Determining the feasibility of Pay for Success projects
An objective algorithmic approach to analysis

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November 2016
The Green & Healthy Homes Initiative (GHHI), founded in 1986, is a national 501(c)3 nonprofit organization that provides evidence-based direct services and technical assistance to create healthy, safe and energy efficient homes to improve health, economic and social outcomes for low-income families while reducing public and private healthcare costs.
Executive summary
Simple decision-making tools can lead to more effective Pay for Success project development.

At GHHI, we have a portfolio of 11 Pay for Success projects that have completed or are undergoing feasibility studies and capacity building efforts. While developing these projects, we conducted an industry analysis and found there was a lack of simple, effective, and objective mechanisms to evaluate the feasibility of a prospective Pay for Success project. Any team working intimately with a project over time will be more susceptible to favoritism in rating their projects, due to cognitive biases. Thus we set out to develop an objective evaluation tool that could accurately gauge the feasibility of such projects.

Our Pay for Success feasibility determination tool is a simple algorithm to make determinations of feasibility for developing PFS projects. The tool aims at objectivity that should logically link key elements of a potential project to the likelihood of its successful launch and completed transaction. We hope to determine the tool’s usefulness in the future and further refine it based on the results of our ongoing efforts and collaboration with other industry experts, practitioners, and researchers.

This document will provide an overview of the process used to evaluate projects with a particular focus on the scoring rubric. The scoring rubric is a key part of a feasibility study that requires substantial in-depth analysis and familiarity with a project and its partners, in order to reveal issues that would otherwise remain hidden.

The process
Our approach to feasibility studies has been rooted in our history as a direct service provider and technical assistance provider, especially in capacity building efforts. A substantial amount of our time and effort on projects is often spent building the capacity to run programs effectively. We have conducted these feasibility studies and capacity building efforts with individual and cohorts of projects. They have ranged in duration from just over six months to well over a year to make a full determination. We plan to
leverage what we’ve learned to reduce this time to a period of six weeks, focusing entirely on the feasibility determination.

The feasibility determination process is segmented into the following technical assistance services:

1. Project planning: a comprehensive kickoff and set of planning sessions.
2. Stakeholder analysis: an analysis and engagement plan for stakeholders.
3. Data management and evaluation planning: after general discussion of evaluation requirements, planning and processing of any necessary data-related agreement requests and other related items.
4. Intervention planning: A comprehensive plan for delivering the intervention at scale, including developing a process flow documenting the services and roles.
5. Payment mechanism: If the agreed upon project outcomes are met, how the outcomes payer will transfer capital to investors. All relevant regulations and policies are incorporated into the analysis.
6. Evaluation design: Selection of the evaluation metrics, design, and potential evaluators for the project. The evaluation could include key performance indicators and studies that are not tied to specific outcomes payments.
7. Investor inventory: Identification and ranking of potential funders of the PFS project.
8. Investor relations: Socialization and engagement of potential funders once the underlying economics of the PFS project are known.
9. Gap closure, pilot programs, and transaction structuring: Addressing any existing weaknesses of the PFS project through additional analysis, testing of and assumptions, and additional capacity building. Pilots and ramp up activities will begin to deliver services as designed for the PFS project. Transaction structuring includes negotiations and term setting among outcome payer(s), service provider(s), and funder(s).
Rubric overview

Our rubric attempts to break down feasibility findings into mutually exclusive categories that represent the vast majority of issues that could impact a project, with the goal of finding the simplest mechanism with the most explanatory power. The categories we have identified are as follows:

1. Technical: Based on an assessment of evidence available and how directly it links to the program, will the intervention offered have an evidence base and will it generate the outcomes expected?
2. Economic: Based on the evidence available, what degree of economic viability is the project likely to have in terms of net benefit for the overall Pay for Success transaction?
3. Operational: Considering the operational realities on the ground, what likelihood do the intervention service providers have of being able to deliver the program services at the scale required by the project?
4. Sociopolitical: Given the broader circumstances, what is the likelihood of internal and external parties to influence and advance a successful Pay for Success transaction?
5. Payment mechanism: What is the likelihood that the project will be able to arrange for and secure any needed mechanisms to ensure that the economic value generated by the project can be used to return capital to the initial funders?
6. Capital availability: What is the likelihood that there is capital available to fund the Pay for Success project?
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Overview
An overview of the rubric scoring device, the thought behind it, and how to maximize utility

Close familiarity with a project can be a major advantage in assessing its feasibility, however, it also makes cognitive biases that can influence that determination more likely. To counterbalance this natural human bias, we have developed a rubric that is designed to be:

- the simplest tool with the most explanatory power,
- based on objectively measurable criteria that mitigate our subjective biases; and
- broadly applicable beyond our own project portfolio.

