ISSUE BRIEF 2

The Pay For Success Toolkit

What PFS Projects Have in Common | PFS Project Types

The Pay For Success toolkit includes several types of outcomes-based funding mechanisms. This brief explains the differences between three tools commonly used at Social Finance—social impact bonds, outcomes rate cards, and career impact bonds—to help agencies and legislators select the best model for their needs.

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.

What PFS Projects Have in Common

Several types of tools—social impact bonds (SIBs), outcomes rate cards (ORCs), and career impact bonds (CIBs), to name a few—are examples of Pay for Success (PFS) projects. Each is an example of an outcomes-based funding strategy in which payments are directly dependent on results. They share a set of underlying principles:

- Clearly defined outcomes
- Data-driven decisions
- Cross-sector partnerships
- Strong governance and accountability
- Catalytic capital for impact

Social Finance began its PFS work in 2011 with a focus on SIBs. But over the course of the last decade, we've seen that different contexts call for new takes on outcomes-based funding, and we have expanded our toolkit accordingly. Outcomes-based funding solutions are not one-size-fits-all: they are meant to be tailored to the individual circumstances of governments, service providers, funders, and most importantly, the needs of the people being served.

PFS Project Types

SOCIAL IMPACT BOND (SIB)

SIBs are public-private partnerships that fund social programs on the basis of results. In a SIB, governments identify policy-relevant outcomes (e.g., lowering preterm birth rates) and enter into contracts with service providers to achieve those outcomes. The contracts are structured so that payments are made to the extent that outcomes are achieved: better outcomes unlock more funding, worse outcomes unlock less, creating a link between intervention impact and public payment. Many service providers, though, cannot afford to bear the financial risks in the event of underperformance. In those cases, the necessary upfront capital can come from foundations, mission-driven financial institutions, high-net-worth individuals, and others. These partners then take on the risks and potential benefits of the project's performance from the service providers they back. [1]

To date, SIBs account for 222 projects launched across 39 countries, including 29 in the U.S. that have mobilized over $462 million in capital. [2] They tackle many issues, including public safety and reentry, workforce development, child welfare, health, and homelessness.

SIB Variation: Development Impact Bond

Development impact bonds (DIBs) are a variation of social impact bonds aimed at financing programs in low- and middle-income countries. The key difference between a SIB and a DIB is that the primary funder of outcomes, often referred to as the payor, is a bilateral development aid agency or private philanthropy rather than a national or local government.

SIB Fit Checklist

This tool is a good fit when:

- The funder of outcomes wants to pay largely, or entirely, on the basis of performance.
- The funder, by seeking to pay for performance, also wants to shift financial and performance risk, and is willing to price those risks appropriately.
- Partners have existing high standards for data sharing, project management capacity for design, and ongoing operations and legal resources.

1. Social Finance, 2024.
2. Brookings Institution, 2023.

SIB Example: New Castle County Pay for Success Project

In 2022, Social Finance partnered with New Castle County, Delaware and the nonprofit Children & Families First to expand access to quality prenatal and postnatal care to 120 first-time, Medicaid-eligible mothers. Learn more.

OUTCOMES RATE CARD (ORC)

An outcomes rate card (ORC) is a menu of outcomes that a government seeks to achieve, paired with the prices it is willing to pay for each. To develop an ORC, an outcomes payor determines priority outcomes, associated prices, and a measurement methodology by which to confirm whether outcomes have been achieved; these parameters are then used as the basis for a procurement process and service provider selection. Unlike a SIB, one ORC can be incorporated into the procurement process for multiple providers, who must each deliver against the pre-determined outcomes and prices, receiving payment only when the stated outcomes are achieved; also unlike a SIB, many ORCs tie a smaller portion of payment to measured performance.

ORC Fit Checklist

This tool is a good fit when:

- The outcomes funder is interested in or is already contracting with multiple providers.
- The outcomes funder wants to streamline procurement and improve replicability.
- The outcomes funder is interested in introducing outcomes-contingent payments in a relatively simple way.

ORC Example: Connecticut Office of Early Childhood

In 2017, Social Finance worked with the Connecticut Office of Early Childhood (OEC) to launch an ORC for its home visiting service providers. The ORC is focused on improved birth outcomes, avoided child maltreatment and injury, and increased caregiver education and employment. Following a successful pilot launch in January 2018, the state integrated ORCs into home visiting vendor contracts over four separate re-authorization cycles, eventually tying more than $1 million in state and federal funding to performance standards. Learn more.

CAREER IMPACT BOND (CIB)

Typically students in the U.S. bear all the risk in pursuing postsecondary career training, taking on the risk of loan repayment and pausing full-time employment in search of higher wages without any guarantee of landing a good job. The Career Impact Bond (CIB) is an approach that integrates outcomes-based financing into career training designed to open employment pathways and to catalyze economic mobility.

A CIB can take different forms depending on the participating stakeholders and problems being addressed. For example, it can take the form of an outcomes-based loan (OBL). In this model, investors and training providers cover upfront program costs and often offer additional services such as career counseling and living expense support to help participants complete their training and obtain employment. Under an OBL, learners only repay after they land a job above a predetermined income threshold and then pay a fixed portion of their income over a set time period. Variations of the CIB include centering repayment on the training provider or employer either by assuming learner repayment obligations or accepting financing tied to measurable employee outcomes.

CIB Variation: Pay it Forward Fund

The Pay it Forward Fund (PIFF) is a place-based workforce fund that more sustainably invests in worker upskilling by pairing the CIB financing model with public and philanthropic dollars that can be recycled, via learner repayment, to fund training for multiple cohorts of learners. Learn more.

CIB Fit Checklist

This tool is a good fit when:

- ✓ Program participants lack access to affordable financing to support their career trainings.
- ✓ Employers seek to expand talent pipeline to address critical hiring needs.
- ✓ Training providers are looking to scale programs.

SIBs, ORCs, and CIBs demonstrate how PFS can be used as a tool for change by increasing focus on outcomes and optimizing resources for results. They are also only starting places: though these are the tools we use most frequently communities often adapt each to best fit with their needs and goals.

CIB Example: Learning Alliance

In 2024, Social Finance partnered with the broadband installation training provider, Learning Alliance, to help expand access to training for in-demand technological infrastructure jobs. The three-year partnership aims to help 900 people pay for two- and four-week broadband installer training programs and land good jobs. Learning Alliance has a track record of successful outcomes. In 2023, 86% of their graduates were placed in jobs earning an average annual salary of $45,000. Learn more.

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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.

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