

Government

This questionnaire can help government personnel evaluate if Pay for Success (PFS) is an effective means to address social issues in their jurisdiction.

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.

Typically, social service contracts between government and services providers are based on cost reimbursement or the quantity of services provided. While the goal of improving an outcome, such as reducing homelessness, may be articulated in the contract, payment is not tied to that outcome.

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 model is flexible, and variations can include:

- What portion of the service contract is tied to outcomes
- The presence and type of private funders (philanthropy, banks, impact investors)
- The specifics of the evaluation
- The timing and mechanism for government funding

The questions below can help government personnel explore whether PFS is a fit for their jurisdiction.

Strategy

In many cases, PFS has been used to expand early or preventative services aimed at delivering better outcomes at a lower cost than the typical remedial services.

- Have issue areas with the potential to be addressed by PFS been identified?
- If so, are the issue areas:
 - Chronic or persistent challenges for your jurisdiction?
 - Affecting a substantial and clearly defined target population who would benefit from new or increased social service intervention?
 - Ones for which there are promising or proven programs that can deliver better outcomes than the status quo?
 - Served by established and experienced providers in your jurisdiction?
 - If not, is the jurisdiction willing to bring in service providers from other locations to meet this need?

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Strategy, cont.

- Is there support for PFS from key champions and decision makers in:
 - Elected office?
 - The relevant government agencies including the budget office and legal department?
 - Other agencies whose cooperation will be critical to pursuing PFS?
- Is there a history of close collaboration among distinct government agencies on a shared goal?
- Do key government decision makers, including those considered above, have a shared understanding of the possible PFS benefits that are most important to the proposed project? These may include:
 - Efficient use of taxpayer money
 - Use of evidence and evaluation in policy and funding decisions
 - Better use of administrative data to define highest need populations and measure outcomes
 - Testing new solutions to persistent problems
 - Funding proven preventative or early intervention programs

Enabling Environment and Capacity

PFS projects require governments to operate differently, which may have implications for legal, regulatory, and procurement policies and practices.

- What legislation is necessary to pursue PFS contracting? Will new legislation need to be enacted? Or will the government rely on general contracting authority?
- Does entering into a PFS contract require changes to current procurement policies?
- Does the government have a good track record with public-private partnerships?
- Does the government have experience with performance-based contracts, specifically those for social services?
- Is there staff to dedicate to PFS project exploration, development, and launch for at least 12-24 months? Does this staff have decision-making authority or direct access to key decision makers?

Data and Evaluation

Program evaluation determines whether a PFS project has met its pre-determined outcomes and is eligible for success payment. A third-party evaluator typically conducts the assessment, often relying on access to administrative data. This data is also required in the project development phase. The data identifies the target population, establishes baselines for outcomes measurement, and models potential outcomes metrics and targets. Data-sharing agreements between government and external partners (e.g., service providers, evaluators, and transaction coordinators) are often required during both the project development and implementation phases.

- Does the government have experience negotiating data-sharing agreements with nongovernmental organizations (e.g., evaluators, consultants, etc.)?
- Does the government have willingness, capacity, and experience to engage in more regular data collection and monitoring during the life of a PFS project? And to potentially engage in more robust collaboration with selected service providers to improve referral pathways into PFS programs, if required?
- Does the government have expertise related to evaluation methodologies for social services? Is it willing to contract for such external support, if not?

Budget and Funding Environment

Government personnel should consider the costs and benefits of the intervention, both in terms of cashable savings and the program recipients' improved quality of life. When evaluating financial implications, they must consider to which

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Budget and Funding Environment, cont.

budgets any costs and savings accrue—both within the jurisdiction (i.e., from a general fund or from one agency budget or another) or beyond it (i.e., at the local, county, state, or federal level), as it is possible that this information will affect the source of future outcomes payments.

- Will any PFS project be required to show cashable savings to the government, or is another positive outcome (e.g., more efficient use of government resources) a sufficient goal?
- While private funders can provide payments for the upfront costs of delivering services, it is ultimately the government that funds successful outcomes achieved. Have potential funding sources (e.g., tax revenues) for a PFS project been identified?
- What policies can be put into place to mitigate future appropriations risk to repaying investors? Will the government consider setting aside a portion of those payments up front to attract investors?
- Does the PFS arrangement require any changes to regulations related to funding outcomes payments that are granted by higher levels of government (e.g., state or federal government)?
- Are there other potential funding streams to leverage for the project (i.e., housing tax credits or Medicaid waivers)?

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 Third Sector Capital Partners and The Harvard Kennedy School Government Performance Lab, refreshed this resource to reflect market developments.