

5

Improving Workforce Outcomes with Pay for Success

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“From this training I feel like I can see the light at the end of the tunnel and it feels very promising now.”

—Immaculate Nabuule, Jewish Vocational Service participant

Immaculate Nabuule has always dreamed of being a banker. When she moved to the United States from Uganda six years ago, she applied to many banks but was never hired. Finally, in May 2017, Nabuule enrolled in the Bank Teller Training program at Jewish Vocational Service (JVS) in Boston. JVS, one of Greater Boston’s largest community-based workforce and adult education providers, assisted with her resume and cover letter, went through practice interviews, and helped her become more familiar with the American banking system. Soon after graduating, Nabuule began working full time as a bank teller in Boston.

Over the next five years, an innovative funding model called Pay for Success (PFS) will allow JVS to serve an additional 2,000 people in Greater Boston, equipping them with the skills they need to advance their careers and providing Greater Boston necessary human capital to fuel its economy.

Launched in 2017, the Massachusetts Pathways to Economic Advancement Pay for Success Project (MA Pathways) is a collaboration between the Commonwealth of Massachusetts, JVS, and 40 impact investors, including financial institutions, donor advised funds, individuals, and foundations. It is the nation’s first PFS project to focus exclusively on improving workforce development outcomes and is one example of how governments are using results-based financing tools to advance and accelerate workforce development solutions.

Workforce development policies, strategies, and initiatives aim to achieve two connected objectives: help individuals attain the education and skills necessary to enter the workforce and climb the economic ladder, and improve the productivity and vitality of the economy. Effective workforce development initiatives weave these objectives together to create positive outcomes for individuals, industries, and society.

However, expanding effective programs to dramatically move the needle on workforce development objectives requires persistent and sustained collaboration between the education, economic development, nonprofit, and business sectors. Outcomes-focused financing tools like PFS offer these stakeholders a tool that can align incentives across sectors to achieve meaningful and measureable results.

In this chapter, we will define PFS, explore its increasing popularity as a way to tackle complex social challenges across the United States and around the world, and highlight three examples of our work employing Pay for Success to improve workforce outcomes for individuals in need.

WHAT IS PAY FOR SUCCESS?

Also known as Social Impact Bonds, PFS is an innovative public-private partnership that drives resources toward effective social programs. It unites investors, nonprofit service providers, and payors (often government) around a powerful common goal: improving outcomes for individuals and communities in need (See Figure 5.1).

A PFS project begins with a social challenge the government is trying to address. Government partners with high-performing nonprofits, who scale their services with up-front capital from private investors. An independent evaluator measures the impact of the project on predetermined outcome metrics. If the project successfully improves outcomes, the government repays investors with a modest return. However, the government pays only at the level of outcomes achieved.

There are currently over 100 PFS projects in 24 countries. In the United States, 20 projects are mobilizing over \$200 million in capital to tackle a wide range of issues, including adult and juvenile recidivism,

Figure 5.1 Uniting Uncommon Partners through Pay for Success



SOURCE: Social Finance.

workforce development, child welfare, the opioid epidemic, and maternal and child health (Social Finance, n.d.).

Globally, over one-third of Social Impact Bonds have focused on workforce development.¹ This includes projects developed in 12 countries across four continents. The applications for PFS in workforce development are diverse and include a cross-border project between Germany and the Netherlands to address a labor shortage in Germany and relatively high unemployment in the Dutch municipality of Enschede and a project supporting cocoa farmers in the Peruvian Amazon.

THE POWER OF PFS

The PFS structure ensures that all stakeholders benefit: governments gain a new level of accountability for taxpayers by paying only for programs that deliver measurable impact; nonprofits secure multi-year, flexible funding, which allows them to grow; and investors can reflect their values in their investment portfolios by receiving financial returns only when projects measurably improve people's lives.

PFS is about systems-level change, a pursuit that at its core is about changing mindsets: government contracts for outcomes instead of services rendered, investor repayments are based on the measurable impact a project generates, and service providers measure and communicate the outcomes their participants achieve. It is about bringing all parties to the table and encouraging them to think outside their traditional silos.

