Social Impact Bonds: The Intersection of Doing Good and Feeling Good?

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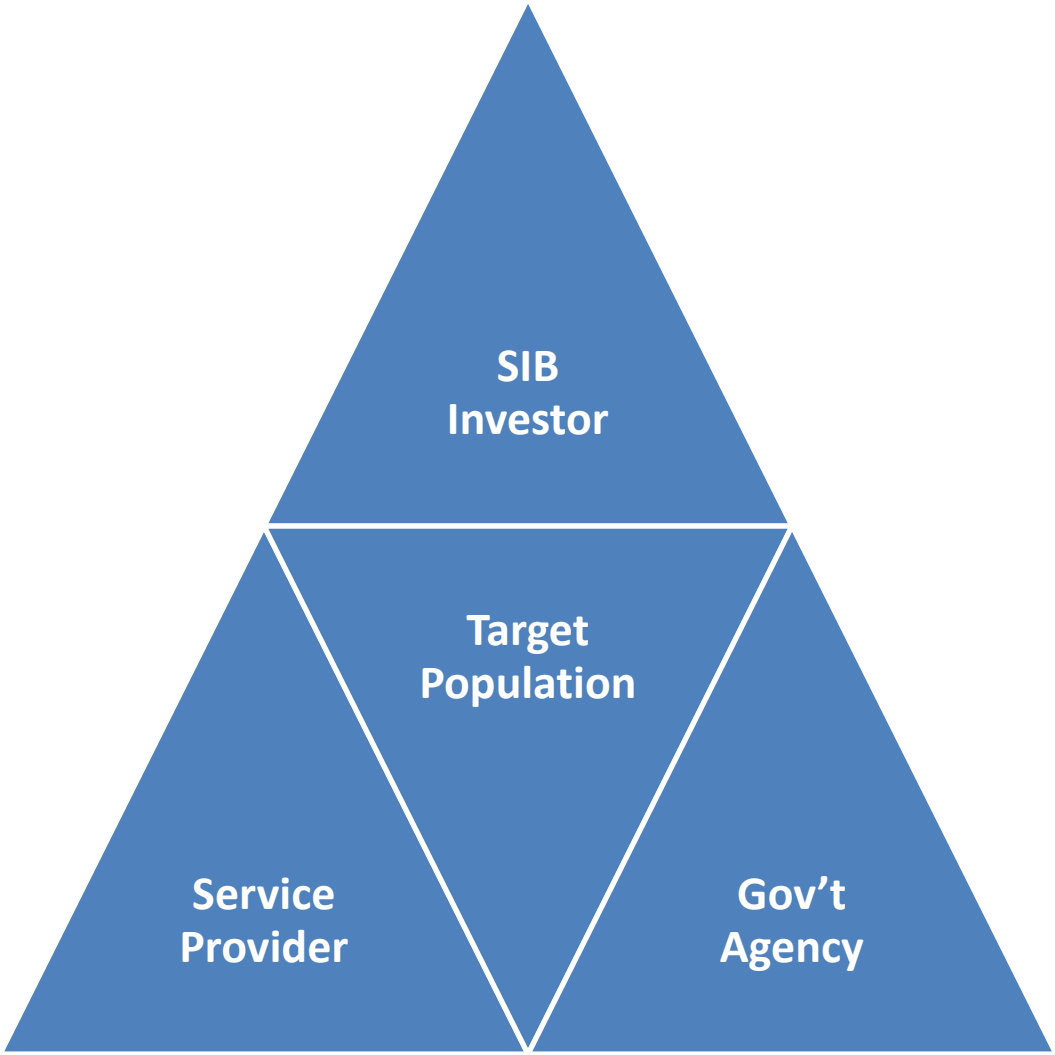
Background

- In 2010, the UK introduced a promising alternative approach to delivering social services.
- The Justice Secretary launched a privately-backed prisoner re-entry program designed to reduce recidivism levels by at least 7.5%.
  - If this is accomplished, the investors will share in the estimated public savings.
  - If not, the investors receive nothing.
- The effectiveness of *Social Impact Bonds* (a.k.a. *Pay for Success* in the US) is not yet known, but the logic is promising.

How It Works


SIB
Investor
Target
Population
Service
Provider
Gov't
Agency

Goals of Our Project

- We focus on offender programs because this is where SIBs have first launched
- Review the SIB analysis most influencing US-based discussion
- Identify points of tension (and equally important, lack of tension…) across stakeholder groups
- Re-simulate longer-term trajectories for SIBs varying the parameters used in the existing model

