Chapter 8

Profiting from Public Value? The Case of Social Impact Bonds[1]

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Social Impact Bonds are a new form of cross-sectoral collaboration which attracts private financial investment to social programs by offering to pay a market rate of return should the intervention meet its predefined targets. SIBs monetize the benefits of social interventions and tie pay to performance. This chapter explores challenges posed by SIBs for the creation of public value and draws on the literature of government contracting, new public management, and evaluation research to develop a framework for analysing the management of public value in SIBs. Using a focus on actors, processes and outcomes, the paper outlines the opportunities and concerns SIBs present for public administration scholars concerned with public value creation and preservation.

- SIBs must balance public values related to public debate and openness, due process and client protection with private interests in a profitable return.
- How these processes balance objectives, and the relative power of financial and public sector control is likely to determine the potential for the creation of desired organizational public values.
- Will the profit motive of private investors encourage increased private investment or crowd out the social motive of public investment?

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- Will the introduction of private investment/return in social services lead to Social Darwinism – investing only in those members of society who can generate a profitable return? Will this narrow the public will for investment in social programs that enhance social cohesion?
- SIBs increase the complexity and potential conflicts inherent in cross-sectoral collaboration.

Introduction

Cross-sectoral collaboration and coordination is increasingly seen as a solution to the most pressing social problems facing contemporary societies (Bryson et al. 2006). Public-private interaction enables a broader system view and draws on the distinctive sectoral advantages of government, business and nonprofit organizations to leverage the full range of human, social and financial resources to address the "wicked issues" confronting today's leaders (Mahoney et al. 2009). Taken in combination, the strong mandates of public sector organizations, the flexibility of private firms and investors and the community orientation of nonprofits offer the prospect of development of innovative solutions to these seemingly intractable problems. Interventions, which can enable leaders to create public value by bringing together the best that the public, private and nonprofit sectors offer, are at the top of the policy agenda in countries all across the world (Andrews and Entwistle 2010). This paper explores the dynamics of an emerging innovation in cross-sectoral coordination, which brings private sector investment into highly contentious and complicated areas of social policy, such as offender rehabilitation, youth disorder, child care and homelessness – the Social Impact Bonds (SIBs) currently being piloted in the United States (US) and the United Kingdom (UK). This paper explores two pilot SIBs: Peterborough UK (prisoner re-entry) and New York City (youth offender rehabilitation), and one under development in Alexandria, VA (early childhood education).

SIBs (or Pay for Success Bonds) are a form of outcomes-based contract between public or nonprofit service providers and private investors, in which financiers provide upfront funding for interventions to improve specific targeted social outcomes. Investors can expect to receive a return on their investment, based on the savings government makes once service providers meet pre-determined outcome targets. Thus, in theory, government is able to reduce the costs to the taxpayer of achieving public value, by transferring the financial risk of creating that value to the private sector.

Payment-by-results schemes associated with target-based performance management became popular under the Blair government in the UK during the 2000s. Though frequently beset by complications, incentivizing public service improvement through performance contracts can focus service providers' efforts on issues that matter most to policy designers. Contracts linked to specific outcomes encourage goal clarity, but the introduction of SIBs may narrow or shift those goals.

There may be cause to distrust the commitment of private investors to the pursuit of public value. Research has shown that the private sector is often uncomfortable with shouldering the risks associated with public service delivery, especially where the prospect of failure looms large (Hodge and Greeve 2005). Contract renegotiation, the onward sale of risk and even reverse privatisation are all too common features of the public-private collaborative landscape (Bel and Foote 2009, Warner and Hefetz 2012, Hefetz and Warner 2007). From the perspective of the private sector, it is unlikely capital markets will release significant amounts of equity for high-risk social ventures. In fact, SIBs may be more important as a new form of venture philanthropy than a new form of private equity investment.

While private sector investment in physical infrastructure projects (Public Private Partnerships, PPPs) is becoming more common across the world (Hodge and Greeve 2005), SIBs represent a very different variant. Physical infrastructure PPPs raise questions about risk transfer, public sector budget and finance calculations, and preservation of public values (Sclar 2009, Siemiatycki 2010, Whittington 2012). SIBs represent an extension of the PPP to create private finance mechanisms for social services.

