



Towards a Performance-Driven Social Sector



A SERVICE PROVIDER PERSPECTIVE ON TRENDS IN GOVERNMENT CONTRACTING

By Joseph Gayeski

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Across the country, communities are changing the way they serve people in need.

Local and state governments are taking a new look at how they contract for social services delivered to our most vulnerable citizens. Closer examination of current contracting practices may ultimately outline a path to healthier, safer, and more just communities, but only if all stakeholders have a voice.

Governments around the country are exploring how they can pay for the *outcomes* of social services, not just the services themselves. Increasingly thorough data practices and evaluation methods have fueled innovative performance-based contracts that are changing the relationship between jurisdictions and local organizations. The most visible of these new methods is Pay for Success¹, a cross-sector contracting model for social services.

The trend towards performance-based contracting has sparked a national conversation about how critically needed social services are procured, funded, and evaluated. However, the volume of public and private sector voices in these discussions has often drowned out the voice of local service providers delivering services to children, families, and other disadvantaged individuals in our communities.

To bring these voices to the table, we conducted a survey of more than 400 service providers to assess their attitudes and awareness of new trends in government contracting. Our survey explored the current relationship between nonprofits and government, the attitudes nonprofits hold towards program evaluation and performance-based contracting, and the level of understanding nonprofits hold of Pay for Success. These findings are only the beginning of the conversation: we hope the questions raised in this report fuel further research and discussion on the role of our social sector and its relationship to both the public and private sectors.

Sincerely,

Third Sector Capital Partners, Inc.

Guidestar, Inc.

America Forward

¹The 'Pay for Success' model is also referred to as a 'Social Impact Bond'.

EXECUTIVE SUMMARY

SURVEY FINDINGS

- **Service providers view government contracts as valuable tools in fulfilling their missions.**

Respondents with public funding reported positive attitudes towards government contracts, while respondents without government contracts believed that government contracts would allow their organizations to better fulfill their mission.

- **Though generally unfamiliar with performance-based alternatives to traditional government contracts, service providers are interested in program evaluation.**

Respondents were largely unfamiliar with new performance trends in public contracting, though the majority agreed that rigorous program evaluation could improve the services they deliver.

- **Service providers view themselves as the most critical stakeholder to the success of a Pay for Success project.**

A majority of respondents agreed that they would be interested in pursuing the model, but highlighted the risk of imbalance between a project's most influential stakeholders and the service provider, whose services are critical to the project's success.

- **Service providers are interested in Pay for Success, but are still new to the concept.**

The low level of familiarity with Pay for Success among respondents illustrates the ongoing need for resources and outreach tailored to service providers interested in pursuing the model.

RECOMMENDATIONS

- **Incorporate local service provider input in procurement and contract design.**
- **Provide resources on program evaluation for service providers interested in performance-based contracts.**
- **Amplify the voice of service providers in Pay for Success projects and other cross-sector initiatives.**
- **Conduct further research into the procurement and contracting experience between service providers and government agencies.**

OUR MOTIVATION AND METHODOLOGY

FROM OUTPUTS TO OUTCOMES: THE SHIFTING PROCUREMENT LANDSCAPE

Government procurement is the contracting of external providers to deliver goods or services on behalf of taxpayers. Instead of providing goods or services itself, a government can use public funds to pay a third party to deliver services. In the social sector, governments nationwide (local, state, and federal) procure service providers across issue areas to serve vulnerable populations. Homelessness interventions, workforce initiatives, healthcare interventions, and education programs are just some examples of the many services for which service providers are routinely contracted.

Traditional government procurement contracts make payments to service providers based on program *outputs*, such as number of people served, hours of operation, or compliance with contract requirements. These contracts, however, are rarely equipped to measure the impact of the programs they fund. While traditional contract requirements may track the *outputs* of a program, they leave little evidence of the *outcomes* of the program. With limited resources to collect and analyze the necessary data, governments are often unable to understand what a social service achieves².

In the early 1990s, a number of policymakers began to address the '**output-basis problem**' by advocating for performance evaluation in publically funded programs³. These early efforts fueled the development of **performance-based contracts**, or contracts that base resource decisions on target outcomes for a particular social service. Performance-based contracting includes **Pay for Success (PFS)**, an increasingly popular cross-sector model that rewards 'success payments' to service providers if certain *outcomes* are met. To address the timing gap between the delivery of services and success payments, PFS leverages private capital to provide upfront financing for the program. This allows the funders to take on the risk of a social program not achieving impact on behalf of government.

