

An Overview of Pay for Success:

Funding the Infrastructure for Evidence-Based Change

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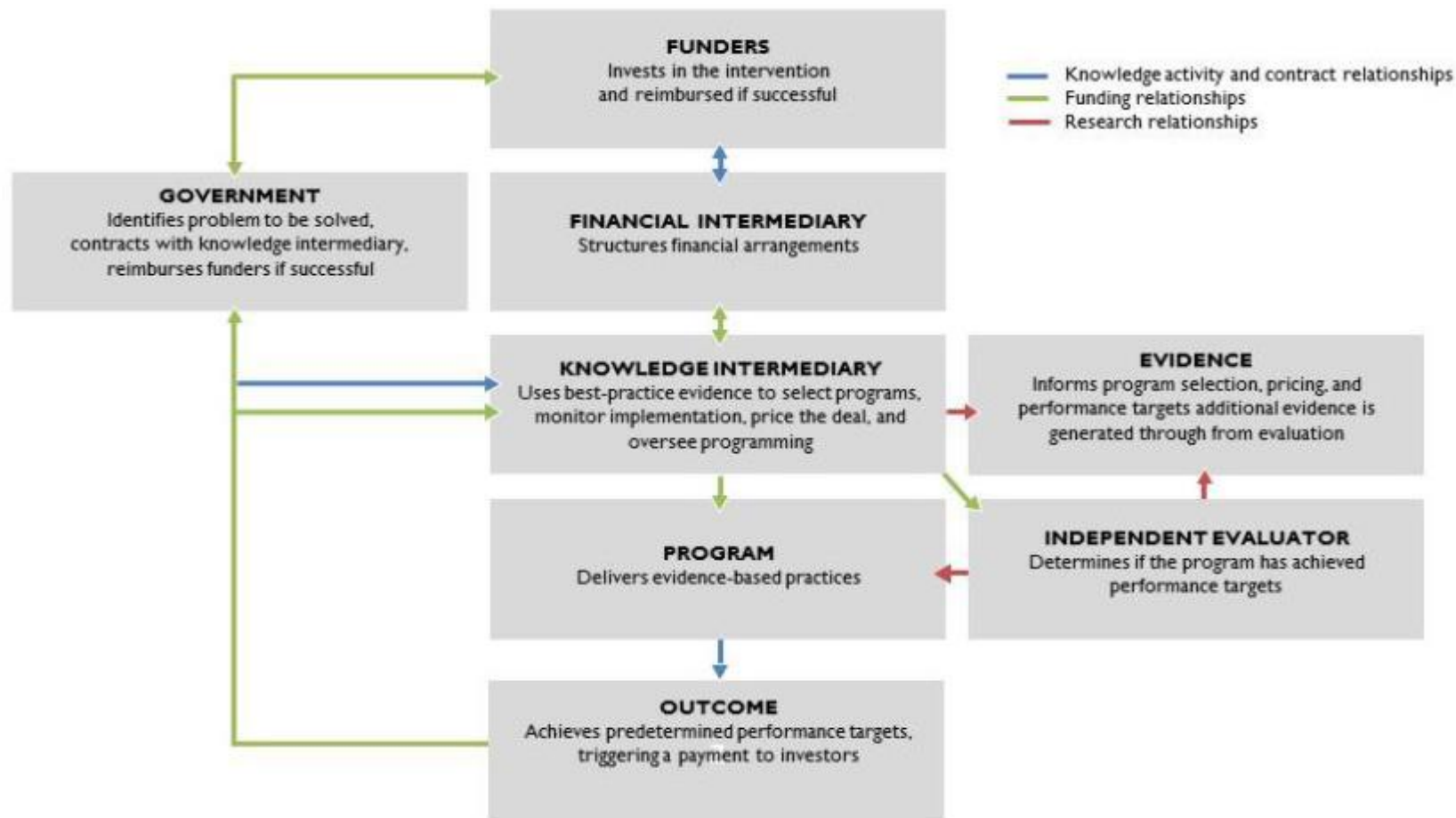
What is Pay for Success?

- New financial instrument to support discretionary social programming
 - Brings evidence-based programs to the necessary scale
- Can support programs that
 - Involve significant start-up costs, but provide long-term savings
 - Serve large populations
 - Involve political or programmatic risks
- PFS addresses these programs with private capital
 - Offers an investment return if the program meets performance goals
 - Government only pays for successful outcomes
- Sometimes called “social impact bonds”
 - PFS **does not** operate like a bond

How Does Pay for Success Work?