Given the high levels of returns found in prevention-focused social programs such as job training, prisoner re-entry and early childhood education, private financiers have been looking for ways to make investments which will yield a high level of both social and private return (Liebman, 2011). The challenge has been how to link positive social returns that accrue to individual client success, to a mechanism that could compensate private investors. Original efforts to securitize investments in young children, through 'invest in kids' bonds, were criticized for invoking 21st century versions of indentured servitude (securitizing pay back from the child once she becomes an adult) (Warner 2009). But as thinking has evolved, private financiers have focused on the potential reductions in future public sector budgets due to lower rates of recidivism, school failure and welfare use as a result of increased investment in preventive social programs. Social Impact Bonds are the new innovation and they are being pioneered in the Peterborough, UK with a project on prisoner re-entry (Disley et al. 2011) and in the US by a number of governments (NYC, Massachusetts, Federal Government), foundations (Rockefeller, Annie Casey, Kaufmann) and social policy and social organizations (Social Finance, Non Profit Finance Foundation, Third Sector Capital Partners, Center for American Progress, etc) (Kohli 2010, Liebman 2011, von Glahn and Whistler 2011). That these innovations cross conservative and liberal regimes shows their broad ideological appeal.

SIBs assume private sector investors will be willing to make investments in preventative programs for which the public sector has trouble generating taxpayer support. However, by capitalizing the benefit in private returns, how does one create the 'public value' of societal recognition of the value of public investment in such social programs? SIBs open social service sectors to the kind of financialization we are seeing in physical infrastructure through Public Private Partnerships. PPPs have had trouble effectively transferring risk to the private partner and have often raised costs to the public sector (Whittington 2012, Siemiatycki 2010). PPPs also have created unanticipated downstream effects as these investments are traded on financial markets (eg the Chicago Parking Meters and Chicago

Skyway PPPs) (Bel and Foote 2009, Ashton et al. 2012). A key element in the SIB model is the transfer of risk to the private investor. In fact, this feature is the key stumbling block to promoting for profit private investment in SIB schemes. Although British investors Sir Ronald Cohen and David Blood are credited with bringing SIBs to market and founding Social Finance, which is now promoting SIBs in both the UK and the US, most SIBs rely on philanthropic investment or social investors (Greenblatt, 2011). Even the NYC scheme has a private foundation (Bloomberg Philanthropies) backing up Goldman Sachs' position (Chen, 2012).

At the operational level, some SIB schemes, such as Peterborough, cede control over grantee selection and evaluation of outcomes to private investors. They assume the investor risk for repayment is enough to motivate performance, reducing the need for government control. This second order, devolved contracting may weaken government control over services and the ability to secure public values. Results based funding also may promote creaming and narrow conceptions of program design – to those elements that lend themselves to measurable outcome evaluation. For example, a recidivism focus does not solve the root of the problem. If the concern is criminal activity then why not prevent its emergence through investments in better education, family support and job training (Rosenman 2013)?

These concerns highlight the important work SIB designers will need to undertake to ensure that public value is created for all of the key stakeholders involved in the operation of SIBs. Will SIBs enhance the ability of cities and states to address pressing social problems, or further constrain possible solutions to only those that generate high returns – measureable in a performance management framework?

In this chapter, I explore the challenges posed by SIBs for the creation of public value. The analysis focuses on the actors, processes and outcomes associated with the design and implementation of SIBs. There is only sparse evidence available at this time to illustrate the complex interplay between the contrasting institutional logics that have shaped the development and use of SIBs to date. I conclude by anticipating some public values concerns that are likely to arise as the use of this important innovation gathers pace.

Description of SIBs

Social impact bonds represent a new innovation in social program finance. Although not a bond in any real sense, the idea behind SIBs is that private investors can be attracted to invest in social service interventions that have a positive pay off. Government programs, particularly those targeted to the poor and underserved, often underinvest in prevention and instead pay for remediation once the social problem becomes clear. This is typically the case in juvenile delinquency, prisoner reentry and early childhood education. These societal groups typically lack voice and visibility in the broader political system to attract preventive investments.

SIBs are very new, and only two were actually in operation at the time of this writing. In September 2010 the United Kingdom partnered with Social Finance Ltd to launch the first social impact bond designed to reduce recidivism among inmates released from the Peterborough prison (Disley et al. 2011). Since that time, the idea of social impact investing has travelled quickly across the ocean to the US where the Obama administration has set aside $100 million for social impact financing experiments at the national level (White House, 2011). Governor Duval of Massachusetts has signed a law promoting social impact bonds in that state (Greenblatt, 2011). In summer 2012 the City of New York launched a SIB for youth offender rehabilitation (Chen, 2012). The Working Group on Early Childhood Finance Innovation has been working on SIB-type interventions in early childhood education, and in 2012 published a design for a SIB in preschool education, which linked payback to reductions in later special education expenditures (Dugger and Litan 2012).[2] SIBs integrate philanthropy, venture capitalism, performance management and social program finance into an innovative new mix. Because SIBs are becoming a popular new innovation, it is important they be reviewed. The social service sector has long been plagued with frustration that successful outcomes are hard to achieve, and government funding often treats symptoms and lacks flexibility to invest in new intervention models. A former vice mayor of NYC suggests SIBs can create a kind of Schumpeterian disruption of traditional ways of doing business and provide the financial and political capital for risk taking. SIBs can promote change and innovation by funding programs that pay for success. In fact, another name for SIBs is Pay for Success Bonds.

