

ISSUE BRIEF 2

THE PAY FOR SUCCESS TOOLKIT

The Pay for Success (PFS) toolkit includes several types of outcomes-based funding mechanisms. This brief explains the differences between three tools commonly used at Social Finance—social impact bonds, outcomes rate cards, and career impact bonds—to help agencies and legislators select the best model for their needs.

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.

WHAT PFS PROJECTS HAVE IN COMMON

SEVERAL TYPES of tools—social impact bonds (SIBs), outcomes rate cards (ORCs), and career impact bonds (CIBs), to name a few—are examples of “Pay for Success” (PFS) projects. Each is an example of an outcomes-based funding strategy in which payments are directly dependent on results. They share a set of underlying principles:



Clearly defined outcomes



Data-driven decisions



Cross-sector partnerships



Strong governance and accountability



Catalytic capital for impact

Social Finance began its PFS work in 2011 with a focus on SIBs. But over the course of the last decade, we’ve seen that different contexts call for new takes on outcomes-based funding, and we have expanded our toolkit accordingly. Outcomes-based funding solutions are not “one size fits all”: they are meant to be tailored to the individual circumstances of governments, service providers, funders, and most importantly, the needs of the people being served.

THREE TYPES OF PFS PROJECTS

Here, we describe the three outcomes-based funding tools that we design and implement most frequently.

SOCIAL IMPACT BOND (SIB)

SIBs are public-private partnerships that fund social programs on the basis of results. In a SIB, governments identify policy-relevant outcomes (e.g., lowering preterm birth rates) and enter into contracts with service providers to achieve those outcomes. The contracts are structured so that payments are only made *to the extent* that

SIB VARIATION: DEVELOPMENT IMPACT BONDS

Development impact bonds (DIBs) are a variation of social impact bonds aimed at financing programs in low- and middle-income countries. The key difference between a SIB and a DIB is that the primary funder of outcomes (often referred to as the “payor”) is a bilateral development aid agency or private philanthropy rather than a national or local government.

outcomes are achieved: better outcomes unlock more funding, worse outcomes unlock less—creating a link between intervention impact and public payment. Many service providers, though, cannot afford to bear the financial risks in the event of underperformance. In those cases, impact investors—foundations, mission-driven financial institutions, high-net-worth individuals, and others—often contribute the upfront capital for these projects. Investors then take on the risks and potential benefits of the project’s performance from the service providers they back.¹

To date, SIBs account for 194 projects launched across 33 countries,² including 28 in the U.S. that have mobilized over \$420 million in capital. They tackle a wide range of issues, including criminal justice, workforce development, child welfare, health, and homelessness.

SIB Fit Checklist

This tool is a good fit when:

- The funder of outcomes wants to pay largely (or entirely) on the basis of performance
- There is a focus on longer-term outcomes

SIB Project Example: Oklahoma Women in Recovery (WIR) SIB

In 2017, Social Finance worked with the State of Oklahoma and Oklahoma’s Family & Children’s Services (F&CS) to structure a SIB with the goal of improving criminal justice outcomes for women. Oklahoma the nation’s highest female incarceration rates at 155 per 100,000, with a significant portion of arrests made for drug-related offenses.³ F&CS launched the Women in Recovery (WIR) program to prevent returns to incarceration among previously incarcerated women. Outcomes payments are made based on program completion and a decrease in prison sentences.

OUTCOMES RATE CARD (ORC)

An outcomes rate card (ORC) is a menu of outcomes that a government seeks to achieve, paired with the prices it is willing to pay for each. To develop an ORC, an outcomes payor determines priority outcomes, associated prices, and a measurement methodology by which to confirm whether outcomes have been achieved; these parameters are then used as the basis for a procurement process and service provider selection. Unlike a SIB, one ORC can be incorporated into the procurement process for multiple providers, who must each deliver against the pre-determined outcomes and prices, receiving payment only when the stated outcomes

¹ See *Issue Brief 4 – Defining Success* for discussion on the risk of non-performance of social outcomes.

² “Social and development impact bonds by the numbers,” Brookings. <https://www.brookings.edu/research/social-and-development-impact-bonds-by-the-numbers/>.

³ “Prisoners in 2018,” Bureau of Justice Statistics. <https://www.bjs.gov/content/pub/pdf/p18.pdf>.

are achieved; also unlike a SIB, many ORCs tie a smaller portion of payment to measured performance.

<p>ORC Fit Checklist</p>	<p><i>This tool is a good fit when:</i></p> <ul style="list-style-type: none"> ▪ The outcomes funder is interested in or is already contracting with multiple providers ▪ The outcomes funder wants to streamline procurement and improve replicability ▪ The outcomes funder is interested in introducing outcomes-contingent payments in a (relatively) simple way
<p>ORC Project Example: Connecticut Office of Early Childhood (OEC) ORC</p>	<p>In 2017, Social Finance worked with the Connecticut Office of Early Childhood (OEC), a state agency that oversees early childhood services, to launch an ORC for its home visiting service providers. The ORC is focused on improved birth outcomes, avoided child maltreatment and injury, and increased caregiver education and employment. Following a successful pilot launch in January 2018, the state integrated ORCs into home visiting vendor contracts over four separate re-authorization cycles, eventually tying more than \$1 million in state and federal funding to performance standards for all 40 of the OEC-funded home visiting providers.</p>

CAREER IMPACT BOND (CIB)

A CIB is a model to finance career training and education designed to create pathways to economic mobility. The CIB includes a student-friendly income share agreement (ISA), in which a student does not pay upfront for training, but rather repays training costs as a percentage of their future income over time. In the U.S., typically students bear all the risk in pursuing post-secondary career training, taking on the risk of loan repayment and pausing full-time employment in search of higher wages without any guarantee of landing a good job. A CIB expands access to high-quality, industry-recognized career trainings to unemployed and underemployed people who face barriers to education and employment. In this model, investors and training providers cover upfront program costs as well as a set of wraparound services such as emergency aid funds and benefits enrollment assistance to help participants persist and complete their training. Participants only repay program costs once they land a job above a predetermined income threshold, paying a fixed portion of their income over a set period of time.

<p>CIB Fit Checklist</p>	<p><i>This tool is a good fit when:</i></p> <ul style="list-style-type: none"> ▪ Program participants have limited access to traditional funding sources such as loans (potentially due to poor credit, prior justice system involvement, etc.) ▪ Wraparound support services can increase training completion
<p>CIB Project Example: General Assembly CIB</p>	<p>In 2019, Social Finance launched a CIB with General Assembly to train students and help them land good jobs in Software Engineering and User Experience Design. Social Finance raised ~\$10 million in capital for this CIB to support one-thousand students in ten General Assembly locations over the course of a two-year enrollment period; students repay the cost of tuition and supportive services as a percentage of their future wages, but only if they're successful at getting a good-paying job.⁴</p>

SIBs, ORCs, and CIBs demonstrate how PFS can be used as a tool for change by increasing focus on outcomes and optimizing resources for results. They are also only starting places: though these are the tools we use most frequently, communities often adapt each to best fit with their needs and goals.

⁴ See “General Assembly Career Impact Bond,” available at <https://socialfinance.org/general-assembly>.

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ABOUT SOCIAL FINANCE

This brief was written by Narni Summerall, Senior Associate at Social Finance, with support from Emily McKelvey, 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.

BOSTON

10 Milk Street, Suite 1010
Boston, MA 02108

SAN FRANCISCO

650 California Street, Floor 7
San Francisco, CA 94108

AUSTIN

600 Congress Avenue
Austin, TX 78701

