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
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

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
  o Determine if local organizations can perform the evaluation
  o Find ways to promote evaluation transparency

• For initial evaluations randomized control trials are the best design
  o Randomized control trials build knowledge about what works in criminal justice
  o 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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