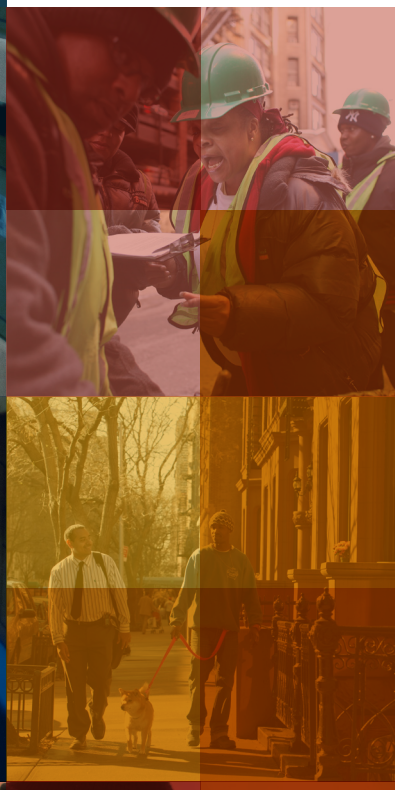
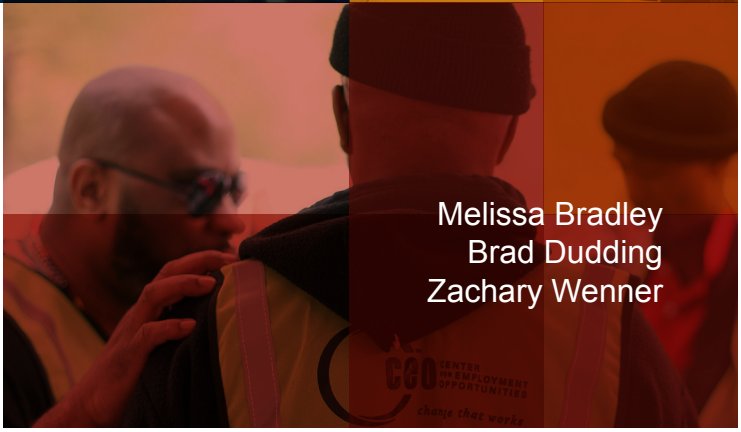
Thriving in an Outcomes-Based Market

How the **Center for Employment Opportunities** became a data-driven service provider, doubled its reach and participated in the first state-sponsored Social Impact Bond.





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THE ASPEN INSTITUTE
Philanthropy & Social Innovation

PREFACE

Throughout 2014, the Aspen Institute's Program on Philanthropy and Social Innovation (PSI) convened leaders from the public and private sectors to discuss the shift toward outcomes-driven strategies in supporting social services. The roundtable events, part of PSI's Impact Economy Initiative, identified ways that service providers, the philanthropic community, government entities and financial institutions continue to drive the transition to more cost-effective resource allocation through Pay for Success (PFS) — a contracting and financing method in which payment for social services is contingent upon the delivery of contractually defined social outcomes.[1]

This report highlights the Center for Employment Opportunities' (CEO) transition from a "promising" to a "proven" organization, outlining its pathway to becoming a nationally recognized data-driven social service provider. The organization, which provides comprehensive employment services to persons with recent criminal convictions, became a Social Innovation Fund grantee in 2011 and entered the first state-sponsored Social Impact Bond (SIB) in 2014. The narrative below tracks the internal changes and external support that predicated CEO's ability to access PFS funding and other forms of outcomes-based capital.

1 *For an in-depth primer on Pay for Success, please see the Nonprofit Finance Fund's Pay for Success Learning Hub.*

THE PROGRAM ON PHILANTHROPY AND SOCIAL INNOVATION

The Aspen Institute's Program on Philanthropy and Social Innovation (PSI) seeks to inform and maximize the impact of philanthropists, social investors, and the organizations they support. The program's theory of change rests on the premise that if leaders have clarity about their values, are collaborative in their approach to problem-solving, and are aware of the strategies and potential partnerships available to them, they are more likely to succeed in advancing the social good.

