



**Stakeholder Perspectives on the  
Current State of the Pay for Success Field:**  
CNCS Process Evaluation of the  
Social Innovation Fund PFS Program

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Corporation for  
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COMMUNITY  
SERVICE** 





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## I. Introduction

Pay for Success (PFS) is a new program funding strategy that seeks to address the disconnect between government funding and real-world impacts by tying funding to the program's impact in the community. Instead of paying for services regardless of their effects, governments (or other entities) only pay if programs actually achieve positive outcomes for the people they are designed to benefit. Where government employs PFS strategies, taxpayers no longer bear the risk of paying for programs that are not effective.

The PFS strategy typically involves a number of important stakeholders not always found in the traditional government-service financing model. Philanthropies, high net-worth individuals, financial institutions, or others provide the investment to cover the cost of a service provider delivering an intervention. An independent party evaluates the impact of the service delivered and determines whether outcome goals were met. If they were, government provides investors with "success payments," including the principal and a modest return. Often the government entity contracts<sup>1</sup> with an intermediary to coordinate the PFS project. The intermediary's responsibilities may include raising capital from investors, facilitating contract negotiations and agreements between partners (including defining outcome goals), overseeing project implementation, and commissioning evaluation activities.

One challenge that arises in PFS contracts is that service providers may not have the resources to fund the intervention upfront on their own. To address this concern, PFS contracts often incorporate PFS financing, which covers the costs of service provision until success is achieved and payments are triggered. PFS financing is sometimes referred to as a social impact bond (SIB). Because recent PFS activity in the United States involves SIBs, the PFS activity considered in this report focuses on PFS contracts that involve SIBs /PFS financing. For simplicity's sake, we will use the term PFS for the rest of this report to refer to this specific project type—projects that have used or seek to use a PFS contract and SIBs for PFS financing. We recognize, however, that PFS projects are not limited to this model.

The following document contains a summary of findings from stakeholder discussions, which were conducted by Abt Associates as part of the Process Evaluation of the Social Innovation Fund (SIF) Pay for Success (PFS) program for the Corporation for National and Community Service (CNCS). These discussions with experts in the PFS/Social Impact Bond (SIB) field are one component of the multi-part data collection strategy for this effort. The purpose of these discussions is to provide a strong knowledge base to inform the agency's work, thinking, and practice in this area going forward, to help frame and support other planned data collection and activities, and to focus other products coming out of the PFS evaluation project, namely, the special topic briefs. For a more detailed overview of how this document fits within the larger Process Evaluation of the SIF PFS program, please see Appendix B.

The remainder of this chapter describes the methodology used for these stakeholder discussions. Chapter II contains a list of the organizations and roles represented by the stakeholders and the topics that were discussed. The key themes and findings that emerged from the expert stakeholder discussions are summarized in Chapter III.

Findings presented in this report are based on short discussions (approximately 30–60 minutes long) conducted by Abt Associates with 14 expert stakeholders in the PFS field about a variety of topics related to the PFS model and its design and implementation. These discussions were conducted via telephone between late January and March 2015, using a customized topic guide. The main sections of the topic guide focus on key components of the PFS model and ongoing or emerging themes. Stakeholders were asked to share their insights on topics that best reflect their roles and area(s) of expertise within the PFS realm. Details about the topics and number of responses per topic are covered in Chapter II.

Stakeholders were initially identified from a review of literature, current PFS project documents, recommendations from CNCS and other contractors involved in CNCS's PFS program, and representatives of the federal agencies involved in

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<sup>1</sup> The term "contract" in this report is used in a general sense and should not be considered synonymous with Federal (or other governmental) contracting/procurement that follows the Federal Acquisition Regulations (or other governmental regulations).

PFS initiatives. From a total of over 45 potential participants, the list was narrowed down to approximately 25 individuals from four expert groups:

1. **PFS Implementers:** Individuals/organizations that have firsthand experience with designing and implementing a fully operational PFS/SIB project.
2. **Federal Agency Staff:** Representatives from federal agencies who have been exploring the PFS/SIB concept for their departments.
3. **Investors:** Representatives from organizations that have invested in or provided other financial support for PFS/SIB projects.
4. **Policy Experts:** Individuals who have expertise in the PFS/SIB field based on evaluation and/or analysis of the PFS/SIB model.

## II. Stakeholder Overview

The final group of stakeholders interviewed represents a mix of experts from various levels of government, as well as representatives from the non-profit, academic, consulting, and financial sectors who have experience in the various roles/partnerships involved with the PFS field. Exhibit 2-1 presents a list of the organizational affiliations of the individuals who participated,<sup>2</sup> their role in the PFS field, and the date the discussion was held.

Exhibit 2-1: Expert Stakeholder Organizations, Roles, and Dates of Discussions

Organization	Stakeholder Role	Date of Discussion
Health and Human Services	Federal Agency Staff	1/29/15
Health and Human Services	Federal Agency Staff	2/12/15
Housing and Urban Development	Federal Agency Staff	2/17/15
Department of the Treasury	Federal Agency Staff	2/27/15
Department of Education	Federal Agency Staff	3/23/15
Cuyahoga County, Ohio	PFS Implementer	2/5/15
Social Finance	PFS Implementer	3/17/15
Third Sector Capital Partners	PFS Implementer	2/18/15
MDRC	Policy Expert	2/24/15
Urban Institute	Policy Expert	3/10/15
Georgetown University, Beeck Center for Social Innovation	Policy Expert	3/4/15
Goldman Sachs	Investor	3/4/15
Living Cities	Investor	1/30/15
Bank of America Merrill Lynch	Investor	2/13/15

The discussion guides were developed to cover a range of overarching issues (e.g., the future of the PFS model) as well as a set of customized topics intended to draw upon each respondent’s areas of expertise. Collectively, these discussion guides covered the following topics:

- Stakeholder/Organization Background
- Government Involvement and Role
- PFS Activity in Specific Policy Areas
- Feasibility of PFS
- Project Partnerships
- Contract Development and Negotiation
- Focus Area and Service Provider
- Funding/Financing Models
- Evaluation Design and Implementation
- Observations/Recommendations

Each topic guide was customized based on a pre-discussion review of the stakeholder’s role and background in the PFS field. Exhibit 2-2 shows which expert stakeholders responded to a given topic. This information is important when reviewing the emerging themes for each topic area, as it provides context for both the number and type of stakeholders that contributed to each topic. The full list of main topics and subtopics can be found in Appendix A.

<sup>2</sup> Due to the confidentiality agreement between Abt Associates and the stakeholders, this document does not name the individual stakeholders involved in the discussions.

