



Why Governments and Investors Choose Pay for Success

Perspectives on Motivations and Risks

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Motivations matter, and understanding them is critical to ensuring that people work together when things get tough. — Corporate PFS investor

Pay for success (PFS) has merits that make it appealing to many stakeholders: it can save governments money, shift the risk of ineffective programs to third-party funders, provide multiyear funding for service providers, and generate a modest return for investors. But these benefits are paired with significant challenges, such as long planning periods and investor returns that may not be commensurate with the risk. Given these considerations, it is fair to ask, “Why does anyone want to do this?” This brief presents insights on the motivations and perceptions of risk from several PFS investors and government stakeholders and concludes with recommendations on how PFS project champions can leverage partner motivations to help move projects forward.

Why Motivations Matter

Although PFS projects are complex collaborations with a wide range of actors, interest from two key partners—the end payor (usually a government) and investors (philanthropies and corporations)—determines whether a project goes forward and is perhaps the most crucial factor in sustaining demand

for this model. Both for-profit and nonprofit investors provide the up-front capital to invest in better outcomes for communities; state and local government agree to repay those investors if those better outcomes are achieved. Other planning partners, such as intermediaries and technical assistance providers, support these efforts, and service providers crucially implement the program. **Without one party willing to invest and another willing to repay, however, the project cannot move forward.** Therefore, understanding the motivations driving investors and end payors is key to understanding what drives and sustains demand for the PFS model and the factors that affect that demand. This brief focuses on these two stakeholder groups.

Methods

Between January and May 2017, we spoke with 13 people involved in PFS projects.¹ They represented seven state or local government agencies, three for-profit investors, and three philanthropic investors. Collectively, this group has connections to 15 different PFS projects in either the planning or implementation phases. Although their projects vary in issue area and program type, all involve leveraging private dollars, linking those dollars to improved outcomes, and shifting the risk of service procurement from government to one or more private investors. These interviews were designed to gather insights on individual and institutional motivations for entering a PFS project, respondents' perception of the risks involved, and ways each party sought to manage or mitigate those risks.

As with all interviews, these have some limitations. The perspectives that inform this brief were intentionally limited to those of government actors and investors, and they are not sufficient to generalize to a broader population. To encourage candid responses, interviewees were told that quotes would not be attributed to identified individuals. However, respondents are unlikely to self-report motivations that could cast them or their organization in a negative light.

Perceptions on Motivations and Risk

Investor Motivations

In the United States, the up-front capital for PFS projects has come from for-profit investment firms, including those acting on behalf of high-net worth individuals, as well as from nonprofit foundations. Though both groups have served different roles in projects, ranging from senior investor to subordinate investor to guarantor, for the purposes of this paper we will refer to all by the term “investor,” specifying “corporate” or “philanthropic” as needed. To better understand the range of motivations driving PFS investment in the US, we spoke with representatives of six investor entities. Nearly all identified four major motivations that influenced their decision to invest: **improving lives, scaling programs, participating in a new investment vehicle, and systems change.**

Most investors we spoke with valued improving the lives of people in their community. Corporate investors stated that this altruistic mission was in some cases dictated by a high net-worth individual;

others said that goal was aligned with their specific office's mission. As one corporate investor said, "We thought [PFS] was incredibly consistent with our mission of creating opportunity in low-income communities in a million different ways." This altruistic motivation was a recurring theme across almost all our investor interviews.

Many PFS investors see the model as a tool to scale and sustain programs. Scaling takes a program that has already improved outcomes and expands its service delivery into new geographies or target populations. Programs are usually made sustainable by advocates persuading governments to continue long-term procurement. Both corporate and philanthropic investors discussed PFS scalability in a similar manner: They view PFS as a tool that provides money that allows a program to demonstrate that it works, in turn making governments willing to fund the program long term. In this way, PFS acts as a bridge between an idea and long-term sustainability. Said one philanthropic investor,

"What was intriguing about PFS is that we'd help come up with the start-up money for four to five years, and if the county is able to get the results we think that they will, the program will scale and won't need foundation money. The county will be able to sustain that program and serve some of our most vulnerable citizens as a result. The scalability and sustainability using our money as start-up funds was really our point of interest."

