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SROI in the Pay For Success Context: Are they at odds?

Abstract

The Pay For Success (PFS) and Social Impact Bond (SIB) movements to date have focused heavily on shorter-term outcomes that can be monetized and show clear savings to government entities. In part, this focus derives from the need to specify contract payments based on a narrow set of well measured outcomes (e.g., avoided days in jail and foster care, decreased use of behavioral health services). Meanwhile efforts to measure the social return on investment (SROI) of interventions have sought to expand the view of relevant outcomes to include domains that lend themselves less clearly to monetization. This paper explores the intersection between these two movements with illustrations from a SIB initiative underway focused on homeless families with children in foster care. Challenges and potential for SROI in a third-party payor environment will be discussed as well as opportunities to better leverage the strengths of both types of initiative.

Introduction

Developed as a tool to finance innovation in social welfare, Social Impact Bonds (SIBs), also called Pay for Success contracts (PFS), have seen considerable growth since their inception in 2010 (Abt Associates, 2016; Liebman, 2011). As established in a SIB or PFS contract, philanthropic and private investors provide up-front funding for an intervention to be delivered by a designated set of service providers. Only if successful outcomes are achieved, the *outcomes funders* pay investors the contracted amount. Outcomes funders are usually public agencies and in some cases, foundations. SIB contracts are conventionally designed with representatives of all parties at the table, including an external evaluator, who is responsible for assessing the intervention effect estimates upon which payment decisions are made.

SIBs prioritize outcomes that represent cashable savings to the agency or agencies of government sponsoring the SIB. The focus is on finding high use/cost populations that can be impacted through new interventions. This tends to elect a narrow category of short-term outcomes that can be monetized readily, not a full set of potential positive benefits whose social value accrues over the lifetime of program participants. Estimates of such a broader set of outcomes are better undertaken with a Social Return on Investment (SROI) analysis or similar methodologies that estimate social value creation (Tuan, 2008).

SROI is a methodological framework for estimating the value created by an intervention across three realms: social, economic and environmental – referred to as the *triple bottom line*. Originally developed in 1996 by the Roberts Enterprise Development Fund (REDF) to estimate the impact of their workforce development programs, the methods have continually evolved to encompass broader outcomes, shorter time-frames, and more realistic estimates (Banke-Thomas, Madaj, Charles, & van den Broek, 2015). While SROI analyses estimate benefit-to-cost ratios

that attempt to include all areas impacted by an intervention, it is important to consider the reliability of these estimates. In fact, the reliability of estimates derived from either technique, SROI or SIBs, depends on the credibility of assumptions (including models) and the quality of data. Thus, it is extremely important that these assumptions and the uncertainty about them be made explicit. Rather than focusing on a point estimate of potential net benefits of intervention effects, SROI and SIB evaluations can be more informative when they include sensitivity analyses that provide range estimates under varying contexts and degrees of uncertainty (Manski, 2013).

Clearly, both models – SROI and SIB – can incent more efficient interventions and better allocation of limited resources. SIBs are financing tools for innovative social interventions, whereas SROI methods are used to estimate broad, long term social and economic outcomes due to an intervention. Not surprisingly, both models are used by the third sector to inform investments and implement and evaluate programs. This paper explores the intersection of the SROI and SIB movements and discusses the benefits and challenges presented when integrating both models, with illustrations from an ongoing SIB initiative focused on homeless families with children in foster care.

In Section 2 we discuss the underlying concepts and assumptions of SROI and SIB, and to what extent they favor or not their coordinated use. In Section 3 we describe the development of Partnering for Family Success, the first county-level SIB in the U.S., focused in the area of child welfare and homelessness. Through the lens of this process, we illustrate the challenges and potential for SROI in a third-party payor environment. Section 4 provides thoughts for a unified framework to encourage the creation of social value, learning, and innovation of social interventions.

SROI and SIBs: Common principles, complementary roles

At the heart of both models is the recognition that interventions should be guided by the evaluation of the benefits and costs derived from them. Beyond statistics on people served, services provided, and changes in outcomes, it is important to understand how much of the program's success can be attributed to the intervention. Could the same level of success have been achieved with lower costs so as to assist a larger group of people? Is the success of an intervention transferable across different populations or over time? Prospective, ongoing, and retrospective evaluations of a program across some or a wide range of outcomes can inform not only the program at hand, but can potentially accumulate knowledge to more broadly inform social policy.