Exhibit 2-2: Expert Stakeholder Topic Responses

Organization	Stakeholder Group	Pay for Success Topics Discussed								
		Government Involvement and Role	PFS Activity in Specific Policy Areas	Feasibility of PFS	PFS Project Partnerships	PFS Contract Development and Negotiation	PFS Focus Areas and Service Provider	Funding /Financing Models	Evaluation Design and Implementation	Observations/ Recommendations
Department of Health and Human Services	Federal Agency Staff	X		X						X
Department of Health and Human Services	Federal Agency Staff	X	X		X				X	X
Department of Housing and Urban Development	Federal Agency Staff	X	X	X	X					X
Department of the Treasury	Federal Agency Staff	X			X			X	X	X
Department of Education	Federal Agency Staff	X	X							X
Cuyahoga County, Ohio	PFS Implementer	X	X	X	X	X				X
Social Finance	PFS Implementer		X	X	X	X		X	X	X
Third Sector Capital Partners	PFS Implementer	X	X	X			X	X	X	X
MDRC	Policy Expert	X		X		X				X
Urban Institute	Policy Expert	X	X	X						X
Georgetown University, Beeck Center for Social Innovation	Policy Expert	X	X	X				X		X
Goldman Sachs	Investor	X	X	X	X	X		X	X	X
Living Cities	Investor	X		X				X		X
Bank of America Merrill Lynch	Investor			X		X	X	X		X

### III. Stakeholder Feedback on PFS Policy, Design, and Program Elements

This chapter explores the key themes and findings that emerged from the expert stakeholder discussions. The chapter is organized around sub-sections that represent the primary topic areas in the discussion topic guide.

#### Government Involvement and Role

The subject of government involvement in PFS is a broad one, and central to the question of how PFS will evolve in the United States. How governments at the local, state, and federal levels engage with the opportunities and challenges presented by PFS may influence whether the initial projects are able to demonstrate enough promise to keep interest in PFS alive and growing. The issue of government's role in PFS was addressed by nearly all respondents, both those working within and outside of government. Conversations with experts in the PFS field centered on the potential role of the federal government as well as on roles for state and local governments. Those who commented on state and local government roles in PFS were asked what they felt were the requisite capacities needed by state and local governments to engage effectively in PFS, and what were the biggest challenges preventing state and local governments from engaging more fully. The four major themes that emerged from 12 discussions about the role of government in PFS are summarized below:

- 1. The federal government can be an important catalyst by providing technical assistance and funding support, as well as by providing funds to bridge the gap left by private investors. At the same time, PFS presents significant complexities and challenges that must be overcome at the federal level.**

Many stakeholders spoke about the potential for the federal government to be a catalyst for PFS; for example, the federal government could seed new PFS projects, as CNCS is doing. Some respondents felt that the federal government should be a provider of technical assistance (TA) because the need is great, but funds for TA are beyond the reach of many state and local governments. One respondent emphasized that this could be accomplished with a modest investment of funds. The federal government could also advance the PFS approach by giving it extra weight or consideration when awarding federal grants and contracts. Another stakeholder suggested that the federal government should fund learning mechanisms (information-sharing) and capacity-building in the areas of data-tracking and evaluation to improve PFS initiatives.

Other suggestions centered on the funding role that the federal government could take to share some of the risk with private investors. On a related note, one respondent associated with a federal agency observed that there is a limit to how much risk private markets will take on for social enterprise, and the government's role should be to fill in the funding gap—a role that is well established in the areas of housing and community development. To help institutionalize this role, the federal government could create PFS bonds (e.g., an “early childhood bond” that would be paid out over 30 years). Similar suggestions from respondents within the investor community were that the federal government should fund efforts to mitigate the potential risk to private investors (i.e., first-loss guarantees) and that federal cost savings should not revert to federal budgets but rather should be allowed to accrue to the PFS project.

Beyond “big-picture” suggestions, such as the ones above, many of the conversations, especially those with federal agency respondents, sounded a cautious note. Asked about potential roles of the federal government in PFS, some federal agency respondents said that it is too early to tell. Others focused on the challenges of operationalizing PFS at the federal level. One respondent said that federal agencies would have to think through how to develop something that works for enthusiastic states while also protecting federal interests and attracting private investors. The respondent mentioned that operational details can get very complex; for example, from the federal perspective implementing PFS for Medicaid would have to involve the Office of Management and Budget to ensure adequate safeguards for program integrity.



Another federal respondent pointed out that PFS may be appropriate for federal mandatory programs (such as Medicare and Social Security, where payments are required by law) because these will allow PFS savings to be realized at the federal level. A federal government agency may not realize savings in programs with a fixed appropriation since the money is already set aside and obligated.

**2. Much of the impetus for PFS comes from state and local governments, which can be optimal laboratories for PFS innovations. At the same time, state and local governments need support to be able to rise to this role.**

Many stakeholders observed that interest in PFS comes from state and local governments: Innovation happens at the local level and then filters up to the federal level. Several respondents said that local governments are the ideal testing ground for innovations; moderately sized governments are most suitable for PFS because they are small enough to be able to implement new programs relatively quickly. Similarly, respondents recognized the need for a government champion that could provide political support to move a complex PFS project forward. Indeed, one respondent noted that much of the federal interest in PFS at the Departments of Justice and Labor had been driven by “bottom-up” interest from states and localities in those programmatic areas. Another respondent pointed out that local governments are experimenting with new and different PFS models in the areas of asthma control, mental health, and homelessness.

However, despite this innovative spirit, state and local governments often lack the resources (capacity and/or funding) to undertake PFS projects on their own, suggesting a need for federal support and for federal action to be in sync with PFS movement at the state and local levels. One respondent felt that the localities and states have had the primary role in PFS implementation, whereas federal involvement has provided leadership and technical assistance (TA). The federal government’s role and level of involvement needs to be assessed carefully to avoid hindering or stifling PFS projects at the state and local level. Some of the challenges facing state and local governments are discussed further below.

**3. Prerequisites for PFS readiness at the local level include (a) well-developed fiscal capacities, (b) political support, and (c) the capacity for sustained commitment.**

A number of stakeholders spoke to factors that need to be in place at the state and local government level for PFS to succeed. These included executive vision and a strong emphasis on innovation in social finance and “good governance”; sustained commitment to continue the PFS project through changes in administration; effective relationships between major stakeholders; philanthropic support for technical assistance (especially in the absence of governmental TA resources); experienced and effective service providers; a strong culture for data-driven decision making; and strong data analysis capacity (e.g., from a university). One investor noted that PFS projects work best when cross-cutting agencies work together; one agency within an organization cannot do it alone.

**4. Capacity issues, institutional constraints, and funding availability remain important challenges that must be overcome within all levels of government in order to operationalize PFS.**

Most respondents were quite candid about the challenges that need to be addressed for PFS to take hold. Among these are the following:

- It is important to address, on a case by case basis, the “wrong pockets” problem wherein cost savings accrue to a different agency than the one implementing a PFS project.
- State and local governments are vulnerable to political changes and need to find ways to secure the project beyond the election cycle. Their challenge is not only to find funding but also to determine how to best protect it for the length of the deal, as well as against leadership changes.

- Capacity deficits need to be addressed at all levels. These include subject matter expertise in such areas as performance measurement, cost savings analysis, and evaluation.

## PFS Activity in Specific Policy Areas

One of the most prevalent questions facing those exploring PFS is determining the policy areas and/or interventions that best lend themselves to the model. Given the relative newness of the model, no clear-cut answer yet exists as to which policy and program areas are best suited for PFS. Hence, the primary purpose of this discussion topic was to examine the factors that come into play when considering the PFS financing structure. These questions also allowed the expert stakeholders to discuss their own experiences investigating the PFS model in specific policy areas.