A corporate investor, too, said that

"we've even heard some people ask, 'Does the government have to start funding the program in the future based on project results?' They were hoping that the answer was yes, and it is not an unintuitive question. It would make it even more complicated to do deals, but I do think that sentiment is very widespread."

Many investors were also drawn to PFS because it was a **new investment vehicle** that has the potential to create a new market. Interviewees desired to build the field by improving existing projects and figuring out solutions to the persistent challenges of tapping private capital to help address a social issue. As one corporate investor noted,

"This is a cutting-edge financing technique. We do a lot of work on innovative structures. We were a first mover here, which has had its challenges and issues. This created a financing vehicle for things that didn't usually get financed. People know how to finance facilities, but this is financing interventions for people that the market doesn't usually finance. We're trying to bring something to market that other people could invest in, and more capital could go toward. It's a new and exciting tool."

And another corporate investor said that

"we view this as an incredibly early stage in the whole evolution of this concept and what we view as important is the core concept. If we're taking some more risk for less return in the early deals to help build the field, that's okay."

However, for-profit and nonprofit investors' opinions were split on the motivating power of PFS projects' financial return. Philanthropies viewed the potential for a return as a key motivator for PFS involvement, especially because it would enable them to reinvest that return to further their mission. Some for-profit investors identified the low rates of return in PFS projects (which they viewed as

disproportionate to the projects' perceived level of risk) as a barrier to launching more PFS projects and as a reason why actual financial gain, although important, is not a primary motivator for PFS investment:

"If it was just about the financial return of the [PFS] deal, we wouldn't have done it. The risk-adjusted return of most of the PFS deals to date, are terrible. Even if they work, and you get the full principal and interest, they're lousy. They're utterly out of whack in how they require capital to be placed." — Corporate PFS investor

Systems change was another commonly expressed motivation across both groups of investors. Some interviewees explicitly used the term; others described the potential for PFS to spark long-term change in how governments or communities worked. This motivation included investors' hopes that PFS could directly instill lessons learned into government operations, help build a system that values evidence of effectiveness, and change the way success in service delivery is measured:

"Another of our big motivations is the systems change orientation of this work. How does systems change happen in the public sector? [...] Does PFS actually push along systems change, or help along systems change that is already occurring?" — Philanthropic PFS investor

"One of the reasons why many investors care about these projects is the hope that these can improve policy from the government side. If a wealthy person or a foundation is really able to achieve something beyond just a financial return, they get really excited. One way to leverage the impact they're having is that the government is going to change the way they operate based on what they learned [in the project]. For a certain segment of investors, that's the most important part." — Corporate PFS investor

Notably absent from the list of investor motivations was a desire to help build the evidence base for specific programs. Investors we spoke with noted that having an existing, strong evidence base was very important to reduce the risk of program failure and estimate a reasonable repayment threshold. However, they were not primarily interested seeing how their capital helps build the body of knowledge for the future.

Investor Risks

The most obvious risk to investors, and the one mentioned most often in our interviews, is **financial**. Interviewees stated that this risk is compounded by the fact that tangible assets, such as real estate, are not used as collateral for a PFS project. The likelihood of investors achieving a return is directly linked to whether outcomes are improved for individuals and communities. Financial risks are intertwined with **programmatic** and **implementation** risks and linked to concerns regarding service provider capacity.

"The risks are highly dependent on the specific intervention itself. Can you find enough people to deliver the intervention to? Can you find the right staff to implement the intervention? Do you have the budget and resources to implement the intervention correctly? [...] There's other things you think about, like payor risk and reputational risk, and whether the project will be successful or not, but at its core the biggest risk is the sort of obvious one: Is this really going to work?" — Corporate PFS investor

"This is the first time we've used a [program-related investment] in a way that's not related to capital or land. This is just for people and services. The risk is a lot higher, and if the project goes

south, there's no collateral for us to hold on to. I think preparation and due diligence was so important in deciding if this was a risk we were willing to take." — Philanthropic PFS investor

The **reputational** risk was identified by most as both a motivation and a risk. This risk was mentioned by both nonprofit and corporate investors, but it occurred more often in our conversations with the latter. Both groups of investors noted that helping improve outcomes aligned with their offices' missions and that they want to project that mission to the public. When discussing the impact of a single PFS project on their reputation, however, they were more likely to note the potential damage expected if the intervention failed. Said one philanthropic investor,

"The reputation risk was most front-of-mind. We're the cheerleader for this work, and we get everyone signed up, and what if it fails?"

