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Crime Prevention through Social Finance and Social Impact Bonds

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Abstract
The rate of adoption of the Social Impact Bonds (SIBs) remains substantially low despite the perceived public attention. Even considering widespread interest in the SIBs model, the low adoption mode suggests that the program is still in its early diffusion phase. In a bid to reduce or control crime rates, the SIBs model represents one of the strategies geared toward social reforms. It was initially piloted in 2010 at Peterborough prison with private financing for crucial social programs. The government could only pay returns to successful programs as an underlying condition. Besides its adoption in the United Kingdom, several states in the United States borrowed similar SIBs programs. This paper examined various aspects of measures of converting cases of recidivism into valuable financial assets and the shortcomings of such programs within the domain of the criminal justice department.

Keywords: *social impact bond; social finance; crime prevention;* criminal justice system; social needs.

1. Introduction

Crime prevention strategies play a significant role in degenerating social dynamics in the current society. In 2016, the detailed report released by Public Safety Canada on “Tyler’s Troubled Life: The Story of One Young Man’s Path towards a Life of Crime” revealed predisposing social factors to criminal activities. The paper presents some of the interventions that, if borrowed, could lessen crime emergence and save the country close to $1.4 million. Ideally, it is essential to invest in crisis mitigation measures following the emergence of a particular crisis. Otherwise, crime control might experience issues with management (Williams & Treffers, 2021). Specifically, some evidence-based interventions could help divert the proliferation of criminal careers amongst youths, enhancing social integration in the community. As such, criminal justice systems and crime prevention tools usually are quite expensive. Despite the related cost of implementation, crime prevention mechanisms guarantee future returns or economic values. According to Albertson et al. (2020), the SIBs program intends to promote contracts with private service providers on the market-based solution that target the field of the criminal justice system in the United Kingdom and other neighboring zones.

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The SIB model represents one of the innovative approaches to funding various social programs that could benefit private-public partnerships (Jackson, 2013). Initially piloted in the United Kingdom in 2010, the SIB program employed private funding of social programs in agreement with the government paying some tokens based on the project's success. In the last decades, some of the macro-trends driving the adoption of this instrument include the financial crisis of 2008. Such financial constraints led to a rising cost of living, the decline in family income, loss of employment, and the need to downsize public spending while gearing to lower public debt (Harisalo & McInerney, 2008; Karanikolos et al., 2013). The investment through the SIB model foresaw the need to realign the purchase or delivery of social services to the public and incorporate policymakers within the reorganization of private sector firms as potential outsourcers (Allen, 2009; Millar, 2012). In particular, the financial supply sector has predominantly shown interest in investing in social values that could impact people's lives. Empirical data indicate that social investment generates strong financial returns (Bugg-Levine & Emmerson, 2011). Primarily, the monetary investment embedded in these social impact investments sought to address critical social services and needs with a guaranteed return to financiers by the government (Kingston & Bolton, 2004; Mulgan et al., 2010; Loder et al., 2011). In addition, it is essential to note that reoffending cases can be reverted into valuable assets. Such financial assets can be seen as an investment in the present that safeguards future financial returns (Daganova & Muniesa, 2015; Birch & Muniesa, 2020).

2. Crime Prevention through Social Impact Bonds

Conventionally, SIB does not connote the usual monetary bonds (Warner, 2013). These bonds depict a hybridized instrument characterized by inherent elements of debt and equity (Liebman, 2011; Bolton & Savell, 2010). This financing mechanism fund preventive interventions that could lessen the crime rate in any region. In 2010, the United Kingdom adopted SIB as one of the funding arrangements for social programs for short-term lawbreakers freed from Peterborough prison. Some of the distinguishing features of SIBs include adopting a private-public stakeholder's network, focusing on deterrent mediations, and implementing a payment by result contract. From the onset, 17 investors jointly contributed £5 million to fund the entire social program. For the government, the program acted as a new source of capital vital in driving different social programs, and thus, lowering public spending on basic social needs. At the time of the rollout, the conservative government essentially embraced the SIBs model alongside the UK politics. However, for the providers, such as voluntary organizations and charities, the SIBs offer a more flexible and long-term source of capital that addresses the soaring cases of fiscal retrenchment. From a different perspective, investors saw SIBs as a monetary and societal return that could restore order following the financial crisis (Barman, 2016).