Since the launch of the first PFS project in the United States in 2012, the role of governments and private funders has received more attention from observers than the role of service providers. Recognizing this, we raised the following questions:

- What is the current relationship between governments and service providers?
- What is the attitude of service providers towards government contracts and program evaluation?
- What is the attitude and awareness of Pay for Success amongst service providers?

² See "[Why Pay for Success? Start with Government Procurement?](#)" by Joe Gayeski and Tim Pennell, Third Sector Capital Partners, Inc.

³ See "[The Movement Towards Government Performance](#)" by Sithara Kodali, Third Sector Capital Partners, Inc.

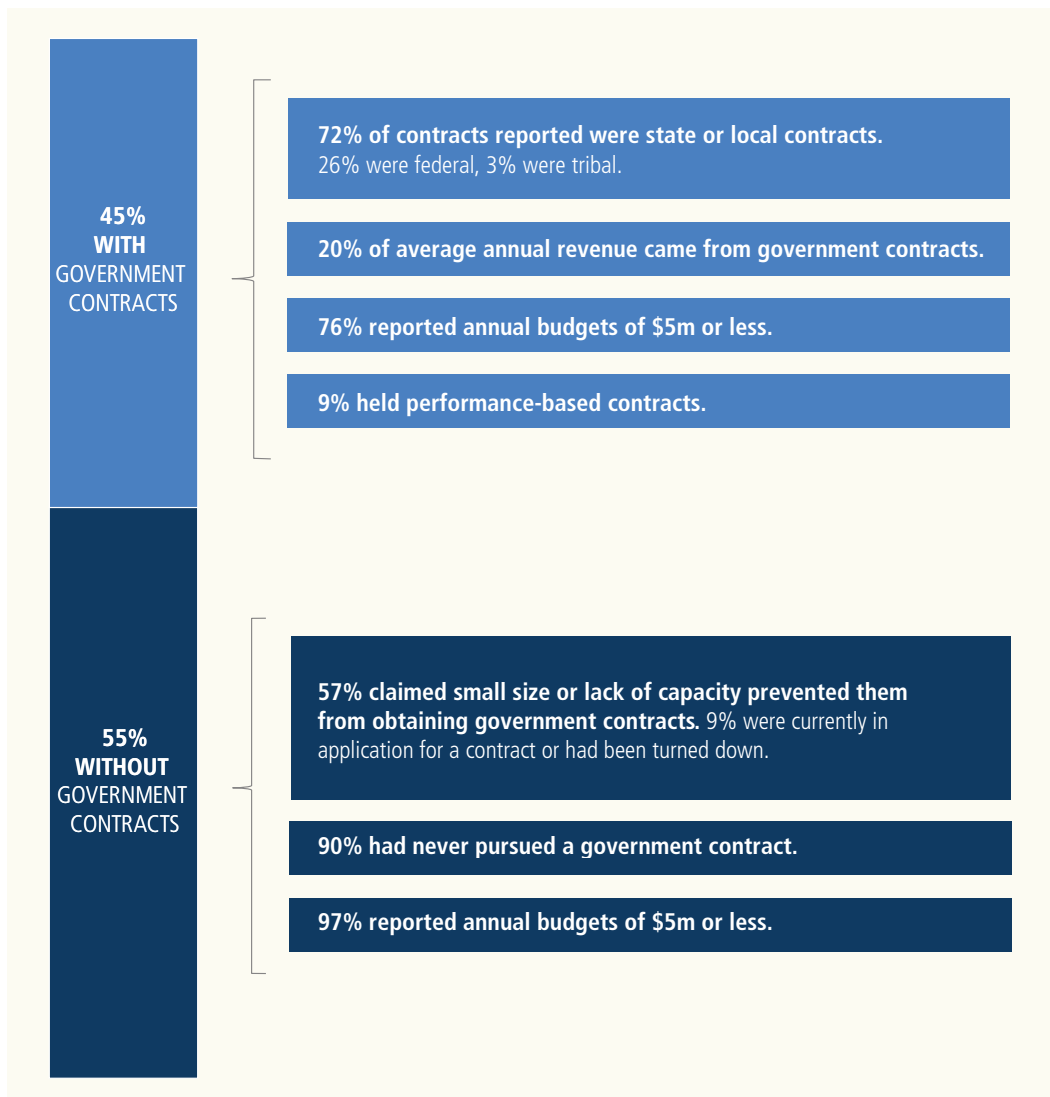
OUR MOTIVATION AND METHODOLOGY

SURVEY METHODOLOGY

To understand the attitudes and awareness of these new developments in government contracting, Third Sector Capital Partners, Inc. designed a survey in partnership with GuideStar, Inc. and America Forward. Divided into four parts, the survey asked service providers a series of questions describing their current contracting status, their familiarity with new developments in government contracting, and their attitudes towards both performance-based contracting and Pay for Success contracting⁴.

Anticipating a range of familiarity with performance-based contracting and Pay for Success, respondents were supplied with the definitions of each before the first question in the second and third sections, respectively.

RESPONDENT DEMOGRAPHICS