Our intention is to develop this algorithm as a screening tool for future Pay for Success projects, greatly reducing the amount of time and effort that is needed to conduct a feasibility study in the future.

Objectively measured criteria
While many project assessments include prospective expert assessments of whether or not the organizations could advance a Pay for Success project, we ultimately decided that objective historical measures would be superior. The historical measures would minimize our biases toward our projects as well as let other practitioners adopt the tools in a more effective and standard manner going forward. Ultimately, the tool will have more utility and a broader impact as a result.

Ordinal ratings
The ratings for the tool should be considered ordinal ratings. Our intent is that a rating of five indicates greater feasibility than a four, though not necessarily proportionately higher than a four is in relation to a three. Without appropriate data to validate the relative differences we would be unable to determine those relationships or the effect of subjective interpretation of the rubric. There is certainly room, as evidenced from our own work, to give ratings between ordinal points by providing ratings that are not be restricted to integers.
Predictive validity

We hope to develop this tool for predictive validity. In our attempt, we identified what we think are the most important key issues for a Pay for Success project. Our specific intent was to identify those key issues that were most important for a Pay for Success project to be advanced to launch as well as being successful in delivery of the desired outcomes. In many cases, this led us to develop ratings where only projects emulating existing launched and successful transactions could reach a rating of five. We do not think that failure to reach this level creates an implausible transaction, rather that it reduces the likelihood of a launch and subsequent success.