SROI analyses can take one of two forms – *evaluative* in which the analysis is largely retrospective and based on outcomes that have been observed, and *predictive* in which the analysis forecasts the social value to be created under varying circumstances (UK Cabinet Office of the Third Sector, 2015). Comparatively, while SIBs may be based on past evidence of need and program effectiveness, analyses are entirely prospective in assessing the outcomes upon which investor payments are to be based. In this sense, SIBs seek to measure only pre-identified outcomes related to the program participants, not all dimensions of social value that the project may create.

Though evaluation is a core principle of both movements, SROI and SIBs differ in their goals and thus, in the way they have been implemented for the most part to date. Because a primary goal of SIBs is to obtain financing for innovative social interventions, they will more likely focus on easier-to-measure impact variables and on outcomes that can be realized within the timeframe of the contract. All parties involved in the contract – public agencies, investors,

nonprofits, and evaluators – need to agree not only on the outcomes that trigger payments, but also on the timing of measurement and the methodology by which the program will be evaluated. Understandably, this narrows the set of outcomes assessed. Furthermore, SIB contracting may tend to favor interventions that can show outcomes with traceable impacts accruing to the same system, even when impacts may accrue across systems, particularly if the payor is a single system agency.

An examination of the initial ten SIBS launched in the U.S. shows initiatives targeting an array of high-risk populations (Table A). The table also identifies the key outcomes for the projects, upon which payments to investors are to be based. Dominantly, these payment metrics are tied to relatively short-term usage of government-funded services for which the project seeks to reduce use in the target population (e.g., jail bed days, foster care days, special education services, high-cost medical services). Outcomes usually pertain to one or two systems (e.g., criminal justice and homelessness) and outcomes are relatively short term (e.g., educational outcomes are measured as special education services avoided, rather than better chances to be employed or lower chances of incarceration).

Table A: U.S. Social Impact Bond Outcomes to which Repayment is Tied

Lead Organization	Program	Launch	Investment	Repayment Outcomes
City of New York	ABLE Project for Incarcerated Youth – Rikers Island	2012*	\$9.6 m	Reincarceration rate
New York State Department of Labor	NY Increasing Employment and Improving Public Safety	2013	\$13.5 m	Employment rate and recidivism rate
State of Utah	Utah Pre-K Project	2013	\$6.8 m	Use of special education and remedial services
Commonwealth of Massachusetts	Massachusetts Juvenile Justice PFS	2014	\$21.3 m	Days of incarceration, job readiness, time employed
City of Chicago	Chicago’s Child-Parent Center PFS Initiative	2014	\$16.6 m	Use of special education services, kindergarten readiness, 3 rd grade literacy
Cuyahoga County (OH)	Cuyahoga County Partnering for Family Success	2014	\$5.0 m	Out-of-home placement days
Commonwealth of Massachusetts	Chronic Individual Homelessness PFS Initiative	2014	\$3.5 m	Stable housing for one year
Santa Clara County (CA)	Project Welcome Home - Chronic Homelessness	2015	\$6.9 m	Continuous tenancy for one year
City of Denver	Denver Social Impact Bond program	2016	\$8.7 m	Jail bed days, housing stability
South Carolina Department of Health and Human Services	SC Nurse-Family Partnership PFS	2016	\$17.0 m	Pre-term births, child hospitalization and ER usage, healthy birth spacing, moms served in high poverty ZIP codes

Source: Authors’ summary from Nonprofit Finance Fund (www.payforsuccess.org) and Archer-Rosenthal, D. (2016)

* Project terminated in 2015

SROI analyses aim to explicitly account for a broader set of potential impact areas derived from an intervention. This analysis is essential to inform social interventions as outcomes derived from them are often realized over longer periods of time and across multiple systems. A better understanding of these potential net benefits, can guide the allocation of resources by the third sector and encourage cross-sector partnerships to address social problems. However, this more challenging goal tends to lead to estimated outcomes that are less reliable than the narrower effect estimates under a SIB contract because counterfactuals are harder to identify for broader, longer term effects.

