



Pay for Success Transactions and Charitable Organizations

Presentation Overview

- The (Legal) Context
- Pay for Success Basics
- PFS Actors
- A sketch of PFS in the US
- Urban's new Pay for Success Initiative
- PFS and Charities

The (Legal) Context

Why are we here?

- Introduction
 - A new and innovative funding mechanism
- Pay for Success (Social Impact Bonds) and impact investing
 - Where are we along the continuum?
 - The central role of evidence, performance and outcomes
- Legal context
 - The term “Social Impact Bonds” is a bit of a misnomer (but people use it anyway)
 - Not “bonds”
 - Contractual model
- The PFS landscape

What is Pay for Success?

New financial instrument to support discretionary social programming

- Brings evidence-based programs to the necessary scale

Brings together nonprofits, for profits, government

- Financial intermediary solicits private capital
- Knowledge intermediary identifies programs, performance targets, and price
- Private funds are invested to support the program
- Independent evaluator determines if targets are met
- Government reimburses investors plus profit if targets are met
 - Investment is lost if the project fails

Pay for Success represents an approach to addressing fundamental issues with service provision

Problem: Lack of infrastructure (social services, digital infrastructure, human capital) because some social programs are underfunded:

- Programs with large up-front costs
- Programs that serve large numbers of people
- Operationally or politically risky programs

Solution: Use private capital to finance these projects

Why pay for success?

Allows for greater focus on prevention spending

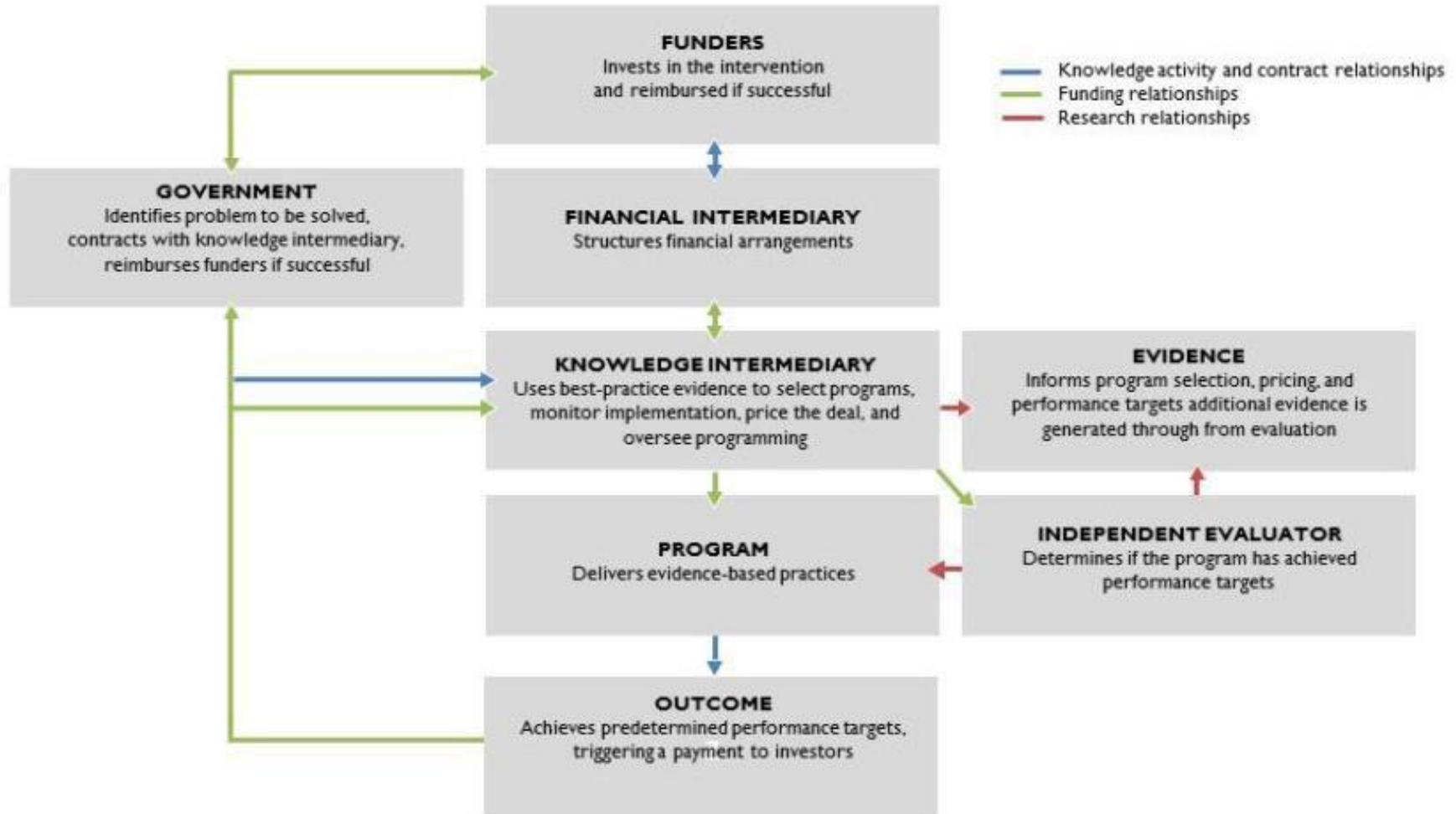
Outcomes really matter – taxpayers only pay for interventions that demonstrate impact

