Pay for Success 101
An introduction to outcomes-based financing

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The need

Public spending can sometimes be inefficient, inadequate, and misdirected.

Lack of evaluation – programs chosen based on anecdotal evidence or unproven ideas

Skewed priorities – focus on volume of outputs and compliance rather than outcomes

Limited capital – government budgets are tight with a short timeframe

How to tie payments to measurable outcomes, given all the constraints in public spending?

Pay for Success
The definition

What is PFS?

Pay for Success (PFS) financing models are cross-sector partnerships in which private investors pay upfront for a social service and then government, healthcare, or other payers repay the investment if, and only if, agreed-upon outcomes are met.
The model

How does PFS work?

Steps

1. Investors provide upfront capital to scale evidence-based services.
2. Intervention results in a social impact, often cost savings, that the back-end payer values.
3. Payer repays investors once outcomes are verified by an independent Evaluator.
Lifecycle of a Pay for Success Project

**Feasibility Study**
- Define target population
- Cost-benefit analysis
- Intervention process refinement
- Payment mechanism analysis
- More…

**Transaction Structuring**
- Raise capital
- Finalize evaluation design
- Finalize outcomes prices
- Negotiations and term setting
- More…

**Implementation**
- Draw down of funds
- Ramp-up activities
- Performance management
- Periodic evaluation of outcomes trigger success payments
- More…
The benefits of PFS

PFS is a win-win-win for all partners.

**Beneficiaries**
- Improved outcomes at greater scale
- Progress toward systemic change

**Payer**
- Realize cost savings
- No financial risk - only pay for what works
- Learn what programs are effective
- Bridge timing gap between services and cost savings

**Service Providers**
- Obtain new flexible funding
- Build program capacity
- Scale services
- Grow evidence base
- Strengthen partnerships

**Investors**
- Catalyze and expand social impact
- Receive return on investment
PFS across the nation

There are 15 active PFS transactions across a range of issues in the U.S., with dozens more in development.

- **Chicago**: early childhood education
- **CT**: substance abuse & family stability
- **Cuyahoga Co.**: homelessness/child welfare
- **DC**: water runoff
- **Denver**: homelessness
- **Grand Rapids**: maternal child health
- **MA**: criminal justice, employment
- **MA**: homelessness
- **New York City**: criminal justice
- **NY**: criminal justice, employment
- **Salt Lake Co.**: criminal justice
- **Salt Lake Co.**: homelessness
- **Santa Clara Co.**: homelessness
- **Santa Clara Co.**: mental health
- **SC**: prenatal care
- **UT**: early childhood education

**Source(s):**
Please feel free to reach out any time to learn more. ghhi@pfs.org

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