Social Impact Bonds as tool to Finance Public Sector Reform

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Abstract

Social Impact Bonds (SIBs) act as financial assets for attracting investors for funding social programmes by providing incentives if the predefined outcomes and targets of the programmes is achieved by the implementing agency. This paper helps in understanding more about SIBs and their working models with a case study on an education programme implemented in the country to achieve Public Sector Reform.

Introduction

Public Sector Reforms is a programme for financial and management reforms aimed at bringing about long-term productivity improvements in the public sector and better service to the community. The programme is applicable across various sectors like poverty alleviation, healthcare, livelihoods, skill development, and education. Social Impact Bonds have emerged as a new financing tool and has enthusiastically been welcomed as social innovation for funding social impact projects. Social Impact Bonds (SIBs) and Development Impact Bonds (DIBs) can be defined as "Partnership between governments or donors to improve the social outcomes for a specific group of citizens or "beneficiaries" and providing the investors incentives if the project meets its predefined targets." SIBs represent a financial mechanism aimed to fund interventions relying on an outcome-based contract. They are hybrid instruments with elements of both equity and debt. (Bolton & Savell, 2010; Liebman, 2011)

The idea behind an SIB is that private investors can be attracted to invest in social service interventions that have a positive payoff. SIBs integrate philanthropy, venture capitalism, performance management, and social programme finance into an innovative new mix. It extends and emulates the philosophy and framework of collective impact.

The key tenets of SIBs

1. Focus on social interventions: SIBs allow private (impact) investors to upfront capital for public projects that deliver social and environmental outcomes. These outcomes are very specific to a particular sector and focus on solving a key problem in that sector. For example, in the education sector, the targeted social intervention will be that of improving enrolments or learning outcomes – both of which are key social impact outcomes of any education programme.

2. Adoption of payments by the results contract: The contracts are negotiated and designed in such a way that the investors are repaid by the Government (Social Impact Bonds) or an aid agency or other philanthropic funder (Development Impact Bonds) with capital plus interest. If the project fails, the interest and part of the capital is lost. While commonly referred to as a "bond", the solution essentially replicates a payment-for-result scheme.

3. Development of complex stakeholder networks: Stakeholders strongly influence project success, particularly for complex projects with heterogeneous stakeholders. SIBs have complex stakeholder networks underlying the structures and contracts of the bond. Managing this contributes to the success of the SIBs.

The key feature of the SIBs or DIBs is that it brings together the three stakeholders or partners:

