

# **\$500-Million Plan Would Reimburse Donors Who Start or Expand Programs That Work**

**President Obama wants to expand an idea that gives an incentive to programs that can prove they save money for society in the long run**

By Doug Donovan

President Obama's new budget puts a big bet on a nonprofit financing idea that is so new it still has to prove itself.

In the president's plan for fiscal 2014, which starts in October, he called for nearly a half-billion new dollars to be poured into an idea often referred to as "pay for success": Donors, foundations, and others financially back a new approach to dealing with a social problem that they say will help save the government money.

If it works, the government pays them back. If it works better than expected, they get an even greater financial return.

But if the idea flops, the donors won't get reimbursed and their investment will turn into a costly charitable contribution.

## **Job Training and Crime Fighting**

The approach is already being tried in several states and at the federal level, but it is so new nobody knows for sure whether donors will get their money back and if government will achieve its desired goal of alleviating social problems.

"It's a very promising model, but it is still just a model," cautions Robert Gordon, a Brookings Institution scholar and former deputy director of Mr. Obama's Office of Management and Budget.

The Department of Labor is expected to announce in May \$20-million in grants that use the pay-for-success approach to back work-force development like employee-retraining efforts.

State programs include one in New York City that awarded nearly \$10-million to a group working at Riker's Island jail to help inmates learn the skills they need to avoid crime and a return to prison.

And Massachusetts has hired nonprofits to help reduce the number of juveniles who get into criminal trouble more than once.

## **Treasury Fund**

Mr. Obama's budget proposed spending \$185-million to extend the pay-for-success idea beyond the Labor Department to other parts of government.

He also sought to create a \$300-million Pay for Success Fund in the Treasury Department.

Nonprofit organizations or local governments would be able to use the money to provide loan guarantees to investors or banks providing the money to start a pay-for-success project.

This is already playing out in a Riker's Island contract: Goldman Sachs provided \$10-million, but Bloomberg Philanthropies is guaranteeing the bulk of the bank's investment to limit its losses. Such guarantees are needed to provide banks with confidence until nonprofits establish track records, said George Overholser, chief executive of Third Sector Capital Partners, in Cambridge, Mass., a nonprofit that helps design such projects.

"We're going through a period of time in the world of pay-for-success where a track record of success needs to be built," says Mr. Overholser, whose organization was chosen to develop the Massachusetts deal. "As track records are established, banks will no longer need that guarantee."

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