

State of the Field: The History and Future of Outcomes Based Funding

Presented by

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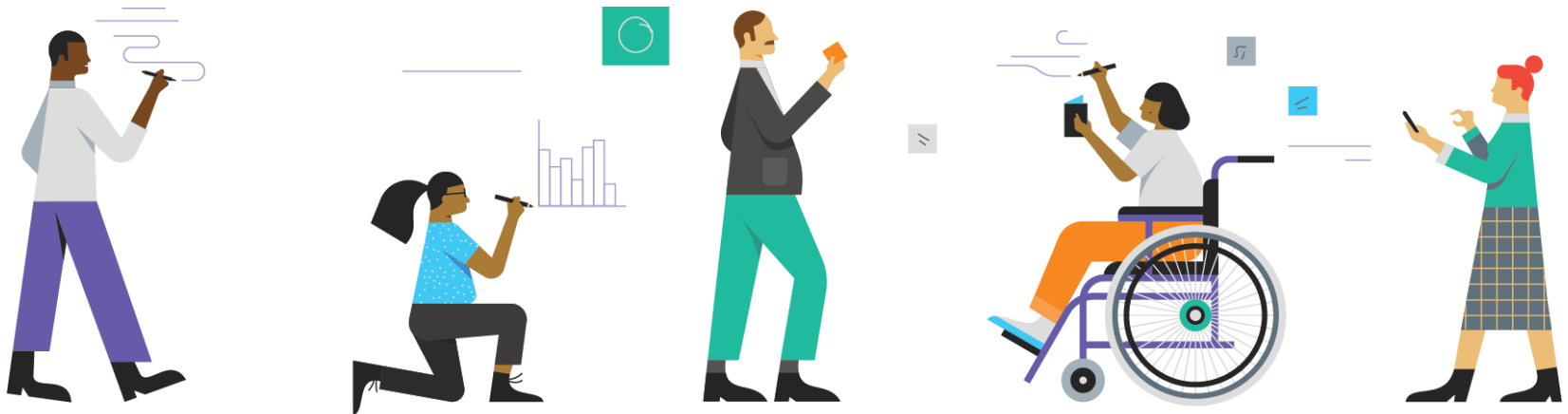


Nonprofit Finance Fund: Where Money Meets Mission

NFF envisions a world where capital and expertise come together to create a more just and vibrant society.

We unlock the potential of mission-driven organizations through:

- **Tailored investments**
- **Strategic advice**
- **Accessible insights**



Our Experience in the Outcomes Arena

Supporting stakeholders education and exploration of Pay for Success (PFS) and outcomes based funding (www.investinresults.org and www.payforsuccess.org)

Encouraging discussion about opportunities and challenges of PFS and outcomes based funding (over 100 events nationally)

Managing project structuring initiatives (CA and SIF PFS Initiatives)

Accelerating providers' capacity to thrive in an outcomes-based environment (CBO "Readiness" TA – for PFS and Health Partnerships)

Investing in PFS projects to share insights from the lenders perspective

Authoring publications and tools such as *Pay for Success: The First Generation* and *The First 25; Advancing CBO & Health Care Partnerships to Address Social Determinants of Health; Partnership Assessment Tools*

Looking back (circa 2010)...

What motivated a focus on outcomes funding?