US-based SIBs

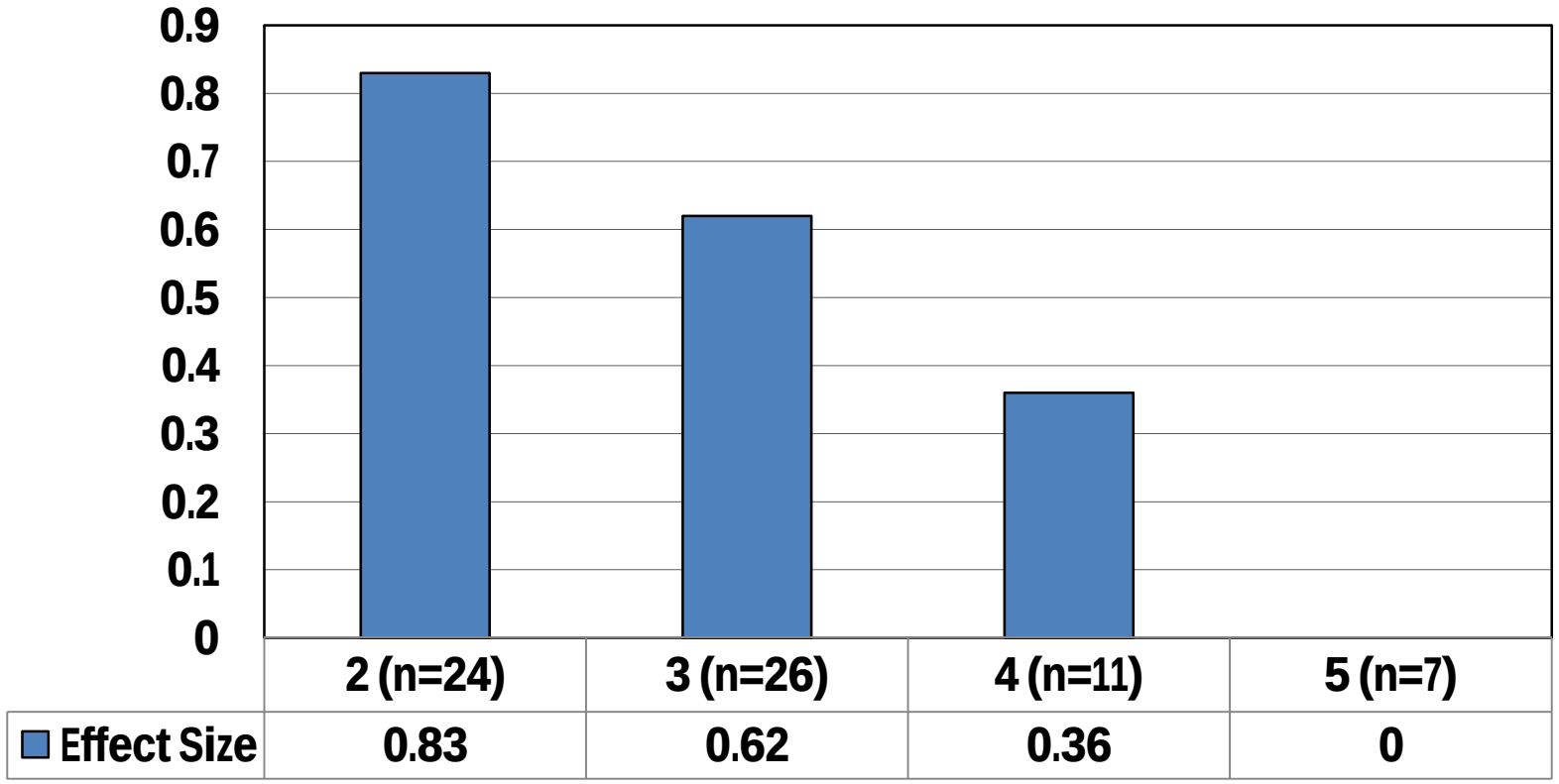
- New York's ABLE program is the only SIB currently being implemented in the U.S.
- Adolescent Behavioral Learning Experience (ABLE), aims to reduce the recidivism rate for adolescent offenders at the Rikers Island correctional facility.
- More than 30 RFPs have been issued by states interested in exploring the SIB approach.
- The president's budget allocates $ for SIBs
- All parties must agree on how outcomes are defined and what the target level of change must be before government funds are released.

Misplaced Emphasis in Discussions

- There seems to be minimal discussion about evaluation rigor.
- Because of the risks of failing to meet targeted goals, investors are only interested in providers implementing EBPs.
- But the “evidence” for “E”BPs is on shaky ground.
- The ketchup problem.

Importance of Determining SPECIFIC Design and Outcomes Required to Determine Success

Study Quality & Effectiveness of Offender Programs (N=68)



