

SIBs Gain Momentum Across the US

President Obama's budget proposal for FY 2014 signaled the administration's strong support for pay-for-success (PFS) programs by putting money on the line for these initiatives. The Office of Management and Budget calls PFS "an innovative way of partnering with philanthropic and private sector investors to create incentives for service providers to deliver better outcomes at lower cost." We believe that the President's support will deliver a real boost to the social innovation financing market, both monetarily and ideologically. Interest at different governmental levels reflects bipartisan support for SIBs, which appeal to both fiscal conservatives and social liberals alike.

President Obama doubled down on the previous year's funding request by proposing \$195 million to support PFS programs in areas including workforce training, prison recidivism, and homelessness. Demonstrating federal leadership and innovation on PFS, the President's budget also includes a \$300 million fund to incentivize state and local governments to develop Social Impact Bonds. The fund, to be administered by the Treasury Department, will provide federal dollars to help finance outcome payments for SIBs created by cities and states, and will provide credit enhancements by offering partial guarantees to mitigate the risk borne by SIB investors.

As the White House explains, the \$300 million Treasury fund is partly modeled on the UK's Social Outcomes Fund. Established in 2012, this is a £20 million fund designed to help overcome some of the obstacles to the growth of SIBs – specifically, the difficulty of bringing together benefits and savings that accrue across multiple levels of government and public spending silos. For example, chronically homeless individuals generate significant public costs through emergency room visits and involvement with the corrections system. These expenses are borne by various agencies at the federal, state, and local levels, while the benefits of permanent supportive housing, which has been shown to effectively reduce homelessness, equally attach to different silos and levels of government. Since the costs and benefits of prevention and remediation do not reside in the same agency budgets, the Treasury fund can play a catalytic role in promoting utilization of SIBs by providing a "top-up contribution" to help finance SIB payments.

Federal enthusiasm for SIBs is mirrored in cities and states around the country. Illinois Governor Pat Quinn has announced plans to launch a Social Impact Bond initiative, calling SIBs "a unique way to invest in our community priorities without dipping into the pockets of Illinois residents." With support from Harvard Kennedy School's SIB Technical Assistance Lab and funding from the Rockefeller Foundation and Dunham Fund, Illinois will put SIBs to work scaling up programs for communities in need. These programs may focus on improving high school graduation rates, lowering hospital readmissions, or reducing prison recidivism. In May, the state issued a Request for Information to identify opportunities for a SIB initiative and potential partners for this project.

Governor Quinn is not alone. States and localities from California to New York, from Texas to Hawaii, are all at various stages of exploring social innovation financing initiatives. A bill recently introduced in the California legislature, for example, would establish the Office of Social Innovation and Entrepreneurship Development, whose mission is to "establish partnerships with government agencies, private investors, nonprofit organizations, and for-profit service providers to facilitate the use of Social Impact Bonds to address social services needs." Similar legislation has been introduced in New Jersey, Connecticut, New York, Maryland, Hawaii, and Texas, while 28 jurisdictions demonstrated their interest in SIBs by applying to the Harvard SIB Lab for pro bono technical assistance on SIB development.

These experiments with different models and approaches will provide valuable direction for the market. With interest mounting and multiple transactions in the pipeline, we at Social Finance envision 2013-14 as a pivotal time for the domestic SIB market. As SIB initiatives develop into on-the-ground programs, we will be able to benefit from valuable lessons learned from these experiences. A growing body of data on performance and risks associated with SIBs may then contribute to the evolution of more standardized metrics and tools – enabling lower-cost, less complex transactions with higher levels of commercial viability.