



# Fact Sheet: Social Impact Bonds in the United States

By Kristina Costa February 12, 2014

## What is a social impact bond?

A social impact bond, or SIB, is an innovative financial tool that enables government agencies to pay for programs that deliver results. In a SIB agreement, the government sets a specific, measurable outcome that it wants achieved in a population and promises to pay an external organization—sometimes called an intermediary—if and only if the organization accomplishes the outcome. SIBs are one example of what the Obama administration calls “Pay for Success” financing.<sup>1</sup>

Investors provide the working capital for the external organization to hire and manage service providers. A third-party evaluator determines whether the outcome has been achieved. If the agreement succeeds, the government releases an agreed-upon sum of money to the external organization, which then repays its investors with a return for taking on the upfront risk. If the agreement fails, the government is not on the hook, and the investors do not get repaid with public funds.

SIBs are a potentially powerful tool for policymakers to use resources more efficiently and improve services for disadvantaged populations, even in the face of shrinking public budgets.

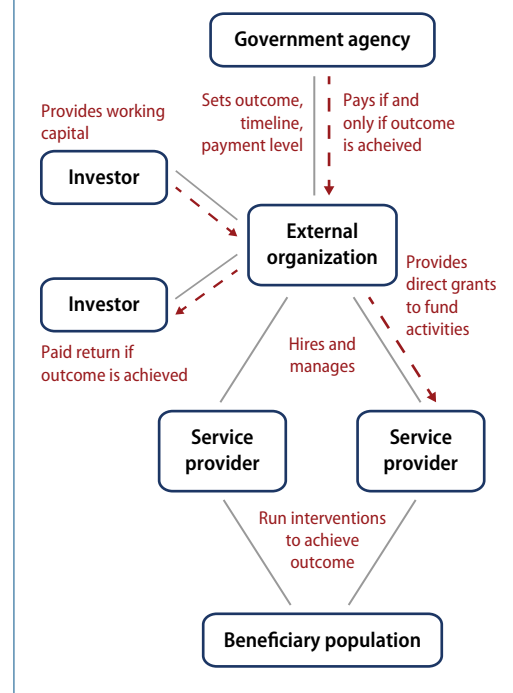
## What are the best policy areas for social impact bonds?

At this early stage, SIBs are most appropriate for areas in which:

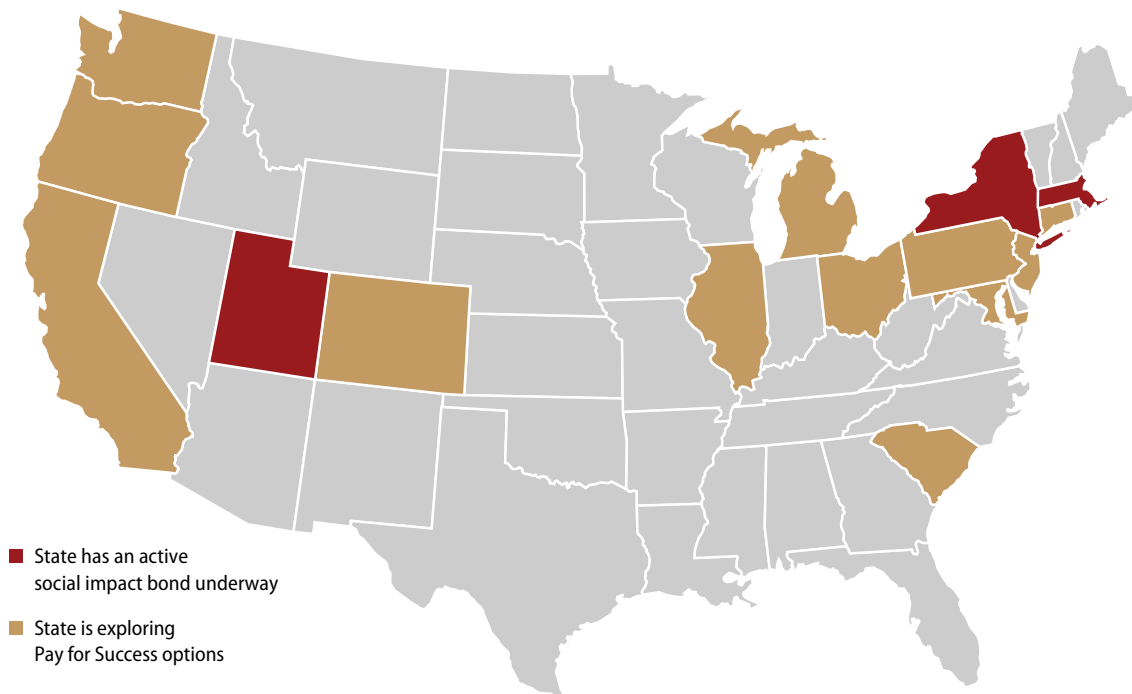
- Outcomes can be clearly defined and historical data are available
- Preventive interventions exist that cost less to administer than remedial services
- Some interventions with high levels of evidence already exist
- Political will for traditional direct funding can be difficult to sustain

Examples of such areas include recidivism, homelessness, workforce development, preventive health care, and early childhood and home-visiting programs, among others.

**FIGURE 1**  
**What is a social impact bond?**



## Where have social impact bonds been used in the United States?



### California

- First pilot program testing feasibility of social impact bonds in preventive health

### Colorado

- Received support from Harvard Kennedy School Social Impact Bond Lab, or HKS SIB Lab

### Connecticut

- Passed legislation enabling the state to enter into social impact bond contracts, June 2012
- Received support from HKS SIB Lab

### Illinois

- Received support from HKS SIB Lab

### Maryland

- Bill introduced in House of Delegates to create a task force to study social impact bonds

### Massachusetts

- Launched social impact bond to reduce recidivism among juvenile offenders in December 2013
- Negotiating a second social impact bond for chronic homelessness
- Received support from HKS SIB Lab
- Passed legislation, January 2012

### Michigan

- Received support from HKS SIB Lab

### New York state

- Launched social impact bond to reduce recidivism and increase employment in January
- Received support from HKS SIB Lab

### New York City

- Launched first social impact bond to reduce recidivism among juvenile offenders in August 2012

### New Jersey

- Bill in state legislature to administer five-year social impact bond pilot program and study on health care

### Ohio

- Received U.S. Department of Justice Second Chance Act grant
- Received support from HKS SIB Lab

### Oregon

- Pay-for-Success pilot included in governor's 2013-2015 budget proposal

### Pennsylvania

- Pay-for-Success legislation introduced in 2013

### South Carolina

- Pay-for-Success legislation introduced in 2013
- Received support from HKS SIB Lab

### Utah

- Launched social impact bond to fund early childhood education in 2013

### Washington, D.C.

- Issued procurement for feasibility study in 2013

### Washington state

- Bill introduced in the House of Representatives to enable the use of social impact bonds and other pay-for-performance vehicles

Sources: Sonal Shah and Kristina Costa, "Social Finance: A Primer" (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/issues/economy/report/2013/11/05/78792/social-finance-a-primer>; Kristina Costa and Sam Ungar, "Social Impact Bonds Make Progress in Massachusetts, New York State" (Washington: Center for American Progress, forthcoming); and House Bill 2337, State of Washington, 63rd Legislature (2014), available at <http://apps.leg.wa.gov/documents/billdocs/2013-14/Pdf/Bills/House%20Bills/2337.pdf>.

## Endnote

- 1 The White House, "Paying for Success," available at <http://www.whitehouse.gov/omb/factsheet/paying-for-success> (last accessed February 2014).