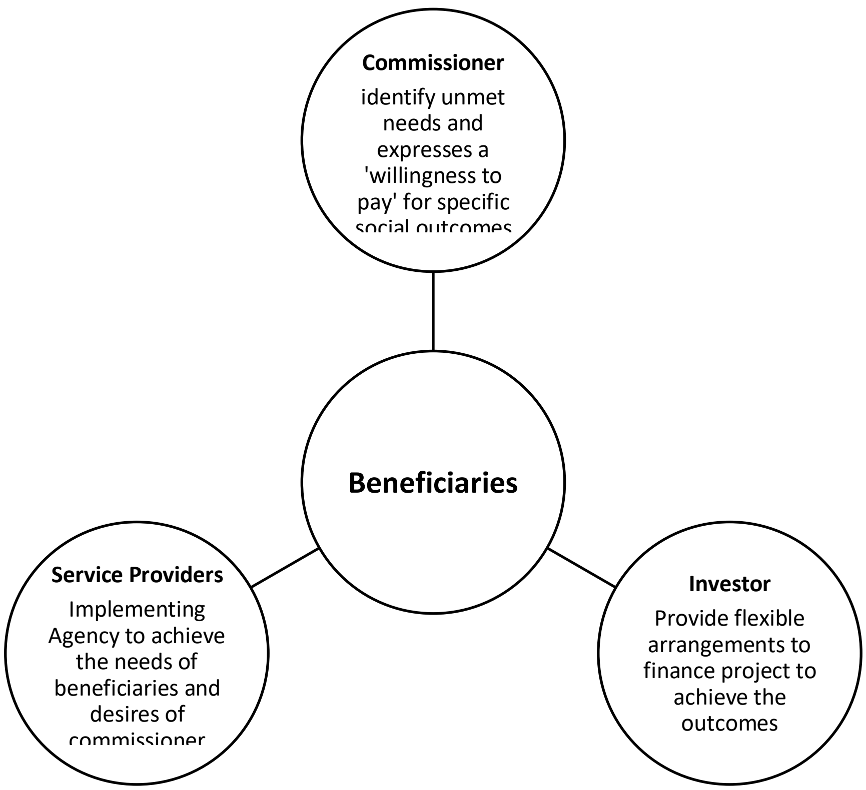
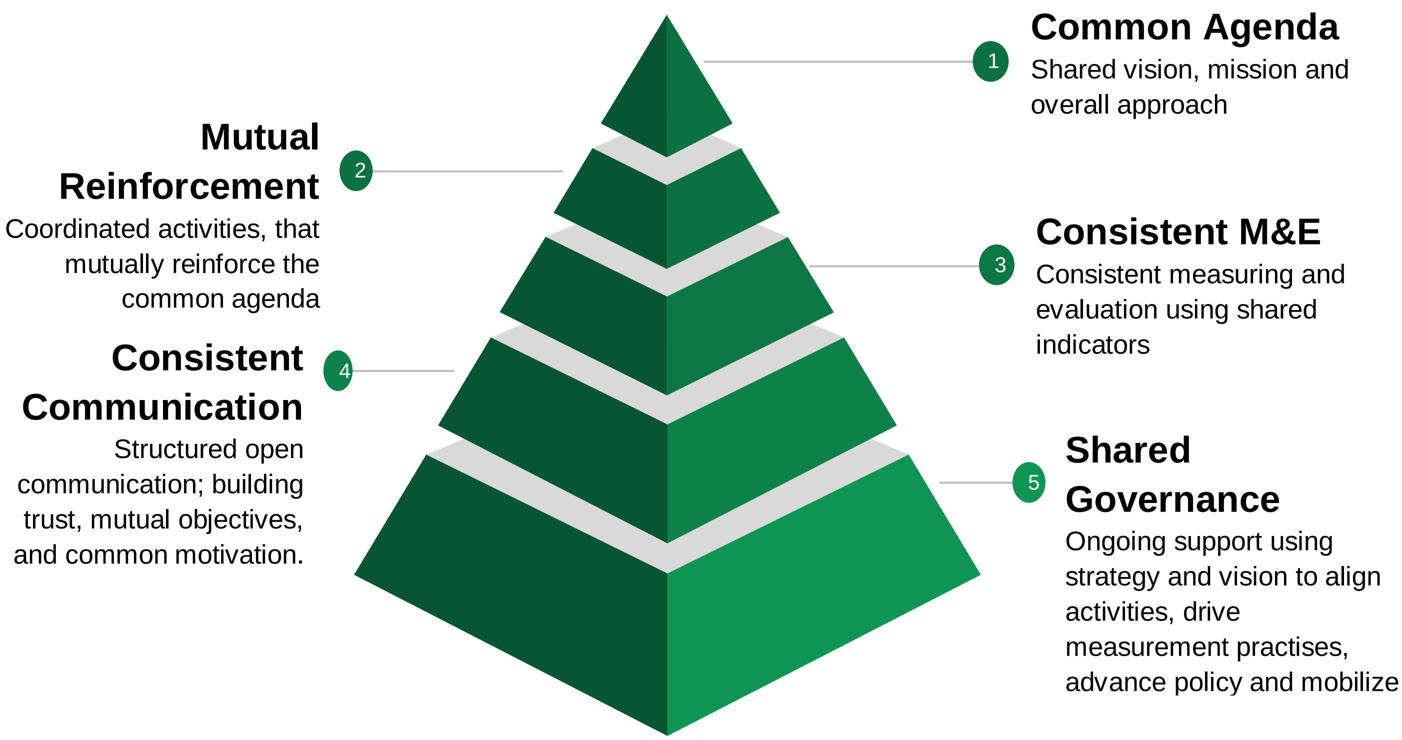


Figure 1: Role of Partners

In financial terms, SIBs or DIBs are not real bonds but rather future contracts on social results. Payment-for-Success bonds (USA) or Pay-for-Benefits bonds (Australia) are terms used in other countries for SIBs or DIBs. The bond-issuing organisation raises funds from private-sector investors. The funds raised are distributed to service providers to cover their operating costs. If the measurable social results agreed upfront are achieved, the government proceeds with payments to the bond-issuing organisation or the investors.