⁴ The survey was administered online in two parts. First, the survey link was included in a GuideStar newsletter released to its mailing list of 340,000 email addresses. Second, the survey link was included in a blog post on GuideStar's website, then distributed through its newsletter and social media following of over 60,000 individuals and organizations. As an incentive, respondents were included in a drawing for a \$200 donation for participating in the survey.

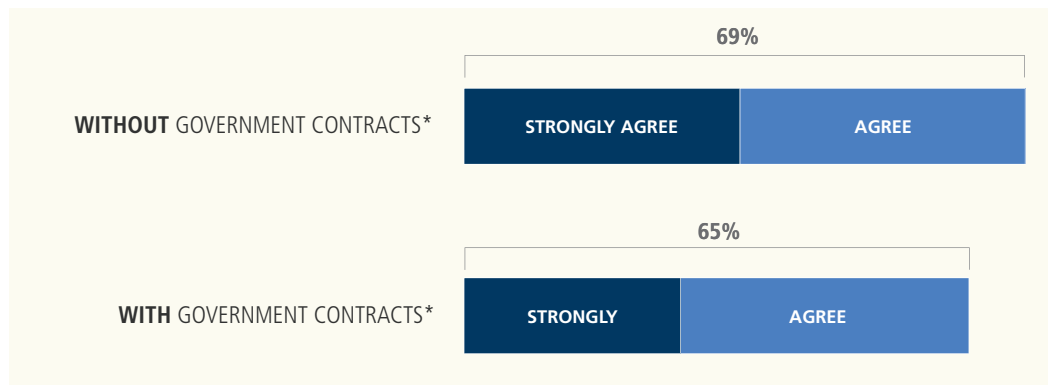
OUR FINDINGS AND ANALYSIS

Interest In Government Contracting

Service providers would pursue a government contract if given the opportunity.

Overall, respondents viewed government contracts favorably. The majority of organizations with government contracts, as well as those without, agreed that public funding can play an essential role in mission fulfillment.

RESPONDENTS REPORTED A POSITIVE RELATIONSHIP BETWEEN GOVERNMENT CONTRACTS AND MISSION FULFILLMENT



*Respondents with government contracts were asked to what extent they agreed with the statement “government contracts and/or grants are essential to fulfill my organization’s mission”. Respondents without government contracts were asked to what extent they agreed with the statement “government contracts and/or grants would allow my organizations to better fulfill its mission.”

The view that government contracts better enable an organization to fulfill its mission was contrary to our hypothesis. The application and compliance requirements of traditional government contracts are often seen as burdensome, making labor-intensive demands of service providers operating with limited resources⁵. A small number of respondents did acknowledge this sentiment when asked why their organization did not have a government contract:

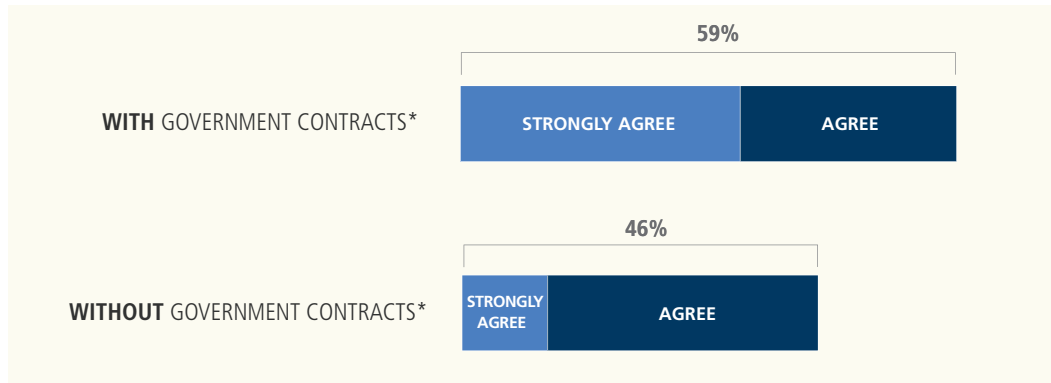
“We have a standing policy not to apply for these grants – in part because **we do not have the capacity to manage the reporting.**”