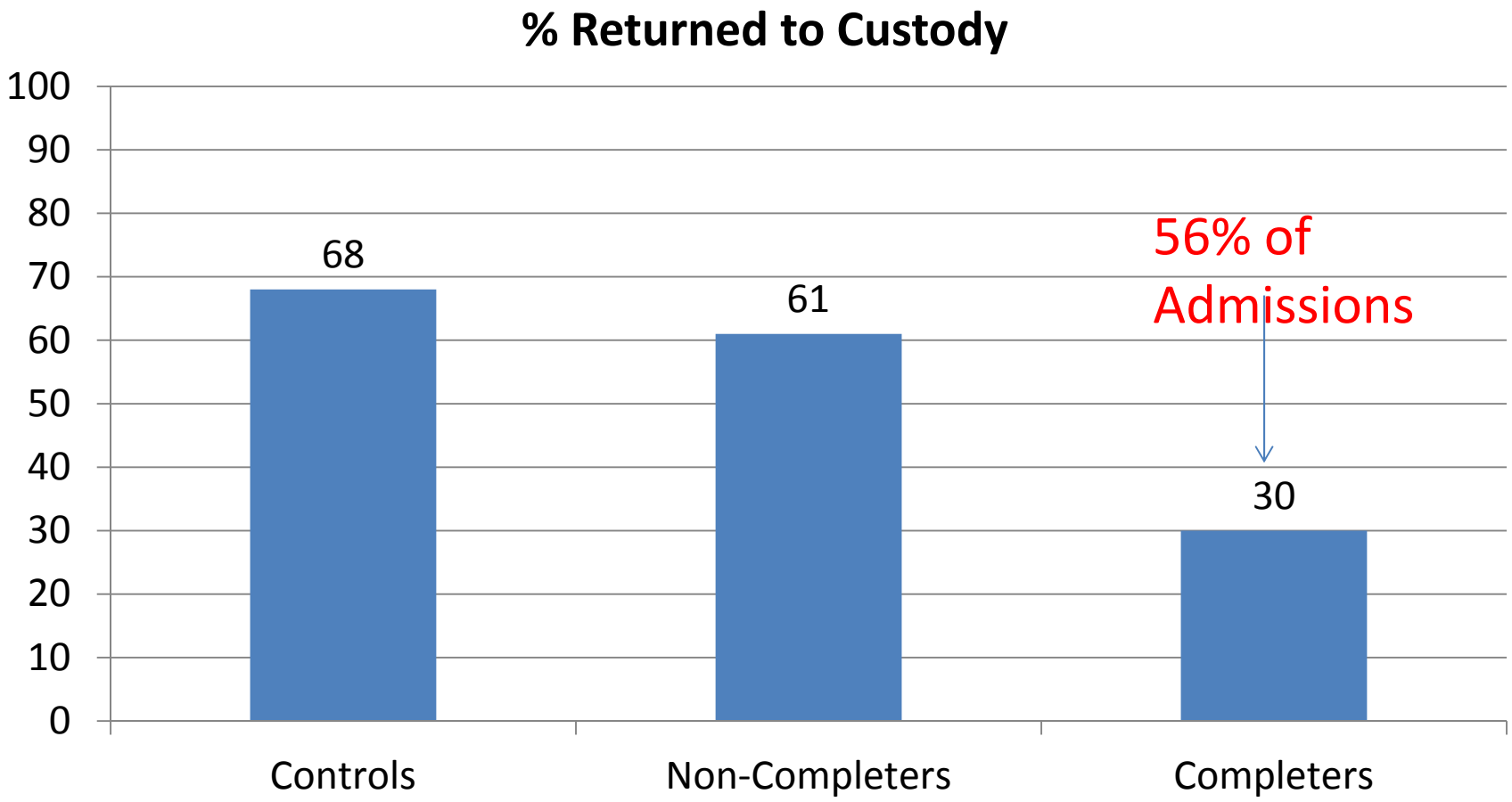
Least Rigorous → Most Rigorous

Weisburd, Lum, & Petrosino (2001)

Case Example of a Model Re-entry Program

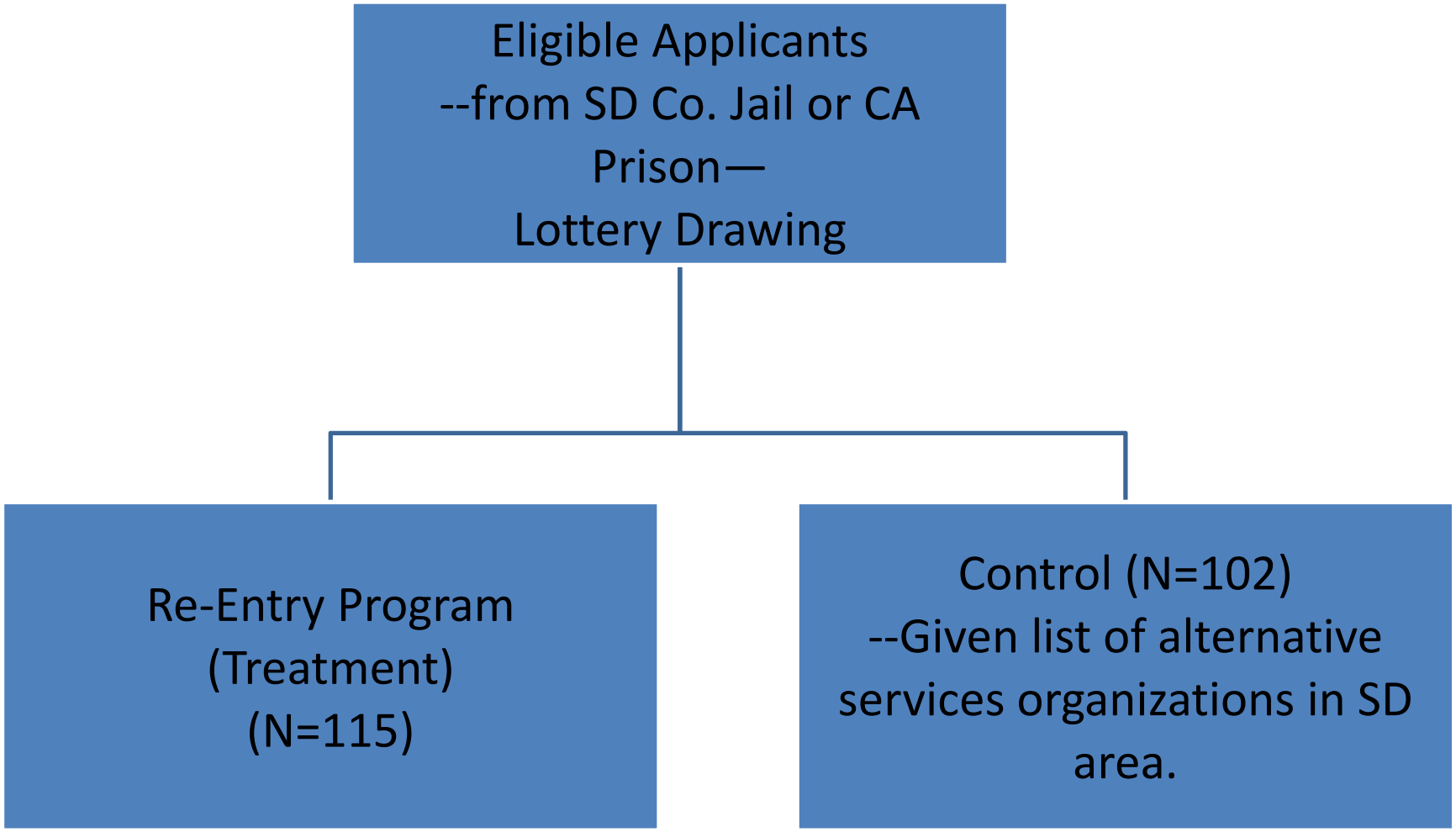
- Combines job readiness training, transitional sober living, mental health services, and case management, directly from the gate of jail or prison for a two-year period.
- Preliminary data and findings show impressive decreases in recidivism and increases in stable employment among participants.
- The U.S. Senate Committee on Appropriations specifically recommended that the program be expanded and replicated nationally (July 20, 2006; Calendar No. 526, p. 10, par. 2).