From the nine discussions about PFS in various policy areas, three key themes emerged:

### **1. The Pay for Success model is currently being (and has the potential to be) applied in a variety of policy areas, but it is still too early to draw any conclusions about where it works best.**

According to respondents, PFS projects are currently operating in the following policy areas:

- Recidivism/criminal justice
- Homelessness
- Early childhood education
- Home visiting/maternal health
- Foster care/child welfare
- Juvenile justice
- Teen pregnancy
- Substance abuse
- Youth and adult employment
- Healthcare/chronic health issues

Despite the breadth of current PFS projects, stakeholders feel there is much potential for growth into other policy areas. Respondents mentioned that any policy area that has a target population, desired outcomes, and a system to capture data on that population has the potential to be a PFS program. Stakeholders suggested that once more empirical results become available, there could be considerable growth in the areas where PFS has been successful. Until more information is known about what service interventions and policy areas are most successful using the PFS model, those interested in PFS should explore as many different policy areas as possible. Given the newness of the field, stakeholders feel that this exploratory or experimental approach is inherently beneficial for identifying various intervention models and policy areas that have not been tested. One investor noted that, whatever the area of focus, the decision should be left up to the sponsoring government agency and not the investors, as the agency knows what policy areas/interests are most important to the community at large.

Another respondent noted that the current prevalence of PFS programs in the criminal justice area is a result of the field having access to more clearly defined outcome measures, not because the criminal justice service programs are any more or less successful than services in other policy areas. The respondent said that with easy-to-measure outcomes in the criminal justice setting, and the heavy costs associated with those outcomes (i.e. costs associated with incarceration), a PFS model in the criminal justice field makes clear financial sense for stakeholders involved.

Finally, Medicaid was singled out by several stakeholders as being well suited to a PFS project, since the costs that result from beneficiaries not receiving appropriate treatment or services will be borne directly by the program. The population targeted by the Medicaid program (i.e., lower-income individuals, seniors, and individuals with disabilities) also is considered to be a traditional target population for the PFS model and other innovative social financing arrangements.

**2. The three most important considerations when a government is exploring areas for a possible PFS project are (1) the nature of the savings or outcomes, (2) a strong service intervention evidence base, and (3) the presence of good analytics. Each policy area has various pros and cons in these areas that must be carefully weighed by the sponsoring agency.**

Respondents said that while some policy areas appear ideal for the PFS model, a closer examination often will show a variety of potential complications. For example, early childhood/K-12 education has great potential due to large amounts of available data and the prevalence of successful, evidenced-based interventions. But, this field also faces PFS-related challenges due to the complicated nature of education funding (i.e., who is actually seeing the savings?) and the lag time between the intervention and when real outcomes and savings can be realized (i.e., many interventions take 10 years to see the desired outcomes).

Some respondents also stressed the importance of being able to show savings but acknowledged there is still debate about whether quantifiable government savings is a mandatory component of PFS-financed projects. In some cases, the ability of government agencies to provide a service it might not otherwise have been able to provide may be viewed as the primary benefit, with budgetary savings being a secondary consideration.

Of the three considerations discussed above, multiple respondents stressed the importance of an intervention with a strong evidence base and the ability to show impact through a rigorous evaluation. Having a service intervention with a strong evidence base helps recruit investors and shows that a return can be achieved. Subsequently, a rigorous evaluation is important to empirically and conclusively demonstrate the impacts in the context of the PFS program. However, rigorous evaluations can be expensive and many of those interested in PFS do not have the experience or background necessary to design and implement a quality evaluation. To that end, one respondent suggested that outside entities, possibly in the philanthropic sector, may need to support this specific aspect of the PFS model.

**3. There is substantial interest in PFS projects related to healthcare, in both the physical and mental health areas.**

One of the policy areas where the PFS model is receiving growing attention is healthcare. This interest is based on two factors: (1) the interest of the U.S. Department of Health and Human Services (HHS) in a PFS-type program for Medicaid and (2) the rising cost of healthcare more broadly. Collectively, these factors have pushed a number of state and local governments to work with hospitals and healthcare providers to explore PFS opportunities. Representatives from HHS said that because Medicaid is the second largest outlay under HHS (e.g., in Fiscal Year 2016, the federal share of current law Medicaid outlays is expected to be approximately \$344.4 billion), the Department is interested in ways to generate Medicaid savings while improving health outcomes, including potentially through PFS models.<sup>3</sup> One respondent noted that because many Medicaid enrollees are in managed care, where providers are typically private organizations, there is

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<sup>3</sup> <http://www.hhs.gov/budget/fy2016-hhs-budget-in-brief/hhs-fy2016budget-in-brief-cms-medicaid.html>

already for-profit investor financing in the field. While the experience of HHS working with the for-profit sector may facilitate the application of the PFS model, since these same organizations (healthcare providers, hospitals, insurance companies) will be involved in PFS projects, stakeholders point out that there are a multitude of legal issues that need to be addressed before any substantial Medicaid PFS project can be established.

One respondent reported working with two different states on PFS projects related to mental health. In one of those programs, the intervention is preventative and the emphasis is less on government savings and more on providing a service that does not exist and improving long-term societal outcomes. These types of projects may point to a trend where more state and local governments are interested in using PFS for long-term outcomes, regardless of the level of monetary savings for that government entity.

## Establishing PFS Feasibility for a Payer or Service Provider

Before implementing PFS projects, a feasibility study is typically conducted. This type of assessment is important to inform decisions about whether to move forward with a PFS project being proposed or explored. From the 12 stakeholder discussions about assessing the feasibility of PFS, four key themes emerged:

### **1. Key components of a feasibility study include an assessment of the intervention’s evidence base and the availability of stakeholders and service providers to implement PFS.**

Several respondents described using their own approach, steps, and key factors when assessing feasibility. Anticipated timeframes for conducting a feasibility study vary, and may range from six weeks to 15 months.

#### *Service provider and partner considerations*

Several respondents remarked that the landscape of service providers is considered early in the feasibility assessment to determine the pool of potential funders. The pool of service providers can then be narrowed down to a few with the organizational capacity to apply for and implement programs with fidelity and the ability to scale and deliver results. The assessment of partners who are involved in the issue area is important early on and funding partner feasibility should include a risk-to-return ratio that will attract for-profit financing.

Other program considerations include establishing a well-defined target population whose needs have been quantified and for which an intervention exists that is scalable. Assessing the potential public support and having a compelling story about the project and its potential impact is critical in determining whether adequate support exists from the perspectives of the general public, funders and investors, programs, and academia.

#### *Evidence base and evaluability of an intervention*

Considerations regarding the service intervention’s evidence base, and a project’s evaluability, were raised in a number of discussions with stakeholders. The main considerations included the availability of relevant data, the depth of a program’s evidence, existence of a database or access to data, and whether evaluation outcomes are clear and can be measured. One respondent looks for indications of a large improvement in “productivity or efficiency” (i.e., an improvement in cost-effectiveness) to demonstrate the evaluability of the intervention and a positive evidence base. For PFS to be feasible there must be a big potential increase in savings or productivity.

