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The Promise and Potential of Social Impact Bonds.

This innovative, results-focused funding model is gaining traction as a way to attack social problems while minimizing risk to taxpayers.

Deciding which social-services programs to cut and which to save shouldn't grind government to a halt. By only paying for success, a new funding tool known as "social impact bonds" (SIBs) that is gaining traction across the country shows real promise for moving the needle on longstanding social problems. This funding model gets better results with existing resources, minimizes risk to taxpayers and ends programs that are not working.

A social impact bond is a partnership between government and philanthropies, nonprofits and private-sector investors. Government first identifies a desired goal, then contracts with private investors who raise money to fund a project designed to achieve that goal. A philanthropy or nonprofit manages the project. After the project ends, it undergoes rigorous independent evaluation to determine if it achieved predetermined outcomes. Since the private-sector partners don't get paid if they don't produce, the taxpayers' risk associated with potential failure is minimal.

Two of the nation's first SIBs were conceptualized in Massachusetts to address youth criminal recidivism and chronic homelessness. Colorado, New York, Ohio, South Carolina and other states also are pursuing this innovative approach to tackle problems that have plagued local communities for decades.

Massachusetts partnered with Third Sector Capital Partners and other organizations, including New Profit Inc. and the Boston nonprofit Roca, to provide job training, counseling and other services to prevent at-risk youth from becoming repeat offenders. To reduce homelessness, that project's partners — the Massachusetts Housing and Shelter Alliance, the Corporation for Supportive Housing and the United Way of Massachusetts Bay and Merrimac Valley, assisted by Third Sector — hope to find housing for hundreds of chronically homeless people, thereby reducing the expensive over-use of acute and emergency medical services. And just last week, Massachusetts announced a \$27 million initiative — the nation's largest financial investment in a social impact bond — designed to improve outcomes for at-risk young men in the probation system or leaving the juvenile-justice system.

Massachusetts Gov. Deval Patrick hailed these programs, describing them as "innovative ideas and strategies to tackle challenging, long-term social issues." Thanks in part to the Rockefeller Foundation and the Social Impact Bond Technical Assistance Lab (SIB Lab) at the Harvard Kennedy School, the SIB approach is spreading. Rockefeller and the SIB Lab recently announced the first six winners from a national competition for social impact bonds. Winners get a full-time Government Innovation Fellow from the Kennedy School, guidance from SIB Lab director Jeffrey Liebman and other experts, and some flexible funding to remove barriers to implementation.

The competition drew interest from 28 local and state governments and bipartisan praise from the winners. "Not only does this approach help pursue solutions to tough problems," said Ohio's Republican governor, John Kasich, "but it does so in an accountable, results-oriented way." South

Carolina Gov. Nikki Haley, another Republican, put it succinctly: “I love this pay-for-success model.” Colorado Gov. John Hickenlooper, a Democrat, plans to use the SIB approach to target homelessness, and New York’s Democratic governor, Andrew Cuomo, praised it as cost-effective, adding that “solutions that work can be brought to scale.”

These governors are right. Not only does this innovative approach have the potential to ease persistent social problems, but because of its results focus and limited risk to taxpayers, successful programs are easier to scale, allowing them to spread to more communities.

Congress should build on ideas like this and support evidence-based funding models like social impact bonds instead of falling back on blind budget cuts. Since government only pays when programs actually deliver results, what do we have to lose?

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