

Pay-for-Success: An Investment Guide for Social Impact

Speaker:

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政策研究院
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Pay-for-Success (PFS)



From government's perspective:

Financial Interest

Certainty

Pay-for-Success



Pay only if the social service works



From investors' perspective:

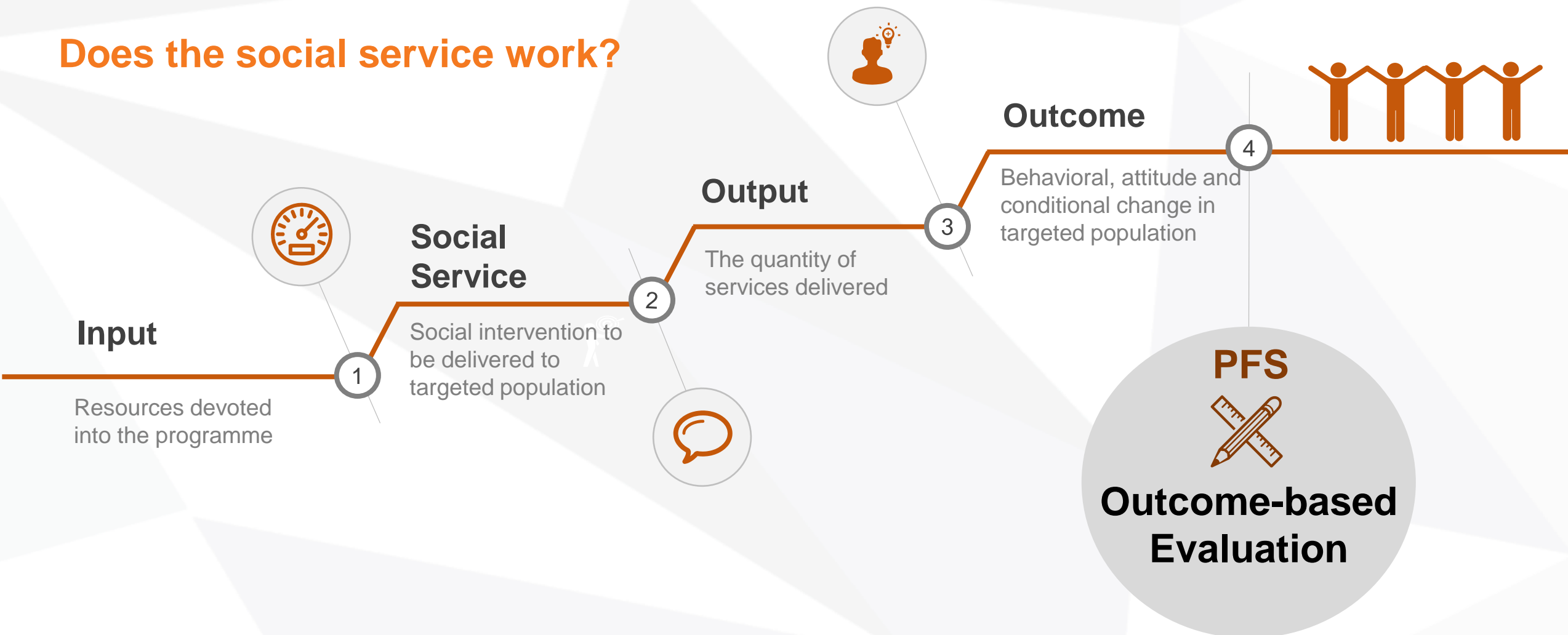
Pay-for-Success



Get paid only if the social service works

Pay-for-Success (PFS)