Some PFS models include a pre-feasibility study to screen a project and determine if it provides enough social impact and whether the desired outcomes improve the lives of clients served. Conducting a preliminary plan for cost analysis to calculate the potential return on investment and assessing the cost/benefit story of a PFS project and the likelihood of repayment were also noted as important components of a feasibility study.

## **2. A collaborative approach to developing benchmarks and outcomes allows important input from a range of stakeholders.**

Respondents suggested engaging a number of individuals in determining “success” benchmarks, including public and private stakeholders as well as anyone who is invested in the determined outcomes of the project. One respondent described determining benchmarks as “easy” because all parties, in the respondent’s experience, were interested in making a deal. This respondent reported “selling” the project by focusing on how it would be “better than business as usual” where the government pays for everything, whether it works or not. Under a PFS model, that risk is shared with investors, and funding is not released until after outcomes are demonstrated. Having all parties involved see the benefits of the PFS model made benchmark negotiations easier for this respondent. Unfortunately, not all outcome determinations go as smoothly. Regardless, making sure consensus is reached on the benchmarks improves the likelihood of implementing the PFS project.

## **3. Both programmatic and evaluation considerations are important to take into account when developing success benchmarks, establishing cost/benefit assumptions, assessing possible interventions, and determining risks involved with a project.**

Respondents noted several factors in the evaluation of different interventions such as having a specific population base, clear and measurable outcomes, and a track record of success; knowing how much supporting data exist; and having the ability to scale. Respondents also emphasized the importance of identifying clear costs and benefits associated with the program and whether they can be quantified. The potential savings that the intervention may generate might be measured in terms of preventing an event that would otherwise be costly to taxpayers. It also is important to establish a reasonable timeframe for program duration and outcome analysis. One respondent stated that structuring repayment around long-term outcomes can be difficult. Programmatic risks also are key factors of whether investors are willing to accept the terms of the deal. In particular, the aspect of PFS that is “innovative” is not programmatic innovation but rather innovation in financing and promoting accountability for outcomes. According to one stakeholder, the risk inherent in scale-up efforts is what PFS seeks to transfer to investors. If a locality or funder were to try to use PFS for an untested intervention, the risks would be greater and likely would make it harder to negotiate the deal.

## **4. An insufficient intervention evidence base and the lack of a back-end payer are among the challenges and barriers to determining feasibility of PFS.**

Consistent with the consideration factors described above, respondents noted that roadblocks to launching PFS projects commonly occur in the feasibility assessment phase. The causes of these roadblocks include (1) insufficient evidence base for the intervention; (2) lack of a back-end payer (i.e., government); (3) difficulties convincing the back-end payer to move forward on executing the PFS project; and (4) insufficient demand slots (distinct from need) for anticipated service delivery or the additional capacity that is needed to conduct a rigorous evaluation. In addition, addressing risks to investors, scaling the intervention, and designing and implementing the formal evaluation present other obstacles. Also, the desire to see savings in the short-term may put pressure on service providers and may lead to PFS projects that have unrealistic participation targets.

To overcome challenges, one discussant recommended that governments use a rigorous strategic planning process to determine what PFS deals should be funded within the locality since a project may be successful in one location but not another. External technical assistance providers for states and localities also were considered potentially helpful in resolving these related issues.

## Project Partnerships

In our discussions, stakeholders raised considerations regarding PFS project partnerships, particularly in relation to their structure, the processes used to identify and work with partners, as well as challenges and lessons learned. Six stakeholders discussed differing aspects of PFS project partnerships, from which two key themes emerged:

### **1. Funders' motivation and understanding are central to successful PFS projects.**

Partners that were identified in discussions with stakeholders included state and local government agencies, funders, evaluation organizations, service providers, and intermediaries. The role of funders appeared to elicit the most discussion from stakeholders, as a PFS-financed project cannot exist without funders. Several respondents discussed important differences between for-profit and philanthropic funders. Private for-profit investors are typically interested in mitigating risks to a level that one respondent called "investable" and receiving an acceptable return on their investment. Unfortunately, what constitutes an acceptable return depends entirely on the investor and its priorities and mindset at the time of the negotiations.

Conversely, while private, for-profit, investors are interested in mitigating risk, risk may not be as central a factor as it is for philanthropic investors. In executed PFS-financed projects, philanthropic investors have rarely sought an individual level of return. Philanthropic investors also bring expertise and name recognition, as well as staying power and the ability to draw attention to the project. Philanthropic organizations may be attracted to innovative projects that do not promise financial returns, whereas private for-profit investors will typically seek such returns.

Many stakeholders felt that the public perception of these for-profit partners also matters to the overall success of the project? One respondent remarked that investments from for-profit partners may make it appear "like Wall Street is taking over policy," whereas private philanthropies do not raise that concern. Also, some stakeholders felt that the government or other federal actors may be hesitant to have for-profit entities involved in service projects as their focus on profitability may negatively impact service provision.

### **2. Developing and maintaining positive relationships with partners takes time and requires ongoing attention.**

Several respondents involved in PFS project implementation noted that positive relationships with partners in a PFS project are built over time and are critical to maintain.

These stakeholders emphasized the importance of tailoring the relationships to align with the partners' interests, such as risk mitigation and return on investment for private funders. In developing a model for partner recruitment, one discussant suggested working with individuals who can serve as intermediaries in partner relationships; that is, someone who can work with all sides through the process and also serve as a main point of accountability.

Government partners may face challenges even once they have committed to the PFS model. For example, stifling procurement regulations, political transitions, data sharing issues, and the complexity of identifying cost savings are potential challenges that governments may face in a PFS project.

Over time, as the PFS model has received more attention, stakeholders report that the partner engagement process has become easier. One respondent said that several years ago, they had to "knock on a lot of doors" to engage a limited pool of potential stakeholders. However, after a few years of successfully implementing a couple of PFS projects, the respondent is now being pursued by potential partners for PFS projects.

## Contract Development and Negotiation

Contracts are the linchpins of PFS projects. Contracts articulate the roles and responsibilities of all parties involved and specify what happens in case of project success or failure. Inasmuch as PFS projects involve multiple, diverse stakeholders, each with a different perspective, developing effective contracts can be a complex and challenging undertaking. Not surprisingly for a nascent field, fewer than half of stakeholders (five of fourteen respondents) mentioned the topic of contracts, but those that did spoke from direct experience. They included representatives from major private investors, a local government currently implementing a PFS project, an intermediary, and a policy analyst who worked on one of the nation's first PFS projects. Below are highlights from their insights about various aspects of PFS contract negotiations.

### **1. Contract negotiations must recognize and reconcile a wide variety of perspectives.**

Respondents emphasized the wide variety of perspectives that PFS contract negotiations often involve. These negotiations typically involve private sector investors, non-profit service providers, philanthropic organizations, and government agencies. All agreed that it takes a lot of work to find a PFS project structure that everyone is comfortable with, and it is essential that everyone understand the perspectives of the other stakeholders at the negotiating table. The most obvious example involves establishing outcome benchmarks, with investors looking to keep benchmarks low to reduce risk while the government wants them high so the monetary and societal benefits are maximized when payments are made. Another example of conflicting perspectives involves governments' need for transparency versus the proprietary nature of documents and tools developed throughout PFS projects.

