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Why Pay for Success Matters.

For too long, public funding has been extended toward programs that show little efficacy or impact in areas they target. And yet, year after year, these programs continue to get funded.

But there are some encouraging developments as new models have begun to take shape in communities across our nation and around the world that offer the promise of delivering more effective and efficient services to citizens at a reduced cost by government. One approach that has gained increasing traction is known as Pay for Success – programs that rely on defining real outcomes and using data and evidence to measure progress.

This model has appeal to taxpayers, governments, philanthropy and the private sector because it represents a unique partnership model that infuses private sector resources to fund evidence-based interventions in areas ranging from education to healthcare to unemployment. Funding takes place at the front end of program delivery and requires government to pay for services only when outcomes are delivered. If outcomes aren't achieved, the government can pay nothing; if outcomes are achieved above a certain threshold, private sector investors don't just get their money back, they may see a return on top of the amount originally invested.

Emphasis on best practices and evidence-based programs

While the idea of evidence or outcomes-based funding shouldn't seem radical, the reality is that in too many publicly funded programs, there is little or no data to determine if investments are yielding intended results. By introducing a model for funding that can infuse new private sector capital at the outset, a much more rigorous measurement process is put in place and the government only pays when outcomes are achieved. These new models hold the potential to illuminate what works and what doesn't, and to optimize both delivery of service and tax dollars.

The blended approach

Another attractive feature of pay for success models is the "blended" approach the funding mechanisms can represent. While private capital is put up at the front end of a program by means of a bond as an investment tool, often philanthropy will underwrite any "first losses" – in other words, limiting potential investor losses, should the program not show desired outcomes. This dramatically reduces the risk for private sector investors, while maintaining the potential upside for investors should the program yield results.

Why would philanthropy cover potential losses? In philanthropy, most giving represents 100% permanent loss of capital – you write a check for a donation and funds are expended and taken off the books. With pay for performance, these underwriting "guarantees" are only called if the program fails to achieve targets. So philanthropists may never need to actually expend funds if the program is successful. Additionally, this "catalyst" style of potential funding unleashes and infuses new private capital into social programs, augmenting and scaling what philanthropy and governments typically fund. Taxpayer dollars are made most efficient since the model only requires government expenditures for successful outcomes, thus eliminating waste.

The Pay for Success model is not without its critics – some say it's simply too good to be true, some believe that it's impossible to put this model into practice, and others say that we simply don't have enough evidence to show that this approach works. But others believe it could well represent a new way forward as the needs of our communities grow and government resources continue to come under pressure.

Like any innovation, Pay for Success will likely have both victories and failures. We're certainly encouraged by reports like this week's from the Beeck Center for Social Impact and Innovation at Georgetown University and Monitor Deloitte, which provides case studies and success stories from around the world to help policy makers design programs that achieve real impact.

We are also pleased to see policymakers like U.S. Representatives John Delaney and Todd Young taking the lead on bipartisan legislation like the Social Impact Bond Act, which would foster the creation of programs that incentivize results, not just activities. We're also watching state and local officials like Mayor Ben McAdams of Salt Lake County, who is financing quality early childhood education through a Pay for Success initiative in partnership with Goldman Sachs.

It's early days for pay for success models, but these and other innovative approaches to funding needs in our nation and around the world hold promise for an improved "invest in what works" approach that delivers better practices and outcomes for those being served.

FORBES

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