Government budget reductions

Increased service demand

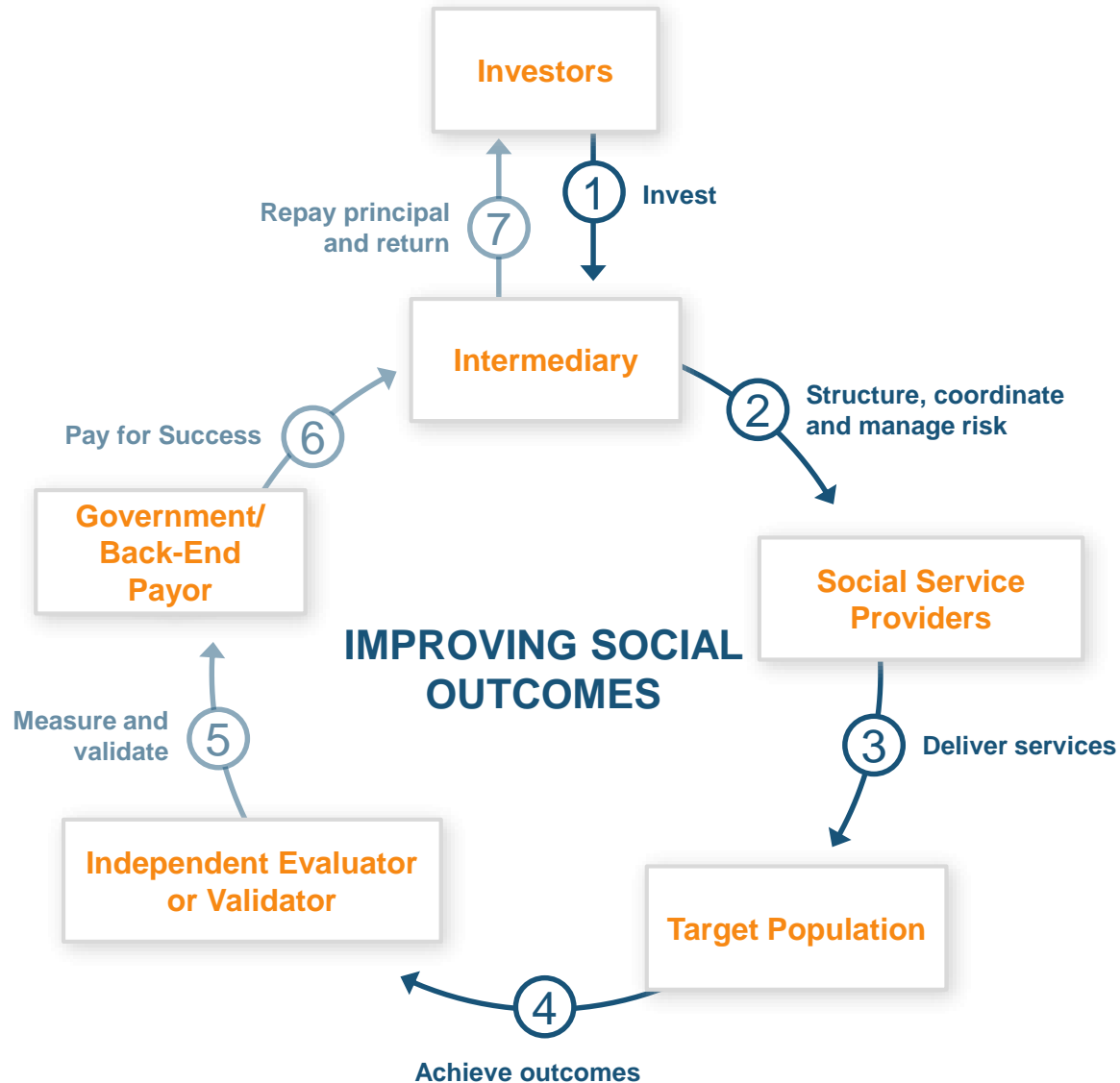
Newly viable impact measurement

Impact investing

Shifting focus to:

- Outcomes vs. outputs
- Prevention vs. treatment
- Paying for “what works”

Overview of Pay for Success Financing Structure



Evolution of Pay for Success

PFS as an umbrella for outcomes-driven approaches

Pay for Success

Payment for services tied to delivery of outcomes

Performance Based Contracting

- Existing agency programs and budgets pegged to shorter term outcomes
- Example: TN Child Welfare

Social Impact Bonds

- Private investors provide upfront capital
- Shift risk of outcomes to investors, not gov't payors

“Next Gen” Outcomes Contracts

- Can be driven by gov't, foundation or private sector
- Examples: Rate Cards, Bonus Payments, Risk Sharing, Pay as You Earn

Advanced Market Commitments

- Government or other payor guarantees a viable market for a product
- Examples: vaccines

Prize Competitions

- Funders award cash prizes for the accomplishment of a feat
- Examples: Xprize for Adult Literacy

The Best of Outcomes Funding

Bold aspirations

Acknowledge the inherent flaws in the status quo and change the system

- Government social spending is largest lever for change
 - Lack data and evaluation: know impact of ~ 1% of social spending
 - Fund remediation services, not upstream prevention
 - Wrong pocket problem
 - Siloed nature of funding stymies progress—most issues cut across funding streams

Scale what works

- Identify and scale outcomes-focused and evidence-based programs



The Best of Outcomes Funding

Good intentions

Deepen partnership and cross-sector collaboration

Increase engagement of private and corporate funders

Shift dynamics between CBOs and funders

- CBOs are critical to crafting solutions that work for communities they serve
- CBOs should:
 - Have a more central role in designing programs
 - Be paid for the value they create
 - Community betterment *and* future savings
 - Outcomes rather than inputs
 - In multi-year contracts



What's been accomplished?