### **2. Negotiating with government agencies presents a unique set of challenges that often differs from private sector negotiations familiar to investors and intermediaries.**

Several non-government respondents discussed the challenges of negotiating PFS projects with governments. For example, many governments think in terms of, and operate under, a cost-reimbursement approach rather than an outcomes-based framework. One investor noted that within governments, there are different perspectives on how much control the government should exert over outcomes. Government finance staff may seek too much control over outcomes, frequently asking "If we can issue a municipal bond paying 3 percent to fund this, why would we pay a larger return than that?" An important part of contract negotiations, the investor noted, is finding the right balance between seeking "too much" and "not enough" control over outcomes.

Additional challenges mentioned by respondents include (1) government budgets are annual but PFS contracts usually extend over several years and some municipal budget offices may lack a mechanism for setting aside payback funds; (2) governments' ability to terminate a contract at any time raises investor risk significantly; and (3) local governments have widely varying capacities for fiscal and data analysis.

### **3. How cost savings are calculated has a significant impact on PFS contracts, and this is affected by the capacity of the organizations charged with developing the savings estimates. Also important for long-term perceptions of PFS is whether cost savings actually materialize.**

How—and whether—cost savings are calculated and factored into the PFS contract has an impact on contract terms. PFS contracts are built around expected outcomes; to date, most PFS contracts have included associated and anticipated cost savings within the contract. A number of respondents spoke to the theoretical nature of cost-savings assumptions, and how these can be manipulated. Much depends on the timeframe used to compute cost savings, and assumptions about when savings will actually materialize may or may not be realistic.

One respondent observed that nothing ensures that expected cost savings will actually materialize, even if the intervention “works.” For example, just because a positive outcome is obtained does not mean the agency will move to implement cost-cutting measures such as reducing staff. The stakeholder felt that sometimes cost savings are oversold to generate enthusiasm for PFS. However, this can be a dangerous game; if cost savings do not materialize, it may taint perceptions of PFS.

#### **4. Payout structures that set a high bar for major program impacts may deter investors. An incremental approach with a series of smaller payouts for smaller outcomes may be more realistic.**

Several respondents spoke to the importance of payout structures in attracting investors. Stakeholders cautioned against payout structures that are too “extreme” —that is, where a large payout hinges on a major outcome that is difficult to obtain. One respondent noted that in the NYC Riker’s Island project, the difference between an 8.3 percent and an 8.6 percent recidivism rate translated to nearly \$5 million in payouts, which is why a guarantee, such as the one provided by Bloomberg Philanthropies, was necessary to keep investors at the table. If the payout structure was less extreme, the respondent felt, high guarantees would not be a necessary part of contracts.

As an alternative to “extreme” payout structures, several respondents advocated providing multiple smaller payouts for incremental improvements, rather than a few large payouts for major improvements. A respondent representing a major investor in PFS projects reported that his/her firm decided to look only at deals where “a little bit of improvement generates a little bit of payment.”

#### **5. Both the content and process of negotiating a contract can be streamlined.**

While PFS contract negotiations to date have been an intensive and time-consuming process, resulting in contracts that are hundreds of pages long, some respondents did not believe that had to be the case. Stakeholders had a number of recommendations for facilitating contract negotiations:

- Create mechanisms for dealing with implementation challenges. Make sure that implementation responsibilities are clearly delineated.
- Allow for long timeframes; even five years is really not enough for some outcomes to manifest.
- Allow for a limited menu of PFS contracts, rather than requiring each contract to be perfectly customized (this takes too much time and costs too much).
- Develop contracts with an incremental payment structure, as described above, which would be better for mitigating investor risk and making PFS investments attractive.

### **Service Interventions and Providers**

Generally speaking, for a project to likely trigger outcomes payments, the intervention needs to have the potential to produce desired outcomes. As interest in the PFS financing model grows, so does the search for interventions and service providers that possess the attributes and reputation necessary to attract investors’ confidence and ultimately achieve outcomes at pre-set target levels. The purpose of this topic was to engage the expert stakeholders in discussions about how governments select a policy area to focus on, select target populations, and find a specific service provider. Also discussed were issues related to retaining a single service provider as compared to multiple service providers on one project and how much flexibility the provider should have in modifying the intervention. Since only one respondent was directly involved with service provider selection, the majority of these discussions focused on key considerations and issues when selecting a service provider for a PFS project.

From the eight discussions on this topic about PFS in various policy areas, four key themes emerged:



**1. The partnership planning a PFS initiative may need to seek outside expertise to ensure a baseline understanding of the service interventions and service environment being considered.**

Respondents mentioned that if the government agency or other stakeholder promoting a PFS initiative is unfamiliar with the relevant policy area, they typically bring in outside experts to help narrow the focus area and determine the target population. Having expertise in the policy area and services also is important for helping determine which services can actually be integrated into the PFS model. Understanding what types of data need to be collected, where to get the data, and whether the outcomes produced may translate into potential savings are all important and necessary considerations when exploring service interventions.

A strong understanding of the population and service environment also is important. As one respondent put it: “Demand is not the same as need.” Tapping into an additional target population needed for an RCT or to fill existing gaps can be very difficult. Some respondents noted additional need for a specific service, but the demand in the community, often due to a lack of awareness of the service provider, is not always at the same level. One respondent suggested that when this issue occurs, a marketing/education campaign might be appropriate, but that such a campaign should not be funded through the PFS-financed contract.

**2. The most important elements when assessing a service provider are a history of data-driven, evidenced-based success and the ability to scale up the intervention.**

Multiple respondents offered lists of important considerations for selecting a service provider, but the two most frequently mentioned considerations were a long track record of delivering services with positive outcomes supported by data and the capacity to take the intervention model and “scale it up.” Having an intervention with a strong evidence base was frequently mentioned as the single most important issue, since without that history of success and the ability to gather the necessary data, a PFS project may struggle to find investors and secure the political support necessary to make the project a reality. According to the respondents, almost as important as a strong intervention evidence base is the scalability of the intervention. To date, almost every PFS project involves a service model that has been scaled up significantly. Scaling up requires that the service provider have the management acumen and operational capacity to conduct outreach and recruitment and productively serve a larger population without compromising previously demonstrated effectiveness.

A final consideration in the selection of a service provider is whether the provider has the expertise to support all facets of the necessary intervention or whether multiple providers may be needed. While a single provider model is simpler (and more straightforward for investor due diligence), many social problems require collective action and therefore need multiple providers. Therefore, a single service provider may be ideal but may not be possible based on the needs and location of the target population and the capacity of the service provider to solve multifaceted problems.

**3. Most service providers are not of the mindset necessary for alignment with the PFS model.**

While interest in the PFS model is growing among service providers, many do not have the data-driven, outcome-focused mindset necessary for a successful PFS project. Respondents noted that change is difficult within any industry, but in order for the PFS model to grow, service providers must think past the typical service contract model and embrace a greater emphasis on achieving outcomes. This shift in emphasis must by definition be accompanied by strengthened capacity to engage in data collection and data analysis. These are often new perspectives and new considerations for even well-established service providers, so this transition in perspective is not always immediate, effective, or even possible.

