SOCIAL FINANCE

ISSUE BRIEF 4
GETTING STARTED

Outcomes funders—such as governments, employers, managed care organizations, and others—play a critical role in building strong foundations for Pay for Success projects. In this brief, we provide guidance on ensuring critical team members are involved from the get-go; defining project first principles; and considering sources for outcomes funding.

ABOUT THIS ISSUE BRIEF SERIES

This issue brief is one of a 10-part series written **for government officials interested in learning how to use Pay for Success tools and principles.**

The series summarizes best practices and lessons learned at Social Finance from a decade of designing, launching, and managing Pay for Success projects. It includes guidance on each step of the process, from deciding whether Pay for Success is a good fit to actively managing a project post-launch.

See here **to access the complete issue brief series on our website.**

LAYING A SOLID FOUNDATION

ONE OF THE MOST COMMON questions government leaders ask when they learn about Pay for Success (PFS) is "How does a project get started?" There is no single right answer. The PFS field is still young; the first project worldwide was launched in 2010. Since then, projects have gotten their starts in a variety of different ways, from county agencies issuing RFPs to state agencies applying for federal funding awards to foundations or service providers proposing specific project ideas.

Although there is no right starting place, three early actions can contribute to a project's success:

- Ensuring that the right team of people is engaged and committed to the project's goal
- Defining a set of "first principles" to serve as the north star for the project team and other stakeholders in making key decisions
- Developing an early hypothesis about where outcomes funding will come from (e.g., tapping into a federal funding source or requesting funding during the next legislative session)

These actions should be taken *after* some consideration has been given to whether PFS is an appropriate fit for the problem at hand. (*Issue Brief 3 – Assessing Pay for Success Project Fit* provides a set of screening criteria to help determine PFS suitability.)

CRITICAL ROLES

Key to beginning the PFS project development process is assembling a strong team. We see five critical roles that should be filled from within the organization serving as outcomes funder. (The exact job titles for these roles will vary from organization to organization; some roles may be played by multiple individuals, and multiple roles may be covered by a single person.[1])

CRITICAL PROJECT TEAM ROLES FOR THE OUTCOMES FUNDER

SENIOR CHAMPION

Helps lead the project at the most senior level of the organization and guide the project through organizational hurdles.

AGENCY LEAD / TOPIC EXPERT

Provides subject-matter expertise on the project's area of focus and the ways in which its population is currently being served.

BUDGET ANALYST

Identifies and manages towards commitment of outcomes funds, and supports value analysis and pricing exercise.

PERFORMANCE OVERSIGHT MANAGER

Provides access to and knowledge of relevant output and outcomes data about the target population.

PROJECT MANAGER

Drives the project forward on a day-to-day basis, managing tasks and deadlines and coordinating across stakeholders. *(Note: may be external to outcomes funder.)*

DEFINING PROJECT "FIRST PRINCIPLES"

Throughout a PFS project, teams face complex tradeoffs related to project design and evaluation. To help navigate these tough decisions, ***project partners*** (a group of people working towards launching the project that may include individuals from the outcomes funder, service providers, intermediary, and investor organizations) can develop a set of short list of principles that distill their underlying objectives and priorities and act as a guiding framework for decision-making. For example, when Social Finance worked with the State of Utah's Employability to Careers Program to design an outcomes rate card,[2] one of the project's first principles was to "learn what works," since there wasn't yet strong evidence for which interventions and models

[1] Since this issue brief series is written for organizations that play the "outcomes payor" role in PFS projects (typically government agencies), this project team structure includes roles within the outcomes payor only. For an overview of all stakeholders involved in a PFS project, see *Issue Brief 1 – Introduction to Pay for Success*.

[2] See *Issue Brief 2 – The Pay for Success Toolkit* for more information on outcomes rate cards and other types of PFS mechanisms.

would prove most effective in the Utah context. This led project partners to structure the project around a broad set of employment outcomes to enable learning about which types of interventions and service providers could most successfully achieve those outcomes.

Below we include a sample list of first principles we've commonly used in our projects. Throughout the design and delivery of the work, we often include such a list at the beginning of presentation materials for major project meetings to serve as a reminder of the project's ultimate goal.

EXAMPLE PROJECT FIRST PRINCIPLES

- Do no harm
- Help drive meaningful outcomes for the target population
- Scale effective services to specific geographies or target populations
- Establish partnerships with other funders
- Strive for simplicity

DEVELOPING AN EARLY HYPOTHESIS FOR WHERE OUTCOMES FUNDING WILL COME FROM

Without a committed pool of funds to pay for outcomes, Pay for Success projects cannot move forward. Outcomes funders don't necessarily need to confirm the source of funds on day one of designing the project, but having an early hypothesis can significantly streamline the process and help build confidence among stakeholders about the outcomes funder's commitment to launching the project.

In particular, project teams should set aside time early in the project to discuss (i) where outcomes funding will come from (e.g., from a state's general fund, or from a federal grant); and (ii) the maximum funding that would be needed for outcomes payments if the project achieves its goals. It is the role of the "budget analyst" (see *Critical Roles for PFS Project Team Members* on page 2) to lead the effort on testing, refining, and acting on that hypothesis.

In addition to the source of outcomes payment, project stakeholders should also put thought into the mechanism by which those funds will be held for the duration of the project; *Issue Brief 8 – Pay for Success Contracting* includes a list of options for potential mechanisms, including full faith and credit, an escrow account held by a third party, a non-lapsing PFS fund, or annual/biannual line item appropriations.

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ABOUT SOCIAL FINANCE

This brief was written by Emily McKelvey, Associate Director at Social Finance, with support from Rachel Levy and Jake Segal. Social Finance is a national nonprofit organization dedicated to mobilizing capital to drive social progress. Social Finance has pioneered Pay for Success, a set of innovative funding and financing strategies that directly and measurably improve the lives of those in need. Read more about our work in Pay for Success at socialfinance.org.

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