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Frequently Asked Questions: Social Impact Bonds

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Introduction

Social impact bonds are new and innovative financing mechanisms for social programs in which government agencies pay only for real, measurable social outcomes—after those results have been achieved. These tools effectively invert traditional government financing for preventive social services: In a social impact bond agreement, the government pays for realized outcomes at the conclusion of a contract, rather than paying upfront for programs or activities that may or may not have their anticipated effects.[1]

At the same time, the social impact bond mechanism gives private investors the opportunity to provide operating funds for initiatives that have the potential to prevent or mitigate serious social problems and reduce government costs for later remedial services. These private funders make the initial investments in programs, and they are ultimately repaid, with a modest return, if the initiative is successful and achieves its goals.

It seems straightforward enough until you start to think about how social impact bonds actually work. Who chooses the required outcomes, and how are they set? Who decides if the outcome has, in fact, been achieved? How does the government decide what it will pay for a successful outcome? Who puts the "bond" in social impact bond? How long do these deals last? How can governments address appropriations for social impact bond payouts that may or may not happen? Who are the investors? Where is this tool appropriate to use, and where will it simply not work well?

Social impact bonds are complex tools, and a social impact bond agreement involves the interests of multiple stakeholders, including agencies at different levels of government, the external organizations with whom the government will contract, the service providers whom the external organizations will oversee, the investors who will provide working capital to run the interventions, and, of course, the public at large. All of these groups have similar questions and concerns about social impact bonds, as well as questions unique to their perspectives.

This Frequently Asked Questions guide is intended to address common questions raised by all of these stakeholder groups in plain, straightforward language. It is not, however, a comprehensive guide to designing, negotiating, or implementing a social impact bond agreement. Instead, this document should serve as a tool to direct your thinking as you consider how these new financing tools can be used in your agency or issue area.

This guide is divided into three sections. The first, "Social impact bonds 101," answers basic questions about the tool, how it works, and who the key players are in any agreement. The second section, "Questions from government," addresses technical concerns about budgeting, appropriations, and other topics. The third section, "Social impact bonds 201," addresses higher-level questions about setting outcomes, evaluation methodology, and concerns about the tool's function in government.

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