SOCIAL FINANCE | America FORWARD

NEXT-GENERATION OUTCOMES FUNDING

HOW CAN WE REALIZE THE PROMISE OF PAY FOR SUCCESS?

In the last decade, Pay for Success—a set of innovative, outcomes-based funding strategies that tie funding to results—has catalyzed projects across the federal government that lower recidivism, strengthen the economy, and improve public health. As we recover from a global pandemic and national economic crisis, it's more important than ever to get the most out of government spending—and it's time to create a cohesive and strategic federal approach to funding. In 2021, the federal government could build on the best ideas developed under the bipartisan Social Impact Partnerships to Pay for Results Act (SIPPRA) by applying a more flexible and adaptive approach to the Department of Treasury's outcomes fund, making the Interagency Council on Social Impact Partnerships permanent, and empowering the council to identify, co-create, and co-fund projects to improve state and local government effectiveness.

IN THIS BRIEF

WHAT IS OUTCOMES FUNDING?

MOST PUBLIC FUNDING for social goals—keeping people safe, healthy, employed, and educated—is spent buying services. Every year policymakers wrestle with the difficult choices of which programs to fund, but once money goes out the door, program effectiveness is rarely measured, and funding is almost never calibrated to match results achieved—scaling what works, and scaling back what doesn't.[1] That's a problem because we often can't predict in advance which programs will work best in different contexts.[2,3]

For the past decade, governments around the world have been experimenting with a different approach: instead of buying services with unpredictable (and often unmeasured) outcomes, they're agreeing to pay for outcomes.

Outcomes funding approaches—often called Pay for Success arrangements—ask governments to clearly define policy goals, establish a mechanism for measuring progress toward those goals, and set a price for achievement. If effective community organizations succeed in moving the needle on those policy goals, they can unlock expanded funding opportunities. In some cases, community organizations partner with mission-driven investors to finance the upfront costs of programs.[4]

[1] John Bridgeland and Peter Orszag, "Can Government Play Moneyball? How a new era of fiscal scarcity could make Washington work better," *The Atlantic,* July/August 2013.
[2] Jon Baron, formerly President of the Coalition for Evidence-Based Policy, summarized the facts to the House Committee on Ways and Means: In education, of the 90 interventions tested via randomized controlled trials (RCTs) by the Institute of Education Sciences since 2002, ~90% had weak or no positive effects; in employment and training, 75% of the Department of Labor's RCTs since 1992 found the same; in medicine, over half of Phase II trials are reversed in Phase III. See House Committee on Ways and Means, Subcommittee on Human Resources, Hearing on What Works / Evaluation, July 17, 2013: Statement of Jon Baron.
[3] Sociologist Peter Rossi famously used findings like these to coin his Iron Law: that the expected value of any net impact assessment of any large-scale social program is zero. See Peter Rossi, "The Iron Law of Evaluation And Other Metallic Rules," *Research in Social Problems and Public Policy,* 1987, vol. 4, pg. 3-20.
[4] These arrangements are often called "Social Impact Bonds," or sometimes "Pay for Success financing." See, e.g., The Nonprofit Finance Fund, "Pay for Success: The First 25 - A Comparative Analysis of the First 25 Pay for Success Projects in the United States," May 2019.

PAY FOR SUCCESS IN PRACTICE:

Helping limited English speakers, largely refugees and recent immigrants, make successful transitions to employment, higher-wage jobs, and higher education.

Improving birth and early childhood health outcomes among low-income families.

Supporting veterans with PTSD to get competitive, compatible employment.

Reducing incarceration and improving employment among youth through transitional work and case management.

Improving housing stability among people experiencing persistent homelessness.

For more information, see Nonprofit Finance Fund's "Pay for Success: The First 25."

Pay for Success arrangements don't all look the same.[5] But the sophisticated group of projects that has sprung up around the globe[6] since 2010 are all defined by a set of shared principles. They focus on clearly defined, **policy-relevant outcomes;** link **payments to measured performance,** often over multiple years; rely on **data-driven decision making** to enable faster feedback cycles and adaptiveness; and depend on **empowered, inclusive governance** by a group with aligned incentives.

Taken together, these principles define a new set of tools that are improving government effectiveness efforts around the country.

FEDERAL ENGAGEMENT TO DATE

Over the past decade, we have seen the promise of federal leadership in Pay for Success through a series of individual initiatives, largely disconnected from one another but each impactful in its own right.

EARLY EXPERIMENTS IN FEDERAL OUTCOMES FUNDING

When agencies have supported outcomes funding approaches, they have been remarkably successful—often creating powerful and outcomes-based collaborations between federal, state, and local governments.