PSI's Impact Economy Initiative, which was launched in 2010, seeks to build and assess models for investments and enterprises that generate both financial profit and positive social or environmental returns. We would like to thank the Omidyar Network and the Rockefeller Foundation for their support of PSI's Impact Economy Initiative.

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INTRODUCTION

In the past decade, reductions in funding for nonmilitary discretionary programs, along with widening wealth inequality, have prompted both the public and private sectors to explore creative, cost-effective solutions to social issues. Policymakers have continued to experiment with increasingly flexible, performance-based grant mechanisms. Mainstream commercial investors, including JPMorgan Chase & Co. and BlackRock Inc., have developed an array of social investment products. And the philanthropic community continues to pursue outcome-driven strategies to bring high-performing social service providers to scale.

In many ways, the Pay for Success (PFS) approach rests at the confluence of these efforts. It provides a tool with which diverse actors can advance common goals and an approach that leverages the key assets of cross-sector collaboration — private sector dynamism, nonprofit field expertise, government scale and philanthropic vision all brought to bear on social issues with precision and accountability. As several participants noted during events at the Aspen Institute, the approach is not a panacea, nor did it ever promise to be. Rather, it is one strategy, one tool among many that has the potential to move the needle on social issues that have, thus far, proved intractable.

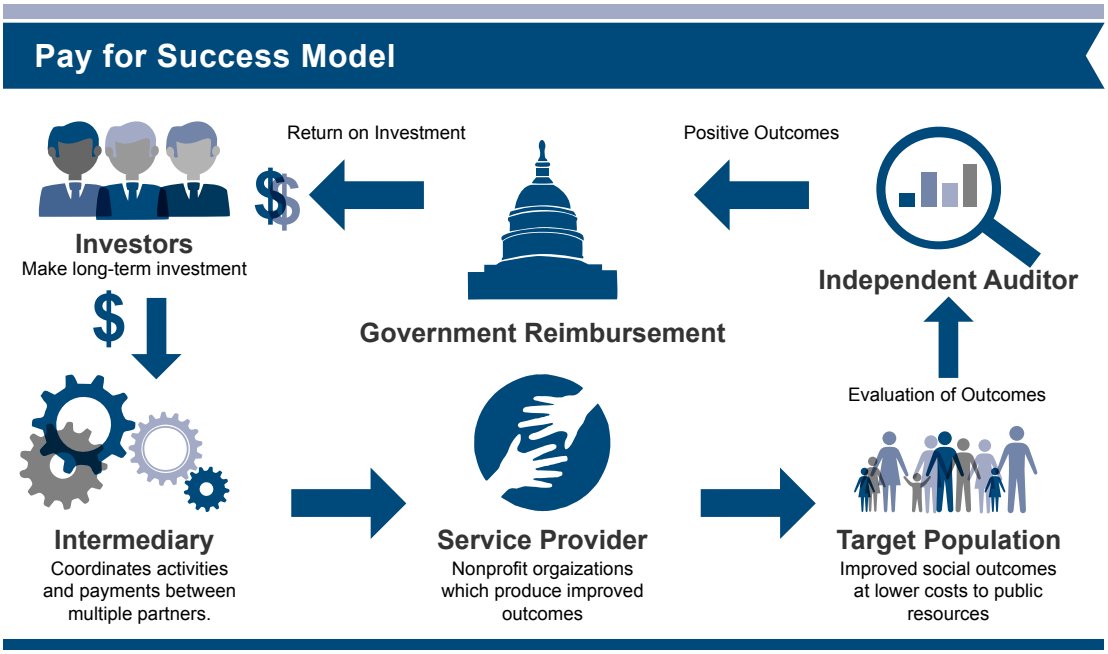
A system that links capital access to the materialization of social outcomes will advance the goals of the sector only to the extent it bolsters the social impact and financial sustainability of social service providers. As Mario Morino clarifies in Leap of Reason, "Every ounce of our effort on assessing social outcomes should be with one end in mind: helping nonprofits deliver greater benefits to those they serve." PFS aims to create an enabling environment for this process — a transactional landscape that empowers organizations as they aggregate, analyze and improve their social outcomes.