Ideally, one would measure the effects of an intervention as the difference in outcomes for a population under two scenarios equal in all ways except for the intervention. In other words, a change in outcomes due to an intervention is the change over what would have happened in the absence of the program, all else equal. While to some extent it is possible to track outcomes for program participants, one cannot observe the counterfactual scenario, that in which these same individuals, under the same circumstances, would have not participated in the program. SROI analysis often combines estimates from various studies to obtain a more complete picture of overall social net benefits. Yet if not carefully done, this can lead to estimation error from adding, say, effects of a program on education that accrue to one population with estimated effects on healthcare that pertain to another group. SIBs, on the other hand, include an independent evaluation component which encourages a more formal, explicit counterfactual analysis, albeit for limited outcome areas and timeframes. Among the first ten

PFS projects launched in U.S., six use a Randomized Clinical Trial (RCT), two use a quasi-experimental design, and two use a nonexperimental design (Archer-Rosenthal, 2016).

So, even when developed for different purposes, SROI and SIBs are clearly aligned with the outcomes-based approach to social interventions. Thus, it is interesting to see how these models are currently intersecting in the field and to consider opportunities for further interaction. Two examples may be illustrative in this regard.

First, SROI has the potential to inform and motivate interventions under SIB contracts. In November 2012, Jewish Vocation Service (JVS) published an SROI study of some of their workforce development programs estimating that every \$1 invested in them produced average returns of \$2 to \$3 in benefits to participants within the first 1 to 2 years of program completion, for a cumulative return of \$5 to \$15 in net present value within 5 to 10 years after completion (Cooney & Lynch-Cerullo, 2012). This analysis laid the foundation for their coordination with Social Finance, a nonprofit organization dedicated to developing and managing Pay for Success projects in the United States. Together, they responded to a Request for Proposals (RFP) by Massachusetts for a PFS project on adult basic education and English as a Second Language services. In August 2014, the state-selected JVS and Social Finance to implement the Massachusetts Adult Basic Education Initiative through a PFS model. The program's measurable outcomes include increased earnings, improved employment, and postsecondary school enrollment.

Second, the interplay between SROI and PFS may be formally pursued. RFPs for PFS projects have the ability to encourage consideration of SROI analyses, even when payments are dependent on a subset of all potential outcomes. One example is the Notice of Funding Availability (NOFA) for Supportive Housing Demonstration by HUD and DOJ. The NOFA calls

for contract structures that have a high likelihood of success and meaningful social return on investment in the areas of housing and crime (U.S. HUD, 2015).

Partnering for Family Success

One of the initial ten U.S. PFS projects was launched in Cuyahoga County, Ohio around the City of Cleveland. For the Cuyahoga County Department of Children and Family Services in Ohio, the fact that some children spent inordinately long periods of time in foster care was a sign that current programs were failing for some families (Third Sector Capital Partners, 2016).

Between 2002 and 2012, Cuyahoga had successfully reduced the number of children in foster care placement by 68%, from over 6,000 to under 2,000 children. But as the number of children in foster care dropped, the median time in foster care increased. From 2007 to 2011, the median days in foster care increased at a near-constant rate from 330 to 424.

A PFS approach to testing innovative alternatives was first considered in 2012; the actual contract was signed in December 2014. The primary goal was to reduce the average number of Out-of-Home placement (OHP) days by addressing the specific needs of families not responding to the standard interventions. But, before an alternative intervention could be proposed, it was necessary to characterize those families that had an elevated risk of long OHP days. Were they families with younger caregivers, numerous children, unstable housing, with certain health issues or previously involved with the justice system? Among this widely heterogeneous group, the aim was to identify a subset of families with common challenges, and that upon entry into foster care, could be channeled to an alternative program that addressed these specific issues. This analysis was performed on data available through CHILD, a data system of integrated administrative records on over 500,000 young children and their families. The data system consists of public and private data records linked at the individual child level over time. These records include birth

certificates, public assistance, child welfare/foster care, homeless services, juvenile court records, child lead exposure, preschool, home visiting, and kindergarten readiness among others. All records are linked at the child-level using direct and probabilistic matching, resulting in a robust system for program/policy planning and evaluation.