Allows for scaling proven programs – and for building evidence base for promising programs (through evaluation)

Multiple years of committed funding for service delivery

Potential to produce financial returns for private investors, who assume the risk while achieving a public good

Pay for Success Model Framework



The Structure of Pay for Success

PFS Actors and Roles

- **Governments:** Identify problems to target and pay for the successful attainment of project goals
- **Funders:** Provide program capital on the promise of a return if the program is successful
- **Financial Intermediaries:** Structure the financial deal and solicits investors
- **Knowledge Intermediaries:** Use evidence to find high-performing programs, price the PFS instrument, and oversee implementation
- **Independent Evaluators:** Determine if the project meets its targets

The US now has the largest PFS market in the world with close to \$100 million in total investment

Federal

- Corporation for Community and National Service
- Department of Justice
- HUD, HHS, Treasury

State

- Massachusetts
- New York

City + County

- New York City
- Chicago
- Salt Lake City
- Cuyahoga County

What is the Pay for Success Initiative?

Over the next three years, Urban researchers will help guide, design, and assess PFS transactions across the country.

We will create tools to support PFS efforts and share lessons learned with governments at all levels, as well as other key stakeholders including researchers, service providers, funders, and local and national public leaders.

The ultimate goal of PFSI is to ensure that the increasing number of Pay for Success transactions are deeply grounded in research and evidence and focus on scaling evidence-based interventions.

The Pay for Success Initiative will focus on three areas of work to support current, emerging and future PFS deals

