

IPQIC Finance Committee Potential Payment Innovation /Reimbursement Strategies

Recommendation: Social Impact Bonds (SIBs)

September 2014

Summary of Issue:

Each year, governments spend hundreds of billions of dollars addressing social problems. But in most cases, we have no idea how effective this spending is. Measurement tends to focus on tracking the number of people served and the amount of service provided rather than the outcomes that are achieved. At the same time, tight budgets cause us to under-invest in prevention, even when we know that doing so will lead to greater expenditures on remediation down the road. Our fiscal predicament also threatens to stifle innovation— how can we come up with the resources to test promising new ideas when we can't even afford to pay for what we are already doing? And we are simply not making rapid enough progress in addressing social problems. From recidivism to school readiness, and obesity to workforce development and poor birth outcomes, we lack proven, cost-effective, scalable strategies.ⁱ

A business case is being made by public and private sectors leaders that investment in evidence-based programs earlier in life – prenatally to age 5 – will provide a greater return on investment to government and philanthropic organizations.ⁱⁱ

Background& Analysis:

Social Impact Bonds are an arrangement between one or more government agencies and an external service organization where the government specifies an outcome(s) and promises to pay the external organization a pre-agreed sum(s) if it is able to accomplish the outcome(s). In addition, SIBs require government to place few, if any, controls on the way that the external organization accomplishes the outcome, to cooperate with the service organization so that it is able to take the actions necessary to achieve the outcome, and provide a clearly defined population and clarity on what a “successful outcome” would be.

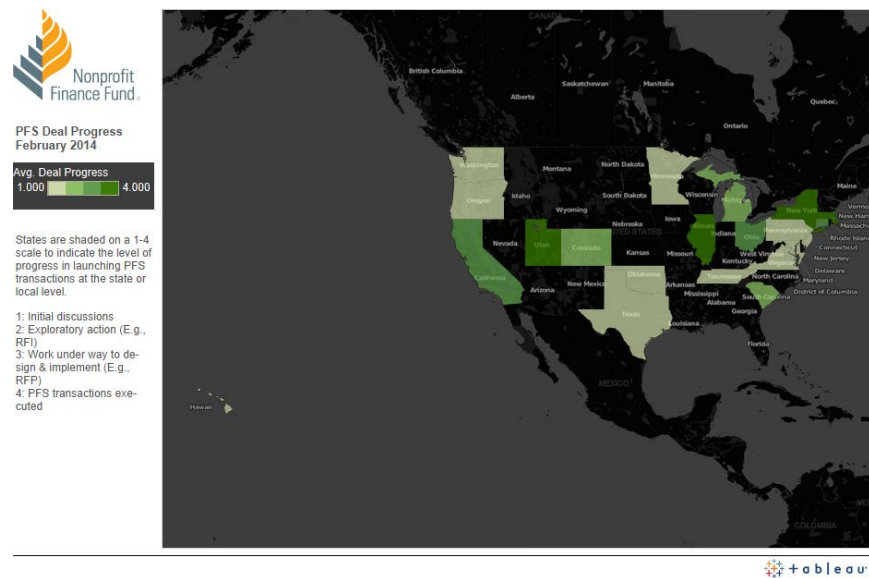
All payments are contingent on the outcome being achieved. If outcomes are not achieved, the government pays nothing. Therefore, risk is transferred from the government to the external organization and/or its investors. The relationship is between government and the external service organization committed to accomplishing the outcome. While there may be other players present to monitor and measure outcomes independently, they are not essential to the concept, and they generally do not have a direct relationship with government. While SIBs are likely to be particularly useful in areas where accomplishing outcomes results in direct savings for government, not all SIBs have to result in government savings.

The study and implementation of social impact bonds in the U.S. to fund evidence-based health, education and social programs is rapidly expanding. Social Finance, an internationally recognized leader in Social Impact Bond development and deployment, believes the true innovation of SIBs lies in unlocking pools of investment capital to provide governments flexibility to support preventive services during tough budget times, offering social service organizations the stability of long-term funding sources to enable growth and focus on results-oriented services, and providing private investors the opportunity to earn social and financial return on their investment.

The SIB concept generally enjoys bipartisan support: Conservatives embrace its focus on government efficiency, while progressives laud its ability to serve more at-risk individuals. This support, however, has not generally translated into actionable policy. Most states lag far behind in developing a legislative

framework to facilitate SIBs. Also, some governments at the state and local levels are wary of the optics of SIB deals; they may face criticism for using taxpayer money to repay wealthy investors. In addition, launching a SIB is time consuming and complex for governments at this early stage.ⁱⁱⁱ

The Nonprofit Finance Fund maintains an interactive website (U.S. map) showing the SIB projects under development and implemented in the United States. [SIB Project Interactive Map Link](#) This website maintains an inventory of projects and provides technical assistance for governments and organizations exploring the development of social impact bonds. The five active SIB projects in states shown in dark green are pre-K (Utah), workforce development/recidivism (NY & MA) and child welfare (IL) programs.



Recommendation:

- Due to the novelty of social impact bonds in the U.S. and the only recently developed interest by public and private sector leaders in Indiana, the IPQIC Finance Committee recommends that state government takes a more coordinated approach on SIB development as a financing option. It would be prudent to first understand the level of interest by various government agencies, the legislature and private sector leaders in the community. Therefore,
 - A low cost approach to increase this understanding and generate useful information on SIBs as a viable financing opportunity for Indiana would be for the Indiana Office of Management and Budget to release a Request for Information (RFI). This RFI approach would help state government gain a more complete perspective on the current landscape in Indiana with regards to service provider and potential investor interest in SIB financing.
 - An example of a recently released RFI in Illinois is included as reference.
- Examples of SIB outcomes and projects relevant to IPQIC objectives are shown in Table 1.

Note: *The Governor’s Early Learning Advisory Committee is exploring a SIB pre-K funding study recommendation. Other state agencies and legislators may be developing SIB financing.*

Table 1: EXAMPLES OF IPQIC HEALTH OUTCOMES SUITABLE FOR PROJECTS FINANCED BY SOCIAL IMPACT BONDS

Reduction in infant and maternal mortality and morbidity rates
Reduction in low and very low birth weight babies
Reduction in preterm births
Reductions in tobacco use and substance abuse in pregnant women
Reduction in NICU admission rates
Improved child development and behavioral conditions
Reduction in unexpected newborn complications/infections
Increase in pregnancy intervals/ birth spacing
Improved breastfeeding rates
Reduction in teen pregnancy rate
Potential projects to achieve collective impact of the outcome examples shown above
<ul style="list-style-type: none"> • Perinatal Centers of Excellence
<ul style="list-style-type: none"> • Perinatal Care Coordination Programs such as Centering Pregnancy, Pregnancy Medical Home Program, and Home Visiting.
<ul style="list-style-type: none"> • Targeted High Risk Programs addressing complex health issues such as Neonatal Abstinence Syndrome

Key Participants

- Office of Management and Budget
- Department of Health, Family & Social Services Administration
- Private Investors
- Service Organizations

ⁱ Liebman and Sellman, Social Impact Bonds, A Guide for State and Local Governments, Harvard Kennedy School, June 2013, page 6: “We Need a New Approach”
ⁱⁱ Ready Nation, Business Case for Early Childhood Investment, www.readynation.org, 2014
ⁱⁱⁱ Palandjian and Hughes, A Strong Field Framework for SIBs, Stanford Social Innovation Review, July 2, 2014, page 6.