An analysis of an entire cohort of children observed over three years identified homelessness and severe housing instability of caregivers as a strong, early correlate of longer stays in foster care. So in 2013, Cuyahoga County, Ohio became the first U.S. county to launch a social impact bond under the name “Partnering for Family Success.” This initiative was geared towards families facing severe housing instability with at least one child in foster care. It provided them with services coordinated behavioral health and housing services under an intensive case management system known as Critical Time Intervention (CTI).

The overarching goal of the intervention was to improve child wellbeing by facilitating safe and stable reunifications or other permanent living arrangements. Yet the primary outcome of interest, upon which repayment of investors is based, was a reduction in days of out-of-home placement (i.e., foster care). The evaluation of the outcome was based on an RCT, comparing families randomly assigned to receive existing services and those assigned to receive the new PFS services. Though the PFS contract restricted its focus to use of foster care days in the sample, the program developers and funders were keenly aware of a range of other outcomes that would be valued and could accrue to other systems. For example, literature suggests corollary potential outcomes such as improved educational outcomes (school system), employment outcomes (workforce/public assistance system), and improved family functioning and decreased parental stress. Reduced usage of homeless shelter and service systems, which is likely if the

project is successful, was not explicitly included in the contract due in part to difficulties in valuing these savings.

A full SROI analysis to support this intervention would have had to consider the broader costs derived from longer versus shorter time periods in foster care for this particular population. More specifically, a SROI analysis would have had to estimate the effect of the *additional days in foster care* that would have been avoided with a CTI-housing intervention. The total cost implied through this analysis would not only include the roughly \$75 per child per day spent by the county, but it also would include the long term costs to society due to those extra days.

No data were available for such a study as of this writing. However, the PFS evaluation currently underway, along with the analysis of the CHILD integrated data system can serve to inform future SROI studies in child welfare.

Future Directions – A Unified Framework

The SROI and PFS movements have gained much traction in the past decade and are bringing many new partners into the discussion of social returns. However, while the general aims of the two movements are compatible in large part, the perspectives that underlie them differ. SROI efforts seek to capture and document a much broader set of outcomes than PFS projects. This is largely driven by the general financing model on which PFS projects have been predicated to date. This financing model conventionally places at least two limitations on the conceptualization of social return in PFS. See Figure 1.

	Outcome Horizon	
	Shorter-term	Longer-term

Measurement of social return	Selected governmental unit(s)	A. (PFS)	B.
	Other governmental units and social system	C.	D.

Figure 1. Pay for Success (A) within an SROI Framework (A, B, C, D)

First, PFS projects give priority to outcomes that can be measured with clarity in a relatively short time-frame (e.g., 1 to 5 years). This shorter-term focus allows investors to know the outcome of their investment within the time horizon of the PFS contract. Second, social returns need to provide "cashable savings" to the same unit of government that sponsors the PFS project. As a practical matter, this allows the identified governmental unit to accrue the cost savings and set aside amounts so that investors can be repaid. If savings accrue to other governmental units, nonprofits, or service systems, the ability of the sponsoring unit to repay investors is unclear. Although PFS projects fall dominantly in cell A of Figure 1, SROI projects have much greater flexibility in focus, spanning all cells (A through D). In this sense, PFS projects can be seen as special case within a broader SROI framework in which the stakeholders limit the focus to a very specific set of outcomes of interest for financing purposes. Yet it is precisely this structure —limiting in a way— that furthers funds for experimentation and evaluation of interventions. One caveat here is that while SIBs focus on specific areas of cost avoidance, they often do not consider increased costs in other areas. For example, the Cuyahoga County SIB assesses costs avoided in regard to out-of-home placement but does not consider increased costs in the area of publicly-funded housing supports to which families are connected.

In a full SROI analysis, these areas of increased costs would be included in the cost-benefit model. Well-assembled results from these PFS evaluations can serve to improve future SROI analyses. There are two further dimensions that should be noted.