For example:

- In 2013, the U.S. Department of Labor, using $24 million in matching grants through the Workforce Innovation Fund, spurred large, cross-sectoral projects in Massachusetts and New York focused on the intersection between criminal justice and workforce development.
- In 2016, the Department of Veterans Affairs awarded $3 million for matching outcomes payments, challenging state and local governments to produce better workforce outcomes for veterans. This ultimately resulted in a three-site project, launched in 2018.
- Also in 2016, the Departments of Housing and Urban Development and Justice partnered to support $8.7 million in grants focused on the intersection between homelessness and criminal justice, spurring a half-dozen new efforts nationwide.
- In 2018, USAID launched its first Pay for Success program, focused on improving maternal and infant health in India.

Other initiatives have sprung from the Corporation for National and Community Services's Social Innovation Fund, the Department of Education's Office of Career,

[5] Their diversity is hardly surprising, in that these mechanisms are the latest evolution in a long history of performance-based contracts—a history that hasn't always proven successful. See, e.g., Patrick Lester, "The Promise and Peril of an 'Outcomes Mindset,'" *Stanford Social Innovation Review,* 13 January 2016.
[6] For more information about the current global status of impact bonds, see the Social Finance Impact Bond Global Database.

Technical, and Adult Education, and the Department of Justice's Second Chance Act Pay for Success Initiative. Yet, despite their individual successes, these initiatives have been sporadic, small, and largely siloed. That began to change in the past two years.

THE SOCIAL IMPACT PARTNERSHIPS TO PAY FOR RESULTS ACT

A BIPARTISAN TOOL

Federal-level, cross-agency outcomes funding that can help take Pay for Success strategies to scale in partnership with state and local governments.

In 2018, Congress passed the Social Impact Partnerships to Pay for Results Act (known as SIPPRA, or the Results Act), a $100 million fund administered by the U.S. Treasury Department to support state and local Pay for Success projects.

Since its introduction in 2014, the Results Act has been a bipartisan exercise in strengthening the forces of smart government. In 2016, it was passed through the most partisan House in history in a voice vote.[7] The bill, originally conceived by Sen. Todd Young (R-IN) and former Rep. John Delany (D-MD), has also been championed by Sens. Michael Bennet (D-CO), Susan Collins (R-ME), and Cory Booker (D-NJ); former Sen. Orrin Hatch (R-UT), and many others; including more than twenty additional Democrats and Republicans in the House.

It was finally passed as a part of the 2018 Bipartisan Budget Act. The Results Act allocates up to $100 million for outcomes payments to support state and local initiatives, including up to $10 million for project design and up to $15 million for evaluations. The first funding opportunities from the Act were announced in 2019, and jurisdictions around the country created detailed applications to access the funds.

In its implementation of the Results Act, Treasury has pointed the way toward what a unified federal vision of Pay for Success could look like. To assess applications, the Results Act convenes a working group called the Federal Interagency Council on Social Impact Partnerships. It's chaired by the Director of the Office of Management and Budget, and includes representatives from the departments of Labor, Health and Human Services, Agriculture, Justice, Housing and Urban Development, Education, Veterans Affairs, and Treasury; the Social Security Administration; and the Corporation for National and Community Service. By bringing together expertise from across the federal government, the Interagency Council creates a body that could collectively overcome "wrong-pockets problems," breaking down the agency silos that can stymie collective action.

Awards from the Results Act have been substantially delayed, first by competing administration priorities, and then by COVID-19. The competitive process and application need to be improved, but this foundation presents a compelling opportunity for a future administration to get better results by building more robust infrastructure for federal outcomes funding.

[7] Among other analyses of partisanship, see Philip Bump, "The unprecedented partisanship of Congress, explained," *Washington Post,* 13 January 2016.

A VISION FOR THE FUTURE OF FEDERAL OUTCOMES FUNDING:

Institutionalize and empower the Federal Interagency Council on Social Impact Partnerships.

The world of outcomes funding is accelerating quickly. To maximize its effectiveness, the Interagency Council should learn alongside other leading practitioners, rapidly adapt its own strategies, and build projects that are at the forefront of this emerging field.

A small, dedicated staff of top subject matter experts to facilitate the Interagency Council's efforts would help ensure that it's learning alongside the states and counties leading this movement. It would also accelerate efforts to assess opportunities and make awards—efforts that have faced significant delays in the rollout of the Results Act. A permanent team could proactively identify projects with extraordinary federal value, and shepherd critical, high-quality initiatives toward qualifying match funding.