It is important to note that a lack of certain social services could harbor or degenerate into gang activities. Seemingly, SIBs investors cheap in to cover a financial injection on a particular social service with an expectation of earning interest from the government following the financial risks they undertook. However, the government only pays out the economic and social contract on the condition that the agreed results are ascertained (Warner, 2013; Liebman & Sellman, 2013; Fox & Albertson, 2011; Pellini & Chauvenet, 2011). According to Disley et al. (2011), the government would reimburse a return on top of the invested principal concerning the cost savings in corrections, courts, and even policing. However, if the investors miss their target, they risk losing their entire principal amount and the related return from the investment. As anticipated, the intervention should reduce the rate of recidivism by 10% from the sample size of 1000 offenders in any released cohort.

The SIBs and crime prevention framework stipulated essential measures that could oversee children's services, workforce training, and dangers related to homelessness. Its policy context within the sphere of criminal justice and reforms is seen as a viable option to decline the high cost of incarceration to generate savings following the reduced cases of reoffending (Cullen, 2013; Aylott & Shelupanow, 2011). As the SIBs program gained traction in the United Kingdom, several neighboring countries adopted reoffending programs. For instance, the project received great enthusiasm in the United States. Reports indicate that judicial rulings in California State advocated for the reduction of the massive prison population to save on public spending (Aviram, 2015). Subsequently, close to 9 projects were rolled out between 2012 and 2017 in the United States, emphasizing reducing readmissions amongst convicted youths (Hawkins et al., 2017). In New York State, an employment program was established to absorb parolees to further the gains of the SIBs network.

Whereas these projects exhibited an exemplary use of the SIB model, Fraser et al. (2016) pointed out that the model attracted wider attention from the literature experts. Little discussion has been directed towards the SIBs context within the domain of criminal circles. However, few researchers have challenged the usability of its logistics and pointed out that the adopted programs may intensify and expand neo-liberal linkages in conjunction with crime control (Fox & Albertson, 2011; Myers & Goddard, 2016). Extensively, some experts have detailed the underlying policy environment within the SIBs programs. For instance, initiatives aimed at transforming rehabilitation facilities and an account of the escalating financial cost of imprisonment (Cate & HoSang, 2018; Aviram, 2015). Including mixed market in re-entry services and trials as a transforming rehabilitation approach lowers reoffending caseloads and management costs (Burke & Collett, 2016; Mythen et al., 2012, Maguire, 2012; Corcoran et al., 2019). Coincidentally, the SIBs drive echoes the efforts to outsource and privatization of imprisoned population within the context of parole, probation, correction, and policing (Liebling & Crewe, 2012; Whites, 2015). This model faced numerous problems, such as market intensification, fears of the possibility of scraping the social welfare regions, and financing logistics. It was anticipated that the program would coalesce public and social services to offer a new opportunity to accumulate new assets or capital (Luke, 2016; Dowling, 2016).

Similarly, the question of the value of the SIBs enterprise cannot be ignored. From the structural perspective, the financing analytics subjected to the SIBs model discounted the work fabrics often involved in building such programs (Dowling, 2016). The SIBs marketing fraternity consisted of investors, the government, SIBs practitioners, and social service providers. Amongst the few analytics on SIBs design, some focused on the logistic that was used to assign value to such programs and the function of accounting devices and financial tools during the transformation of charitable programs into financial assets (Cooper et al., 2016; Chiapello, 2015; Neyland, 2018). Precisely, an economic value of a given project is usually obtained through calculation from commercial models rather than the intrinsic assumption value of practices or projects (Muniesa, 2014; Callon & Muniesa, 2014; Doganova & Muniesa, 2015). Assets connote values that can be controlled or owned, capitalized, and traded for the benefit of the entire society. One of the concerns of such a process is the conversion of the underlying situation into assets and the depth to which such investments can be measured with financial tools, such as models (Birch &

Muniesa, 2020; Mennicken & Muniesa, 2017). Further, the SIB enterprise was predominantly seen as an asset creation program that could provide cost savings to the government and financial returns to investors in the future.

