

Social Impact Bonds: Using Performance and External Capital to Drive Investment in Social Outcomes

What is a Social Impact Bond?

A Social impact bond (“SIB”) is a multi-stakeholder arrangement in which governments attract outside capital to fund needed preventive social services. Governments reimburse investors if the programs successfully achieve desired outcomes. In addition to societal benefits, these outcomes can save governments money in the long term. Governments use these cost savings to pay investors.

How do They Work?

Governments tap an intermediary to manage the contract. The intermediary identifies and attracts investors often from the philanthropic and “impact investment” communities. The intermediary then provides multi-year funding to the social service providers to implement preventive interventions. An independent evaluator continually monitors the performance of the service providers. The ongoing evaluation ensures that programs are on track to provide desired outcomes. The independent evaluator determines if the predetermined performance measures have been met and if the government should pay investors.

Not every social service is a good candidate for a SIB. Intervention programs should have a proven track record for success and provide significant cost savings to governments. SIBs are particularly useful for innovative programs that may not receive funding under a typical budget environment. These innovative services can then be scaled and replicated if proven successful.

Examples of Pay for Success Contracts

Many jurisdictions are in the process of developing or have begun SIBs. The United Kingdom, New York City, and Massachusetts have used this vehicle to fund preventive services aimed at reducing recidivism. If recidivism is reduced, governments avoid a multitude of future costs such as prison construction/operation and additional services. These contracts have attracted investments from Goldman Sachs and the Kresge Foundation.

What’s Next?

SIB contracting is a relatively new field, and given the many moving parts to a successful data-driven contract, they may not be appropriate for every jurisdiction. Jurisdictions may wish to pursue feasibility studies to identify needed preventive social services that a SIB could address. The District of Columbia used this approach. First, COG should raise awareness of SIBs through workshops and sharing best practices for its members. Then, COG should play a role by contracting with an organization capable of performing local feasibility studies. By developing the RFQ language, and allowing jurisdictions to utilize the MWCOG cooperative purchase rider, COG can help lower barriers to entry for this contract mechanism. A longer-term more ambitious recommendation is that jurisdictions collaborate, with COG’s assistance, to develop a SIB aimed at a regional social issue such as homelessness. For more information, a good place to start is the Harvard Kennedy School Social Impact Bond Technical Assistance Lab at <http://hks-siblab.org/>.

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Can Private Capital Be Used to Fund Public Social Innovation?

Using Performance and External Capital to Drive Investment in Social Outcomes

Intractable Social Problems

- Homelessness
- Recidivism
- Academic Failure
- Teen Pregnancy
- Substance Abuse

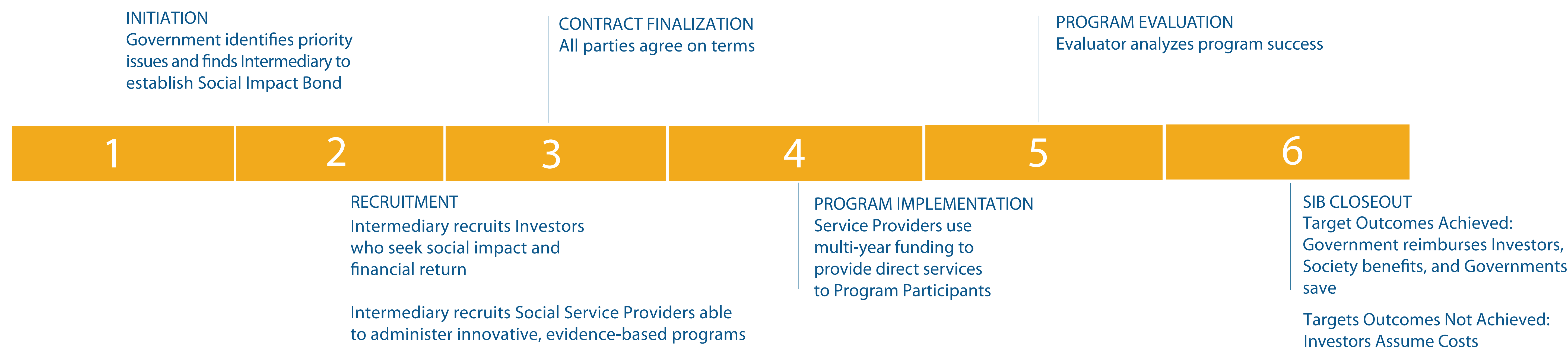
Challenges to Addressing These Problems

- Competing Public Budget Priorities
- Tighter Public Budgets
- Difficulty Sustaining Progress

What is a Social Impact Bond?

Social Impact Bonds (“SIBs”) are a form of pay for success contract that combines government insight, non-profit expertise, private sector funding, and rigorous evaluation to provide preventive social programs and interventions.

How Social Impact Bonds Work



Recommendations:

- Learn**
MwCOG Hold Workshops and Panel Discussions
- Explore**
Jurisdictions Explore Feasibility of a Local or Regional Social Impact Bond
- Act**
Set-up and Launch Local and Regional Social Impact Bond

Take a Closer Look:

Population	Effective Intervention	Community Benefit	Government Savings
Chronically Homeless Individuals and Families	Permanent Supportive Housing	Decreased use of shelters, acute medical services, and corrections	Housing, Medicaid, Correctional facilities
Juvenile and Adult Offenders	Community Re-entry Program	Decreased recidivism and increased public safety	Correctional facilities, probation and parole costs

Social Impact Bonds Offer a Solution to Improving Lives and Communities:

Expand community impact by scaling evidence-based preventive programs.

Launch broad ranging partnerships between government, community and private funders.

Encourage multi-year funding for successful projects with the opportunity to reinvest cost savings.