“First, **the application process was incredibly onerous**, requiring hours of administration work. We stopped the process when we found that the guidelines stated that there would be 50-60 hours necessary for reporting in the event a grant was won. We are a tiny, all-volunteer staff that could not commit to that level of red tape.”

Though these anecdotes demonstrate access to government contracts is difficult for some organizations, the majority did not report this concern. Contracted organizations overall found the tasks associated with compliance were appropriate, while nearly half of non-contracted organizations felt they had the resources to ensure compliance.

⁵ For an overview of the various compliance issues nonprofits may face in government contracting, see “Towards Common Sense Contracting: What Taxpayers Deserve”, National Council of Nonprofits, 2014.

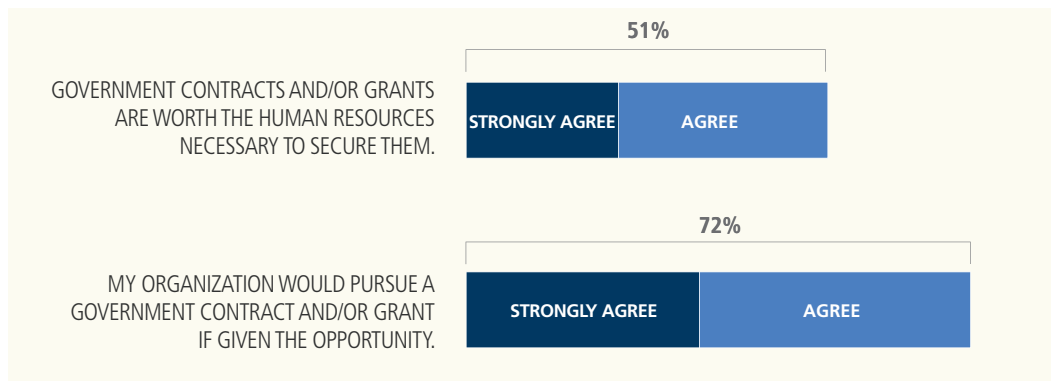
RESPONDENTS FELT COMPLIANCE REQUIREMENTS MADE APPROPRIATE RESOURCE DEMANDS



* Organizations with government contracts were asked to what extent they agree with the statement "my organization's staff spends an appropriate number of hours per week on the compliance requirements of our government contract and/or grant", while organizations without government contracts were asked to what extent they agreed with the statement "my organization has the resources to ensure compliance with the terms of a government contract or grant."

Further, the majority of respondents without government contracts agreed that they were worth the resource costs necessary to acquire them, and an even greater number claimed they would pursue a government contract if given the opportunity.

RESPONDENTS WITHOUT GOVERNMENT CONTRACTS WOULD BE INTERESTED IN PURSUING ONE



For smaller organizations, however, contracting opportunities are rare. 90% of respondents without government contracts reported annual budgets of less than \$1 million. Organizations in this category likely have fewer resources to devote to the acquisition and maintenance of a government contract than their counterparts. As many service providers are small-scale organizations, this may limit the number of organizations government can formally partner with to address critical social issues affecting their communities.

