

Pay For Success (PFS) is a set of innovative, outcomes-based financing and funding strategies seeking to directly and measurably improve the lives of people in need. In this brief, we outline how PFS can shift resources toward long-term, positive outcomes.

About This Issue Brief Series

This issue brief is the first in a 10-part series written for government officials interested in learning how to use Pay for Success tools and principles.

The series summarizes best practices and lessons learned at Social Finance from a decade of designing, launching, and managing Pay for Success projects. It includes guidance on each step of the process, from deciding whether Pay for Success is a good fit to actively managing a project post-launch.

Access the complete issue brief series [here](#).



The Challenge of Prevention

Our systems for delivering and paying for services to address challenges are largely aimed at addressing problems as they arise, rather than preventing them.

Based on our work and conversations with policymakers throughout the country, we have observed four overarching issues that can help explain this phenomenon: (1) uncertainty; (2) an absence of measurement; (3) reactivity; and, underneath all these factors, (4) wrong-pockets problems that, without greater collaboration, frustrate efforts to solve systemic, often dispersed problems.¹

BARRIER 1: UNCERTAINTY ABOUT WHICH PROGRAMS WILL ACHIEVE POLICY GOALS

Many leaders aren't sure which programs will achieve their goals. The social sector is flooded with claims of dramatic cost effectiveness, of "proven" programs, and of unambiguous success. But underlying these assertions is a large and growing body of research that suggests an unwelcome truth: social interventions typically don't produce the results they set out to achieve.^{2 3} What works in one place, for one group of people, may not—indeed, often does not—work as well with another.

BARRIER 2: ABSENCE OF CAREFUL MEASUREMENT OF WHAT MATTERS

The public sector is trending toward a greater outcomes orientation, but progress is slow. Though every public agency has planning and budgeting processes, few have clear goal setting, evaluation, and reconciliation processes built into their annual cycles. Few follow best practices in setting forward-looking measurement plans, with carefully defined targets matched against evaluation methodologies and data sources. And few bring in the voices of community stakeholders and consumers to guide outcomes selection. In the absence of specific, multiyear outcomes goals and ongoing measurement to understand the extent to which goals are being achieved, it's impossible to create accountability.

BARRIER 3: PRESSURE TO REACT TO NEAR-TERM CRISES

Addressing long-term outcomes involves mobilizing resources today to avoid a crisis tomorrow. But prevention cuts across the expediency baked into our political process, which prioritizes near-term results that guide annual budgeting cycles. Not surprisingly, myopic measurement leads to more of a focus on resolving immediate challenges, and less attention on how to prevent them in the first place.

BARRIER 4: WRONG POCKET PROBLEMS AND LACK OF ALIGNMENT AMONG SECTORS

Critical social issues, such as ending homelessness or increasing economic mobility, don't fit neatly into agency or jurisdictional silos. These multifactorial challenges touch on the work of dozens of agencies spread across cities, counties, states, and the federal government. The advantages of solving these issues are therefore diffuse, and there are few mechanisms available that support benefit-sharing between agencies or levels of government—so it can be impossible to realize the activation energy needed to test powerful, multi-sectoral programs.

PFS In Action: New Castle County, Delaware

In September 2022, New Castle County, Delaware (NCC), the nonprofit Children & Families First (CFF), and the Longwood Foundation partnered with Social Finance to expand access to quality prenatal and postnatal care to 120 first-time, Medicaid-eligible mothers.

Using a grant from Longwood, CFF has expanded its services to deliver on a set of metrics geared toward mother and child health. NCC has agreed to reimburse Longwood up to \$3 million based on performance, and the foundation will reinvest a portion of those repaid funds into CFF. [Learn more.](#)

2. [House Ways and Means Committee](#), 2013.

3. [Rossi](#), 1987.

Mobilizing Resources Toward Outcomes

Jurisdictions throughout the country are beginning to address these barriers through a set of innovative funding strategies collectively known as Pay for Success (PFS). PFS strategies build stronger contractual relationships between funding and results—paying for important, policy-relevant outcomes achieved, rather than for uncertain programs.