One note of caution is that it seems possible that SROI may appropriately consider the cost savings in entitlement services as the result of an intervention, but may ignore the full value of resources consumed by the intervention. These resources, often labelled *costs*, could include not only funds the investors hope to recover, but also resources from third parties that the intervention prompts, e.g., increased costs in publicly-funded housing supports for formerly homeless families. To more accurately and comprehensively evaluate an intervention, these primary and secondary costs should be contrasted to potential outcomes, e.g., savings in government expenditures. As such, the full “cost” aspect of the SROI calculation may be missing some key components within the PFS framework.

First, both PFS and SROI initiatives are heavily reliant on the availability and analysis of administrative data from various sources. Governmental and nonprofit agencies routinely maintain administrative data, and these are often used internally to describe patterns of service use, risk factors, costs and outcomes. The integration of administrative records across agencies and time have the potential to provide new types of information that can be utilized by decision-makers to evaluate outcomes, target resources and gain understanding of how the collective work of agencies and systems are addressing the needs and concerns in their communities. Technical advances in data transfer, management, analysis and visualization now make it possible for this type of longitudinal, cross-system information to be made available in a timely fashion and to be crafted in ways that directly support policy and administrative deliberations at multiple levels. Examples of these integrated data systems (IDS) throughout the United States hold considerable

promise to lower the cost and increase the impact of data-driven decision-making in human service systems. As such, those interested in PFS and SROI initiatives would be well advised to work together to maximize the effective aggregation and use of available data on issues of social importance.

Second, the desire to maximize the social return from public and private investments is central to advances in the social and public sectors. There is a synergistic interplay between SROI and PFS efforts that can allow them to work in tandem for greater effect. Given a fixed amount of available resources, investments should be targeted to maximize social return. The evidence-based intervention and policy movements have come about largely to further this same goal of replicating strategies with a proven return. The learning that comes about through SROI and PFS projects stands to inform thinking and investments across a wide range of social policies. PFS projects contribute a further benefit here, in that they can attract new resources into the sector to address social conditions with substantial public relevance. To date, much of this investment has been targeted to specific near-term outcomes. Advances in SROI work, and the broadening of outcome thinking, could become influential in the development of future PFS projects. As stakeholders and investors come to understand the connectedness between social outcomes, future PFS contracts could be constructed to accommodate a greater range of outcomes that link to future aspects of social return.

Conclusion

The SROI and PFS fields have contributed greatly to the discussion of outcomes in the social domain and have each provided elements of framework for maximizing social benefit. Combining retrospective and prospective elements, the field stands to not only better understand

the nature of social returns but also increase the resources dedicated to the most promising models to improve well-being and deliver social value.

For those working in the evaluation field there are implications from these developments in respect to professional practice. Two such items are highlighted here. First, as SIBs expand in their use, evaluators will increasingly be asked to serve in the role of external validators of the outcomes of SIBs. In one sense these engagements often have the attributes of conventional program evaluations: multiple stakeholders, questions of interest, issues of measurement, and designs that require a comparative stance to assess the counterfactual. Unique to SIBs, however, is the extent to which outcomes are constrained and contractualized, that is, outcome metrics are bound up with investment repayment terms often with multiple funders. Any change in the evaluation plan could have implications for these arrangements and may require investor approval and amendments to multiple contracts. Evaluation partners must be well-versed in the intricacies of these agreements and sensitive to the governmental, program operator, and investor perspectives as such changes are explored. Second, evaluators must be able to work in a context with at least two overriding standards of success. One standard is the conventional “did the program work?” dimension. The other is unique to the SIB environment, and involves “did the SIB work?” This second dimension assesses whether a conceptually-sound program was designed, funded, delivered and evaluated, regardless of whether the program itself was actually found to be effective. For example, the Rikers Island SIB was successful under this standard even though the tested model was not shown to reduce recidivism beyond usual services. The SIB approach is designed to attract funding to the testing of consequential new service approaches, some of which may not ultimately be shown effective. The good news is that if SIBs work (and new programs show promise) investors will have more confidence in subsequent

opportunities to be involved. These dimensions require evaluators to serve in somewhat different roles and be adept at negotiating evaluation practices in these new contexts.

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