SOCIAL FINANCE

ISSUE BRIEF 5

DEFINING SUCCESS

Pay for Success (PFS) enables governments and other funders to shift from paying for programs to paying for outcomes. In this brief, we outline an approach to identify and select outcomes for PFS projects that align with policy priorities and represent value for the community.

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.**

THE IMPORTANCE OF DEFINING OUTCOMES

AS THE NAME SUGGESTS, a defining characteristic of PFS is the ability for governments and other funders to pay for the specific, policy-relevant outcomes achieved, rather than for programs that may or may not achieve results. The way outcomes are defined in a PFS project ultimately determines whether the project is considered successful; thus, the process of selecting and defining outcome metrics is one of the most critical pieces in project design.

Beyond the project itself, the outcomes selection process enables a broader dialogue about the objectives that outcomes funders are seeking to achieve; how they will measure progress against those objectives; and the relative value of each outcome. This set of conversations is, itself, important to driving systems improvement.

SELECTING OUTCOMES FOR PFS PROJECTS

During nearly 10 years of designing, launching, and managing PFS projects, Social Finance has developed an approach for **identifying**, **prioritizing**, **selecting**, and **defining** outcome metrics. This process is typically nonlinear and may require multiple iterations throughout project design.

1 IDENTIFY PRELIMINARY LIST OF POTENTIAL OUTCOME METRICS

Selecting PFS project outcomes begins with brainstorming and compiling a list of potential metrics that might be a good fit for the project. This list can be sourced from existing resources, including, but not limited to:

- Policy goals or stated priorities
- Theory of change or impact logic model for the issue area
- Existing programmatic or contractual metrics
- Surveys or conversations with beneficiaries / community leaders

- Review of outcomes achieved through evidence-linked interventions, using resources such as the Washington State Institute for Public Policy's 'benefit-cost' database
- Review of outcomes metric databases such as the GIIN's IRIS+ Catalog of Metrics

At this stage in the process, the list should include input from individuals with complementary areas of expertise (e.g., data, programmatic, leadership) and lived experience to ensure a diverse and holistic perspective on potential outcome metrics.

2 PRIORITIZE METRICS BY DEVELOPING A SET OF CRITERIA

Most social interventions and programs have the potential to create a wide variety of societal benefits. However, in the interest of strong measurement technique and to maintain relative simplicity of predictive budgeting, PFS projects must focus on a smaller number of high-priority outcomes. Therefore, during project design partners narrow the list of metrics compiled in step 1 by developing a set of prioritization criteria. We have included below an example list of criteria that we include in most of our projects at Social Finance, although the list (and the relative importance of each criterion) may vary from project to project.

EXAMPLE CRITERIA LIST FOR OUTCOMES METRICS

- ✓ **Aligned with beneficiary and program need:** metric is significant to communities served and is aligned with program's theory of change
- ✓ **Based in evidence:** past research suggests the metric could be achieved through high-quality delivery (see Appendix A: *What we mean by "strong evidence"*)
- ✓ **Feasible to track:** metric can be regularly observed and measured using reliable and accessible data sources within a reasonable timeframe
- ✓ **Value-creating for outcomes funders:** metric generates meaningful social and financial benefits

3 SELECT OUTCOME METRICS

Following the potential outcomes list from step 1 and using the criteria in step 2, the next step is to select a set of **priority outcome metrics** upon which project success will be measured. As a rule of thumb, more than four outcome metrics can add too much complexity to the project; fewer than two may result in high concentration of risk in a single measurement. The hypothetical example below shows one methodology for assessing potential outcome metrics.

Two strategies for uncovering these "special cases" (and thereby minimizing surprises after project launch) include:

- **Conducting a "practice run"** with historical data on selected outcomes metrics
- **Soliciting feedback from service providers** about gray areas in the proposed outcomes metrics

EXAMPLE CRITERIA REVIEW TOOL FOR HYPOTHETICAL OUTCOMES OF A PROGRAM FOCUSED ON CHILDREN & FAMILIES

		Selection Criteria			
	Potential Metrics	*Evidence-based*	*Beneficiary-aligned*	*Feasible to track*	*Value-creating*
Short- to medium-term	**Enrollment**	None	Some	Excellent	None
	Postpartum care	Some	Excellent	Excellent	Excellent
	Parent tobacco use	Limited	Excellent	Some	Strong
	Program retention – 12 mo.	Limited	Limited	Strong	Limited
Ongoing	**Safe sleep**	Limited	Excellent	Limited	Excellent
	Early language and literacy activities	Limited	Excellent	Some	Excellent
	Well-child visits	Some	Strong	Excellent	Strong

Strength of alignment with criteria

○	◔	◑	◕	●
None	Limited	Some	Strong	Excellent

One of the fundamental challenges stakeholders face when selecting outcome metrics is striking the right balance between measures that fully capture a program's impact (e.g., long-term, sustained employment) with those that are possible to quantify in a shorter timeframe (e.g., job placement at a certain wage level). One strategy to help navigate this balance is to include a mix of both types of metrics in the final set, with some metrics that capture shorter-term outcomes, and others that focus on longer-term impact.