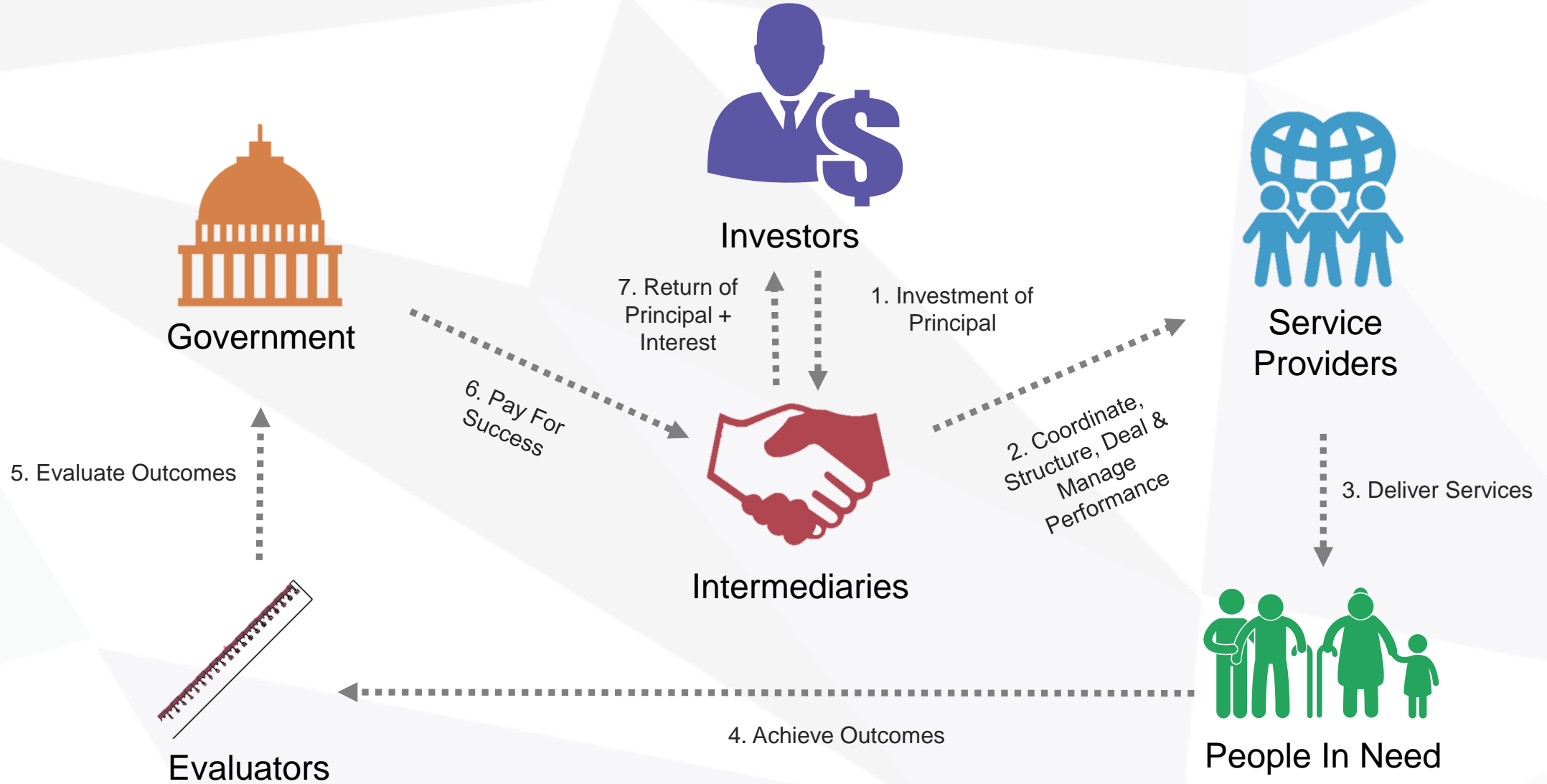
Does the social service work?





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Pay-for-Success (PFS)



Pay-for-Success (PFS)