Then, the centralized support team should partner with agencies to shape a proactive and sophisticated set of outcomes funding tools.

Professional staff could also accelerate the creation of more fit-for-purpose funding opportunities. This team could support agencies in identifying, collaborating on, and implementing outcomes-funding programs. It could create a more nimble, multistage process to identify promising applicants, co-designing project elements with government partners (rather than requiring near-complete projects with multiple embedded contracts pre-award). It could develop applicant tiers, enabling less-experienced communities with lower-budget applications a greater opportunity to secure an award, and more experienced jurisdictions opportunities to expand and adapt successful projects. Finally, it could design a refined set of evaluation criteria for alternative outcomes-funding mechanisms, such as outcomes rate cards.

Congress should empower the Interagency Council with a flexible matching outcomes fund, Results Act 2.0, to dramatically accelerate the field.

To build on the promise of the Results Act, Treasury could deploy funding through a range of innovative approaches—going well beyond the somewhat restrictive model in its first notice of funding from 2019—while following the requirements of the current legislation. Moreover, in revisiting the language of the current Results Act, Congress could make the funding even more flexible and more broadly applicable by encouraging a wider set of cross-sector partnerships through a simple funding match,[8] and by embracing a wider range of appropriate evaluation methodologies to allow for scaling evidence-based practices more effectively. This change would significantly

PRECEDENT: THE US INTERAGENCY COUNCIL ON HOMELESSNESS

The Federal Interagency Council on Homelessness was authorized in 1987. After a period of dormancy (1994-2000), it was revitalized as an independent agency with its own modest budget. Its remit was further expanded in 2009 to deliver a federal strategic plan to prevent and end homelessness. USICH has played a critical role in cutting veteran homelessness in half, Today, the agency maintains a 15-member staff on a modest budget of $3.6 million, but is responsible for coordinating some $5.5 billion in funding streams across 19 different federal member agencies.

[8] In the initial competition, federal funding was limited by a complex funding formula derived from realized federal budget impacts within the project's term. As a result, nearly all project outcomes focused on healthcare cost reductions, largely derived through Medicaid and mediated by the state-by-state nuances of managed care arrangements. A simpler mechanism—such as a match to local government outcomes funding—would unlock efforts across criminal justice, education, public health, and child welfare.

accelerate the deployment of funds and the development of new, innovative projects, all in service of achieving better results with less money.

At the same time, congressional leaders should consider expanding the matched funding pool under the Results Act, extending it to $1 billion in order to supercharge state and local governments' recovery efforts.

CONCLUSION

This moment of crisis presents an opportunity to lay the foundation for a more equitable future by building a smarter public sector more worthy of the public trust. Outcomes funding approaches strengthen public accountability, while unleashing the entrepreneurialism of the social sector. They build the connective tissue between policymakers and social service delivery systems, to create faster feedback loops and more sophisticated data sharing, and they build better connections between and across agencies. Ultimately, they're a tool to strengthen our social infrastructure.

In the past two years, the Results Act has suggested what could be possible through a coordinated federal leadership role. Making the Interagency Council permanent—and empowering it with dedicated staff—can supercharge efforts to reimagine and reinvigorate government from the inside.

ADDITIONAL RESOURCES

Lenny Bernstein, "'Government only pays for the positive outcomes.' A strikingly new approach to social problems," *The Washington Post,* February 2016.

The Nonprofit Finance Fund, "Pay for Success: The First 25 - A Comparative Analysis of the First 25 Pay for Success Projects in the United States," May 2019.

Social Finance, "Social Impact Bonds: The Early Years," July 2016.

Sindhu Lakshmanan et al., "The Evolving Promise of Pay for Success," *Stanford Social Innovation Review*, October 2019.

Emily Gustafsson-Wright et al., "Social and development impact bonds by the numbers: August 2020 snapshot," Brookings Institution.

The Urban Institute, "Social Impact Partnerships to Pay for Results Act (SIPPRA)," 2019.

ACTION ITEMS FOR 2021

Recommendations for accelerating progress through a strategic approach to federal outcomes funding.

Near-term Administration actions

- **Institutionalize and empower the Interagency Council on Social Impact Partnerships.** Budget for a small, dedicated staff to facilitate the Interagency Council's efforts. Empower the team to accelerate understanding of the Results Act and encourage new projects through proactive outreach and training with states, counties, and cities.

