What happens to the 2.2 million people living behind bars in the United States without a high school diploma? Some earn a GED, but few gain the degree, licensure or workforce skills necessary to participate in today’s knowledge-based economy.

Once out of prison, one-third are rearrested during the first year out, 57 percent within three years and over 75 percent within five years. Nearly half remain unemployed for up to a year.

While that is a national snapshot, what does recidivism and unemployment look like for former inmates in Wisconsin? Similar to the national trend, Wisconsin’s three-year recidivism rate declined from 43 percent to 30 percent for 140,911 inmates released between 1990 and 2009. Still, a lot of work needs to be done identifying successful programs and approaches to re-entry — and finding a way to fund them in a state where corrections-related expenditures are already high.

One potential solution: social impact bonds.

What is an SIB?

A social impact bond is a contract between government and private-sector investors seeking to solve a social problem.

Goldman Sachs, a global investment firm and pioneer in the SIB arena, provides a good overview of why a public-private partnership matters to societal progress:

City, state and federal budgets may be declining, but the social challenges those governments face aren’t going away. To fill the gap, policy-makers are turning to a new financing mechanism called a social impact bond. It’s a public-private partnership designed to deliver ambitious social programs to underserved communities.

An SIB is technically not a government bond. Rather, it is a social impact investment. Here is the difference: A bond is issued by the federal, state or local government to raise money to pay for public services such as transportation or social service programs. Bonds are backed by the creditworthiness of a government entity, which makes them risk-free. At the same time, government bonds are subject to an ever-changing financial market. Fluctuations in interest rates, for instance, can negatively affect traditional bond investments.

This quandary encouraged lawmakers to search for an alternative to public-only financing and gave rise to social impact investing. The practice began in the 1960s as a way to infuse more venture capital into government-sector-driven social projects, and it matured into the SIB market that we have today. A statement from a pair of U.S. and United Kingdom leaders in social impact investing described the allure:

Poverty, homelessness, crime, unemployment continue to plague even the wealthiest of nations. Imagine if in addition to existing efforts, we could leverage trillions in private capital and bring the same level of focus and entrepreneurial dynamism that we see in private-sector activities to meet the pressing needs for better schools, more job opportunities, improved public services, safer streets?

We don’t have to imagine. It is already happening — and it is called impact investing. The idea is simple enough — to invest in efforts that not only provide a return on investment, but also target specific social needs. We can dramatically accelerate the growth of this important market by partnering with government to remove roadblocks.

How they work

Reducing recidivism is a good example of a goal that helps explain the SIB ecosystem.

When a city, county, municipality or state government is unable to curtail the revolving prison door despite millions of taxpayer
dollars invested annually, it can engage non-government stakeholders to identify a solution. The first significant step the government usually takes is issuing a request for proposals from organizations interested in working as an “intermediary” between the government officials, private investors and social service organizations with a track record of reducing recidivism. Most intermediaries are nonprofits, though not your typical ones. They have gravitas in the fundraising and project management arenas. Boston-based Third Sector, for example, is an intermediary for an SIB program in Cuyahoga County in Ohio. Enterprise Community Partners is an intermediary that works in both Ohio and Denver. The United Way is an intermediary for an SIB program in Utah. The government uses a RFP process to find the right intermediary, which is crucial to the success or failure of the SIB. It weeds out the bad actors. After negotiating a contract with the government for its services and potentially receiving government start-up funding, the intermediary’s initial responsibilities include identifying nonprofits that work directly with returned citizens to reduce recidivism, and working with an evaluator to determine if evidence justifies seeking private capital to invest in the nonprofits. The intermediary also uses independent assessors to help set up specific program goals. The intermediary then seeks private-sector capital to pay the nonprofits to reduce recidivism within a specified timeframe.

Investors could include either traditional for-profit entities such as Bank of America or philanthropic organizations. The investor generally pays the intermediary for ongoing work, but most of the private capital is funneled to the nonprofits that must try to meet predetermined objectives.

If the nonprofit is successful in meeting the objectives (for example, reducing recidivism two points in one year), the government is required to make an initial payment to the investors. The government pays nothing to an investor if the nonprofit doesn’t achieve its objectives, but pays the investor a profit if the objectives are exceeded. The more successful the SIB is in reducing recidivism, the more money government can save by reducing its investment to pay for prisoners’ cells, guards, food and medical care. Unlike a government bond, where payments are made to service providers whether or not goals are met, an SIB permits the government to pay for results — which is why some states call this model pay-for-success. Philanthropic and other private-sector assets can be used to buffer risk. Investors know this and, to borrow the words of two thinkers on this subject, “Ultimately, impact-seeking rather than return-seeking capital will spur the growth of PFS (Pay for Success).”