**4. In the current climate, established interventions may be more “investable” than new, untested approaches.**

As a follow-up to the first theme, some respondents said that as it stands now, PFS may be most appropriate for projects that focus on scaling up existing interventions that are already backed up by evidence, rather than funding new approaches. The “innovativeness” of PFS lies with the financing model and accountability structure and not necessarily the service intervention itself. Funding new interventions has appeal and could prove viable in the future, but some

respondents believe that in the early stages of PFS growth, the associated risks may be too significant for prospective investors.

## Funding/Financing Models

A key feature of the PFS model is that the costs and risks of providing social services—which may or may not prove to be effective—are transferred from local and state governments to the private/philanthropic sectors. Funders of PFS-financed projects are typically a combination of foundations, non-profit organizations, and private investors that each contribute various amounts. A PFS-financed project is dependent on the willingness of external funders to pay for the services in exchange for repayment and a potential return on their investment if the program is successful.

Among the seven stakeholders who discussed funding and financing issues in PFS projects, three main themes emerged:

### **1. Financing of PFS projects does not have a prescribed mix of funder types and the structure of the investment vehicle varies, even for the same type of funder.**

Overall, respondents did not feel strongly that PFS projects needed to have a specific mix of funders in terms of private financial institutions versus foundations, but they noted the value of having different types of funders with different risk tolerance levels. For example, foundations can generally tolerate more risk than private financial institutions and may not expect financial returns. As a result, PFS financing vehicles can be structured so that private investors are paid back before philanthropic institutions and at a higher interest rate.

The structure of the financing tool also varies for private investors and one size does not fit all. For example, Bank of America Merrill Lynch created an investment fund for high net-worth individuals and businesses to fund a single PFS project. Alternatively, Goldman Sachs includes PFS projects in a portfolio initiative that focuses on a range of social programs such as housing, education, and criminal recidivism. One respondent noted that an advantage of this type of fund is that the investors do not need to be recruited for each individual project, as the company is already on board and the financial institution has discretion in finding the investment opportunities.

### **2. Respondents named two driving forces that motivate funders to contribute to PFS projects: (1) being interested in a specific social issue and (2) being involved in a project with social impact.**

Respondents reported that many funders and individual investors became involved in PFS projects because of their interest in a specific policy area (e.g., education, housing). These investors may be passionate about a particular topic and concerned about protecting their principal but may not necessarily be looking to make returns on their investments. One respondent noted that for many investors, an investment becomes an instrument for effecting change and improving services.

The motivation for other investors is less about a particular policy area and more about being involved in and exposed to social impact investing as a financial strategy. These investors want to know that their money is going to a program that works and will make a difference in people's lives—regardless of the particular topical focus. For these investors, motivation to participate in PFS stems from the double bottom line of achieving both financial and social impact returns.

### **3. Investor respondents cited three key challenges related to financing of PFS projects: (1) the need for more education and awareness of PFS among investors; (2) the slow timeline for returns; and (3) federal government policies that may hinder PFS financing.**

Several respondents emphasized the need for more education for investors in the concepts and promise of social impact bonds and how PFS projects work, as investors may be hesitant to invest without fully understanding the PFS model.

Several investor respondents also expressed frustration with the slow timeline for investment returns. They felt that the structure of PFS projects and a potentially long wait for the final results of the evaluation could be a barrier for some private investors. These respondents felt that an “all or nothing” approach with regard to whether the PFS project was

successful was not attractive to investors. One respondent suggested structuring the financing with different levels of success payments for different levels of performance with returns linked to both short- and long-term results. Respondents felt that showing results sooner was an important factor in growing and expanding the PFS field.

Another respondent felt federal government policies were hindering the growth of PFS models in several areas. Some suggestions to alleviate these obstacles included more favorable tax treatment of PFS investments, clearer IRS guidance for philanthropic institutions, and relaxing regulatory obligations such as the Community Reinvestment Act (CRA).

## Evaluation Design and Implementation

Evaluation is a critical feature of PFS projects. Project partners must design and implement an evaluation that will measure the success of the intervention in achieving the desired outcomes, which will ultimately lead to costs savings to the local or state governments or to improved social outcomes generally. The intervention must be rigorously evaluated using outcomes measures agreed upon by all PFS parties, which ultimately trigger re-payments to investors and potential returns on principal. To lend as much credibility as possible to the evaluations, many in the research community feel that RCTs are the best approach to demonstrating the true impact of an intervention. RCTs are viewed as being able to stand up to scientific scrutiny and as generally the most viable way of assuring investors that true impacts will be detected. Despite these qualities, some respondents acknowledged the complexity of RCTs and felt that they may not be necessary for all PFS projects.

Based on discussions with three stakeholders about evaluation design and implementation in PFS projects, two themes emerged:

### **1. There is considerable interest in and focus on rigorous evaluation designs (e.g., RCTs), but such evaluations are complex and challenging to implement and may not always be the best choice for PFS projects.**

Respondents discussed the importance of evaluation and reported that the ability to be evaluated is one of the primary criteria for determining promising areas for PFS projects. They acknowledged that RCT evaluations were often seen as the gold standard in evaluation, but several respondents expressed skepticism that this design is well suited for all PFS projects. Some of the reported challenges included the considerable expense, the challenges of utilizing a control group, the potential need to modify intake procedures to accommodate random assignment, the importance of generating sufficient demand to meet sample size requirements, and the time required to observe and demonstrate impacts. Some respondents also felt an RCT can set the bar for outcomes too high to keep potential investors engaged. As a solution, several respondents proposed configuring evaluation designs in which payments to investors could be made in increments based on short-term outcomes rather than one final outcome. Others in the PFS community support using RCTs and see rigorous evaluations as necessary to establish the PFS model and prove the real impacts of the service intervention.

The time required for an RCT seemed to be the largest concern, especially because long-term studies may not produce short-term results that could trigger repayments to investors. One PFS implementer who felt that there was too much focus on RCTs in PFS projects suggested that alternative evaluation designs should be explored.

### **2. Having high-quality data is essential for implementing PFS projects and measuring their success.**

Respondents felt that having the right high-quality administrative data, is critical to decision-making and to implementing evaluations of PFS projects. Both providers and government partners must be able to produce data that generates confidence. Stakeholders emphasized the importance of “getting the data in shape” and several mentioned the need for ongoing reform of administrative data. One respondent noted that PFS could have been implemented years ago if there had been adequate data supporting the model and related interventions.

## Observations/Recommendations

All 14 expert stakeholders provided candid insights and recommendations for the future of the PFS field. Stakeholders covered three broad areas in these recommendations: (1) factors that could serve to facilitate involvement in PFS; (2) factors that are preventing involvement in PFS; and (3) perspectives on the future of PFS. These topics are covered in sequence below.

### 1. Factors Facilitating Involvement in PFS

The PFS model's growing popularity and momentum were considered by stakeholders to be facilitators in themselves. Whereas experts in PFS financing needed to take a proactive approach in recent years to seek out opportunities, the momentum underlying this model has put some experts in more of a reactive position since potential opportunities for this approach are now arising much more frequently. As one stakeholder noted mutually beneficial arrangements such as those embedded in the PFS model can bring people to the table organically.