4 DEFINE OUTCOME METRICS FOR THE PROJECT

The final step in the outcomes selection process is to refine the definition of each metric. This includes specifying the outcome target, defining the timing at which each outcome will be measured, anticipating any "gray areas" in the metric definitions, and considering potential unintended consequences that may come with providing incentives for achieving each metric. When the outcome refinement questions below have been answered to project stakeholders' satisfaction, the next steps are to determine outcome measurement approach (*Issue Brief 6 – Measuring Success*) and assign prices to outcomes (*Issue Brief 7 – Is the Price Right?*).

KEY STEPS FOR METRIC REFINEMENT

Specify outcome target	▪ What does successful achievement of the outcome look like (e.g., for well-child visits, is it important that a certain number need to occur for the outcome to be achieved)?
Define measurement timing	▪ Over what time horizon should outcomes be assessed? ▪ How frequently should outcomes be measured?
Anticipate any gray areas or "special cases" not covered in metric definitions	▪ How can the outcome definitions be refined and clarified to minimize "gray area" for what counts and what doesn't count in the data? ▪ What "special cases" might exist for which the outcome metric definition doesn't provide clear guidance (e.g., a client who drops out of a program and then re-enrolls)?
Think through potential unintended consequences	▪ What unintended consequences or perverse incentives (e.g., overweighting lower-risk groups) might exist if this outcome is incentivized?

PFS IN PRACTICE: EXAMPLE OUTCOMES FROM A LAUNCHED PROJECT

On the next page, we share examples of outcomes chosen for a launched PFS project, Massachusetts Pathways to Economic Advancement. These outcomes were selected through an iterative process that included input from both the government outcomes funder and service provider for the project. Once the outcomes were selected, Social Finance accessed historical data from the service provider to help refine the metrics and choose the appropriate measurement timeframe. To build upon existing data collection systems, the project partners opted to use the service provider's existing definition of program engagement as an outcome measure.

EXAMPLE OUTCOMES: MASSACHUSETTS PATHWAYS TO ECONOMIC ADVANCEMENT PAY FOR SUCCESS PROJECT (FACT SHEET)

Metric	Definition	Type	Measurement Timing
Program Engagement	Count of participants who continue program engagement 11 days after service start in the applicable program track	Binary	Quarterly starting in Q1
Participants Earnings	Average aggregate earnings in second year post-enrollment	Continuous	Quarterly starting in Q9
Transition into College	Proportion of participants who earn 12+ college credits and up to 3 remedial credits at any point 2 years post-program	Binary	Once in Q20

APPENDIX A: WHAT WE MEAN BY "STRONG EVIDENCE"

Determining the strength of program evidence is not a simple task. Rather, it requires a careful and nuanced examination of the evidence, which should include a deeper look at ***study design***, ***evidence relevance***, and ***effect size***.[1]

STUDY DESIGN

For each study that makes up an intervention's evidence base, it is important to consider how the impact was assessed (e.g., was the impact measured against a reasonable counterfactual? Was it measured against a historical baseline?). If there are multiple studies reviewing the program, those with more rigorous evaluation designs should be weighted more heavily than others; those with significant flaws should perhaps not be considered at all. For example, evidence from a randomized controlled trial should be relied upon more heavily than a pre-post evaluation or anecdotal evidence. For more about evaluation design, see *Issue Brief 6 – Measuring Success*.

EVIDENCE RELEVANCE

No past evaluation will be perfectly relevant to a new situation. Even in the most predictable case—in which a policymaker is replicating a tested program in the same place, with the same population, through the same mechanism—time and context are always changing. Factors to consider when determining evidence applicability include:

- *Intervention specificity*: Did the study in question review this specific intervention, or something similar? If the latter, what were key differences between the interventions?
- *Outcome specificity:* Did the study look at the impact on the prioritized outcomes of interest?
- *Geography*: Was the study based in the same type of setting (e.g., rural, urban)? Did it take place in different environmental norms (e.g., cold winters, air pollution)?
- *Target population:* Were participants similar in terms of demographics, motivations, and vulnerability?
- *Time:* How long ago did this study take place? How different was the context?
- *Delivery mechanism:* Was the intervention delivered in the same kind of setting and through the same kinds of channels?

EFFECT SIZE[1]

Programs with excellent evidence may sometimes demonstrate only marginal effect sizes. Conversely, the promise of strong effects may overcome other concerns or weaknesses in an intervention's evidence base. Therefore, it is important to consider not only whether a study shows impact, but also the size of that impact.

[1] ***Effect size*** is a measure of the magnitude of the change in an outcome that is caused by an intervention. Source: "Impact Evaluation in Practice," The World Bank Group, https://openknowledge.worldbank.org/handle/10986/25030.

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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.

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

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