

Growing the Pipeline of Pay-for-Success Projects

Authors

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“Pay for Success (PFS) is an approach to contracting that ties payment for service delivery to the achievement of measurable outcomes. The movement towards PFS contracting is a means of ensuring that high-quality, effective social services are working for individuals and communities.”

– Nonprofit Finance Fund

Over the past five years, substantial commitments from the philanthropic community and the federal government have advanced the Pay-for-Success (PFS) field in the United States. PFS projects enable federal, state and local governments to partner with high-performing service providers by tapping private investments to expand effective programs.¹ As of this publication date, there are 20 PFS projects in the United States (100 across the globe) that are considered launched, meaning the feasibility and structuring processes are complete, and investors have agreed to the formal structure and terms. These projects cross a range of issue areas, including early childhood, workforce development, recidivism, homelessness and many others.² While this number is growing, the field continues to search for ways to increase the number of projects in the pipeline and decrease the amount of time and resources it takes to launch projects. A PFS project can realistically take years to go from feasibility to financing and encumber both organizational staff and financial resources along the way. This issue of *Community Practice Papers* details one path to achieve these goals — the use of universities, and specifically the University of Virginia’s Pay for Success Lab.

There are three universities in the United States that have started programs to support PFS projects: Harvard University, the University of Utah and the University of Virginia. The Harvard Kennedy School Government Performance Lab (HKS GPL) has been providing government-side technical assistance on designing and implementing PFS projects with a focus on the next stage of development in the PFS field. The Government Performance Lab grew out of Harvard’s Social Impact Bond Technical Assistance Lab (SIB Lab), which was established in 2011 with support from the Rockefeller Foundation. The SIB Lab helped Massachusetts and New York become the first two states to use the PFS model.³

The Sorenson Impact Center,⁴ housed at the University of Utah’s David Eccles School of Business, is a “think-and-do tank that marshals capital for social good, empowers data-driven programs, breaks down silos across sectors and equips the next generation of leaders with social purpose.”⁵ With social impact financing, the Sorenson Impact Center acts as a connector between “leading academic research regarding ‘what works’ in social policy with programmatic design, execution and rigorous evaluation” of proposed project feasibility.⁶ They also provide competitive grants to PFS projects.⁷

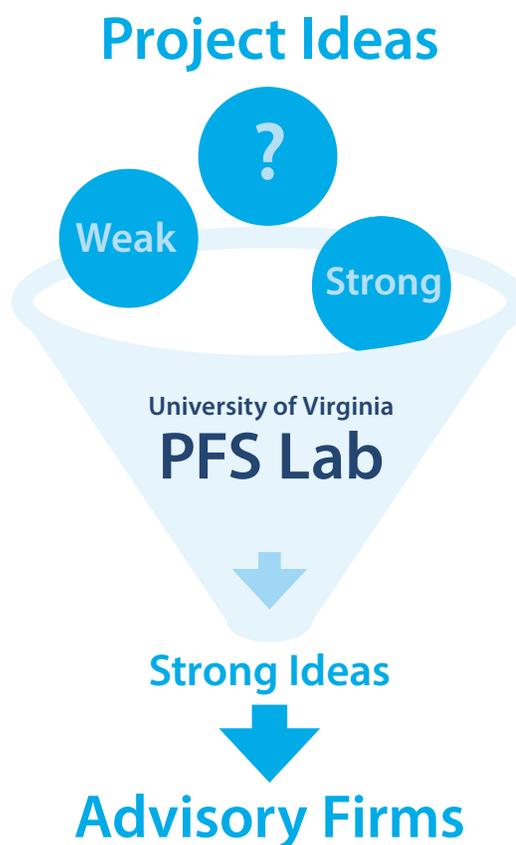
The University of Virginia Pay for Success Lab (PFS Lab) launched in September 2015 with the goal of identifying solutions to reduce the time it takes to launch PFS projects by taking advantage of the two main strengths of universities: research and education. The PFS Lab focuses on identifying promising PFS projects and referring them to advisory firms that can launch them.