Still, only a handful of PFS projects have been fully executed in the United States, and opportunities to expand the model are dependent upon having some key prerequisites in place. Stakeholders noted that building capacity to conduct rigorous evaluations is critical, as is the need for strong data systems and data-sharing agreements. One stakeholder also noted that PFS deals with the best chance of success need dedicated leadership and a small team of people with the requisite expertise to move a PFS project forward.

### 2. Factors Preventing Involvement in PFS

One of the biggest challenges facing PFS projects is navigating the learning curve required to understand the complexities underlying the model. Stakeholders implementing PFS projects must understand the legal barriers to undertaking a PFS project, what a PFS contract should contain, the necessary legal arrangements between investors and intermediaries, appropriate payoff targets, and how data will be evaluated. These complexities take significant time to fully understand, as noted by several stakeholders. The intensity of time and resources needed to begin a PFS project may both limit the number of transactions that can be made within a given timeframe and present significant opportunity costs to the parties involved. From a policymaker's perspective, PFS transactions can limit opportunities to address other critical priorities.

Stakeholders also noted that payout schedules for PFS projects often had long time-horizons that may discourage potential investment. This barrier has to be balanced with the timeframes needed to measure and realize benefits. While four- to five-year time horizons for payoff schedules may seem too long, it could take significantly longer to realize the benefits of some interventions such as early childhood programs.

Another significant barrier to entry for PFS is the availability of data that can be used to track and measure results. Some potential jurisdictions or service providers may lack the data infrastructure needed to support a rigorous evaluation, while other interested parties may not have the necessary data-sharing agreements in place to access data already collected. Stakeholders encouraged centralized efforts to develop data-sharing agreements and build a data infrastructure that would facilitate performance monitoring and evaluation.

### 3. The Future of Pay for Success

Stakeholders were broadly optimistic about the future of PFS, though some stakeholders indicated that uncertainties remain. One stakeholder noted that the future of PFS may depend on the success of the first handful of projects implemented. If these bellwether projects prove to be successful, both in terms of implementation and payout, the future of the PFS model may be especially bright.

Policymakers and funders show great interest in "bending the cost curve," which will allow for both efficiencies in service delivery and expansion of capacity to scale up or undertake new initiatives. Stakeholders noted several conditions and needs for the PFS field to be sustainable:

- ***Maintaining dedication to PFS during political transitions:*** Although stakeholders noted that PFS generally has bipartisan support, the long time horizon of PFS projects virtually guarantees that these projects will face changes in the political landscape. For PFS to be sustainable, dedication to and interest in PFS must be maintained across political transitions at the federal, state, and local levels.
- ***Supporting policies and initiatives that facilitate PFS projects:*** More favorable tax treatment of PFS payouts may encourage investment in PFS projects and move this model to scale. The Obama Administration's proposed \$300 million PFS Incentive Fund was described by one stakeholder as a potential game-changer for the field. While the federal government has been engaged in efforts to build capacity to engage in PFS at the local level, the federal government also is particularly well positioned to support knowledge-building and to convene stakeholders to identify best practices.
- ***Exploring alternative/hybrid models of PFS:*** PFS financing arrangements do not have to be focused solely on payouts. PFS projects can be executed with only a portion of payouts dependent upon outcomes. By moving toward hybrid financing models where, for example, only 15 percent of payouts are dependent on outcomes (with the remaining 85% dependent on service provision) less funding would be required up front to get PFS projects started.
- ***Building data infrastructure:*** Building strong data infrastructure is a key prerequisite of—and a common barrier to—successful PFS projects. Successful PFS projects need the capacity to collect high-quality data, the ability to establish data-sharing agreements to access data, and sufficient evaluation expertise to rigorously measure results.

While it is not the only innovative social financing model being explored, the PFS model has increased the dialogue at all levels of government about alternative financing arrangements to bring evidence-based programs to scale and to align services to needs. This model has helped to change the dialogue about social financing to paying *for* success instead of paying *toward* success and has helped shift the thinking about service provision from focusing on inputs to focusing on outputs. While still in its infancy, PFS clearly will become an increasingly popular model for social financing in the future. The energy and innovation underlying this model has sparked a dialogue that has contributed to the momentum for identifying, scaling up, and sustaining bold social initiatives.

## Appendix A—Expert Stakeholder Topic Guide

### A. Stakeholder/Organization Background

- Stakeholder’s background and primary role in organization
- Brief profile of stakeholder’s organization
- History of stakeholder’s and/or organization’s PFS involvement (e.g., origin, goals, time period)
- Current involvement in specific PFS project or PFS field

### B. Pay for Success Topics

*Note: Stakeholder discussions will include only the topics in this section that are most relevant to the stakeholder’s area of expertise. When applicable, these discussions will focus on specific PFS projects on which the stakeholder has been involved.*

#### 1. Government Involvement and Role

- Existing federal or state legislation or regulations facilitating PFS (e.g., details of regulations, champion or initiator of regulations)
- Proposed new federal or state legislation facilitating PFS
- Federal government role in growing PFS model (e.g., specific activities to be undertaken)
- State/local government role in growing PFS model
- Additional partners or roles needed in growing PFS model
- Sustainability of the PFS model and the associated components (e.g., funding for services, collaborations, planning and development costs, etc.)
- Number and types of local, state, and federal government agencies and groups that are currently exploring PFS models (in addition to those indicated in Abt’s Document Review)
- Requisite capacities and conditions for state and local governments engaging in PFS
- Biggest obstacles to increasing state and local government participation in PFS

#### 2. PFS Activity in Specific Policy Areas

*Discuss types of PFS projects and services possible in areas respondent is most familiar with*

- Workforce development
- Prisoner reentry/juvenile justice
- Healthcare/Medicaid/Medicare
- Homelessness/housing
- Early childhood education
- Primary, secondary, college, and adult education
- TANF/income support programs
- Other areas

### 3. Feasibility of PFS

- Components of high quality feasibility study
- Feasibility benchmarks (how set, who sets, examples)
- Biggest obstacles in determining feasibility
- Common barriers to feasibility in general
- Most important factor in determining if a service intervention is PFS feasible
- Key fields/subject areas for cost/benefit estimates
- Trends/field movement toward specific PFS elements (e.g., no longer assuming all PFS project evaluations must be RCTs)

### 4. Project Partnership

- Structure of PFS partnership (e.g., agencies, roles and responsibilities)
- Recruitment and development of partners (e.g., lead agency, process, time period)
- Communication, management, and decision-making process
- Relationship management (e.g., strategies for administration and/or personnel change)
- Requisite partnership capacities and conditions for engaging in PFS
- Challenges in partnership recruitment and development
- Lessons learned/best practices in partnership recruitment and development

### 5. Contract Development and Negotiation

- Formal PFS agreements or contracts in place (who develops, how developed, key points)
- Process used for contract or agreement development (e.g., lead person or agency, timing)
- Experiences with contract negotiation (e.g., areas of conflict)
- Requisite contractual conditions and capacities for engaging in PFS
- Challenges in contracts development and negotiation
- Lessons learned/best practices in contracts development and negotiation

\*\*Ask for copies of project contract, agreements, or templates for these documents if available