3. The Economic Value of Reoffending Programs

A reduction in reoffending cases can be converted into financial gains. Although the impact is primarily inclined to social benefits, one can generate a cash flow, and hence, create returns to the interested investors (Pinakiewicz, 2014). At the center of the SIBs model, the social impact produced by the key players of the non-profit sector can be monetized, quantified, and turned into valuable financial assets. Reduced cases of recidivism promote a conducive environment for educational, business, and even spiritual growth, thus benefiting the entire society. Further, decreasing criminal activity instances lowers the governmental cost of enforcing rules and the burden on criminal justice systems. Traditionally, the government rewarded investors based on the number of offenders who completed corrective programs. On the contrary, the SIBs model allows the steering team to reward providers and investors based on the weight of the positive impacted change or outcome of reduced cases of recidivism. Whereas outputs are backdated and transactional, the outcomes assume a transformational shift and are oriented into future gains. Incidentally, the future value or the outcomes from reoffending programs allows monetization of social change to benefit both the government and different investors.

While constructing the target people, it is essential to select early intervention programs that could save the government from spending significant amount of funds. There is a need to emphasize those groups that constrain government budgets, such as youths. The life of a crime usually attracts escalated costs and often burdens the function of the government. In the recent past, the uncertainty and longer timelines of criminal interventions deter investors and even the government interest. However, according to Myers and Goddard (2016), several investors only focus on the population under parole and probation in that they still have substantial incarceration charges in the future. Typically, one of the critical focuses rests on selecting high-risk groups that could offend or commit offenses that could attract severe prison terms. Thus, it is essential to choose the target population as it will translate to the scope of savings and returns (Bryan & Rafferty, 2014). Besides choosing the target group, selecting workable interventions that have shown positive returns in the past is significant. Failure to select the proper intervention may escalate the cost of managing criminal activities within the justice landscape. The preferred program must be practical and proven in tackling illegal activities.

According to Segal et al. (2016), different SIBs practitioners can use performance benchmarks, such as quasi-experimental assessments or result-based experiments, to select programs that work best for the desired outcomes. With the help of such standards, precise cost estimation of savings can reveal how much savings can be earned and the success of the projects. Accurate quantification and projections from monetized savings usually reduce the complexities of recidivism programs in that they yield or exhibit linear effects of such interventions (Callon & Muniesa, 2005). Importantly, cost-benefit analysis plays a crucial role in outlining the actual fabrics supporting crime prevention programs, and hence, offers a sense of assurance to prospective investors. According to Rudd et al. (2016), lack of solid evidence usually deters investors, and thus, there is a need to critically choose the suitable approach measures for potential investors. Nonetheless, establishing the financial model is one of the requisite steps in reenergizing projects and building connections between operational parameters, such as savings and returns, admissions and accomplishment, referrals, and outputs, which are crucial to the initiative's financial value. Ideally, economic models allow investors to test the outcomes under varying conditions, for instance, how referral rates may affect returns and results. Tentatively, this approach informs investors on the sensitivity of the development or simply testing the model and examining the outcome. In nature, valuations from suitable business models are promissory and formative as it relates to how current investment may generate future returns and savings (Doganova & Muiesa, 2015; Callon & Muniesa, 2005). Ideally, such a connection offers a calculative space where the adopted model can be refined, evaluated, and recalibrated.

Additionally, while configuring the financial model, it is essential to consider the outcomes upon which financiers are paid and how returns are calculated. Initially, the reward system considered some binary consequences on whether a person reoffends or not. On the contrary, some investors and social service providers decried such a definition since it failed to reimburse incremental influence, and therefore, was disastrous in terms of returns. Alternatively, such proponents advocated for a long-term measure of outcome that guaranteed returns even if offenders are re-incarcerated. Similarly, during the calculations of net returns on a given social investment, Cohen (2005) asserts that the net present value and the time value of money should be crosschecked to avoid discounting the returns of the investors' capital. Due to the impact of opportunity cost and inflation, a dollar's worth in the future is less than the current value, indicating that a discounted rate of about 5% should be applied to protect investors from losses (Doganova, 2018).

