SOCIAL IMPACT BONDS:
PAYING FOR SUCCESS BY OBTAINING RESULTS

Social Impact Bonds (SIBs), also known as “Pay-for-Success Bonds” are a socially innovative financing model. Acting as a contract between the social sector and government, SIBs are a type of officially recognized promise, in which payment is made upon completion of a predetermined socially beneficial outcome.

Responsibility to Mission

Socially motivated investors, or bond issuing organizations, raise capital to put towards a proven method of intervention. The secured funds are then put towards effective programs or are used to create new nonprofits. Repayment is dependent upon the achievement of the targeted outcomes.

Shareholder Responsibility

Social Impact Bonds promote the alignment of socially driven investors with evidence-based nonprofits. If the social outcome of the partnership is effective, the contract with the government is paid out, giving both investors and nonprofits a full return on their initial investment. If outcomes are achieved the government pays the bond. If the intermediary organization fails to meet the requirements of the contract, the government does not pay. In order to minimize risk, investors may avoid funding organizations that do not have a high likelihood of success. Subsequently, programs that require the most assistance may be neglected.

New Opportunities for Innovation

Social Impact Bonds use the language “bond” to refer to the financial tool’s operation over an allocated length of time. Unlike financial bonds in the traditional sense, Social Impact Bonds do not offer a fixed rate of return. The Social Impact Bond financing structure has three phases of procurement:

- Bond Issuing Organization Procures Funds
- Government Payment for Outcomes Achieved
- Shareholder Reimbursement with ROI

The first step in securing funds falls to the responsibility of the financial intermediary or ‘bond issuing organization’, to procure funds from private stakeholders and allocates those funds to service providers to cover operating costs.

The second step is for the government to make payments to the bond issuing organization if the performance outcomes are achieved.

The third and final step involves the bond-issuing organization using government payments in order to reimburse the private sector shareholders and provide with them with a return on their initial investment.
Policy Status in the United States

In August 1, 2012, Massachusetts became the first in the nation to secure funding and resources for services using Social Impact Bonds, or better known in the United States as “Pay-for-Success Bonds”. Massachusetts announced that Third Sector Capital Partners would serve as lead intercessor, in business with New Profit Inc., for the youth recidivism initiative Roca. United Way of Massachusetts Bay and Merrimack Valley, and Youth Options Unlimited will also participate in the youth recidivism project. The program, entitled Social Innovation Financing, operates on a “pay for success” model.

Legislation as of May 2013

<table>
<thead>
<tr>
<th>State</th>
<th>Policy</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>Workforce Development Bond Act</td>
<td>2013</td>
</tr>
<tr>
<td>Connecticut</td>
<td>Social Impact Bond Act</td>
<td>2013</td>
</tr>
<tr>
<td>Maryland</td>
<td>Pay for Success Legislative Report</td>
<td>2012</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>Social Innovation Financing</td>
<td>2012</td>
</tr>
<tr>
<td>Minnesota</td>
<td>Pay for Success Oversight Committee</td>
<td>2011</td>
</tr>
<tr>
<td>New Jersey</td>
<td>Social Impact Bond Act</td>
<td>2012</td>
</tr>
<tr>
<td>New York</td>
<td>Social Innovation Financing</td>
<td>2012</td>
</tr>
<tr>
<td>Vermont</td>
<td>Committee to Explore Impact Bonds</td>
<td>2011</td>
</tr>
</tbody>
</table>

For More Information on Social Impact Bonds...

Social Impact Bonds: A new way to scale nonprofit success:

Social impact markets: Why a market for social innovations is needed now more than ever. Stanford Social Innovation Review
http://www.ssireview.org/

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