### 6. Focus Area and Service Provider

- Identification and selection of PFS focus area (how, why)
- Service provider recruitment and selection process (how, why)
- Factors in selection of service provider (e.g., provider's history of performance measurement, data management, and evaluation)
- Tools and resources needed for selection of service provider
- Target population for initiative (e.g., eligibility criteria)

- Recruitment/referral process for participants (e.g., opt-in vs. opt-out models)
- Enrollment process for participants
- Requisite capacities and conditions of service providers when engaging in PFS
- Challenges in focus area or service provider
- Lessons learned/best practices in focus area or provider

## 7. Funding/Financing Models

### *General Funding/Financing Issues*

- Awareness of new federal or state PFS funding sources and amounts
- Optimal number and/or type of financial institutions, foundations, and investors to be involved in individual PFS projects
- Knowledge about motivation or factors in investor's decision to join PFS project
- Strategies and process used to recruit PFS investors (e.g., how, who, why)
- Role of investors in partnerships (e.g., level of involvement)
- Alternative financing options and availability of those funds
- Requisite funding and financing capacities and conditions for engaging in PFS
- Challenges in PFS funding/financing models/deal structuring efforts
- Lessons learned/best practices in PFS funding/financing model/deal structuring efforts

### *Project-Specific Funding/Financing Issues*

- Ways to determine service cost measurement (i.e. costs included, costs not included, methodology, etc.)
- Ways to determine benefit measurement (i.e. methods for determining savings to government, society, etc.)
- Plans or formula for repayment (i.e., first payees, payment thresholds)

## 8. Evaluation Design and Implementation

- Evaluation design (e.g., RCT, quasi-experimental) and reason for design type
- Role of evaluator
- Validation design and role of validator
- Establishment of outcome benchmarks
- Key data collection activities
- Performance measures and data-tracking system
- Status/results of evaluation thus far
- Challenges in evaluation design and implementation
- Lessons learned/best practices in evaluation design and implementation



## C. Observations/Recommendations

- Perspectives on the future of PFS
- Technical assistance and resource needs for government and organizations exploring PFS model
- Responsive strategies for PFS implementers
- Biggest barriers and facilitating factors affecting PFS project implementation
- Lessons learned
- General suggestions or recommendations not yet discussed

## Appendix B—About This Document and the Evaluation Project

This report is one component of a multi-pronged data collection strategy planned for the PFS Process Evaluation Project. The evaluation seeks to answer *four* broad research questions:

1. **How effective were PFS grantees in completing the activities and deliverables outlined in their proposals?**
2. **What were the effects of the PFS program on:**
  - a. The pipeline of PFS deals and the capacity of organizations to implement PFS projects?
  - b. The access to capital to fund PFS deals?
  - c. The catalyzing of PFS initiatives and deals that may be sustained in the future with other public and private funding sources?
3. **What are the key lessons learned in terms of:**
  - a. Strengths and weaknesses of the PFS program in supporting PFS solutions in diverse geographies and for diverse social issues?
  - b. The role of the SIF in advancing PFS by complementing state, local, philanthropic, and private PFS activity?
  - c. When PFS deals were not feasible, what other social finance options were suggested?
  - d. What were the ancillary benefits to sub-recipients of going through the PFS project?
4. **What is the current status of the PFS model within the larger discussion of public policy and service provision, and what lessons can be learned to inform future SIF initiatives?**
  - a. What improvements (near- and long-term) to the structure and administration of the PFS program would increase its effectiveness, efficiency, and minimize duplication of PFS activity that would otherwise occur?
  - b. What are possible models for SIF involvement in the PFS field for leadership and coordination, providing technical assistance, and funding?

Data collection activities planned to answer these questions include (1) scan and review of the relevant literature, documents, and existing information to develop a “State of the Field” PFS overview (published May 2015); (2) expert stakeholder discussions; (3) review of grantee progress reports and project documents; (4) grantee site visits and follow-up calls. This document is the second in the series of reports planned for release as part of this effort.

- ***State of the Pay for Success Field: Opportunities, Trends, and Recommendations:*** This report is designed to provide a broad overview of the history of the Pay for Success model and uses illustrative examples that include overviews of the six PFS projects currently underway in the United States (i.e., at the time of the report’s release in May 2015). In addition, this report provides a snapshot of PFS projects currently under development to identify emergent trends in the PFS field. The report concludes with a set of broad lessons learned and recommendations for PFS programming, pulled from the literature on PFS.
- ***Stakeholder Perspectives on the Current State of the Pay for Success Field:*** This report is intended to build upon the “State of the Field” document by offering the perspectives of those currently involved in Pay for Success to identify where the field is going and how it can be scaled up more effectively. This report organizes stakeholder perspectives on eight core aspects of PFS: (1) government involvement, (2) policy areas, (3) feasibility, (4) partnerships, (5) contract development and negotiations, (6) service interventions and providers, (7)

funding/financing models, and (8) evaluation. The report concludes with an overview of perspectives on the future of the PFS model.

- ***SIF Pay for Success Program Interim Report:*** This report focuses on the experiences of SIF Pay for Success Program grantees during the first year of implementation and reconciles the perspectives of PFS stakeholders and implementers with the realities faced by CNCS's current PFS grantees. This report also summarizes lessons learned across all three reports and offers lessons for a broad array of stakeholders about what capacities are needed to successfully execute PFS projects.

Together, these three reports provide the reader with a sense of where the PFS field has been, where it's going, and how a new group of SIF PFS grantees may build upon the experiences of previous implementers of the PFS model to overcome past challenges more effectively. These documents also offer lessons across varying perspectives. Whereas the State of the Field report provides lessons learned about the PFS field broadly, the Stakeholder Perspectives document provides more narrow lessons on specific elements of the PFS approach and SIB model, and the Interim Report offers lessons learned from the grantees' perspectives.

These three documents are supplemented by two special topic briefs, which highlight lessons learned for two critical aspects of PFS that have not been addressed in the literature to date:

- ***Service Provider Capacity Building for a PFS Project:*** This brief will identify service provider needs for capacity building that are specific to the PFS model. It will provide specific lessons learned to help new PFS implementers get ahead of the learning curve in building capacity to assess the feasibility of and partake in PFS projects. Attention will be paid to specific activities that can be undertaken by CNCS, SIF PFS grantees, and other stakeholders in developing a system of support for service providers.
- ***The Financial Mechanisms of Pay for Success:*** This brief will provide a targeted review of the financial transactions and accounting involved in the seven current domestic PFS projects<sup>4</sup>. It focuses on three specific questions: (1) Where does the money allocated for repayment reside during the length of the project?; (2) How is the operating capital managed and how does it flow during service implementation/operation?; and (3) What are the prices per outcome and the repayment schedule? Knowing the answers to these questions will demystify the PFS process and accelerate knowledge-building on the most arcane aspect of the PFS model.

By moving from the "big picture" to the "nuts and bolts" of PFS, the project intends to address the needs of multiple stakeholders (e.g., policymakers, philanthropies, service providers) and ensure that the entire system underlying a PFS project is addressed in this work.

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<sup>4</sup> This report references the state of the field of domestic PFS projects current with the timeframe of these interviews (January-March, 2015). The state of the field, including number of domestic PFS projects, may have changed since this time.

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