Despite a sector-wide shift toward data-driven practices, however, relatively few organizations have the ability to manage outcomes in this way, and only a limited ecosystem of funders systematically develop this type of organizational capacity. According to event participants, for example, approximately 1 percent of service providers currently have the capacity to enter a PFS transaction. As the outcomes-based market matures and as financial instruments such as Social Impact Bonds (SIBs) standardize, the scarcity of outcomes-driven organizations risks creating a bottleneck in the movement's development and imposing limitations on the systemic goals of greater impact and efficiency in an era of constrained budgets.

CEO's transition offers key lessons for service providers and grantmakers in the development of a data-driven organization. Given the array of intervention types, the capacity-building process will always maintain a degree of variability. However, as ad hoc and exploratory development strategies give way to more systematic approaches, there exists an invaluable opportunity to highlight the key linkages and phases that drive the development of a "PFS-ready" organization. The CEO narrative below provides an example that can guide both the public and private sectors as they work to make those phases more robust, the linkages between them more continuous and the transition itself more accessible for the many organizations with the potential to change the landscape of social service provision and economic opportunity in the country.

PAY FOR SUCCESS

PFS is an innovative form of resource allocation that creates the incentives and financial infrastructure for service providers to deliver improved social outcomes at lower cost to public resources — producing the highest return on taxpayer investments. The concept is simple: Providers should be paid based on their demonstration of rather than their promise of success. PFS models are emerging all across the United States, and securing major national foundations, high network individuals (HNI) and state and federal governments as partners.



The pipeline for PFS is robust, with well over $100 million of deal flow across the US. Moreover, PFS models have diversified to encompass a range of intervention types, extending beyond recidivism to include interventions such as academic programs for disadvantaged children and elder care services. Along with addressing an array of social issues, transactions also have become larger and increas-

ingly frequent. For example, there was a nearly two-year hiatus between the first two deals. Since then, transactions have emerged every six to nine months, with more recent transactions less than two to three months apart. The transactions also have continued to engage an assortment of investors integrated within increasingly composite capital structures. The first deal retained two investors, for example, while one of the most recent includes more than 40.

Due to PFS's potential for risk mitigation and its focus on cost savings, the concept has continued to engage stakeholders in both the public and private sectors. The factors mobilizing interest in PFS include:

1. Decreasing resources in the public sector and philanthropic community
2. Increased ownership of community problems by the private sector
3. Rising capacity to identify and evaluate effective and scalable interventions through data-driven practices.

In particular, these convergent trends have helped to galvanize bipartisan support throughout multiple levels of government. In May 2014, for example, Congressman John K. Delaney (MD-6) introduced an amendment to the Commerce-Justice-Science appropriations bill for Fiscal Year 2015 (H.R. 4660) to increase funding for PFS. In his comments to his peers, Congressman Delaney noted:

"Pay For Success should be a no-brainer. As a government, we have to start using evidence-based solutions. Instead of simply throwing money at problems, we should measure outcomes and only fund what works. Pay For Success accomplishes this by partnering with non-profits and the private-sector, which can fund promising innovative initiatives, getting paid back by the government if, and only if, the program achieves the desired results. The government only pays for success, not failure, and saves money either way. Investing in evidence-based programs to stop offenders from becoming repeat offenders reduces the burden on law enforcement, decreases spending on prisons and gives some Americans a pathway back into our workforce."

