Special Topics Brief:

Service Provider Capacity Building for a PFS Project

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Corporation for National & Community Service

Social Innovation Fund

The mission of the Corporation for National and Community Service is to improve lives, strengthen communities, and foster civic engagement through service and volunteering. Each year, CNCS provides opportunities for more than two million Americans of all ages and backgrounds to serve their communities and country through AmeriCorps, Senior Corps, the Social Innovation Fund, and the Volunteer Generation Fund.

The Social Innovation Fund (SIF), a program of the Corporation for National and Community Service (CNCS), combines public and private resources to grow the impact of innovative, community-based solutions that have compelling evidence of improving the lives of people in low-income communities throughout the United States. The SIF invests in three priority areas: economic opportunity, healthy futures, and youth development.

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I. Introduction

In 2010, the Corporation for National and Community Service (CNCS) launched the Social Innovation Fund (SIF), one of six federal tiered innovation and evidence initiatives that prioritize rigorous evaluation and building evidence of effectiveness. Through the SIF, CNCS augmented its existing activities with an enhanced focus on identifying and growing innovative, evidence-based approaches to challenges faced by low-income communities nationwide. The SIF provides funding to grantmaking institutions, referred to as "intermediaries," to support high-performing community-based nonprofit organizations to identify and grow promising outcomes-focused solutions that address pressing social problems in three focus areas—youth development, economic opportunity, and healthy futures. In 2014, the SIF launched an initiative to support the expansion of Pay for Success (PFS), a strategy that seeks to better connect government funding of services with real world effects by tying funding for a service intervention to its impact in the community. Instead of paying for services regardless of their effects, governments (or other entities) only pay if programs actually achieve positive outcomes for the people they are designed to benefit. Where government employs PFS strategies, taxpayers no longer bear the risk of paying for programs that are not effective.

CNCS recognized the PFS model as an important tool to build upon the goals and success of the SIF by supporting innovation, ensuring solutions have the dollars needed to scale, and paying for results. The initiative, known as the PFS program, specifically seeks to:

- Strengthen and diversify the pipeline of governments and nonprofit organizations that are prepared to engage in PFS projects,
- Assess the potential of PFS to address a variety of social issues relating to diverse populations in diverse geographic contexts, and
- Attract capital to high-performing institutions seeking to strengthen, grow, and sustain effective solutions for challenges facing low-income communities.

In its inaugural year, the PFS program funded eight grantees to either provide technical assistance (TA) to state and local governments to assess feasibility of implementing PFS or intermediate SIF funds for PFS transaction structuring support for PFS projects in the SIF's three focus areas (economic opportunity, healthy futures, and youth development). The eight grantees initially selected a series of 48 subrecipients or subgrantees to implement the proposed PFS activities.[1]

This report was developed as part of series of special topics briefs designed to provide practical insights on specific aspects of PFS and to assist stakeholders in making informed decisions as they explore and implement PFS projects across the country.[2] This specific brief focuses on the distinctive capacity building and scale-up activities most critical for service providers to engage in PFS projects.

Organizations and agencies likely to succeed in a PFS engagement, or "PFS-ready" organizations, require a specific set of unique capacities, including the abilities to systematically collect data, identify payment mechanisms and funders, hire and work with evaluators, track costs and quantify savings associated with service outcomes. This brief focuses on the specific needs of service providers, a subset of PFS actors, and strategies that can be used to assist them in building necessary capacity.

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1 In the 2014 Notice of Funding Availability, CNCS defined entities that receive TA around feasibility assessment as "subrecipients" and entities that receive transaction structuring assistance as "subgrantees." Pursuant to 2 C.F.R. Part 200 in the most recent update to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (i.e. Uniform Guidance), terminology in the 2016 NOFA will change as follows: "Grantee" becomes "grantee or recipient"; "subrecipient" becomes "service recipient"; and "subgrantee" becomes "subrecipient."

2 This document was developed by Abt Associates under contract to CNCS as part of the CNCS Process Evaluation of the Social Innovation Fund (SIF) Pay for Success Program.