Performance management significantly determines the success of any project. In the case of the SIBs model, project management represents the last phase of the entire project implementation. The detailed inclusion of performance indicators, such as enrolments, referrals, completions, and instantaneous monitoring by the SIBs practitioners, play a crucial role in realigning the project towards an expected outcome. Regular amendment on the project path assures practitioners of a positive result as they fine-tune the model parameters to mitigate the social investment risk. Fraser et al. (2018) allude that it is possible to adjust if performance is off track based on the captured data. Birch and Muniesa (2020) suggested that valuation work requires vibrant governance to ascertain the conversion of reoffending caseloads into valuable assets.

4. Social Impact Bonds: Risks and Opportunities

Reoffending can be harnessed, liquidated, and redistributed, lowering future criminal cases. Through the model design and management, different practitioners have demonstrated that reoffending programs can be converted into cash flow or valuable assets. The income stream benefits investors regarding returns and cost savings to the government. However, despite such successes, this innovative program has had numerous shortcomings. As initially expected, the SIBs market failed to gain enough traction across different regions (Giacomantonio, 2017; Arena et al., 2016). The SIB market's slow growth could be attributed to the infusion of philanthropic capital in the United States and public money in the United Kingdom (Floyd, 2017). Statistics indicate that not until 2020 has only a single project been launched since the commissioning of the Peterborough project in the United Kingdom (Floyd, 2017). Some counteractive measures that have negated positive progress include logistical, technical, financial, and political barriers. However, procurement rules imposed by the various governments limit the operational logistics of the selected business model. Further, the lack of liquidity and investment autonomy among the private investors in social programs has degenerated the growth of the SIBs market.

Within public agencies, the actualization of cashable savings can be attributed to multiple factors and may not be directly linked to a single funding agency (Nicholls & Tomkinson, 2013; Fox & Albertson, 2011). In addition, the complexity of the public-private partnership is based on the fact that the governmental cost of capital does not exceed that of private investors. In connection, Mulgan et al. (2010) assert that compromised benefits due to personal involvement may force public administration in some regions to fund social programs solely. On the same note, some of the opponents of the SIBs models argue the measurability of the results from the model (Pauly & Swanson, 2013; McHugh et al., 2013; Joy & Shields, 2013). Specifically, the delivering organization may only focus on those elements of the programs that determine payment margins (Disley & Rubin, 2014). Further, coining a causal link between the outcome and targeted intervention is usually challenging and calls for the provision of incentives to reconfigure outcome measures (Liebman, 2011; Jackson, 2013). Another possible shortcoming of the entire scheme is the dominance or offering of prior consideration to the established social providers at the expense of local and growing organizations (Dominey, 2012). Although large organization with a proven track record may hardly miss out on some need of the social minority groups in some regions, the government has more confidence in them concerning specified social returns and securing of risks of private investors (Fox & Albertson, 2011).

From the beginning, the SIBs model outlined that savings were cashable. The promise of the investment logic attracted both the government and investors in the sense that one could quickly obtain good returns. However, as time went by, many investors realized that all the projects in the criminal justice system had limitations in terms of public capital liquidity (Fraser et al., 2018; Fox & Albertson, 2011). Significantly, the fixed costs attached to the construction of buildings and staffing and part of the savings from the SIBs programs were offered through offenders' health insurance, meals, and uniforms. These savings bore a minimal impact on the fixed cost due to their insufficient scale. McKay (2013) asserts that achieving sufficient capacity of such savings as reduction of bed days proved almost impossible to compensate for the fixed cost of the entire project. Closing of the prison wing attracted political and economic costs, and in a bid to address the shortcoming, project managers had to terminate the employment of statutory workers. As such, firing many workers attracted other legal charges as employees' unions tried to fight back for their rights.

