



Executive Summary

Pay for Success Early
Childhood Education Toolkit



What Is Pay for Success?

Pay for success (PFS) offers an alternative approach to investing in the future, including early childhood education. This innovative financing mechanism shifts financial risk from a traditional funder—usually government—to a new investor, who provides up-front capital to scale an evidence-based social program to improve outcomes for a vulnerable population. If an independent evaluation shows that the program achieved agreed-upon outcomes, then the investment is repaid by the traditional funder. If not, the investor takes the loss.

For more information on pay for success, please visit pfs.urban.org.



About the Early Childhood Education Toolkit

This toolkit is designed to guide jurisdictions and their partners through the core elements of a PFS project in early childhood education: the existing evidence for early childhood interventions, the role of data, the measurement and pricing of outcomes, program funding and financing, implementation, and evaluation design. The toolkit includes checklists, charts, and questions for consideration, to help direct and clarify thinking around the feasibility of pay for success to scale what works in early childhood education. Together, these briefs can help jurisdictions decide if pay for success is the right approach for them—and if so, how to get started.



Acknowledgments

The Pay for Success Early Childhood Education Toolkit was conceived by a working group led by the Urban Institute and its partners at the fifth annual Clinton Global Initiative America meeting in 2015 in Denver, Colorado.

The Urban Institute is incredibly grateful to our working group partners, who lent their time and talents to the development, research, and writing of this toolkit: Accenture, Bank of America Merrill Lynch, Enterprise Community Partners, Goldman Sachs, the Institute for Child Success, Nonprofit Finance Fund, The Reinvestment Fund, Salt Lake County, Social Finance US, and Third Sector Capital Partners.

Support for the Pay for Success Initiative at the Urban Institute is provided by the Laura and John Arnold Foundation. We thank our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at www.urban.org/support.

Pay for success (PFS) offers an alternative approach to investing in the future, including early childhood education (ECE). An innovative mechanism for public-private partnership, PFS scales an evidence-based social program through up-front capital provided by a private or philanthropic funder. If a rigorous evaluation shows that the program achieved agreed-upon outcomes, the government repays the funder. If not, the funder takes the loss.

The Pay for Success Early Childhood Education Toolkit is designed to guide jurisdictions and their partners through the core elements of a PFS project in ECE. Key takeaways of the six reports in the toolkit are as follows:

- 1 High-quality ECE programs can have meaningful effects on children, setting the stage for better outcomes over their lives.** Gains in early math and reading scores are among the most consistent positive outcomes seen in the growing evidence base on ECE programs. The economic and social benefits of programs do not typically outweigh costs, however, until long-term benefits, such as gains in earnings and reductions in criminal activity during adulthood, are accounted for.
- 2 Data play an integral role in PFS projects, informing decisionmaking from project feasibility to implementation monitoring and evaluation of outcomes.** Existing administrative data from schools and other ECE service providers are important; these are often supplemented by the collection of new data to adequately measure desired outcomes.
- 3 Stakeholders in a PFS project must agree on how to measure and price successful outcomes.** Both tangible savings to government agencies and intangible economic benefits to participants and society can influence the prices assigned to successful ECE outcomes.
- 4 Governments must consider how they will fund repayments to mitigate risks for investors.** Getting a government to commit to potential payments years down the line is a risk that requires mitigation to attract private or philanthropic funders seeking to generate social impact and potentially earn a return on their investment. In some cases, jurisdictions may need to pursue legislation to authorize the multiyear, outcomes-oriented contracts that PFS requires.

- 5** Implementing a PFS project successfully requires selecting a strong ECE service provider, developing a clear governance structure, and using data for effective performance management. With their emphasis on outcomes rather than services, PFS contracts differ from traditional contracts, and they require a different governance structure than is typical between governments and service providers.
- 6** Evaluation is the backbone of the PFS model. With repayment contingent on the demonstration of program results, planning and executing a rigorous evaluation of program impacts is crucial. Randomized controlled trial evaluations generally provide the most accurate reflection of a program's effect, and they are therefore the most likely to withstand public scrutiny of results.

The toolkit articulates a consistent refrain: the value of strong, collaborative relationships between government, service providers, and other project partners throughout a PFS project. Early, dynamic, and frequent communication among partners reduces risk, allows potential issues to be identified and navigated quickly, and eases the way for virtually all aspects of a project. Preexisting relationships specifically can streamline project development and help build community support. Collaboration can also create new relationships and opportunities for partnership beyond the scope of the PFS project.