The FY 2015 Federal Budget proposal allows for up to $82 million to support PFS initiatives across eight program areas, while also re-proposing the $300 million Pay for Success Incentive Fund at the Department of the Treasury:

PAY FOR SUCCESS IN THE PRESIDENT'S FY2015 BUDGET PROPOSAL			
INITIATIVE	AGENCY	FUNDING	BUDGET REFERENCE
Incentive Fund	Treasury	$300 m	Budget in Brief, p. 3 and 17 Department Offices Congressional Justification, p. DO-15
Workforce Innovation Fund	Departments of Labor and Education	$10 m	Training & Employment Services Congressional Justification, p. TEX-3
Investing in Innovation (i3)	Department of Education	$10 m	Innovation & Instructional Teams Congressional Justification, p. H-39
Fund for the Improvement of Education	Department of Education	$8 m	Innovation & Instructional Teams Congressional Justification, p. H-131
Career and Technical Education	Department of Education	$10 m	Career, Technical & Adult Education Congressional Justification, p. O-14
Second Chance Act (Supportive Housing and Offender Re-entry)	Department of Justice	$30 m	Office of Justice Programs Congressional Justification, p.11 and 141-142
Social Innovation Fund	Corporation for National and Community Service	$14 m	CNCS Congressional Justification, p.15 and 48
Project-Based Rental Assistance	Department of Housing and Urban Development	Demonstration Authority	Budget Appendix, p. 629 Sec, 232
TOTAL		**$382 MILLION**	

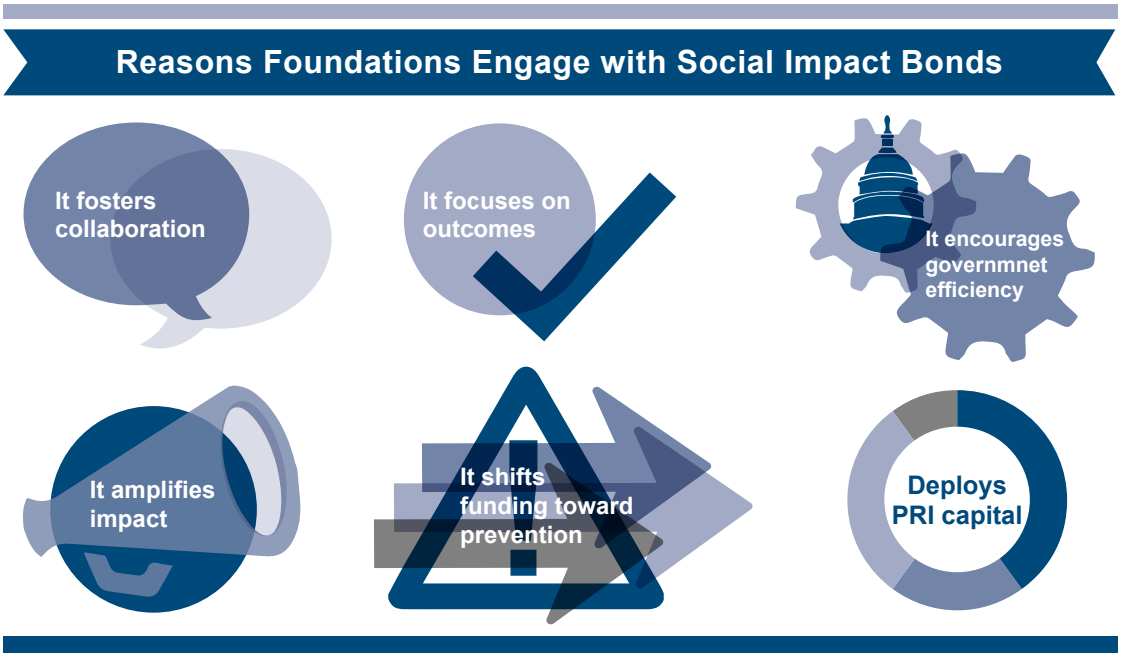
Source: Results for America

For government leaders, PFS provides a dynamic tool to manage dwindling funds and to address high-cost, historical community challenges. The model affords government both increased flexibility in its grantmaking and greater capacity to deliver improved social outcomes through long-term intervention. Traditionally, the public sector has not had the "luxury of taking the future into consideration," according to a recent Social Finance report, due, among other aspects, to the volatility of the political cycle. In evaluating and rewarding outcomes over a multi-year period, policymakers are able to invest in long-term interventions for which there is a measurable cost-benefit ratio, transfer risk to the private sector and reallocate resources toward prevention rather than high-cost remediation.