At times, PFS strategies leverage private investors to support the working capital needs of programs by providing them with expansion capital to serve more people and taking on the risk and potential reward of getting better results.

HOW PAY FOR SUCCESS WORKS

- 1** Identify goals: Social services funders, such as health and human services agencies or local workforce boards, identify specific, high-value policy goals (e.g., lowering preterm birth rates for first-time mothers).
- 2** Assign measurable outcomes and prices: Social services funders decide in advance how to measure progress by selecting a clear set of outcomes and defining an evaluation method to track impact. They also agree on what degree of improvement on those outcomes would constitute success and put a price tag on the value of each outcome goal achieved.
- 3** Embed outcomes within contracts: Funders enter into outcomes-based contracts with social service providers where payments are made to the extent that outcomes goals are achieved.
- 4** Mobilize capital: If necessary, community organizations can access upfront working capital for projects from impact investors—a growing group of foundations, mission-driven financial institutions, high-net-worth individuals, and others who care about the social impact of their investments.

Since funders pay for results, PFS can help figure out what works in a given place and time, ensuring that limited dollars are used effectively.

The Core Principles of Pay for Success



Clearly Defined Outcomes



Data-Driven Decisions



Cross-Sector Partnership



Strong Governance and Accountability



Catalytic Capital For Impact

Introduction to the PFS Brief Series

This series of 10 issue briefs on PFS is intended to provide practical guidance and examples for government officials interested in pursuing this approach within their agencies or jurisdictions. We wrote this series to tackle questions about PFS and highlight lessons we've learned over 12+ years of working to pioneer PFS in the U.S.

Each brief serves as an introduction to a different element of PFS, from understanding whether it is a good fit for the problem at hand (Brief 3) and selecting project outcomes (Brief 5), to managing performance post-launch (Brief 9). The briefs are sequenced so that when they are read from start to finish, they provide a complete overview of the PFS project exploration, development, and management process. However, they may also be used as standalone documents for those who would like to learn more about a specific element of PFS.

Explore PFS, Briefs 1-3

Brief 1: Introduction to Pay for Success

Pay for Success as a mechanism for directing funding towards outcomes.

Brief 2: The Pay for Success Toolkit

An overview of Social Impact Bonds, Outcomes Rate Cards, and Career Impact Bonds.

Brief 3: Assessing Pay for Success Project Fit

Criteria to help decide if PFS is the right tool for the problem at hand.

[Access the brief series >>](#)

Launch PFS, Briefs 4-8

Brief 4: Getting Started on Pay for Success

Initial actions outcomes payers can take to build strong project foundations.

Brief 5: Defining Success in Pay for Success

Identifying and selecting meaningful outcomes for PFS projects.

Brief 6: Measuring Success in Pay for Success

Choosing the right evaluation methodology for PFS projects.

Brief 7: Is the Price Right?

Strategies for valuing project outcomes.

Brief 8: Pay for Success Contracting

Creating legal agreements for PFS projects.

Manage PFS, Briefs 9-10

Brief 9: Active Performance Management

Ongoing monitoring and course-correction to ensure project success.

Brief 10: Pay for Success Governance

Moving from compliance to collaboration.

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About Social Finance

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Social Finance is a national nonprofit and registered investment advisor (SF Advisors, LLC). We work with the public, private, and social sectors to create partnerships and investments that measurably improve lives. Our Impact Investment team designs, launches, and manages impact-first investments. Our Advisory team partners with government and philanthropy leaders to implement data-driven programs for social impact. And through the Social Finance Institute, we aim to build the field and change systems through actionable research, communities of practice, and educational outreach. Since our founding in 2011, we have mobilized more than \$350 million in new investments designed to help people and communities realize improved outcomes in workforce and economic mobility, health, and housing.

Learn more at socialfinance.org >>

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