Collective Impact

Collective impact initiatives involve a centralised infrastructure, a dedicated staff, and a structured process that leads to a common agenda, shared measurement, continuous communication, and mutually reinforcing activities among all participants. (Kania, Kramer, 2011). The design of SIBs through the complex network of partnerships are effectively emulated under this framework.



Rationale

Government as well as non-governmental programmes, particularly those targeted at the poor and underserved, often underinvest in prevention and instead pay for remediation once the social problem becomes clear. (Warner 2013) Capital expenditure costs of such preventive interventions are deemed to be a key risk for non-governmental philanthropy, and institutional investors. There is a limited scope of fundraising for impact-sector service providers with little or no safety net towards accountability of measurement of said outcomes and impact. There is a limitation of incentivising innovation in government and non-governmental initiatives towards social impact as well.

Advantages

SIB model does not rely on government or contractors to cover up-front costs of service provision. (Fox & Albertson, 2011; Loder et al.,2011; Warner,2013).

The SIB model redesigns the relationships between partners involved in the commissioning of social services. (Nicholls & Tomkinson,2013; Palandijan & Hughes,2014)

It contributes to align the interests of multiple stakeholders with distinct backgrounds and mandates (Charlton, Douglas, Flatau, & Gill,2013; Goodall, 2015; Nicholls & Tomkinson, 2013; Social Finance, 2013)

Working of SIBs

The SIBs or DIBs is a public-private partnership (PPP) where one or more investor(s) provide "upfront" capital for the successful implementation of public projects that generate social and/or environmental outcomes. The government contracts an intermediary to implement a social project in return for a promise of a payment contingent on the social outcomes delivered through the project. The intermediary raises the capital for the project from commercial and/or philanthropic investors. It then contracts a service provider to deliver the project's outcomes. If the project failed to deliver, the government does not pay, and the investors lose part or all their capital. If the project becomes successful, the government pays the intermediary and investors according to the structure of the SIBs or DIBs.

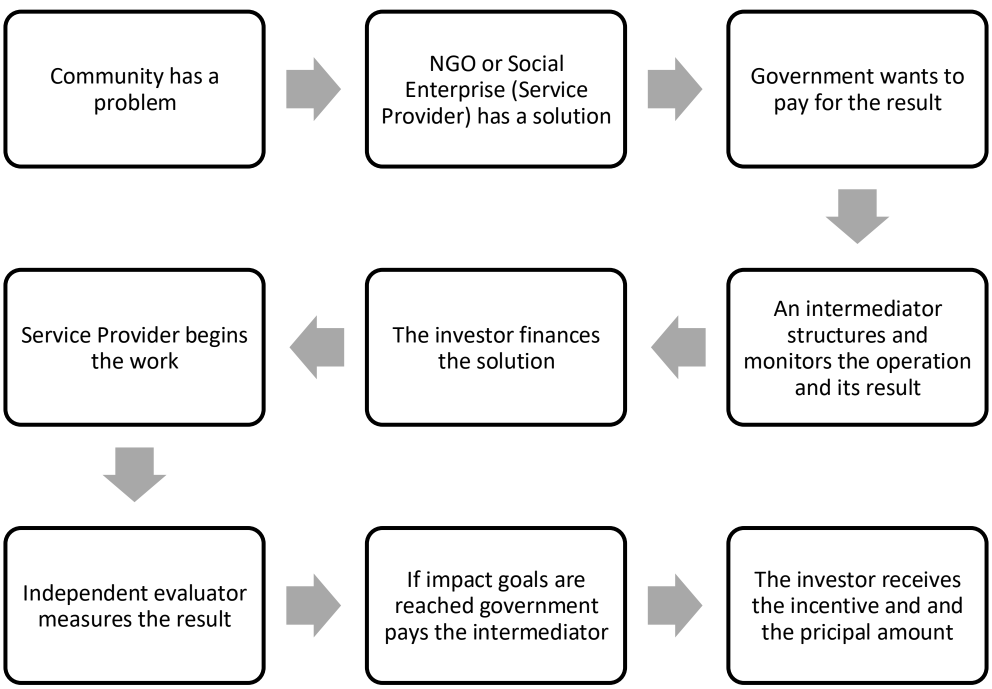


Figure 3: Working Model of SIBs

Case Study: Educate Girls Development Impact Bond

In the year 2015, an experiment in the financing and delivery of a programme aimed at increasing girls' school enrolment and achievement was launched in Rajasthan, India.

