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# Evolution in Pay For Success

*Measurably Improving the Lives of Those in Need*

Tokyo, 1 August

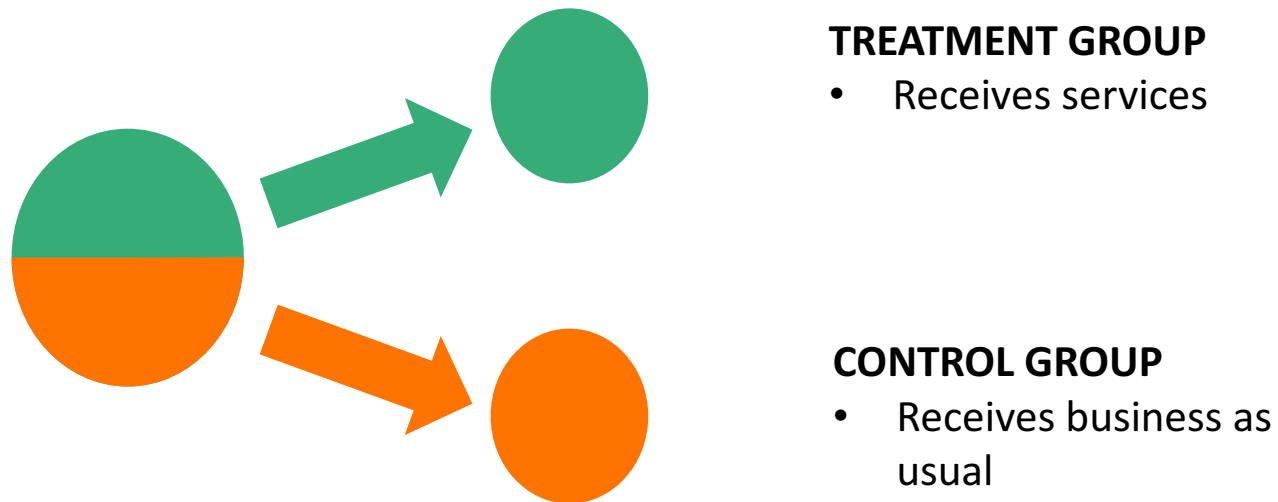
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## Would you take an unapproved drug?



# The approval drug for medicine involves rigorous clinical trials

## Randomized Clinical Trial Overview

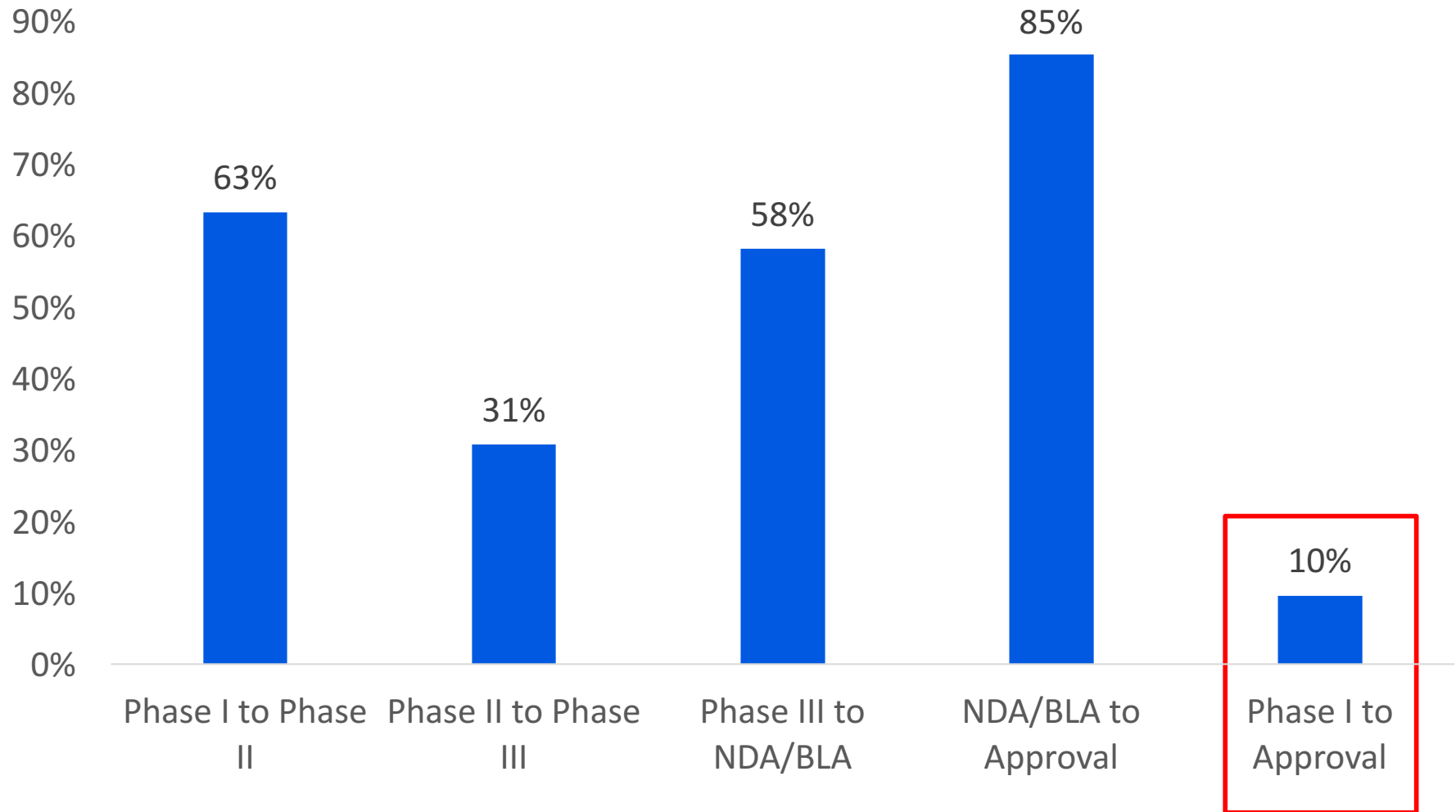


### Randomization Corrects for Three Key Biases Affecting Evaluation

1. Changes in external circumstances
2. Differences in risk profile
3. Differences in motivation

# Only 10% of procedures that begin the clinical trial process are subsequently approved

US FDA Approvals By Phase, 2006-2015



Source: Biotechnology Innovation Organization

# In medicine, there are many examples of intuitively appealing procedures being overturned by well-conducted clinical trials

## Procedure

## Clinical Trial Outcome

Stents to open clogged arteries



No better than drugs for most patients

Intensive efforts to lower blood sugar of diabetics to normal levels



Increases risk of death

Hormone replacement therapy for post-menopausal women



Increases risk of stroke and heart disease for many women

Having babies sleep on their stomachs



Increases risk of Sudden Infant Death Syndrome

Oxygen-rich environment for premature infants



Increases risk of blindness

Source: Coalition for Evidence-Based Policy

## Business and the social sector seems to show a similar rate of success



### Business

13,000 RCTs of new products/strategies conducted by Google and Microsoft

**80%** have found no significant effects

### Employment/Training

13 interventions evaluated in Department of Labor RCTs since 1992

**75%** have found weak or no positive effects.

### Education







90 interventions evaluated in RCTs commissioned by the Institute of Education Sciences since 2002

**90%** have found weak or no positive effects

Source: Coalition for Evidence Based Policy

# At the same time, truly effective organizations can't scale

% of Total Need Served by Leading US Social Service Organizations

Organization	Focus	Served/Yr	Total Need/Yr	% of Need
 <b>bell</b> building educated leaders for life	Out-of-school Time	8,000	10,800,000	0.07%
 <b>college summit</b> connect to your future	College Access	1,300	200,000	0.65%
 <b>Jumpstart</b> Children first.™	School Readiness	13,000	3,300,000	0.39%
 <b>Raising A Reader</b>	Infants to 5- year-olds	200,000	10,100,100	1.98%
 <b>TEACH FOR AMERICA</b>	Educational inequity	425,000	13,000,000	3.30%
 <b>year up</b>	Disconnected Youth	350	3,800,000	0.09%

