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A Guide to Evaluating Pay for Success Programs and Social Impact Bonds.

Pay for success programs (PFS) are attractive to governments because they get private investors to finance preventative public programs. The government only has to pay back investors if the desired results are achieved. But, notes a new report, "the theory of PFS looks better on paper than in reality." The report, released Dec. 4 by a nonprofit called In the Public Interest (ITPI), outlines several concerns governments should address before entering into a PFS contract. It also lists questions officials should ask at every major stage of development from designing a program to measuring outcomes.

The report warned that the need to measure outcomes limits how PFS projects can be useful. For example, a now-closed PFS program at Rikers Island Prison in New York City funded a therapy program designed to reduce recidivism. While other actions like enacting policies to decrease the number of questionable misdemeanor arrests or make it easier for people to access bail have potentially larger impacts on recidivism, they are too hard to measure so are not good candidates for PFS programs, the report said.

Another problem is the measuring process itself. "Establishing cause and effect for a PFS can be subject to dispute," the report noted. Recently, a Salt Lake County, Utah, PFS program drew criticism when it produced overwhelmingly successful results using preschool to reduce the number of children placed in special education by kindergarten. Some said that the program overestimated the number of kids who were at risk in the first place. The report quotes Ellen S. Peisner-Feinsberg, a senior scientist at the Frank Porter Graham Child Development Institute saying, "You have to be sure you have very rigorous ways to measuring the impact to make sure that it's legitimate in terms of the outcome you get. That didn't happen here."

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