Original Study of 2nd Chance Program

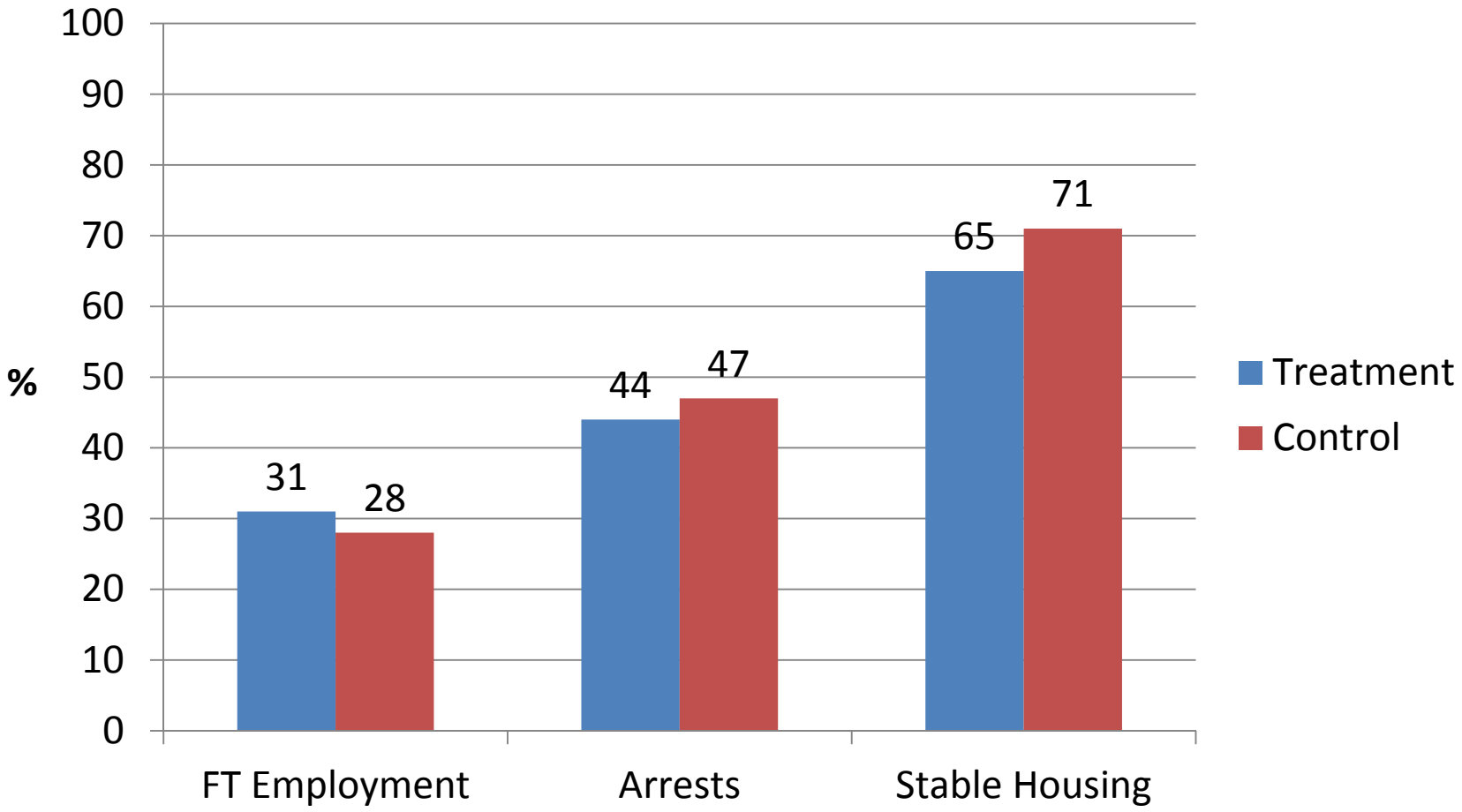


Flacks et al. (2006)

Study Design



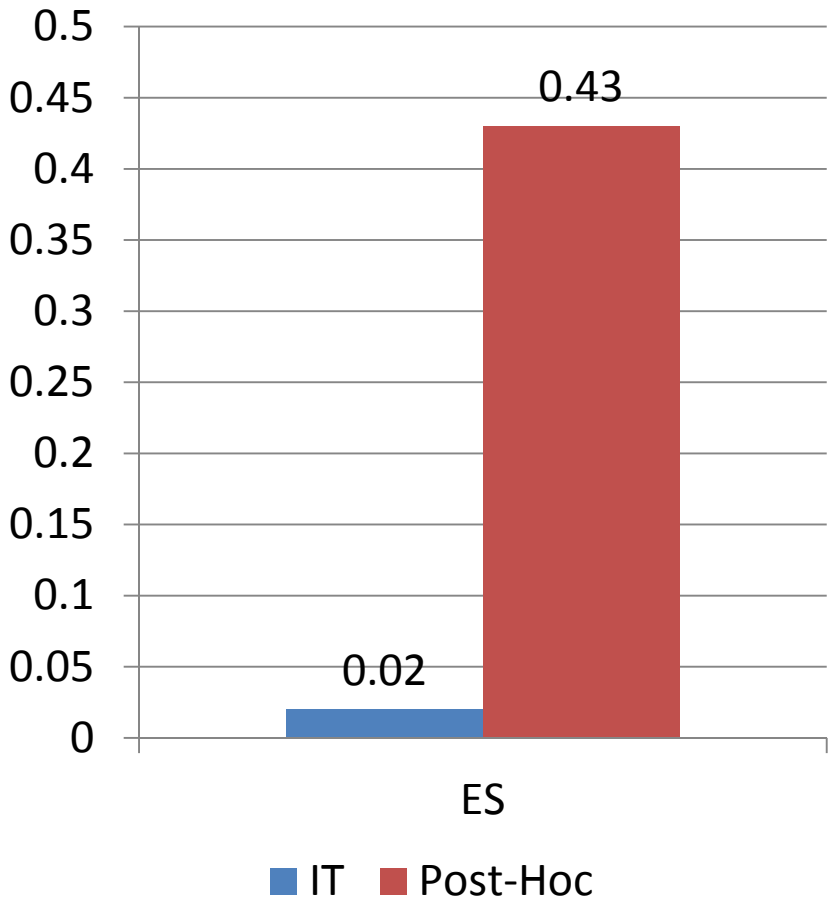
Results


100
90
80
70
60
50
40
30
20
10
0
%
31
28
44
47
65
71
FT Employment
Arrests
Stable Housing
Treatment
Control

