



**NATIONAL COUNCIL OF
NONPROFITS**

National voice. State focus. Local impact.

Principles for Consideration of New Funding Mechanisms

The nonprofit community welcomes creative funding mechanisms and innovative solutions designed to overcome barriers to success in communities. The following principles should be applied in any discussion of Pay for Success projects (Social Impact Bonds) or any other new funding approach that may be suitable for a given problem and set of circumstances.

1. Promoting Innovation

Charitable nonprofits have been in the forefront of virtually every social innovation in our country's history. Nonprofits are critical to solving problems in their communities; indeed, charities regularly pursue their missions of addressing society's most longstanding and intractable problems that business and government are not well suited or unwilling to confront. While social investing approaches will not be appropriate in all circumstances, innovative funding mechanisms should be encouraged and actively investigated.

2. Protecting Communities Above All

The social safety net is in place to prevent individuals from falling through the cracks and suffering needlessly through no fault of their own. Mission-based charitable nonprofits are committed to solutions that advance their missions and not simply in maintaining the *status quo*. As individuals reimagine the delivery of essential programs and services through new mechanisms, they must be vigilant in identifying and avoiding potential negative and unintended consequences on individuals and communities. New funding mechanisms should be piloted in circumstances that produce clear data and results while maintaining or improving positive results for the individuals that they are designed to help. This means that these pilot programs should not replace existing direct service programs with proven results and should ensure that program beneficiaries are not losing access to essential community services if the pilot programs are discontinued.

3. Recognizing the Role of Government

In new funding mechanisms, as well as in existing programs, government has the principal role in ensuring that individuals in need receive essential services. New approaches to funding and service delivery should be viewed as means for governments to fulfill their public obligations, and policymakers should not presume outside funding can replace public obligations or view them as tools for shifting government responsibilities onto the private sector.

4. Reforming Government-Nonprofit Contracting

New funding mechanisms will produce the greatest possible outcomes when flaws in existing [government-nonprofit contracting systems](#) are also repaired. Research shows that local, state, and federal governments fail to pay nonprofits on time or even the full costs of their services, impose unnecessary and costly bidding burdens and reporting requirements on nonprofits, and change contract terms with nonprofits mid-stream. Where these contracting issues exist, the new money and complexity that new funding mechanisms bring to operations may impede efficiencies and compound existing barriers to success.

5. Building Strong Partnerships

The nonprofit community's history of collaboration with businesses and government has taught us that a successful partnership requires all parties to be clear on their roles, responsibilities, and capabilities; treat each other as equal partners; recognize and respect the values and restraints of others; and put mechanisms in place to ensure that confusion and conflicts can be addressed quickly and with minimum disruptions. This experience should guide actions in the social investing context, where many new funding programs call for introducing third-party intermediaries and investors as new partners in service delivery systems.

6. Focusing on Realistic Outcomes

The use of any new funding mechanism should be targeted to services where there is not only a clear, realistic, and measurable outcome, but also a meaningful measurement. Many outcomes take longer to achieve than a one- or two-year contract period, are costly to measure, and are influenced by a variety of uncontrollable variables. In all cases, governments should support the costs of the measurements they require, whether as part of new funding mechanisms or existing and future programs.

7. Ensuring Transparency

The law requires, and the public demands, transparency around the use of public money. New funding mechanisms that involve payments to third-party intermediaries and investors must retain the same or a greater level of transparency as existing programs to ensure that the public and policymakers can see that their investments are being appropriately spent and that individuals are being served as efficiently and effectively as possible.