



May 2015 Briefing Summary

Social Impact Bonds / Pay for Success: A New Tool to Address Social Problems

Briefing Materials are available at: <http://uwphi.pophealth.wisc.edu/programs/health-policy/ebhpp/events/index.htm>

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Introduction to Pay for Success and Social Impact Investing

Tyler Jaeckel from the Harvard Kennedy School SIB Lab described the development of Pay for Success (PFS) programs in the U.S. and the goals and structure of PFS.

- Many terms like PFS, Social Impact Bonding (SIB, which specifically refers to the funding mechanism), and others are often used interchangeably, although there are some distinctions.
- The SIB Lab currently provides pro-bono on-the-ground technical assistance to 11 state and city governments, and is in the process of adding 7 more. The first efforts, in MA and NY, began 3-4 years ago.
- Projects deal with issues including criminal/delinquency recidivism, homelessness, adult basic education, birth outcomes, early childhood development, and more.
- PFS financing provides needed funding for a government to make the important transition from remedial services (such as jails) to prevention (such as substance abuse and mental health treatment or jobs programs that keep people out of jail in the first place). PFS can help pay for new remedial services or augment existing ones to make them more effective. Either way, its use is motivated by a desire to overcome the slow pace of progress in solving social problems.
- SIB features attempt to address several problems with typical service provision:
 - Funding for service providers is inconsistent. So, in SIBs, private investors provide up-front capital for the duration of the contract.
 - Given financial constraints, preventative programs are rarely supported. So, in SIBs, governments pay based only on outcomes and discernable savings/benefits from those outcomes.
 - Outcomes aren't measured regularly enough to produce ongoing learning about what works. So, in SIBs, independent evaluation provides evidence needed to verify and understand program success.
 - There is no systematic way for governments to scale up successful innovations. So, in SIBs, direct connection to government allows for rapid expansion of successful programs.
- The PFS Process:
 - A government enters into a contract with a service provider with a proven (or promising) program.
 - An investor (a philanthropic or private investment entity) is also a party to the contract and gives the provider capital necessary for the provision of the contracted services. Payments can range from grants to loans with interest just under the market rate. Sometimes philanthropists might guarantee some of a programs' losses. Additional investment losses may be written off.
 - Later, an independent evaluator measures the program's success. The amount that the government repays the investor (or whether it repays anything at all) is calculated based on this measure.
 - Parties often enlist the help of an intermediary acting as a managing agent in the process, especially because negotiations are complex, involving every aspect of service, measurement, and funding.



- Technical assistance providers serve important roles such as educating stakeholders, describing the provider landscape, and identifying supporters.
- Repayment triggers should be carefully chosen to be either a desired outcome or at least an indicator *of* the desired outcome. (E.g. housing may be chosen as a proxy for recidivism because payment cannot wait for the 4+ years required to measure recidivism, and because housing rates statistically predict recidivism).
- Some states (UT, MA, CO) have instituted PFS using stand-alone legislation, but it is not needed everywhere. NY included it in its budget, as Wisconsin may do. (See 2015-17 Budget Motion #344).
- An example: Denver homelessness project:
 - The city has been addressing homelessness through high-cost, low-effectiveness interventions like emergency rooms and jails. This approach cost the government \$38,000/person/year.
 - Research showed that the most effective interventions for the target population include a “housing first” approach and implementation of intensive case management.
 - The project is intended to demonstrate these interventions’ effectiveness and efficiency and to develop new funding mechanisms (such as federal Medicaid waivers) to pay for services.
 - This project typifies the many cases in which health may not be the foremost aspect of a social problem and interventions may not be explicitly *healthcare*-related, but health *outcomes* are part of involved and healthcare-related funding sources may be key in solving the larger problem.

PFS opportunities for development in health and lessons learned so far

Nima Krodel from the Nonprofit Finance Fund discussed opportunities for PFS programming that addresses health outcomes, as well as programming trends and lessons learned from early efforts.

- Health and PFS
 - There are many areas of intersection between PFS and healthcare reform efforts in the Affordable Care Act: common concepts of tying payment to outcomes, focusing on accountability, funding prevention and early interventions, and the double goal of cost savings and improved outcomes.
 - Many health-related PFS projects are on the horizon, including programs dealing with asthma reduction, substance abuse prevention, mental health, maternal/fetal health, and teen pregnancy and diabetes prevention.
 - Some programs may have health systems, rather than a government, as the back-end payor.
- An important benefit of PFS is that it encourages consideration of *all* aspects of a problem, producing a broader view of an issue that may otherwise have been siloed in separate agencies.
- PFS is a tool, but not a silver bullet. It is often used when an intervention has *some* evidence of efficacy but lots of promise. Demonstration projects can prove the intervention while minimizing risk to the government. PFS is a wedge into pursuing more evidence-based programming.
- PFS is still nascent, with seven projects launched, but over 40 in development. In response to need, NFF acts in two separate ways: as a knowledge integrator and as a market facilitator.
- There has been lots of catalytic federal government activity to aid PFS programs: the Social Innovation Fund (SIF), and funding from DOL, DOJ, HUD, DHHS, and the Department of the Treasury.
- Several characteristics of successful PFS programs have emerged:
 - A targeting of social needs that are unmet, high-priority, and large-scale.
 - Target populations that are well-defined and can be measured separately.
 - Preventive interventions that are highly likely to achieve targeted impact goals.
 - Proven service providers that are prepared to scale with quality.
 - Effective programs that can demonstrate fiscal savings, efficiencies, or sufficient societal benefit for the government and payors. (It may not be possible to monetize some key benefits.)
 - Safeguards to protect the well-being of the populations served.
 - Government leadership (state and local), in championing the project and in building infrastructure.
 - Administrative and data systems that are credible and readily available in a cost-effective means.
- Some general PFS lessons learned are also evident:
 - Local context matters – initial champions and provider capability will vary from project to project.
 - Catalysts drive timing – the process is very time-consuming, especially because PFS is so new, so incentives, champions, and federal and other government support are needed to overcome inertia.
 - Stakeholder support is crucial throughout – targeted technical expertise and lots of project management are required.
 - The government is essential, but not enough – it must participate and get strong technical assistance providers, service providers, evaluators, and investors to be engaged as well.