And per a corporate investor,

"While we're absolutely thrilled that we were able to do those projects, reputational risk is key. That's something that has become more acute over time, particularly for a firm like ours."

Overall, corporate and philanthropic investors' opinions on risk were mostly aligned, with corporate organizations more concerned about reputational risks and all parties noting the significance of financial risk.

Reducing Investor Risk

The distinction between corporate and philanthropic investors is more than academic. In several PFS deals, they have formed a symbiotic relationship that relies on a philanthropy's willingness to take on more risk in order to reduce corporate investor risk. In a report, TeKolste, Eldridge, and Hawkins (2016) note that because PFS is new and the risks are not understood as well as for traditional investments, there is no market for managing risk. This is a crucial difference between the risk to investors in PFS compared with risk for more mature financial products. The authors outline a few tools to reduce risk to investors:

- **Grants.** The simplest tool is to have an outside organization provide financial support to the project to reduce its overall cost. Grants can also be recoverable, which means that if the project meets its targets, the grant is repaid.
- **Junior loans.** In a project with a junior loan, the senior lender is repaid first. This protects the senior lender against a worse-than-expected outcome that would produce a reduced payment.
- **Guarantees.** These are protections given to an investor against the loss of the principal investment. In the event a project fails to meet its target, the guarantor agrees to refund the investor a specified amount of the original principal.

"We realized that if this was something we really believed in, playing that junior role was going to be instrumental in having the deal come through." — Philanthropic PFS investor

Almost all the investors we spoke with identified these tools as valuable risk-reducers that lowered their barrier to entry. However, some interviewees acknowledged that philanthropies' role of absorbing greater financial risk was not a long-term solution.

According to one corporate investor,

"All PFS projects to date have required some level of credit enhancement. I think that will continue to be the case for some time. If you do more of these deals or deals that have benefited from some enhancement early on, and were proven successful, you might need less of that. All the enhancement has come from philanthropy to date, which potentially, as this field scales, may be a limiting fact."

In addition to these financial tools, governments can reduce the risk that a future government may not make payments by setting aside all or some future payments into a sinking fund, making multiyear appropriations, or staking the government's reputation on repayment by committing its full faith and credit or setting a rating-agency trigger. Taken together, these tools improve the risk-return profile of a project for an investor and can help projects launch if investor reluctance is an obstacle.

Half of the investors we spoke with mentioned the importance of background research, or due diligence, when deciding to invest in a specific intervention.

"We try to understand as best we can the intervention, its track record generally in the world, in the place, and with the specific providers, and then how the repayment criteria line up against that. How do the repayments match historical performance? That's about as far as you can go."
— Corporate PFS investor

"We started off with the \$25,000 grant for the due diligence. We were working in conjunction with [other foundations that] gave some money as well. Among us, that national funding laid the groundwork for due diligence. We felt a lot more confident having had that national funding to do that work [and it] made us feel very prepared. We understood more than we would have without it. We felt that some of the risks were mitigated, and we were able to think through, based on the data, how to proceed." — Philanthropic PFS investor

Almost all investors that we spoke with viewed **strong partnerships** as a key characteristic of strong PFS projects. They noted that such partnerships reduce the risk associated with implementation and believed they would remain essential for future deals. Because investors do not directly control implementation, they must trust that the intermediaries and service providers can fulfill their responsibilities. Strong partnerships, or those with clear roles, transparency, and accountability, were seen as key to PFS project success.

