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Social Impact Bond in Latin America

By Isabel Opice

Abstract

Social Impact Bond (SIB) contracts were first launched in 2010 in the United Kingdom. Since 2014, there has been an enormous effort to bring the mechanism to Latin American countries. However, only one contract was issued. This paper describes the Social Impact Bond model and the challenges faced by Latin American countries trying to implement it, as well as the personal experience of the author, working in the development of an SIB in the State Government of São Paulo.

The Social Impact Bond (SIB) model was created in the United Kingdom in 2010, and it rapidly spread as an outstanding government innovation for enhancing social outcomes in developed countries. In 2014, the Inter-American Development Bank (IDB) started the first attempts to bring the mechanism to Latin America (LA). A few years after, the question of whether SIBs are effective or not remains open.

After reducing poverty indicators throughout the last decade and a half, the next challenge for LA countries is how to provide good-quality public services.[1] For instance, of the countries that participated in the Program for International Student Assessment (PISA), those in LA were positioned at the bottom of the education quality ranking.[2] Conditional Cash Transfer (CCT) programs have played a crucial role in bringing poverty indicators down, making a considerable difference in the lives of the poor. The solution to the new challenge, though, is not as straightforward as reducing poverty by transferring cash to poor households, such as CCT programs did. Moreover, improving public service outcomes, without increasing the budget, requires maximizing the value for money of resources by spending on effective policies. In this context, SIBs appeared as an appealing answer.

The Social Impact Bond model is based on a contract between the government and the private sector in which the government prioritizes a social issue and selects a social service provider to improve specific outcomes. The payment depends on the achievement of a previously established metric, such as reducing the reoffence rate of prisoners by 10 percent, or increasing graduation rates by 7 percentage points. Investors provide risk capital for the social providers, which will return depending on the improvement of the outcome, as rigorously measured by an independent evaluator.

The model transfers the financial risk to the private sector. If the intervention does not achieve the agreed goals, investors do not get their return, and governments do not spend taxpayers' money. Another benefit of the contract is enabling experimentation within the public sector, different from standardized large-scale public policies, since the scale of the contracts are usually small. Lastly, SIBs align incentives among stakeholders and enforce accountability through the evaluation process, changing the way governments allocate social resources from the typical purchase of public services based on quantity to outcome-driven contracts.

The first SIB in the world was launched in 2010 in the United Kingdom (UK). The contract aimed to reduce the reoffending of short-sentenced offenders in Peterborough. Seven years later, the social provider exceeded the target (the goal was a 7.5 percent reduction and the outcome achieved was 9 percent), giving investors a return of 3 percent per annum for the period of the contract.[3] During this period, SIBs spread across developed countries. There are 33 launched SIBs in the UK and 16 in the United States (US) in such areas as housing, criminal justice, and education.[4]

In March 2014, the Inter-American Development Bank (IDB) announced a US $5.3 million program to test and develop SIBs in LA and the Caribbean.[5] The grant enabled countries in the region to structure SIB feasibility studies for local contracts. The first SIB in LA was launched in Peru in 2015 and aims to support sustainable cocoa and coffee production and marketing by indigenous Asháninka people. Currently, there are 14 SIBs being developed in Argentina, Brazil, Chile, Colombia, Ecuador, Costa Rica, and Mexico.[6]

The scopes of the contracts in development in LA vary significantly. In Ecuador, the contract aims to expand the availability of industrial-grade bamboo building materials to speed up post-disaster reconstruction, a response to the earthquake in 2016. In Mexico, there is a project to reduce complications associated with type II diabetes. Argentina, Chile, and Colombia are studying how to improve employment outcomes for vulnerable groups. Many of those projects are supported by organizations such as the IDB; Social Finance, the non-governmental organization (NGO) that first issued an SIB; and Instiglio, an NGO based in Colombia that helps the social, public, and private sectors to improve the impact of social programs.

Although highly promising, transferring SIBs to LA is not an easy task; this helps to explain why so many projects are still in the development phase. Adapting the model to the local regulatory framework can be defiant, as legal conditions forbid governments from contracting in multi-year periods and conditional on outcomes. Additionally, the lack of data available for designing and evaluating the intervention might increase the cost of the contracts. Lastly, implementing the model requires a change in mindset towards a data-driven approach, which might encounter resistance among LA members of the SIB ecosystem, such as NGOs, service providers, philanthropists, and the government.

None of these difficulties is insuperable, although they increase the cost of importing the SIB model. LA countries have implemented public-private partnership (PPP) legislation, which might help to contract for outcomes.[7] Also, although the data available might not be as rich as in the UK and the US, there are plenty of administrative data lost through government bureaucracy that could be used for better-designed contracts.

When working in the State Government of São Paulo, in Brazil, I participated in the designing of an SIB contract aiming to improve educational graduation rates in public high schools. The project started in mid-2015, when IDB approached the under-secretary of Partnership and Innovation, proposing the funding of a feasibility study to test the viability of SIBs in the country. We decided to target educational outcomes both because of the challenges public schools face, and the high supply of service providers working with educational issues, which could potentially participate in a future bid.