For nonprofit service providers, PFS provides much needed resources to expand their reach to more families and communities in need. In addition, it provides a direct link between the results they envision, the outcomes they deliver and the resources they secure. In the past few decades, service providers and their funders have increasingly measured performance at all levels of the logic and results chain, from inputs and activities to short- and long-term outcomes. However, for many service providers, the demonstration of positive social outcomes does not systematically correlate with increased funding or additional protections on existing revenue streams. PFS creates that link, allowing service providers to pursue impact and resources through one set of activities rather than through two dis-

tinct work streams. PFS also integrates course-correction and capacity building into the transactional structure so that outcomes are not only rewarded, they are improved and bolstered throughout the life of the deal.

For the philanthropic community, PFS offers a means to scale proven interventions and a structured vehicle to improve system-wide resource allocation. "The payoff for this transaction goes above and beyond the almost 1,000 lives we hope to positively impact," said Ben Hecht, president and CEO of Living Cities, with regard to Living Cities' involvement in the Massachusetts SIB. "The ultimate success will be inspiring a new way for government, philanthropy and the private sector to collaborate that funds outcomes, not outputs. That's how we'll expand opportunities and make a dent in inequality." In addition, PFS provides an on-ramp to public resources for philanthropically funded nonprofits and a financial diversification tool for foundations. Since their inception, for example, PFS programs have leveraged both a) grants for the purpose of field-building activities, such as research and demonstration projects; and b) program related investments (PRIs) for transactions in which investors mitigate risk through credit enhancement.



Source: Social Finance

Mainstream commercial investors have continued to leverage PFS as a tool for both financial growth and social change. For many commercial institutions, social investing is not only a way to leverage their assets for charitable causes, it also offers a diversification strategy and investment philosophy. In a recent Aspen Institute report, Audrey Choi, CEO, Morgan Stanley Institute for Sustainable Investing wrote, "In fact, we believe integrating [environmental and social] considerations into one's investment philosophy can potentially strengthen long-term value creation through better identification of risk factors and future demand trends and opportunities." The shift also reflects changes in client invest-

ment preferences. For example, Surya Kolluri, managing director at Bank of America Merrill Lynch, credited the bank's involvement in PFS to the interest of their wealth management clientele, who have increasingly sought to generate both social and economic value through their investable assets. As Mr. Kolluri noted during a 2014 PSI event, "we move fast if clients and investors say they want something."

At its heart, PFS is a mechanism to leverage increasingly accurate, low-cost and timely data. It is form of financial engineering that integrates interrelated social and economic outcomes as they materialize over time and across systems. And it is a pledge to reward the results we seek, whether they are improved educational outcomes or reduced recidivism rates, with commensurate resources. With historical challenges in the social sector such as lack of capital access and inefficient spending, PFS marks a paradigm shift in the way we support results, encourage innovation, validate progress, and attract private capital to address social challenges at scale.

CENTER FOR EMPLOYMENT OPPORTUNITIES

CEO is a nonprofit organization that provides comprehensive employment services to persons with recent criminal convictions so they can rejoin their communities with productive and sustainable employment. In the past decade, the organization went from serving 2,500 participants in one jurisdiction to serving close to 4,500 participants in 10 sites. CEO is supported by an array of diverse and innovative funding sources, including the federal Social Innovation Fund and an SIB in New York State. In addition, the organization launched a performance measurement system and participated in an independent randomized control trial and accompanying cost-benefit analysis. Taken together, these events have launched CEO's national presence and defined the organization's evaluative culture in which the consistent pursuit of data has driven innovation, expansion and improved performance.