Not even the largest providers in the US can meet 5% of the total need

Source: Billions of Drops in Millions of Buckets

## Two Changes We Need





# Pay For Success helps to shift resources to what works and create an enabling environment for innovation

## Components of Pay For Success

### Payment By Results Contracting



**Outcomes-based contracting** that uses data to rigorously evaluate programs and only pays if they show results

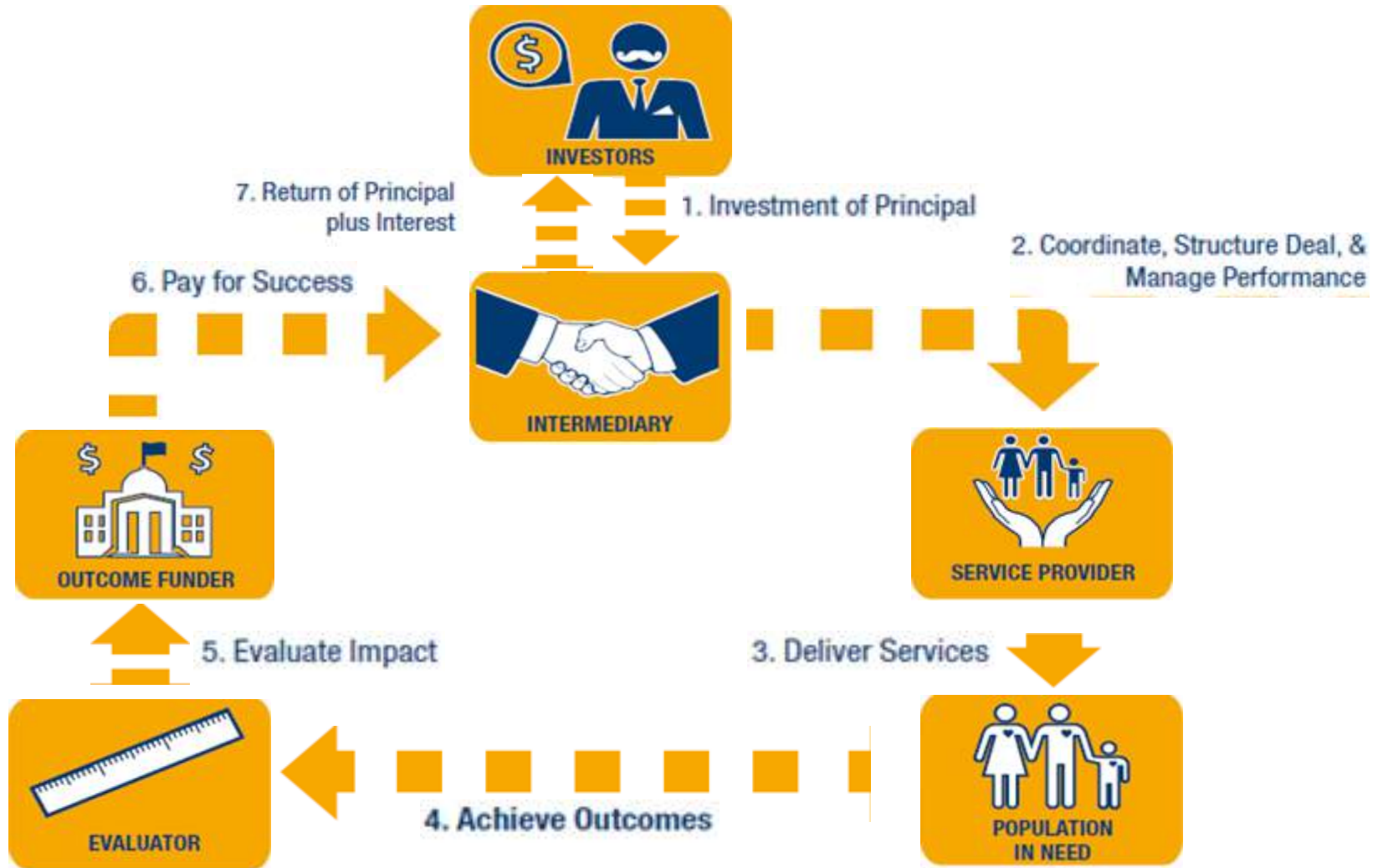
### Social Innovation Financing



**Financing that helps solve cash-flow and risk issues** that result from Payment By Results Contracting

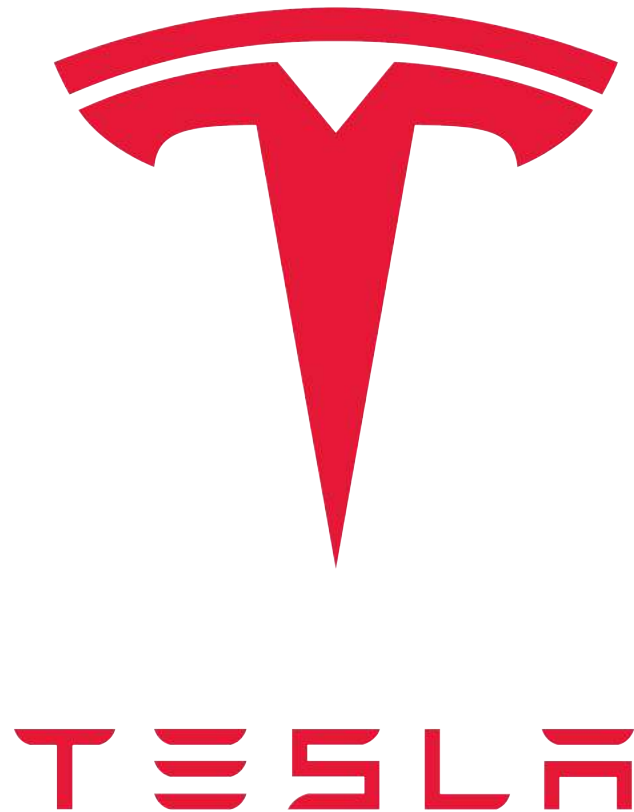
# The best known version of Pay For Success is the Social Impact Bond