Achieving Positive Outcomes for all Project Stakeholders

In their book *Moneyball for Government* (2014), Peter Orszag and John Bridgeland write that less than 1 percent of programs funded by the federal government are backed by the most basic evidence that the program has worked. PFS helps governments put data to work and scale programs that are supported by evidence to more effectively steer taxpayer dollars toward social service interventions that have measurable results for people.

High-impact nonprofits need flexible, sustainable funding to expand effective programs and generate greater impact. Instead, too many must rely on a patchwork of fee-for-service funding that underfunds, impedes, or even prohibits activities that could generate more impact.

PFS benefits service providers by providing multiyear, flexible, unrestricted funding that service providers can use for critical internal systems such as data systems and analysis, project ramp-up periods, and evaluations.

Finally, more investors are looking to achieve both social and financial returns with their investments. Impact investing is shaking up a bifurcated worldview organized around the bright line between for-profit activities, which should only seek to maximize financial returns; and charity, which traditionally gives money without expecting any

back in return. Through models like PFS, the private sector and philanthropy align in their pursuit of outcomes *and* returns.

HOW PFS IS BUILDING MOMENTUM TO TACKLE SOCIAL ISSUES

Shifting the Focus from Outputs to Outcomes

Each year, governments spend hundreds of billions of dollars to provide necessary human services, including providing health care for the sick, supporting vulnerable children, and helping build our workforce. For the most part, government only measures the outputs of these services, such as the number of people served, volunteer engagement, or money distributed.

In answering the big questions about impact and about lives changed, outcomes are what matter: ex-offenders becoming employed and reintegrated into society, students graduating and connecting to the labor force, women delivering healthy babies. However, measuring, tracking, and reporting on outcomes requires a significant investment in resources and a shift in mind sets. PFS provides a way to effectively focus public sector attention and resources on the achievement of these outcomes.

For workforce development, beneficial outcomes like increased earnings and improved postsecondary enrollment have tangible value that accrues to the individual, the community, and the government. PFS helps monetize that value, which is the engine that allows impact investors to fund the expansion of services to people in need and the government to pay only if measurable outcomes are achieved.

Allowing Governments to Invest in Prevention

PFS enables governments to invest early and upstream, focusing on prevention rather than remediation: vaccines are cheaper than treating disease and result in better population health outcomes; job training and housing cost less than incarceration and enable economic mobility. By engaging the private sector to provide up-front capital, government

can focus on preventive measures while continuing to provide a needed social safety net, thus reducing costs and avoiding social challenges down the road.

PFS increases governments' capacity to invest in an ounce of prevention today rather than a future pound of cure. This allows governments to direct already limited funds more effectively, improving access to services for people in need over the long term.

Transferring Risk from the Public to the Private Sector

PFS transfers performance risk from government to funders. This risk transfer is meaningful to government: private funders provide upfront working capital to expand a social intervention, and in doing so they take on the performance risk if the project does not deliver positive results. Government repays investors based on the level of outcomes achieved, as measured by an independent evaluator. Outcome metrics are jointly established by the payor, the service provider, and the intermediary. Once these details are finalized, capital is mobilized from project investors.

Transferring performance risk ensures government payment is commensurate to the impact created. PFS is essentially about ensuring value for taxpayers—not only because government pays just for programs that work, but also because it can help governments get more value for every taxpayer dollar spent.

Engaging Stakeholders in Active Performance Management

Through active performance management, which includes project oversight, analyzing programmatic and administrative data, initiating course corrections, and financial management, the service provider and the PFS intermediary are better able to manage outcomes achievement over the life of the project. Active performance management creates a close working partnership between governments and service providers with the singular focus on achieving project goals. In the MA Pathways project, for example, quarterly measurement and payment points provide a rapid flow of information to facilitate continuous improvement of JVS program services.

SOCIAL FINANCE CASE STUDIES: PFS AND WORKFORCE DEVELOPMENT

A well-educated, highly skilled workforce is an essential part of the long-term health of our local, regional, and national economies, which can make economic mobility a reality for individuals in the labor force. The economic benefits of increased employment and improved social outcomes make workforce development a promising fit for PFS.

