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‘Government Only Pays for the Positive Outcomes.’ A Strikingly New Approach to Social Problems.

Two states announced Tuesday that they would experiment with an unusual method of financing human service programs that allows governments to pay nothing unless the programs are successful.

The approach recruits private companies and philanthropies to provide millions of dollars up front for efforts aimed at difficult social problems. If they meet a series of measurable goals over a number of years, the states will pay them back — with interest.

“We’re basically trying to monetize prevention,” said Tracy Palandjian, chief executive officer of the Boston-based nonprofit organization Social Finance, which helped bring the various sides together in contractual arrangements in Connecticut and South Carolina. “We’re basically using private dollars to invest early” and avoid the higher cost of dealing with the impact later on.

Dubbed “Pay for Success” by the White House, which is cheerleading the effort, the approach is also known as “social impact bonds.” Pioneered in Britain in 2010, it is so new that there appears to be no independent research on its overall effectiveness, though some think tanks have written approvingly of the model.

Connecticut Gov. Dannel Malloy (D) announced Tuesday that his state would begin a $12 million, four-year initiative to help keep the children of 500 families out of foster care. Social workers from the Yale Child Study Center will work intensively to keep the children in their homes, focusing on parents with substance abuse problems.

The state spends about $350 million annually for services to children in foster care and institutions, said Joette Katz, commissioner of the Department of Children and Families. No funder has yet been named for the initiative, but officials said several are interested.

Should the program succeed, the state will return providers their money plus an “interest” bonus of 5 percent to 6 percent — money, Katz noted, that the state will have saved on foster care expenses by that time.

In South Carolina, Gov. Nikki Haley (R) announced a $30 million, four-year program that will send registered nurses who specialize in maternal and child health into the homes of low-income pregnant women. The nurses will help mothers learn parenting skills and how to keep their children healthy. The nurses will follow the families until the children turn 2.

The program, expanding on an existing state effort, will be funded by organizations that include the BlueCross BlueShield of South Carolina Foundation, the Duke Endowment and the Boeing Co. It will be evaluated by a research group at the Massachusetts Institute of Technology, which will determine whether the program meets goals such as fewer pre-term births, fewer hospitalizations and emergency room visits, and longer intervals between births.

A third jurisdiction, the city of Denver, also was scheduled to announce Tuesday that it had found an investor for a previously unveiled initiative to tackle chronic homelessness.

Governments commonly demand proof of performance before paying the full amount of private-sector contracts, but that is unusual in human services, said John Roman, a senior fellow in the policy advisory group at the Urban Institute. The Washington-based think tank has helped organize some of the new programs.

Typically, governments at all levels spend tax dollars indefinitely to aid their most disadvantaged citizens without insisting on progress toward stated goals — think of food stamps or classic welfare programs. Philanthropies and foundations provide time-limited grants with no expectation of being reimbursed.

Under this model, government writes a check only if a program meets agreed-upon measures. This distinction is an incentive for funders, which can get their money back to use again.

“Government only pays for the positive outcomes,” said Dave Wilkinson, director of the White House Office of Social Innovation.

That doesn’t always happen. In the first attempt of this approach in the United States, Goldman Sachs lost $7.2 million when a project it funded in 2012 failed to reduce recidivism by the targeted 10 percent among teenagers released from New York City’s Rikers Island jail. The firm’s financial hit was cushioned by a $6 million guarantee from the Bloomberg Philanthropies.

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