How do SIBs work? First they require an intervention that has been tested and proven to provide a certain rate of success. The key is that these successes must be carefully measured and monetized so they can be used to structure the return for the private investor. Next, they require a wide range of partners: government, investors, program implementers and evaluators. Typically an intermediary coordinates the investors, the nonprofit delivery organization and the evaluators. While government sets the terms of the arrangement, it ultimately cedes some control to the intermediary. This makes contract design especially important and difficult. SIBs also require willing investors. To date investors have come primarily from the non-for profit and foundation sectors with a willingness to bear high risk and an interest in creating social returns. Goldman Sachs' investment in the NYC SIB is the first traditional private investor to invest in an SIB scheme. Implementation typically involves a partnership between an intermediary and a nonprofit social intervention agency. In the NYC and Peterborough cases, the intermediary agencies are well established and highly respected: MRDC and Social Finance. In the proposed preschool investment, a capital

[2] While the Alexandria case is still under development, a similar SIB for preschool was announced in June 2013 by the United Way in Salt Lake City, Utah (Stewart 2013).

investment group will serve as intermediary and parents are allowed to choose from a range of nonprofit or for profit preschool providers. Finally, evaluators are required to carefully monitor outcome improvements and accurately calculate the return that will be paid (or not) to investors. A schematic of how most SIBs are structured is provided in Figure 1.

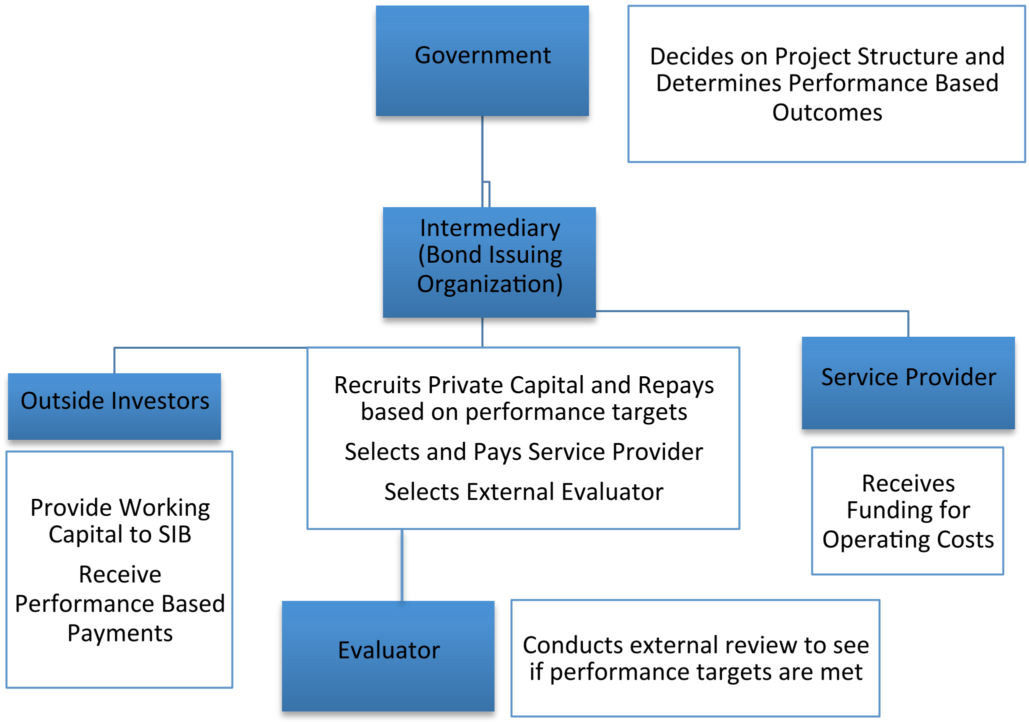

Figure 1: Organizational Structure of a Social Impact Bond

Source: Warner, M.E. "Private Finance for Public Goods: Social Impact Bonds," *Journal of Economic Policy Reform*, (2013)16 (4), page 305.