Building service provider capacity is one of the biggest challenges facing the growth of the PFS model. While interest in the PFS model continues to grow domestically, most attention has been paid to state/local government capacity building, with less focus on service providers. Since service providers are essential to the success of a PFS project as they are responsible for achieving and tracking positive outcomes for a given target population, their needs must be addressed.

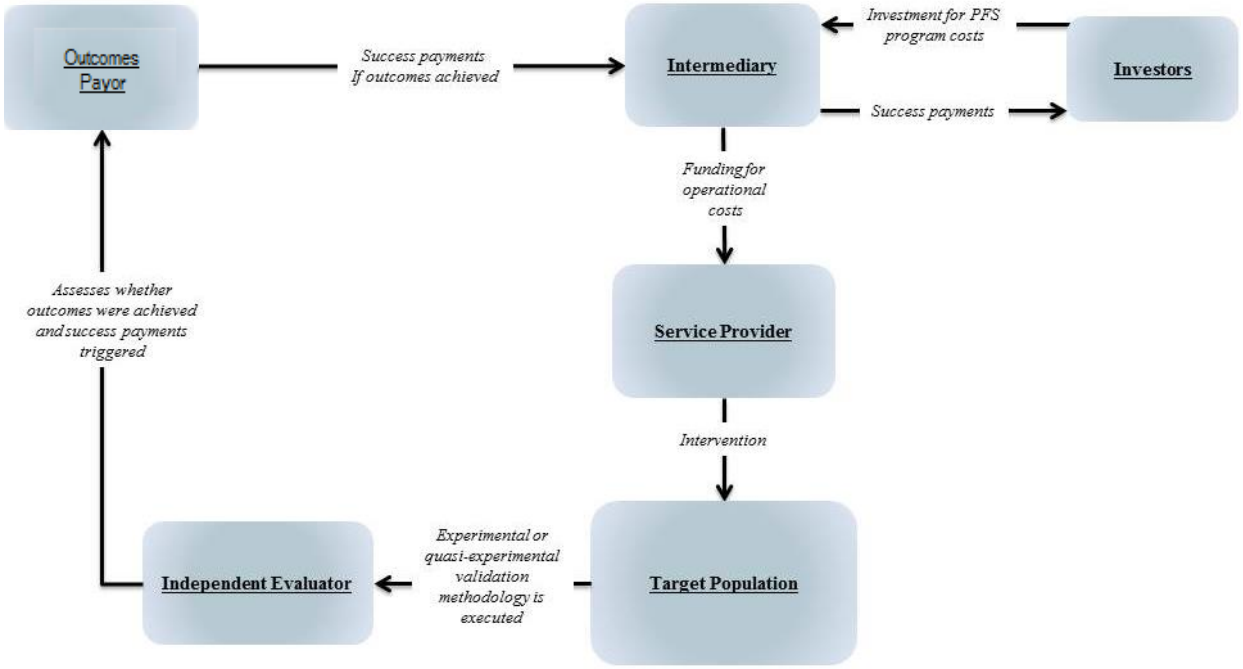
This brief incorporates lessons learned from discussions around engaging service providers in PFS that took place during site visits and follow-up calls with PFS program grantees and stakeholders as part of the CNCS Process Evaluation of the PFS program. This brief also pulls from promising practices and technical assistance currently being delivered to service providers by PFS program grantees and other key stakeholders, to help inform future capacity building efforts both among and for service providers.

The remaining sections of this brief present an overview of the role and types of service providers involved in PFS projects, the key components of service provider PFS readiness, and existing tools and resources available to interested service providers. The document concludes with a series of recommendations.

II. The Role of the Service Provider in PFS Projects

In a PFS project, the service provider(s) delivers a specific intervention in order to achieve pre-defined outcomes (CNCS Office of Research Evaluation, 2015). Service providers can operate individually or in tandem with other providers to offer a system of interventional support to particular target populations and/or across a defined geographic area. In a standard PFS finance model, service providers receive up-front funding from private or philanthropic investors to cover operational costs, with the money managed and distributed by an intermediary or a special purpose vehicle it establishes for the project (see Exhibit 1). Assuming the service provider achieves a set of predetermined outcomes, as measured by an external evaluation, the outcomes payor (typically a government entity or another end-payor) is then responsible for repaying the private and/or philanthropic investors, often with an additional return on the investment.