Training + Technical Assistance

Pay for Success Toolkit

Communities of Practice

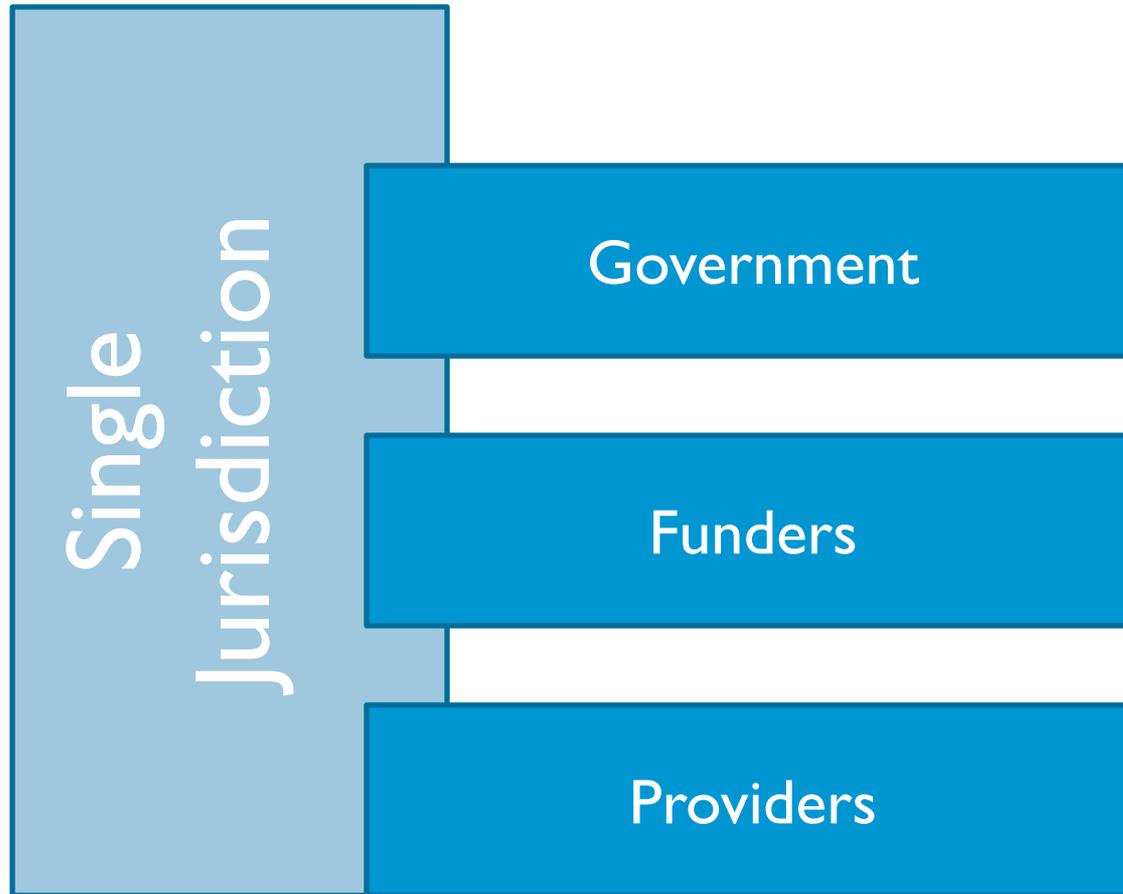
Area #1: Training and Technical Assistance

- Help desk
- Strategic Planning Process
- Evaluation Assistance
- Financial Intermediary and Funder Support
- PFS 'Emergency Response'