Because most SIBs are still in their inception, little has been written on actual program impacts because projects are still under design and development. Given the limited program documentation to date, my research strategy involved reading a number of documents and proposals on the websites of many of the social investment promoters in the US and UK. Written information on SIBs typically does not become publicly available until after all the details have been worked out. To get a sense of the issues and challenges that are addressed in the design process, I supplemented my reading with interviews with some of the architects of SIBs from the Center for American Progress (a leader in developing the US case for SIBs), the planned Alexandria, VA preschool intervention and the NYC youth offender rehabilitation intervention. These included policy architects, private investors and governmental leaders. I found all of these SIB designers to be very interested in the public values questions I was raising regarding risk, control, voice, innovation and lock in. They had thought about them and tried to address them in program design.

Managing for Public Value in SIBs – Theory and Practice

To analyse potential impacts on public values, I first outline some theoretical considerations and then explore how these materialize given the limited case experience to date. I conclude with challenges for the future.

One way to evaluate SIB's impact on public values is to explore the range of *actors* responsible for the formulation and implementation of SIBs, the *processes* associated with the management and evaluation of SIBs, and the *outcomes* of the SIBs. Beck Jørgensen and Bozeman (2007) argue that "government has a special role as guarantor of public values, but public values are not the exclusive province of government, nor is government the only set of institutions having public value obligations" (pp373-4). By looking at constellations of public values in a nested ecological framework – they outline public values that have to do with *actors* - both inside and outside public administration, *processes* - both internal to the organization and in relationship to citizens and the environment, and *outcomes* - contribution to society. The challenge with SIBs is that private financial stakeholders (not included in Beck Jørgensen and Bozeman's schema) assume a much more influential role in the public values creation process. Increasingly scholars are raising concerns about the financialization of public services and how this process alters the balance between social and financial objectives, elevating the later at the expense of the former and undermining the universal service ideal (O'Neill 2010). The PPP literature regarding long-term infrastructure projects is replete with examples and cautions regarding this shift in stakeholder power and the privileging of financial considerations over broader public values (Ashton et al. 2012, Sclar 2009, Hodge and Greeve 2005).

Milward and Provan (2000) argue the need for a strong principal in social service networks to ensure coordination and that public values are met. But the SIB schemes cede considerable power to the financial stakeholders and often give the intermediary institution the power of the coordinating node. Blanchard et al. (1998) have argued that when the government – program administration nexus is shifted toward private parties, it alters not only the process of internal governance, but also the relationship with citizens. The literature on network governance gives considerable emphasis to the importance of cooperation and relationships among network actors (Johnston and Rozmek 2008, Stoker 2006), and the weakening of command and control functions with the shift toward facilitated network governance (Salamon 2002). What the SIB payment schemes set up is a harder sanction – as payment is tied to performance targets and linked to a rigorous external evaluation process.

Reliance on evaluation is key to the financialization process as this is how the rate of return is determined and payment is triggered only when performance targets are met. This reflects a faith in the ability of performance management to adequately align public value outcomes with public values in the process of service delivery. This reliance on performance management reflects the trajectory of new public management reforms in public administration (Hood 1991, Osborne and Gaebler 1992), but it also faces many of the concerns raised by NPM critics regarding the need to balance important public values – equity, efficiency and democracy (especially the importance of citizen and government engagement in the service delivery process) (Nalbandian 1999, Denhardt and Denhardt 2003). Performance management systems do not always achieve the multiplicity of objectives to which government programs aspire (Heinrich and Choi 2007). Problems with preference alignment between actors and between outcome and process objectives have been shown both theoretically (Lowery 1998) and empirically in market-based incentive systems (Hipp and Warner 2008, Warner and Gradus 2011).

A further challenge is the ontological foundation of the evaluation structure. Because of the need to quantify and monetize returns for the financial investors, SIB schemes rely on traditional positivistic evaluation designs that maintain a control group and an experimental group, preferably with randomized assignment. The SIB architects refer to such evaluation designs as the "gold standard" for research. While positivistic designs work well in some scientific applications, social scientists often argue for a more reflexive constructivist position regarding knowledge creation (Guba and Lincoln 1994). The evaluation field itself has moved on from positivistic approaches, to approaches that incorporate all actors in a collective reflection process that promotes articulation of a theory of change, and modification of that theory based on experience, not rigorous adherence to an experimental/control research design (Greene 1994). While SIBs may be based on interventions that challenge traditional approaches, the concern with the SIB evaluation schema is that it may undermine a more participatory approach to learning by privileging interventions that have proven metrics at the expense of experimenting with more interactive program designs.