Newpin Social Benefit Bond

Outcome Funder: NSW Government

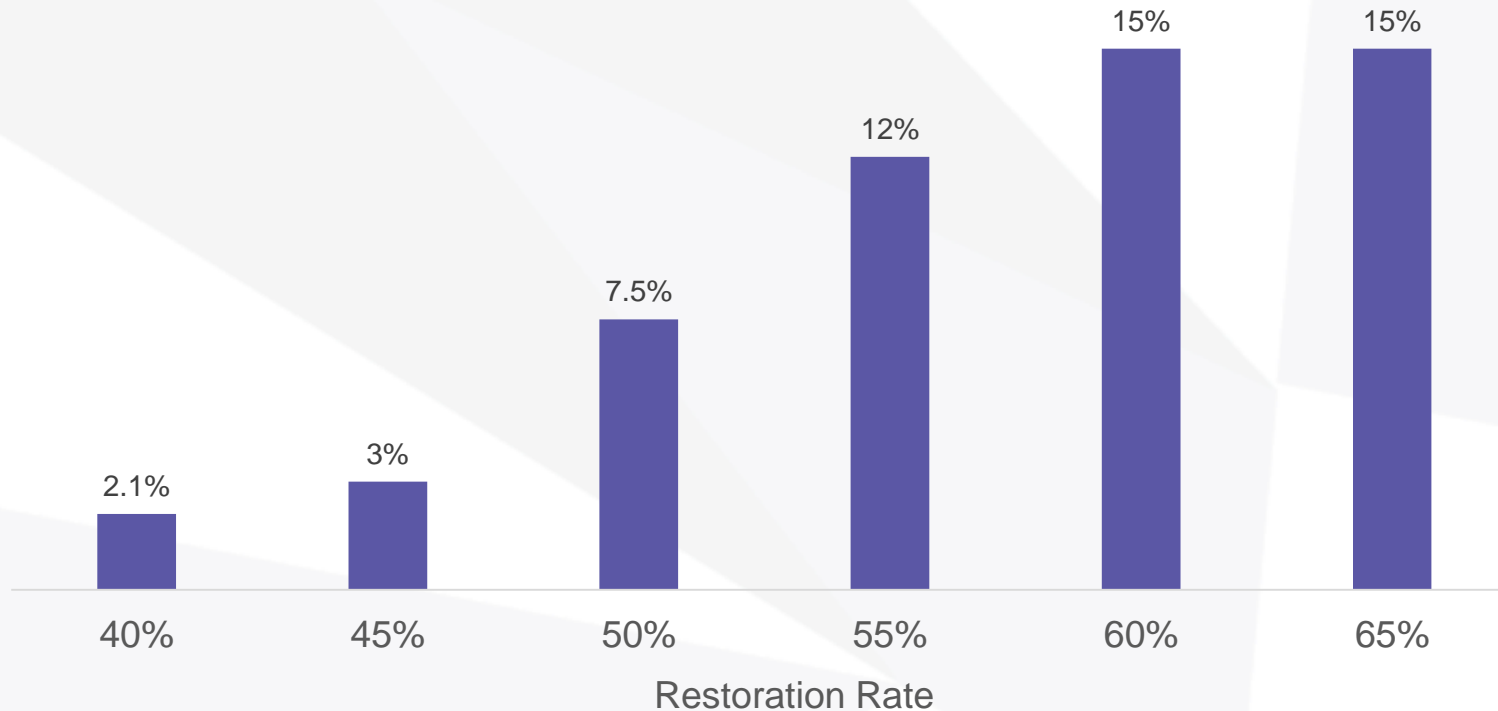
Investor: High net worth individuals, family foundations and superannuation funds

