Issue Brief 1:
Introduction to Pay for Success

Pay for Success (PFS) is a set of innovative, outcomes-based financing and funding strategies seeking to directly and measurably improve the lives of people in need. In this brief, we outline how PFS can shift resources toward long-term, positive outcomes.

About this Issue Brief Series

This issue brief is the first in a 10-part series written **for government officials interested in learning how to use Pay for Success tools and principles.**

The series summarizes best practices and lessons learned at Social Finance from a decade of designing, launching, and managing Pay for Success projects. It includes guidance on each step of the process, from deciding whether Pay for Success is a good fit to actively managing a project post-launch.

Click here to access the complete issue brief series on our website.

The Challenge of Prevention

Our systems of delivering and paying for services to address social challenges are largely aimed at addressing problems as they arise, rather than preventing them. Based on our work and conversations with policymakers throughout the country, we have observed four overarching issues that can help explain this phenomenon: (1) uncertainty; (2) absence of measurement; (3) reactivity; and, underneath these factors, (4) wrong-pockets problems that, in the absence of greater collaboration, frustrate efforts to solve systemic, often dispersed problems.[1]

[1] Social Finance, 2019.

BARRIER 1: UNCERTAINTY ABOUT WHICH PROGRAMS WILL ACHIEVE POLICY GOALS

Many leaders aren't sure which programs will achieve their goals. The social sector is flooded with claims of dramatic cost effectiveness, of "proven" programs, and of unambiguous success. But underlying these assertions is a large and growing body of research that suggests an unwelcome truth: social interventions typically don't produce the results they set out to achieve.[2,3] What works in one place, for one group of people, may not—indeed, often does not—work as well with another.

BARRIER 2: ABSENCE OF CAREFUL MEASUREMENT OF WHAT MATTERS

The public sector is trending toward a greater outcomes orientation, but progress is slow. Though every public agency has planning and budgeting processes, few have clear goal setting, evaluation, and reconciliation processes built into their annual cycles. Few follow best practices in setting forward-looking measurement plans, with carefully defined targets matched against evaluation methodologies and data sources. And few bring in the voices of community stakeholders and consumers to guide outcomes selection. In the absence of specific, multi-year outcomes goals, and ongoing measurement to understand the extent to which goals are being achieved, it's impossible to create accountability.

BARRIER 3: PRESSURE TO REACT TO NEAR-TERM CRISES

Addressing long-term outcomes involves mobilizing resources today to avoid a crisis in the future. But prevention cuts across the expediency baked into our political process, which prioritizes near-term results that guide annual budgeting cycles. Not surprisingly, myopic measurement leads to more of a focus on resolving immediate challenges, and less attention on how to prevent them in the first place.

BARRIER 4: 'WRONG-POCKETS' PROBLEMS AND LACK OF ALIGNMENT BETWEEN SECTORS

Critical social issues, such as ending homelessness or increasing economic mobility, don't fit neatly into agency or jurisdictional silos. These multi-factorial challenges touch on the work of dozens of agencies spread across cities, counties, states, and the federal government. The advantages of solving these issues are therefore diffuse, and there are few mechanisms available that support benefit-sharing between agencies or levels of government—so it can be impossible to realize the activation energy needed to test powerful, multi-sectoral programs.

PFS in Action: South Carolina and Nurse-Family Partnership

In February 2016, the state of South Carolina launched a PFS project that significantly expanded access to the national Nurse-Family Partnership® program, a high-quality nurse home visiting program.

Over four years, the project deployed $30 million to serve 3,200 first-time, low-income mothers and their babies, with the goal of preventing preterm births, reducing child hospitalizations and emergency department visits for child injury, increasing healthy birth intervals, and reaching more women in ZIP codes with the highest concentrations of poverty.

The State will make success payments only to the extent that an independent evaluator, J-PAL North America, finds improvements in these outcomes that meet pre-specified thresholds, measured via a randomized controlled trial.

[2] House Committee on Ways and Means, 2013.
[3] Rossi, 1987.