Selected Experiments (from Farrington & Welsh, 2005)

Authors	Intervention	Outcomes
Robinson et al. (1995)	CBT	Convictions
Armstrong (2003)	MRT	Convictions
Wexler et al. (1999)	TC	Re-incarceration
Marques et al. (1994)	CBT	Arrests for sex offenses
Lewis (1983)	Scared Straight	Arrests
Greenwood & Turner (1993)	CBT	Recidivism

Effect Size Comparisons



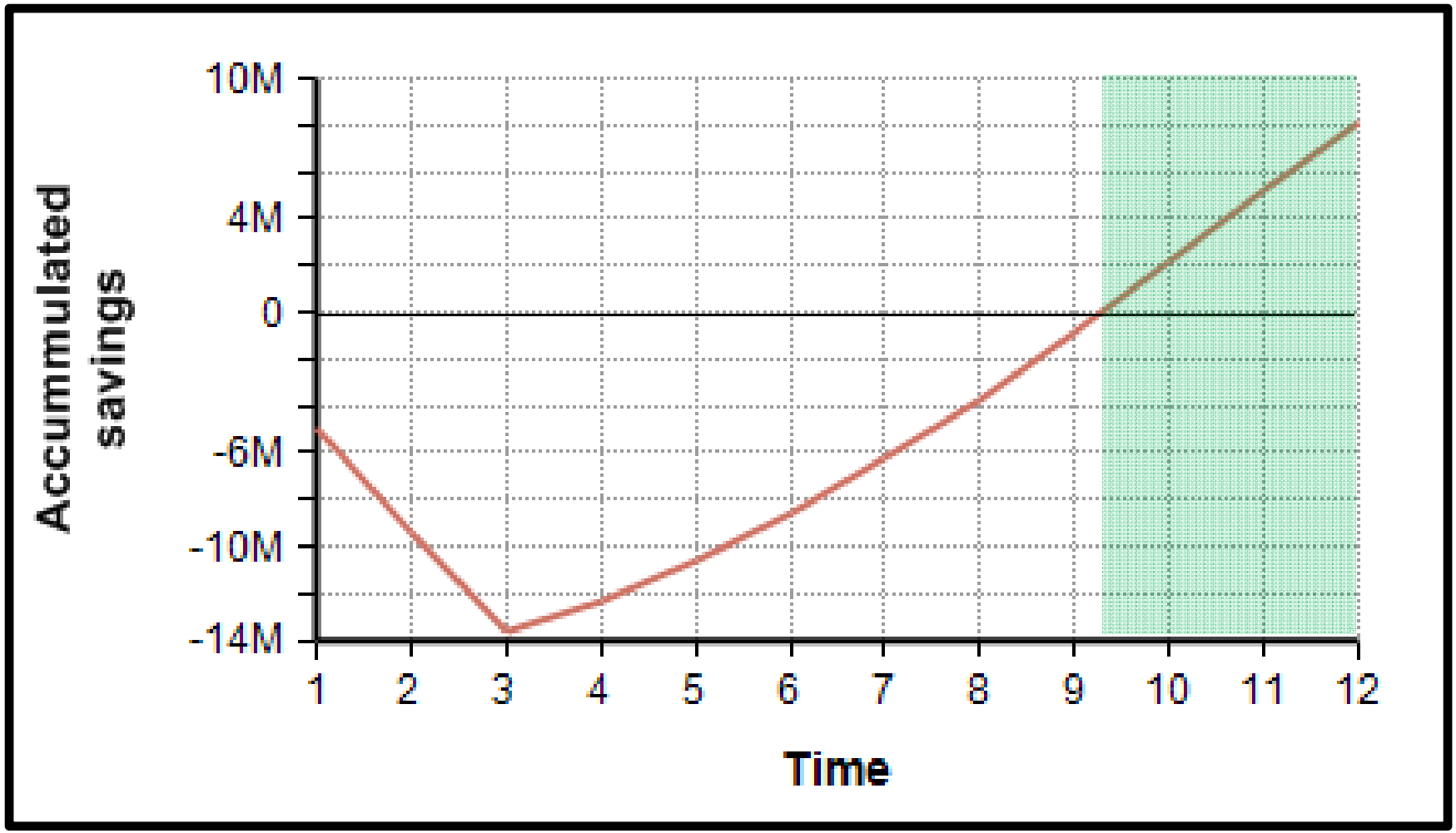
- Mean post hoc ES was **20x larger than** the IT ES.
- Two of the IT results showed worse results for treatment group.
- None of the post hoc differences were negative.
- IT range: -20-.22; PH range: .12-.83.