- Over 25 US projects launched using PFS financing
- Scaling of preventative programs with evidence of efficacy
- Increased learning and evidence for supportive housing, home visiting, early care, behavioral health and more
- Shift in funding toward outcomes
 - Provisions in federal laws that allow \$1.7 billion in annual funding to support multi-year outcomes programs
- Engagement of hundreds of US jurisdictions in exploration or utilization of PFS components (feasibility assessment, program design)
- Underscored the need for better data, evaluation and a greater focus on outcomes across levels of government
- Forged cross-sector partnerships

Reflection: Where was Pay for Success at odds with equity considerations from the beginning?

Tension between “top down” and “bottom up” approaches

- In very early days: started with the financing approach, and went looking for places/projects that could fit the mold
- Government driving priority issues

Very few nonprofit providers are ready to engage

- A tool that employed “the 1% of nonprofit service providers”
- Also true for governments similarly challenged with insufficient infrastructure, data, resources to commit

Forced reliance on national experts

- Complexity of structure required an “expert” intermediary
- Funding flowed largely to national intermediaries, not “of” communities

Defining success around savings and measurable outcomes

- Emphasis has shifted from initial focus on cost savings
- Tensions around measurable outcomes

Equity Consideration

Scale versus Local

Local Context Matters

- PFS is an important tool for research and development.
- Appreciating the desire to replicate and scale what works, NFF believes PFS projects are currently best used to help us to learn, “*What works here?*”
- The projects are not ends in and of themselves.
- They are a means to:
 - research and develop **local solutions to local problems**,
 - bring together **community members to define and address** critical needs, and
 - help government partners orient around outcomes.
- Can be at odds with prioritizing scaled solutions



Equity Considerations

Community engagement and leadership

Who's at the table matters: shifting power structures

- We need more service providers **and service recipients** at the table, and at the table sooner.
- PFS, at its best:
 - Amplifies the voices of providers and **showcases their abilities as creative problem solvers**
 - **Involves service recipients in design and delivery**
- More needs to be done to “**pass the mic,**” **listen to** and **fund** those most capable of developing **culturally competent solutions** that:
 - Fit the local context
 - Have the highest likelihood of measurable success

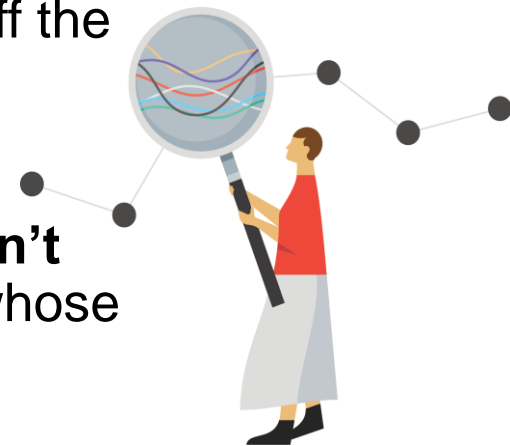


Equity Considerations

Defining Success

Ongoing tensions in measuring social impact and progress

- Evolution away from initial emphasis on cost savings
- PFS headlines often still focus on whether investors get repaid
- Need to consider **lasting social progress**
 - PFS exploration for a project that never gets off the ground can meaningfully improve how a government tackles social problems
- In focusing on results, we need to ensure we **don't inadvertently dismiss or harm** organizations whose powerful contributions to communities **can't be easily tracked or measured**



Equity Considerations

Systems change is expensive and long term work

Widespread and chronic underinvestment in the social sector and communities of color specifically

- PFS is not a magic fix for the systems change needed to achieve social progress
- Challenging and expensive work— a barrier to entry
- Has encouraged conversation around the often inefficient and unfair ways money flows
- Addressing widespread and historic underinvestment in the organizations we trust to solve our biggest problems is long past due.
- As is investment in the capacity of local communities to be their own experts and problem solvers.



Equity Considerations

Addressing these considerations costs money

Addressing underinvestment in social sector is key to making progress toward scaled outcomes solutions

- PFS gained more traction than many collective impact efforts
 - Challenged by complexity, lack of efficiencies/replication, difficulty living up to hype, engaging new players, and getting to “big wins”/scale
 - **Scrutiny speeds change:** High-visibility, high-stakes nature led to expedited improvements
 - **Social Innovation Fund:** critical role in developing PFS projects and providing fertile ground for knowledge sharing
- Opportunities to garner bi-partisan support for PFS 2.0 and leverage and evolve new federal funding—SIPPRA (Social Impact Partnerships to Pay for Results Act)

Concluding Thoughts

How do we integrate large scale change while centering community ownership?

Long-term results take time and upfront investment

- **Building critical capacities**— particularly among those organizations and communities **most disconnected from financial resources**— takes **time and upfront investment**— and has tremendous potential for **long-term results**
- Support organizations to expand, build their capacity to respond, and demand value within the current system
- Model and champion the emergence of a **new social investment system** that is more inclusive, responsive, and valued



Thank You!

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