“Pay for Success” Program Models: the Promise and the Perils

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Pay for Success (PFS),

- Aka “Social Impact Bonds” (SIBs), “Pay for Results” (PfR),“ “Pay for Performance” (PfP), “Development Impact Bonds” (DIBs), “Environmental Impact Bonds” (EIBs), etc
- Relatively recent policy innovation - new program-funding model
- Spread at extraordinary speed in U.S. and globally
- Raises broader policy issues, deeper questions - in theory, in practice

Presentation overview -

- Premises for PFS
- Promises of PFS
- PFS project structures
- Federal PFS landscape
- Broader PFS activity
- New SIPPRA legislation
- PFS challenges, problems, risks

❖Evaluation/evidence – issues, questions, needs

Premises of PFS -

Response to *typical* government programs/services - traditionally, government:

- Funds *provision of services* – not achievement of specific *outcomes*
- Focuses on *compliance* with government requirements – not program *performance*
- Concentrates on costly *remedial solutions* – not cost-effective *preventive interventions*
- Frustrated by “wrong-pockets” problem – funding and incentives fragmented (costs in one program produce savings in another)
- Program *siloes* - not *cross-sector* strategies needed to address major challenges

PFS believed to -

- *Reduce financial risk* to government/taxpayers of program failure
- Focus on successful *outcomes* and allow providers *flexibility* in achieving
- Leverage new sources of *private funding* to support public programs
- Emphasize *preventive* interventions rather than remedial services
- Address social problems while also *producing government savings*
- Encourage innovation