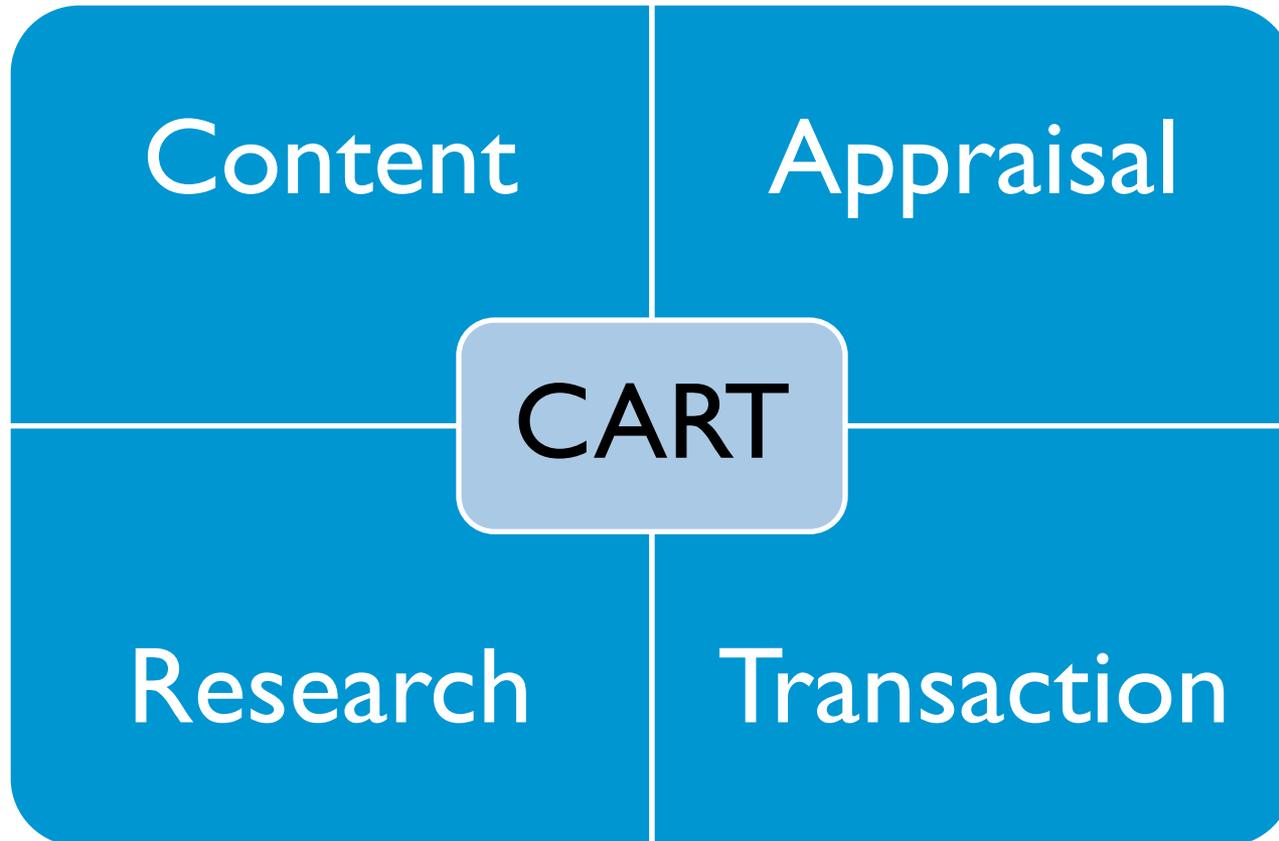
Area #2: Toolkit

- Pay for Success Suitability Assessment Tool
- Cost-benefit pricing tools
- Transportable deal templates
- Other policy briefs

Area #3: Communities of Practice



The Pay for Success Initiative will leverage the breadth and depth of expertise at the Urban Institute



So How Do Charities Fit In to the PFS Landscape?

Charities play an important role

- Investors
 - Loans
 - Guarantees
 - Other?
- Grantmakers
- Sector Builders
- Service Providers
- Advocates (but there is nuance)
 - Advocacy v. evidence

Pay For Success and Program Related Investments

Pay for Success transactions are increasingly emerging as an attractive vehicle for program related (and mission) investors

- The PRI rules
- Why PFS makes sense as a PRI
- Approach and documentation
- Investing in PFS is not just for private foundations

Life Cycle of a Pay for Success Transaction

All Pay for Success transactions are “typical” in their own way

- No one size fits all
- Finding the project (how is the project found): chicken and egg
- What is needed:
 - The problem
 - Governmental actors
 - Investors
 - Agreements
 - Project management
 - Evaluation
- What is really needed:
 - Measurable outcomes
 - Buy-in (political)

Mass Juvenile Justice Pay for Success Program

Overview of Massachusetts Juvenile Justice Pay for Success program (the Roca transaction)

- Background
- Parties
- Structure
- The role of the evaluator

General (Legal) Considerations for Charities

Some final thoughts

- PRI/MRI
- Self dealing
- Private benefit

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