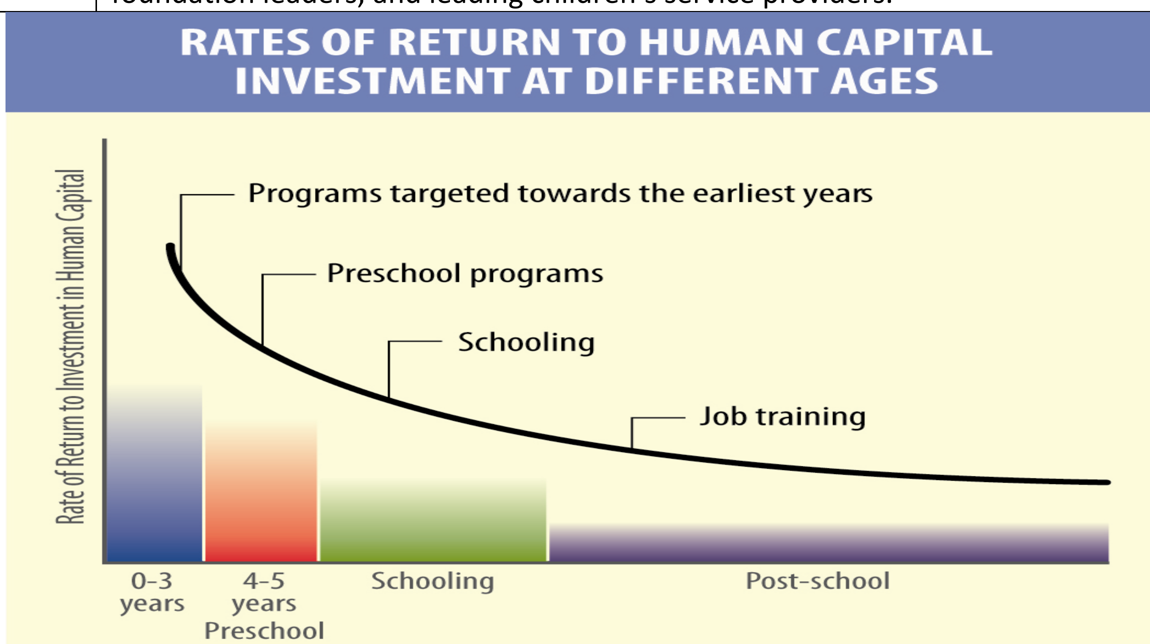
Big Ideas for Little Kids: Policies to Transform the Next Decade

Public-Private Finance Restructuring for Children's Services

Problem	Prevention and early intervention, even evidence-based services for kids conclusively proven to save money, are difficult to fund up to scale for two reasons: 1) Increasing demands are placed on shrinking public sector budgets. Shifting funds from remedial care or unproven services to pay for prevention is politically difficult. 2) The upfront investment costs are immediate and obvious while the social benefits and savings are long term and diffuse. This creates a huge political barrier, particularly when public officials' rewards and risks are geared toward adult voters and taxpayers every two, four or six years – much shorter than the pay-off for prevention. Meanwhile, cash-starved nonprofit organizations and programs grow increasingly dependent on cash-starved public sector budgets and philanthropy, and evaluations and quality improvements for measurable outcomes are sacrificed as non-essential to maintain existing service levels. So we pay the more expensive, balloon payments for prison cells and emergency rooms instead of fully investing in known cost-effective programs such as the Nurse-Family Partnership and afterschool programs.
Solution	**Create Social Impact Bonds** (SIBs, also known as "pay for success contracts"), a new asset class like the now multi-billion-dollar microfinance and venture capital instruments, to pay for improved social outcomes that result in public sector savings. Every dollar invested in high-quality early childhood education, for example, saves $7 in reduced expenditures for special education, teen pregnancy, juvenile justice, etc. Government commits to using a proportion of the savings achieved on the back-end to reward non-government investors who finance the prevention and early intervention services on the front-end. This investment product makes investors' profit and repayment contingent upon achieving specified social outcomes, making SIBs more like equity investments than traditional bonds with fixed returns. The full panoply of private-to-public investors are engaged in a new capital market to produce social returns, from for-profit banks, pension funds and institutional endowments, to individuals, corporations, and government. Savvy investors leverage public funders and vice-versa, while a "race to the top" is created in children's services by creating financial incentives for the best-proven, most measurable outcomes capable of reducing investors' front-end risks and producing the best returns. Additional incentives – such as making SIB income tax-deductible or a government-created venture capital fund to underwrite the initial portion of investments – would help create the market for these products and attract initial investors.
Existing Experience	**As of this writing, there is only one actual Social Impact Bond in existence, launched by the UK's Conservative Party government in 2010.** This £5 million SIB aims to reduce a 60% re-offending rate amongst 3,000 male prisoners leaving Peterborough prison who have served a sentence of less than 12 months. Nonprofit organizations – including the YMCA and others – provide intensive support over a six-year period, both inside prison and after release, to help them resettle into the community. If this initiative reduces re-

	offending by 7.5% or more, investors will receive a share of the long-term savings from the government. If the SIB delivers a drop in re-offending beyond the threshold, investors will receive an increasing return (the greater the success at achieving the social outcome, up to a maximum of 13%). This is a 6-year bond and while initial results look promising, not enough time has passed to evaluate the results. Other social impact bond pilot programs are beginning in New York (for at-risk children , sponsored by the Children's Aid Society with Rockefeller Foundation endowment funding), Massachusetts (for chronic homelessness and juvenile offenders), and Australia (for juvenile re-offending and mental health). The Obama Administration has just begun two "pay-for-success" pilot projects as competitive grants with more than $20 million through the Justice and Labor Departments.
What's Next?	Depending on the model used, there are ways to develop local Social Impact Bond pilots for preventive children's services using existing bonding authority. Monroe County should convene a symposium to educate ourselves on the development of local Social Investment Bonds with experts from Social Finance US, NY State's Children's Aid Society and state officials from Massachusetts. Local stakeholders needed in the meeting include investment advisors, bank and credit union executives, government leaders, foundation leaders, and leading children's service providers.



SOURCE: J.J. Heckman, "Skill formation and the economics of investing in disadvantaged children." *Science*, 312(5782):1900-2, (June 2006).