"What makes these deals strong programs is the strength of the counterparties and their relationships, and if they've already moved culturally and organizationally to work in a different way, as an outside funder, we can work with that, because it takes so much to get to that point where they have a deal and want to talk to outside folks." — Philanthropic PFS investor

Government Motivations

Every investment requires some way to generate a return. In the PFS model, the primary mechanism to do so is a state or local government's promise to repay investors if the terms of the deal are achieved. Often, this repayment is guaranteed through legislation, a dedicated fund, or a full faith and credit guarantee. Finding new money to implement new (or expand existing) programs is an obvious motivation for governments to participate in PFS. However, because governments also serve as the usual source of repayment funds, other motivations drive PFS government actors. To better understand their motivations, we spoke with people working in seven different state or local governments.

Government interviewees individually identified these nine motivating factors for their PFS work:

- improving lives
- systems change
- accessing new money
- using a new model
- funding what works
- linking money to outcomes
- funding a specific issue area
- cost savings
- shifting risk

All the government representatives we spoke with identified the same key motivation for engaging in a PFS project: **improving lives**. From their perspective, a PFS project is a way to enact government's responsibility to its citizens and to incentivize positive outcomes over and above service delivery:

"The thing that is so important to me about PFS is that the focus is on the positive impact on the people we're serving, and providing incentives for quality care that provide the right services based on the individual's need." — Government official

"I think people have to be flexible in looking at all the costs associated with a particular social problem. The financial benefits to states and taxpayers are secondary to changing lives." — Government official

A desire for **systems change**, along with the attraction to **new money** and a **new model**, are rooted in a dissatisfaction with business-as-usual government procurement for social services. These motivations speak to a desire to innovate both within government and with new private sector partners. Several government officials showed enthusiasm for PFS as a model that offers new resources and a new approach. Their reflections demonstrate openness to PFS because of its potential to support progress on persistent problems and persistently ineffective systems. A PFS project creates a new way

of addressing problems without having to first completely dismantle the traditional government practice. However, interviewees were motivated by the idea that planning and implementing PFS can spark reform and improvements in the broader public sector.

“When we’re looking at social problems, we’re really stagnant with 1960s-era social programs.... We’re not unleashing that same attribute of innovation and disruption to the sector of public problems. I saw the SIB model and thought it could assist in looking at new ways to address some issues.” — Government official

“We have a ... system ... that is very fragmented. Getting [multiple stakeholder groups] to understand why we care about intervening with this specific population; that has gotten them to think more proactively about their own system.... That systems change impetus has been hugely valuable from the governor’s office perspective, and I suspect from the agency perspective as well. [...] systems change is in many cases the primary source of value for state and local governments. That’s the most compelling reason that I continue to drive this forward.”
— Government official

“One of the attractive elements [of the PFS model] was the massive infusion of outside capital. From my work with local governments, I saw a need there. It resonated with me in terms of reaching the tipping point of truly overcoming a problem. We can kind of go along at a trickle, but we need a tsunami, and that infusion of capital could get us over the hump.”
— Government official

Almost all expressed that they were motivated to pursue PFS to **fund what works** and **link money to outcomes**. This is grounded in a desire to be effective, enact change, and improve lives. A government’s primary change lever is to link money to outcomes rather than just to activities they hope will work.

“It’s really trying to see how can we contract for effectiveness and quality and good outcomes, and incentivize our contractors to do so. If you’re getting the outcomes you want, you’re most likely saving money and people are doing much better.” — Government official

Cost savings remain a real motivation for government that are difficult to obtain in practice. Hatry and colleagues (2017) recommend that governments should determine early in the planning process if cost savings will be part of the criteria used to establish success payments. For our interviewees, reducing costs was almost always part of their decision to enter into PFS agreements and remains a desired project outcome.

“The idea was to see if we could reduce utilization, and therefore, reduce costs in our system and in contract hospitals as well.” — Government official

“There are several considerations. First is the money.... That’s the big driver for all of us. The second is that how do you create a more sustainable and proactive approach to programs that improve the quality of life for young children, but benefit people beyond the population you’re serving. [She] is saving money not just for the insurance company, but also for the EMS folks and the school district.” — Government official

More certain than cost savings was the PFS model's ability to **shift financial risk** from government to an investor. Most of the government interviewees reported that this motivation is key to their decision to pursue PFS.

