescent Behavioral Learning Experience (ABLE) program funded by the Rikers Island 2013 SIB, the very first SIB in the United States, served as a pilot that helped investors and policy makers understand the impacts of SIB financing within the American context (Porter, 2015). Both the design and purpose of the Rikers Island SIB was inspired by earlier SIB projects throughout Europe. In particular, its financing scheme was modeled after the Peterborough SIB, the same project explored in the previous case study (City of New York, 2012). Just as the Peterborough SIB aimed to reduce recidivism rates among inmates of Her Majesty’s Prison, the Rikers Island SIB aimed to reduce recidivism rates among young inmates of New York City’s Rikers Island jail through ABLE. Under the ABLE program, an experimental group was treated with Moral Reconciliation Therapy (MRT), or an intervention strategy that aims to improve social skills, responsibility, and decision-making (Vera Institute of Justice, 2015). The ABLE program and its MRT intervention strategy was chosen due to prior academic research showing its ability to reduce recidivism rates at statistically significant levels. In fact, a 2005 study from the Cognitive-Behavioral Treatment Review reviewed nine published MRT studies and found consistent statistically significant reductions in recidivism. In total, 7 studies tested adults and only 2 tested juvenile individuals (Little, 2005). With this in mind, the Rikers Island SIB experimental group consisted of a total of 1,470 male youths between the ages of 16 and 18 years old. The number of days this group was held in jail was then compared to data from 2006 until 2010 for groups of youths with similar backgrounds. Unlike the breadth of voluntary engagement services incorporated into the Peterborough SIB pilot, the Rikers Island SIB focused mainly on the ABLE program (Vera Institute of Justice, 2015).

Understanding the basic financing structure of the Rikers Island SIB begins with Goldman Sachs’ Urban Investment Group (UIG), which provided a $9.6 million loan in support of the SIB services. The Goldman Sachs’ UIG loan was to be repaid based on both the forecasted and realized savings of the New York City Department of Correction, that is the savings that directly resulted from the MRT of intervention services (Olson & Phillips, 2013). Figure 6 provides a clearer depiction of involved parties and their place in the Rikers Island SIB design. Essentially, the Goldman Sachs UIG loan was given to an intermediary organization, Manpower Demonstration Research Corporation (MDRC), and was guaranteed by a $7.2 million grant from Bloomberg Philanthropies also given to MDRC (City of New York, 2012). In turn, MDRC directed the Goldman Sachs funds to the Osborne Association, which specializes in providing services to incarcerated youths. Vera Institute of Justice then evaluated and measured the treatment impact. The amount of return acquired by Goldman Sachs’ UIG depended on the savings realized by the New York City Department of Correction. These returns were projected to range widely, from as little as nothing to as much as $11.7 million depending level of actual reduction (Porter, 2015; Olson & Phillips, 2013).

In order to achieve a break-even point, the Rikers Island SIB needed to achieve at least a 10% reduction in recidivism among youths in the experi-
mental group, or among those that received MRT treatment. New York City would then enjoy at least $1 million in long-term savings, instigating a city payment of $9.6 million to MDCR and a subsequent transfer payment to Goldman Sachs. In the best case scenario, a 20% reduction in recidivism would have been realized, which would have led New York City to enjoy long-term savings of at least $20 million and accordingly would have instigated a maximum $11.7 million payment to MDCR and a transfer to Goldman Sachs. If the program only achieved an 8.5% reduction in recidivism, the New York City government would pay only $4.8 million to Goldman Sachs. Ultimately, the evaluation from Vera Institute of Justice revealed that in comparing the incarcerated youths with previous years’ data, the ABLE program yielded no statistically significant reductions in recidivism rates among the 16 and 18-year-old participants. Engagement levels with the experimental group seem not to have been the issue, as the evaluation also found that 87% of sample adolescents of Rikers Island did participate in at least one ABLE intervention (VERA Institute of Justice, 2015; Dear et al., 2016).

