

Pay for Success

A New Model for Social Program Financing

Why Do We Need a New Model for Financing Social Programs?

Good intentions and trillions of public dollars have proved insufficient to solve many of our social ills. To improve the effectiveness of social services, we have to empower local providers to experiment with new ideas, rigorously evaluate results, direct funds to what works, and defund what does not.¹

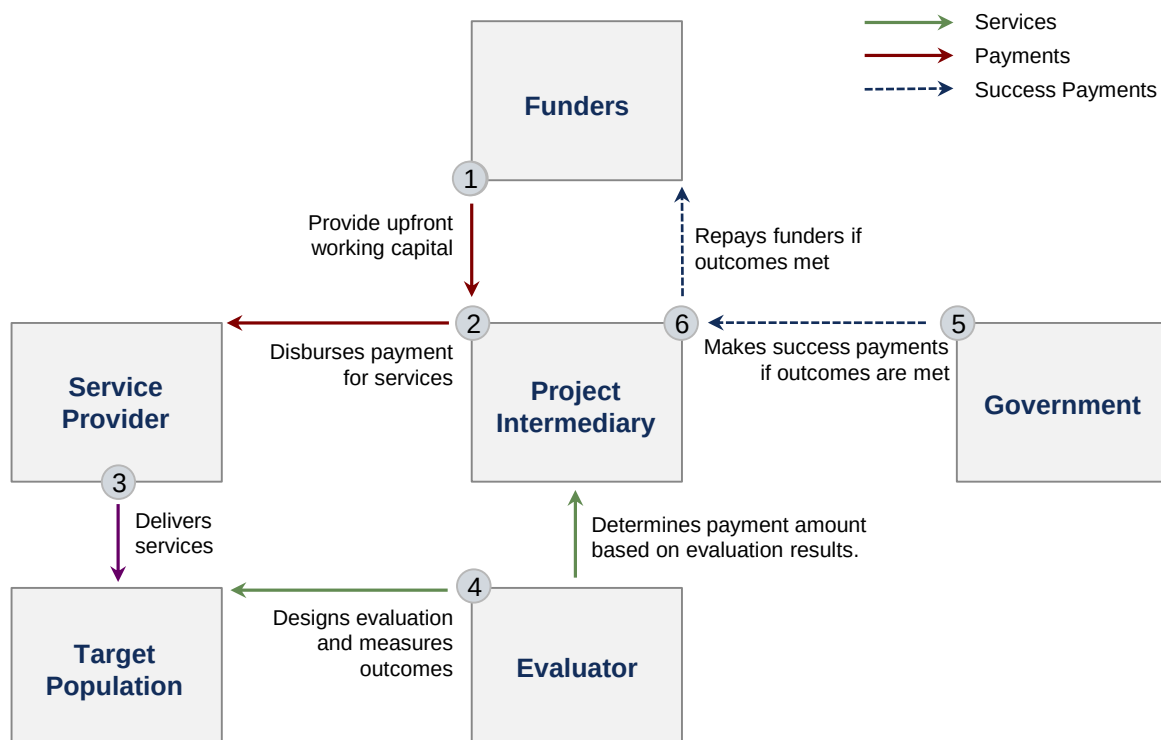
Why Pay for Success?

Pay for Success (PFS) offers a new approach to advancing innovative, evidence-based solutions to tough social problems while improving the way government does business. Although the model can not solve every social problem alone, it holds considerable promise as a useful tool toward building more effective, efficient, and responsive government programs.²

How Does Pay for Success Work?

In a Pay for Success project, private investors provide upfront cash to fund a social service program that is expected to improve a specific social outcome or prevent a particular problem from occurring. If the program is successful based on a transparent, agreed-on metrics, the government pays investors back, often using savings incurred when later remedial costs are avoided. If the project is not successful, investors lose their money, and the public pays nothing.

A Pay for Success project includes five key partners who run it for a target population: (a) investors who fund a social service program; (b) the agency that provides the service; (c) government, which identifies the social need and repays investors if the program is successful; (d) an independent evaluator who determines if the program's target outcomes have been reached; and (e) an intermediary who acts as a central broker to put projects together.³



NOTES: 1. Katharine B. Stevens, AEI Research Fellow, Education Policy Studies. 2. Stevens, "Pay For Success 101," February 2016.

3. Stevens, AEI Research Fellow. Diagram based on schematic from *Third Sector Capital*, 2015.

The Eight Current Pay for Success Projects⁴

As of February 2016, eight projects are up and running across the country, with a total investment of just over \$107 million. Two aim to reduce youth recidivism, two aim to reduce homelessness for difficult-to-serve individuals, two aim to reduce gaps in academic achievement among preschoolers, and one aims to reduce children's placement in out-of-home foster care.

Projects listed by state, with launch date and total capital commitment.

