

# Pay for Success

EARLY CHILDHOOD EDUCATION FUNDING

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Pay for Success is a strategy to finance social problems in which an investor, typically a bank or foundation, invests in government services and is paid on government savings. Pay for Success has been utilized across multiple disciplines including child welfare, homelessness, maternal and child health, the environment, and criminal justice. This policy brief details the research that has been conducted on Pay for Success implementation in early childhood education.

Pay for Success funding helps bring the community and private actors into social issue solutions. Generally, it takes about 2 years to get a Pay for Success project off the ground with a minimum of 5-10 million dollars allocated up front (First Five Years Fund, 2017). Because the private actors are providing the funding, there is increased transparency around project outcomes which makes projects more responsive (First Five Years Fund, 2017). Additionally, unlike other policy solutions, Pay for Success projects highlight the voices of service providers who know best what recipients need and partner with the investors to design the outcome measurements. (First Five Years Fund, 2017). The drawbacks of Pay for Success include that projects are outcome-based and there is a heavy focus on when investors will be paid (First Five Years Fund, 2017).

While the policy is new, research is needed to understand its impacts and recommend changes to the structure.

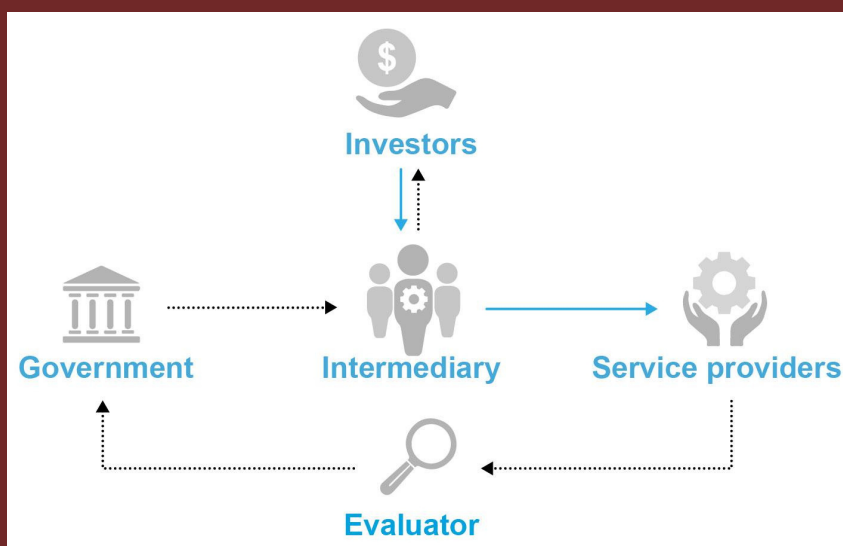


*Pictures available via Pixaby*

# PAY FOR SUCCESS BASICS

Pay for Success involves an investor, typically a bank or foundation, investing in a social solution. The money is given to an intermediary which assists in delivering the funds to service providers. Criteria are established at the outset to determine what and when the government will pay investors, which is monitored by a third-party evaluator. One of the features of the Pay for Success model is the need to quantify savings or outcomes to produce success payments (Knoll, 2019, 245). Pay for Success should be implemented where “political or economic barriers are perceived to prevent the direct raising of additional tax revenues” (Temple and Reynolds, 2015, 630). Private sector

actors want to fund projects that would warrant repayment quickly (Temple and Reynolds, 2015, 630). It is difficult to measure the various outcomes of social programs over a long period and across levels of government which is “likely to underestimate the true cost savings from the program” (Temple and Reynolds, 2015, 643). Policy makers should also be wary of denying students special education they need and benefitting banks over those who need services (Saltman, 2017, 9). Sharing contract materials from early Pay for Success projects can reduce administrative expenses for future Pay for Success ventures (Temple and Reynolds, 2015, 645-646).