We know that in today's complex economic landscape there is no one-size-fits-all solution. Different populations have different needs for services that help them improve their career outcomes over the long term, and different geographies present unique opportunities and challenges. Below are three distinct examples of how Social Finance, a non-profit organization that has been pioneering the PFS field in the United States for seven years, is working with nonprofits, governments, and funders to scale effective workforce development programs across the nation with PFS. These projects span the country and will serve veterans, immigrants, and refugees in Massachusetts, and high-need youth in Ohio, Texas, New York, and California.

Massachusetts Pathways to Economic Advancement PFS Project

The long-term vitality of Greater Boston's economy is dependent on its workforce. Immigrants, like Immaculate Nabuule, whose story we highlighted at the beginning of this chapter, make up nearly one-third of the adult working age civilian population in the greater Boston area. However, the potential for this population to contribute to the labor force is not being fully tapped. In 2014 and 2015, the median annual earnings for immigrants was nearly \$15,000 lower than that of native Bostonians. Forty percent of the immigrant population does not have more than a high school education, compared to 22 percent of the nonimmigrant population in Boston, and 38 percent of immigrants indicated that they have poor English language skills (Osterman, Kimball, and Riordan 2017).

Advancing career opportunities for the working-age immigrant and refugee population in Boston will allow this community to improve their socioeconomic standing, which will result in improvements in

health and greater education opportunities for their children. Better workforce outcomes for individuals and families will further strengthen Boston's economy. Industries will have access to the skills needed to improve productivity and profitability. Increased purchasing power by the immigrant and refugee population will generate more economic activity, which in turn fuels greater growth and more jobs.

In 2015, the Commonwealth of Massachusetts established the Workforce Skills Cabinet with the goal of developing cross-sector solutions "to effectively, efficiently, and equitably promote economic growth through education programs, workforce skills trainings, employment opportunities, and business development services" (Commonwealth of Massachusetts 2015). As one of the first states to utilize PFS to tackle chronic social issues, Massachusetts identified a tool that allowed it to leverage private investments to fund a suite of workforce development services that align with the regional needs of a large and low-income segment of the workforce while supporting the industries that power Boston's economy.

Social Finance raised \$12.4 million from 40 impact investors, providing JVS with flexible capital to expand workforce development services to 2,000 additional immigrants and refugees in the Greater Boston community (Commonwealth of Massachusetts 2017). Aligned with JVS's theory of change to deliver the right services to the right people at the right time in their lives, the PFS project will enable the delivery of a multitrack program to ensure that those who seek services are able to fully engage in a program that puts them on a path to success. The Rapid Employment track provides vocational English and job placement services to adults who are looking to secure a first job immediately. English for Advancement is a more intensive program for higher-level English speakers seeking employment or job advancement. Skills training facilitates job placement in the health care or hospitality sector. The Bridges to College track will support individuals with high school equivalency seeking to transition into higher education.

Aligning stakeholders' incentives to focus on meaningful and measurable outcomes has dual advantages. Outcomes-contingent payment ensures accountability of taxpayer resources. For MA Pathways, the Commonwealth's payment to investors will be determined by an independent evaluator's measurement of three outcomes among project participants: 1) earnings, 2) successful transitions to higher education,

and 3) program engagement. The active performance management plan developed by the partners creates rapid feedback loops, allowing JVS and the cabinet agencies to continually refine services and continuously improve the training.

Veterans Coordinated Approach to Recovery and Employment (CARE)

Since 2001, the wars in Afghanistan and Iraq have resulted in thousands of service members transitioning out of the military and into the civilian workforce. Many veterans find this to be a challenging experience.

Veterans with posttraumatic stress disorder (PTSD) are especially prone to facing challenges in the transition process, particularly with obtaining and maintaining well-suited, stable employment. Symptoms of PTSD may result in a lack of interest in engaging in tasks and activities, anxiety, depression, feelings of detachment from others, and trouble with concentration. This vast array of symptoms combined with other employment barriers such as limited nonmilitary vocational skills and work experience, lack of resources to assist with preparation for finding a civilian job, and a challenging job market can prevent veterans with PTSD from successfully transitioning into the workforce.