Objective: To safely restore children to the care of their families

Interest Return

2015	8.92%
2016	12.15%
2017	13.16%

Interest Rate Paid by Restoration Rate

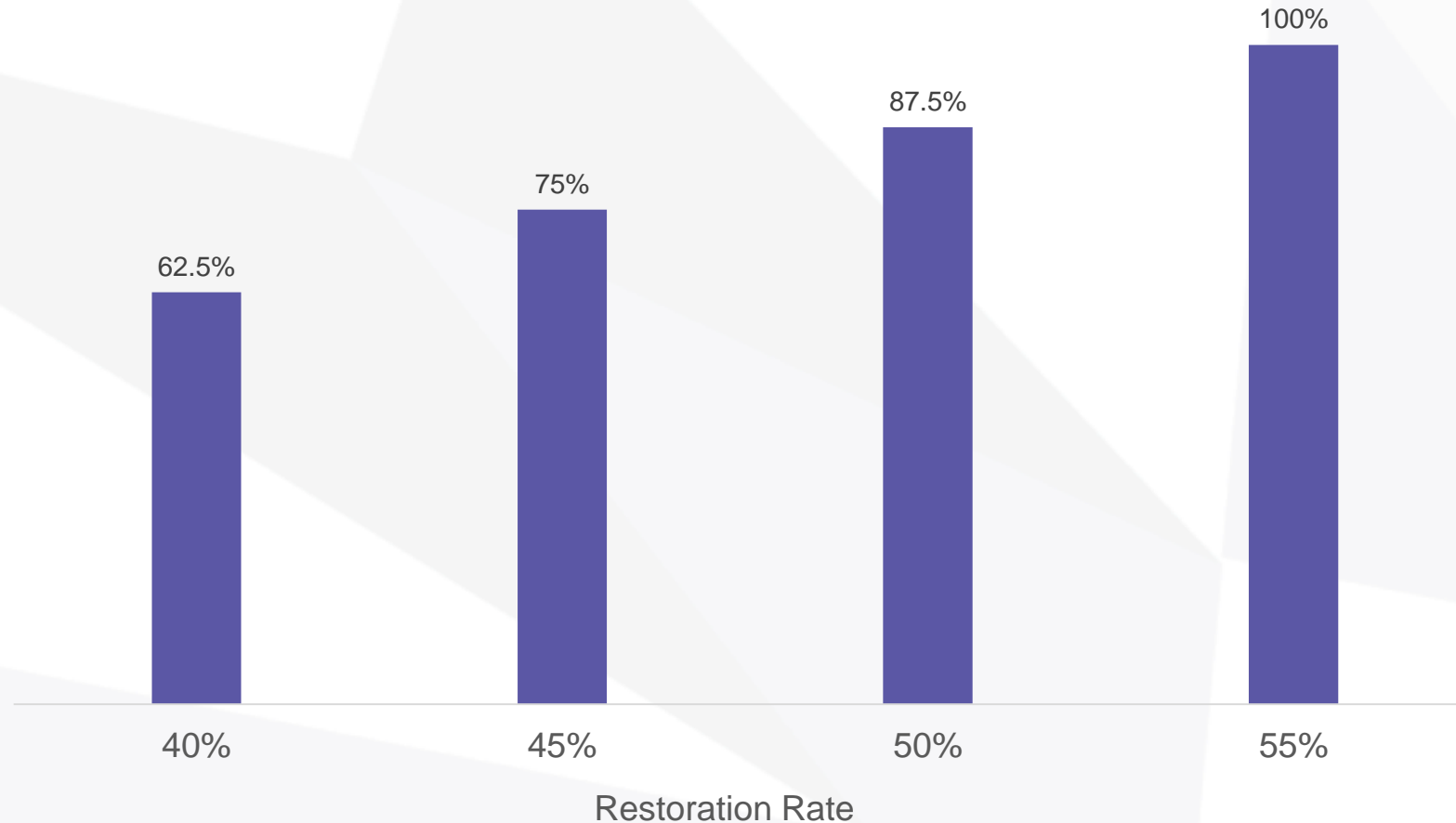


Pay-for-Success (PFS)

Newpin Social Benefit Bond

Proportion of principal repaid on maturity date depends on the restoration rate

Proportion of Principal Repaid by Restoration Rate



Pay-for-Success (PFS)