"The beauty of the PFS model is that you can spread those risks over different parties, investors, philanthropies, person who has the problem, provider, and the government. You could dilute the risk among different parties. But even having risk in the first place is a good thing. Right now, no one is taking any risks, and so there's little equity and incentive to deal with these problems."
—Government official

Overall, the nine most common motivations identified by the government interviewees align with the goal of achieving better outcomes for their communities while shifting the risk of procuring those outcomes to private investors. Comments on systems change reveal an expectation that the PFS model will have benefits beyond those for the people served and that it could change ongoing government operations. The ability of PFS to do so remains to be seen and will only be detected if the field deliberately records and reports any system improvements (e.g., procurement reform, data system enhancements, or department strategic planning) that emerge from PFS projects.

"First, the risk is not immediately on the state level in the near term. We can be sure that we're likely to avoid the fiscal exposure until such time as the intervention that we're contemplating has proved successful on the terms we've agreed to. That is the sort of timing and results-based aspects of PFS that is highly attractive from a budget perspective, and a good governance perspective." — Government official

Remaining Government Risks

The decision to pursue a PFS project requires that motivations and expected benefits outweigh the perceived risks. Government officials were asked to identify the risks of participating in a PFS project and the ways they might reduce those risks. More than half of the interviewees named both the **complexity of the PFS model** and the **uncertainty of program effectiveness** as key risks.

PFS complexity led an interviewee at one point to question the value of the (significant) effort of guiding a PFS project from planning to implementation given the amount of time required. Even in places with robust data systems, local buy-in across the community, and an interested investor, successfully launching PFS projects takes time and persistence. Their complexity requires long timelines that can make sustaining interest a challenge:

"The working question in my mind, [...] is whether it's worth the effort. This has been a three-year RFP and contracting issue, and we're still not done in the sense that we're still trying to refine the investment model [...] For the benefit of offloading risk and gaining the upfront commitment, is that worth all the effort of developing this model, the contracting, the evaluation, and all the rest of this system?" — Government official

Even though PFS shifts financial risk to a private investor, governments still viewed the **uncertainty of program effectiveness** as a risk to themselves. Although governments only repay the investor if outcomes are achieved, they may still incur costs (especially opportunity costs) while planning,

implementing, and evaluating. These costs are paired with the **political risk** associated with program failure.

“I’ve become more concerned about the success of PFS in [my jurisdiction]. If we do something that fails here, that would put us back politically. ... Our success could pave the way for more projects.” — Government official

Even though the PFS model allows governments to try something new at reduced risk, they must still publicly support the effort. Half of our government interviewees identified political risks as an additional threat to their PFS participation and were concerned about what a project failure would mean for how they were perceived.

Reducing Government Risk

Government interviewees did not have strong or consistent opinions on ways to reduce their risk in a PFS project. One reason for this could be that the model itself already transfers the risk of paying for ineffective services to the investor, so the financial risk was not commonly reported as an issue for government partners. Risks that were identified (programmatic and political risk) are directly linked to program effectiveness. One of the best ways to help ensure program effectiveness is to choose interventions with a strong theory of change or evidence base.

Milner and Eldridge (2016) argue that using evidence in decisionmaking can lead to more effective government decisions. Evidence is the accumulated body of knowledge indicating if something is valid. For social science programs, the evidence base can help you discern whether a specific program is likely to have the intended effect. Incorporating lessons from the evidence in PFS projects can help government officials reduce risk by determining whether the intervention will have the intended effect and the size of the intended effect. The evidence can drive project development in three ways:

- Project scoping: What are the needs of the target population, and are there program models that have been shown to address those needs?
- Program selection: Has this specific program been shown to improve the intended outcomes for this specific population?
- Deal terms: How confident is the government that the program will have the impact it is estimated to have?