While the Department of Veterans Affairs (VA) and other government organizations, such as the Department of Labor, have programs that assist veterans in seeking employment, there is not currently an employment program that focuses specifically and solely on veterans with PTSD. In 2016, the VA and Corporation for National and Community Service (CNCS) selected Social Finance, in partnership with the Tuscaloosa Research and Education Advancement Corporation (TREAC), to develop a PFS project that improves employment outcomes for approximately 500 unemployed veterans with service-connected PTSD. The resulting project, CARE, will expand the Individual Placement and Support (IPS) program, an evidence-based approach to supported employment that emphasizes rapid job search by matching an individual's needs and preferences and provides integrated mental health care. IPS has been evaluated by randomized controlled trials spanning multiple countries, diagnoses, and contexts, which have shown increased competitive employment for veteran participants.

To evaluate if the project is successful at improving long-term employment outcomes, the CARE project will measure veteran earnings, sustained competitive employment measured by days worked, job satisfaction, and fidelity of implementing the IPS model in new geographies.

Through the CARE project, private funders will provide approximately \$5 million in up-front capital to expand IPS in several communities across the United States. The VA, CNCS, and local jurisdictions will then repay the funders based on the success of the program in achieving outcomes for veterans.

Catalyzing Career and Technical Education through PFS

Underserved, high-need youth—including low-income youth and students of color—have the lowest rates of high school graduation and attainment of postsecondary credentials, and, consequently, low employment in jobs providing family-sustaining wages (National Center on Education Statistics 2016). Research shows that well-implemented career and technical education (CTE) programs result in improved student outcomes, such as improved high school graduation, transitions to two- and four-year colleges, persistence in college, accumulation of college credit, and attainment of postsecondary credentials (see, for example, Elliot, Hanser, and Gilroy [2002] and Kemple [2008]).

Social Finance, with support from the U.S. Department of Education's Office of Career, Technical and Adult Education and Google.org, is leading the exploration of PFS financing in support of high-quality CTE models that propel students to postsecondary and career success. In partnership with Jobs for the Future (JFF), Social Finance will develop the nation's first PFS projects focused on CTE programs.

In the spring of 2017, Social Finance and JFF held a national competition to select high-quality CTE programs with the potential to expand via PFS financing. Four sites were selected to receive technical assistance and participate in a PFS feasibility study to determine whether PFS is a good fit to expand their career and technical education programs:

- 1) South Bay Community Services, in San Diego County, California, will launch a CTE program designed to support traumatized youth aged 16–24. It will include enriched academic

preparation, support with making college connections, and extended support into the first year of college.

- 2) NAF, a New York-based group that runs a network of career academies, will expand fully paid internships.
- 3) Mahoning County Educational Services Center, in northeastern Ohio, will double the reach of its career-focused, early-college programs.
- 4) Pharr-San Juan-Antonio Independent School District, in the Rio Grande Valley of Texas, will increase enrollment in a new program focusing on agriculture, food, and natural resources.

These sites from across the United States serve diverse populations of underserved, high-need youth through varied types of CTE programs. They will be the first in the country to explore PFS in K–12 education.

For each site, Social Finance and JFF will assess the potential for PFS to launch or expand the proposed CTE model. For up to three applicants, Social Finance and JFF will continue to work with the organization to develop a PFS project and raise capital. Finally, Social Finance will stay involved in all PFS projects once services are launched, providing active performance management to ensure that projects stay on track and that outcomes are met.

CONCLUSION

The nature of work is changing; we know that the twenty-first century workforce will require skill sets that are very different from those in the preceding century. Diverse interventions are needed to prepare individuals to thrive in this new economy. Pay for Success can help scale such interventions, from individualized support for veterans with PTSD to vocational training for immigrants with limited English skills. It can support the expansion of programs that prepare underserved youth for postsecondary education and for careers.

Improving the well-being of our most vulnerable citizens requires a commitment to continuously improving government services. A well-educated, highly skilled workforce, in particular, is an essential part of the long-term health of our local, regional, and national economies.

PFS offers the opportunity to improve employment and career options for our nation's workers and job seekers by mobilizing capital to grow programs that work. In doing so, it supports the development of strong, vibrant communities where people and businesses can thrive.

Note

1. For more information, visit <http://www.socialfinance.org.uk/database/>.

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