## Social Impact Bond Mechanics



Source: Brookings

**Yet the Social Impact Bond is only the start of a much larger systems change**



**We are starting with the sports car, but aim to get to mass production!**

### Sports Car



### Utility Vehicle



### Mass Production



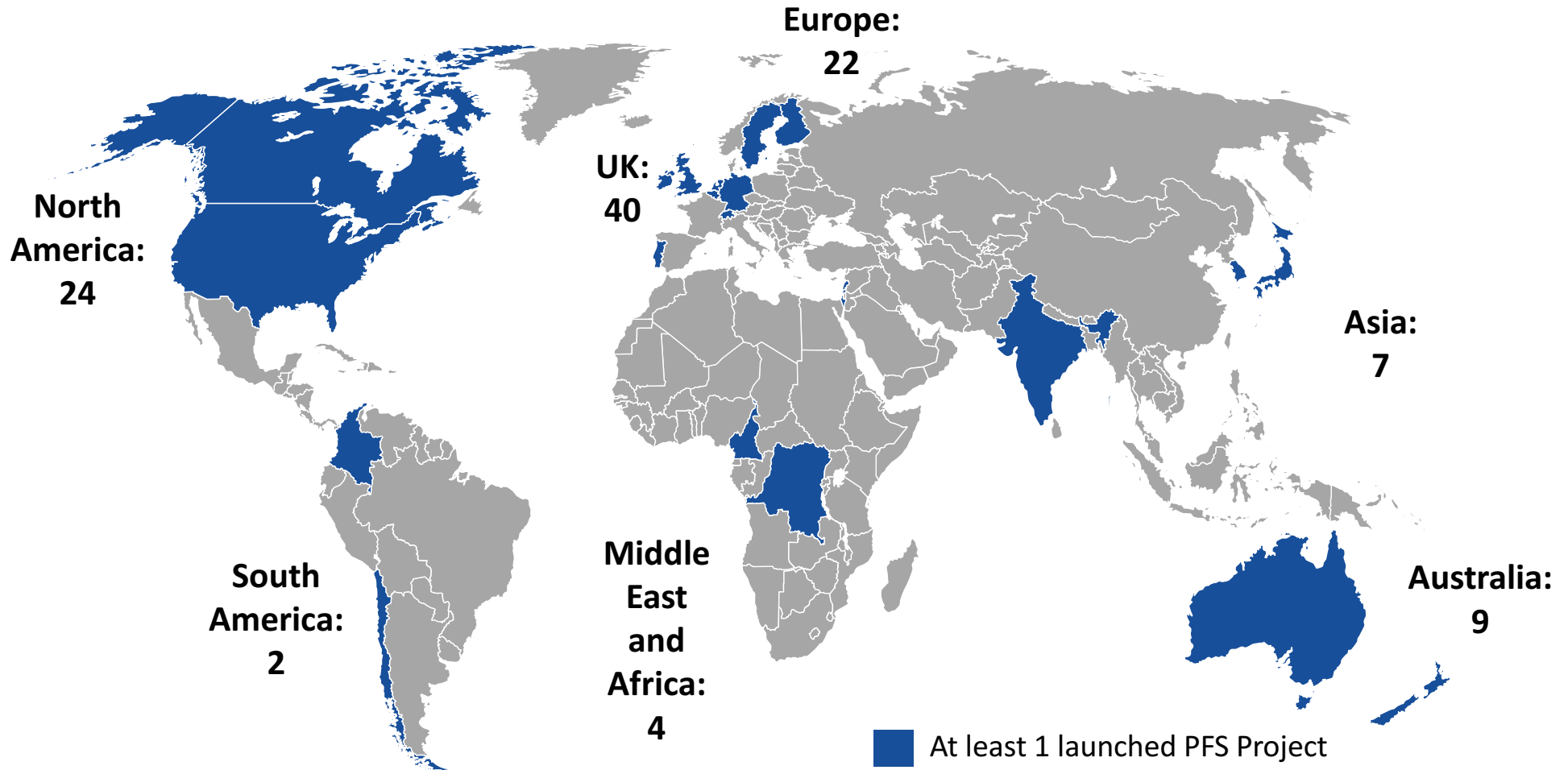
## Pay For Success 1.0/Social Impact Bonds

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# Since the first PFS project launched in 2010, there have been 108 projects launched around the world

Countries and Regions with Launched PFS Projects



Source: Social Finance Global SIB Database



# Third Sector is a non-profit intermediary that specializes in supporting Pay For Success projects

## Select Third Sector Team



George Overholser  
**Chairman, US**  
Founder of NFF Capital Partners  
Founding member of Capital One



Richard Edwards  
**Managing Director, US**  
Former Global Head of Project Finance, JP Morgan Chase



Kevin Tan  
**Founder, Asia**  
Former Harvard Kennedy School Social Impact Bond Lab







Professor Chia Kee Seng  
**Senior Advisor, Asia**  
Founding Dean of National University of Singapore Public Health School

### Third Sector Overview

Mission: To accelerate the transition to a performance-driven social sector  
501(c) non-profit founded in 2011, registered Social Enterprise in Singapore  
Engaged in 40 SIB engagements, with 6 launched and 4 demonstrations  
Supporters include Rockefeller Foundation, White House, Google.org, Economic Development Board of Singapore

# To date, we have placed USD100M of government resources into PFS projects across a diversity of issue areas

## Select Third Sector Launched PFS Projects

Government	Issue Area	Intervention	Target Population
 <p><b>Commonwealth of Massachusetts</b></p>	Justice	Intensive job training, support groups, and educational counseling	929 high-risk young men aged 17-23
 <p><b>Cuyahoga County</b></p>	Housing and Child Welfare	Critical Time Intervention (CTI), trauma-focused therapies, links families to housing resources	135 families
 <p><b>Salt Lake County</b></p>	Housing	Rapid Rehousing assistance and intensive case management	315 single adults who spend 90-364 days in shelter
	Justice	Comprehensive services targeting root criminogenic factors	228 high risk male ex-offenders
 <p><b>Santa Clara County</b></p>	Housing	Permanent supportive housing	200 chronically homeless individuals
	Mental Health	Improved coordination of care	250 adult patients presenting acute psychiatric issues



## What is the need?

*Each year, approximately 4,000 high-risk young men “age out” of the juvenile justice system or are released from probation in Massachusetts.*

64%

Percent who will be incarcerated at least once within five years of release

\$47,500

Estimated annual cost per prisoner to the Commonwealth

2.3 years

Average time these reoffenders spend in correctional facilities

\$280 million

Total incarceration expenses incurred by the Commonwealth

Sources: The Pew Center for the States. 1 in 31: The Long Reach of American Corrections in Massachusetts. 2011.  
Department of Youth Services Internal Analysis. Commonwealth of Massachusetts. 2012.

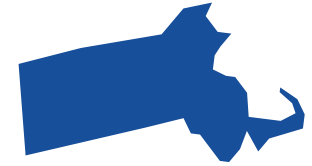
# What is the intervention?






*When young people are reengaged through positive, relentless, and intensive relationships, they gain competencies in life skills, education and employment and move toward economic independence and living out of harm's way.*

