Putting Private Sector Financing to Work for Social Benefit

Public Private Partnerships, Joint Ventures, Pay-for-Success Contracts, and Social Impact Bonds

Douglas J. Besharov
School of Public Policy
University of Maryland
and
The Atlantic Council

November 7, 2014
Early public/private cooperation
Modern public/private cooperation

“CONTRACTORS”
Purchase from a large existing market
Food vouchers
Government purchase from large existing market
(cost to government)

- Direct government activity
  - Risk to government
  - Cost of financing
  - Labor
  - Goods/Materials

- Government purchase from large existing market
  - Contractor profit
Fixed-price contracts
Cost-plus-fixed fee contracts
Government commission from specialized market
(cost to government)
Performance contracting
(cost to government)

Risk to government
Cost of financing
Labor
Goods/Materials

Performance payment
(cost of financing and risk to contractor embedded)
Traditional public/private cooperation

Public financial resources + Public expertise (?) + Private expertise
Modern public/private cooperation

Public financial resources + Public expertise (?)

+ 

Private expertise

+ 

_Private financial resources_
Joint ventures
(Port Nikau, N. Zealand)
Public/private partnerships
Users fees to pay the contractor
Infrastructure public/private partnerships
(cost to government)

- Risk to government
- Cost of financing
- Labor
- Goods/Materials

- Foregone operating fees (cost of financing and risk to contractor embedded)
Franchises
If harbors, why not social programs?
Performance-based job placement services (Michigan)
Human capital performance contracting
(cost to government)

- Risk to government
- Cost of financing
- Labor
- Goods/Materials

Direct government activity

Government commission from specialized market

Performance payment (cost of financing and risk to contractor embedded)
Human capital “pay for success” (cost to government)

- Risk to government
- Cost of financing
- Labor
- Goods/Materials

Direct government activity

Government commission from specialized market

Performance payment (cost of financing and risk to contractor embedded)
Social impact bonds (SIBs)
SIBs Worldwide

Canada
- National government exploring SIB applications in criminal justice and unemployment
- Nova Scotia exploring SIB development

Scotland
- National government exploring SIBs in at least two areas

Ireland
- National government exploring SIBs in at least five areas

UK
- 14 SIBs, including in recidivism, workforce development, foster care, homelessness, at-risk youth

Germany
- Initial interest in SIBs

USA
- Federal Govt designing 3 SIBs
- MA designing 2 SIBs in recidivism and homelessness
- CT, CA, MN exploring SIBS

South Africa
- An NGO is designing a criminal justice SIB in Cape Town

Mozambique
- Dalberg is developing a malaria SIB to be funded by mining companies

Uganda
- Social Finance UK is developing a sleeping sickness SIB with DFID

Israel
- Social Finance Israel developing 3 SIBs

India
- Instiglio is developing an education SIB in Rajasthan

Australia
- New South Wales designing 3 SIBs in recidivism and foster care

Instiglio
Putting Private Sector Financing to Work for Social Benefit

Public Private Partnerships, Joint Ventures, Pay-for-Success Contracts, and Social Impact Bonds

Douglas J. Besharov
School of Public Policy
University of Maryland
and
The Atlantic Council

November 7, 2014
How to measure success

The need for a “counterfactual”

*What would have happened in the absence of the program?*
Benchmarking

**Pre/post studies** compare individuals or other units of analysis to themselves *once at some time before* and *once at some time after* the initiation of the intervention.
Performance Goals

Criterion-referenced studies compare the program group to a desired expectation or goal that participants are desired to reach.
Criteria-referenced performance-measures
Random assignment to assess performance

Cash assistance recipients needing Employment Services and Placement

Random assignment (by geography)

Vendor 1  Vendor 2  Vendor 3  Vendor 4  Vendor 5  Vendor 6

- All vendors previously are approved.
- All contracts 100% performance-based (on employment outcomes).
- Each negotiated outcome reached generates a set payment.
- Vendors that perform comparatively better receive additional payments.
Was the price right?
Putting Private Sector Financing to Work for Social Benefit

Public Private Partnerships, Joint Ventures, Pay-for-Success Contracts, and Social Impact Bonds

Douglas J. Besharov
School of Public Policy
University of Maryland
and
The Atlantic Council

November 7, 2014
Modern Public/Private Cooperation: Putting Private Sector Financing to Work for Social Benefit

XX, China
May XX, 2013

Douglas J. Besharov
School of Public Policy
University of Maryland
and
The Atlantic Council
Cost-plus-fixed fee contracts
Aerojet Launch Vehicle
Mixed cost-plus contracts:
Boeing Unattended Ground Sensors
Pay for success
Pay for success
Norm-referenced studies compare the outcomes of individuals or other units of analysis with the typical or expected outcomes (or “norm-referenced controls” or “generic controls”) of a predefined and analogous population.
Interrupted time series studies compare individuals, a changing population of individuals in the same program, or other units of analysis to themselves over an extended period of time before and after the intervention (the “interruption”).
Ashenfelter Dip

Mean Earnings Per Month

Months Before/After Random Assignment (Controls)
or Eligibility Determination (Comparison Group)
U.S. leadership in health care spending
Government support of social programs
Grants, below-interest loans, tax-favored treatments, & other subsidies

Head Start
Government social programs often fail

**K-12 education:** 8 of the 9 large randomized evaluations of education strategies (2003-2009) found weak or no positive effects.

**Whole federal programs:** 9 of the 10 well-conducted RCTs (1995-2009) found weak or no positive effects.

“Most of what we’re funding now probably does not work (80%?)”

— Jon Baron, U.S. Coalition for Evidence-Based Policy
Pay for success
(“Back to Work”; NYC)