Although the Rikers Island SIB was terminated on August 31, 2015 before the full program could be completed, its implementation represented an important step in the evolution of public service financing (Dear et al., 2016). On one hand, the Rikers Island SIB might be seen as a failure because recidivism reduction rates were not statistically significant. On the other hand, the SIB financing model enabled the New York City government to test a potential public service without investing taxpayer’s money (Porter, 2015). Goldman Sachs at that point had invested $7.2 million into the project, activating a $6 million guarantee from Bloomberg Philanthropies per contract details. As a result, Goldman Sachs UIG only lost $1.2 million and Bloomberg saved $1.2 million because they were not required to pay out the full $7.2 million guarantee (Dear et al., 2016; Porter, 2015). Furthermore, while Rikers Island SIB project did not achieve its desired goal, policymakers can still learn from studying the project itself. Even if recidivism levels were not reduced on Rikers Island, data collected from the SIB project can still be utilized later in other public policy analyses. Moreover, since the SIB proved that the MRT intervention plan does not help reduce recidivism rates among incarcerated males aged between 16 and 18 years old in Rikers Island, it is unlikely that taxpayer or government resources will be wasted on implementing the ABLE program in similar circumstances within the near future (Anderson & Phillips, 2015).

Case Study 3 – Chicago, Pay for Success

The Chicago PFS initiative is the fifth SIB project to be launched within the United States. It was passed under Chicago Mayor Rahm Emanuel who is known for pushing a series of reforms to Chicago’s public school system, or the third largest public school system in all of the United States (Dear et al., 2016; Blum et al., 2015). The Chicago PFS initiative implemented the Child Parent Center (CPC) education program, which supports the access of a total of 2,620 at-risk public school children to quality pre-kindergarten education (Mayor’s Press Office, 2014). The CPC program is financed through an SIB financing scheme and provides services to the families of the enrolled children to encourage strong engagement and additional support. Just like the Rikers Island SIB, rationale behind implementation is rooted in the findings of previous studies, which have indicated that the CPC early-education program is among the most effective of all educational programs. Not only has it been shown to yield a 41% decrease in the need for special education programs, but also it has been shown that society receives an $11 dollar return for each dollar invested over the lifetime of each child that participates in the CPC program (Blum et al., 2015). Currently, results are available for the first cohort of students who participated in the Chicago PFS initiative during the years of 2014 and 2015 (Gaylor et al., 2016).

The first stage of this SIB financing structure begins with the funding partners, or investors, who in total gave $17 million. Senior lenders include the Goldman Sachs Social Impact Fund and Northern Trust whereas subordinate lenders include the J.B. and M.K. Pritzker Family Foundation (Mayor’s Press Office, 2014). According to the contract of the Chicago PFS initiative, the latter subordinate lender, as an experienced advocate of childhood education policy issues, is required to incur financial burden should the project fail (Blum et al., 2015). The funding partners’ resources are allocated to a project coordinator IFF, which acts a liaison between the funders, the City of Chicago, the CPC classrooms, independent evaluators, and Metropolitan Family Services (MFS) (Mayor’s Press Office, 2014). Metropolitan Family Services acts as a program intermediary to guide and advise leaders of the Chicago public school system in parental support and training (Blum et al., 2015). Figure 7 demonstrates the partnership dynamic of the Chicago PFS initiative.

The CPC model funded by this financing scheme is an award-winning educational model that was established in 1967 and is specifically designed for low-income families (National Institute of Justice, 2012). Participating children will have access to half and full day pre-school programs. Additionally, parents of these
In the short term, success of the project grade literacy rates (Blum et al., 2015). Kindergarten readiness and third that there will also be an increase in services. In doing so, it is also hoped that there will also be an increase in kindergarten readiness and third grade literacy rates (Blum et al., 2015). In the short term, success of the project will be determined in two ways. First, each student is to be examined at the completion of kindergarten using the Teaching Strategies Gold (TS Gold) instrument, which ascertains a child’s capabilities in literacy, language, math, cognitive development, socio-emotional development, and physical health. A child’s kindergarten readiness is based on whether the child exceeds or meets a national average in at least five of these areas. Second, at the completion of third grade, each student must partake in the Partnership for Assessment of Readiness for College and Careers (PARCC) exam. Scoring at the 25th percentile or above indicates that the child is at a third-grade reading level while scoring at the 75th percentile or above indicates the child is above a third-grade reading level (SRI International, 2014). Repayment to the funding partners is thus based upon decreases in special education, increases in kindergarten readiness, and increases in third grade literacy, compared to control group. For additional student of the CPC program that does not use a special education facility, $9,100 is repaid per student compounded annually. For additional student that is deemed ready for kindergarten under the TS Gold program, $2,900 is repaid per student. Last, for additional student that scores above the national average on the PARCC exam, $750 is repaid (Mayor’s Press Office, 2014).

