

# Great Lakes Center: When private investors shape public social policy

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**Key Takeaway:** Brief explores project funding through financial structures designed to yield profits to investors while privatizing social service delivery and evaluation.

**EAST LANSING, Mich. (February 4, 2020)** — Is there a role for private investors in public social policy? In the past decade, we have seen the rise of new financial structures entering the social services arena, with corresponding legislation now poised to change how social services are delivered and who delivers them. While different programs use different terms—including, for example, Pay for Success or Results-Based Financing—the umbrella term encompassing these new financing models is the “Social Impact Bond” (SIB).

SIBs have been promoted as a way to help fund projects in such areas as health care, homelessness, early education, workforce development, and prison reform. These projects are often marketed as new, innovative approaches to funding social services, with the potential to cut costs, while shifting financial risks to investors for projects that may not otherwise be feasible given scarce public funds.

NEPC released a policy brief today, *Investing for “Impact” or Investing for Profit? Social Impact Bonds, Pay for Success, and the Next Wave of Privatization of Social Services and Education*, authored by Professors Martin Carnoy of Stanford University and Roxana Marachi of San José State University. The brief examines whether SIB financial structures provide all that they promise and whether results so far yield insights into their future directions and potential pitfalls.

The research literature includes a small but useful set of studies that examine SIBs. Carnoy and Marachi analyze these as well as related findings, including several case

studies as examples of SIBs in the UK and Pay for Success projects in the United States. They assess different approaches to social service delivery, explore how these financial instruments operate, and note corresponding advantages and disadvantages of the new financial models. SIB projects appear to be most commonly designed in ways that allow for profits to be made by investors on projects purporting to support underserved communities while concurrently shifting three key activities to the private sector: service delivery, data gathering, and program evaluation research. Thus, in the current policy landscape, SIBs are poised to substantially privatize the processes by which public resources are distributed to address social issues.

*Service Delivery:* Public bodies (e.g., school districts) contract with private entities for the actual delivery of public services, eliminating public oversight.

*Data Gathering:* The contracts require data from youth/participants to be siphoned into private tech firms' databases, allowing those firms to sell the data in increasingly valuable longitudinal data markets. By design, such models make social service programs accountable to investors, but not necessarily to the communities ostensibly being served.

*Program Evaluations:* The new structures are also likely to involve the outsourcing of research to third-party evaluators, who may not have the best interests of the public in mind nor be required to ensure participant protections throughout the research process.

Ultimately, Carnoy and Marachi question the net benefits of SIBs and related performance-based financing schemes. They express concerns that SIBs add to public costs, with later taxpayers footing the bill in order to pay off investors who provide up-front financing for relatively low-risk social projects that effective public policies would pay for directly. The brief also considers that, like many public-private partnerships framed as providing social solutions, including those in education, SIBs may divert public attention and public sector funding toward short-term needs and measurements—and away from large-scale solutions to structural issues associated with poverty and social segregation.

Find *Investing for “Impact” or Investing for Profit? Social Impact Bonds, Pay For Success, and the Next Wave of Privatization of Social Services and Education*, by Martin Carnoy and Roxana Marachi, at: [http://www.greatlakescenter.org/docs/Policy\\_Briefs/Carnoy-Marachi-Social-Impact-Bonds.pdf](http://www.greatlakescenter.org/docs/Policy_Briefs/Carnoy-Marachi-Social-Impact-Bonds.pdf)

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