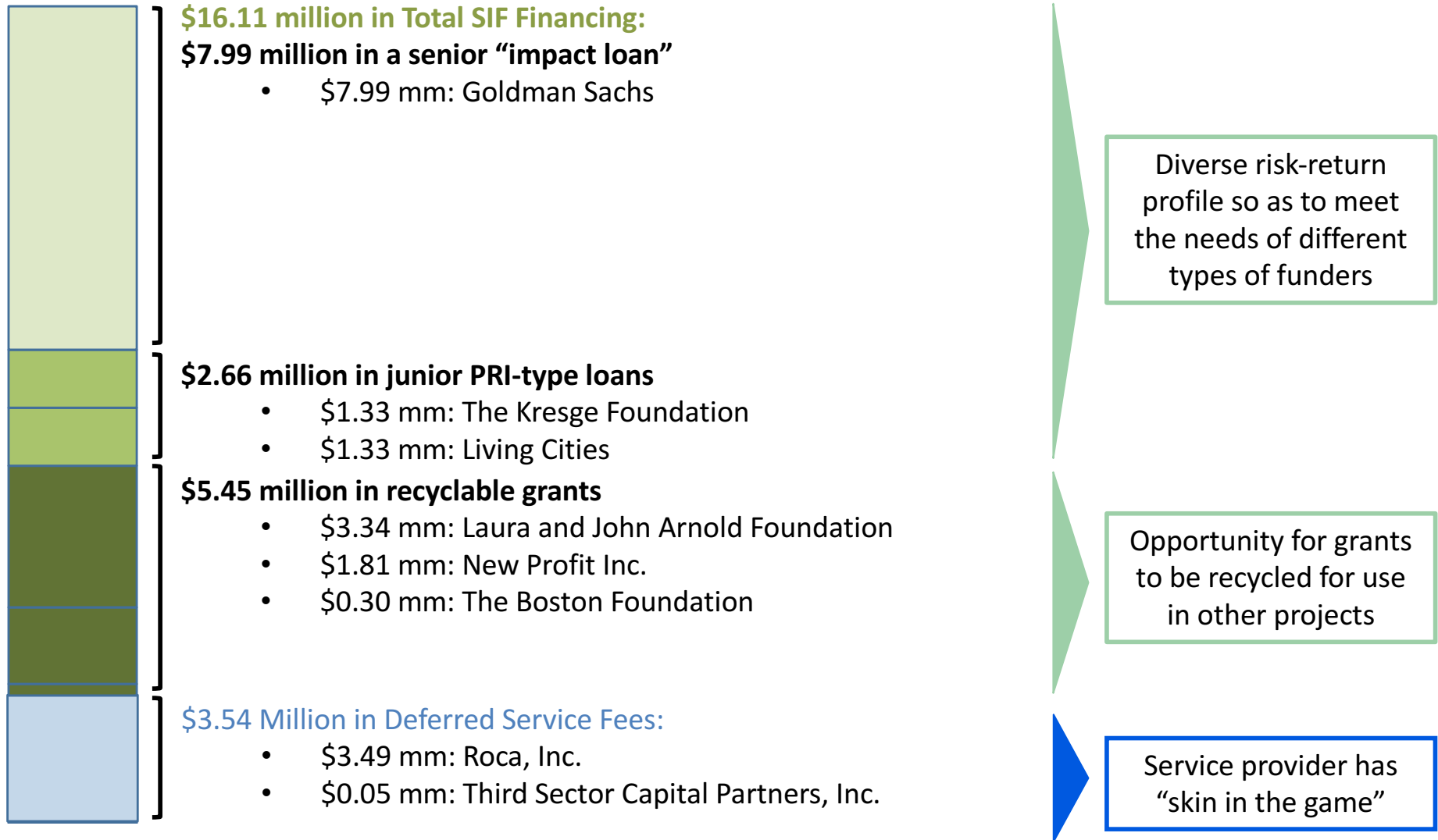
			
<b>2 Years: Intensive Services</b>		<b>2 Years: Follow Up</b>	
Engagement	Behavioral Change	Sustainable Employment	

# In the Commonwealth of Massachusetts, we executed a PFS project to reduce juvenile recidivism



<p><b>Program</b></p>	<p>Roca provides <b>job training, support groups, and educational counseling to 929 at-risk young men</b> age 17-23 in Chelsea, Springfield, and Boston</p>	
<p><b>Impact</b></p>	<p>  Decrease <b>days of incarceration</b>   Increase <b>job readiness</b>   Increase <b>employment</b> </p>	<p><u>Evaluation</u>  <b>Randomized controlled trial (RCT)</b></p>
<p><b>Social Innovation Financing</b></p>	<p><u>Upfront Funding</u>  <b>\$16mm</b> upfront funding from commercial and philanthropic funders  <b>\$3.5mm</b> deferred service fees from provider</p>	<p><u>Success Payments</u>  <b>\$28mm</b> in maximum success payments from Massachusetts</p>
<p><b>Project Partners</b></p>	<ul style="list-style-type: none"> <li>• <b>Massachusetts</b>, Government Payor</li> <li>• <b>Roca</b>, Service Provider</li> <li>• <b>Urban Institute</b>, Evaluator</li> <li>• <b>Third Sector</b>, Project Manager and Fiscal Services Agent</li> <li>• <b>Public Consulting Group</b>, Validator</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Goldman Sachs</b>, Senior Lender</li> <li>• <b>Living Cities</b>, Junior Lender</li> <li>• <b>Kresge Foundation</b>, Junior Lender</li> <li>• <b>Laura and John Arnold Foundation</b>, Grantor</li> <li>• <b>The Boston Foundation</b>, Grantor</li> <li>• <b>New Profit</b>, Grantor</li> </ul>

# The capital stack for this PFS project was comprised of diverse commercial, impact, and philanthropic players



# In the UK, evaluations of PFS projects have shown that they are a powerful way to drive project innovation

## RAND Europe Process Evaluation Key Findings



The UK Ministry of Justice commissioned RAND Europe to conduct a process evaluation of the first PFS pilot (Peterborough). RAND noted four specific innovations in the pilot:

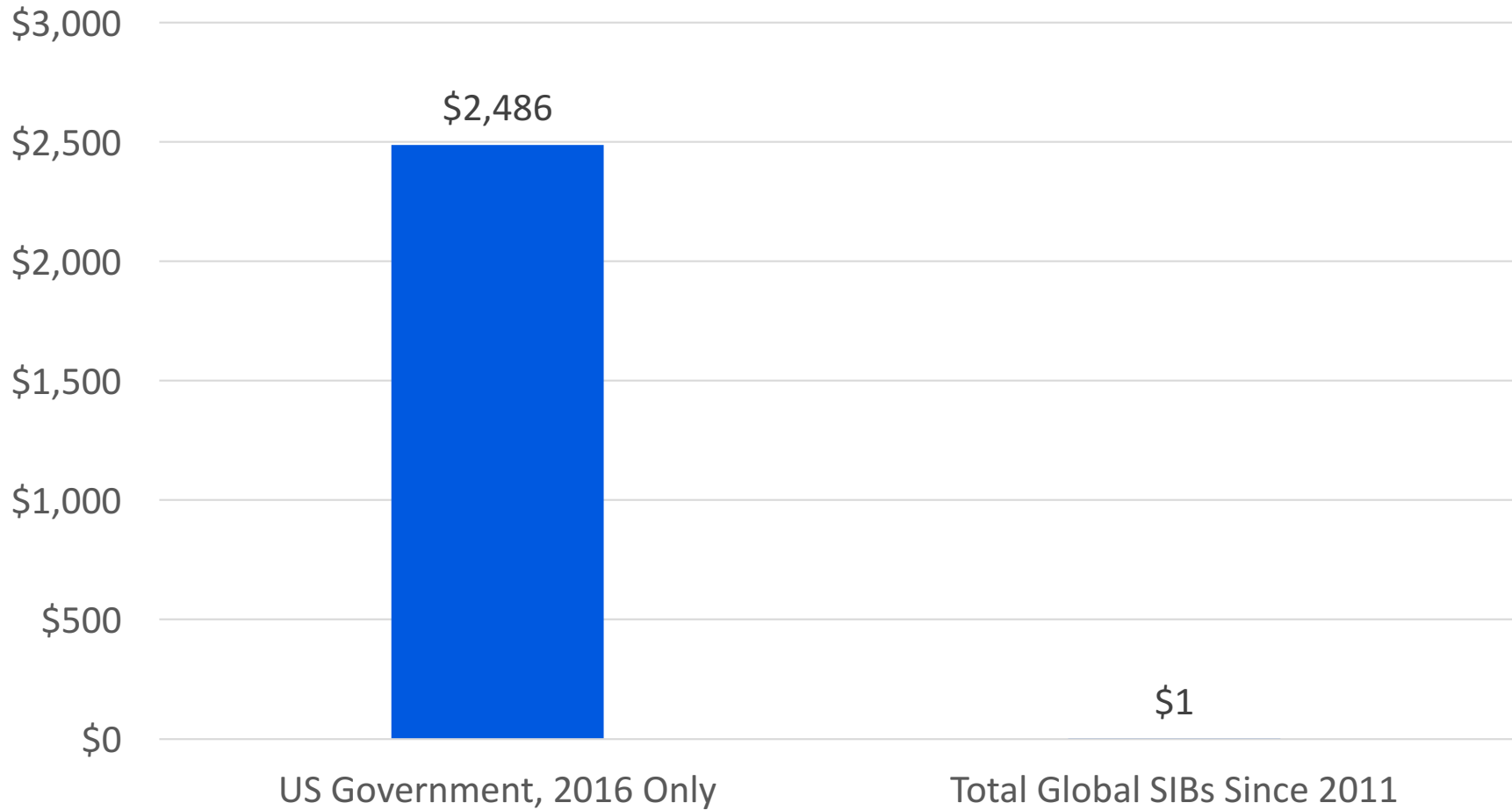
- 1. Improved collaboration between providers and government**
- 2. Adapting service by using data for performance management**
- 3. Flexible funding to quickly respond to unmet needs**
- 4. New participant engagement strategies and service elements**

RAND also noted that while it is theoretically possible to achieve some of the benefits using alternative funding mechanisms, **“stakeholders with experience in other similar services commissioned through other funding approaches tended to agree that this level of flexibility, while not impossible, was highly unlikely in, for example, block contracts.”**

Source: RAND

# There is just one small problem...

Total Social Services Expenditures (USD Billions)



