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## What Can Venture Capitalists Do for Recently Released Prisoners?

New York state is about to find out.



New York State's Pay for Success program aims to help those former prisoners most at risk for recidivism, so that they land in reliable jobs instead of back in prison. (Emmanuel Dunand/AFP/Getty)



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On Fridays, people recently released from prison head to Center for Employment Opportunities in New York City for an orientation session. It's the start of a year-long relationship in which they work on a transitional work crew, learn how to search for a job with a criminal conviction, and figure out how to hold down steady employment.

"People who are at the highest risk are closest to release [from prison]. If you can get over that hump, we think that's keeping people from re-offending," says Marta Nelson, Executive Director of CEO New York City.

While the program may seem like any other recidivism-prevention initiative, what makes it a one-of-a-kind is how it's funded: by private, high-net-worth investors.

In December 2013, Gov. Andrew Cuomo announced the start of New York's Pay for Success program, the first state-led social-impact bond. Private investors put up \$13.5 million to expand a social program with a proven track record, and they expect a return

on their investment if the program meets specific performance standards. The state ends up saving money it would have otherwise spent on incarcerating people, and investors can even earn a profit.

"The bottom line is it does not matter where you work—a Fortune 500 company, in the government, or a nonprofit—we're all taxpayers and we all have to pay to incarcerate people," says Alphonso David, Cuomo's deputy secretary for civil rights.

The program focuses on people at a high risk of ending up back in prison; CEO has reduced recidivism among its participants up to 22 percent, according to a study by MDRC, a nonpartisan social-policy research organization. The Pay for Success investment allows CEO to serve an additional 500 people every year.

"It pays nonprofit providers or service providers like us what it actually costs to do what we do, and allows us to go out and do it without being concerned with how to raise money, day to day or week to week," says Nelson.

It costs a lot of money to put and keep people in prison. New York spends an average of \$60,000 per inmate and \$3.6 billion a year on prisons. Ideally, public money would be going into preventing recidivism, which is 40 percent in New York state. But often that's not the case.

"There is a growing body of evidence on a lot of these topics about effective interventions, but those interventions are too costly, too risky, too big, or the returned benefits are too far into the future for government to be willing to fund it itself," says John Roman, senior fellow at the Urban Institute.

In New York, private investors put up money, which gets paid up-front to CEO at regular intervals. These sorts of financing structures are popular in the United Kingdom, and are starting to catch on in the U.S. The Labor Department awarded \$12 million to New York to start it.

Bank of America and Merrill Lynch secured money from more than 40 investors, who put in an average of \$300,000 each, including former Treasury Secretary Larry Summers and the Sorensen Foundation.

"They all say what excited them is this is a vehicle that will allow them to invest in people's lives actually improving, and that's a source of return," says Tracy Palandjian, CEO of Social Finance, which brought all the parties together in the complex arrangement.

CEO must reduce recidivism by at least 8 percent or increase employment by at least 5 percent for investors to get their money back. But they can get more if the program exceeds those markers. The maximum payout to investors is around \$21.5 million, some of which comes from the Labor Department grant and some from the state. New York would still stand to save \$7.8 million. The first repayment will be in four years.

"The source of the return is not a traditional zero-sum transaction in the sense that the investors profit comes at the profit of someone's loss," Palandjian says. "It's about creating value together, so even after the government repays investors, they're still net."

One of the best methods to reduce recidivism is to focus on people at a high risk for ending up back in prison, and creating highly specialized counseling for their individual needs, says Thomas MacLellan, the National Governors Association director of homeland security and public safety. For some, that's employment. For others, there could be physical and mental-health challenges first.

Underlying any kind of anti-recidivism program is the need for good, solid data, MacLellan adds. Proponents of social-impact bonds argue that the private sector forces efficiency and oversight in the way that government doesn't. But it's still on states to figure out what matters most to them when it comes to public safety policy.

"Compounding this whole thing is the value. For some states, it's locking them up and throwing away the key," says MacLellan. "Corrective systems are reflections of value, and not research and science."