Exhibit 1. Principal Stakeholders in a PFS Project



In theory, the role of service provider can vary widely, depending upon the activity financed through the specific PFS transaction. However, among the eight active PFS projects in the United States (as of August 2015), nonprofit entities focused on early education, recidivism prevention, and supportive housing filled this role exclusively (see Exhibit 2). Existing PFS projects in the U.S. and abroad are structured around the provision of direct social services to a specified target population.

Exhibit 2. Service Providers in Pay for Success Projects Active in the U.S. (listed in order of project close, as of August 2015)

Pay for Success Project	Service Provider(s)	Social Service Intervention
New York City ABLE Project for Incarcerated Youth	▪ Osborne Academy ▪ Friends of the Island Academy	Provides cognitive behavioral therapy for young incarcerated Black and Latino men to reduce recidivism rates
New York State Increasing Employment and Improving Public Safety Pay for Success Project	▪ Center for Employment Opportunities (CEO)	Provides employment services to individuals with recent criminal convictions at high risk for re-offending
Massachusetts Juvenile Justice PFS Initiative	▪ Roca, Inc.	Provides two years of intensive engagement with high-risk young men and two years of follow-up services to reduce recidivism
Utah Pre-K PFS Project	▪ Granite School District ▪ Park City School District ▪ Guadalupe School ▪ YMCA of Northern Utah ▪ Children's Express ▪ Lit'l Scholars	Administers locally-designed, structured curriculum to prepare children for kindergarten and to reduce the need for special education programming
Cuyahoga County Partnering for Family Success Program	▪ Frontline Services	Links homeless caregivers to housing though an established network of housing service providers, and delivers CTI, an evidence-based homelessness transition therapy program
Chicago Child-Parent Center Pay for Success Initiative/SIB	▪ Chicago Public School District	Funds a child-parent early education program (pre-kindergarten) to reduce the need for special education programming
Massachusetts Chronic Homelessness PFS Project	▪ Massachusetts Housing and Shelter Alliance	Provides units of stable supportive housing for chronically homeless individuals
Santa Clara County Project Welcome Home	▪ Abode Services	Provides an array of supportive services integrated with housing to chronically homeless individuals

As the majority of PFS program subgrantees and subrecipients are still in the feasibility assessment stage of their technical assistance work, most have not finalized selection of a service provider. However, early indicators show new applications that deviate from the traditional direct service provider role within the PFS field. For example:

- The **District of Columbia Water and Sewer Authority (DC Water),** a subrecipient of the **Harvard Kennedy School Social Impact Bond Lab**, intends to fund for-profit architectural firms to implement "green" infrastructure storm water solutions to produce community health outcomes as part of their eventual PFS project.
- The **Green & Healthy Homes Initiative** intends to structure PFS projects that engage service providers to deliver home-based asthma interventions by remediating physical asthma triggers in houses, such as moldy carpeting.

While the expansion of the service provider role within PFS is important for the growth of the model, and several PFS program subrecipients have innovative applications of this role, this brief will focus exclusively on the capacity building needs of nonprofit providers of direct services. Currently, these types of entities most commonly fill the role of service provider in PFS projects and present the greatest existing need for increased capacity to succeed in a PFS environment.

The success of a PFS project ultimately depends on the success of the service providers in meeting their program goals. However, the number of PFS-ready nonprofit providers in the U.S. is limited. These entities often have limited capacity to scale up, and they often possess longstanding financial models that reward simple outputs over long-term outcomes—a business model not well suited for participation in PFS (Giantris & Pinakiewicz, 2013).