Respondents to this survey nonetheless reported that access issues did not deter interest in pursuing government contracting for their services. This positive attitude towards government contracts prompts the questions:

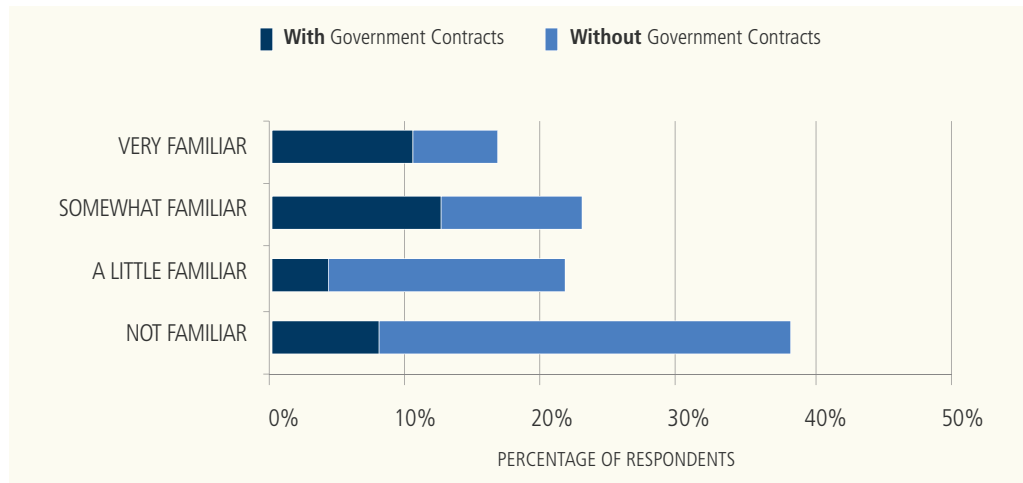
- Does current government contracting for social services limit the range of organizations governments can collaborate with?
- How can interested organizations best prepare themselves to access a government contract?
- How can governments engage local nonprofits in their communities to better design procurements that address a community issue?

KNOWLEDGE GAP IN PERFORMANCE-BASED CONTRACTING

Service providers are open to program evaluation, but require more resources on performance-based contracting.

Despite decades-long efforts to introduce performance into government initiatives in various jurisdictions, performance-based contracting is still a new concept to most service providers. Most respondents were unfamiliar with the concept and how it may affect an organization's programming and mission fulfillment.

MOST RESPONDENTS UNFAMILIAR WITH PERFORMANCE-BASED CONTRACTING



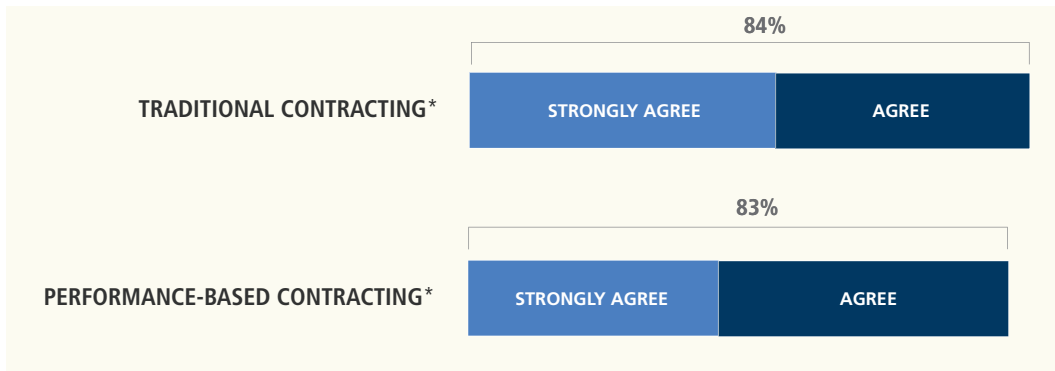
Anticipating low levels of familiarity, all respondents were given a short description of performance-based contracting. This allowed the survey to gauge the initial response of service providers with a range of government contracting experience.

Performance-Based/Outcomes-Based Contracting

The following questions focus on 'performance' or 'outcomes' based contracting, in which a government pays a service provider based on the results of its programs, rather than a reimbursement for services rendered.

Respondents with government contracts reported a higher level of familiarity with performance-based contracts than those without, with 9% of respondents within this group reporting holding performance-based contracts. Overall, the large majority of organizations with government contracts reported having a positive relationship with the jurisdictions administering their contracts.