Institutionalist approaches to the study of public policy suggest there are three main ways in which the management of public value might be understood: historical institutionalism, rational choice institutionalism and sociological institutionalism (Hall and Taylor, 1996). An historical institutionalist approach gives attention to the social, economic and political context in which policies (and political ideas) emerge and to the exercise of political power by key actors, especially in terms of the persistence of certain social structures. This persistence is captured in the notion of path-dependency, which implies that institutions and policies are legacies inherited from the past that can only be disrupted by critical events. SIBs are the intellectual descendants of new public management's emphasis on markets, customer and performance management. One of the goals of SIBs is to be disruptive – to introduce the rigors of private sector investors, the standards of positive scientific evaluation, and the discipline of market mechanisms to determine payment and the allocation of risk. But these elements raise the importance of attention to the interests of different actors in determining policy goals and the consequentialist reasoning to which a focus on goal attainment gives rise. This line of analysis draws from rational choice approaches which assess the strength of institutions and policies and their potential to resolve collective action dilemmas regarding efficient and effective distribution of resources. What is also needed in a review of SIBs is a sociological institutionalist approach that interrogates the evolving rules and standards governing the process of decision-making by key actors. How might the institutions and policies evolving around SIBs shift the norms and practices of what is considered right and legitimate investment? Will SIBs promote a Social Darwinist approach, undermining rationales for investing in programs and clients who cannot offer a high rate of return?

It is difficult to envisage any one of these logics as the single explanatory mechanism driving the relationship between the actors, processes and outcomes of SIBs. In fact, March and Olsen (2009) emphasise that it is essential to 'account for the relationship and interaction between different logics in different institutional settings' (19). Thus, it is only by exploring the shifting sands of these complementary yet sometimes competing logics that it becomes possible to identify the political and economic authority of institutions and policies, and map the market and government authority relations that determine the potential for public value to be achieved (Bozeman 2002; 2007).

I adapt the public values inventory developed by Beck Jørgensen and Bozeman (2007) to develop a framework for the systematic analysis of the management of public value. Focus is on those features of the public values inventory most relevant to the key actors, processes and outcomes associated with the development of SIBs. Key public value concerns are outlined in Table 1.

Actors

While numerous actors participate in the policy process, SIBs expand the range of actors from politicians, civil servants, external service providers, clients and citizens to also include private financiers and external evaluators networked by an intermediary. Private investors include foundations (through their program related investment units) and private venture capitalists and investment firms. In Peterborough the actors in the £5 million pound investment are: Social Finance (intermediary), Social Impact Partnership of LP, Ministry of Justice, Big Lottery (will make the pay back), Peterborough Policy L and D, St Giles trust (to deliver services), and an Independent Assessor. In the $9.6 million NYC Rikers Island case, the actors are: The City of New York Mayor's Office, NYC Department of Corrections, MRDC (intermediary to design and oversee the program), Osborne Association and Friends of Island Academy (service providers), Bloomberg Philanthropies ($7.2 million loan guarantee to MDRC), Goldman Sachs (private investor, $9.6 million). In the proposed $800,000 Alexandria, VA case the actors would be: Alexandria City School District, Capital Partnership (intermediary), Virginia Early Childhood Foundation, private investors, early education providers (public, non profit and private), the State (to issue tax exempt status for SIB bonds), business and philanthropic leaders (to promote the program), and parents (who get to choose preschool provider).

Table 1. Framework for analyzing the management of public value in SIBs

	Description	Public value concerns
Actors	Politicians, Government Managers, Private Financiers, Service Providers, Evaluators Clients, citizens	*Democratic* Public Debate, Openness, Neutrality Power relationships between SIB financiers and other stakeholders, Due Process, Legality, Client Protection
Processes	Performance management/evaluation, Devolved Contracting, Innovation, Financialization	*Organizational* Effectiveness, adaptability, risk management Balancing objectives, Privileging financial interests, Accountability, fairness, legitimacy Loss of public sector control, Who controls the pace and nature of innovation? Private profit for public goods
Outcomes	Enhanced Investment, Promote Prevention and service effectiveness, Private Profit	*Societal* Broaden or Narrow Political Will for Investment? Redefinition of public goods (e.g. Social Darwinism)? Marketization of Social Services Equity, Sustainability, Social Cohesion

The creation of public value is dependent upon the quality of the relationships between key actors (Beck Jørgensen and Bozeman 2007, Stoker 2006). For actors involved in the development and use of SIBs, value-creating relationships must balance public values related to public debate and openness, due process and client protection with private interests in a profitable return. In theory, where the relationships between key actors embody the spirit and principles of democratic governance, the conditions necessary for the realisation of a whole swathe of desirable public values are established. Public actors must operate in the context of norms regarding open government and the rights of citizens, but private financial investors adhere to values regarding profit and return. While SIBs to date have been explicit and relatively open (after the deals are finalized) about the structure of payments, antecedent experience in the PPP world shows private financial actors typically request confidentiality, freedom from public political approval and protection from competition (Dannin 2010).

