



Affordable Housing Institute

Operationalizing Pay-for-Success: 3 agreements, 6 players

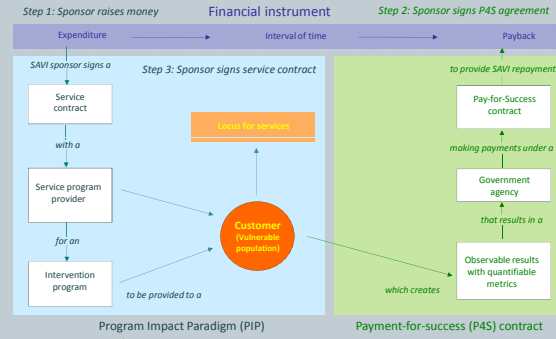
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National Inter-agency Community Reinvestment Conference •
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Pay-for-Success Financing: 3 contracts

Financial instrument, Pay-for-Success (P4S), service contract (PIP)



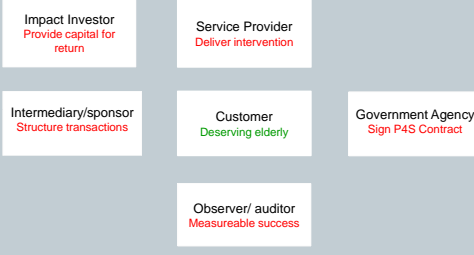
The diagram illustrates the flow of money and services in a Pay-for-Success financing model. It is divided into three steps:

- Step 1: Sponsor raises money** (Expenditure): SAVI sponsor signs a Service contract with a Service program provider for an Intervention program to be provided to a Customer (Vulnerable population).
- Step 2: Sponsor signs P4S agreement** (Interval of time): The sponsor signs a Pay-for-Success contract with a Government agency. The agency makes payments under the contract to provide SAVI repayments.
- Step 3: Sponsor signs service contract** (Payback): The sponsor signs a service contract with the provider, which creates observable results with quantifiable metrics.

Labels: Program Impact Paradigm (PIP), Payment-for-success (P4S) contract.

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Socially Aligned Value Investments: Who does what, with whom, and when?




The diagram shows the roles of six key players in the process:

- Impact Investor**: Provide capital for return
- Service Provider**: Deliver intervention
- Intermediary/sponsor**: Structure transactions
- Customer**: Deserving elderly
- Government Agency**: Sign P4S Contract
- Observer/ auditor**: Measureable success

- Intermediary/ sponsor identifies and selects Customer and Service Provider/ Intervention Paradigm
- Intermediary/ sponsor negotiates and signs Pay-for-Success (P4S) Contract with Government Agency
- Intermediary/ sponsor raises capital from Impact Investors based on credible return expectations

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Six roles:
What do they do?



Role	Elements
Customer	Vulnerable population • Beneficiary of social programs • Government pays if bad things happen • Can be helped earlier, cheaper, better • Often via a cross-silo activity
Service provider	Pro-poor mission entrepreneurial entity (MEE) • Skilled and expert in the customer group • Can design and implement a customized PIP
Government agency	Has social oversight of customer population • Pays if bad things happen • Unitary counterparty (can pay for all)
Auditor	Independent party • Periodically observes factual conditions • Reports on process, quality of service, Adverse Events • Expert in both housing and service delivery
Intermediary/ sponsor	Intermediary • MEE oriented • Has expertise in housing and in social services • Trusted by all parties • Can span time domains • Experienced in raising impact-oriented capital
Investor	Committed to double-bottom-line (triple?) • Well capitalized • Institutional

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Pay-For-Success (P4S) contract
What goes into it?



- Government agency:** Who is paying? From what pot?
 - When we leap across government silos, which one pays?
- Duration:** How many years are being contracted for?
- Adverse events:** What bad thing(s) are we trying to avert?
- Baseline:** Against what standard are we keeping score?
- Auditor:** What does the auditor observe and report?
 - Procedures, quality of service, adverse events averted
- Counterparty risk:** How do we assure the government will keep its word/ fund when it says it will?
 - What does it take to make the contract legally binding?

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Program Impact Paradigm (PIP):
What goes into it?




- Customers/ vulnerable population:** Who will you serve?
 - Homeless, juveniles, previous offenders, elderly
- Intervention:** What will you do?
- Place/ locus:** Is the PIP place-based?
 - Nearly every vulnerable population is better served *at home*
- Capital/ setup element:** What is spent up front?
- Service/ ongoing element:** What is spent continuously?
- Time domain:** Over what period will we keep score on you?
- Payment outcomes:** What measurable things will you pay for?
- Freebie outcomes:** What other things will you measure and not get paid for?
 - Other performance standards

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Socially Aligned Value Investment (SAVI):

What goes into it?




1. **Size of instrument:** How much?
2. **Assets:** Individual properties/ entities, or a pool?
3. **Activity:** Population, vendor, outcomes – 1 or multiple?
4. **Investor type:** Philanthropy, PRI, impact investor, market investor
5. **Yield magnitude:** 2%, 8%, 16%, 20%
 - Does it qualify for CRA investment test?
6. **Duration:** 2 years, 4 years, 7 years, 10 years?
7. **Type of yield/exit:** is this amortizing return, or an exit event?

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Pay-for-Success Financing:

Three contracts



Step 1: SAVI raises money Step 2: SAVI sponsor signs P4S agreement

Expenditure Interval of time Payback

SAVI sponsor signs a Service contract with a Service program provider for an Intervention program to be provided to a Customer (Vulnerable population)

Step 3: SAVI sponsor signs service contract

to provide SAVI repayments

Pay-for-Success contract

making payments under a Government agency that results in a Observable results with quantifiable metrics

which creates

Program Impact Paradigm (PI) Payment-for-success (P4S) contract

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Things to remember

What goes into it?



1. Its value is in breaking down silos
 - New delivery models, new business models
 - Use non-government parties to leap across silos, time
2. It boils down to three economic bilateral contracts
 - a. Pay-for-Success (P4S): government and sponsor
 - Not Pay-for-Piecework, but pay-for-**outcomes**
 - b. Program Impact Paradigm: sponsor and provider
 - Preventive, pro-active, and silo-crossing
 - c. SAVI investment: sponsor and money sources
 - Not debt-like, equity-like
3. All these pieces need to fit together
 - Co-evolved and co-reliant
4. The business needs an intermediary
 - Because the other roles are all bilateral
5. **Next big thing in public-private partnership**



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

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Questions?



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