Exhibit 4.5: Functional Family Therapy SIB pro forma: breakeven for investors occurs in year 12

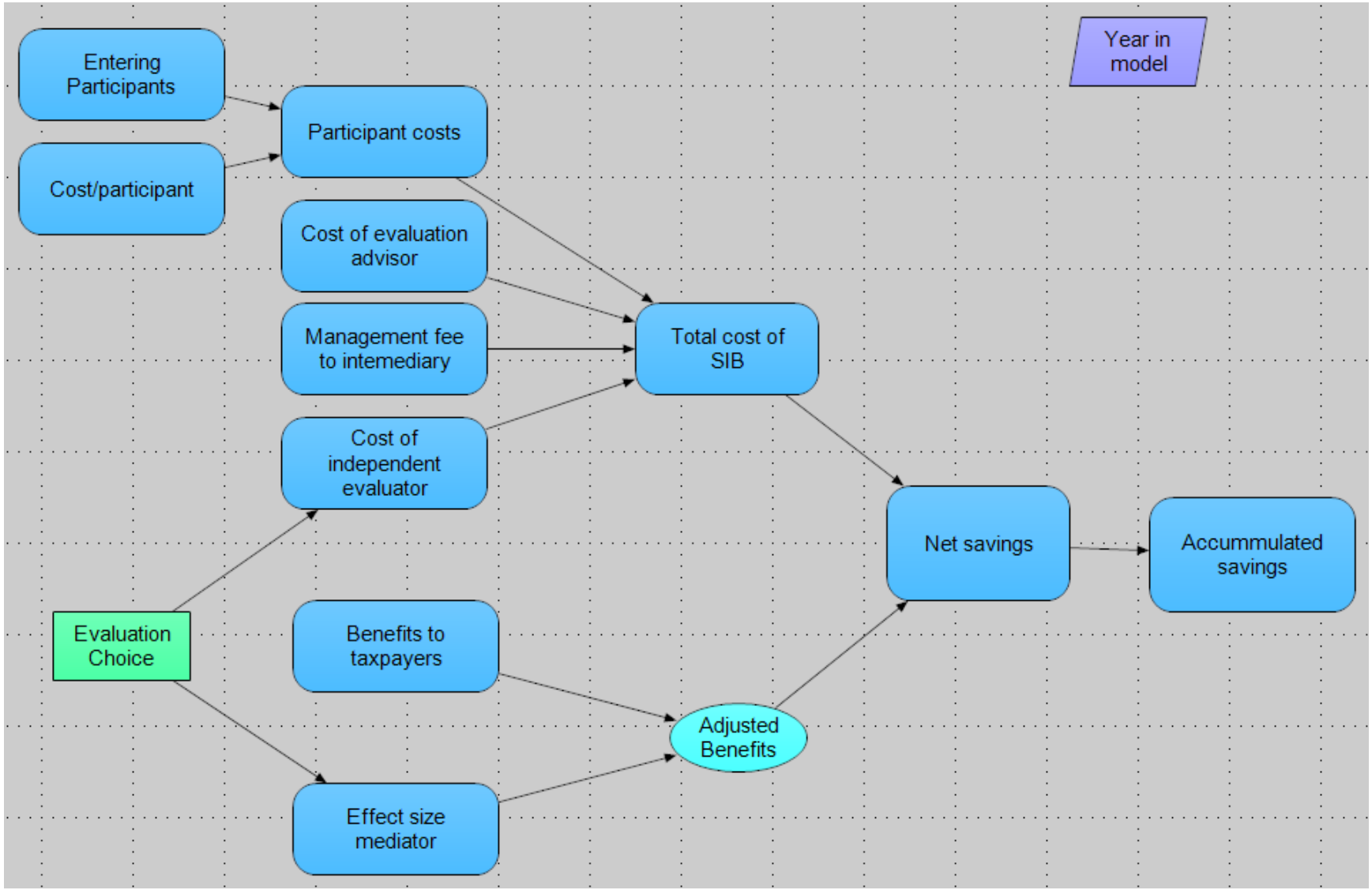
Thousands of 2010 dollars (inflation adjusted, undiscounted)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Total
1. Constituents treated	**1,500**	**1,500**	**1,500**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4,500**
2. Cost of service provision	4,787	4,787	4,787	0	0	0	0	0	0	0	0	0	**14,360**
3. Cost of evaluation adviser	239	239	239	0	0	0	0	0	0	0	0	0	**718**
4. Cost of independent assessor	60	60	60	60	60	60	60	60	60	60	60	60	**718**
5. Management fee to intermediary	48	48	48	0	0	0	0	0	0	0	0	0	**144**
6. Total cost of SIB	**5,134**	**5,134**	**5,134**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**15,939**
7. Principal drawn down	5,134	5,134	5,672	0	0	0	0	0	0	0	0	0	**15,939**
8. Benefits to taxpayers	**255**	**584**	**986**	**1,368**	**1,745**	**2,105**	**2,328**	**2,612**	**2,903**	**3,087**	**3,104**	**3,009**	**24,083**
9. Net savings	**–4,879**	**–4,550**	**–4,148**	**1,308**	**1,685**	**2,045**	**2,268**	**2,552**	**2,843**	**3,027**	**3,044**	**2,949**	**8,143**
10. Cumulative net savings	**–4,879**	**–9,429**	**–13,577**	**–12,268**	**–10,584**	**–8,539**	**–6,271**	**–3,719**	**–877**	**2,151**	**5,194**	**8,143**	**–**
11. Savings to taxpayers	43	99	167	231	295	356	394	442	491	522	525	509	**4,074**
12. Success fee to service provider and intermediary	0	0	0	0	0	0	0	0	0	0	0	407	**407**
13. Investor net cash flow	**–5,134**	**–5,134**	**-5,672**	**2,652**	**0**	**3,198**	**0**	**4,104**	**0**	**4,976**	**0**	**4,671**	**3,662**
14. Cumulative investor net cash flow	**–5,134**	**–10,267**	**–15,939**	**–13,287**	**–13,287**	**–10,089**	**–10,089**	**–5,985**	**–5,985**	**–1,009**	**–1,009**	**3,662**	**–**

