

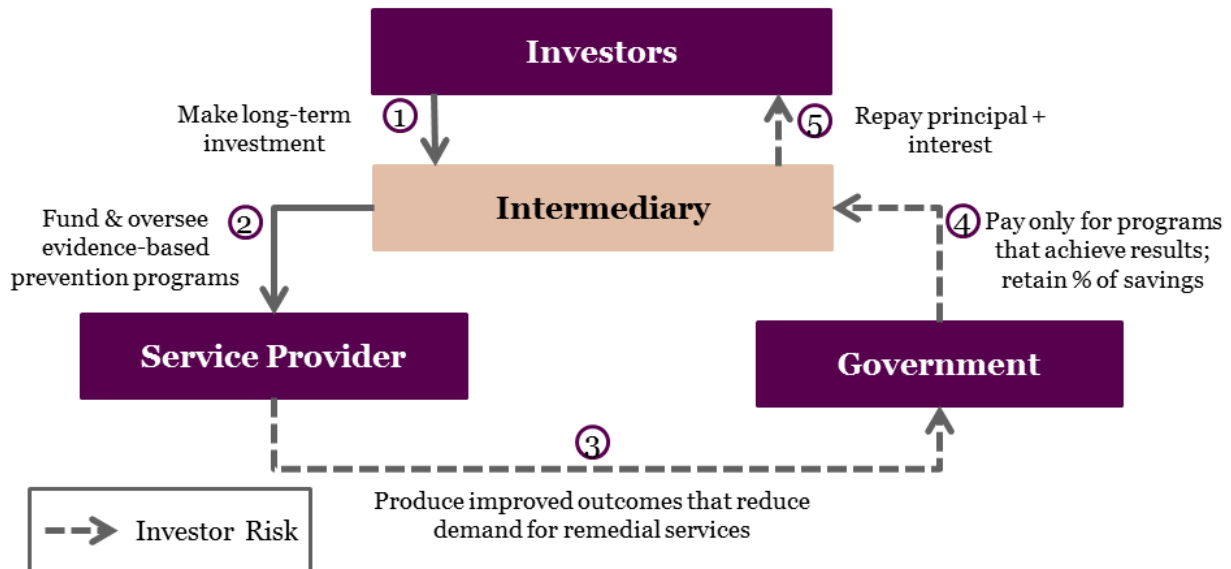


An Overview of Social Impact Bonds in the United States

What is a Social Impact Bond (SIB)?

A new financing structure that raises private dollars to fund effective social services, with government dollars spent only when social service providers achieve a certain level of performance. If the provider does not achieve the intended outcome, the government does not pay. SIBs are intended to diversify government funding of social services from reactionary, “emergency” investments only to prevention-oriented, low-risk investments.

How does a SIB work?¹



In the SIB model, government contracts with a private sector financing intermediary to obtain social services. This partnership stipulates the conditions under which the government will pay the intermediary given the achievement of performance targets. The intermediary, who also oversees the project, secures funding from investors and selects nonprofit organizations (service providers) that will carry out project services. The government pays the intermediary upon target outcomes being met. If the service provider fails to achieve the targets, the government does not pay. In some cases, government payments may be calculated as a function of government cost-savings attributable to the program’s success. If successful, the intermediary then returns principal plus interest to investors.²

¹ Graphic adapted from Social Finance US

² Jeffrey B. Liebman; *Social Impact Bonds: A Promising New Financing Model to Accelerate Social Innovation and Improve Government Performance*; February 2011.

Where did they come from?

SIBs were created by Social Finance, a UK-based organization. The UK is currently testing the first SIB model to reduce prisoner recidivism in Petersborough, England, and the government will only pay if recidivism is reduced by 7.5 percent relative to a comparison group of similar prisoners.³ Preliminary results released June 2013 indicated a 6 percent drop in reconvictions since the pilot was introduced, compared with a 14 percent increase nationally.⁴ The Ministry of Justice published a report to highlight critical components of SIBs one year into the project:

- The director overseeing the reduction of reoffending (employed by intermediary)
- Intermediaries possessing a broad range of skills and knowledge including negotiations, financial products, policy and relational skills
- Identifying constituent needs and characteristics and adapting intervention⁵

What is currently happening in the US?

President Obama launched Pay-for-Success (PFS) pilots in criminal justice and workforce development through the Departments of Justice and Labor, respectively. The Department of Labor awarded funds to Massachusetts and New York; awards from the Department of Justice have not been announced. The map below indicates SIB/PFS activity in the US to date.⁶

Minnesota

Intervention: Workforce development and supportive housing
Investors: State government
Value: \$10 million
Launched: 2011

Utah

Intervention: The Utah High Quality Preschool Program
Service Provider: Utah Voices for Children
Investors: Goldman Sachs, J.B. Pritzker
Intermediary: United Way of Salt Lake
Value: \$7 million
Launched: 2013

New York State

Intervention: Workforce development
Service Provider: Center for Employment Opportunities
Investors: U.S. Department of Labor
Value: \$12 million*
Intermediary: Social Finance US
Launched: 2013

**The state announced an additional \$30 million for other projects in healthcare, child welfare, early childhood development, and public safety*

New York City

Intervention: Juvenile recidivism
Service Provider: Osborne Association and Friends of Island Academy
Investors: Goldman Sachs
Intermediary: MDRC
Value: \$9.6 million*
Launched: 2012

**Unlike standard social impact bonds, \$7.2 million of Goldman's investment is guaranteed by Mayor Michael Bloomberg's private foundation*

Massachusetts

Intervention: Homelessness and recidivism
Service Provider: Massachusetts Housing & Shelter Alliance; Roca Inc.
Investors: State government; U.S. Department of Labor
Intermediary: Third Sector Capital Partners
Value: \$11.67 million
Launched: 2012

³ Ibid., p. 2.