Enrolment: Nearly three million girls, aged 6 to 14, are out of school in India. In this rural area, where agriculture is the main form of subsistence, one in ten girls aged 11-14 were kept out of school, for reasons such as - contributing to the family income or caring for siblings.

Learning Outcomes: Even if enrolled in school, many students are not acquiring foundational skills like reading and basic arithmetic that can help them progress in school and in life.

Educate Girls, a Mumbai-based NGO, trains community volunteers to encourage families to enrol their girls in school by making door-to-door household visits and to deliver a child-friendly supplementary curriculum in classrooms to improve basic reading and math skills. Educate Girls currently operates in over 12,000 villages and 21,000 primary schools across 15 districts in Rajasthan and Madhya Pradesh. In 2015, the organisation became part of the SIB.

The Educate Girls Development Impact Bond (EG DIB) was a joint project between the Children's Investment Fund Foundation (CIFF), Educate Girls, the UBS Optimus Foundation, Instiglio, and IDinsight (collectively, the "Working Group"). UBS Optimus, acting as the investor, financed EG's project implementation, while CIFF paid for educational outcomes as evaluated by IDinsight. Instiglio is managing the project.

Area of Operation: Bhilwara district, Rajasthan.

The final results of the Educate Girls SIB showed impressive gains in both enrolment and learning outcomes, with a marked increase in the third year. The quality of girls' education was a particular concern area in rural Rajasthan where, in 2011, the female literacy rate was just 52 percent, compared to 79 percent for men, and below the national average of 65 percent for women according to the census data.

Structure of the SIB

With $270,000 in upfront capital from the UBS Optimus Foundation, Educate Girls (service provider) identified and encouraged enrolment for out-of-school girls, as well as providing learning interventions focused on a child-centric curriculum. Instiglio provided performance management support to Educate Girls throughout the course of the SIB, and the final results were verified by evaluator IDinsight. The outcome funder, the Children's Investment Fund Foundation, would repay UBS their principal, along with an internal rate of return of 15 percent.

Outcome of the SIB

The SIB was based on two metrics:

1. **Student Enrolment**: It accounted for 20 percent of the outcome payment, it measured the percentage of out-of-school girls aged 7-14 enrolled in school, against a target of 79 percent.
2. **Learning Outcomes:** It made up 80 percent of the outcome payment, which was measured for girls and boys using the ASER test for English, Hindi, and Math, in which students receive a grade between A-E for each subject.