Involving an independent evaluator and data experts from relevant agencies in the PFS project as early as possible are also clear and critical factors. Knowledge about local data systems and evaluation design can enhance project development and reduce the risk that the project will fail to meet its planned outcomes.

Taken together, the reports in this toolkit can help jurisdictions decide if PFS is the right approach for their efforts to scale ECE and, if so, how to get started.

What Is the State of the Science on Early Childhood Interventions?

High-quality ECE is important for children's healthy growth and development. Toolkit report #1, *The State of the Science on Early Childhood Interventions*, summarizes the large and growing evidence base on the positive impact of ECE programs:



Early math and reading scores are often where the short-term impact of a program is clearest. Because of the complex interconnectedness of early development and learning, high-quality ECE programs usually jointly address several domains of school readiness, including cognition and general knowledge, language development, approaches to learning, socioemotional development, and physical well-being. The strongest and most consistent evidence of impacts is found in children’s cognitive skills (e.g., early math scores) and language development (e.g., early language and reading scores) at the end of preschool. Several studies also show that ECE has positive effects on later school success and adult outcomes.



Estimates show the costs of serving young children in ECE programs are outweighed by the long-term benefits to participants, taxpayers, and society. Many of these benefits accrue over time, such as gains in participant earnings associated with higher educational attainment as well as reductions in criminal activity. Avoided costs for unnecessary special education and grade repetitions also contribute to program benefits.



We are still learning what makes a quality program. Program quality—particularly the quality of teacher-child interactions and use of an intensive, developmentally focused curriculum—matters for children’s outcomes. But more research is needed to understand the program features that produce the best outcomes.

How Can Data Inform Decisionmaking?

Data play an integral role in PFS projects. Knowing the kinds of data needed for a successful project, how to collect these data, how to use them, and how to overcome data challenges are all important. Toolkit report #2, *Using Data to Inform Decisionmaking*, describes the importance of data in developing PFS projects:



Data make the case for key decisions throughout a PFS project. Data are commonly used to assess project feasibility, select the target population and intervention model, inform the evaluation design, monitor implementation, and evaluate outcomes. Data can inform and reinforce these decisions as project partners justify their choices to investors and the public.



PFS offers opportunities for collaborating around data. PFS projects encourage both governments and providers to be more data driven and evidence based. Bringing together data experts across agencies early on in the project development process is important, as is choosing providers that are willing to meet the vision of data-driven services and have the capacity to maintain data systems.



New data collection can supplement existing data sources. Stakeholders can begin developing their data plan by asking what success looks like and what data are needed to measure targeted outcomes and monitor implementation. When identifying data sources, partners should consider both the availability of existing administrative data and the need to collect new data to adequately measure desired outcomes. Using administrative data frequently involves developing data-sharing agreements and building relationships with the data's owners.

How Can Project Partners Measure and Price Outcomes?

Setting and pricing outcomes are important steps of every PFS project because they allow partners to quantify the benefits of successful programs. Outcomes measurement and pricing are important to planning repayments to funders, and they help stakeholders evaluate whether the total expected repayment amount and schedule are acceptable. Toolkit report #3, *Outcomes Measurement and Pricing*, outlines the key steps involved in selecting outcomes and metrics of success, defining and evaluating success, and setting prices associated with success:



Good outcomes for ECE PFS projects are relevant to the community.

They should also be able to be verified and measured in a sufficiently short time frame, amenable to being assigned a dollar value, likely to be moved by the planned intervention, and likely to yield a substantial economic benefit. Reductions in K-12 special education and grade repetition are among the outcomes that might be easiest to tie to repayment. However, those outcomes do not fully capture the broader goals that most ECE programs have of promoting children's overall healthy development and long-term success.



Clearly defining the level of success at which payments will be made is important.

Once outcomes are selected, partners have to set the level of success at which payments will be made and develop a way to evaluate how many children meet those

criteria. A crucial consideration is whether payments are made for all children who achieve a certain benchmark or only if children achieve a higher level of success than a comparison or control group of untreated children.



Both tangible and intangible benefits matter when pricing outcomes.

Each outcome underlying success payments must have a dollar value assigned. Methods for identifying that dollar amount account for both tangible and intangible economic benefits. How much an agency is willing to pay, the dollar value of costs avoided, and the dollar value of other tangible economic benefits can inform a contingent valuation approach to pricing outcomes.