Constituent Narrative:
Center for Employment Opportunities*

Juan has his life on track. He has a good job where he works more than forty hours each week earning union wages. He has a wife, a baby—even a new car. He is saving money. He has plans: to go to school, eventually to buy a house. "This is just the beginning," says Juan, who is 25. "I'm starting a whole new life."

It wasn't always that way.

Juan grew up in the Fruitvale district of Oakland, California, the youngest of nine children. He was sent to juvenile hall in the ninth grade, and dropped out of high school his senior year. He was stabbed in the chest when he was 16, and has been shot three times. He was incarcerated when he was 19 and again when he was 21. His second sentence was for four years. In the year and a half since he was released from prison, Juan has planned every step to move his life forward. "After my street life, my incarceration, and my life almost being taken numerous times, I realize that path is not for me," he says. "I really matured. I learned there's much more to life than the streets. I can't go back. I want something better."

He credits his older brother with lending a guiding hand, with picking him up whenever he slipped, and with setting a good example. He is also grateful to the Center for Employment Opportunities (CEO), which has given him the tools to transition from incarceration to employment.

"This program's real special to me," he says. "Honestly, if I didn't come here, I'd probably end up going back to prison. That, or I'd be dead." He explains that, with jobs so difficult to find for those on parole, it was the small, practical things that CEO taught him that pointed him in the right direction. "Not only did they help me with the job search, they showed me how to ask for a job, how to fill out an application, how to find the right person to speak to."

After completing CEO's life skills training course where he learned skills such as resume writing techniques, personal presentation, basics of communication, and how to discuss conviction and criminal history on an interview, Juan joined one of CEO's work crews, where he received a paycheck at the end of each workday. "The program was great," he says. "Not only did it put money in my pocket, but the job kept me balanced and gave me something to look forward to."

Juan is now employed fulltime as a metal worker. He works the graveyard shift, which allows him to care for his three-month-old son, duties he shares with his wife Leslie, who is a schoolteacher. He hopes to further his education by taking college courses later this year. His goal: to become a parole officer or counselor. "I want to talk to youth, share my experience, give them my knowledge," he says. "There are a lot of kids who grow up thinking there's no way out, that all they have is the streets. I want to tell them my life story. Let them know there's another way."

Juan explains that he's already been to five funerals this year. "My wife and I talk about it, how crazy it is, how we don't cry any more. We just accept it. It's sad because where we live, you get used to it. That's why I'm working so hard, so my son won't see this. When the time is right, we'll be out of here. Every day when I get home from work I tell him, 'You better go to school!' He can be whatever he wants to be, I'll support him. But I hope to God he'll be somebody special. I know he will."

Juan says that he's grateful to have a job to go to every day, that he has a reason to get up and move forward. Having survived three gunshots, he feels that he has learned the importance of overcoming obstacles, of not letting circumstances control his life. "I'm so much better now than where I started," he says. "I'm working. I have a family. I'll never look back. I've learned that you can't wait for it. You have to go get it. And I'm going to go get it."

** Juan's story was shared by REDF, a California-based nonprofit that supports social enterprises that "employ those who have the toughest time getting a job."*

KEYS TO SUCCESS

Over the past decade, CEO had three key advantages that generated high performance and positioned the organization to access the first wave of PFS capital that is now taking hold in the social sector: 1) a senior leadership team relentlessly committed to understanding program impact; 2) a performance-based culture centered on achieving CEO's theory of change through data analysis and course corrections; and 3) funders with an investor mindset willing to bet on CEO's future by providing multi-year grants free from restrictions to build organizational capacity.

A LEGACY OF DATA COLLECTION

CEO was originally conceived as a demonstration project of the Vera Institute of Justice in the late 1970s to provide job search assistance to people on parole in New York State. What resulted after some trial and error essentially became the program model that CEO operates today — employing participants immediately upon release and connecting them to transitional jobs at government facilities. CEO pays the participants minimum wage for up to four days a week. On the fifth day, participants prepare for job interviews so that they can access better paying, unsubsidized employment. CEO, which became an independent organization in 1995, inherited a strong legacy of data collection and internal evaluation from Vera, whose mission is to make the criminal justice system more effective and equitable through research and innovation. The transfer of these strategies from its parent organization was integral to CEO demonstrating program impact years later.

