

WHAT IS A SOCIAL IMPACT BOND?

City, state and federal budgets may be declining, but the social challenges those governments face aren't going away. To fill the gap, policymakers are turning to a new financing mechanism called a social impact bond. It's a public-private partnership designed to deliver ambitious social programs to underserved communities.

HOW IT WORKS



A community faces a challenge
It could be high teenage incarceration rates, for example. Or low academic performance.



The government makes it a priority
Policymakers recognize the challenge but the government may not have the resources to address it.



Private investors step up
A group of private investors loan money to finance the up-front and continuing costs of the program.



A service provider has a solution
It may be a proven local program that can be expanded. Or a strategy that has worked elsewhere and can be replicated.



A project manager brings it all together
The project manager uses the proceeds of the loan to fund the program, and helps manage day-to-day operations.



The provider goes to work
The program expands. To succeed, it will need to meet a set of quantifiable metrics.



An evaluator measures success
After a fixed time period, an independent evaluator determines how effective the program has been, based on the agreed-upon metrics.



The government pays for results
Based on the demonstrated impact of the program, the government pays the project manager, who then repays the investors.

PAYMENT AND REPAYMENT

How the program is funded and investors repaid:

- 1 Private investors loan money to the project manager.
- 2 The project manager uses the money to fund the service provider's program.
- 3 Independent evaluators measure the program's effectiveness.
- 4 If the program is successful, the government pays the project manager.
- 5 The project manager repays the private investors.

HOW IT HELPS



THE COMMUNITY
Its needs have been driving the project from the beginning. The program's success can make a measurable difference for the people who live there.



THE GOVERNMENT
It gets to address a policy priority. And even after repaying the investors, it can achieve long-term savings.



THE INVESTORS
Depending on how successful the program is, they get their money back and earn a return.