- An intermediary selects an evidence-based program
- The program is supported with private capital solicited by the intermediary
- The intermediary
 - oversees program implementation and
 - ensures model fidelity
- An independent evaluator determines if the program has met performance targets
- Government pays the intermediary for successful outcome

Pay for Success Model Framework



Opportunities in Justice

- Pretrial processing
 - Pretrial risk assessments can save money by diverting low-risk offenders from jail
 - Upfront investment is needed to train officials on assessment tools
- Reentry
 - The therapeutic community programs can have beneficial effects on recidivism and substance abuse
 - Start-up requires developing counseling, employment, and job training services

Opportunities in the Adult Justice System

- Probation
 - Electronic monitoring can save money and reduce victimizations
 - Implementation infrastructure (e.g., equipment, IT support) is costly
- Adult diversion programs
 - Drug courts and community supervision can preserve public safety while reducing costly secure confinement
 - The training, additional technical assistance, and staff required to effectively implement diversion programs have significant upfront costs

Opportunities in Juvenile Justice

- Juvenile justice
 - Family-based intervention and prevention programs can prevent delinquent conduct and reduce recidivism
 - Implementing these programs requires start-up investment to train local staff
- Adolescent diversion
 - Adolescent diversion from secure confinement has been found to have a large cost-benefit ratio
 - Training and project implementation impose significant upfront costs

Advantages and Disadvantages

Advantages

- Transfers risk away from the government
- Develops or scales local service networks
- Addresses the “wrong pockets” problem
- Allows agencies to pool resources and knowledge
- Provides significant flexibility to deploy programs across jurisdictions or regions

Drawbacks

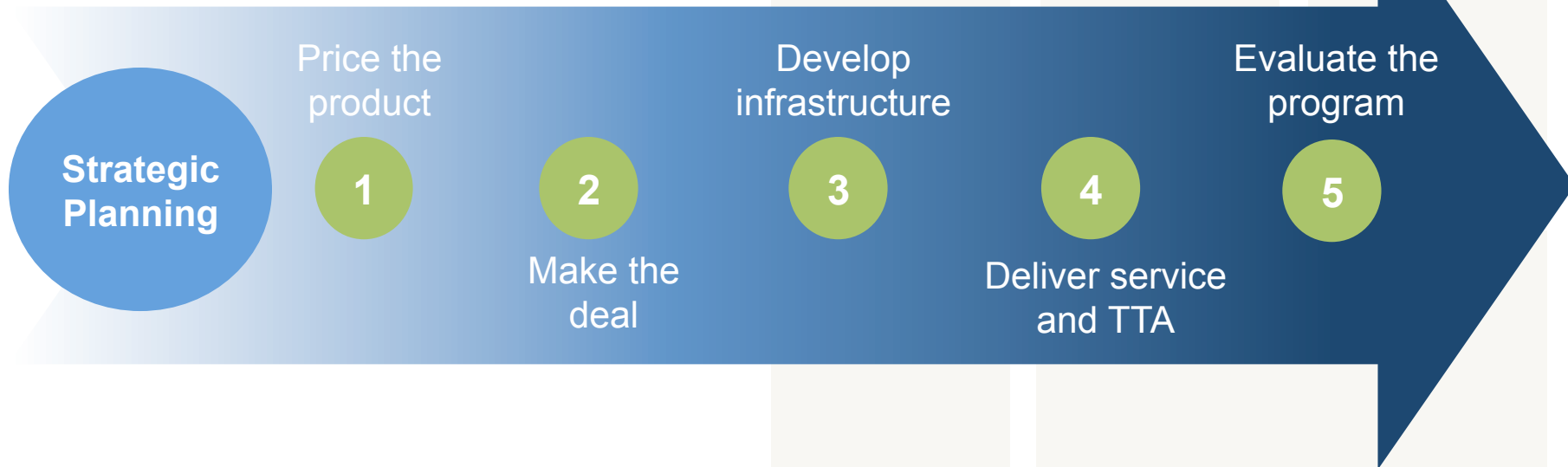
- Requires significant expertise from multiple fields
- Complicates execution
- Could limit nonprofit innovation by focusing on programs with a proven track record
- May reallocate existing impact and philanthropic capital rather than drawing new capital