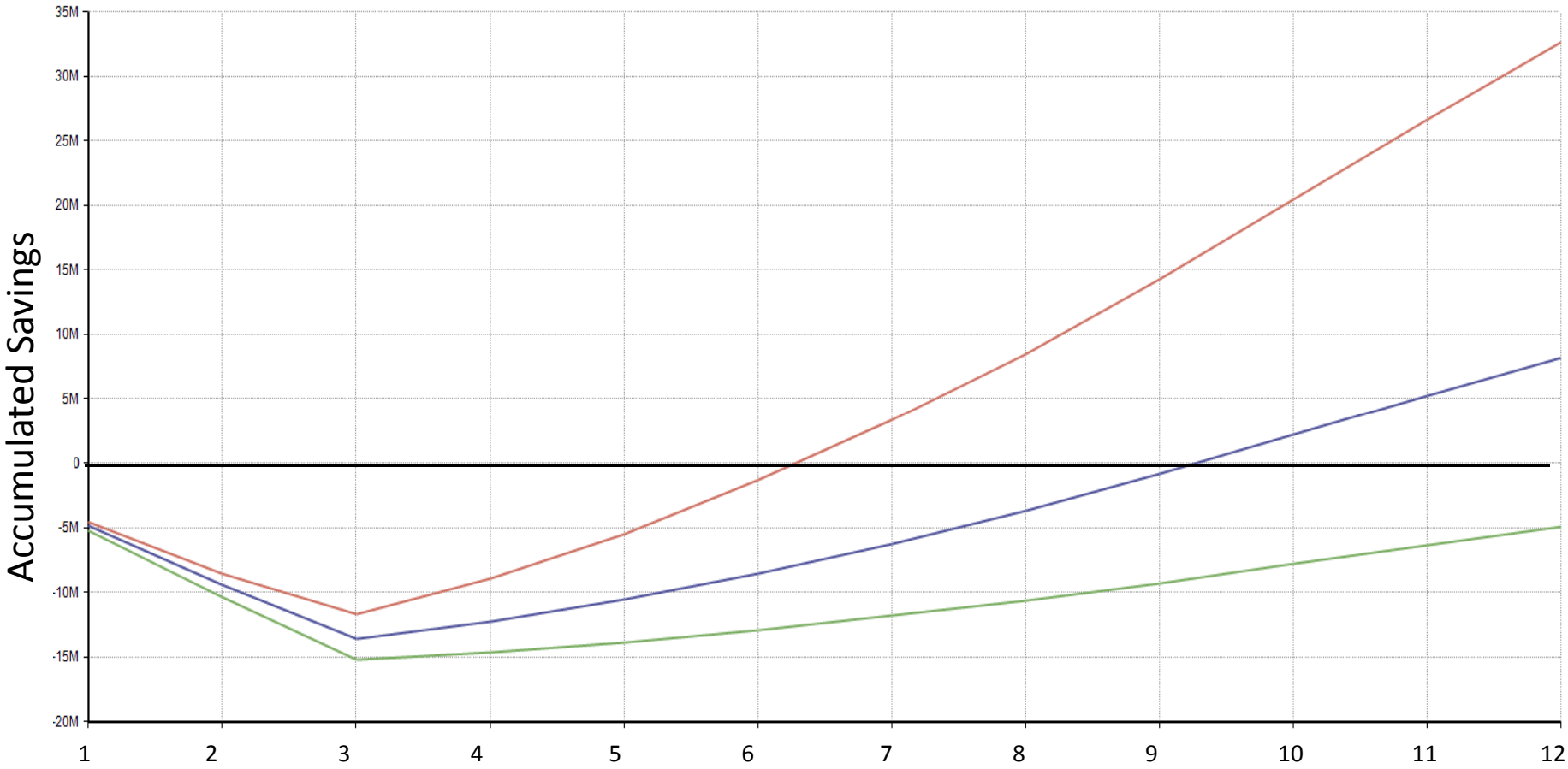
McKinsey Break-even on Cumulative Net Savings