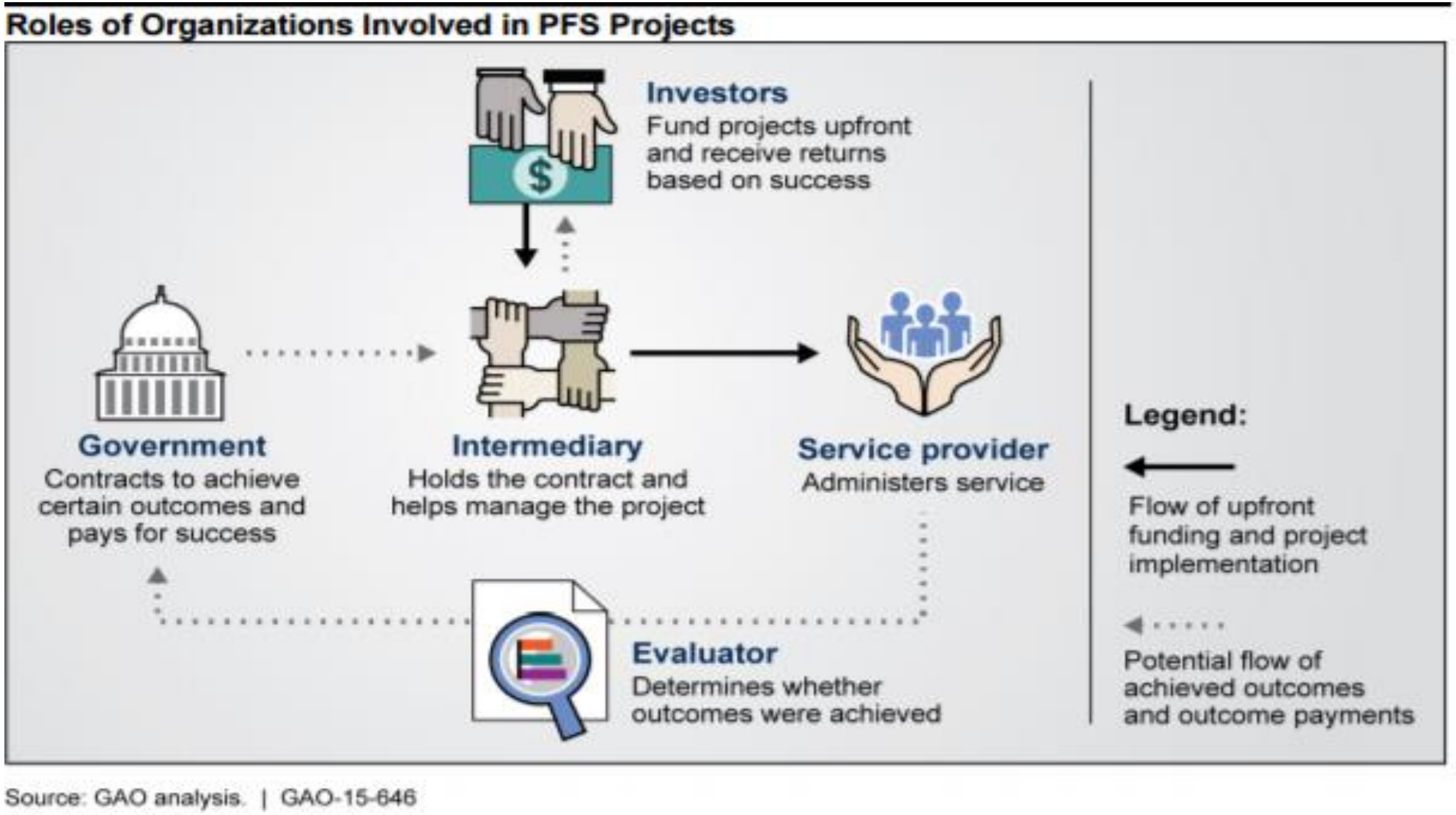
PFS believed to (continued) -

- Ensure rigorous *program evaluation*
- Build an *evidence base* and public support for scaling successful programs
- Forge partnerships across public/private/nonprofit stakeholders
- Promote ongoing performance management
- Avoid entrenchment of government programs regardless of performance
- And more…

How would this work?

- How does government avoid upfront expenditures and avoid financial risk?
- Who would provide upfront funding?
- Why would private investors provide funding?
- Why should government be willing to pay *additional return* to investors?
- What if investors won't tolerate risk of losing investment (if program fails and government doesn't have to pay)?
- Why would philanthropists support investors?

The PFS Model -



On the ground -

- First SIB was in U.K. (2010) – Recidivism reduction at Peterborough Prison

- First SIB in U.S. (2012) – Recidivism reduction at Rikers Island Jail in NYC - involved Bloomberg Administration, Bloomberg Philanthropies, Goldman Sachs, MDRC, etc

- Obama Administration embraced SIBs as "Pay for Success" (PFS)
  - High-profile convenings – government, investors, foundations, experts
  - President Obama's Budget Proposals for FYs 2014-2017 included PFS authority/funding
  - Most significant was flexible $300 million, 10-year Incentive Fund

- Federal PFS projects at ED, DOJ, HUD, DOL, VA, CNCS, USAID –
  - Early childhood education, chronic homelessness, recidivism, workforce training, veteran's employment, development assistance, environmental mitigation
  - Feasibility studies, TA, "transaction structuring," outcome payments

Bipartisan congressional interest in PFS -

- House/Senate proposals resembled Obama Incentive Fund proposal
- Congressional hearings
- GAO report (2015) on PFS opportunities and challenges
- PFS/PFP provisions (not requiring *private* funding) added to
  - Workforce Innovation and Opportunity Act (WIOA/2014)
  - Every Student Succeeds Act (ESSA/2015)
  - Maternal, Infant and Early Childhood Home Visiting program (MIECHV/2016)

Social Impact Partnerships to Pay for Results Act (SIPPRA/2018)

- $100m/10 years
- For projects in 20 low-income/disadvantaged population program areas
- Emphasis on:
  - federal/state/local government *savings*
  - experimental evaluations/RCTs
  - partnerships across federal agencies, levels of government, sectors
  - public reporting and transparency
- Administered by Treasury in coordination with OMB and 9 federal agencies (USDA, CNCS, ED, HHS, HUD, DOJ, DOL, SSA, VA) – Interagency Council chaired by OMB
- Independent 9-member appointed advisory Commission
- NOFA public February 2019 – first round applications under review

Beyond federal government –

- Municipal – Chicago, Cuyahoga County/OH, DC, Denver, Fresno/CA, LA, NYC, Salt Lake City/County, etc
- States – CT, MA, MI, NY, OH, OK, SC, UT, etc (and National Governor's Association)
- Foundations – Arnold Foundation, Bloomberg Philanthropies, Duke Endowment, Kaiser Family Foundation, Kellogg Foundation, Kresge Foundation, Pritzger Foundation, Rockefeller, Foundation, etc
- Investors - Goldman Sachs, Bank of America, Merrill Lynch, Prudential Financial, United HealthCare, etc
- NGOs – Center for American Progress, Social Finance, Nonprofit Finance Fund, Urban Institute
- Academics – Government Performance Lab, Harvard Kennedy School; Sorenson Impact Center, University of Utah, etc