By 2016, SRI International (SRI) was selected by IFF to conduct independent evaluations of the Chicago PFS initiative. At the time of writing, results are only available for the first cohort of 328 preschoolers. So far it has been found that 59% of the children who participated in the CPC program between 2014 and 2015 were ready for kindergarten. In other words, more than half of the children in the first cohort were performing at levels that exceeded or met the national average in areas of literacy, language, mathematics, cognitive development, socio-emotional, and physical health (Gaylor et al., 2016; Eldridge & Kreefer, 2016). Children who did not attend a CPC pre-K classroom for at least two-thirds of all school days and children with severe disabilities were excluded from the evaluation process (Gaylor et al., 2016). Moreover, a total of 49% of children met the six of the TS Gold requirement areas, 10% met five areas, 9% met four areas, 11% met three areas, 7% met two areas, 3% met one area, and 11% met no areas. Children of the CPC program were most likely to excel in the area of cognitive development (80%), followed by math (78%), socio-emotional development (77%), literacy (72%), language (64%), and last physical development (58%) (Gaylor et al., 2016). Based off these numbers, the Chicago PFS initiative has reason to continue. The following report in the second year of the program will include special education enrollment statistics for cohort 1 as well as kindergarten readiness statistics for cohort 2 (Gaylor et al., 2016). Already, as of 2016, investors have been repaid a $500,000 success payment due to the early achievements of the program.

Discussion

SIB financing is innovative. It incorporates financing and operational structures that are not present in traditional public service financing. The Peterborough SIB pilot, as the very first of its kind, is an innovative springboard delivery model. Since the funding for intervention services at Her Majesty’s Prison in Peterborough was derived from private investors rather than public resources, the structure of the SIB’s services was more flexible; it adapted in accordance with the shortcomings of the project design. Traditional sources of funding tend not to be as flexible, due to, for example, procurement rules and processes.
or the need to spend funds within a given time period. Under other financing models, limited government resources along with political pressures might also limit the applications and the allocation of public resources. Granted, the Peterborough SIB pilot, like its successors, could be terminated given certain conditions, but it was ensured that investors were cognizant of the termination risks. In an interview with two investors of the Peterborough SIB, both claimed that they were indeed educated on the termination risks and yet would still be willing to consider investment in future SIBs (Disley et al., 2015).

Hiring a third party service to manage the implementation, operation, and relationships with key partners is another innovative feature of the SIB model. In the Peterborough SIB, for instance, while the comprehensive through-the-gate intervention provided by One Service is not completely an original design, the structure of communication channels between service users and local providers is more unique, even in some ways on an international scale. Interviewees during the Peterborough evaluation process commended One Service for orchestrating the connections between relevant recidivism services, such as between St. Giles Trust, Sova, Ormiston, and Mind (Disley et al., 2015). While the Rikers Island SIB and the Chicago PFS initiative did not employ a service provider that served the same connecting function as One Service, it is important to note that their respective designs outsourced various processes of implementing a public service. That is, the investment process, evaluation process, and program implementation process were all outsourced in each case study. In a traditional public service, all of these functions would be handled by a government entity.