The track record

SIBs were launched in Britain in 2010 when the United Kingdom’s Ministry of Justice contracted with nonprofit Social Finance UK to reduce recidivism rates for 3,000 former Peterborough Prison inmates over a five-year period. Results showed an 8 percent reduction in reincarceration for the first 1,000 prisoners in the program relative to a comparable baseline in 2014. An evaluation from RAND Corporation’s European division also identified promising results in 2015. Those early results persuaded others to give SIBs a try.

According to Social Finance, 15 countries launched 60 SIBs between 2010 and 2016. The UK has nine, England and the Netherlands each have five, Australia and Israel each have two and several countries including Canada, Sweden and Germany each have one. Sixty SIBs are in operation as of June 2016, and 22 have performance data: 21 show positive gains; 12 have made payments to investors or have recycled the payments into service delivery; and four have fully paid investors.

SIBs in the United States

As of June 2016, at least 10 states and the District of Columbia have enacted SIB legislation focused on several issues: Alaska (criminal justice), California (criminal justice), Colorado (general services), Idaho (education), Maine (education), Maryland (criminal justice), Massachusetts (general services and workforce development), Oklahoma (criminal justice), Texas (government contracts), Utah (education) and the District of Columbia (general services). The first three SIBs in the U.S. focused on reducing recidivism, increasing employment or both. Those were in Massachusetts and New York City in 2012 and in New York state in 2013. The SIB
in Massachusetts has shown promising initial results. Results for New York City’s Rikers Island Initiative, meanwhile, were mixed, leading to its closure in 2015 after failure to meet its goal. Still, it's a good example of how such programs can work, and also fail.

In 2012, the New York City Department of Correction, in partnership with local government officials, created an initiative to reduce recidivism by 10 percent for all 16- to 18-year-old males entering jail. The government hired MDRC, an education and social policy research organization, as its intermediary. MDRC secured $7.2 million from Goldman Sachs. Bloomberg Philanthropies backed $6 million of the Goldman Sachs amount. MDRC identified two service providers: Osborne Associates and Friends of Island Academy.

The program operated from 2012 to 2015. While it did not meet its 10 percent goal, it did reduce recidivism. The city did not lose money on the SIB, though Goldman Sachs did. It lost $1.2 million for two years’ worth of work and could have lost over $9 million had the initiative been allowed to move to its fourth year without reaching its objective.

Why did the Rikers SIB fail? One reason could be the sheer number of stakeholders involved, or failure to select the right intermediary — one that properly identifies and evaluates nonprofits, which is a crucial factor in an SIB’s success.

Other issues tackled by SIBs

SIBs have shown success in addressing a variety of social issues. For example, Santa Clara County in California and the City of Denver use SIBs to reduce chronic homelessness. South Carolina has an SIB to help 1,200 low-income mothers with neonatal care for newborns, partnering nurses with mothers living in 29 of 46 counties statewide. In four years, the program is expected to double in size.

Early childhood SIBs are popular, too. In 2013, Utah created an SIB to serve 595 low-income 3- and 4-year-olds. After putting the first cohort through the program, initial results show that 109 of 110 preschoolers did not need special education services. This saved the state $281,550, and the private investors will receive payments equal to 96 percent of those savings.

Chicago has an SIB to expand preschool for 4-year-olds, thanks to a $16.6 billion investment from the private sector. In 2016, Goldman Sachs and others investors qualified for a $500,000 “success payment” because a majority of 374 preschoolers in the program were deemed kindergarten-ready. Results from both early childhood programs have received a mix of praise and criticism.

SIBs in Wisconsin?

Wisconsin politicians, philanthropists and business leaders need to reimagine how private capital and free-market principles can reduce recidivism and increase employment. Although it is worth noting that a demand for outcome-based contracts in Wisconsin is not new, the SIB concept is.

In 2015, state Rep. Dale Kooyenga (R-Brookfield) and state Sen. Alberta Darling (R-River Hills) introduced a pay-for-performance contract initiative to be managed by the Wisconsin Department of Children and Families to address recidivism in Milwaukee.