According to a recent national survey of nonprofit organizations conducted by Nonprofit Finance Fund (NFF, 2015):

- The most significant barriers to operation are achieving long-term financial sustainability (32 percent) and raising sufficient funds to cover the full costs of programming (19 percent);
- Only 48 percent of nonprofits are able to meet rising demands for social service provision; and
- More than half (53 percent) of nonprofits had three months or less of cash in reserves.

Through PFS engagement, nonprofits face the possibility of either exacerbating or overcoming these common issues. To overcome these issues, then, it is critical for nonprofit service providers to understand the potential benefits and risks of PFS early and to identify mitigation strategies to build key components of PFS capacity. If nonprofit organizations are selected to participate in a PFS deal and incentivized to grow, but haven't received and/or mobilized sufficient capital, they might deliver outcomes short-term, but face possible bankruptcy several years down the line due to unmet costs and unanticipated fees (Wallace, 2014; Giantris & Pinakiewicz, 2013). They additionally face significant reputational risk as PFS projects are very visible, and failing could damage an organization's reputation for successful service outcomes (Schaeffer, 2014).

Thoughtfully structured PFS deals have the potential to benefit service providers by providing a rare opportunity for up-front multi-year funding and encouraging "course-correction" as needed to achieve predetermined outcomes (NFF, n.d.). By building PFS readiness capacity, nonprofits can increase the likelihood of their selection for a PFS transaction, increase their appeal to outcomes payors and funders to solicit future funding, and enhance their operating procedures to allow for long-term sustainability.

III. Key Components of Service Provider Readiness for PFS

There is general consensus within the existing literature and among PFS thought leaders around the specific capacity-building needs of nonprofit social service providers interested in participating in PFS. The key components of service provider readiness fall within five general categories:

1. Data and Evaluation
2. Capacity to Scale and Demonstrate a Track Record of Success
3. Financial Management
4. Leadership and Management Support
5. Established Partnerships

PFS intermediaries/project coordinators, outcomes payors, and investors equate service providers' capacity within these five areas with their potential to deliver a successful service intervention while at the same time meeting the rigorous demands of the PFS structure. If nonprofit service providers build these capacities in a strategic manner, they can prepare themselves to both face the demands of PFS and to operate sustainably in the long-term through data-driven, outcomes-

focused service delivery. Descriptions of each of these five key components of service provider readiness are provided below, along with specific capacities that indicate readiness for PFS.

1. Data and Evaluation

To succeed in a PFS transaction, nonprofit service providers typically need to foster an organizational culture focused on outcomes and continuous improvement. For many nonprofit social service providers, the move to measure and track outcomes and impacts of their interventions on beneficiaries represents a significant and challenging cultural shift. Utilizing a PFS model answers questions such as: "Is a client less likely to return to jail after receiving the intervention?" and, "Is a child more likely to succeed in third grade based on a new approach to kindergarten education?" To answer these questions, nonprofits need the capacity [and evaluation support necessary] to collect and track specific participant or beneficiary-level data for outcomes payors over time. In addition to simply collecting data on their intervention for documentation purposes, service providers need the evaluation experience to use their program data to refine and tailor services, improve service delivery, and increase impact.

Providers that have access to both internal and external sources of data can demonstrate the efficacy of their programs and better position themselves to participate in the design and implementation of a PFS contract (Pinakiewicz, 2013). To succeed in a PFS environment, sophisticated data infrastructure is critical.

Readiness Indicators for Data and Evaluation

- ✓ Longstanding organizational culture focused on capturing outcomes over outputs
- ✓ Track record of success in setting and achieving challenging outcome targets
- ✓ Sophisticated data-tracking and analytics infrastructure capacity
- ✓ Demonstrated use of data to track clients during and after the intervention
- ✓ Internal/external evaluation experience
- ✓ Access to and/or awareness of local/state/federal data of relevance to target population and service intervention
- ✓ Cost-benefit analysis completed using local data specific to proposed target population

PFS Grantee Staff Perspectives on Evaluation[3]

"The most desirable service providers have a successful history of using data in day-to-day operations to track people as they go through the program and long-term after the program. It is also helpful to see they have done an evaluation of their program, especially if it was a randomized controlled trial (RCT) or something equally rigorous. Anything they have done on this front can be used as proof for investors that the intervention has had impact."

