



## Pay for Success

Performance-based contracting within the social sector where government pays providers for real-time outcomes they achieve (i.e. reduced recidivism, improved health outcomes) rather than specific outputs (i.e. service reimbursements, per capita formulas) used to achieve those outcomes.



## Social Innovation Finance

A financing approach that allows service providers to access needed up-front working capital to bridge the timing gap between PFS project implementation and government success payments. When these arrangements involve outside investors they are sometimes called *Social Impact Bonds (SIBs)*.

### Pay for Success Step-by-Step



### Pay for Success: Stakeholders

#### Government

- Identifies intermediary and/or provider(s)
- Makes contingent payments based on outcomes/savings

#### Intermediary

- Negotiates PFS contracts, identifies provider, raises capital
- May also be project manager and disburse payments

#### Service Provider(s)

- Delivers services
- Receives cost coverage

#### Funders

- Provide working capital as grants or loans
- Repaid out of contingent government success payments

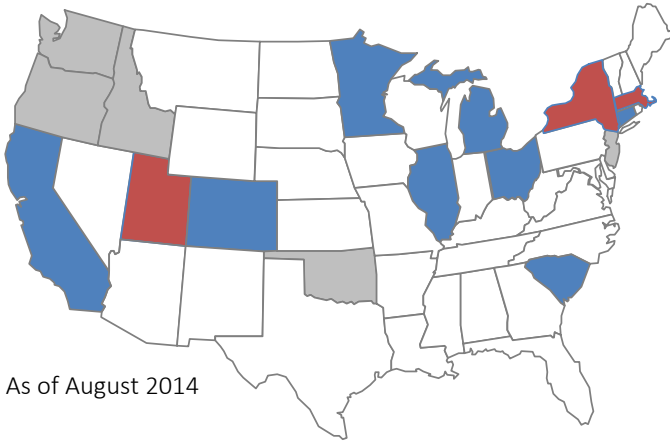
#### Evaluator

- Designs rigorous evaluation
- Measures progress towards outcomes

### Keys to Pay for Success

- **Government Leadership.** Governments need to champion projects, dedicate resources, and agree to pay for rigorously evaluated outcomes.
- **Significant Need.** Pay for Success works best with high-risk, high-need populations.
- **Credible Data.** PFS projects need to analyze past outcomes data as well as collect data on an ongoing basis to measure performance.
- **Interventions that Work.** Interventions should be low-cost and high impact in order to provide a social and/or financial benefit to government.
- **Providers with Capacity to Scale.** Providers need to be willing and able to scale services to serve significant numbers over the project timeframe for rigorous outcomes evaluation.
- **Risk Mitigation.** Projects must build in safeguards against harm to those served.

## Pay for Success in the United States



### Launched Projects

New York City; Salt Lake City (UT); New York State; Massachusetts

### Projects in Development

Connecticut; Michigan; Minnesota; South Carolina; Cuyahoga County (OH); Ohio; Illinois; Denver (CO); Colorado; Fresno County (CA); San Francisco (CA); Los Angeles County (CA); San Diego County (CA); Salt Lake City (UT)

### Legislative Interest/Development

New Jersey; Oklahoma; Idaho; Oregon; Washington

## Third Sector is the Nation's Leading PFS Practitioner

### Our Work

#### Massachusetts: Nation's Largest PFS Pilot

Third Sector serves as the project intermediary in a \$27 million PFS project that seeks to reduce recidivism and increase employment outcomes for over 900 at-risk young men in Massachusetts.

#### Cuyahoga County: First County-Level PFS Project

Third Sector has advised the County on PFS project development, leading to an expected launch of a PFS pilot in 2014 centered on reuniting homeless mothers with children in or at risk of out of home placement.

#### Santa Clara County: PFS Advisory

Developing two PFS pilots focused on chronic homelessness and acute mental health with the County in collaboration with Step Up Silicon Valley and The Health Trust.

#### Illinois and New York: PFS Project Construction

Third Sector serves as an intermediary on PFS projects in development in New York and Illinois. Third Sector is working closely with government and service providers to develop projects focused on juvenile justice and dually involved youth, respectively.

#### California: PFS Project Feasibility

Third Sector is working with several counties across California to assess PFS project feasibility, lead PFS contracting sessions, build stakeholder engagement and work towards project development.

#### Recognized Thought Leader

Third Sector has authored multiple articles about PFS and been featured in publications including the New York Times, Bloomberg News, The Economist and the Wall Street Journal. We have presented at the White House, on Capitol Hill and at conferences including Social Capital Markets.

### Leadership Team



**George Overholser.** CEO and Co-Founder. Former head of NFF Capital Partners, raising capital for nonprofits. Member of Capital One's founding management team. Expert in finance, evaluation and social entrepreneurship.



**John Grossman.** Managing Partner and General Counsel. Former MA Undersecretary of Public Safety. Built nation's first statewide computer crime unit. Extensive government management experience.



**Caroline Whistler.** Partner and Co-Founder. Supported over \$300 million in financing for nonprofits at NFF Capital Partners. Leads advisory work at Third Sector. Experienced project manager.



**Rick Edwards.** Partner, Capital Markets. Former head of Project Finance at JPMorgan Chase, developing private-public partnerships. Focused on raising capital and project structuring.