At the PFS Lab, teams of three to five students, with guidance from the staff director, research a specific social issue and identify localities that are facing a significant problem with that issue. For example, a team may focus on reducing a large cohort of ex-offenders from returning to prisons in a certain locality because recidivism is costly to society. Another example may be investing in early childhood education in communities with higher rates of poverty and lower testing scores since investment earlier on can lead to cost savings in later years. Once the issue has been identified and assessed, the team then reaches out to government officials, advocacy organizations, service providers, foundations and other local leaders to explain the PFS model, provide resources and begin to guide how a PFS project could take shape.

This guidance is important because in the PFS model programs go through an independent evaluation and if the program achieves predetermined outcomes that benefit society and generate value for government, then the government entity will make outcomes-based payments to the program's initial investors. However, the government pays only at the level of outcomes achieved.

Throughout the process, the PFS Lab assists communities with assessing whether or not a PFS model might work for their issue. Specifically, the PFS Lab researches the problem definition, target population, current government expenditures, potential interventions and outcomes, service providers and local commitment. Teams also perform upfront due diligence using the Urban Institute's Project Assessment Tool, asking questions about the commitment of the government, the data systems in existence and local programs that are already trying to address the problem.⁸

The team writes up their findings in Concept Outline and Project Assessment documents. Local leaders can then use these write-ups to understand if there is a promising PFS project. If the local leaders are interested in developing the project, the PFS Lab will post these documents to a newly created online Project Platform, which will serve as a clearinghouse between the projects the PFS Lab identifies and advisory firms that can offer technical assistance.



One recent example of this process is a project the PFS Lab started working on in early spring 2017. The director of the PFS Lab and a faculty member of UVA's Department of Public Health Sciences met with several community leaders in Richmond, Virginia, to discuss how the community could leverage PFS on some key issues. Over the following few weeks, the PFS Lab identified a clear issue area on which Richmond could focus: childhood asthma. The Asthma and Allergy Foundation of America regularly cites Richmond as being one of the worst places in the country to live with asthma.⁹

Through subsequent conversations and research, the PFS Lab found that the community has: 1.) a comprehensive and dedicated group of local public health stakeholders; 2.) ready access to medical claims and financial data, and researchers who can analyze the data; and 3.) an evidenced-based theory of change for addressing pediatric asthma. The presence of these components indicated the potential for a project that seemed to have the likelihood of success. Through its network of people who are involved in financing PFS projects, assessing feasibility of projects or funding projects as PFS leaders, the PFS Lab was aware of an available Sorenson Impact Center PFS Feasibility Grant competition. The PFS Lab assisted the Richmond City Health District (RCHD) with an application. The Sorenson Impact Center chose the RCHD as a recipient and began providing advisory services in July 2017 to hopefully launch the childhood asthma project.

PFS continues to hold promise to transform the way we address the persistent problems of our day. For the PFS field of projects to achieve success and fulfill these lofty goals, it must reduce the amount of time and resources it currently takes to launch a project. By taking advantage of the two main strengths of universities, research and education, the PFS Lab's model of identifying promising projects is one way to make progress.

About the Authors

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Resources

For additional information on the universities mentioned in this article, please visit their websites.

[Harvard Kennedy School Government Performance Lab \(HKS GPL\)](#)

[Sorenson Impact Center](#)

[University of Virginia Pay for Success Lab \(PFS Lab\)](#)

Endnotes

1 <http://socialfinance.org/what-is-pay-for-success/>

2 [The Non-Profit Finance Fund](#), a Learning Hub site in partnership with the PFS community, is an active central resource where individuals can share ideas, learn from each other's experiences and collaborate in the search for best practices.

3 <https://govlab.hks.harvard.edu/gov-lab>

4 <https://sorensonimpact.com/>

5 <http://eccles.utah.edu/news/sorenson-impact-center-social-finance-announce-pay-success-structuring-grant-awardees/>

6 <https://sorensonimpact.com/social-impact-financing/>

7 <https://sorensonimpact.com/grants/>

8 Milner, Justin, Matthew Eldridge, Kelly Walsh, John Roman, 2016. [Research Report: Urban Institute Project Assessment Tool](#), The Urban Institute.

9 Asthma and Allergy Foundation of America, [2015 Asthma Capitals](#).

The views expressed in Community Practice Papers are those of the authors and not necessarily those of the Federal Reserve Bank of Richmond or the Federal Reserve System.