Source: US Government Spending, Third Sector estimate

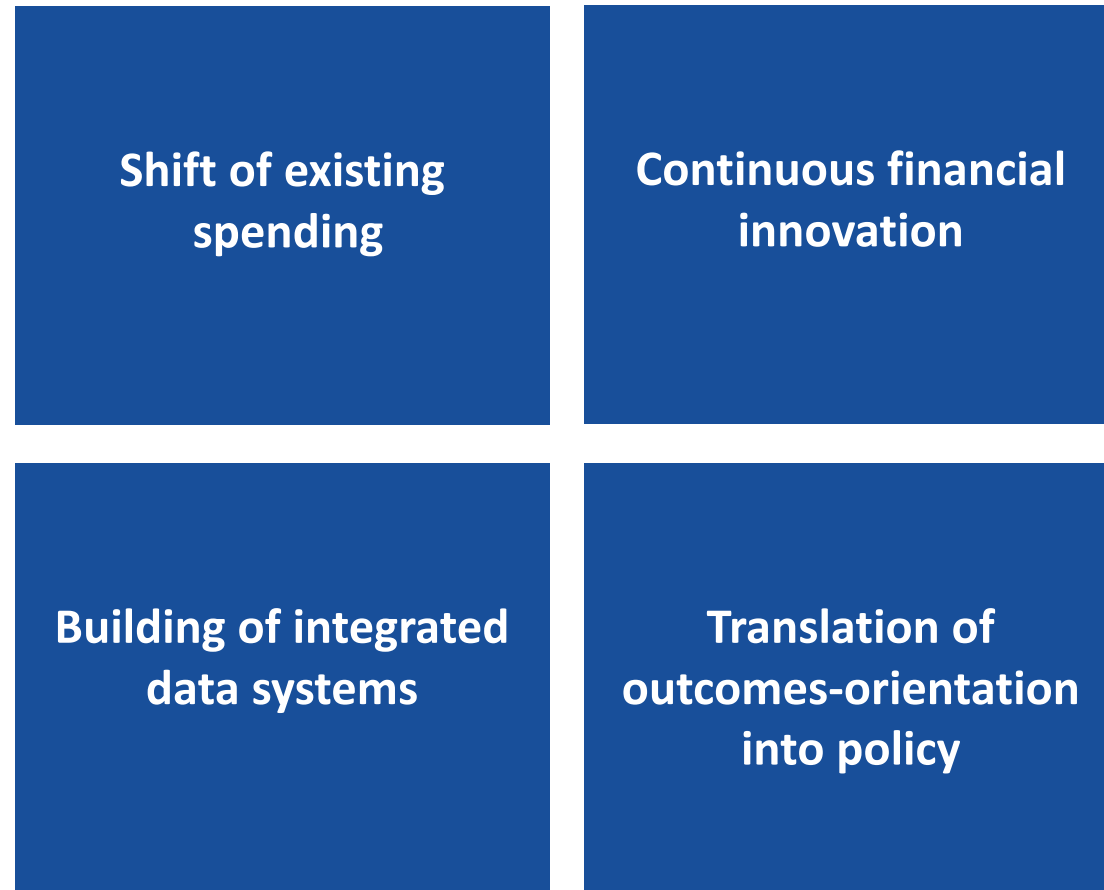
## Pay For Success 2.0

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# PFS projects have helped governments and philanthropies kickstart multiple pathways to large-scale impact

## Ongoing Pathways to Scale (Non-exhaustive)

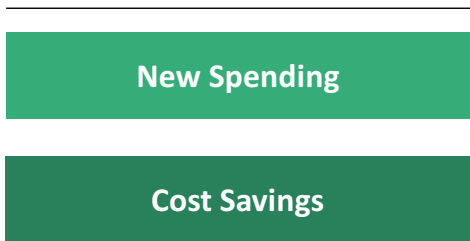




# Shift existing spending

Transition from PFS 1.0 to PFS 2.0

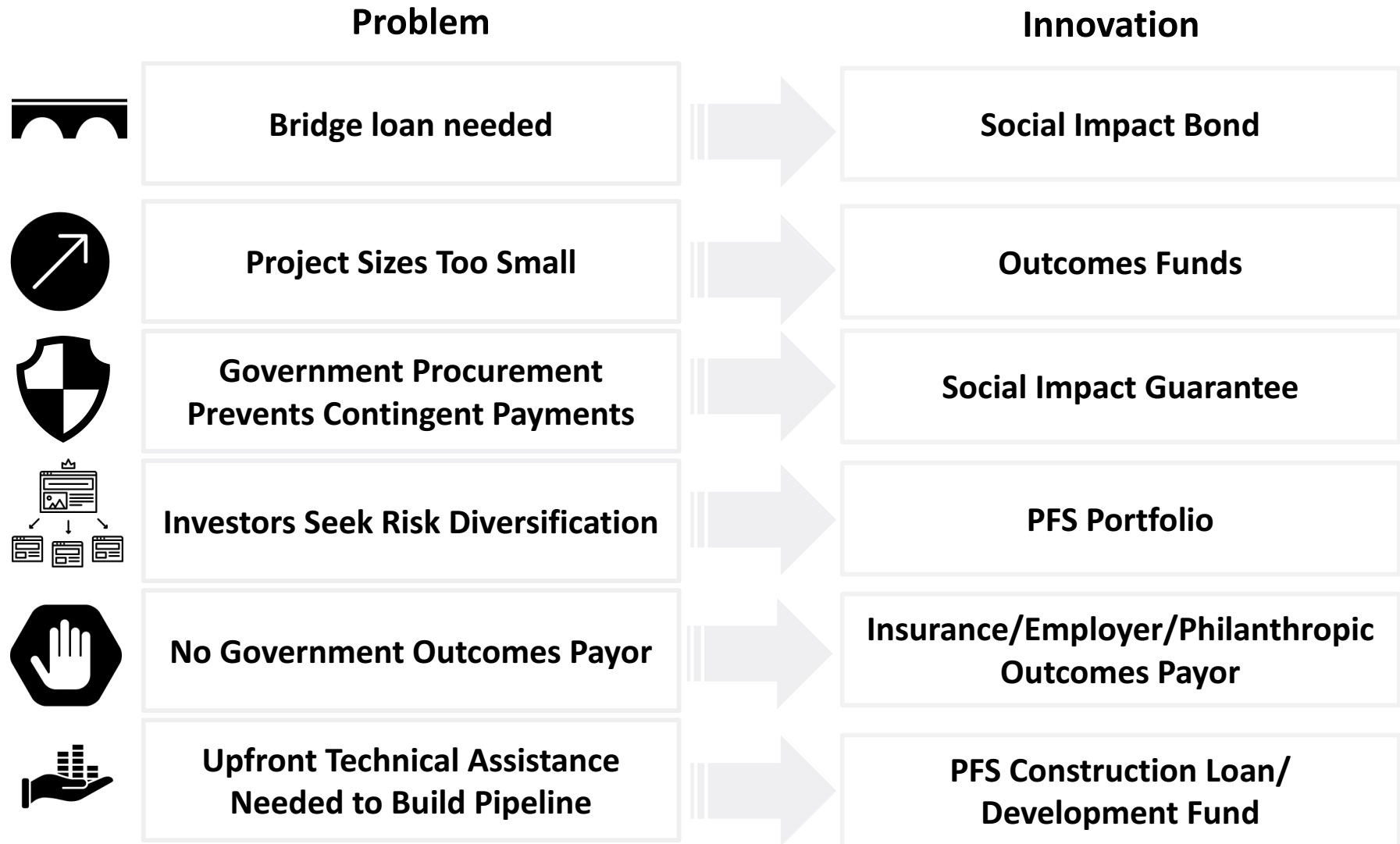
# PFS 1.0



# PFS 2.0



# Continuous financial innovation



# Building of integrated data systems

Example: Third Sector/Stanford University Administrative Data Partnership

## Problem

**Income data quality is poor**

**Service provider data is short term**

**Variables for confounding factors unavailable**

## Status Quo Result

We do not know which education or workforce interventions work

## Solution

STANFORD CENTER ON  
POVERTY & INEQUALITY 

In 2016, Third Sector and Stanford University received funding from the White House to help link the billions of datapoints in the federal tax system to state, local and provider datasets