This figure was taken from the Urban Institute and can be found at <https://pfs.urban.org/pfs-101/content/what-pay-success-pfs>

## IMPLEMENTATION IN CHICAGO

The **Chicago Child-Parent Centers** Pay for Success Initiative expanded the city's Child-Parent Centers locations to **serve 2,618 more children** (Golden et al., 2016). Goldman Sachs, Northern Trust, and the Pritzker Foundation invested **\$16.9 million** in the 17-year project (Golden et al., 2016). The City of Chicago makes success payments for each child **not placed in special education, deemed ready to start Kindergarten, and meeting literacy benchmarks in third grade** (Golden et al., 2016). In the first-year evaluation findings, **59% of half-day students and 67% of full-day students met the benchmark for school readiness** (Reynolds et al., 2017, 1461). The total payout for the first year the investors was \$556,800 (Reynolds et al., 2017, 1461).

## IMPLEMENTATION IN UTAH

The **Utah High-Quality Preschool Initiative** occurred in six school districts and organizations targeting **2,600 students** (Golden et al., 2016). Goldman Sachs and the Pritzker Foundation invested **\$7 million** (Golden et al., 2016). The United Way of Salt Lake shared payment responsibilities with the state (Golden et al., 2016). Payments were only made on **decreases to special education costs**. To pay the initial investment principal and interest, **95% of the reduced special education costs** were paid out (Golden et al., 2016). Once the initial investment was paid off, an additional **\$1,040 success fee** was paid per year per child who avoided special education (Golden et al., 2016). In October of 2015, over \$200,000 had been distributed to investors as **only 1 of the 110 students was enrolled in special education** though 25% had been identified as vulnerable (Temple and Reynolds, 2015, 641). This outcome may be contributable to the impact of early childhood education but is unclear without a control group (Graham, 2018). **More tracking is needed** to ensure students receive the educational support they need and to expand the Pay for Success payment outcomes (Graham, 2018).

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## RECOMMENDATIONS FOR IMPLEMENTATION

The existing Pay for Success programs have shown that outcomes can be measured, and returns can be made in a short time frame. **Greater cooperation** is needed between governments and government agencies to sharpen success payments (Temple and Reynolds, 2017, 647). As the project **increases in scale**, the administrative costs will be distributed across more recipients making the investment put for by the government more worthwhile.

Evaluation of the Pay for Success policy should cast a wider net and **collect more information** to capture inequalities to assist policymakers in decision making. The policy could also be crafted to **favor positive success payments**, like those used for school readiness, to make payment smoother. Policymakers should continue to **share their Pay for Success resources** to lower new project administrative costs.

## PAY FOR SUCCESS POLICY EVALUATION

To evaluate Pay for Success as a policy, studies should be conducted over a long time horizon to prove Pay for Success policy validity and effectiveness.

### STUDENT OUTCOMES

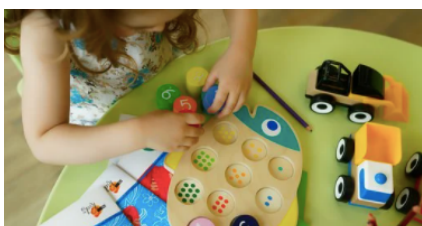
With a control group, researchers follow the students through high school to refine payment schemes.

### GOVERNMENT SAVINGS

Research to prove if governments save due to Pay for Success policy by utilizing Chicago and Utah and comparable locales.

### PRIVATE RETURN

Compounding cash flows to ensure private investors know the true value of Pay for Success projects and incentivize more investment.



*Pictures available via Pixaby*

## RESEARCH IMPLICATIONS

Pay for Success policies are in their infancy, and research is required to confirm their effectiveness. Researchers should write to a policy audience and utilize means of sharing the information that will bridge the gap between policy and research.

## FUTURE POLICY WORK

Policymakers should scale up Pay for Success policy. Policymakers should build collaboration frameworks, specifically between agencies and levels of government, so that implementation can occur smoothly when a private investor shows interest.

## A CALL TO PRACTITIONERS

More practitioners need to be aware of the Pay for Success policy. Pay for Success is dependent on collaboration between policymakers, researchers, and practitioners. By sharing this brief, more programs can utilize this policy.

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