California Pay for Success Final Reflections

How Can Outcomes-Based Funding Advance Racial Equity?

Nonprofit
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ABOUT NFF

Nonprofit Finance Fund® (NFF®) works toward a more equitable, responsive, and valued social sector. We provide financing and consulting to help nonprofits and their funders better connect money to mission results. We are a community development financial institution (CDFI) applying 40 years of experience to today's toughest social challenges, and we share what we learn to speed progress. NFF manages over $335 million. Since 1980, we have provided $954 million in financing and access to additional capital in support of over $3 billion in projects for thousands of organizations nationwide.

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Introduction

As we reflect on 2020, we're struck by the tumult of a year marked by the public health and economic crises precipitated by COVID-19 and their disproportionate negative impact on people of color; sustained activism focused on systemic racism and police brutality in the wake of the killings of George Floyd and Breonna Taylor; a divisive election season; and natural disasters of increasing frequency and intensity. We are burdened by recent losses even as we are energized by renewed will and resources directed toward systemic social problems and inequities.

Amidst this uncertainty, we look for lessons that can guide our efforts to advance racial equity and support healthy and vibrant communities. The Pay for Success (PFS) field, though small, is a beacon of innovation and proof that we can impact social change. In this spirit, we engaged early PFS stakeholders in conversations about the progress of the California Pay for Success projects to date and the potential of outcomes-based funding to address systemic racism and advance racial equity.

Volumes have been written about the potential and promise of Pay for Success, including NFF's own analysis of **progress of the PFS field in California** and the **national landscape of early projects**. Our goal in this report is not to evaluate whether the PFS field, as exemplified by the five California projects that launched with the support of The James Irvine Foundation as part of the California Pay for Success Initiative, has lived up to those promises, though publicly available indicators suggest the projects are demonstrating successes and innovation. For example, Project Welcome Home in Santa Clara is successfully housing 86 percent of participants and demonstrating that permanent supportive housing is helping county residents facing the steepest challenges, and the Alameda County Justice Restoration Project received the National Association of Counties' Achievement Award in 2020 for its unique justice reform project created and implemented with community partners, promising people with low-level felony charges opportunities to build bright futures rather than perpetuate the cycle of crime and incarceration. Rather than evaluate progress broadly, we chose to focus on how, moving forward, outcomes-based funding could be used as a tool to promote racial equity and social justice.

These observations are derived from NFF's own work as well as interviews with each of the project partners conducted between May and July 2020. The projects are all still in progress so the leaders we spoke with were not at liberty to discuss complete success metrics. Moreover, given the timing of our interviews, project partners were steeped in adjusting to and responding to the pandemic; issues of racial equity and social justice were at the forefront of everyone's minds and central to our discussions.

Here are seven recommendations, based on lessons learned and observations of new opportunities, that could accelerate the outcomes-based financing field as a driver of equity.

Final Reflections

Center Communities

For 40 years, NFF has been an advocate and voice for the nonprofit sector, and our entry into the PFS space was motivated by our intent to see the sector's interests and strengths represented in this new and complex contracting and financing arrangement. As the PFS field has grown, the world in which we operate has shifted and so has our thinking. We see a clear need for contracting and funding arrangements that center community voices, and we recognize that for too long, nonprofits have been assumed to be a proxy for community voices.

Moving forward, we call for communities to drive the definition and design of outcomes-based funding arrangements based on their own priorities, and we heard this call echoed in our conversations with many practitioners. Community voices may be represented or intermediated by nonprofits, but we caution against the assumption that a nonprofit is representative of a community and therefore, the final authority on the services and outcomes the community needs. The takeaway from California project partners was that the most successfully designed projects were those that originated and derived from community priorities.

To date, service providers for PFS projects have been selected for their perceived capacity or readiness to implement an evidence-based or promising practice (either their own or one developed elsewhere) with fidelity, and to manage the complex operational and administrative aspects of a PFS project. This approach prioritizes what they do, rather than who they are. In future cross-sector partnerships, potential service providers should be evaluated on a set of criteria that assess their relationship to the community that a project aims to serve. Consideration should be given to ways that community-centered service providers may have been disconnected from the flexible funding necessary to create robust infrastructure and systems for tracking and evaluating program outcomes. Too often, white-led organizations have disproportionately received such funding and are thus often deemed "most ready" to engage in innovative partnerships. Investors and intermediaries can alternately consider ways to enhance the capacity of those providers connected to and trusted by communities. This requires getting a deeper understanding of an organization's ties to and reputation in its community, its staff and leadership, and its formal and informal relationships with other local groups.