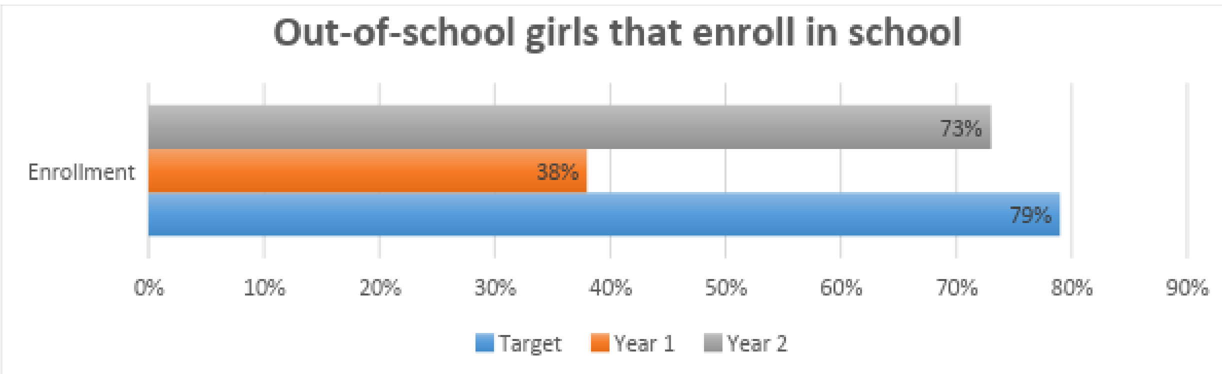


Figure 4: Source: The Brookings Institution

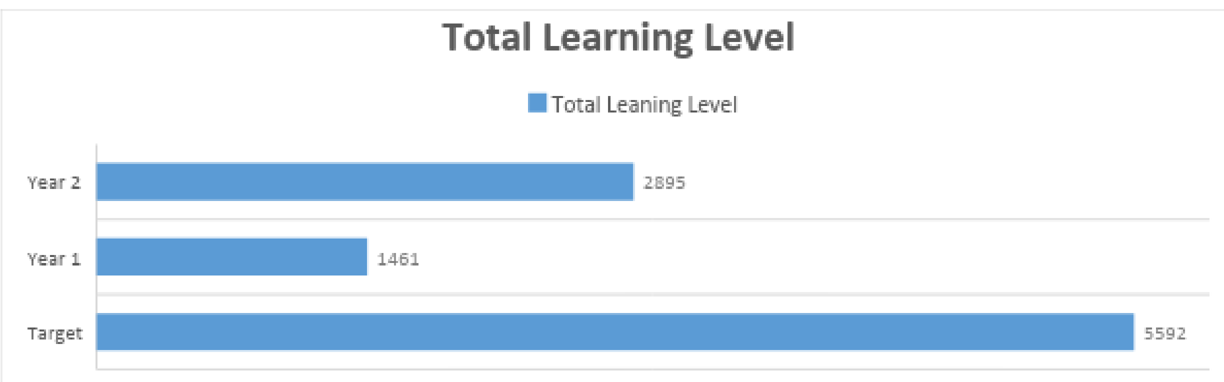


Figure 5: Source: The Brookings Institution

Using the randomised controlled trial, IDinsight compared the progress on the test for children receiving the intervention to those in the comparison group. The target over the three years has seen a combined increase of 5,592 learning levels for the students receiving the intervention, above the comparison group. This target proved difficult to achieve in the first two years, with only 52 percent achieved by the end of year two. The final year of the SIB saw a huge increase in learning outcomes for the students receiving the intervention. By the end of year three, the group had improved their test performance by 8,940 more learning levels than the comparison group, equivalent to 160 percent of the target (Figure 5).

Intervention between Years Two and Three

Several interventions were made after learning about the lag in two years to boost the students success. The structural changes for successful delivery of the programme were:

- Increased number of sessions: Including sessions during the holidays and home visits to reach students who were frequently absent from school and needed tutoring;
- Teaching groups aligned with the competency level of the students: Shifting from a classroom-focused to a group-focused approach, where each group was based on the competency levels of the children
- Improved curriculum content: Child-centric curriculum focused on building micro-competencies in year three, where each child's progress was tracked, and individual-centric exercises were conducted to increase learning gains
- Emphasising on personalised learning: dividing high capacity classes into groups and conducting sessions accordingly
- Home visit for regular absentees: EG's community volunteers actively met students' parents, reasoning with them and addressing their concern. These visits, together with village meetings to influence the entire communities' mindset toward girls' education
- Training of teachers: With the focus towards outcome metrics and improved performance management, Educate Girls were able to respond with new information and improve their service provision.

Learnings

The success of the programme piloted by Educate Girls using SIBs provides interesting insights for the audience like overachievement relative to the targets for enrolment and learning outcomes, demonstrating successful intervention of Educate Girls and return on investment for UBS Optimus Foundation. The major focus towards outcomes in the SIB structure and performance management supported the service provider to learn from and respond towards the new information.

Conclusion

The development of SIBs is a product of the New Public Management style reforms that focuses on result matter and that market process are superior to the government process in designing, implementing and financial social programs. The case helps in understanding that the governance process in designing and implementation of the social program are critical. SIBs as a financing tool for social reforms can be promoted for two primary reasons:

1. To bring positive change through social service interventions
2. To attract private finance where there is lack of public investment

Sustainability: As SIB ties financial returns and payments to rigorously-measured social outcomes it has the potential to sustain long-term, results-focused partnerships among non-profits, donors and investors.

Scope Expansion: The scope of SIBs can be expanded into critical areas in healthcare, disaster rehabilitation, WASH.

Incentive for Innovation: SIBs can be used to incentive innovation in project design leading to improved outcomes and impact through the collective impact framework.

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