"What we have seen across the board as a significant problem for service providers is the lack of ability to track meaningful data of relevance to end-payors. This is a big deal. Many service providers can't tell if they are doing well or not in delivering their program and lack access to state data that would help them. Access to data and the ability to measure it on an ongoing basis have come up consistently as issues."

[3] Quotes included in *PFS Grantee Staff Perspectives* sections of this brief were derived from site visits and follow-up calls conducted as part of the CNCS Process Evaluation of the PFS Program with the eight grantees and their subrecipients/subgrantees.

2. Capacity to Scale and Demonstrate a Track Record of Success

To justify the efforts and costs associated with structuring a PFS project, service interventions must demonstrate sufficient capacity to produce tangible benefits to private and public sector actors. Opinions vary as to what constitutes this benefit potential, spanning from sufficient organizational capacity to produce cashable savings (So & Jagelewski, 2013) to likelihood to accrue societal benefit and improvement to individuals and communities (Kohli, Golden, Coletti & Bo'sher, 2015). Many social service interventions are not well suited for PFS without significantly scaled capacity to achieve their goals in meeting the needs of the target population. Readiness to increase the number of participants served while maintaining fidelity to the intervention are two key components of effective scaling strategies. Can an organization rapidly scale up their services to comply with the tight timeline of PFS implementation? Is there evidence to suggest that once scaled, the intervention will maintain fidelity to its original model?

The most direct way to gauge a nonprofit service provider's potential for success at scale is through past performance on projects of similar size and scope. Service providers can demonstrate readiness by providing tangible evidence that they have implemented programs at scale with fidelity, while maintaining strong internal quality control measures. A program's evidence of success must be relevant and compelling enough to attract investors willing to take on their performance risk (Third Sector Capital Partners, 2013).

Readiness Indicators for Capacity to Scale

- ✓ Well defined program model; awareness of model's strengths and weaknesses
- ✓ Proven ability to scale or replicate existing program/intervention or launch new programs
- ✓ Demonstrated ability to scale up rapidly and with fidelity
- ✓ Internal staff capacity (or sufficient funds to hire) to maintain fidelity of service delivery model once scaled
- ✓ Record of success delivering services in partnership with fellow member(s) of the proposed PFS delivery team
- ✓ Organizational culture of continuous improvement, track record of innovative service delivery

PFS Grantee Staff Perspectives on Capacity to Scale

"It's important to distinguish between capacity as it relates to a program versus an intervention. Sometimes, as with ROCA (the service provider in the Massachusetts PFS project), they are one in the same: the provider is conducting a unique intervention through their own program. In other instances, there may be a promising intervention but no providers to offer it, or only a few who are offering it at a very small scale. The latter scenario is far more risky for a PFS project."

"You may do a great job delivering your program to 20 people, but can you take your model from 20 to 200 individuals and maintain fidelity? Can you hire quickly? Do you have training protocols in place? Can you replicate the program in multiple locations with new staff? It is important that providers have the ability to scale, that their models are clearly articulated to grow, and that their interventions have a clear evidence base – that is what makes a government select a service provider for PFS."

3. Financial Management

In PFS projects, service providers receive significant funding up-front to implement or scale up their proposed intervention. To properly manage and allocate this funding, service providers need a certain level of financial infrastructure and sophistication in place, including formal processes for financial planning and budgeting, and technical systems and skilled staff to manage finances (NFF, 2012).

PFS-ready nonprofits need to fully understand the costs of their proposed intervention, have the capacity to track spending on a continuous basis, and demonstrate a history of strong financial planning and provision. Service providers are one of multiple PFS players that have "skin in the game;" they must do their own internal due diligence to assess their capacity to maintain financial health during and after the PFS project.