Give Service Providers Flexibility and Trust

The experience of the California PFS cohort has underscored that service providers hold critical knowledge and experience. In a best-case scenario, PFS projects can set nonprofit organizations up with the flexibility to do what they do best: adapt and innovate in meeting client needs and respond to changing circumstances as they maintain focus on their mission.

In California's Alameda County project, where the goal of the project was reducing recidivism, the PFS contract detailed eligibility criteria for low-level defendants to receive services, but there were no requirements related to what services were delivered. This gave service provider La Familia the latitude to offer clients the wide portfolio of resources that the multi-service agency offers, including mental health and substance abuse treatment, employment services, and housing. This is a contrast to many government contracts where funding is restricted to a narrow set of activities and outputs, even when the contracted agency offers a broad range of services.

While not anticipated at the outset of the California PFS projects, the COVID-19 pandemic has also showcased the nimbleness of nonprofit service providers as partners to government. In Ventura County, the COVID-19 pandemic forced a rapid pivot to remote and socially distanced service delivery, including telemedicine. Service provider Interface's model, pre-COVID, had relied almost exclusively on staff being out in the field meeting with clients, so Interface knew the clients they were engaging and leveraged their pre-existing relationships and trust to navigate the shift to exclusively virtual engagement. Making this shift increased participant engagement and demonstrated to their government partners the value of using technology in this way.

Broaden Definitions of Success

Allowing service providers to serve clients in holistic ways accounts for the complexity and intersectionality of upstream conditions that contribute to the negative outcomes that PFS projects are designed to address. Even if the target outcome is binary – e.g., did someone recidivate or not – the path to achieving that outcome is not often linear or one-size-fits-all.

In most current Pay for Success projects, repayment is tied to only a small number of outcomes that are monetizable and are tied to the priorities and budgets of only one government agency, due to the siloed nature of government funding. As a result, the definition of success (in terms of investor repayment and metrics of evaluation) for the project is narrower than how a service provider defines it and does not capture the full positive impact on the individuals served.

Further, having outcomes that are narrowly defined means that achievement of project outcomes may be at risk if the broader landscape shifts; for example, a project focused on employment outcomes may be negatively affected by a period of economic recession and record unemployment, as has been precipitated by the COVID-19 pandemic. This is true even if the broader landscape shifts in a way that advances the goals of the PFS project. For example, movement away from mass incarceration and resulting changes in criminal justice policy may have an adverse effect on PFS projects focused on reducing recidivism, including its ability to recruit an adequate sample size or demonstrate a large enough difference in outcomes when compared to a control group.

When practitioners were asked whether they thought that the California PFS projects were addressing inequity by virtue of their design, they had mixed responses. We heard a clear sentiment that projects dedicated to breaking the cycle of recidivism for the Black and Latino communities that are disproportionately impacted by mass incarceration are inherently addressing systemic racism. However, we have heard less consensus about this for projects, in California and beyond, that are focused on issues like employment and housing. In these cases, there may be an implicit assumption that programs are advancing racial equity by addressing problems that have their roots in structural inequality: for example, unequal educational opportunities and housing discrimination.

But in PFS projects, as with broader social interventions, project design and approach can inadvertently exclude those individuals most in need of support. For example, in the case of supportive housing, screening tools use high levels of interaction with healthcare as a proxy for acuity of need for housing, and prioritize housing placements for those with greatest acuity. This overlooks the reality that many people – especially people of color – are distrustful of or disconnected from healthcare institutions. Therefore, the population targeted for supportive housing placement is often disproportionately white compared to the broader unhoused population. This is an example of the danger of assuming that a project is addressing inequity simply by virtue of the services it is providing.

Be Explicit in Addressing Inequity

There is a clear need to make the implicit explicit in future outcomes-based financing projects. If a government is trying to use outcomes-based financing to chip away at the structural inequities and unequal outcomes that communities of color face, this goal should be named, and the target population should be specified accordingly.

If racial equity is a goal, then how does a PFS project measure success? We see opportunities to advance racial equity through the process by which outcomes are defined, as well as a more explicit consideration of what is being measured as success.

Equitable outcomes are outcomes defined by the community at the center of a project. The first generation of PFS projects were top-down in their design, with the outcomes most often defined by government decision-makers in consultation with intermediaries and evaluators. Goal setting was largely influenced by where significant cost savings or avoided costs could be tied to an outcome. NFF believes, and the intermediaries we spoke with echoed this, that the future of outcomes-based funding should follow the lead of community members to identify which outcomes are prioritized and what success looks like. Some projects that have taken this approach seem to be demonstrating success. Whether these can be captured quantitatively and as metrics of investor repayment is a worthwhile conversation but again, one that the community can weigh in on. Even outcomes that are not tied to repayment can be, and often are, measured as part of PFS project evaluations.