For programs lacking a strong evidence base, governments can still use an evidence lens to reduce risk. First, governments can look at the theory of change for the project. Is it compelling? And is there a clear, logical pathway from the population through the services to the outcomes? Second, governments can look for provider data on the population, services, and outcomes. Programs might have pre-post outcomes data that, although incapable of establishing causality, may help indicate whether the program is working as intended.

Lessons from Looking across Groups

The investors and government officials we spoke with identified multiple motivations (both altruistic and practical) and risks that shaped their decision to embark on a PFS project. Interviewees from both groups also acknowledged that **it is fine if the motivations driving other stakeholders are different as long as they are aligned with the common goal of improving lives.**

“Folks have been willing to tolerate that there’s a wide variety of reasons to do this. For some, it’s a PR exercise; for others, it’s their core mission; and for others, it’s building a new business model, and those are all okay.” — Corporate PFS investor

Across both groups, interviewees see PFS as an opportunity to both improve lives and bring about larger systems change. Many of the investors and government officials were drawn to the idea that the PFS model will lead participating governments to make evidence of effectiveness a stronger factor in regular service procurement. Additional systems changes could include improvements in existing data systems to better identify and track outcomes for service recipients or the removal of organizational silos that complicate cross-agency government work.

The potential for financial return among investors, while still a motivation, was not a primary factor in their decisionmaking according to most of our interviewees. Many for-profit investors and some philanthropic investors noted that the returns simply did not adequately compensate the risk. Philanthropies, however, appreciated that the return allowed them to potentially reinvest profits in their mission.

Although governments and investors saw the risk of failure as paramount, the fallout from failure was different for both groups. Investors were more focused on the financial loss and were particularly aware that the absence of any collateral made it more difficult to reduce their financial risk. Government officials generally were more concerned with the political consequences associated with failure. Both sets of stakeholders noted concern with programmatic risk (asking what happens if the program doesn’t work).

Recommendations

The value of strong partnerships as a mechanism to ensure PFS progress and to reduce their own risks was an implicit and explicit theme throughout the interviews. During the early stages of the project and feasibility, PFS project champions and project managers in any organization should consider the following recommendations and other strategies to create strong PFS planning teams.

- **Build on existing partnerships and look for partners that publicly value innovative, collaborative efforts.** Many interviewees observed that because PFS projects are complicated partnerships, the people in the partnership matter. Strong partnerships, as well as willingness to engage in frank and honest communication, help everyone understand the perspectives and concerns of others and thus enables a more efficient resolution of issues. Because trust and transparency take time to develop, the time it takes to get to a PFS deal can likely be reduced by

engaging partners that are already working together. Reorienting government systems toward outcomes is a significant challenge that requires top-level political will as well as multilevel institutional buy-in, sufficient data system scaffolding and capacity, and familiarity with performance- or outcomes-based contracting. PFS champions should look for partnerships or intermediary organizations in their communities that might already be leading collaborative initiatives around specific issues. Looking for collective impact initiatives, engaging networks to find potential partners (e.g., the local United Way), and searching for local or state grants for this kind of work (and those grants' awardees) are a good first step toward unearthing such partnerships.

- **Be transparent about all motivating factors—altruistic, practical, political, and financial—early in the planning process.** Strong partnerships require trust built on transparency and accountability. Having early, candid conversations about what brings everyone to the table helps build this trust. Hosting substantive conversations about motivations, risks, and ways to reduce risk helps reduce suspicion across public and private sector actors. Acknowledge that motivations will differ among partners but that those differences are okay.
- **Align PFS project elements with partner motivations.** PFS projects are complicated endeavors that require work and attention from multiple partners for an extended period. To help keep momentum, PFS project decisions should be aligned with partner motivations as closely as possible. For example, if an investor is strongly motivated by a desire to reduce homelessness and a government requires actual cost savings, early efforts should determine whether either of those goals are feasible. Investors motivated more by the potential for systems change and leveraging money for a high-impact project and less motivated by financial return may be better suited for high-risk projects (e.g., those with a limited evidence base). Aligning stakeholder interests with the project scope and design helps ensure ownership. Two specific motivating factors should be identified and addressed quickly:
 - » Whether project partners are more interested in scaling an intervention, building the evidence for one, or both. This can have important implications for project design, such as the intervention selected, the eligibility criteria, and the evaluation design.
 - » Whether a given project is sustainable, or has a plan to fund a successful intervention beyond the life of the PFS project. Many investors indicated this is an important factor in their decision to invest. End payors have a clear interest in maintaining funding for an effective project, but there may be obstacles (financial and otherwise) that lead to a funding cliff after a successful PFS project concludes. Creating a sustainability plan or extracting a commitment from the end payor early on in project planning can accelerate negotiations, build trust with other project partners (especially service providers), and create a stronger project.
- **Start with an analysis of existing community problems.** PFS projects are easier where an existing problem has not been adequately solved and is unlikely to be addressed with existing mechanisms. Research on the government's current budget to identify areas of large