Readiness Indicators for Financial Management

- ✓ Robust and stable financial infrastructure with technical systems in place for monitoring activity (NFF, 2012)
- ✓ Demonstrated understanding of program/intervention costs and how scaling would affect them (in terms of cost per person served)
- ✓ Demonstrated ability to manage significant cash flow (Finance for Good, 2013)
- ✓ Evidence that the provider will continue operating and expanding in the absence of PFS funding
- ✓ Evidence that the provider has assessed alternative approaches to implement model at lower cost

PFS Grantee Staff Perspectives on Financial Management

"You can tell a lot by looking at the initial budget put together by a service provider that outlines costs over a sustained period of time. If providers are very organized in their presentation of costs and timing and can easily answer questions about their model, they are likely to be good candidates for PFS."

"Service providers need a level of sophistication fiscally as well as programmatically. You can't teach that in the time frame of a PFS project or a feasibility assessment, in only one to two years. That mentality has to have been there for years."

4. Leadership and Management Support

Within the nonprofit governance structure, nonprofit boards traditionally hold decision-making power over policy and strategy, oversee and monitor organizational performance, and ensure overall accountability (Renz, 2007). In order for a non-profit service provider to engage in a PFS project, its board as well as its program leadership must be informed about PFS and its implications, and have the capacity to make informed decisions about the organization's participation when presented with data-driven recommendations.

Any PFS transaction involves reputational and financial risks to the service provider receiving investment dollars. The projects are very visible, and failing could damage an organization's future. In addition, some PFS deals require the service provider organization to commit a financial stake in the deal (Schaeffer, 2014). Nonprofit boards entering into these engagements should fully understand the risks and develop strategies to mitigate them.

Readiness Indicators for Leadership and Management Support

- ✓ Management plan in place for scaled PFS intervention
- ✓ Dedicated project director assigned to PFS work
- ✓ Demonstrated capacity to manage one or more performance-based government contracts
- ✓ Leadership support for continuous process improvement
- ✓ Leadership ability to address the complexity of PFS and identify strategic alternatives and associated rewards, risks, and actions to lower risks (NFF, 2012)
- ✓ Perceived in the field/community as having an effective leadership structure (NFF, 2012)

PFS Grantee Staff Perspectives on Leadership and Management Support

"Providers need the management capacity to conduct sophisticated, complex negotiations that involve complex budgeting and legal requirements. How sophisticated is their management team? Are they hiring out a team? Do they already have a project director assigned?"

"PFS projects are very time sensitive and require providers to rethink the way they provide services. Providers who are used to operating in the nonprofit environment have to rethink how they budget for services, meet the demands of funders, and think of their services from an outcomes-based perspective. This demands a lot of commitment from organizations and sophistication from their management teams to understand what is needed."

5. Established Partnerships

The successful working relationships that form the basis of PFS projects are often built through shared experiences, clear communication, and common goals. Just as intermediary/project coordinator organizations benefit from established relationships with investors, nonprofits can increase their likelihood for selection and success during PFS deal negotiations through existing relationships with other providers in the community, local and state government agencies, and potential funders.

PFS service providers benefit from understanding the provider landscape in their community, engaging partners if needed to implement the most effective intervention possible, and bringing existing relationships with local and state government agencies and funders to the table.

Readiness Indicators for Partnerships

- ✓ Established reputation in community and among funders and government actors for effective service delivery and performance
- ✓ Evidence of past partnerships with other providers in community to deliver services
- ✓ Demonstrated ability to manage multiple simultaneous relationships
- ✓ Record of success and client satisfaction in meeting objectives of performance-based government contracts of similar length and scope

PFS Grantee Staff Perspectives on Partnerships

"In selecting service providers, we look for connection to the full community of service providers and access to relationships in government. The strongest applications we received were those that already had working relationships with other providers in the community and understood how their work interacted on a broader scale, or those that had the demonstrated trust of the government."

"Strong service providers generally have strong ties and existing relationships within their community, and provide services in the target community. They are generally well-regarded and well-integrated."