We determined that projects could be stalled by a single low rating, due to a major roadblock. For this reason, we explicitly include not only the average rating but the lowest rating in any category as a single low rating may stall if not prevent a project from launching a transaction. We think the two measures, an average of and the single lowest rating of the categories, will have the most explanatory power, while still using a very simple rating system.
<table>
<thead>
<tr>
<th>Rubric</th>
<th>Very high feasibility (5)</th>
<th>High feasibility (4)</th>
<th>Moderate feasibility (3)</th>
<th>Low feasibility (2)</th>
<th>Very low feasibility (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital availability</strong></td>
<td>Strong evidence of capital availability and investment, nationally and locally, from parties with a history of involvement in similar projects and active interest from one or more potential funders.</td>
<td>Strong evidence of capital availability and investment, nationally and locally, from parties with a history of involvement in similar projects. Project team has strong relationships with those parties.</td>
<td>Some evidence of capital availability and investment, nationally or locally, in related projects. Project team has limited relationships with potential funders.</td>
<td>Very little evidence of capital availability and investment, nationally or locally, in related projects. Project team has limited to no relationships with potential funders.</td>
<td>No evidence of capital availability and investment in related projects and/or active disinterest found among potential funders in investing in related projects.</td>
</tr>
<tr>
<td><strong>Payment</strong></td>
<td>A clearly defined payment mechanism, including any applicable legislation, that has been used by similar projects exists.</td>
<td>A clearly defined payment mechanism exists that has not been used but has been committed to by the necessary parties.</td>
<td>A number of viable payment mechanisms exist that are supported but not yet committed to by the necessary parties.</td>
<td>A limited number of possible payment mechanisms exist but have not yet been discussed with necessary parties.</td>
<td>Few, if any, possible payment mechanisms are readily apparent or have a reasonable chance of being advanced.</td>
</tr>
<tr>
<td><strong>Operational</strong></td>
<td>Service provider(s) has multiple years partnering to successfully implement and manage performance of the complete PFS intervention on a scale similar to that in PFS plans.</td>
<td>Service provider(s) has multiple years successfully implementing and managing performance of most components of PFS intervention at scale—or complete PFS intervention on a smaller scale, but with necessary capacity and plans to scale and manage performance—with planned PFS population and setting.</td>
<td>Service provider(s) has multiple years successfully providing related services, but full PFS intervention is a new endeavor. Team has strong plans in place to scale and manage performance in the planned PFS population and setting.</td>
<td>Service provider(s) has no experience providing related services, but has plans to scale and manage performance. Significant untested assumptions exist related to PFS operational plans.</td>
<td>Service provider(s) has a history of not meeting performance management goals or intervention is completely new and team has weak plans in place to scale and manage performance.</td>
</tr>
<tr>
<td><strong>Sociopolitical</strong></td>
<td>Key internal and external stakeholders including pertinent local, state, and federal government agencies have actively demonstrated support of PFS project.</td>
<td>Key internal and external stakeholders, including pertinent local, state, and federal government agencies, are educated on and supportive of PFS project. Team is confident that no political barriers exist to structuring and launching the PFS transaction.</td>
<td>A few key internal and external stakeholders or pertinent local, state, and federal government agencies are educated on and supportive of PFS project. Team is unaware of any political barriers to structuring and launching the PFS transaction, but has not confirmed.</td>
<td>Team does not know who the key stakeholders are and has made no contact with any to discuss PFS project or some key stakeholders are ambivalent toward PFS project. Potential regulatory barriers to structuring and launching the PFS transaction exist.</td>
<td>Key stakeholders required to advance project actively expressed disapproval and/or significant regulatory barriers to structuring and launching the PFS transaction.</td>
</tr>
<tr>
<td><strong>Technical</strong></td>
<td>Significant evidence of the full PFS intervention achieving measurable cashable savings, or outcomes that a potential payer values, substantially above all projected PFS intervention and transaction costs with a population and setting similar to those in PFS plans.</td>
<td>Evidence of the PFS intervention, or components of it, achieving some measurable cashable savings, and/or outcomes that a potential payer values, above all projected PFS intervention and transaction costs with a population and setting similar to those in the PFS plans.</td>
<td>Evidence of the PFS intervention, or components of it, achieving outcomes associated with cashable savings, or outcomes that a potential payer might value, above at least the projected PFS intervention costs with a population and setting similar to those in the PFS plans.</td>
<td>Evidence of the intervention achieving outcomes associated with cashable savings, or outcomes that a potential payer might value, but unclear if savings/value outweigh projected PFS intervention costs.</td>
<td>No evidence of the intervention achieving outcomes associated with cashable savings or producing value for a potential payer.</td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td>Plans for an evidence-based intervention aligned with established best-practices that will be implemented for the first time with PFS partners who have been providing similar services for multiple years. Partners have at least demonstrated positive outcomes with self-reported data.</td>
<td>Plans for an intervention supported with evidence from other settings or populations with PFS partners who have not provided similar services previously OR plans for a new intervention backed by little to no research with PFS partners who have an established working history.</td>
<td>Plans for an intervention backed by no evidence with partners who have no history partnering together or providing similar services.</td>
<td>Plans for an intervention backed by no evidence with partners who have no history partnering together or providing similar services.</td>
<td>Plans for an intervention backed by no evidence with partners who have no history partnering together or providing similar services.</td>
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Technical
An overview of key considerations in determining the ability of a Pay for Success project’s intervention generating the expected outcomes

Technical feasibility is really aimed at determining if the intervention services offered in the Pay for Success project will achieve the planned outcomes. We identified three key areas to focus our ratings on:

- Strength of evidence for outcomes,
- Specificity of the outcomes being evidenced, and
- Applicability of the research to the outcomes being measured.

Collectively, these items determine if the project is appropriately designed from a technical perspective. A key consideration was that we needed to leave room for Pay for Success projects that are seeking to demonstrate novel approaches, while still being grounded in evidence.

Strength of evidence for outcomes
Perhaps the most important factor was the strength of evidence. Coming from multiple independent sources was certainly seen as bolstering claims, as was more rigorous research designs. We did not want to limit the project’s evidence base to formal research programs, as many currently operating programs that do not have formal research have years of operational data. Given that research findings do not always transfer operationally, we did not want to discount real-world findings. We did reserve our highest rating for a formal operational study, essentially asking if the intervention is very closely replicating an exact program that has already been done before.

Specificity and applicability of outcomes being evidenced
Just how specifically the existing evidence base supports the project’s desired outcomes was another factor. Many times, we found research that indicated an outcome measured differently than planned in a project. For example: “participants had a 90 percent improvement in the next year compared to the prior year” is not specifically supporting a project whose outcomes-based payments will be made based on a calculation of “a
percentage improvement compared to a comparison group”. Further, we noted many indirect measures. Consider the logic that more days in school will improve performance, which will ideally improve graduation rates. A project would receive a high rating if their research and outcomes were both based on improvement in school days, while a very low rating if the research showed the improvement in days and outcomes were based on graduation rates. There is a conceptual link but the research is nonspecific to that outcome.

