

Is Your Organization Ready for Pay for Success?

8 Criteria for Pay for Success (PFS) Success

1. **Government leadership** to spearhead a public/private innovation
2. **Social needs** that are sizable, unmet and high-priority
3. **Target populations** that are well defined and can be measured with scientific rigor
4. **Administrative data** that is credible, readily available, and inexpensive to collect
5. **Preventive interventions** that are highly likely to achieve impact
6. **Proven service providers** that can scale programs with quality
7. **Cost-effective programs** that can demonstrate fiscal savings for government
8. **Safeguards** to protect the well-being of populations being served

What is Pay for Success?

Pay for Success (PFS) is a general term for performance-based contracting between government and social service providers. Under these programs, impact is measured rigorously and government makes “success payments” only when results are achieved, as opposed to providing payments up front.

Social Innovation Financing (SIF) is a financing toolbox that bridges the timing gap between government payments and upfront capital needed for service providers to run PFS programs. Financing capital can be raised from philanthropic or non-philanthropic sources. **Social Impact Bonds (SIBs)** are a form of SIF.

Key Questions for Service Providers

Is your program a preventive intervention?

An ounce of prevention is worth a pound of cure. PFS favors interventions that address social needs by taking measures to prevent their occurrence, which is often more cost-effective for government than remedial treatments.

Do you serve a high-risk population with a sizable, unmet need?

Governments are interested in scale, and using PFS to serve a sizeable population that is not currently receiving treatment or services. To gain political support, a project needs to offer a meaningful impact on the government's budget.

Do you have data-driven evidence of program impact and outcomes?

Service providers interested in PFS must have proven, evidence-based interventions and strong internal data systems and analysis. This doesn't necessarily require a prior randomized control trial, but it does require evidence compelling enough to attract investors who will absorb the risk of non-impact.

What is the cost-benefit of your program for government entities?

A major component of PFS is a cost-benefit analysis that demonstrates a program's cost effectiveness to government entities. A deep understanding of your program's unit economics as well as the current costs to government generated by the target populations you serve is essential.

Have you scaled your programs to serve your target population?

Since PFS seeks to address a sizable need, service providers must demonstrate organizational experience and capacity for scaling their services.

Do you have strong relationships with potential funders?

PFS projects are financed by both philanthropic grants and non-philanthropic capital. Service providers participating in PFS must leverage their relationships with funders to garner support for the project and may, in the process, deepen the commitment funders have to the organization.



Key Steps of PFS/SIF Pilot

1. Government, intermediary and funders **agree on targeted outcomes** for a societal dilemma – for example, reducing recidivism or homelessness.
2. Government and intermediary enter a **multi-year contract**, in which the government agrees to pay intermediary if targeted outcomes are achieved.
3. Private and philanthropic funders **provide the necessary up-front capital** to fund the program.
4. One or more service provider(s) deliver the social intervention.
5. Independent evaluator **monitors performance** against agreed-upon benchmarks.
6. Intermediary receives government payments only if targeted social outcomes are achieved, then repay funders or reinvests in the programs.

Which Program Areas are the Most Promising for PFS?

Not all programs or interventions are appropriate for PFS. At this time, program areas with the greatest potential are those that serve target populations that generate significant costs for government, are tracked by government administrative data, and are served by proven providers with effective, evidence-based interventions.

- Addressing Homelessness
- Workforce Development
- Preventive Healthcare
- Reducing Recidivism
- Improving Foster Outcomes
- Early Childhood Education

Where is PFS Happening?

PFS and SIF projects are in various stages of development across the US with support from all levels of government, including allocations over \$100 million by President Obama in his 2012 and 2013 Budgets.

STAGE OF PFS DEVELOPMENT	LOCATION
Funding Allocated	Department of Labor; Department of Justice; New York; Massachusetts
Official Procurement in Process	New York State; Cuyahoga County, OH; New York City, NY
Pilot Project in Development or Launched	Massachusetts (2); Minnesota (2); Cuyahoga County, OH; County of Fresno, CA; New York City, NY; New York State; Illinois
Early Exploration	Connecticut; New Jersey; Los Angeles, CA; Santa Clara County, CA

Third Sector is a nonprofit that collaborates with government, funders, and service providers to create PFS and SIF solutions. Co-founded by George Overholser, Third Sector provides PFS program feasibility and risk assessments, deal construction, and capital fundraising advisory services to high performing service providers. Our team has proven experience in finance, project management and evaluation, and cross-sector partnerships.

© 2013 Third Sector Capital Partners. The text in this document may be reproduced free of charge providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Third Sector copyright and the title of the document be specified.