## Targeted Result

Cost effective, rigorous, long-term evaluation to fund what works

# Translation of outcomes-orientation into policy

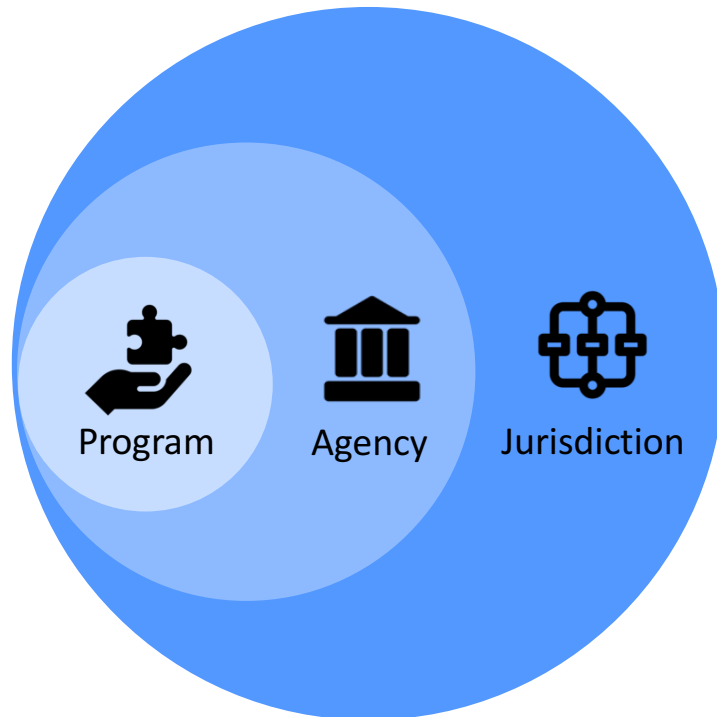
## Timeline of PFS Development in US

- 2011** Harvard Kennedy School SIB Lab, Social Finance US, and Third Sector Capital Partners begin providing PFS technical assistance
- 2012** First US PFS project announced
- 2013** US Department of Labor sponsors **\$25M** of outcomes of PFS projects
- 2014** Federal Workforce Innovation and Opportunity Act enables up to 25% of funding for Opportunity Youth to be used for PFS (**\$700M/year**)
- 2015** Enabling legislation allows portion of Federal spending on Homelessness, Education, Justice, and Medicare to be spent in a PFS manner
- 2016** Bipartisan establishment of Commission on Evidence Based Policymaking to improve outcomes across Federal spending
- 2017** The Commission on Evidence-Based Policymaking released recommendations and codifying legislation
- 2018** Passage of a bipartisan Social Impact Partnerships to Pay For Results (SIPPRA) bill directing **\$100M of federal resources** to states and local communities for PFS

Source: Nonprofit Finance Fund Pay For Success Learning Hub, America Forward

# Third Sector can support clients in adopting an outcomes orientation at any level – from an individual program to an entire jurisdiction

## Engagement Levels



### **Program Level:**

Third Sector leads engagements that apply an outcomes orientation to a single, specific program

### **Agency Level:**

Third Sector helps an agency develop an outcomes orientation that shifts incentives for multiple programs

### **Jurisdiction Level:**

Third Sector helps multiple agencies adopt an outcomes orientation across an entire City, County or State

# Governments have used PFS to enable systems-level change, even without third party funding

## Featured Case Studies



Third Sector helped Santa Clara County's Behavioral Health Services Department build an outcomes contract with **contingent bonuses and withheld payments** for the provider



Northern Virginia Workforce Board partnered with Third Sector to determine the **optimal performance metrics and timing** for bonus payments along the impact continuum.



King County worked with Third Sector to structure bonuses based on **customized performance targets** that update semi-annually, and included **upfront funding** to boost providers' capacity

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## A Pressing Problem



### High Cost Reactive Services

A small group of severely mentally ill residents frequently cycle in and out of expensive emergency psychiatric facilities instead of receiving preventative care



### Inefficient Use of Scarce Beds

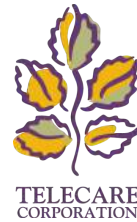
Many patients with emergency psychiatric episodes but do not require acute care spend prolonged periods in psychiatric facilities, taking up scarce beds needed for acute care patients



# Project Overview: Santa Clara County, Mental Health Needs

## *Addressing needs of the severely mentally ill*

### First Mental Health PFS Project



#### Contracted Outcome

↓ Avoided utilization of emergency and inpatient psychiatric services

#### Other Priority Outcomes

- Improved health and wellbeing of severely mentally ill individuals

#### Evaluation

Randomized Controlled Trial



#### Upfront Funding

No private, upfront financing. All upfront dollars provided by Santa Clara County