IV. Tools and Resources Available to Build Service Provider Capacity

Service providers interested in PFS must first assess whether they have the structures in place and the necessary capacities in the areas described above to participate in a PFS project. If specific needs are identified, the challenge then becomes to increase their capacity in those areas. This section describes some existing tools available to service providers to assess their readiness to participate in PFS and some of the current resources and activities available to help them build key capacities.

As the PFS field is still in its infancy, there are a limited number of standardized tools available to assess the readiness of an organization, government agency, or funder to participate in PFS. Of these, few offer guidance and self-assessment tools focused on service providers. Exhibit 3 lists several resources available to the general public that are specific to the assessment of readiness or capacity of PFS service providers.

Exhibit 3: Existing Tools Related to Service Provider Capacity in PFS

Tool	Developer(s)	Description
Service Provider Rapid Suitability Questionnaire http://www.payforsuccess.org/provider-toolkit/readiness-self-assessment-questionnaire	Nonprofit Finance Fund and McKinsey and Company	One of a suite of questionnaires for different PFS players (e.g., service provider, intermediary, government, etc.) to quickly evaluate organizational suitability to pursue a PFS deal. Based on self-reported responses, the questionnaire offers service providers preliminary guidance on an array of issues that are core to potential readiness to participate in PFS. The survey probes for readiness in four areas: 1) Nature of programs and their source of funding; 2) Use and achievement of evidence-based performance metrics; 3) Capacity for scaling up, collaboration and capital utilization; and 4) Communication/data management capacity and Board/stakeholder buy-in.
Social Impact Bond Service Provider Capabilities Due Diligence Tool http://www.payforsuccess.org/provider-toolkit/deep-assessment-capabilities-due-diligence-tools	Nonprofit Finance Fund and McKinsey and Company	One of a suite of due diligence assessment tools for different PFS players (e.g., service provider, intermediary, government, etc.) to assess internal capacity for pursuing a social impact bond prior to agreeing to a partnership. The tool probes for capacity within 10 categories, including connection with the target community, ability to scale, funding and financial management, and leadership capabilities.
Sample Requests for Proposals (RFP) for PFS Service Providers http://www.payforsuccess.org/provider-toolkit/contract-issues	Various state/local governments (e.g., Connecticut, Massachusetts, New York City, Salt Lake County)	The Nonprofit Finance Fund's Pay for Success Learning Hub provides access to a compilation of RFPs issued by state and local governments to qualifying service providers to participate in a PFS transaction. Each RFP contains criteria for desired organizational capacities among service provider applicants. RFPs apply to a range of focus areas, including: homelessness, child and maternal health, criminal justice, mental health, education, and at-risk youth.

The primary focus of existing federal programs and national PFS stakeholders has been to build momentum and capacity among local and state governments. In order to form a strong base for PFS growth, capacity building assistance must also target service providers with identified needs. A few examples of technical assistance available to service providers to increase their capacity to participate in PFS projects are described below.

In late 2013 and 2014, the Nonprofit Finance Fund hosted a series of "boot camps" to incubate and accelerate investment readiness and capacity for PFS among service providers. "Incubators" were held in Chicago, Connecticut, North Carolina, and South Carolina to build the capacities necessary for successful service delivery and access to capital in an outcomes-driven

world. "Accelerators" were held in Dallas and Santa Clara to build the capacity of select nonprofit service providers to participate in a Social Impact Bond or other PFS outcomes-driven financing approach (Pinakiewicz, 2013).

In addition, two of the PFS program grantees dedicated a portion of their funding to build the capacity of PFS service providers (see Exhibit 4). These initiatives are still in preliminary stages of program development and implementation.