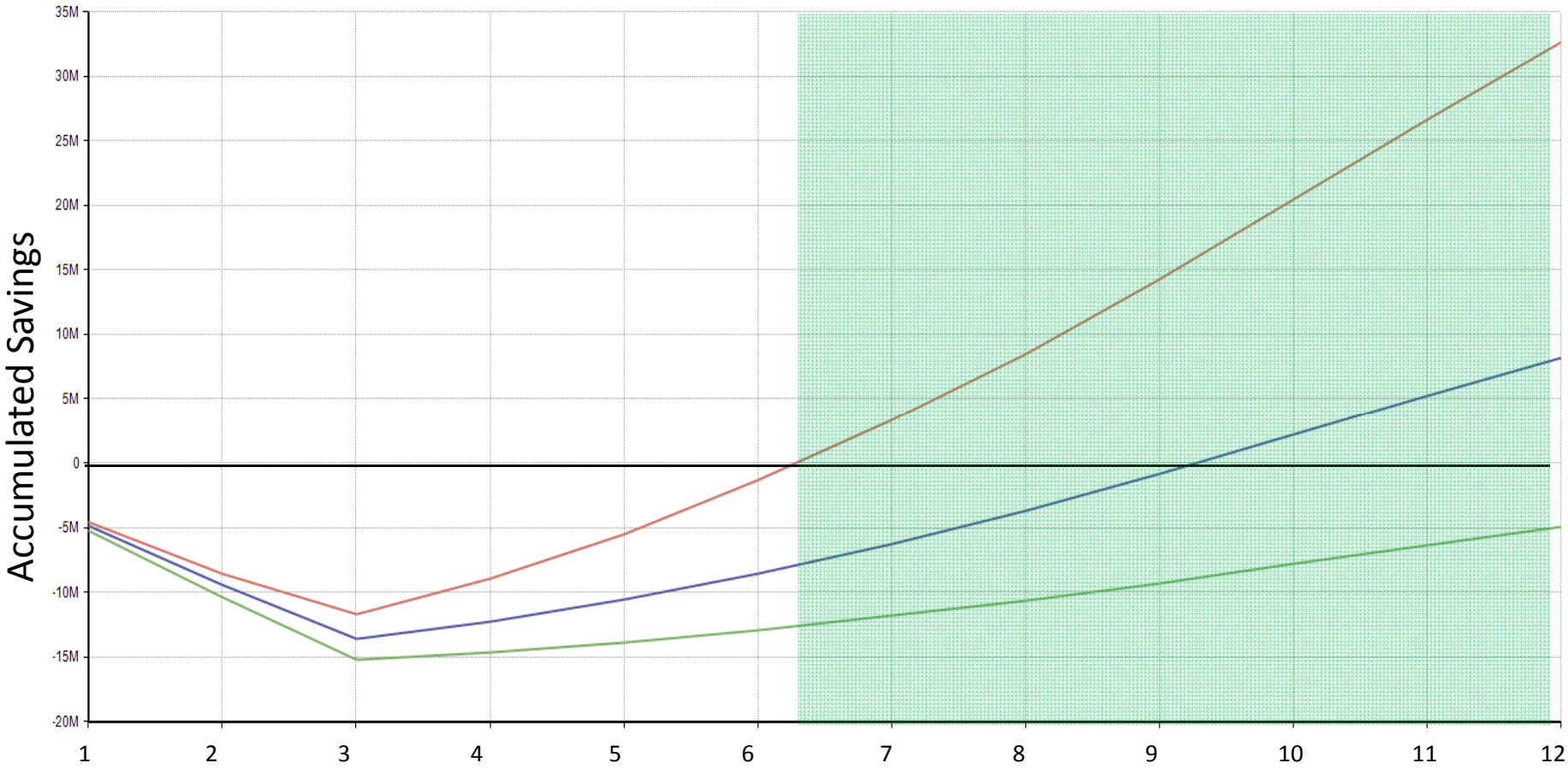
SIB simulations



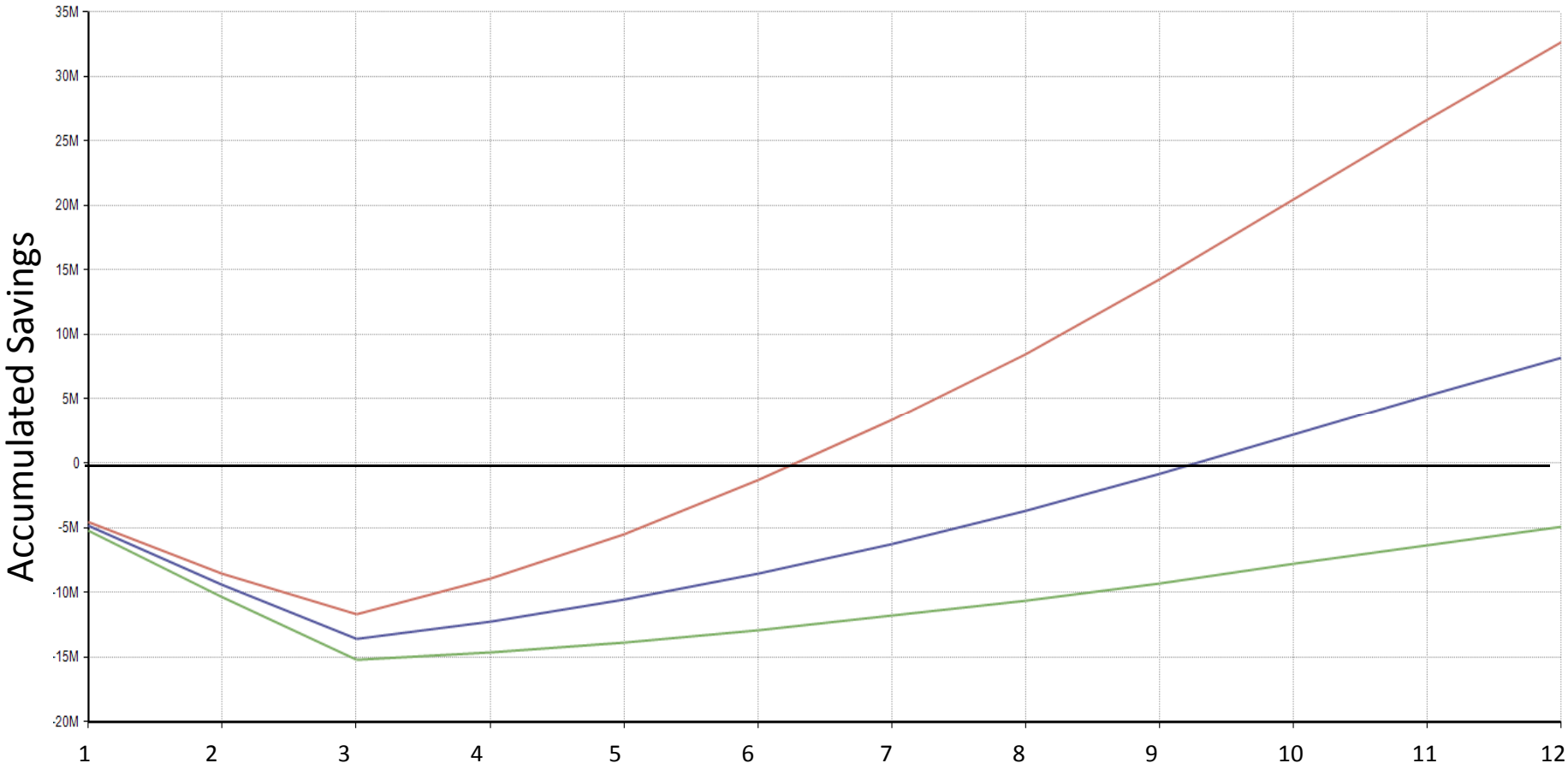
SIB “Performance” Depends on Quality of Evaluation Design



Low Quality Study Designs Shows Break-even in Year 6



High Quality Study Designs Shows No Break Even



Red= Low Quality

Blue = Medium Quality

Green = High Quality

Conclusions

- SIBs have great potential to help take promising programs to scale.
- Evaluation details will matter and a good design is the only way to protect the public interest.
- The seminal UK and the US SIB do NOT use RCTs
- Mandate sticking to the original agreed design. No post-fact tampering allowed!
- Some worry SIBs might stifle innovation.
- We aren't so sure. If the private sectors stands to profit, we might see much more innovation through trials supported by private $.