The most significant difficulties we faced while developing the contract were related to political instability and lack of prioritization. The secretary of education was dismissed at the end of 2015, leading to numerous changes in the team who oversaw the project. Every time there was a change we would have to explain the peculiarities of the model and what we had designed so far, making it hard to follow the initial schedule. Additionally, given the small scale of the contract (61 high schools, which is equivalent to 2 percent of the number of schools in the state), the project was far from being a priority in the Secretariat of Education.

After almost three years, the state government of São Paulo is now close to launching a US $5.5 million contract to increase the graduation rate in public high schools.[8] The public consultation of the deal ended in December 2017, and the final documents are now being reviewed for the bid.

In my view, though, one of the key takeaways from the project was that it could be more efficient to improve the performance mechanisms of existing public-sector contracts rather than designing a social impact contract from scratch. For instance, half of the state hospitals are run by NGOs, through management agreements that could be significantly improved. The state government pays approximately US $1.3 billion a year to health-related NGOs that indirectly provide social services to citizens.[9] Most of the metrics on the agreements are process indicators rather than outcome indicators, and there is no use of incentives payment mechanisms. There is an immense potential for saving public resources and enhancing health services by re-designing those contracts. Lastly, although the idea of bringing third-party funding to public services is bold, not having them, as it happens in the health management agreements, is easier since the state does not have to worry about making the deal attractive for investors or providing a guarantee.

In the US and the UK, a whole field of pay-for-success and oriented outcome contracts evolved from the initial SIB style to help improve government spending without necessarily using third-party funding. For instance, in 2015 at the Harvard Kennedy School of Government, the Social Impact Bond Technical Assistance Lab, which used to provide technical assistance for issuing SIBs, became the Government Performance Lab, which also works to improve procurement practices and the results of government core spending. In the UK, the Oxford University Government Outcomes Lab has a similar mission, seeking "to deepen the understanding of outcome-based commissioning and provide independent support, data and evidence on what works, and what doesn't."[10]

It takes time until innovative ideas get fully embedded in organizations. SIBs in LA are currently moving from a moment of inflated expectations towards a more realistic understanding of its potential. During this path, the SIB model could be a crucial tool to bring the pay-for-performance agenda to the public sector in LA, as well as it was in other developed countries.

NOTES

1 Between 2002 and 2016 poverty and extreme poverty decreased by 15.2 and 2.4 percentage points, respectively, in the region. See Economic Commission for Latin America and the Caribbean (ECLAC), Social Panorama of Latin America 2017 (Santiago: United Nations publication, 2018).

2 María Soledad Bos et al., "Latin America and the Caribbean in PISA 2015: How Did the Region Perform?" IADB, 2016, https://publications.iadb.org.

3 "World's First Social Impact Bond to Reduce Reoffending in Peterborough," Social Finance, n.d., https://www.socialfinance.org.uk/peterborough

-social-impact-bond.

4 “Impact Bond Global Database,” Social Finance, n.d., https://sibdatabase.socialfinance.org.uk/.

5 “MIF to Test Innovative Social Impact Bonds Financing Model in Latin America and the Caribbean,” Multilateral Investment Fund, 19 March 2014, https://www.fomin.org/en-us/HomeOld2015/News/PressReleases/ArtMID/3819/ArticleID/1097/MIF-to-test-innovative-Social-Impact-Bonds-financing-model-in-Latin-America-and-the-Caribbean-.aspx.

6 “Impact Bond Global Database,” Social Finance.

7 David Bloomgarden et al., Social Impact Bonds & Education in Latin America, GEMS Education Solutions, 2014.

8 “Minuta de Edital de Concorrência,” State Secretary of Education, São Paulo state government, n.d., http://201.55.46.199/wp-content/uploads/2017/11/CIS-MINUTAS-EDITAL-TR-e-CONTRATO-v7-21-11-2017-16h07min.compressed.pdf.

9 Ernesto Martins Faria et al., “Value-for-money e geração de valor público na atuação das organizações sociais de saúde: contribuições para o governo do Estado de São Paulo,” dissertation presented to the São Paulo Business School, 2015, https://bibliotecadigital.fgv.br/dspace/bitstream/handle/10438/14166/Disserta%C3%A7%C3%A3o_out2015_FINAL.pdf.

10 “Our Mission,” Government Outcomes Lab, n.d., https://golab.bsg.ox.ac.uk/about/our-work/.

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Isabel holds a bachelor and a master’s in economics from the University of São Paulo. She has worked at the Ayrton Senna Institute, one of Brazil’s larger educational NGOs, and as an advisor at the Undersecretary of Partnerships and Innovation of the State Government of São Paulo. In the government, she participated in projects involving partnerships with the private sector, especially in the social area. Isabel is currently pursuing a Master in Public Administration in International Development at the Harvard Kennedy School of Government.