Service Provider

This questionnaire can help you evaluate if your organization is prepared to participate in a Pay for Success (PFS) project as a service provider.

PFS's evidence-based policy approach addresses critical issues by interrupting cycles of negative social and economic outcomes to measurably improve communities and the effectiveness of public policy. Some PFS projects focus on scaling or replicating proven interventions, while others seek to introduce or adapt services to new settings. Issue areas that might be a fit for PFS include:

- criminal justice
- early childhood education
- homelessness
- prevention or treatment of problems associated with chronic disease
- substance abuse
- behavioral health
- workforce development
- and many more.

Pay for Success projects are sponsored by local, state, or federal governments that want to achieve better social outcomes by working with providers through service contracts that tie funding to outcomes. Investors provide the upfront money service providers need to deliver programs and achieve results. Independent evaluators determine whether the target outcomes have been met at pre-determined intervals during the project. If the objectives have been met, the government repays the investors, sometimes with a return.

This arrangement offers security to providers and allows them to do what they do best in pursuit of agreed-upon goals. However, because PFS models are still in early stages of development, participation in a project comes with substantial demands on time and resources, along with significant risk and intense scrutiny.

The questions below can help you explore PFS by identifying some of the organizational issues you will need to consider to participate in a PFS project.

Organizational Mission and Strategy

PFS can be used to scale existing programs and/or to introduce innovation in service delivery with the goal of improving the lives of people in the community. When considering PFS, an organization should have clarity on its goals for participation. Leaders should consider how a PFS project fits with their organization's mission, vision, and strategy, and if the existing organizational infrastructure can support any subsequent growth or change.

- Does the organization:
  o Have a vision of what it is trying to achieve and a well-defined mission?
  o Set and refine its strategy for achieving its mission?
  o Assess program opportunities in light of its mission and strategy?
- Does the organization provide service(s) that address a chronic, high priority, and/or costly or severe social problem?
- Does the organization have an established track record of:
  o Delivering the interventions and services that are proposed in a PFS project?
  o Successfully serving the populations (e.g., first time Medicaid-eligible mothers) targeted in a PFS project?
  o Working in communities or geographies under consideration for PFS, or in communities with similar characteristics?
- Does the organization have experience:
  o Scaling or replicating existing programs?

Organizational Mission and Strategy, cont.
- o   Adapting existing programs to fit with different funder and partner mandates? In new geographies?
- o   Implementing this growth or adaptation to evidence-based practices with fidelity?

Program Data and Impact

PFS project design and financing relies on data to determine the likely outcomes, success measures, and repayment terms. Organizations interested in pursuing PFS should have a culture that has shifted (or is shifting) from a traditional output orientation (e.g., quantity of services offered) to a focus on outcomes (e.g., impact of services offered). This can be demonstrated by a growing ability to provide data on short-, medium-, and/or long-term outcomes, and integration of that data into organizational decision-making.

- Does the organization provide an intervention that is suitable for PFS? (See Issue and Intervention Questionnaire)
- Does the organization regularly:
  - o   Invest in infrastructure, people, and systems for data collection/analysis?
  - o   Collect data on its own programs, specifically around intervention outcomes rather than outputs?
  - o   Analyze the data on a rapid basis to identify gaps, adjust program delivery, and inform organizational strategy?
  - o   Evaluate data collection methods to find the right balance of usefulness and simplicity?
- Does the organization have experience with:
  - o   Evaluating its own programs for long-term impact and effectiveness?
  - o   Third-party, or external, evaluations of its programs?
  - o   Evaluating its programs against a reasonable counterfactual?
- Is the organization building relationships with the public sector (e.g., school districts, probation departments) to access administrative data to assess program outcomes?
- Has the organization attempted to quantify the economic and/or social value that its services create? (e.g., cost-benefit analysis, return on investment calculation)
- Does the organization have data on the actual demand for services (e.g., waitlists, number of referrals, etc.) that is differentiated from data related to the need for services?

Financial Management and Strategy

PFS financing arrangements may bear different levels of financial risk and opportunity for service providers. Organizations should consider their current financial position, ability to plan for full costs of delivering programs, and experience with a diverse set of funders (i.e., government, foundations, lenders, and other impact investors).

- In the past five years, has the organization's operating budget and balance sheet grown or remained steady?
- Does the organization have a history of stable operating surpluses and sufficient liquidity (cash on hand) to:
  - o   Meet the organization's regular and recurring expenses?
  - o   Meet unexpected or one-time expenses?
  - o   Pursue new opportunities?
  - o   Manage financial risk, including delays in reimbursement or deficits?
- Has the organization calculated the full cost of delivering its services or programs, taking into account operating expenses, depreciation, fixed assets, working capital, and reserves needs?
- Has the organization developed:
  - o   A multi-year budget?
  - o   A budget that models different scenarios of growth or organizational change?
  - o   Reporting (internal and external) that drives decision making?
- Does the organization have experience:
  - o   Managing multiple sources and types of revenue, including government contracts and foundation grants, which have substantial audit and reporting requirements?

Continued

Financial Management and Strategy, cont.
- o   Negotiating with funders for more favorable reimbursement rates or contracts?
- o   Using debt for real estate or working capital needs?
- o   Blending different types of funding to deliver programs?
- Has the organization ever engaged in any performance-based contracts or funding arrangements that were tied to certain milestones or outcomes? If so, was the organization successful at meeting outcomes and receiving payment?
- Has the organization's leadership and board evaluated the financial risk associated with participating in PFS or other outcomes-based funding arrangements?

Staff, Leadership, and Partners
Designing and implementing a PFS project is time and resource intensive and requires strong participation from high-level staff members, as well as partnerships with multiple external partners. Organizations should consider its current staff's skills and capacity to dedicate time to project design and oversight for a period of several years.

- Does the organization's leadership wish to expand services using PFS or other methods of outcome-based funding?
- Has leadership successfully managed through a prior adaptation or growth period?
- Does the organization have a leadership team that incorporates experienced senior-level executive, program, financial, legal, and operations staff? Has the leadership team been stable?
- Is the organization's board engaged in decision making about strategy and growth?
- Does the organization design and implement programs in partnership with:
  - o   Other service provider organizations?
  - o   Government?
  - o   Financial or program intermediary organizations?
  - o   Evaluators?
  - o   Funders?
  - o   Investors?
- Does the organization have experience with building deep relationships with potential PFS payors (i.e., government)? For example, has the organization been able to gain access to administrative data, serve on cross-sector collaborative networks with potential payors, develop programs with payors, etc.?
- Are the organization's executive and senior leaders able to dedicate significant time to securing and managing a PFS agreement for a period of five years or more?
- Does the organization have adequate, stable staff to:
  - o   Implement the proposed PFS intervention?
  - o   Oversee program expansion or change?
  - o   Monitor fidelity during replication?
- Does the organization have a culture of continuous improvement in program delivery? Is staff at all levels invested in continuous improvement?
- Has the organization's leadership and board evaluated the reputational risk associated with:
  - o   Pursuing growth or change?
  - o   Participating in PFS?
  - o   Undergoing rigorous evaluation?
- Does the organization have a communications capacity? Could it develop and implement a strategy for communicating about a PFS project with the public and key stakeholders?

This tool was originally created as part of the Rapid Suitability Questionnaires in collaboration with McKinsey & Company in 2012. In 2016, Nonprofit Finance Fund, with support from Social Finance and Institute for Child Success, refreshed this resource to reflect market developments.