

## Social Impact Bonds: ‘Pay-for-Success’ Bonds Gain Adherents: Innovative Social Service Financing to Be Put to the Test



SOURCE: AP/Charles Krupa

Gov. Deval Patrick has just launched a request for proposals for pay-for-success projects in his state that will focus on chronic homelessness and supporting youth exiting the juvenile-justice system.

By **Jitinder Kohli** and **Douglas J. Besharov** | February 2, 2012

This year will mark the first time so-called “pay-for-success” bonds gain a foothold in the United States, courtesy of President Barack Obama, Massachusetts Gov. Deval Patrick, and New York City Mayor Michael Bloomberg. It’s been a short time coming, which is good news for supporters of this new way of financing social services that matches money with specific social-policy goals.

It was only in last year’s federal budget that President Obama announced that his administration endorsed the idea of pay-for-success bonds. The administration at the time **said** it believed the concept had significant promise—and asked Congress for up to \$100 million to help states and cities implement the idea. Then last week the administration **announced** that the Departments of Labor and Justice would both support pay-for-success pilots through the Workforce Innovation Fund and Second Chance Act grants.

Massachusetts Gov. Patrick is now following in the president’s footsteps, having just **launched** a request for proposals for pay-for-success projects in his state. And Mayor Bloomberg is also

developing a pay-for-success project for young people discharged from prison.

**Pay-for-success** bonds, also called social impact bonds, are an innovative **financing** arrangement for social services that the Center for American Progress first wrote about in **2010**. In essence, the government defines a social outcome that it wants to see accomplished, such as a reduction in the recidivism rate for a group of discharged prisoners, and promises to pay a sum of money to an external organization when the outcome is achieved. If the idea takes off, it will ensure that more government funding is directed toward approaches that are effective at achieving real outcomes.

The Obama administration is now making available funding for states and cities that wish to try out the concept. The Department of Labor will release up to \$20 million and the Department of Justice will also release funds through its Second Chance program. Even though the total amount of federal funding is unlikely to be near the \$100 million originally proposed, the sums are still significant and will help states and cities that are considering embarking on pay-for-success approaches.

Meanwhile, in Massachusetts Gov. Patrick said it would like to focus the first pay-for-success bond projects on chronic homelessness and supporting youth exiting the juvenile-justice system. In both of these areas, success can lead to significant savings for government. How? By reducing homelessness, saving on Medicare, and cutting state-funded housing costs.

Gov. Patrick's administration also sent **legislative** language to appropriators in Boston to allow pay-for-success approaches to take root. Most importantly, this language ensures that when the state makes a commitment to an external provider it will release funds when an outcome is achieved. This commitment is backed by the full faith and credit of the state. It also ensures that government agencies put money aside as they go along rather than plan to appropriate the funds in the year when the money is released.

Britain has **pioneered** the concept abroad, but Massachusetts will almost certainly be the first state to adopt the model in this country. New York City is also making considerable progress and is likely to be the first city to embark on a pay-for-success bond focused on reducing the recidivism rate of young people discharged from prison.

But other states and cities are also interested and the release of federal funds should help to catalyze progress in this area.

In a world of tight budgets, it is more important than ever to make sure that taxpayer dollars are directed toward accomplishing outcomes rather than just funding activities. That is exactly what pay-for-success bonds ensure.

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