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Social Impact Bonds: What's the buzz about?

[Impact](#), [Nonprofit](#), [Philanthropy](#), [Resources](#), [Social Impact Bonds](#)[Add comments](#)*Guest post by Jitinder Kohli, Douglas J. Besharov, and Kristina Costa*

Social Impact Bonds are the #1 [philanthropy buzzword](#) of 2011 according to the Chronicle of Philanthropy. So what's all the fuss about? And how can the concept help the nonprofit sector?

In essence, [Social Impact Bonds](#) are an arrangement between government and an outside organization in which the government defines one or more outcomes and promises to pay a sum of money if they are achieved. The government commits to cooperate with the outside organization's efforts to achieve the outcome, and also promises to leave it free to devise and implement its strategy.

Outcomes that might be suitable for Social Impact Bonds would include reducing re-offending, helping the unemployed secure work, helping children transition from foster care into adoption, or reducing drug dependency. In short, SIBs are potentially applicable to a large number of areas where nonprofits already work.

So what's in it for nonprofits?

All too often, nonprofits are frustrated at the process through which government funds are disbursed. They have to deal with complex grant rounds with detailed criteria for the release of government funds. These grant rounds can feel like a lottery with little relationship between the quality of bidders and those who are chosen to receive funds. And once grants are made, money is often released for short periods of time and comes with onerous reporting requirements. With government budgets tight for the foreseeable future, the chances are that government funding will become ever harder to secure.

Social Impact Bonds could help change that.

Governments might find it much easier to commit money in return for outcomes even where budgets are tight. In many cases, achieving outcomes might result in savings to government, and so the payments would effectively reward outside organizations that can unlock these savings. So, if a reduction in reoffending reduces future incarceration, policing and court costs, government might use those savings to pay for the outcome.

Of course, there are also challenges. In a Social Impact Bond arrangement, government does not pay anything until outcomes are achieved. But the activities that are designed to achieve the outcome still need to be funded, and for many nonprofits that will mean they have to turn to foundations to provide the working capital for the activities. But for some foundations, that may already be providing grants to nonprofits, the prospect of getting their grant dollars back if the approach succeeds can be very appealing.

Also, Social Impact Bonds are only likely to be of value for some types of social programs. They will work best where meaningful outcomes are observable in a relatively short timeframe (perhaps three to five years). In addition, the outside organization needs to be fairly confident that it can achieve the outcome - which means they will either want to build on a track record of success, or identify approaches that they believe can be successfully deployed.

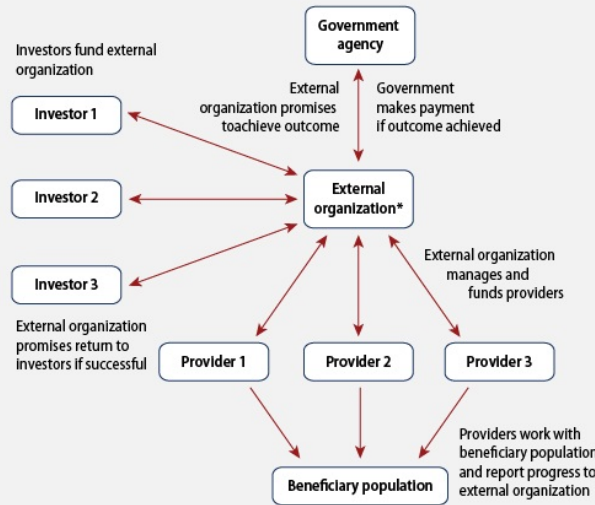
But despite these challenges, the potential is strong. Government might be able to back social programs using Social Impact Bonds in tight fiscal times, foundations might be attracted to the prospect of getting their dollars back if approaches work, and most importantly, nonprofits might be able to access a new source of funding just when things are looking pretty bleak.

The first Social Impact Bond arrangement is in [Peterborough Prison](#) in England, where the British government has promised an external organization up to \$12 million if they can reduce reoffending. In that example, the organization manages a separate set of providers, and raises money from investors (see diagram below).

Even though it started in a small town in England, the idea is spreading fast, with another dozen Social Impact Bonds being developed in Australia, Canada and the United Kingdom. And here in the United States, Massachusetts and New York City are likely to have Social Impact Bonds in place in the coming months.

The Peterborough-style social impact bond

First such program focuses on re-offending rates of prisoners



*There are several appropriate variations on the Peterborough-style Social Impact Bond. The external organization may raise funds from its own balance sheet rather than from outside investors. The external organization also may choose to be one of the service providers, or the sole provider, for the intervention.

[Download](#) a factsheet on Social Impact Bonds, and [access more information](#) on the subject.

Jitinder Kohli is Senior Fellow at the Center of American Progress where his work focuses on government efficiency, regulatory reform, and economic issues. Douglas J. Besharov is a professor at the University of Maryland's School of Public Policy a lawyer and was the first director of the U.S. National Center on Child Abuse and Neglect. Kristina Costa is a Research Assistant for the Doing What Works project and the Economic Policy team at the Center of American Progress.

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