Exhibit 4: PFS Program Grantee Service Provider Focus

Tool	Description of Service Provider TA Activities
Green & Healthy Homes Initiative (GHHI)	GHHI and Calvert Foundation conducted an open competition to select five healthcare organizations and five service providers across the country to participate in a project that assesses the feasibility of replicating an asthma-related PFS project. The GHHI/Calvert Foundation team is providing technical assistance to each of the 10 awardees (one healthcare payor organization and one service provider in each of the 5 locations) to document the feasibility of moving each project to the transaction phase (GHHI, 2015).
University of Utah Policy Innovation Lab (Utah Policy Innovation Lab)	The Utah Policy Lab provides capacity-building funds and high-level technical assistance to governments to explore the feasibility of implementing PFS projects in their jurisdictions. In parallel, the Lab provides in-depth technical assistance to prepare service providers for PFS (and other similar funding opportunities) in areas such as impact analysis, metrics, data systems, evaluation strategies, and performance management. By pairing qualified government payors with outcomes-oriented and impactful providers in the same community, the Lab is growing the pipeline of PFS projects in the western half of the country (CNCS, 2015).

V. Conclusions and Recommendations

Based on discussions with PFS stakeholders, PFS program grantees, and a review of materials targeting PFS service providers, this document identifies key components of service provider PFS readiness and identifies existing tools and resources available to service providers. As indicated above, there are limited tools and resources currently available to assist service providers in building capacity for a PFS project. Also apparent are the limited number of activities being undertaken to increase service provider awareness about opportunities to participate in PFS projects, the first step in increasing the number of service providers ready to engage in PFS.

This brief concludes with preliminary recommendations for strategies to build awareness of PFS among potential service providers and suggestions for resources and technical assistance that would be useful to service providers in addressing their unique capacity-building needs. These recommendations include:

1. **Develop standardized screening tools to assess service provider readiness.** In order to promote new and innovative applications of PFS across different fields and sectors, there is a real need for standard screening tools, collaboratively endorsed by PFS thought leaders, that service providers can use to self-assess their capacity and readiness to engage in PFS.
2. **Develop templates for service provider use in forecasting PFS transaction structuring, scaling, administrative and intervention costs.** A major concern among nonprofit service providers is the loss of capital incurred during the negotiation, ramp-up and capacity-building stages of PFS transaction structuring. To address this risk, service providers need the proper tools to estimate the full costs of their proposed PFS intervention—including the costs of front-end planning and negotiations, significant administrative burden, data infrastructure expansion, and staff training in addition to operational costs.
3. **Make funds available for service providers to build internal data capacity and conduct self-assessments.** To maintain the health of the nonprofit sector, service providers should be encouraged to build their internal data collection and evaluation capacity. The majority of nonprofits don't have the budget to invest in these capacity-

building activities on their own. Moving toward a culture of continuous process improvement is not only critical for PFS, but also for the long-term sustainability of nonprofit providers.

4. **Set aside "bridge funding" for service providers to afford up-front capacity building costs.** Most nonprofit service providers cannot preemptively obligate the funds necessary to build capacity for PFS. Further research is needed to identify mechanisms to allocate "bridge funding" to service providers that could be budgeted into the initial private investment for the PFS project and repaid to the bridge-funding source once the PFS deal is executed.
5. **Establish a learning community and/or knowledge exchange portal where experienced service providers share best practices and lessons learned.** The best way for service providers to gain the knowledge and understanding needed to be successful in PFS is through opportunities to learn from other service providers that have already served in this capacity. Experienced providers that have already been part of PFS projects can serve as "informal intermediaries" in their respective social issue areas, sharing experiences, providing template materials, and ultimately reducing the risk for other providers (Giantris & Pinakiewicz, 2013).
6. **Encourage a norm of secure data-sharing between state/local agencies and service providers.** The level of access to data on client receipt of social service interventions varies widely by state and local jurisdiction. There is need for a coordinated effort to integrate administrative data across government departments and levels to build transparent data sets that allow service providers and governments to easily access, manipulate, and interpret data and ultimately assess outcomes (NFF & The Joyce Foundation, 2014).

Nonprofit service providers play a central role in the success of individual PFS projects and the overall growth of the PFS field. With only a small pool of service providers aware of PFS or capable of participating, there is a need for concrete steps to build the sector's capacity. The nascent PFS field shows positive indicators of growth both geographically and within new areas of focus. As PFS continues to expand, the field should take advantage of the opportunity to strengthen and facilitate nonprofit service providers' success in outcomes-driven environments.

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