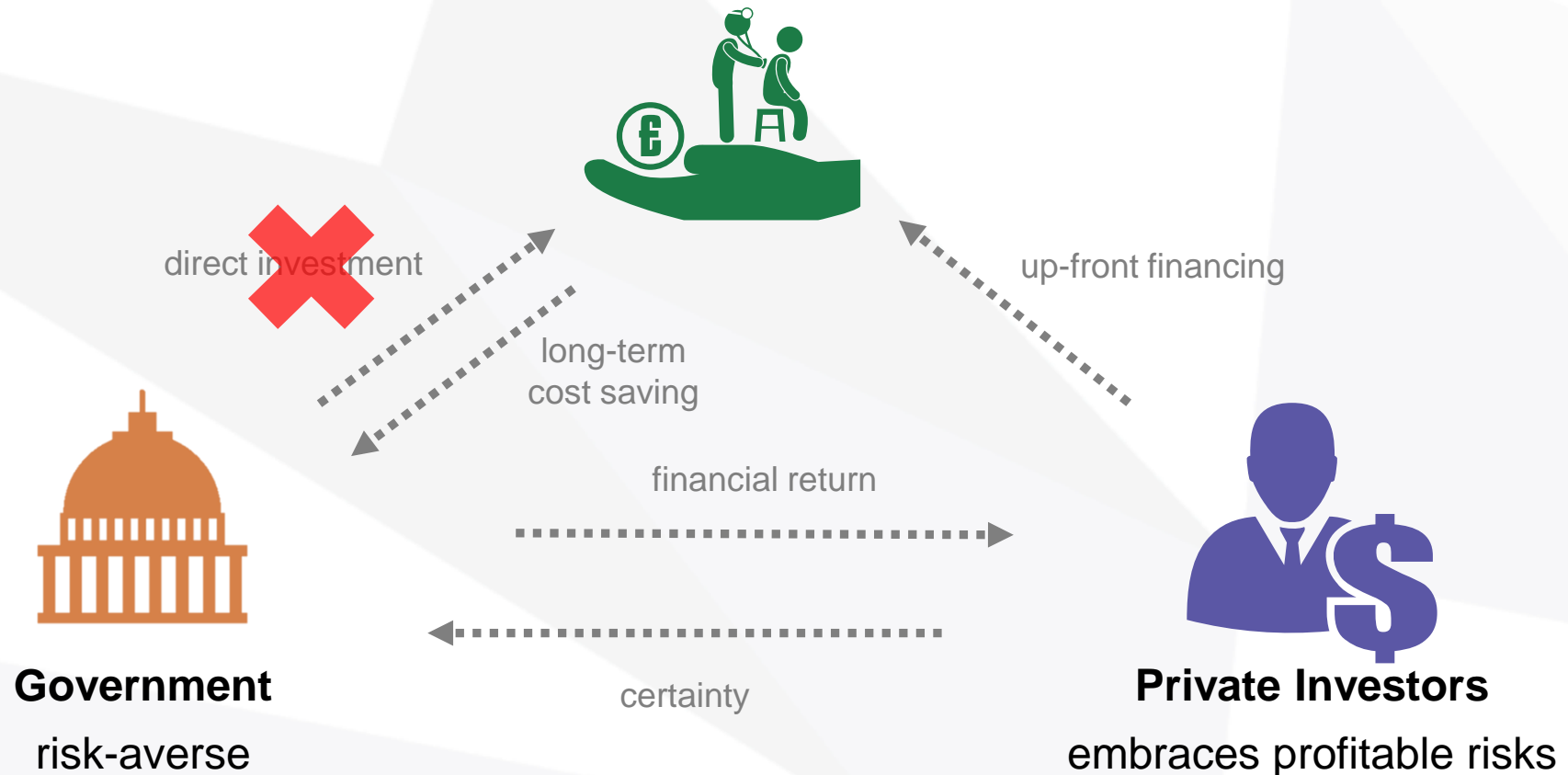
NYC ABLE Project for Incarcerated Youth,
Outcome Funder: The Department of Correction, New York City
Investor: Goldman Sachs (9.6M), Guarantor: Bloomberg Philanthropies (7.2M)

Reduction in re-incarceration rate	City payment (in million USD)	Projected long-term city net savings (in million USD)
≥ 20%	11.712	20.5
≥ 16%	10.944	11.7
≥ 13%	10.368	7.2
≥ 12%	10.272	6.4
≥ 12%	10.176	5.6
≥ 11%	10.080	1.7
≥ 10%	9.600	≥1