⁴ Third Sector; *HM Prison Social Impact Bond Has Led to a Fall in Reconvictions*; June 2013.

⁵ Ministry of Justice; *Lessons Learned from the Planning and Early Implementation of the Social Impact Bond at HMP Peterborough*; May 2011.

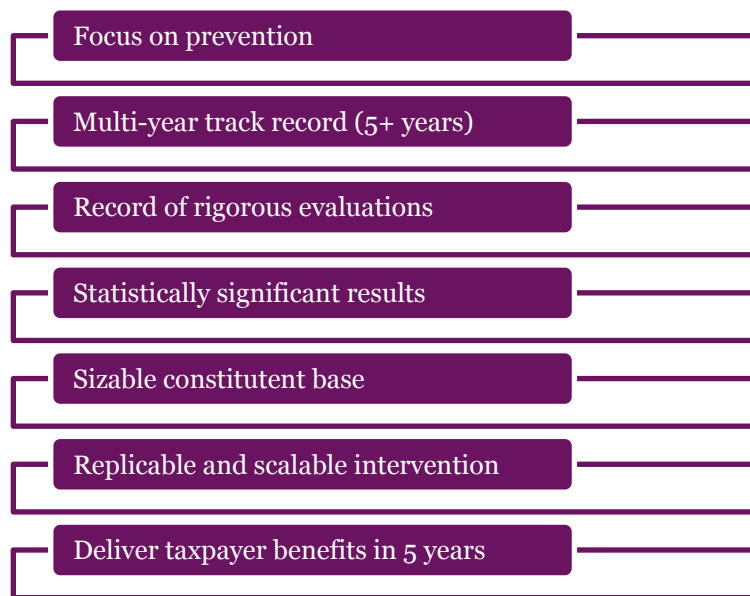
⁶ Minnesota Management & Budget Office; Third Sector Capital Partners; Associated Press; Office of Governor Andrew Cuomo; Goldman Sachs; Editable map courtesy of m62 Visual Communications

What are the risks and challenges?⁷

- Requires coordination between multiple players and strict adherence to multiple criteria in order to work
- Not all social problems will be a good fit due to measurement challenges and the difficulty of defining outcomes
- The time horizon for social change is often longer than government funding cycles; appropriations laws would need to be changed
- Lack of existing infrastructure, especially intermediary organizations and third-party evaluators
- Social services would need to place a greater emphasis on outcome measurement
- Could create unintended consequences in cases where social interventions were not effective

Should our nonprofit organization become a service provider?

- Nonprofit organizations or interventions failing to meet the criteria below should not consider the infusion of SIB capital to scale programs. As the model is tested and refined, the scope of eligible candidates may widen, but at this time, evidence-based, proven interventions overseen by high capacity nonprofit organizations are required to ensure the best possibility of success.
- Interventions meeting the following criteria may qualify for participation in a SIB to scale:



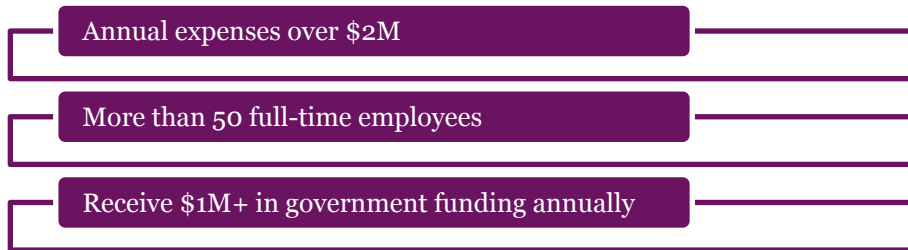
- Unlike traditional grants, SIB intermediaries will select partnering nonprofit organizations for this arrangement. Two likely intermediary candidates in the US are Social Finance US and the Nonprofit Finance Fund. Both organizations have published

⁷ Liebman; *Social Impact Bonds*.

reports on SIB deployment in the US and recommend interventions in the following program areas for pilot testing⁸:

Program Area	Intervention
Chronic Homelessness	Permanent Supportive Housing
Juvenile Justice	Functional Family Therapy
Low-Income Seniors	Not Specified

- SIB service providers should have the following organizational characteristics in order to be an attractive partner to the intermediary. These characteristics are baseline indicators of the organization's capacity to scale:



Much of the risk for nonprofit service providers is reputational. In the event the nonprofit organization is unable to deliver stated intervention results, it is likely to face highly publicized attention as the anticipation around SIBs continues to grow. Some of this risk can be mitigated through open communication with SIB partners throughout the life of the project. Those meeting the criteria above and who are able and willing to operate with the risk of public failure may want to conduct due diligence to see if SIB capital can work.

⁸ Social Finance; *Social Impact Bonds: An Overview*.