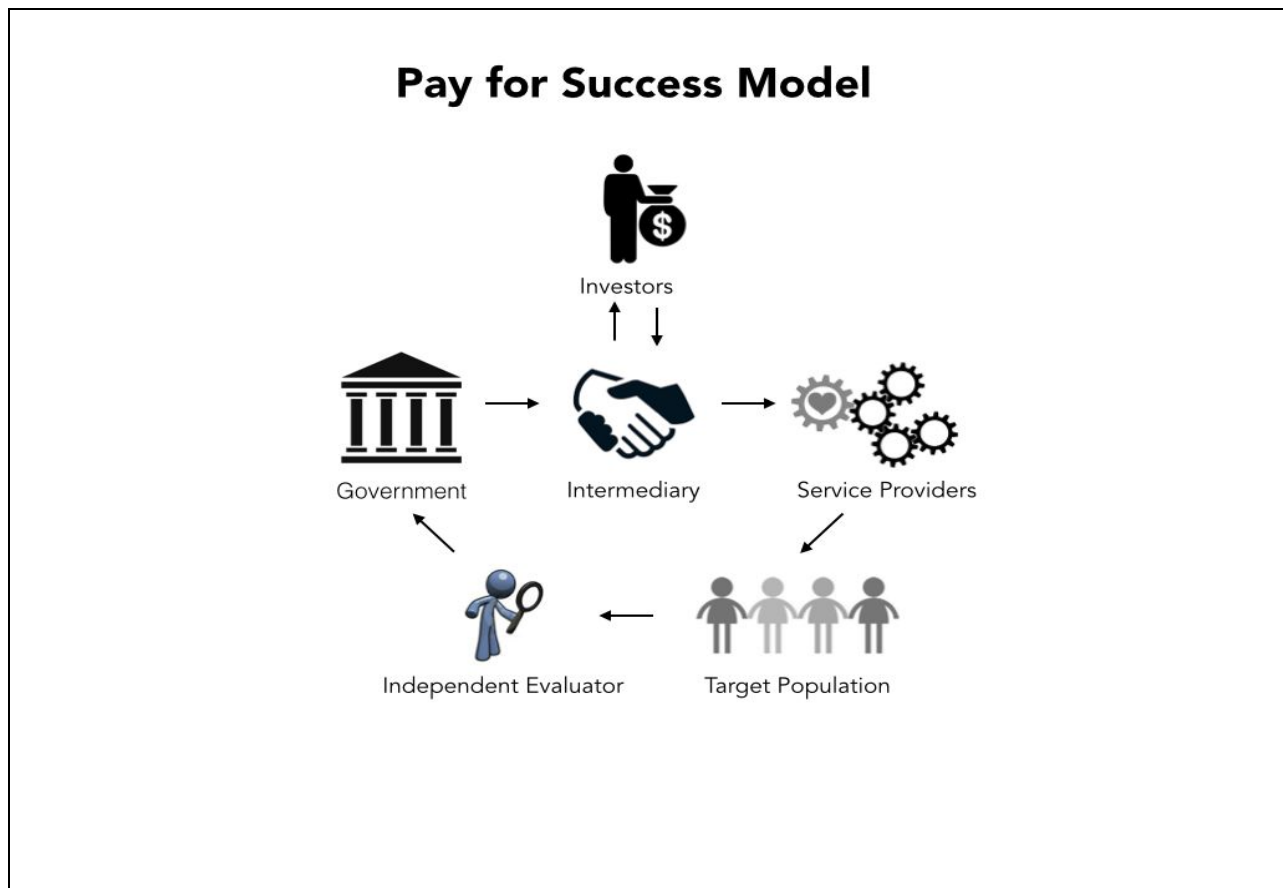


## What is Pay for Success?

Pay for Success (PFS) is an innovative approach to contracting social services that ties payments for service delivery to the achievement of a predetermined, measurable outcome.

In a traditional nonprofit financing model, contracts or grants are awarded based upon the volume of services – or “output”-- the nonprofit promises to deliver (e.g. the number of meals delivered, the number of individuals who receive job training, etc.). In a PFS contract, the payor -- typically, but not always the government -- agrees to provide funding when certain predetermined “outcomes” are achieved. An outcome is a longer-term (and hopefully positive) change; for example, a job training participant who finds and keeps a job, and experiences an increase in earnings as a result.



By tying payment for services to the achievement of predetermined outcomes, the risk and uncertainty that may discourage government agencies from investing in new models of service delivery are minimized and shifted to new impact investors. The new investor provides up-front capital to scale an evidence-based social program to improve outcomes for a vulnerable population, or to test a new model of service delivery. If an independent evaluation shows that the program achieved agreed-upon outcomes, then the investment is repaid by the traditional funder. If not, the investor takes the loss.

Five key actors are typically involved in a PFS project:

- **Governments** identify critical social issues with historically poor outcomes to target, and pay for the successful attainment of project goals;
- **Intermediaries** structure the financial deal and solicit investors to provide the up-front capital;
- **Investors**, such as foundations, banks and businesses provide the upfront capital to launch or scale the program on the promise of a return if the program meets agreed upon goals;
- **Service Providers** deliver the evidence based social services to key at-risk communities in an effort to meet or exceed predetermined outcomes for success;
- **Independent evaluators** rigorously measure outcomes to determine if the pre-determined outcomes are achieved.

There are currently 20 Pay for Success projects in the United States, with numerous more in development. To learn more about Pay for Success, visit the following resources:

- <http://www.nonprofitfinancefund.org/learn/pay-for-success>
- <https://www.thirdsectorcap.org/what-is-pay-for-success/>
- <http://socialfinance.org/what-is-pay-for-success/>