

Pay for Success/Social Impact Bonds at AIR

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The mission of the American Institutes for Research (AIR) is to conduct and apply the best behavioral and social science research and evaluation to improve people’s lives, with a special emphasis on the disadvantaged.

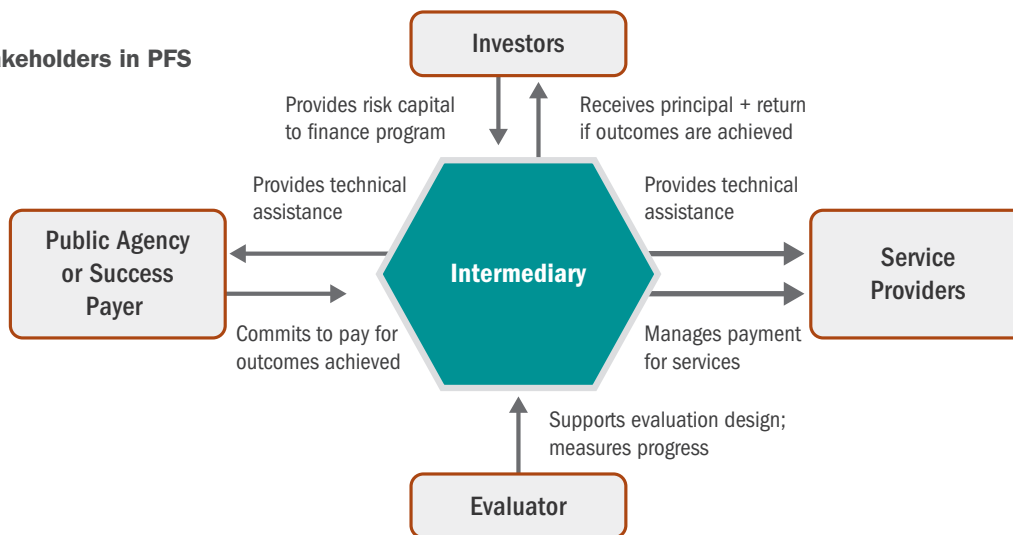
The Pay for Success (PFS) model, also known as the Social Impact Bonds model, is a relatively new way to finance improvements in persistent social problems. AIR is applying the model in many communities around the country. The model brings together investors with local, state, and federal government agencies to fund and improve education, health, and social services. For example, a local company or community investor might fund programs to reduce homelessness or strengthen literacy among young children.

Connecting such upfront funding to specific program outcomes requires independent evaluators to determine whether the outcomes have been met. If these services deliver their intended results (e.g., reduced homelessness, improved student literacy), the government then reimburses investors for the cost of the service, along with a modest return on their investment (typically 1 to 2 percent of the overall investment). In this design, the investors bear the initial cost of services and take the risk of not being reimbursed should the service not produce the intended outcomes as measured by the evaluators. Typically, an intermediary organization may provide technical assistance to public agencies and service providers, strengthening their capacity to deliver evidence-based programs and strategies to achieve outcomes.

Why would investors take that risk? Because improving these near-term outcomes (for example, greater literacy in pre-kindergarten through third grade) may have important effects on the broader social and public sectors (e.g., increased earnings, greater consumer buying power, and decreased reliance on government safety nets).

The PFS model has been used in the United States since 2012, with more than 12 projects underway and about 50 projects under development. The chart below depicts the stakeholders in a typical PFS project.

Figure 1: Stakeholders in PFS



Pay for Success Projects at AIR

AIR is using a PFS approach in several projects that strengthen agency infrastructure through technical assistance, funding or programming to support evidence-based and outcome-driven prevention and intervention approaches.

Readiness and Capacity-Building Toolkit for Pay for Success Investments

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A major challenge in the growth of the PFS model is effective assessment of provider capacity. For the Kresge Foundation, AIR is creating an organizational readiness toolkit, which is informed by a synthesis of the current literature on PFS and implementation science, as well as interviews with leading intermediary organizations and their community partners. The toolkit has the potential to expand the array of government and nonprofit organizations leading PFS projects and provide data to guide the investment decisions of public and private stakeholders. Readiness and accompanying capacity enhancement plans can attract capital in states, counties and communities, as levels of financial risk are better understood and funders are assured of capacity needed to provide effective programs, especially in lower resourced communities. AIR's partner is Third Sector Capital Partners, a nonprofit organization focused on PFS projects.

National Capital Region Pay for Success Demonstration Project for Permanent Supportive Housing

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For the U.S. Department of Housing and Urban Development and the U.S. Department of Justice, AIR is testing a PFS model in Maryland to support people experiencing chronic homelessness in Montgomery and Prince George's Counties. This population is frequently involved in the criminal justice and health care systems. Between 20 and 40 percent of the annual correctional population is homeless and has an arrest record for nonviolent nuisance crimes. Many have mental illness and/or substance abuse problems and return from incarceration only to live on the streets, often cycling back into the justice system. This project will determine if PFS-financed permanent supportive housing can achieve taxpayer savings and/or improve cost-effectiveness by decreasing government spending on corrections systems, homeless services, Medicaid and crisis services. As the intermediary organization, AIR leads the project and manages the contract until outcomes are achieved. Third Sector Capital Partners serves as AIR's intermediary advisor and ICF International is the independent evaluator.

English Language Acquisition Feasibility Study

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AIR is conducting the feasibility phase of a PFS project for the U.S. Department of Education to improve English language acquisition for Spanish-speaking children in pre-K through third grade. These students may need additional support to read at grade level by the third grade – a milestone predictive of future educational and occupational success. Yet schools and communities often do not have the resources to provide those supports. A rapid evidence assessment of the research literature will identify effective interventions, and two districts will be invited to participate in the PFS feasibility study, based on their prior use of these approaches. The feasibility study will examine their capacity and suitability for using a PFS funding strategy to support the selected programs. AIR is conducting the feasibility study and Manhattan Strategy Group is the independent evaluator.

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Established in 1946, American Institutes for Research (AIR) is an independent, nonpartisan, not-for-profit organization that conducts behavioral and social science research on important social issues and delivers technical assistance, both domestically and internationally, in the areas of education, health, and workforce productivity.

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