Public values regarding due process and client protection are of special concern in SIB schemes as clients in these schemes have little to no voice, and evaluation and payback schemes have been substituted for public debate and openness.

Processes

SIBs rely on target-setting and arms-length management, contract specification, monitoring and performance management. However, processes associated with the management of public value also include mechanisms to recruit and retain private financial investment over time. How these processes balance objectives, and the relative power of financial and public sector control is likely to determine the potential for the creation of desired organizational public values.

Accountability, compromise, fairness and professionalism depend upon the commitment of key policy actors to a well-functioning policy process and program design, whatever the causal logic of the reasoning behind their commitment. The logics of path-dependency, rational consequences and normative legitimacy will help drive what the actors consider to be valid decisions. Although actors may get "dirty hands" in adhering to one logic rather than another (March and Olsen, 1996; 2009), their history, goals and identity help make intelligible the apparent logics behind their actions. The ways in which these alternative logics play out in the case of SIBs highlight the challenges of multi-party cooperation, which attempts to combine public value with private profit.

Each of the SIB interventions is based on a successful model program outcome. Peterborough, UK uses the St Giles "through the gate" service intervention. Pro Bono Economics (2010) analysed and found a 40% reduction in reoffending. NYC Rikers Island uses the Adolescent Behavioral Learning Experience, cognitive behavioral therapy proven to reduce recidivism. The Alexandria, VA model is based on preschool studies, which have shown significant impact on better school performance and life outcomes (Dugger and Litan 2012).

One requirement of SIBs is that the intervention be well documented so that the outcome payments can be calculated. Dugger and Litan (2012) provide an example of the careful documentation and detail used to set up the investment requirements, program costs and outcome payments schemes. It may be that too much faith is placed in outcome measurement. Kohli of the Center for American Progress argues that a hands off approach to management is one of the advantages to government of the SIB. "First it [government] does not need to decide which approaches to back. Instead, it decides only on what outcomes to target. It is for Social Finance [the intermediary in the Peterborough case] to work out the most effective approach to reduce reoffending. Social Finance and investors in the bond bear essentially all the risk." (Kohli 2010: 2).

My interviews with program architects show less faith in the outcome measurement/return process and more interest in government maintaining some control. To secure financing, the integrity of the cost benefit analysis is key. But it is not the only criterion. Time frame for analysis, protection of clients from undue risk, the ability to continue to innovate and not get locked in to a particular reform for a long evaluation time (to ensure private sector pay out) are also important. For example, in the NYC case, the mayor's office is testing other reforms simultaneously and does not want these stifled and held in place during the evaluation period. Balancing the need for rigorous evaluation and testing (to determine payment targets) must be weighed against the responsibility to improve services, especially for the most at risk groups. This demonstrates the critical importance of balancing interests related to public and client well being, with the need for a measureable standard to determine private sector payout.

Outcomes

SIBs give the New Public Management trajectory a more explicit market turn, with payment, not for services delivered, but only for outcomes. This raises the stakes for external providers beyond the renegotiation of contracts in the next contract cycle, to concern over whether they will be paid at all for services rendered if they fail to meet agreed upon outcomes.

The structure of the outcome payments in the three examples specifies the rate of return based on different levels of outcome. In Peterborough, UK if reoffending is reduced by 10% then the investor will get an IRR of 7.5% to 13%. They expect 1000 offenders in 2 years, a large enough cohort to see if a 10% reduction in reconviction is achieved. The first outcome payment was to occur 3-4 years after initial investment, but initial targets were not met (Cohen, 2014). In NYC Rikers Island if recidivism (currently at almost 50%) drops by 10 percent, Goldman Sachs will be repaid the full investment; if is drops more it could make up to $2.1 million in profit; and if recidivism does not drop by at least 10 percent, Goldman would lose as much as $2.4 million. Bloomberg Philanthropies is providing a $7.2 million loan guarantee to limit Goldman Sach's exposure. In Alexandria, VA 100 additional high risk children will be enrolled in preschool. Payback on investment will occur if special education placements are reduced from 18% to 7%. Each of these outcome payment schemes relies on careful analysis based on model program data. SIB investors are willing to take on implementation risks, but not model risks. This is why only proven interventions with clearly measureable outcomes are the subject of SIB investment.