CAPACITY BUILDING AND GROWTH CAPITAL

In 2003, CEO's status as a "performance-based" organization — a service provider with the capacity to generate comprehensive program data on participant outcomes and to report on quarter-over-quarter results — helped to initiate a relationship with the Edna McConnell Clark Foundation (EMCF). A New York-based institution, EMCF seeks to support vulnerable and economically disadvantaged youth through "large, long-term investments, frequently partnering with other funders, and promote effective public and private support of nonprofits with a potential for growth and compelling evidence that they can help more young people become successful, productive adults." The foundation provided CEO with flexible, up-front growth capital over a multi-year investment period in conjunction with support in business planning, evaluation, board and talent development and communications. This long-term and unrestricted funding allowed CEO to develop its strategy and then focus on executing a business plan, expanding the scope of its services and creating the capacity for generating exceptional and sustainable results.

RANDOMIZED CONTROL TRIAL AND PERFORMANCE MANAGEMENT

In 2004, CEO participated in a multi-year randomized control trial (RCT). Commissioned by the Administration for Children and Families and the Office of the Assistant Secretary for Planning and Evaluation in the U.S. Department of Health and Human Services, CEO was one of four organizations selected as part of the Enhanced Services for the Hard-to-Employ Demonstration and Evaluation Project. MDRC, a nonprofit, nonpartisan social and education policy research organization, led the evaluation.

Although an independent RCT, which factors out historical, selection, and maturation biases, is considered the "gold standard" for determining program effectiveness, an organization cannot wait for the results of a multi-year study to implement and improve performance management practices. Real-time performance management requires a monitoring framework that includes processes to adjust and improve an intervention on a continual basis (i.e., actions leading to measurable changes). This management framework was not fully established at CEO when EMCF made its initial multi-year investment in 2004, nor was it easy to implement when it became clear that improvements were necessary. In CEO's early years, management activities were primarily focused on achieving contractual outputs and deliverables on an annual basis. CEO was proficient in collecting data and reporting it to funders, but the organization did not consistently and effectively use data tactically to track participant progress, to make course corrections, and to manage to short-term outcomes.

Fortunately, EMCF provided the resources to engage in a range of capacity building activities. These included a) creating a theory of change that serves as a blueprint for program intervention and outcomes measurement; b) developing a performance measurement system — fully adopted by CEO employees — that systematically and visually tracks the progress toward pre-defined outcomes; and c) nurturing a performance culture that continuously reinforces the use of data and evidence to measure and understand program progress, build knowledge and correct performance gaps.

> ***"Encouraging database adoption went hand-in-hand with creating a performance culture. It was the most arduous change process CEO has ever faced."***

CHALLENGES OF IMPLEMENTATION

Reorienting the organization was not easy. In the theory of change workshop sponsored by EMCF, for example, the leadership team initially struggled when confronted with the question of what CEO could be accountable for organizationally. CEO's vocational and criminal justice outcomes derived logically from its mission, but the organization had not previously established how to measure them accurately and for how long. Moreover, developing a new database also was a difficult process due to the challenges of customization. The process entailed ensuring the system accurately reflected CEO's theory of change and enabling staff to enter program data fluidly and continuously.

In CEO's case, the latter issue proved to be more difficult than the former. In particular, there was initial resistance to recording every participant interaction. In response, CEO took a two-pronged approach by continuously communicating the value of data entry and by implementing policies to ensure staff compliance with documentation standards. Encouraging database adoption went hand-in-hand with creating a performance culture. It was the most arduous change process CEO has ever faced. The organization quickly learned that systems and processes are much easier to change than individual habits and behaviors.