- **Maximize the impact of existing Results Act funding.** In 2018, Congress appropriated $100 million for the Social Impact Partnership to Pay for Results Act. As of October 2020, none has been committed. Even if all of the finalists for the first set of awards are approved, well over half of the funds will remain. To get the most out of that funding, Treasury should pursue recommendations outlined by America Forward in an April 20th letter to the Commission Chairman Paul Edgerley[9]:
    - (a) seek input from field leaders before releasing future competitions, to adapt guidelines to meet the fast-evolving field;
    - (b) expand the definition of "savings" to better align with congressional intent, better defining the more expansive concept of "federal value" articulated in the original legislation without imposing an unduly burdensome requirement to alter baseline federal outlays or revenues;
    - (c) reform application timelines and process, to provide more than 90 days for responses and/or to require less-burdensome responses; and
    - (d) encourage a wider range of Pay for Success tools in future applications, and adapt the application process to lower the barrier-to-entry for state and local governments.

Proposals to Congress

- **Design Results Act 2.0.** Congress should empower the Interagency Council with greater flexibility to catalyze state and local outcomes funding strategies—simplifying the Results Act federal match calculation; embracing a wider range of appropriate evaluation methodologies; and charging the Interagency Council to engage and support potential state and county partners in developing high-value projects.

- **Expand the fund's size.** For all of the promise of outcomes funding, and for all of the process underlying Treasury's first award competition, funding for the Results Act remains quite small. Its small size and the high complexity of applications limit engagement from otherwise interested partners. Earlier iterations of the Results Act proposed a $300 million outcomes fund. Given the real costs associated with creating an office to administer the funds in Treasury, there are economies of scale associated with expanding the fund's reach. In consideration of new, scale-friendly models that could be unlocked through Results Act 2.0, and additional

[9] America Forward, Letter to The Honorable Paul Edgerley, Chairman of the Commission on Social Impact Partnerships, April 20, 2020.

field-building roles of the Interagency Council (proposed below), we propose a $1 billion fund to be spent over 10 years.

- **Empower the Interagency Council to build the field.** In addition to supporting outcomes funds, evaluations, and feasibility assessments, the Results Act could supercharge recovery efforts through the development of field infrastructure for evidence-informed policymaking. Drawing from strategies developed by the Social Innovation Fund, the Interagency Council could convene field leaders and partners in state and local governments to accelerate innovation in the outcomes funding, evidence-building, and evidence-scaling space. The group could host technical assistance workshops, highlight lessons from the field, help state and local actors better leverage their administrative data to link procurement and budgeting approaches to measurable outcomes, and act as a knowledge hub for jurisdictions considering or initiating outcomes funding strategies.

Integration with other high-impact proposals

- **Expand tiered-evidence funding mechanisms in coordination with the Interagency Council.** The outcomes funding movement prioritized evidence and evaluation as core features of high-impact public spending. These considerations are at the heart of the Results Act, and have been central considerations in its implementation to date. The expansion of tiered-evidence funds, such as the Economic Mobility Scaling Fund proposed by Results for America[10], would be naturally complementary to the mission of the Interagency Council, and many programs proposed under the Results Act are likely to be among those prioritized within novel tiered-evidence funds. Administration of these funds would benefit from shared resources and approaches, and may even lend itself to a shared staffing approach within Treasury.

- **Reconstitute the Social Innovation Fund in coordination with the Interagency Council.** Similarly, Congress should consider reviving the Social Innovation Fund, another tool for strengthening the forces of government accountability and excellence. The Social Innovation Fund, previously housed in the Corporation for National and Community Service, was a federal grantmaking entity that encouraged the development of high-impact public-private partnerships, including outcomes funding models.[11] Its work to emphasize the power of high-quality program evaluation, improve access to and use of administrative data, and to create innovative government partnerships dovetails with the goals and knowledge of the Interagency Council. Indeed, a newly constituted Social Innovation Fund could even be colocated within Treasury, in parallel with a newly expanded SIPPRA outcomes fund, and with oversight across both funding streams by the Interagency Council to ensure alignment across policy goals and project implementation.

Social Finance is a nonprofit that designs and manages multisectoral partnerships to drive resources toward results and measurably improve people's lives.

America Forward is a nonpartisan policy initiative of New Profit, a national venture philanthropy fund that seeks to break down the barriers between all people and opportunity in America.

[10] Results for America, "The Power of Evidence and Data to Advance an Equitable Economic Recovery: An Implementation Guide for the 2020 OMB Transition Team," August 2020.
[11] See, for example, Justin Milner, "Three lessons from the Social Innovation Fund to improve federal grantmaking," The Urban Institute, May 2017.