Lastly, the SIBs model lacked clarity on who owns the project's risks. Earlier, proponents of such a model pointed out that the government would fully transfer project risks to investors. However, this scenario appeared not to be the case. Unlike a physical asset, the SIBs program is challenging to value and holding it as collateral since they are immaterial. Further, the government could at any point revise its rules and change the determinants of jail terms. Hence, cases of imprisonment can hardly be projected (Government Accountability Office, 2015). Partly, some additional risks may emanate from the referral, execution, and enrolment process that partially will adversely affect the project. Perhaps, the enrolment programs may fail to enroll adequate counts of participants from the target population. Another challenge that surrounded the viability of the SIBs entails results evaluation that consequently guided the margin of returns to the investors. Primarily, proponents envisage experimental design to evaluate the outcomes or measure the program's value (Mulgan et al., 2011). However, program specialists indicated that using quasi-experiment to evaluate effects had hidden or unanticipated risks that eventually impacted the observed results. The structure and the process of the adopted evaluation in the chosen quasi-experiment inherently had issues.

From the observed limits of the SIBs framework, many advisory firms in the United States have adopted evolutionary changes to the various models targeting crime prevention. Instead of focusing on standalone projects in which private investors essentially took part, the current SIBs model advocate for the use of public capital in order to assure the best outcome. Incidentally, the actual problem facing implementing SIBs network is resource allocation and not financing. The world beyond the initial model sought to customize services for the selected high-risk groups and adopt financial modeling to evaluate initiatives, estimate savings, and monitor individual providers in real-time. Many project investors, such as Arnold Ventures, and evaluators, such as Urban Institute, have adopted innovative reforms alongside their SIBs projects. Some of these organizations now apply advisory measures to their non-SIB work, including strategies to reform criminal justice and selective investment in the most effective recidivism plans that lower prison populations. One of the best estimators of risk and savings on various gang prevention projects is the "Benefit-cost Investment Model" (Fox et al., 2013). This approach has been used to isolate viable investment portfolios within the justice docket.

As anticipated in the financing critique, one of the significant aspect of the SIBs functional domain rest on the financed valuation rather than the reallocation of the capital into the societal segment (Chiapello, 2015). Tentatively, such an approach will lower public spending by incredible margins. It is important to note that the SIB experiment should portray a different perception concerning the role of charitable work as a non-profit entity. Seemingly, investment informed by SIBs experiments should not be considered as the creation of assets by private firms. Government officials should promote funded conventions, such as net present value, on different social programs with a changed mindset of creating value that is far beyond the usual connotation of return of public money or economic logic of public spending (Mennicken & Muniesa, 2017). Compared to the flow of capital from the private sector via SIBs, the employed financial tools and logic within the arena of public contracting may bore more results to crime prevention programs. However, the lack of private participation in such programs limits detailed examination of the valuation of SIBs challenges and lacks surety of the government to realize adequate savings from the considered model. Similarly, the liquidity of the public capital remains obscured without the involvement of the private sector.

5. Conclusion

The diffusion of crime prevention models remains low in contrast to the general hype concerning such instruments across the globe. First, the low penetration could be attributed to the fact that SIBs programs are still at the early stages of their adoption. Secondly, the presence of political, financial, and operational constraints has a limited implementation of this program by the public administrators. Further, the lack of political goodwill and lack of vibrant policies that could have steered the program has negated the project's progress. Payment-by-returns and SIBs models lack coherence. Though payment-by-return initially showed promising returns, changes in government policies and overlooked process risks played down the feasibility margin of the SIBs investment programs. Some limiting factors to the success of SIBs included an unending debate on the value of recidivism, the views of risk, liquidity, and impact. The conversion of reoffending cases into assets is now being shifted from private to public contracting with the government playing a critical role in spearheading the SIBs projects. Essentially, various governments from different countries have strategies to reduce risks while maximizing returns and rebranding non-profit work into a financial flow of value. However, as the SIBs undercurrents continue to roll out, some experts have expressed worries about the government's way of thinking or acting more as investors.

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