> ***"The organization had fully adopted an ironclad data rule: If it is not documented, it did not happen."***

Ultimately, establishing a data-driven culture required making some difficult talent decisions regarding existing staff and promoting managers from within who were comfortable holding staff accountable for data management. By the time the early study results of CEO's RCT were available in 2010, CEO's performance management framework had matured and was demonstrating effectiveness. CEO was strategically managing to annual performance targets and short-term outcomes through the use of real-time documentation and data analysis by staff. The organization had fully adopted an ironclad data rule: If it is not documented, it did not happen.

RCT RESULTS AND PROGRAM ITERATION

In 2012, MDRC published the results of the RCT. The three-year study showed that CEO significantly reduced recidivism with the most significant impact on the group of participants most recently released from prison as well as higher-risk individuals. These groups were significantly less likely than control group members to be arrested, convicted of a crime or re-incarcerated. Specifically, CEO's intervention resulted in a reduction in recidivism of 16 percent to 22 percent across these three outcome areas. The RCT also helped to strengthen CEO's vocational model. While the intervention improved recidivism rates, the evaluation demonstrated a need to improve CEO's strategies for advancing long-term employment and for connecting individuals to the full-time labor market. In response, CEO created a job retention unit and developed innovative job retention strategies, including training programs and financial incentives for participants. This continuous improvement effort has yet to be evaluated (a new RCT as part of a PFS transaction is in progress), but internal monitoring of retention outcomes has displayed impressive gains in the past five years.

SCALING AN EVIDENCE BASED MODEL

As an evidenced-based organization, CEO was identified as an early match for the Social Innovation Fund (SIF), a White House initiative that directs public and private resources to scale promising approaches to social problems. In 2011, CEO secured two SIF awards to replicate its operations in upstate

New York, Oklahoma and California.

The process of replication can be risky when delivering an evidence-based model that is premised on a specific theory of change. Because the RCT confirmed CEO was making a positive net difference, the replication process would need to ensure model fidelity. However, it was also important to be as precise as possible when identifying which program components could vary. In CEO's case, it became clear that the timing of the intervention and its targeting to higher-risk individuals drove the decline in recidivism.

CEO documented and codified the fixed elements of this model and developed a training program for replication. In the new "start-up" offices, CEO also had the advantage of hiring employees who knew from the very beginning that using the performance measurement data system was essential to performing their duties. In addition, the collection and summary roll-up of real-time data into actionable dashboards allowed senior management to track site activities and performance remotely.

SOCIAL IMPACT BOND TRANSACTION

In 2013, CEO entered the New York State SIB, the first state-sponsored transaction, through which CEO will serve 2,000 high-risk parolees in New York City and Rochester between 2014 and 2018. CEO is receiving up-front and unrestricted capital through the intermediary, Social Finance, which will support program execution and build programmatic capacity to ensure effectiveness. Forty-four private investors provided capital for the project. If CEO hits benchmarks and reduces the use of prison and jail beds by program participants, investors will be repaid their principal and will receive a return of up to 12.5 percent by the U.S. Department of Labor and New York state.

CEO's SIB project is already demonstrating how a public-private partnership can innovate service delivery. For the first time, for example, recently released and high-risk parolees scheduled to enroll at CEO are meeting jointly with a parole officer and a CEO representative to help plan their re-entry process and to address their employment needs. This collaborative process could serve as a model for re-entry practice across the country.

CLIMBING THE "EVIDENCE BUILDING LADDER"

It is unlikely that CEO could have qualified for one of the first SIB projects in the country or that it could have become a SIF grantee without the presence of adaptive and creative leadership, a work culture that nurtures performance and improvement, and flexible and long-term foundation support. These advantages allowed CEO to step up the "evidence building ladder" and provided the infrastructure to innovate, replicate and maintain exceptional results. CEO's story is not unique in nonprofit circles; however, it is a story that needs to be repeated far more often in the social sector. As Mario Morino's "Performance Imperative" campaign points out, the organizational journey to high performance is not an easy one, but it is a necessary passage to increase impact and to adapt to the future realities of social purpose funding.

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