

IS YOUR ORGANIZATION READY FOR PAY FOR SUCCESS?

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”) bridges the timing gap between the upfront capital needed for service providers to run PFS programs and contingent government payments by raising funds from a variety of investors. Social Impact Bonds (“SIBs”) are a form of SIF.

Key Steps of a PFS/SIF Project

- 1 Government, service providers, intermediary and funders agree on targeted outcomes for a societal dilemma – for example, reducing recidivism or homelessness.
- 2 Government and project partners enter a multi-year contract, in which the government agrees to make success payments if targeted outcomes are achieved.
- 3 Private and philanthropic funders provide the necessary upfront capital to finance the social intervention
- 4 One or more service provider(s) deliver the social intervention.
- 5 Independent evaluator monitors outcome performance and reports to project partners on results.
- 6 Government makes success payments only if targeted outcomes are achieved. Success payments are used to repay investors and/or reinvest in continuing the project.

Why Pay for Success?

In an era of constrained government budgets and annual fundraising cycles, PFS gives service providers a new and innovative method of financing multiyear projects where unrestricted operating funds for program delivery are provided upfront from a mix of traditional philanthropy and commercial or individual investors. Most importantly, PFS creates a mechanism that allows funding to be reinvested in successful programs at the conclusion of a PFS project. PFS projects also fund the rigorous evaluation of a particular intervention, providing useful evidence of effectiveness for service providers. In addition to offering an innovative financing opportunity, service providers can deepen relationships with government and key partners through the collaborative project development process of PFS. The rigor of PFS can transform how an organization approaches service delivery and outcome measurement.

Key Questions for Service Providers: Are You Pay for Success Ready?

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 addressing lingering social problems in a scalable way. PFS can serve a sizeable, high-need and “deep end” population that is not currently receiving treatment or services. To gain political support, a project needs to offer a meaningful fiscal impact on the government’s budget and these hardest to serve populations are typically the most costly for government.

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

Ideally, service providers interested in PFS should have proven, evidence-based interventions and strong internal data systems and analysis. While this does not necessarily require a randomized control trial, it does require a history of evidence compelling enough to attract investors willing take on performance risk.

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

A major component of PFS is a cost-benefit analysis that demonstrates a program’s cost effectiveness to various levels of government. A deep understanding of your program’s cost per participant as well as the current marginal costs to government of the target populations you serve is essential. Government partners with access to administrative data are typically needed to develop a realistic cost-benefit analysis.

What is your organization’s service capacity and program implementation history?

Since PFS seeks to address a sizable need, service providers must demonstrate to government and funders organizational experience and capacity for scaling their services as well as a track record of implementing programs with fidelity and of strong internal quality control measures.

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 existing relationships with funders to garner support for the project, including pre-development funding to support work required to develop a project. In the process, a service provider can strengthen the commitment funders have to their organization.

Which program areas are the most promising for Pay for Success?

Not all 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. The following areas are particularly promising for PFS, although by no means are they an exclusive list of potential PFS program areas:

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

How would my organization pursue Pay for Success?

Some states and counties are issuing Requests for Information (“RFIs”) to explore the feasibility of PFS and solicit feedback on possible intervention areas. The RFI is typically followed by a Request for Proposal or Responses (“RFP” or “RFR”) focused on a particular intervention area(s). Third Sector can partner with service providers on both RFIs and RFPs/RFRs and provide assistance on detailed program design, economic and impact modeling, and initial funder outreach. In locations where an RFI or RFP/RFR has not been released, service providers can initiate discussions on PFS with government. Third Sector can serve as a partner in developing a project brief in conversations with established government contacts.