Amounts to -

- *U.S. total – 26 SIB projects, 100+ feasibility studies/project cultivation, $219m private capital*

Internationally -

- U.K. (especially) - also Australia, Brussels, Cameroon, Canada, France, Germany, India, Israel, Kenya, Korea, Netherlands, Nigeria, Peru, Portugal, South Africa, etc

- *Global total – 131 SIB projects, much exploration/development, $426m private capital*

Challenges, Problems, Risks -

PFS presents new challenges and problems - and *new risks…*

- Complexity and Cost
- Innovation and Risk
- Savings and Value
- Private Investors and Public Interests
- Outcomes and Protections

❖Evidence and Evaluations

Evidence/evaluation issues include -

- Concerns/Experiences:
  - PFS *model* – theoretical concerns re. evaluation component
  - PFS *experiences* – practical lessons learned during exploration/implementation
  - Structural/contractual *relationship* of evaluator to other parties

- Findings:
  - From *implementation* evaluations (successes and challenges in implementing PFS model)
  - From *outcome* evaluations of intervention (basis for repayment)
  - From *impact* evaluations of intervention (ideally included in project)
  - From *feasibility studies* – from both favorable and unfavorable assessments

- Evidence Base and Evidence–Building:
  - Extent to which PFS projects *use* an intervention with strong evidence base
  - Extent to which PFS projects *build* evidence base in an area
  - Extent to which PFS projects/partnerships/explorations cultivate *evaluation capacity/commitment*

Evidence/Evaluation issues *inherent* in PFS model -

- PFS concept emphasizes evidence base, evidence-building and evaluation…
  - Must be evidence base for interventions (good probability of success, to limit investor risk)
  - Though evidence base likely limited if PFS adopted (uncertainty regarding success, premature to scale intervention, government seeks reduction of risk)
  - Yet review (Lantz et al, 2016) of first 11 projects in U.S. identified interventions with weak evidence base

- PFS rests on evaluation…
  - All parties require reliable evaluation as basis for outcome payments
  - This encourages rigor, transparency in methods, metrics, reporting
  - Rigorous, transparent studies naturally contribute to evidence-building
  - Yet review (Lantz et al, 2016) of first 11 projects in U.S. identified projects with weak experimental designs

- Structural role of evaluation in PFS presents certain challenges…
  - Central significance of agreed-upon evaluation may lead to rigidity if modifications require negotiations
  - Would further increase complexity, cost, slowness of PFS projects
  - Some acknowledgement of this potential risk – no systematic study of the reality

Evidence/Evaluation issues inherent in PFS model (continued)

- *Profit-motives* of investors/providers may affect evidence-building…
  - Traditional incentive for *proprietary* R&D and not sharing knowledge with competitors may discourage common evidence-building (though government has power to require sharing)

- PFS *savings imperative* creates evaluation challenges…
  - Often greatest savings occur through highly targeted interventions (e.g. super-utilizers of emergency care)
  - Yet in many localities these are small populations
  - This limits sample sizes needed for experimental designs, achieving statistical power
  - Smaller sample sizes increase margin-of-error – thus requires larger impacts to justify paying investor return

- Savings imperative may be in tension with intervention reflecting evidence base
  - Evidence may show that a larger population would benefit from intervention (beyond that which would yield savings)
  - Yet savings imperative encourages narrower targeting
  - Excessively narrow targeting of proven intervention presents ethical issues…

Evidence/Evaluation – what's needed?

- Need comprehensive cross-project study of:
  - Outcomes
  - Impacts
  - Implementation successes and challenges
  - Feasibility Studies – including lessons when PFS project determined *infeasible*

- Need reappraisal of original PFS model re. *evidence base*:
  - Best suited for program innovation and piloting?
  - Or for adapting/scaling *proven* programs?

- And re. *evaluation* approach:
  - Best suited for rigorous *impact* evaluations?
  - Or for aligning incentives for ongoing focus on *outcomes/performance*?

Thank You!

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