#### Success Payments

\$1.4mm in success payments paid to service provider by County

# Key Figures and Numbers

## Santa Clara Mental Health project

### Beneficiary group

**250** Severely mentally ill residents age 18+

### Key Numbers (USD)

**\$16.9<sub>M</sub>**

Medi-Caid Reimbursable Spending

**\$11.2<sub>M</sub>**

PFS Spending

**\$1.4<sub>M</sub>**

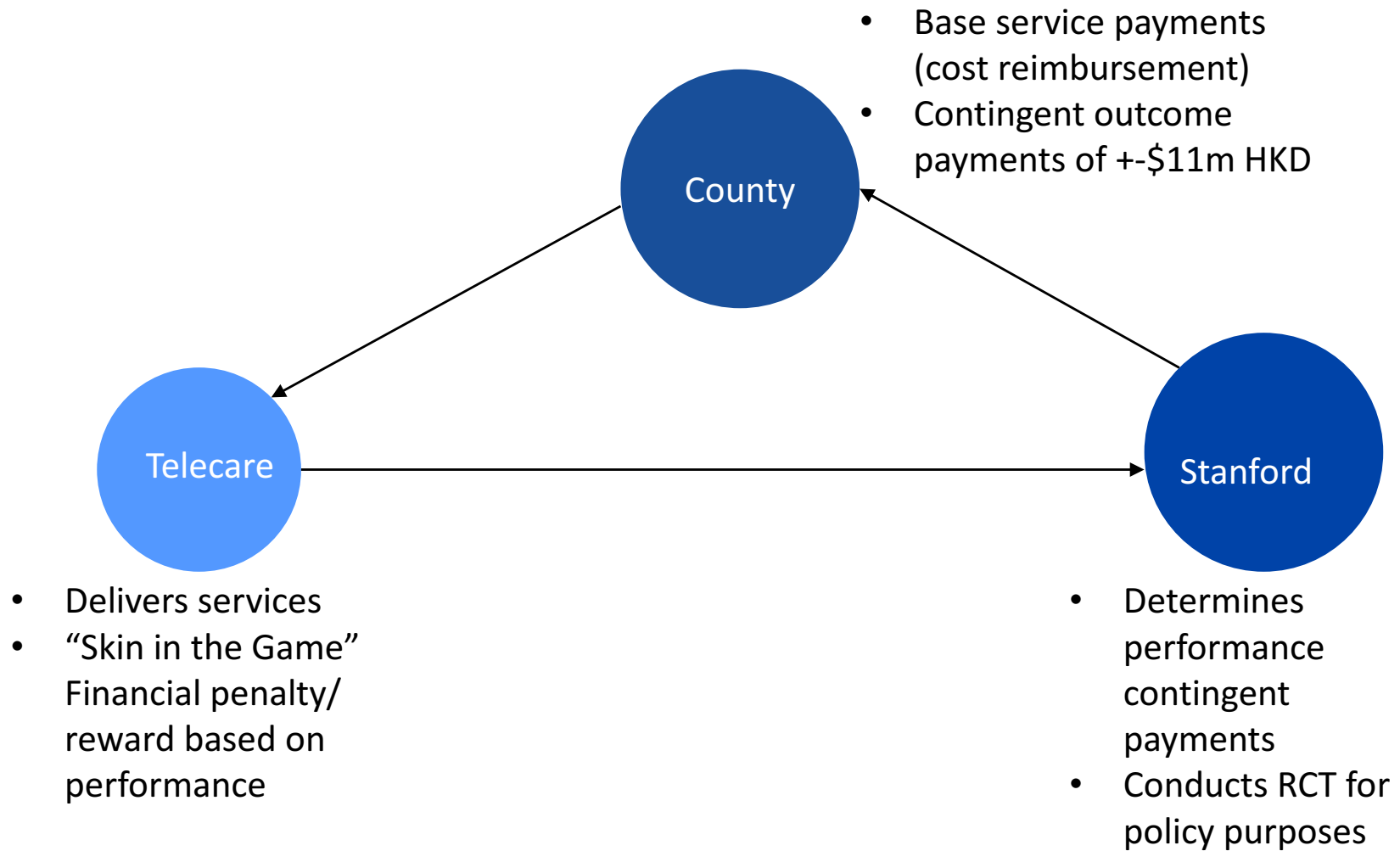
Contingent Outcomes Payments

### Project Timeframe

**6**

Year service delivery term, 6.5 year RCT evaluation term

# PFS Payment Structure



# Key Lessons Learned

Issue	Issue	What this means for PFS
<b>PFS Structure</b>	Provider can be for-profit	<ul style="list-style-type: none"> <li>• Is there a promising for-profit provider who could help to deliver the services?</li> </ul>
	Small % of payments needs to be contingent	<ul style="list-style-type: none"> <li>• Is the outcome payer willing to share part of the risk?</li> </ul>
	No third party funding	<ul style="list-style-type: none"> <li>• Can providers raise money using existing means or use own balance sheet?</li> </ul>
<b>Measurement</b>	Data integration, not collection	<ul style="list-style-type: none"> <li>• Where does the data already sit and who already has access to it?</li> </ul>
	You can measure more than what you pay for	<ul style="list-style-type: none"> <li>• Which 1-2 outcomes do we feel confident enough about to pay for, and which ones do we want to measure for policy?</li> </ul>

## Pay For Success 3.0

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# Traditional contracting models create one-way flows of information

## Traditional Social Sector Delivery Model



Deployed in a prescriptive manner based on top-down priorities



Delivered with limited visibility into whether intended outcomes are being achieving



Gathered primarily for compliance purposes, in disconnected and non-uniform ways

# PFS uses data to achieve continuous improvement in services

## Potential Social Service Delivery Model



Deployed to **yield measurable outcomes**, with room for innovative solutions

Delivered with visibility into indicators & outcomes, enabling **dynamic adjustment** and **continuous improvement**

Gathered to **analyze trends, measure outcomes**, and identify areas of improvement and need

**Information Flows**  
 Traditional - - -  
 Future ———

# Governments have used PFS to enable systems-level change, even without third party funding

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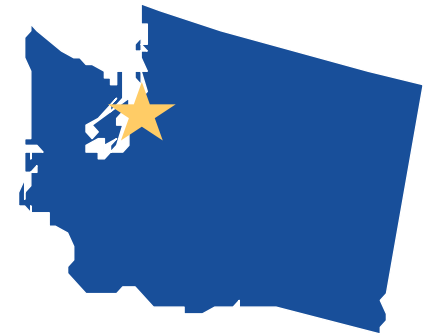
# King County at a Glance

## Key Facts About King County

***Largest county in Washington (13<sup>th</sup> in US), with a population of 2.1M***

***14,000 employees*** across nearly 60 lines of business, operating a ***\$11.4 billion two-year budget***

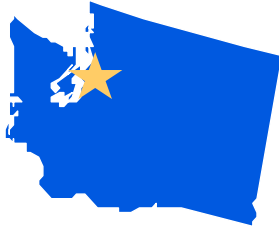
***Encompassing 39 cities/towns. Seattle*** is the largest city in the County, with a population of about 700,000



<https://www.sccgov.org/sites/scc/pages/about-the-county.aspx>

# The Initiative aimed to increase timely access to outpatient behavioral health services through performance incentives

## Overview of the King County Outpatient Treatment on Demand (OTOD) Initiative



King County is the largest county in Washington (13<sup>th</sup> in US), with a population of 2.1M. Seattle is the largest city in the County.



Approximately **55,000 individuals** receive outpatient mental health or substance use treatment in the County every year.



The OTOD initiative directs **\$115M in annual funding** (up to \$2.3 million in performance incentive payments) toward an increased outcomes focus to promote more timely access to care for clients.

<https://www.sccgov.org/sites/scc/pages/about-the-county.aspx>

# King County Outpatient Treatment on Demand uses performance incentives to increase access to timely access to care



## GOALS

Improve timely access to outpatient behavioral health care and follow-up for individuals seeking such care in King County's publicly funded behavioral health system, which serves approximately 55,000 people annually



## METRICS

**Contracted metrics:** Time from request for service to offered intake and actual intake; Time from intake to routine service

**Hypothesized outcomes of timely access:**  
Reduced use of crisis services and hospital



## CONTINUOUS IMPROVEMENT PROCESS

### Improvements:

- Service providers receive monthly data updates on performance across metrics
- Performance targets update every six months to support continuous improvement



## DATA SHARING & EVALUATION

**Method:** Dual-track evaluation: Historical counterfactual using provider submitted service encounter data and quasi-experimental overlay

**Evaluator:** County staff serve as evaluator with external validator of methodology and results



## INCENTIVE STRUCTURES

**Incentives:** Monthly contingent bonus payment of up to 2% of provider case rate; up to \$2.3 million

**Affected Funding:** \$115 million annually

**Risk-sharing:** Bonus payments for first 6-month period paid out in advance to allow providers to make necessary changes

# The County established an incentive structure to encourage continuous improvement of providers despite different starting points

Bonus payments are based on four components:

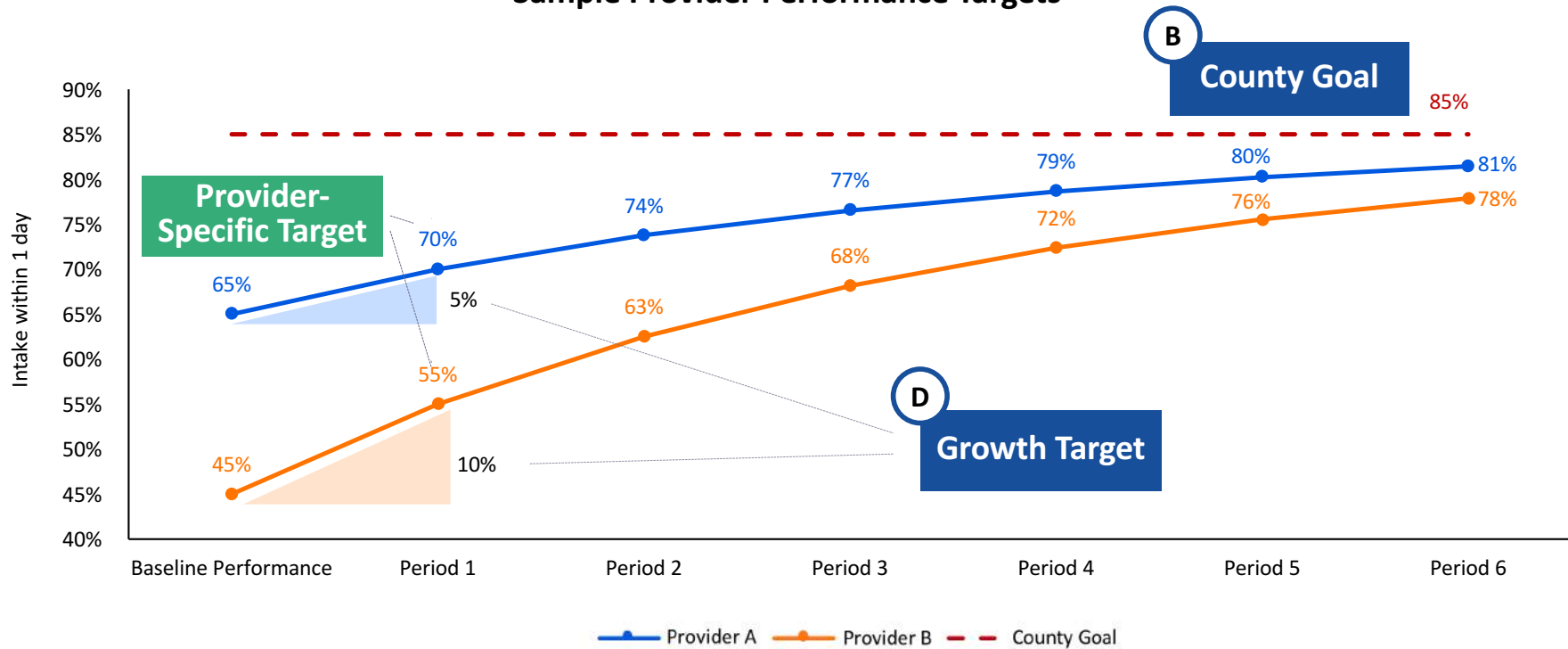
- A Performance Metric** Definitions for the Time to Intake Offer, Time to Actual Intake, and Time to Routine Services
- B County Goal** Ideal level of performance provided by agencies for each performance metric
- C Growth Percentage** Fixed % change needed in each Assessment Period to reach County Goal within three years
- D Growth Target** Percentage increase needed to earn bonus payment, varies by provider