Language from the Darling and Kooyenga SIB initiative is included in the 2015-17 biennial budget (Act 55). It allows the DCF to issue an RFP for a pay-for-performance contract to reduce...
recidivism. After a term of five years, the contract allows for an agreed-upon payment on the condition that the contracting organization can demonstrate savings realized by the state (and not by local or federal government bodies) for reducing rates of recidivism by offenders living in Milwaukee. Any contract between government and an outside entity must also ensure that no payment is made unless a certain minimum level of success is demonstrated.

Here are some thoughts for moving ahead.

• Contrary to popular belief, SIB success depends a lot on government. This includes an initial investment that a government must make before recidivism and employment program begins. The same is true for the payment of costs not covered by private or philanthropic investors, such as initial payments to an intermediary.

• Wisconsin should launch a pilot program — call it Badger Bonds. The transitory nature of the state’s target population, challenges with poverty and education, coupled with a concentration of former inmates returning to certain Milwaukee ZIP codes, make a pilot a necessity. However, Wisconsin stakeholders should not initially make too large a claim about outcomes for recidivism or employment of returned citizens.

• SIBs have hidden costs. For instance, estimation of cost savings in the form of a pilot are “just too small to have any meaningful impact on the fixed costs of government agencies.”20 A need for government funding also remains: An SIB allows the government to tap an intermediary to capture new funders. In the interim, the government continues to pay for services including early investment into a pilot. The set-up funding should be less than a quarter of start-up cost if structured properly.

• Thinkers on this topic have identified five criteria stakeholders must consider before moving with an SIB:

  High net benefits to taxpayers and investors: NYC did not lose money, generally speaking, but Goldman Sachs lost millions. Wisconsin lawmakers must be upfront that losses are as real as possible gains.

  Measurable results: Wisconsin must require a government entity to hire an intermediary with a proven track record, or real potential, to do the work.

  Well-defined population to serve: Lawmakers must decide to focus on youth or adults, male or female, or both.

  Credible assessments: Randomized control trial is considered the gold standard for research because it compares control and treatment groups.

  Safeguards to protect the population: Lawmakers must protect all stakeholders involved in an SIB pilot:21

Wisconsin could find intermediaries by: 1) inviting one from another state; 2) identifying a Wisconsin-based nonprofit with a track record in addressing recidivism as well as respect from state funders; and 3) asking two or more nonprofits, inside and outside of Wisconsin, to partner in the endeavor.

A wealth of resources about SIBs exists, including information from the Center for American Progress and American Enterprise Institute.22 Wisconsin stakeholders should make good use of them. At the same time, Wisconsin stakeholders must be aware of SIB critics.

For instance, the American Federation of State, County and Municipal Employees (AFSCME) raises legitimate questions about SIB metrics and impact given the over-reliance as a “risk-free silver bullet” to address systemic government challenges.23 AFSCME Council 94 opposed an SIB in Rhode Island because “the impetus for this was created by a large Wall Street corporation that obviously has something to gain, ideologically and financially, from the implementation of these bonds. It seems wrong that already very wealthy individuals should be able to make money off of reducing recidivism.”24

Closing thoughts

Wisconsin’s executive branch should proceed with putting an SIB in motion by: 1) determining how best the state DCF should design an RFP for a social impact bond; 2) identifying ideal characteristics of an intermediary for a Milwaukee-focused pilot program; 3) drilling down on the type of population to be served; and 4) providing proof to private-sector investors that this is a serious effort.

With this information, a government agency can contract with an intermediary to solicit funding (grant, loan, etc.) to pay for a two- to five-year pilot program. The pilot should include a limited number of nonprofits with a verifiable track record of reducing recidivism.

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Endnotes: Badger Bonds (Page 50)


3 Wisconsin Department of Corrections, “Recidivism after Release from Prison,” June 2014.


15 Goldman Sachs, ”Initial Results Released for First Social Impact Bond for Early Childhood Education Show Success,” November 2015.

16 Melissa Sanchez, ”Investors Earn Max Initial Payment from Chicago’s ‘Social Impact Bond,’” Catalyst Chicago, May 2016; and Pay for Success Learning Hub, Sample Documents, Nonprofit Finance Fund.


20 Statement of Kyle McKay on Social Impact Bonds before the Government Performance Task Force in the U.S. Senate Committee on the budget, May 1, 2014.


