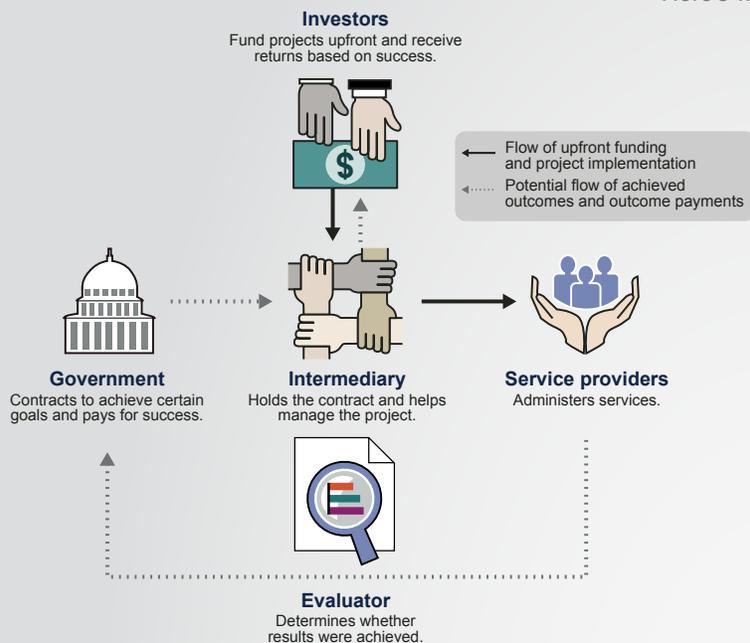# GAO
Pay for Success
A look at a new way for government to finance prevention programs based on measured results.

AN OVERVIEW FROM GAO-15-646

Pay for Success is a financing mechanism to fund prevention programs, where investors provide capital to implement a social service. Once the government verifies a project's success, it pays the investors back based on how much money the project saved the government. Here's what it looks like:

Investors
Fund projects upfront and receive returns based on success.

← Flow of upfront funding and project implementation
◀ Potential flow of achieved outcomes and outcome payments

Government
Contracts to achieve certain goals and pays for success.

Intermediary
Holds the contract and helps manage the project.

Service providers
Administers services.

Evaluator
Determines whether results were achieved.

What are the Benefits and Risks of Pursuing Pay for Success?

Benefits include:

Governments
• Implement innovative, evidence-based prevention programs
• Improve outcomes for vulnerable populations
• Lower long-term costs and reduced demand for remediation programs
• Shift financial risk to investors

Benefits include:

Service Providers
• Stable funding
• Greater flexibility in service delivery

Benefits include:

Investors
• Return on investment
• Opportunity to affect society positively
• Improve outcomes for vulnerable populations

Risks include:

Financial
• If the program costs more than it saves, the government could lose money. If performance targets are not met, investors could lose money.

Termination
• If one party ends their participation early, the target population may lose access to services

Performance
• If the project fails, governments may not meet their goals, and investors could lose money

Example: New York Recidivism

This project is designed to reduce recidivism rates and increase employment rates of high-risk individuals recently released from state prison each year.

Investors
• Multiple private and philanthropic investors provide **$13.5 million** in capital
• A foundation provides a 10 percent first-loss guarantee (up to $1.3 million), which is intended to protect investor principal

10%
$13.5

Service providers
• Will serve around 2,000 formerly incarcerated individuals
• Project calls for 4 years of service delivery

👤 = 250 individuals

Evaluator
• Will conduct a random control trial and compare outcomes to a group that did not receive the intervention

State of New York and U.S. Department of Labor
• Will pay a combined maximum of **$21.5 million** in outcome payments, at which point they expect at least **$29.0 million** in savings and benefits

$29.0 $21.5

Example: Utah Early Childhood Education

This project funds Granite School District's high-quality preschool program. If the program is effective, it reduces future special education costs for at-risk children.
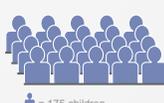
Investors
• Primary investors funding **$4.6 million** in loans → $4.6
• Secondary investors funding **$2.4 million** in loans → $2.4

Service providers
• Will serve 3,500 children
• Project calls for 5 years of service delivery

👤 = 175 children

Evaluator
• Administers pre-test to identify at-risk children in each cohort
• Determines how many at-risk children use special education after participating in the program

State of Utah
• Will pay about **$2,590** per student, per year not enrolled in special education
• Can expect to save **$2,700** per student

Federal Agencies Have Contributed to Pay for Success Projects in Two Ways

The federal government has played a limited role by:

Providing outcome payments for early projects if successful

$23.7

Department of Labor

N.Y.
Potential outcome payments
Mass.

DOL provided **$23.7 million** in potential outcome payments to Massachusetts and New York to reduce recidivism and increase employment for recently-released inmates.

Building the capacity of organizations interested in implementing projects in the future

$12.0

Corporation for National and Community Service

CNCS provided **$12.0 million** in grants to 8 intermediaries to help governments and nonprofits build their capacity to structure and implement projects.

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