Finally, we noted that there were many cases where the evidence was not necessarily applicable. Many research studies, especially behavioral research studies, are conducted on college students because they are readily available. Applying that research to a different population would not result in as high a score as research studying the effects of a social intervention with the same population as in a project. Additionally, the intervention must be the same as in the research. The degrees of similarity between the evidence and the Pay for Success project was the foundation for this consideration.
Economic feasibility
An overview of key issues related to economic feasibility

Economic feasibility was intended to determine if the project’s underlying ability to generate economic value was or is sufficient to warrant a Pay for Success investment.

The primary considerations were:
- The strength of the evidence for economic outcomes;
- The linkages to economic value, typically cashable savings; and
- The net economic value the project was expected to generate.

We needed to leave room in our measures for untested projects to still be feasible as Pay for Success projects may seek to break new ground, but also provide substantial weight to the logic behind the savings decisions.

Strength of evidence for outcomes

In determining the economic value of a project, we first analyzed the underlying evidence for the findings from a logical perspective using three factors:
- The validity of the claim,
- The soundness of the premises, and
- The relevance or applicability of the evidence.

This section is concerned entirely with determining if there is evidence that the desired impact of a project will generate economic value. A primary example of this is the difference between marginal cash flow and total cost of a project. Projects may target high total-cost projects, but have very small impacts on marginal cash flows that determine the ability to pay. Further, there may be a number of systems that interact to determine the financial result of a project, limiting the potential to generate economic value.

Evaluating the premises of a Pay for Success project’s economic logic involves due diligence to ensure that there are no false or competing claims. In our industry analysis we
found a number of unsubstantiated claims. While not patently false, we were very hesi-
tant to assign them a ‘true’ value and had to weight the review accordingly.

In many cases, this can be completed by conducting an inquiry into the fiscal impact of a
project, often through economic or financial modeling. By working directly with the
partners at a location we were able to approximate their financial capacity and funding
streams in our model, determining whether or not the cost savings would generate a
marginal cash flow.

**Savings links**
Cashable savings or broader value can be linked to a project’s outcomes directly or indi-
rectly. Direct cashable savings are certainly preferable for constructing a Pay for Suc-
cess transaction, but one primary benefit of the economic model is that it can include
broader social value. The question of how feasible it is to do so comes into play when
considering how far removed the value is. Is that value captured by the outcomes-
payer(s)? Is it captured within a different part of the same organization such as a differ-
ent department of the Federal Government? Is it captured within an industry? Is it cap-
tured by society at large? There are no hard and fast rules about when it is feasible to
include broader or less direct savings, but we did see a correlation in the global Pay for
Success field that transactions are less likely to launch the further the benefits are from
direct cashable savings for a payer.

**Net economic value creation**
If a project aims to create substantial direct cashable savings in excess of the time-value
of required funding, it is substantially more likely to launch. It is less likely to launch if
cashable savings must be supplemented with the value of broader social outcomes in or-
der to exceed upfront funding requirements. A project is even less likely to succeed if
cashable savings and social value do not exceed upfront funding needs.
Operational feasibility
An overview of key considerations in determining operational feasibility

The ability to deliver high-quality services at scale to the target population is of the utmost importance in the final determination of a project’s feasibility. We focused on the most important factors that would be objectively measurable and determine the ability to deliver those services in the future. They were:

- The past performance of programs delivering services;
- The level of integration of those services (if integrating separate services); and
- The applicability of past service delivery to the current context.

Past performance of programs
We used primarily past performance of operations to determine plausibility of future performance. A primary consideration was the objectively measured past rather than a subjective assessment of whether the group could perform in the future, barring specific objective criteria for making that determination, which should be cited elsewhere as an explicit barrier to operational performance.

History of integrated service delivery
While past performance of individual organizations providing services is likely the best objective indicator for future performance, integrated services amongst several organizations are often tested individually without demonstrating comprehensive success. It is important to ensure that the whole offering has a strong history and not just the components.