Strategic Planning

- PFS relies on good strategic planning to maximize cost effectiveness
- Before starting a program, governments should do the following:
 - Identify population and cost drivers
 - Identify the problems that generate these drivers
 - Find evidence-based solutions to the problems
 - Determine if the evidence-based solutions are PFS-compatible
- Governments should identify a research partner to assist with strategic planning
- Justice program databases can inform implementation:
 - Office of Justice Programs' Crime Solutions
 - Washington State Institute for Public Policy (WSIPP)
 - Vanderbilt University Peabody Research Institute
 - Blueprints for Violence Prevention
 - The Urban Institute's Meta cost-benefit analyses for District of Columbia Crime Policy Institute (DCPI)
 - National Reentry Resource Center's What Works in Reentry Clearinghouse

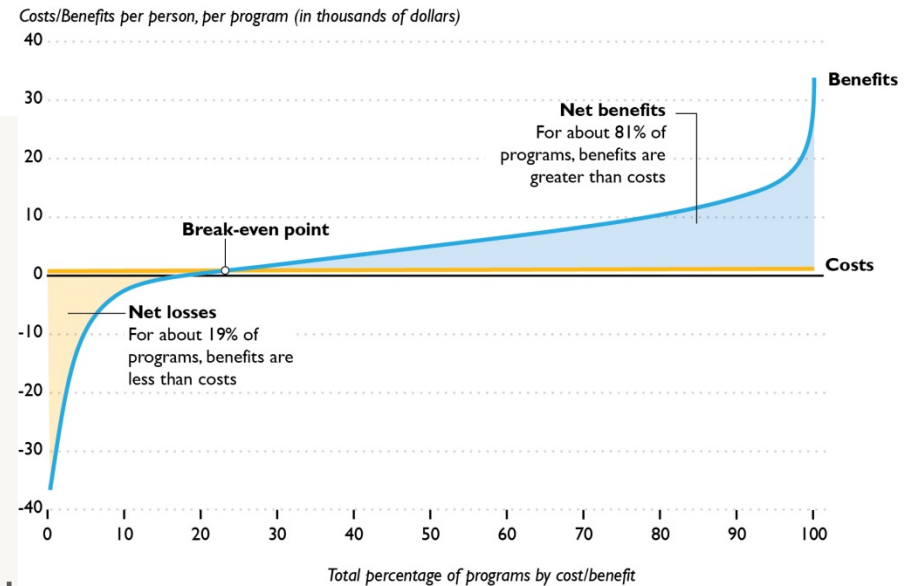
Building PFS in 5 Steps

- PFS projects should target justice system “inefficiencies” (e.g., prison population drivers)
- Once drivers are identified, PFS is developed in 5 steps



Step 1: Price the Product

- Use cost-benefit analysis (CBA) to determine the following:
 - Service infrastructure and capital needs
 - Performance targets
 - Probability of program success
 - Return rates
 - Government savings (recoverable and nonrecoverable)
- Meta-CBA provides the best estimates
 - Uncertainty deters investors, risk does not
 - Meta-CBA Models:
 - Urban's DCPI model
 - The WSIPP model
 - Pew-MacArther Results First Initiative



Source: John K. Roman, Akiva M. Liberman, Samuel Taxy, and P.M. Downey. 2012. *The Costs and Benefits of Electronic Monitoring for Washington, D.C.* Washington, DC: Urban Institute.

Step 2: Make the Deal

- Identify investors, providers, and government partner
- Determine if sufficient infrastructure exists to deliver the intervention
 - Nonprofits are often key justice system service providers
- Determine project management and incentive structure
 - Get all partners to sign onto contract

Step 3: Develop Infrastructure

- Coordinate direct service
 - Develop service infrastructure (e.g., staff knowledge, IT)
 - May require building new infrastructure or enhancing existing infrastructure
- Determine technical assistance needs

Step 4: Deliver Service and TTA

- Deliver TTA and service to the target population
- TTA helps providers sustain services past the life of the project
- The intermediary ensures program model fidelity
- The PFS contracts provide safeguards so that PFS does not interrupt service delivery

Step 5: Evaluate the Program

- Evaluate the program and determine success
 - Determine if local organizations can perform the evaluation
 - Find ways to promote evaluation transparency
- For initial evaluations randomized control trials are the best design
 - Randomized control trials build knowledge about what works in criminal justice
 - Evaluation costs are primarily a function of data availability, not evaluation design

Future of PFS

- PFS efficacy depends on maintaining a research emphasis
- Broad adoption of PFS will be a learning process
 - Governments, for-profits, and nonprofits learn how to collaborate
 - PFS offers a new instrument for sharing resources and benefits

Comments? Questions?

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