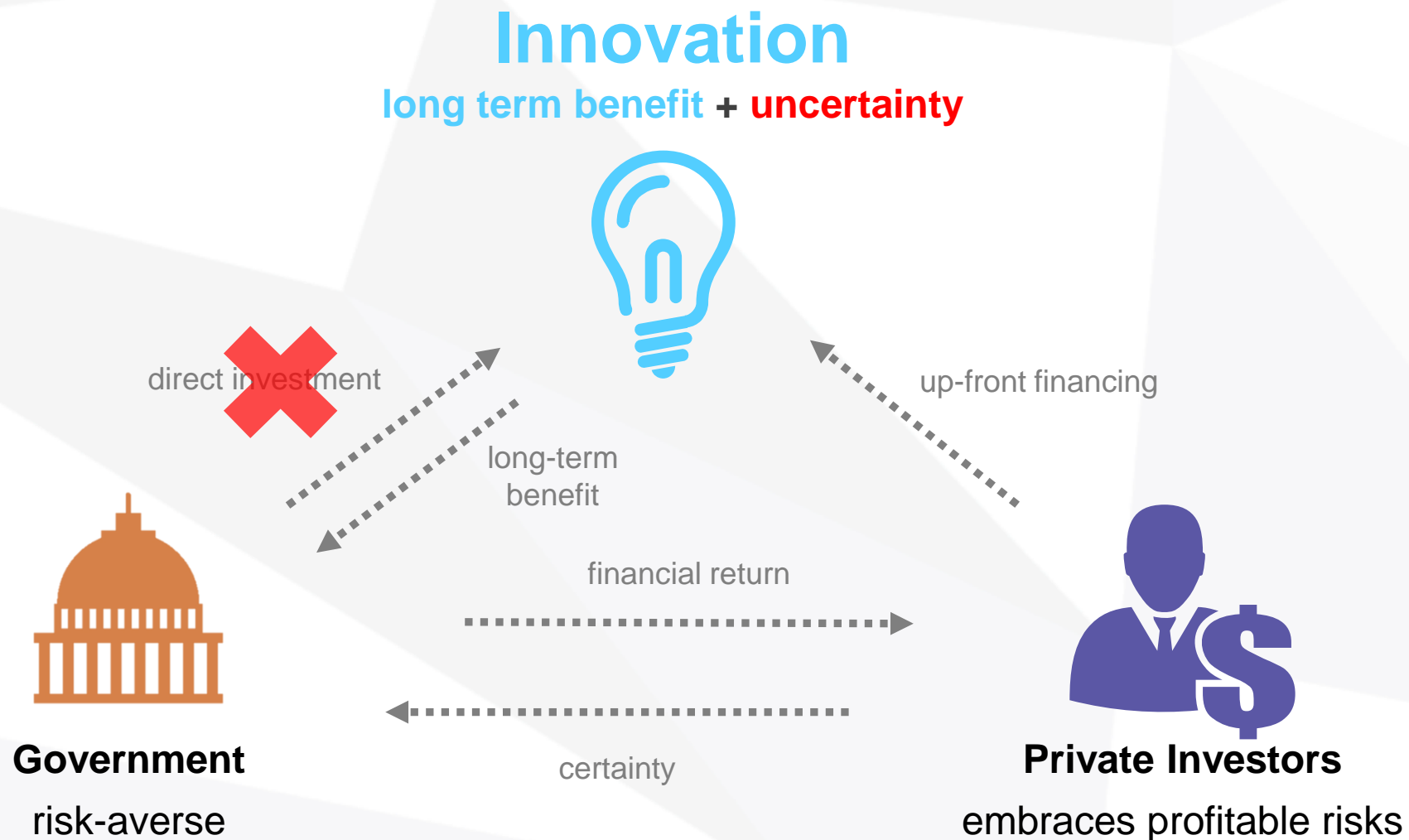
Leveraging the Power of Prevention

Preventive Services

long term cost saving + **uncertainty**



Enabling Innovation



The Merits of PFS



Outcome-based Contracting



Risk Sharing

A unique strength of PFS is that it shifts risks from the government to investors, as the government only pays for successful interventions. Risk sharing is favorable for preventive services and innovation.



Long Term Cost Saving

PFS enables and leverages the power of prevention to reduce long-term remediation costs, which creates a source of profit for investment.

Performance Management

The result-oriented approach of PFS incentivizes service providers to enhance performance management and increase accountability to funders.

Improvement in Decision Making

The outcome-based evaluation approach allows the government and service providers to separate the effective services from the ineffective ones.

Collecting Social Data for Future Development

It is particularly important for Hong Kong. Evaluations of current social services are output-based, not outcome-based. The effects on targeted beneficiary are unknown. The pilot PFS programmes are not only for testing, but also for building a social data bank for future development.

The Challenges of PFS

Limited Outcome Measurement

The limited availability and debatable reliability of performance data would impede the evaluation process of PFS.

Perverse Incentives

A faulty design of outcome metrics might incentivize service providers to game the evaluation process or cherry-pick beneficiaries.

Costly and Complicated Process

The costly and complicated set up procedures of PFS might undermine the benefits it is able to create.