Applicability of past performance
Another consideration is the applicability of past-performance. It is possible that an organization, or group thereof, has a long history of delivering services together with proven results; however, if they are now attempting to deliver services in a new location, with a new target population, these variables need to be incorporated into the evaluation.
The ability to successfully navigate the general social and political dynamics to deliver a functional Pay for Success project was a key consideration. We focused here on the support or commitment of internal and external partners. A consideration of both is important as is the distinction between support and commitment.

A primary concern with sociopolitical feasibility is that people focus on what they know, such as where they have good relationships, and not on the actual series of events that are needed to advance their efforts. We strongly recommend the use of a method, even as simple as a white-board map, before using the rubric to ensure you’ve gone through the whole process.

**Internal and External stakeholders**

An assessment of the stakeholders is very important to determine a project’s sociopolitical feasibility. We disaggregated this into external and internal parties, understanding that there may be times where hybrid parties exist. The goal was not to overly emphasize the differentiation but to ensure that both were considered.

Internal stakeholders are very important to a project, not only those directly on the project but all of those who can be involved in its advancement or successful implementation. We also found that they were the most likely overlooked group of parties. Almost everyone we interacted with started their discussion of this topic by naming a handful of decision-makers outside the partner organizations. Those parties that are involved with the process of setting up and ultimately deciding to embark on a project are very important and so are those that will be implementing it. A consideration of both is warranted to ensure that the project can be initiated and that it is successfully completed.

External stakeholders play a key role as well. It takes a village to raise a child and it takes a disparate multi-industry coalition of the willing to build, fund, launch, and com-
plete a Pay for Success project. Each stakeholder should be examined to determine the ability to advance or derail a project and the final rating should account for the total likelihood that a project could be derailed rather than advanced.

**Support and commitment**

A key distinction in this assessment is between supporting a project and committing to it. While many parties have and will express support for a project, it is essential that support be treated differently from commitments. Ultimately, a small group of parties needs to commit to a project for it to advance or succeed, while a large number of parties can support a project without advancing it significantly. Commitment ensures feasibility from this perspective, however, in most cases it is also necessary to assess levels of support or interest in a project, which can improve the prospects of a project’s feasibility.
Payment mechanism
An overview of key issues related to establishing the mechanism by which parties will be paid

Pay for Success is unique in that it leverages a special type of financing and payments. Outcomes-based payments are made to return capital to the funders only after the outcomes are achieved. This additional level of complexity needs to be addressed. While additional complications arise in many industries, it is certainly true in any field where there are legal or regulatory specifications for how capital is accumulated, used, or flows – such as in public health.

As such, the payment mechanism not only needs to include identification of who and how funds will flow, but all of the necessary assurances that the flow of funds will not adversely affect the financial well-being of any of the parties.

Viability of options
The gold standard is that there is a previously used and applicable payment mechanism. From there, additional differences account for less feasible projects. Examples of differences to account for may include:

- Having to set up a different fiscal agency or manner of transferring funds,
- Need to establish a new legal entity to manage the project’s financial flows;
- Requiring assurances from regulatory bodies or agencies to allow for financial flows; or
- A variety of others.

Each of the differences should be accounted for in terms of likelihood to derail a project causing a delay in time or increase in capital requirements.

Commitment, involvement, and support
Here again is a primary distinction between commitment and support, especially for parties at differing levels of involvement. Having committed parties supportive of a plan
is very different from commitments, and very different from binding legal commitments.
Capital availability
An overview of key issues related to the availability of capital for funding the Pay for Success project

Pay for success transactions aim to raise capital to fund their interventions, without which they are not feasible. In rating this, to avoid subjective assessments, we focused on the objectively measurable history of similar investments and the participation level of parties. Explicitly, if there is an interested party ready to make a commitment, then the transaction would earn the highest rating.

History of funding
The history of funding can be measured in a variety of ways, including leveraging commercially available databases that provide an assessment of high net-worth individuals, foundations, grants, and other funding sources. The key areas of focus should be an assessment of the number of dollars previously invested adjusted for the similarity of the investments. A highly formal mechanism was not our focus, but a general assessment of how much capital is really available for this or similar projects.

Commitments and interest level
We also focused on the level of interest and commitment for parties. The first step of feasibility was evidence of capital having been used for similar purposes before. Beyond that, to earn a higher rating, the capital must be attached to interested parties that could allocate funding to the project. We generally assessed for those parties being on a scale ranging from actively disinterested, to unaware or ambivalent, to actively interested.