Like many other public programs, SIBs are intended to improve multiple outcomes for the benefit of multiple stakeholders. Concerns voiced by program designers were how to recoup savings from other governmental units (state and federal programs in the case of NYC or other school districts if children move in the preschool program). SIBs are unique in that they are explicitly designed to result in greater profit for private investors if specific targets are met.

In the private sector, it is relatively straightforward to agree on and measure financial criteria of organizational success and failure. Outcomes in the public sector are, however, typically characterised by a much higher degree of complexity and are invariably multidimensional. Public organizations are typically required to meet multiple and potentially conflicting organizational goals. As an inevitable consequence of the publicness of public organizations, the outcomes of their delivery of policy are judged by a diverse array of constituencies, such as taxpayers, staff and politicians (Frederickson and Frederickson, 2006). Despite these political complexities, there are key tangible outcomes that all stakeholders are likely to value, such as the quality of public services, the equity with which they are distributed and the extent to which they meet the needs of service users and promote social cohesion.

One public value concern is that the profit motive of private investors will some how 'crowd out' the social motive of public investment. The primary protection against this is the pay for performance structure of the SIB. Payment is only made if targets are reached, so SIB projects are perceived as high risk and to date have primarily attracted philanthropic investors who share similar social values. Due to the risk premium payment structure, SIBs are not attractive to most private sector investors. However, the introduction of a private finance policy logic into the evaluation of social impact could broaden public policy willingness to take risks. Some promoters interviewed argue that SIBs are a mechanism to take innovations to scale and will encourage "crowd in" from private investors. Others recognize SIB's role primarily in showcasing that model programs can offer wider success and thus create the evidence base for a broader shift in public funding.

Interviewees described SIBs as a tool to "create room for investment and innovation when the tax based will not permit it," and as a "tool to move the field and create the evidence base for new interventions." Indeed the broader societal outcomes in the prisoner SIB schemes are to shift the public sector focus from reincarceration to investments in reducing recidivism and more funds to experiment with innovations. The broader societal goal of the preschool SIB is to enhance societal support for investment in early childhood education.

A key limitation of the SIB model, in addition to lack of private investors, is the high transaction cost of SIB design. Liebman (2011) argues that SIBs only work for projects with high net benefits and short term payout, tangible performance measures, clearly defined treatment population (to avoid cream skimming and encourage integrated programs that meet multiple needs), and credible impact assessment with a neutral authority to measure outcomes and resolve disputes between financiers and government. Careful analysis goes into design of the SIB structure, which can be quite complex. SIBs require a more complex organization structure than standard contracting and typically an intermediary institution is selected to coordinate with government, organize private financiers, contract with the nonprofit provider and select and oversee the external evaluator. The process is complex and time consuming. As one city leader said, "If we had the ability to invest in new programs within the city budget, then why would we do this?"

One of the concerns that links actors and process is that the power differentials among actors that may enable one party to take advantage of another. In PPPs the private financiers typically have more knowledge about finance, risk, and onward sale than the public partners, leading public partners to under-price assets and end up holding more risk than anticipated (Ashton et al. 2012). Are the same concerns possible under SIBs? This is less likely in SIBs than in PPPs because the high risk involved in SIBs (no payment unless performance targets are reached) will discourage investors who lack a social mission, and the commonality of social mission will help to ameliorate concerns arising from power differentials. To date deals have been structured based on lower success than what model programs would indicate. For example, in the preschool case the model program data suggest special education placements would be reduced from 18% to 2.5% but the payback is based on a reduction from 18% to 7%. So if the program achieves model program results, then the value of 4.5 special education placements will be a savings that accrues to the school district that can be invested in other programs. School districts face tight budgets and school superintendents are experts, so the other side of the SIB is a public agency that is well informed.

Over time as the SIB experiment matures, designers will need to be careful as financial experts attempt to structure secondary markets to bundle SIBs and sell future contracts. Already efforts are underway to encourage state governments to make social impact bonds tax exempt in order to increase private financial interest (Dugger and Litan 2012). Although SIBs represent a new financial innovation – they differ from other innovations (securitization, debt default swaps) that have been created in the last 20 years and led to high complexity, limited understanding and great risk (leading to the Great Recession) (The Economist 2012). The key to the SIB innovation is that both government and the private financiers, through the intermediary, are closely linked to the funding target and this local knowledge, generated from the evaluation, helps ensure appropriate pricing and controls on the contract. In fact one city leader commented that SIBs bring a level of precision to budget analysis as payments are linked to clear milestones.