> "We went into the project knowing there is an overrepresentation in Latino individuals in jail, but it wasn't an explicit goal of our project. It should have been. It reflected the inherent bias in our system and the law enforcement system. That is part of the true change for this process. There are hundreds of Latino men who are not in jail today because of this project. They are back in their neighborhoods, with their family, in the workforce. Our agency continues to work on recognizing that addressing racial equity is and should always be an explicit goal of these projects."
>
> Erik Sternad, Executive Director
> INTERFACE CHILDREN AND FAMILY SERVICES

The question of what is being measured applies to both the services being delivered and how thresholds for payment are determined. Our conversations suggest that there is a great deal of potential to be creative and expansive in thinking about equitable service delivery and associated outcomes – if there is a willingness on the part of the payor to think beyond the narrow box of cost savings and assign a value to positive social outcomes and reduced inequality. This shift may also require a refocusing on preventative or upstream, versus remedial services, and continued engagement of philanthropic or mission-first investors.

In addition, and in line with the idea of making equity-related goals explicit, the definition of a project's success could be tied to whether an intervention reduces existing racial disparities in a certain area or demonstrates that positive outcomes are achieved at the same rate for different subgroups receiving the intervention. Examples for this can be drawn from the education reform field, where "closing the achievement gap" between Black and white students is cited often as a goal. For example, outcomes-based funding projects could be explicit about closing the labor market participation gap, the incidence of disease, or improvement of disease-related symptoms for diseases that disproportionately affect Black people, or the homeownership gap, with success defined as narrowing and eventually eliminating racial or ethnic disparities for the metrics deemed most important or indicative.

Promote the Nonprofit Sector as a Source of Innovation and Partnership

PFS projects are high-profile and, while this creates added pressures, most of the stakeholders we spoke with felt that the strength and capability demonstrated by nonprofit service providers while in the spotlight raised the standing of the larger nonprofit sector in the eyes of government. This, in turn, bolsters the sector's reputation as a source of expertise and innovative solutions, and draws attention to program models that are ripe for adoption or expansion by government.

For example, in Santa Clara County, Project Welcome Home shone a light on Abode Services' Housing First model for addressing chronic homelessness. The county had been working on a Housing First plan since 2014, but the project's initial enrollment and service delivery period helped the county government bolster its case for the efficacy of the approach. Santa Clara went on to replicate many more Housing First projects, issuing a $950 million bond to support this activity.

These projects have also shown how the day-to-day relationship between nonprofit and government can be transformed. Many participants described this process as a trust-building exercise between organizations not accustomed to being collaborators and cited the value of intermediary organizations in facilitating more balanced partnerships. Specifically, intermediaries were able to facilitate difficult conversations, broker new relationships, and shift historical relationship dynamics. Intermediaries were credited with facilitating a space for new relationships to emerge.

The operational focus of collaboration means that more staff, at different levels of seniority, are brought to the table. Having a broad base of experiences and voices represented in program planning and execution is a strong contrast to top-down decision-making processes and in some cases, has proven to be a powerful tool for culture change in the relationships between government and nonprofits as well as within organizations themselves. Finally, stakeholders also noted that having data as a shared focal point increased transparency and accountability, forcing partners to confront issues when programs are not going well or having the intended impact and work to course-correct together.

As governments increasingly commit to addressing racial inequity, nonprofits can serve as able partners in designing and implementing projects that contribute to that goal.

Sustain the Momentum of Systems Change

Currents systems for funding social change have often unwittingly reinforced racial inequity. For the nonprofits that participated in PFS projects, the changed relationship with government – and the increased esteem that their government partners have for them as partners in innovation – can serve as a powerful platform for ongoing advocacy. Finding ways to build from these changed relationships will be key to ensuring that the hard work of PFS projects continues to bear fruit and that we evolve the way governments pay for critical services and more actively advance racial equity.

PFS also offers potential as a driver of systems change in terms of how nonprofits work with government. Most of the California PFS project stakeholders cited ways in which their projects have shown government what they are capable of, by providing room for experimentation and real-time data to inform action and requiring them to work in new ways to keep projects going, especially in light of the COVID-19 pandemic. Various project stakeholders hoped this shifted relationship with government partners would be one of the most enduring successes of PFS but noted that the increased trust and strengthened rapport did not necessarily extend beyond the direct relationships fostered through the projects.