A third innovative feature of the SIB model is its self-corrective nature. Contracts for the Peterborough SIB provided for frequent review and evaluation of the services provided as well as the flexibility to adapt the services as needed. Throughout the pilot, needs reported by cohort members were mapped against services, and steps were taken to fill gaps where the needs were not being met. Increased cooperation with prison staff and measures like including One Service’s phone number on the Police National Computer database, for instance, were both important developments throughout the process of the Peterborough SIB because their implementation was based on previous findings of the project’s shortcomings. Moreover, even though the Rikers Island SIB did not undergo this self-correction process, it did help the City of New York understand that the MRT methodology does not help lower recidivism among incarcerated youths in Rikers Island. In this way, the Rikers Island and the Peterborough both led to a self-correcting process, just the former was instigated after the project’s termination and the latter during the project’s progress. Given the early successes of the Chicago PFS SIB, it has yet to undergo such self-correcting processes.

Finally, the SIBs model promotes the collection and use of management information collated into a specially developed database, which can be used for project evaluation and future analysis. In fact, interviews with those involved in the very first Peterborough SIB suggest that a universally accessible case management database enabled them to identify early indications of success, support caseworkers in day-to-day activities, and to monitor providers (Disley et al., 2015). While shared databases are not a feature unique to public services financed by SIBs, SIBs are important because they facilitate the creation of collective databases for social issues were no previous data existed. At the time of the Peterborough SIB’s implementation, collective databases were uncommon not only in Peterborough but also in most areas of UK criminal justice public services (Disley et al., 2015). Additionally, just like the Peterborough SIB, the Rikers Island SIB and Chicago PFS initiative contributed and continue to contribute to data collection in the areas of recidivism and early childhood education.

**Conclusion**

SIBs are the combined result of constrained economic conditions and the need for governments to solve critically important social issues. Although over 60 SIB projects have been implemented on an international scale within the past decade, participating governments, investors, and service partners still are constantly evolving the SIB financing model and design. It is still not entirely clear which SIB type works optimally in which setting, though a sizable amount of current models in place throughout the globe have experienced positive results (Dear et al., 2016). Two of the SIB projects explore in this paper, the Peterborough SIB and the Chicago PFS SIB, have experienced some success and provide a series of comprehensive services that deeply engage community segments rather than one program focus like the Rikers Island SIB. That is, while the Rikers Island SIB concentrated on providing a single MRT-based service to the incarcerated youths, the Peterborough SIB provided through-the-gate services in and out of prison and actively engaged prison staff, police officers, offender families, and job training services. The Chicago PFS initiative likewise requires parent engagement as well as high quality teachers; it does not just hand out free pre-school education vouchers. In the future, as an increasing number of countries adopt SIB models, it would be important to ascertain the importance of employing broad and com-
prehensive services when investing in an SIB model. Following current trends, it is also likely that the SIB initiative will continue to proliferate in use on an international scale. Should the SIB model be adopted in China, it would aid developing regions in the West and in cities that are not yet fully helped by public finances. Additionally, the SIB model provides a way for China’s nouveau rich class to invest their money in ways that have high potential for investor returns and also benefit their country’s development. While the functions of China’s economy are traditionally centralized, there have been current shifts towards privatization, meaning there is a much larger selection of potential investment banks with available investment capital. The SIB model indeed has potential to be the next component of China’s privatization trends.
Figure 1

Outcome payers.
(May comprise of an individual or group of government bodies, foundations, or corporations.)

Investors.
(Responsible for the supply of capital funds to the SIB project in hopes of gaining a return on investment.)

Service providers.
(Responsible for delivering social outcomes for a targeted population segment and impacted communities.)

Figure 2

Direct SIB Example

Investors

Return flows

Outcome payer

Service provider

Contract funding

Capital flows

Improved social outcomes

Delivery partner
Figure 3

Intermediated SIB Example

Outcomes payer → Special purpose vehicle → Performance manager

Lead investors and co-investors

Success payment

Contract funding

Return flows

Contract funding

Prime service provider

Figure 4

Managed SIB Example

Outcomes payer → Intermediary → Intermediary

Lead investors and guarantor

Success payment

Contract funding

Return flows

Contract funding
Figure 5

The Peterborough SIB

Figure 6

The NYC Rikers Island SIB

Figure 7

The Chicago PFS Initiative

Source: Mayor Emanuel Announces Expansion of Pre_K to More than 2,600 Chicago Public School Children (p. 6), by Mayor’s Press Office, 2014, Chicago, IL.
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