



Fact Sheet for Social Innovation Fund Pay for Success Grant Award to Third Sector Capital Partners, Inc. **October 1st, 2014**

Third Sector Capital Partners, Inc. (Third Sector)

Third Sector is a nonprofit advisory firm and intermediary focused on the emerging Pay for Success (PFS) and Social Innovation Financing field. Third Sector's mission is to accelerate America's transition to a performance-driven social sector.

Cofounded by George Overholser, Drew von Glahn and Caroline Whistler in 2011, Third Sector has been a leader in the nascent field of PFS from practically its inception. Third Sector served as the intermediary in the first ever state-level Pay for Success deal, a contract in Massachusetts that focused on generating positive outcomes related to Juvenile Justice.

Third Sector is currently partnering with 12 governments and service providers to conduct PFS feasibility studies or drive project construction, including major projects in Massachusetts, Illinois, Santa Clara County (CA), Salt Lake County (UT) and Cuyahoga County (OH). Third Sector has driven over \$60M in public and private financing towards outcomes-based contracts to date, with \$115M additional financing clearly in sight.

Third Sector is headquartered in Boston, MA and has an office in San Francisco, CA.

Social Innovation Fund

The Social Innovation Fund (SIF), a key White House initiative and program of the Corporation for National and Community Service (CNCS), combines public and private resources to grow the impact of innovative, community-based solutions that have compelling evidence of improving the lives of people in low-income communities throughout the United States.

Five years into the program launched by President Obama in 2009, the Social Innovation Fund and its non-federal partners have committed to invest more than \$700 million in effective community solutions. In 2014, Congress increased SIF's budget by 40% from 2013 – making it the largest grant pool in the history of the program.

2014 SIF Pay for Success Competition

Third Sector received \$1.9 million from the Social Innovation Fund in order to help advance and diversify the PFS field. Third Sector was one of 8 grantees selected to receive a portion of the \$12 million dollar available for SIF PFS grant. The Federal funds will be matched 100% with non-Federal funds.

As part of 2014 Congressional appropriations, SIF was given authority to use up to 20% of 2014 grant funds to implement a competition to test Pay for Success approaches. Congress wanted an agency, without any skin in the game, to do an honest, impartial experiment about Pay for Success as a solution and to learn more about where it works, where it doesn't and what lessons we learn along the way.

Pay for Success has received strong bi-partisan support and is also a presidential priority. Federal legislators and leaders from both sides of the aisle recognize and appreciate the benefits of investing in Pay for Success.

SIF's priorities are economic opportunity, healthy futures, and youth development, and they are interested in promoting PFS work in these areas. Furthermore, SIF's goal with this grant was to accelerate the Pay for Success field by diversifying the sector, in terms of social issue areas, geographies and implementing organizations.

SIF selected grantees to implement projects in one of two approaches: 1) Provide Technical Assistance to Assess Feasibility and Develop PFS Capacity or 2) Structure PFS Transactions. Third Sector was selected to do the former. Third Sector is a leader in the field of PFS feasibility assessment and has worked with a diverse range of clients across the country to develop capacity for PFS contracts to be constructed.

Third Sector's Award

Third Sector, with assistance from its partners, will hold an open competition to select approximately 10 Sub-Recipients across two cohorts to receive grants or services valued at a minimum of \$50,000 for periods up to three years. The first cohort of approximately 5 Sub-Recipients will be selected within the next six months and will then partner with Third Sector to receive Technical Assistance that will help them assess the feasibility of constructing a PFS contract as well as develop the capacity to construct a successful project.

Third Sector and its partners will focus on selecting Sub-Recipients that engage both local and state government, have energized local philanthropic support and have demonstrated a high degree of PFS readiness. Third Sector has worked with and provided similar services to a variety of state and local governments across the country.

Third Sector will use the grant to provide feasibility technical assistance with the goal of not only assisting promising cohorts of government Sub-Recipients to move toward PFS transactions, but also to dramatically expand national capacity to implement PFS financing strategies. All Sub-Recipients will participate in a learning laboratory that will build and share knowledge with other States, cities, counties, and service providers interested in exploring PFS social impact financing. Third Sector has played a central role in developing the PFS field through publications, lectures, and direct engagement with academic institutions.

Pay for Success

Pay for Success is a general term for performance-based contracting between government and social service providers, where government only pays providers if target outcomes are achieved, e.g. reduced recidivism or improved health outcomes, as opposed to providing cost reimbursement payments.

Most Pay for Success contracts involve these key elements:

1. Government, service providers, intermediary and lenders 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 up-front capital to lead contractor to fund the program.
4. One or more service providers deliver the social intervention.
5. An independent evaluator monitors performance against agreed-upon benchmarks and reports to project partners on results
6. Government makes success payments only if targeted social outcomes are achieved; success payments are then used to repay lenders and/or reinvest in the project.

Pay for Success contracts help governments align scarce resources with results to serve communities in need. They both promote and support the capacity of those involved in the social sector to implement evidence-based solutions.

Partners and Their Roles

Abt Associates is a mission-driven, global leader in research and program implementation in the fields of health, social and environmental policy, and international development. Known for its rigorous approach to solving complex challenges, Abt Associates is regularly ranked as one of the top 20 global research firms

and one of the top 40 international development innovators. The company has multiple offices in the U.S. and program offices in more than 40 countries. For more information contact Caroline Broder (caroline_broder@abtassoc.com)

Abt will provide evaluation and programmatic experts who will work alongside Third Sector staff in delivering Technical Assistance, thus not only benefiting the Sub-Recipients, but also building other partners' capacity to bring PFS expertise to their much wider audience of governmental leaders and the hundreds of federal grantees who receive Technical Assistance on evaluation and evidence-based practice.

The National League of Cities (NLC) is dedicated to helping city leaders build better communities. NLC is a resource and advocate for 19,000 cities, towns and villages, representing more than 218 million Americans. The Institute for Youth, Education, and Families, an action tank within NLC, helps municipal leaders take action on behalf of the children, youth, and families in their communities. For more information contact Andrew Moore (moore@nlc.org).

The National Governors Association (NGA) is the bipartisan organization of the nation's governors. Through NGA, governors share best practices, speak with a collective voice on national policy and develop innovative solutions that improve state government and support the principles of federalism. For more information contact Jodi Omeear (JOmeear@nga.org).

The National Association of Counties (NACo) is the only national organization that represents county governments in the United States. Founded in 1935, NACo assists America's 3,069 counties in pursuing excellence in public service to produce healthy, vibrant, safe and resilient counties. NACo promotes sound public policies, fosters county solutions and innovation, promotes intergovernmental and public-private collaboration and provides value-added services to save counties and taxpayers money. For more information contact information contact Meaghan Gilmore (mgilmore@naco.org).

America Forward is a national non-partisan policy initiative, spearheaded by the nonprofit social innovation organization and venture philanthropy fund New Profit, Inc. We unite national policymakers with innovators who lead high-impact and results-driven organizations, to advance a public policy agenda that champions innovative and effective solutions to our country's most pressing social problems. For more information contact Sam Hiersteiner (sam_hiersteiner@newprofit.com).

NLC, NGA, NACo, and America Forward will educate their constituencies about the benefits of PFS and the opportunities presented by the SIF PFS project. They also bring a cadre of experts in governmental structure and the SIF priority program issue areas to assist in providing high quality technical assistance. This partnership will ensure that these organizations' resources and insights are brought to bear in building the knowledge base necessary to scale PFS Social Impact Financing nationally.