Wake Forest University Master of Arts in Counseling, Emphasis in Human Services

HOW THE PAY-FOR-SUCCESS (PFS) NODEL IS TRANSFORMING HUMAN SERVICES

Pay-for-success (PFS) contracts, also known as social impact bonds, are changing the way human services are being offered to consumers. This type of payment model has attracted private investors and is poised to gain wider acceptance within the counseling industry.

WHAT'S DRIVING THE PFS MODEL?

STATISTICS AND OVERVIEW

Currently active PFS contracts around the world total an estimated \$200 million



In 2010, the UK was the first to develop a large-scale PFS project, also known as a social impact bond (SIB) and currently holds the bulk of PFS contracts, with almost

\$60 million

committed to 15 projects focusing on recidivism, youth employment, and foster care avoidance *nationalservice SSIR*



As of September 2014, the following cities/counties have either launched, initiated, or began developing a PFS project:

Chicago, Cuyahoga County, Dallas, Denver, Fresno, Memphis, Newark, New York City, Philadelphia, Prima County, Salt Lake City, Washington, D.C.

South Korea has used the PFS model to improve its child welfare issues, foster care, and family support SSIR

In 2014, the Social innovation Fund (SIF) PFS Competition awarded grants through "an open & transparent competition" for a period of up to three years to the following organizations:



HOW THE MODEL WORKS

The upfront capital funds are provided by private, nongovernmental investors "to deliver services over the life of a PFS contract. The payor contracts with the service provider for certain outcomes and also contracts with investors to pay back their investment if the agreed-upon outcomes are achieved. An independent evaluator determines whether or not the target outcomes have been met. If the target outcomes are not met, investors are not repaid." *payforsuccess*



THE PROS AND CONS OF PFS

BENEFITS OF PFS MODEL

The PFS Model will encourage a more effective partnership between the government and nonprofit sectors SSIR

The PFS Model "challenges lawmakers to play a more critical role in program development."

The lack of government funding is an opportunity for private investors to innovate in the nonprofit sector Successful programs will be rewarded with stable funding

NCSL

the wrong pockets program, which is when "the entity that bears the cost of implementing a practice or program does not receive the primary benefit." The entity, in the case of social services, would be the nonprofit organization PFS

PFS solves

The risk of a PFS contract is transferred to the private sector, resulting in more efficient public spending nationalservice

The PFS model offers "greater flexibility for state, local and tribal governments" to fund programs that can provide measurable results

Lawmakers can

turn their focus to

the outcomes of

a program, rather

than only focusing

on the activities or

compliance of a

program

DANGERS & DRAWBACKS OF THE PFS MODEL

The financing aspect of the PFS model is complex in both legality and operations nationalservice The strong focus on measuring results and achieving goals could lead to the compromise of the well-being of the individuals being served by the program Because most of the risk associated in investing in a PFS model lies with the junior lenders, and not with the profit-seeking senior lenders, private market capital may not be in a rush to fund PFS deals if the impact investors and philanthropists are not involved SSIR

The PFS model could potentially favor the organizations currently committed to a contract and discourage other providers from innovating and operating more efficiently Governments will have to track the success of each program and eliminate programs that aren't achieving expected outcomes NCSL The level of measurement and tracking that is required to measure a program's effectiveness will place an added strain on the nonprofit's resources SSIR

Smaller nonprofit organizations may be intimidated by the success of previous, larger nonprofits and avoid seeking out PFS funding

• This could lead to essential services becoming further disadvantaged and handicapped in seeking financial aid

Not all social causes have outcomes that lend themselves well to being measured

 For example, the PFS model would be difficult to apply in social services such as preventing domestic violence or providing early childhood education, job training, or adult mental health intervention governing

TRADITIONAL PAYMENT MODELS



REQUIREMENTS OF A PFS CONTRACT

The PFS Model is ideal for the nonprofits that can deliver and measure their results and translate the benefits of their services into financial savings

The government agencies involved must also be able to measure their aggregated cost savings as a result of nonprofit involvement

A randomized control trial (RCT) should be conducted to assess the potential impact of a nonprofit's services SSIR

THE EVOLUTION OF PFS MODELS

The Community Reinvestment Act (CRA) "requires banks to meet all the credit needs of the communities they serve, including low and moderate income communities."

If banks are willing to qualify PFS projects as part of their CRA obligations "there is a potential to open up vast volumes of non–impact investment capital to PFS-financed projects." nationalservice It may be more beneficial to consider the PFS model "as a tool and a process that could produce many types of outcomes, some good, some less desirable." fastcoexist PFS projects will be adopted as an opportunity to continuously learn from past results and encourage nonprofit organizations to innovate their processes and increase efficiency PFS

CONCLUSION:

As the PFS model gains wider attention from governments, private investors, and the nonprofit sector, the demand for human service professionals with analytical skills will increase. The key to success in a PFS project is a keen understanding of how services can be measured, tracked, and optimized.



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