government costs, as well as informational interviews with local government officials, are a good way of starting the process of uncovering local need. Whenever possible, look to confirm local perceptions of need with actual community data.

- **Speak to the value of systems change rather than the value of the PFS mechanism, and look for ways to help promote that change.** Parties interested in pursuing PFS projects should speak to its utility as a driver and supporter of systems change for communities looking for new ways to address old problems. However, these conversations should recognize that systems change may seem threatening to people who work and support the existing system every day. Not everyone will embrace the idea that “business-as-usual” is not effective. PFS champions should also ideally link any potential reforms to existing government initiatives or community need.
- **Discuss formal risk management strategies and identify what is feasible and what is off the table.** Once a partnership is strong enough, partners should be relatively open to frankly discussing their fears and concerns around the project. Several investors may be required to help distribute risk. Once these concerns are drawn out, they can be used to create risk mitigation plans and strategies. If reputational risk is a major concern for government entities, for example, perhaps the collaborative can make a commitment to pilot the project for a certain amount of time.

Appendix A. Interview Protocol

Part 1. Background, Direct Motivations, and Risk

1. Can you describe your current role and position?
 - a. How long have you been involved in Pay for Success projects?
 - b. How many projects have you been a part of?
 - c. Can you describe what your responsibilities are in PFS project planning or implementation?
2. Why are/were you interested in the Pay for Success model?
 - a. What initially sparked your interest in Pay for Success? Was it a problem, person, and/or opportunity?
 - i. Was your interest specific to a particular problem, social service, or resource shortage?
3. What do you think are the most compelling reasons to a PFS project?
 - a. How important was earning a financial return on the project?
 - b. Have you discovered additional reasons to continue doing PFS as the project has gone on?
4. Why do you think your company/organization is interested in PFS projects?
 - a. Was your interest specific to a particular problem, social service, or resource shortage?
 - b. Does your organization benefit from the PFS model, and if so, how?
5. Does PFS align with your organization’s mission? Was that important?

6. What did you perceive as the greatest risks going into the project and, in hindsight, do you still view those as significant risks?
7. Did you encounter new or unforeseen risks as you worked on the project?
8. What influenced your estimation of risk in the project?

Part 2. Relationships and Perceived Motivations

9. In what ways have you worked with other local or PFS stakeholder groups to help develop projects?
 - a. Have you worked with these partners before? How would you describe your pre-existing relationships?
 - b. Was it essential that certain partners were at the table?
10. How did these partners influence your decisions/actions related to PFS?
 - a. In your opinion, what sparked their initial interest in participating?
 - b. What or who do you think was most influential in getting these partners to participate?
11. Did your estimations of their motivation affect your decisions? How?
12. How do PFS partner motivations contribute to project planning and decision making around outcomes and repayment thresholds?
13. Why do you think places choose a PFS project over another form of funding?

Conclusion

14. Is there anything we haven't covered today about motivations that drive PFS participation that you'd like to share?

Note

1. Authors conducted semistructured interviews with set question protocols (appendix A). Interview notes were coded with NVivo software using standard codes for motivations, risks, ways to reduce risks, and the perceived motivations of others.

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