Challenges



The Search for Real Impact

Rehabilitation Programme for Criminal Offenders

Objective: reduce recidivism rate

Type: Prison-based Animal Programme – dog training

Length: 3 years

Recidivism Rate

2015	7%
2016	6%
2017	6.5%

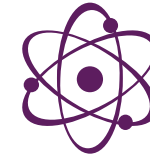


Does this programme work?



Matching

Compared against a similar group



Randomized Control Trial

Treatment and control groups



Historical baseline

Compared against a historical group



Before/After study

Track changes

The Art of Avoiding Perverse Incentives

London Homelessness PFS Scheme

Target: 830 entrenched rough sleepers in London

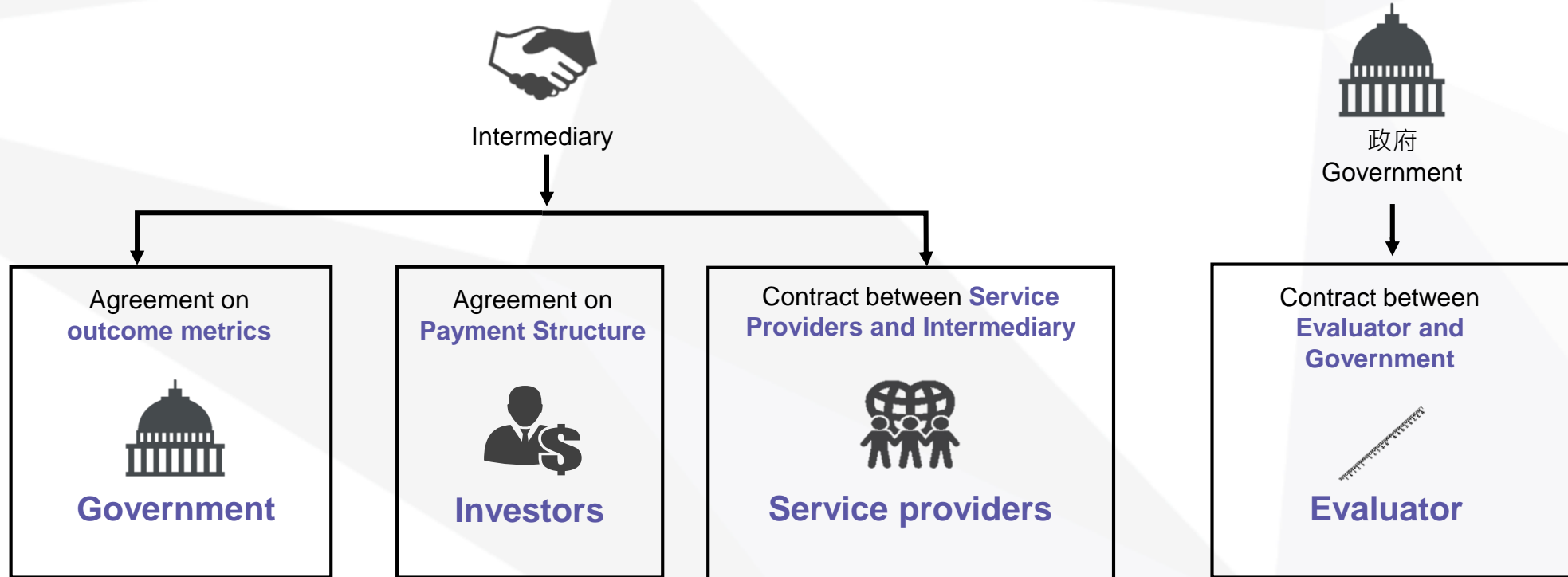
Objectives include: reduced rough sleeping, etc.

Period: 2012 - 2015

Avoiding perverse incentives (gaming, cherry-picking, etc.) is always one of the key challenges...



The Importance of Cost Control



Always make sure the spending relates to the pursuit of the desired social outcomes.

Investor Risks in PFS



Stakeholder Risk:

A PFS project involves multiple stakeholders at the same time (intermediary, outcome funders, investors, service provider, evaluator). Anyone of the stakeholders failing in delivering their duties may defeat the PFS project.



Systematic Risk:

The outcome of a project can be affected by other confounding factors which are not within the scope of the project. For example, a PFS project targeting to enhance job placement rate can be affected by economic downturn.



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Thank You!