> "I believe what we did was in many ways groundbreaking, and other departments copied what we did as they saw the program design unfold. [This project] influenced RFPs over the last couple of years. When [other agencies] saw what was happening, they followed our example."
>
> Aaron Ortiz, Chief Executive Officer
> LA FAMILIA

Outside investors also represent an important facet of systems change. These investors brought attention – and pressure – that many deemed was ultimately helpful in keeping projects on track, transparent, and focused on continuous improvement, using real-time data to improve performance issues more expeditiously than in typical government contracting relationships. Over the last several months, many investors have committed to backing racial equity and social justice efforts; this private funding may help speed progress.

> "Partnership and collaboration was raised to new heights. The types of partnerships we have built is used as a model for other County efforts. There was a great trajectory in support from probation officers. We initially saw disinterest because they were busy. We did a lot of work engaging them and showing them how this project can help them be more successful. Probation officers are now extremely engaged as partners. This represents a culture change within Probation and how they saw their role with clients. Even though as community-based service providers, we don't carry a badge or gun, they came to realize we have unique value. It took a couple of years to get to that culture change. When you are working on new partnerships, you need to be persistent and give it time to develop."
>
> Erik Sternad, Executive Director
> INTERFACE CHILDREN AND FAMILY SERVICES

Moving forward, many of the California PFS government stakeholders see this experience as just the beginning of a much larger project of systems and culture change that needs to happen within government. All cited that there have already been positive spillover effects, as other agencies or departments within their own municipality or peer agencies across the state have demonstrated interest in their projects and/or have started to shift how they allocate resources, either internally or through formal procurement processes.

This is critical, because all the stakeholders we spoke with cited the enormous administrative burden, complexity, and cost of developing and running a PFS project. For government, the task now is to figure out how to leverage the progress made through the PFS projects, independent of the encumbrances of a PFS contract, to reorient their existing spending toward better outcomes and greater equity.

Engage Impact Investors in Innovation and Capacity Building

Finally, because no discussion of PFS is complete without discussing the role of private capital, it is worth considering the role of impact investors in advancing outcomes-based funding for projects that support racial equity.

Certainly, there is a need for working capital, the upfront dollars needed to ensure program delivery regardless of outcomes. This is especially true if there is a shift toward centering community-based organizations and organizations led by people of color, which receive only a small portion of philanthropic funding in this country.

> "We are asking ourselves, could we enter into an outcomes-based contract with service delivery instead of going through the PFS? We would rather just have a contract and pay you for housing stability as an outcome. Administrative burden of a PFS project is huge. If we want to implement a new project, then maybe it is better to do an outcomes contract."
>
> Christy Madden, Sr. Deputy Executive Officer
> COUNTY OF VENTURA

As a result of this funding inequity and the chronic underinvestment in the nonprofit sector more broadly, there is also potentially a role for investors to play in bolstering organizational infrastructure through professional development, fair market compensation for staff, and developing both the systems and personnel to use data in a meaningful way to inform program delivery. By so doing, investors could better support community-centered organizations who may not be "furthest along in readiness" for complex outcomes-based projects to ensure that these organizations are positioned to continue to serve their communities in the most impactful way possible with the collaborative support of cross-sector partners.

Since mission-driven funders often provide seed funding for new solutions developed by the nonprofit sector, there may be a compelling role for them to play in building the field of evidence to support future outcomes-based financing work. Investors can support not just the infrastructure for data collection at the organizational level, but the research and evaluation work that can demonstrate impact in ways that go beyond the availability of administrative data. Evaluations that can demonstrate proof of concept and efficacy of program interventions as well as lean or low-cost evaluation methodologies can play a critical role in broadening the definitions of success for outcomes-based financing projects. Investments in these evaluations could remove the administrative, legal, and operational costs of evaluations that rely on administrative data and randomized control trials.

Finally, it must be noted that some investors see continued and even heightened appeal of PFS and outcomes-based funding to government in light of the economic recession – the first in the United States since the PFS field took root – which is already having a devastating effect on municipal budgets.

Conclusion

PFS and its offshoots have the potential to evolve as a valuable tool to government to drive economic and social recovery post pandemic.

Community-led efforts to allocate more dollars toward preventative and upstream services have the potential to address the systemic inequities that are exacerbated by the current public health and economic crises. The original premise of PFS – moving money to "what works" and focusing on longer-term outcomes rather than short-term outputs – has taken on new significance considering calls to defund the police and reinvest in preventative and restorative services.

Building racial equity requires rethinking current systems and centering equity goals at every stage from design to measurement. The lessons from California's Pay for Success projects and the field more broadly can help anyone willing to ask hard questions about what's working, and what isn't, to better drive positive social change.

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