Mobilizing Resources Towards Outcomes

Jurisdictions throughout the country are beginning to address these barriers through a set of innovative funding strategies collectively known as Pay for Success (PFS). PFS strategies build stronger contractual relationships between funding and results—paying for important, policy-relevant outcomes achieved, rather than for uncertain programs. At times, PFS strategies leverage private investors to support the working capital needs of programs by providing them with expansion capital to serve more people and taking on the risk and potential reward of getting better results.

A BRIEF OVERVIEW OF HOW PAY FOR SUCCESS WORKS

1. **Identify Goals:** Social services funders, such as health and human services agencies or local workforce boards, identify specific, high-value policy goals (e.g., lowering preterm birth rates for first-time mothers).
2. **Assign Measurable Outcomes and Prices:** Social services funders decide in advance how to measure progress by selecting a clear set of outcomes and defining an evaluation methodology to track impact. They also agree on what degree of improvement on those outcomes would constitute success and put a price tag on the value of each outcome goal achieved.
3. **Embed Outcomes into Contracts:** Funders enter into outcomes-based contracts with social service providers in which payments are only made to the extent that outcomes goals are achieved.
4. **Mobilize Capital:** Where necessary, community organizations can draw on upfront working capital for projects from impact investors—a growing group of foundations, mission-driven financial institutions, high-net-worth individuals, and others who care about the social impact of their investments.

Since funders only pay for results, PFS can help figure out what works in a given place and time, ensuring that limited dollars are used effectively.

Core Principles Underlying Pay for Success

Clearly defined outcomes

Data-driven decisions

Cross-sector partnerships

Strong governance and accountability

Catalytic capital for impact

Introduction to this Issue Brief Series

This series of 10 issue briefs on Pay for Success (PFS) is intended to provide practical guidance and examples for government officials interested in pursuing PFS within their agency or jurisdiction. We wrote this series to help address common questions about PFS and highlight the lessons we've learned at Social Finance after a decade of working to pioneer PFS in the United States.

Each brief serves as an introduction to a different element of PFS, from understanding whether it is a good fit for the problem at hand (Brief 3), to selecting project outcomes (Brief 5), to managing performance post-launch (Brief 9). The briefs are sequenced so that when they are read from start to finish, they provide a complete overview of the PFS project exploration, development, and management process. However, they may also be used as standalone documents for those who would like to learn more about a specific element of PFS.

EXPLORE PFS: BRIEFS 1-3

- **Brief 1: Introduction to Pay for Success**
  Pay for Success as a mechanism for directing funding towards outcomes.
- **Brief 2: The Pay for Success Toolkit**
  An overview of Social Impact Bonds, Outcomes Rate Cards, and Career Impact Bonds.
- **Brief 3: Assessing Pay for Success Project Fit**
  Criteria to help decide if PFS is the right tool for the problem at hand.

LAUNCH PFS: BRIEFS 4-8

- **Brief 4: Getting Started on Pay for Success**
  Initial actions outcomes payers can take to build strong project foundations.
- **Brief 5: Defining Success in Pay for Success**
  Identifying and selecting meaningful outcomes for PFS projects.
- **Brief 6: Measuring Success in Pay for Success**
  Choosing the right evaluation methodology for PFS projects.
- **Brief 7: Is the Price Right?**
  Strategies for valuing project outcomes.
- **Brief 8: Pay for Success Contracting**
  Creating legal agreements for PFS projects.

MANAGE PFS: BRIEFS 9-10

- **Brief 9: Active Performance Management**
  Ongoing monitoring and course-correction to ensure project success.
- **Brief 10: Pay for Success Governance**
  Moving from compliance to collaboration.

Pay for Success Issue Briefs

SOCIAL FINANCE

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About Social Finance

This brief was written by Jake Segal, Vice President, Head of Impact Advisory & Public Sector Practice, and Emily Carpenter, with support from Rachel Levy. Social Finance is a national impact finance and advisory nonprofit. We work with the public, private, and social sectors to create partnerships and investments that measurably improve lives. Since our founding in 2011, we have mobilized $350 million in new investments designed to help people and communities realize improved outcomes in education, economic mobility, health, and housing. Social Finance pioneered Pay for Success, a set of innovative financing strategies that directly and measurably improve the lives of those in need. Read more about our work in Pay for Success at socialfinance.org.

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