Innovation and knowledge generation regarding what works are two of the goals of SIBs. But who owns this knowledge and for how long is the intervention held static? If a new intervention has positive impact, will its diffusion be slowed so that the rigorous evaluation of the intervention versus the control group can continue and so that the private investor can continue to reap maximum returns from the differential outcomes? Some designers had thought about potential limits to diffusion of innovation of the on-going evaluation and the interests of private investors to reap their maximum returns for a longer time horizon. This is one reason why all three examples keep both the intervention and the on-going evaluation time period short. The intervention in each case is less than a year and the follow on evaluation occurs over several more years to make sure the positive impacts of the intervention hold. But none of these experiments extends beyond 5-10 years. As one city leader said "in core critical government services you have a responsibility to do it in a way that doesn't bind you for a long time."

Public awareness of SIBs is only now emerging. The NYC SIB was profiled in the *New York Times* in July 2012 (Chen 2012). A review of readers' comments on the New York Times website shows the reading public is thinking about the public values at stake (http://www.nytimes.com/2012/08/02/nyregion/goldman-to-invest-in-new-york-city-jail-program.html?_r=4&#comments accessed June 13, 2013). Comments show the public is worried about the down side risks of involving private finance.

- 'So, will Goldman treat this venture as many in the financial sector did with securities sold to clients -- essentially betting behind those clients' backs that they would lose their shirts?'
- 'Will there be some kind of bet-against-it bond or insurance if the bond fails? And will Goldman Sachs be allowed to create / invest in such a bond? Will they be able to chop up these bonds and rate them as triple A? Wouldn't be the first time...'

Other comments worried about the shift in public values toward financialization of social goals.

- ‘Unfortunately, rather than paying more taxes, the rich are trying to skirt the system by throwing it some leftovers. If they are willing to throw money at Social Impact Bonds, why are they so opposed to paying it in taxes?’
- ‘The general point is that punishing crime is a civic/government responsibility, not something that private investors should be able to make money at.’
- ‘Those who founded this country understood the importance of public spaces and public services. They were part of the social contract we made with each other as citizens. That we continue to decimate government services for the sake of private gain is a disgrace.’

Commentators also saw the upside potential.

- ‘The Social Impact Bond is an innovative way to fund social programs, without costing the government or taxpayers any money. I applaud Mayor Bloomberg, and the rest of New York City for taking a risk with this. I hope it will yield the results we hope it to -- both reducing recidivism, and saving the city money.’

Conclusion

This paper has presented a preliminary analysis of SIBs drawing upon theory and cases to explore challenges designers face in securing public values of democratic openness, effectiveness, innovation, equity, sustainability and social cohesion. This analysis has provided a framework for the conflicting institutional logics that have shaped the development, management and diffusion of SIBs. By exploring the salience of context, consequences and legitimacy it is possible to assess some of the implications of SIBs for public value. Regarding path-dependency, SIBs reflect the continuing logic of neo-liberalism and the sway neoliberal ideas and interests continue to hold over government, business and nonprofit thinking. Regarding consequences - the use of SIBs can be regarded as the product of the third way ideology that only results matter, which is also associated with NPM-style reforms (and for some the idea of a welfare state, see March and Olsen, 2009). Regarding legitimacy, SIBs are indicative of a wider predilection towards the adoption of fashionable ideas in the pursuit of doing 'what works.' This can be reflected in processes of imitation whereby policymakers seek to copy ideas, and processes of coercion whereby principals seek to compel subordinate agents to adopt 'fashionable' ideas.

Overall, the outcomes associated with the management of public value are essentially societal in nature, that is, they are intended to reflect the contribution of the public sector to society as a whole (Beck Jørgensen and Bozeman, 2012). They encapsulate such values as equity, sustainability, and social cohesion, each of which contributes towards a conception of the good life within the democratic state. Will the introduction of private investment/return in social services lead to Social Darwinism – investing only in those members of society who can generate a profitable return? Will this narrow the public will for investment in social programs that enhance social cohesion? SIB designers aspire to enhance investment in social programs, but have they thought closely enough about the public values at stake and the new forms of market-based legitimacy that SIBs introduce? Whether SIBs will enhance or undermine a broader sense of social responsibility remains to be seen. But one thing is clear, SIBs increase the complexity and potential conflicts inherent in cross-sectoral collaboration.

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