

## Pay for Success Fact Sheet

### What is Pay for Success?

Pay for Success (PFS) is an innovative model that ties funding for an intervention to its impact in the community. In a PFS project, government (or another “payor” such as a school district or hospital) only pays for outcomes achieved, such as a reduction in recidivism or increase in high school graduation rates – not inputs or activities. PFS often incorporates PFS financing, in which a third party investor provides to a Service Provider the financial resources necessary to carry out the intervention. Return of capital (and any potential return on investment) is dependent, in whole or in part, on the achievement of outcomes identified in the PFS Agreement. PFS financing offers a way to catalyze philanthropic and private sector investments to deliver better outcomes, enabling government to pay only for outcomes achieved – that is, to pay only for what works.

PFS increases investments in effective social interventions by changing the way government allocates and invests its resources. Unlike programs structured around processes rather than measurable results, PFS provides greater flexibility government to implement evidence-based solutions, test promising innovations, and scale programs that work.

### Who is involved in a Pay for Success project?

- Government agency (or other “payor” such as a school district or hospital) – defines the desired outcomes and pays back the upfront funding once the outcomes are achieved
- Project Coordinator – leads the PFS agreement between the government agency that will pay once outcomes are achieved, any investor or other philanthropic funder that will provide upfront funding for the service provider, and service provider(s) to achieve outcomes using evidence-based practices
- Service Provider – implements an evidence-based approach to delivering services with upfront funding from philanthropic or other investors
- Private or philanthropic investor(s) (if PFS financing is involved) – provides upfront funding to support the service provider(s) and are repaid by the government once outcomes are achieved
- Independent third-party evaluator – verifies the extent to which agreed-upon outcomes are achieved in order to determine government payments

### Where is Pay for Success being implemented?

Currently, there are eight PFS projects that have been launched or are underway in states including New York and Massachusetts, and cities/counties of Chicago, Cuyahoga County, New York City, Salt Lake County, and Santa Clara County. The projects address issues including recidivism, workforce development, early childhood education and chronic homelessness. In 2014, SIF awarded an inaugural cohort of eight PFS grantees \$12 million to assess feasibility and provide transaction structuring support to more than 40 projects across the country – effectively doubling the number of projects in development – in fields ranging from asthma prevention to substance abuse interventions, from green infrastructure to teen pregnancy prevention.

## Why is Pay for Success financing important?

- Tight budgets and growing need – At a time when all levels of government are facing cutbacks, PFS offers a financing solution for preventive services, which are often the first services to get cut in hard budget times even though they lead to reduced costs and better outcomes in the long-term. It offers a new approach to invest in the critical services for vulnerable populations that need more – not less – support.
- Leverages private sector investors to scale effective interventions – Philanthropic and other private organizations provide the up-front capital for social services that, when successful, achieve measurable outcomes that improve the lives of families and individuals and reduce their need for future services.
- Achieves better outcomes for federal, state and local governments in a diverse range of program areas – PFS emphasizes preventive services provided by innovative, data-driven service providers. This allows different levels of government to collaborate to fund effective programs that can result in government savings.
- Minimizes risk to the government and maximizes return on taxpayer dollars – Because the government pays only for demonstrated results, private sector investors bear the primary financial risk until outcomes are achieved. This will increase the government's return on investment in social programs.