## Sample Provider-Specific Performance Targets

Provider	<b>A</b> Performance Metric	Baseline Period Performance	<b>B</b> County Goal	<b>C</b> Growth Goal	<b>D</b> Growth Target	Provider-Specific Target
Provider A	Offered Intake within 1 day	65% w/in 1 day	85% w/in 1 day	25%	$(85-65) * .25 = 5\%$	<b>70%</b>
Provider B		45% w/in 1 day			$(85-45) * .25 = 10\%$	<b>55%</b>

# The County developed provider-specific performance targets relative to an overall county goal

Sample Provider Performance Targets



**A** Performance Metric

Growth target for each period's improvement in percentage of callers offered intake within 1 day is determined by:

$$((85\% - 65\%) * 25\%) = 5\%$$

Callouts: B (County Goal), C (Growth Percentage), D (Growth Target)

$$((85\% - 45\%) * 25\%) = 10\%$$

Callouts: B (County Goal), C (Growth Percentage), D (Growth Target)

# The initiative leverages data to build in a continuous quality improvement mindset

## Mechanisms for Program Improvement

### Monthly Reports

- The County sends providers monthly data updates on performance across metrics (*samples right*)

### Learning Community Meetings

- The County coordinates monthly sessions for providers to share and learn best practices

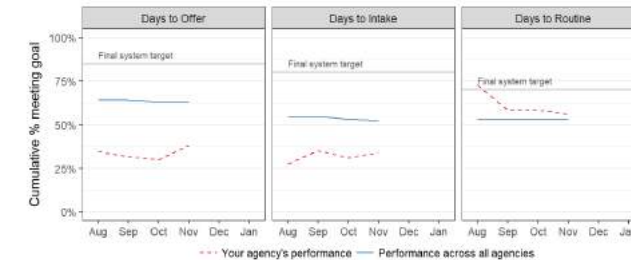
### Funding for Consultations

- Providers may apply for County **funds to support related process changes** with nationally-recognized consultations

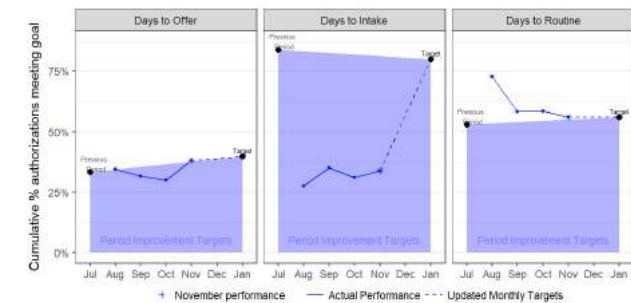
Percentage of new authorizations meeting the days-to-service metric goals:



Performance Across All Participating Agencies



Progress on each metric within current Aug 2018 - Jan 2019 Assessment Period



# The Initiative embeds innovations that enable scale by adapting to the County's needs and objectives

## Adaptations and Innovations

### Multi-provider Negotiations

Engaged provider network clinical and financial directors on key initiative terms. All providers offered input with County reserving final design decisions

### Contract Amendments

The County amended all contracts to include a reference of the program guidelines (term sheet). This enabled a simple and flexible roll out of the option to all providers.

### Provider-Tailored Targets

While all providers are required to make progress towards a uniform County goal, each provider's performance targets reflect their respective starting points.

### Upfront Investment in Provider Capacity

Understanding provider financial and capacity needs, the County granted the first performance payment upfront so providers could implement the changes needed to meet initiative goals.

## The PFS tool is increasingly being used around Asia

### Several countries are piloting or exploring PFS

- **Japan** launched 3 PFS pilots, has 20 other PFS pilots in exploration (Third Sector training)
- **Korea** launched 2 PFS pilots
- **Malaysia** set up PFS Outcomes Fund for up to 6 PFS pilots
- **China** exploring 5 PFS pilots in Shenzhen and Guangzhou
- **Thailand** exploring 3 PFS pilots
- **Hong Kong** exploring PFS pilot
- **Singapore** exploring PFS pilot (Third Sector advising)

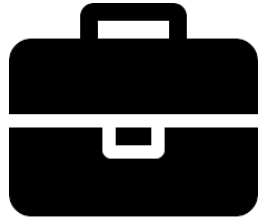
### Aid agencies are experimenting with new financing models

- **India** launched 2 PFS projects, international outcomes fund being raised
- **Multilaterals** such as Asia Development Bank and Global Innovation Fund commissioning PFS exploratory work



# We have an exciting opportunity to adapt and innovate on the PFS tool in Asia to new issues and structures

## Illustrative PFS Issue Areas in Developed Asia (Non-exhaustive)



Youth  
Unemployment/  
Reskilling



Environment/  
Waste  
Management



Early Education  
Access/  
Special Education



Nutrition/  
Stunting



Drug/Female  
Recidivism



Diabetes  
Prevention/  
Cancer Screens



Healthcare  
access/  
Mental health



Elderly Frailty/  
Dementia

2016 / 2017 ISSUE EIGHT

# SOCIAL SPACE

www.socialspacemag.org

INNOVATION + IMPACT

4 SOCIAL STRATOSPHERE

4 COMING

Hot Topics and  
Opportunities

Innovation

Understanding

Social

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FEATURE



## *PAY FOR SUCCESS* and *SOCIAL* *IMPACT BONDS* in SINGAPORE

By Richard Edwards and Kevin Tan

Measurably Improving  
the Lives of People  
Most in Need



SOCIAL SPACE ISSUE EIGHT 31

# Using data analytics can benefit the social services sector

In an era of tighter budgets, it can help us do more with less to achieve social outcomes.

Fri, Dec 08, 2017 - 5:50 AM

[KEVIN TAN](#)

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## Meet the Social Impact Bond, a win-win solution to problems

This tool unites the public, private and people sectors to achieve social outcomes.

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WED, OCT 18, 2017 - 5:50 AM

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**KEVIN TAN**

# Lessons Learned from Our Work in the US and Asia So Far

## Lessons from the Field

1. Keep it simple
2. The devil is in the details
3. Expect unexpected problems
4. The process is highly valuable in itself

**Thank you!**

**Kevin Tan**

ktan@thirdsectorcap.org

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