How Does PFS Funding Work?

Identifying reliable revenue streams for repaying funders in a PFS project is critical to attracting the up-front capital that shifts risk away from government. Toolkit report #4, *Program Funding and Financing*, describes funder incentives for entering a PFS contract and outlines key questions around how governments can provide funds for repayments:



Private and philanthropic funders have various incentives for participating in PFS.

Many funders view PFS projects as a way to achieve a double bottom line: both a financial return and measurable social impact. Investors may also be motivated by the opportunity to leverage existing resources to increase impact, the desire to build capacity, or an interest in a specific geographic or policy area. Private investors are more likely to seek some sort of return on investment, whereas philanthropic investors are usually willing to bear more risk.



Governments should structure repayments with the risk to funders in mind.

Governments must consider how they will structure repayments to mitigate appropriations risks for investors. Strategies for mitigating risk include securing backing by the full faith and credit of the issuing municipality as well as the use of sinking funds and escrow accounts, layered capital stacks, pilot or ramp-up testing periods, and interim repayments.



Though not always, legislation may be necessary to support contracting for outcomes. Jurisdictions may need to pursue either state or local legislation to authorize the type of multiyear, outcomes-oriented contracts that PFS requires.

Legislation can be either broad or narrow in scope, and is beneficial in that it is often less complex than using existing multiyear contracting authority for PFS contracts.

How Are Programs Implemented in PFS?

Procuring a service provider and implementing an intervention in a PFS project require a strong focus on outcomes, performance management, leadership and organizational strength. Toolkit report #5, *Project and Performance Management*, describes program implementation in ECE PFS projects by outlining best practices for choosing a service provider, project governance, and performance management:



Project partners should choose service providers that have experience implementing an evidence-based social program. Service providers also must have the institutional capacity to deliver the program with fidelity, serve more or new types of children and families, participate in a rigorous evaluation, and engage in performance management activities that go beyond the status quo. When promising service providers lack some of the desired characteristics, philanthropic funding can help them develop key capabilities for PFS.



Strong governance helps PFS projects run smoothly. With their emphasis on outcomes rather than services, PFS contracts differ from traditional contracts, and they require a different governance structure than is typical between governments and service providers. As multistakeholder agreements, PFS projects require clearly-defined governance structures, operational oversight to monitor project progress, and executive oversight of key project decisions, including replacement of service providers or project managers when necessary.



Program implementation in PFS requires regular, iterative improvements. PFS projects require more rigor in their monitoring of key performance metrics than traditional grant- or publicly funded programs. PFS projects engage all partners in an ongoing discussion on progress, with regular opportunities for reflection and midcourse correction. This approach to performance management is intended to mitigate the risk that the PFS project will fall short of its intended outcomes.

How Are PFS Projects Evaluated?

Repayment in a PFS project hinges on the project's evaluation and the impact it shows, which makes planning and executing a rigorous evaluation absolutely crucial. Toolkit report #6, *Evaluation Design*, reviews the benefits and challenges of different evaluation designs and emphasizes the importance of involving evaluators as early as possible in project planning:



Randomized controlled trials generally provide the most accurate reflection of the program's effects. Because of the direct link from the evaluation to repayments in PFS, it is in the best interests of all partners in a PFS project to select an evaluation design that can best withstand intense scrutiny and give confidence that it fairly represents the program's impact. In most cases, this will be a randomized controlled trial, where eligible children are randomly assigned into a treatment group that receives services and a control group that does not.



Evaluation planning should be integrated into overall PFS project planning. During early planning stages, it is important to review previous evaluations, identify the population targeted by the evaluation (in most cases, a subset of the children eligible for the program), define the metrics to be tracked and analyzed, and consider how to cover evaluation costs.



Involving evaluators as early as possible enhances project development from inception to implementation. Bringing independent evaluators to the table early on can help PFS projects run more smoothly by clearly threading all of the work—the data collection, the outcomes pricing, the funding, and the performance management—toward accurately measuring impact, which is the crux of the PFS model.

Conclusion

PFS offers an opportunity to scale high-quality, evidence-based ECE programs that we know would benefit children’s healthy growth and development in both the short and long term. It is a new tool, and it therefore comes with risks for all project partners. But focusing on evidence, selecting a proven intervention, structuring repayments wisely, selecting a strong service provider, and implementing a program with fidelity to the model can help mitigate this risk.