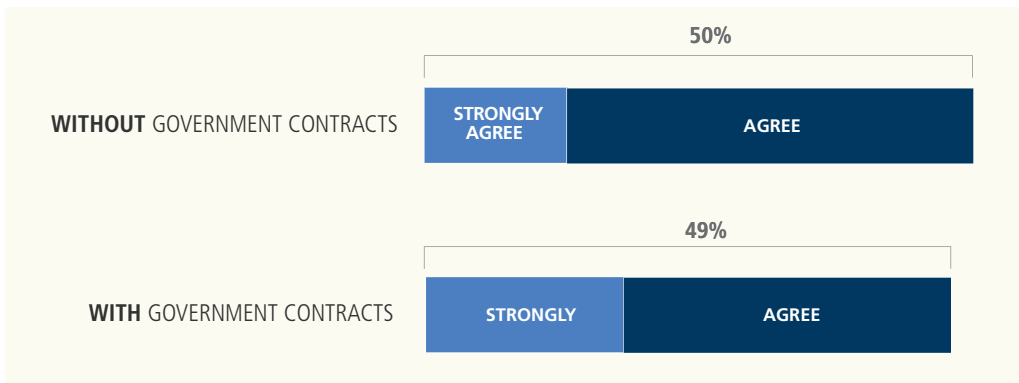
CONTRACTED RESPONDENTS REPORT POSITIVE RELATIONSHIP BETWEEN SERVICE PROVIDERS AND GOVERNMENT



*Respondents with government contracts were asked, "Overall, how would you describe your current relationship with the departments and/or agencies administering your government contracts or grants?" Respondents with performance-based contracts were asked "Overall, how would you describe your current relationship with the departments and/or agencies administering your performance-based government contracts?"

The majority of respondents not only felt that performance-based contracting fostered a positive relationship with government, but respondents also valued the program evaluation that it requires. Roughly half of respondents reported that rigorous program evaluation from an independent evaluator could improve social services. This suggests that many respondents felt that the improved data practices and statistical evidence that comes with evaluation can help organizations better deliver services to beneficiaries, while also being held accountable for their impact.

RIGOROUS PROGRAM EVALUATION FROM AN EXTERNAL INDEPENDENT EVALUATOR (I.E. LOCAL UNIVERSITY) CAN IMPROVE THE SOCIAL SERVICES DELIVERED BY A NONPROFIT SERVICE PROVIDER.



The remainder of respondents, however, were largely neutral towards the effect of program evaluations on social services. Though only 16% disagreed that evaluation can improve services overall, 34% neither agreed nor disagreed.

The neutral stance taken by a third of respondents may be a reflection of their low familiarity with performance-based contracting. It may also, however, reflect a wider debate within the nonprofit sector on the costs and benefits of performance evaluation. By submitting a program to an external evaluation, service providers assume greater reputational risk. In exchange, evaluation allows organizations to measure the impact of their programming, providing the evidence necessary to reallocate resources towards improving outcomes for the individuals they serve. The degree of this trade-off will vary depending on the circumstances of each service provider.

Given the low familiarity of respondents with performance-based contracting, information and resources tailored to service providers would benefit those weighing these costs and benefits. Though federal agencies and various stakeholders may assume a certain degree of understanding exists within the social sector, most organizations are new to performance-based contracting and its relevance to their programs⁶. This knowledge gap invites such questions as:

- What materials can governments and other stakeholders provide to inform nonprofit service providers of the risks and benefits of performance-based contracts?
- How can government contracting provide organizations with the opportunity to move beyond the 'output-basis problem' and conduct more rigorous evaluation of their programming?
- How can local and state governments begin a dialogue with service providers in their communities about implementing performance-based contracting?

⁶ Multiple recent federal initiatives have included provisions to foster state and local performance-based contracting, though many service providers remain unfamiliar. For more information on the Social Impact Partnership Act, the Workforce Innovation and Opportunity Act, the Social Innovation Fund, and other federal efforts, see [America Forward's blog](#).

SERVICE PROVIDER LEADERSHIP IN PAY FOR SUCCESS

Cross-sector initiatives must place service providers in a leading role throughout the project.

Pay for Success (PFS) is a specific cross-sector contracting model within performance-based contracting. The large majority of respondents were therefore only somewhat familiar with the model or not familiar at all. Respondents with government contracts again reported being more familiar with the model than their counterparts.

Respondents were given the following short description of PFS before receiving questions. This allowed the survey to examine first-impression attitudes from organizations new to the model.

Pay for Success Contracting

Pay for Success (PFS) is one type of performance-based contracting. It is a contracting model that drives government resources toward nonprofit social service programs in areas such as poverty, education, child welfare, recidivism, homelessness, and wellness. PFS contracts track the effectiveness of programs over time to ensure that funding is directed towards programs that succeed in measurably improving the lives of people most in need.

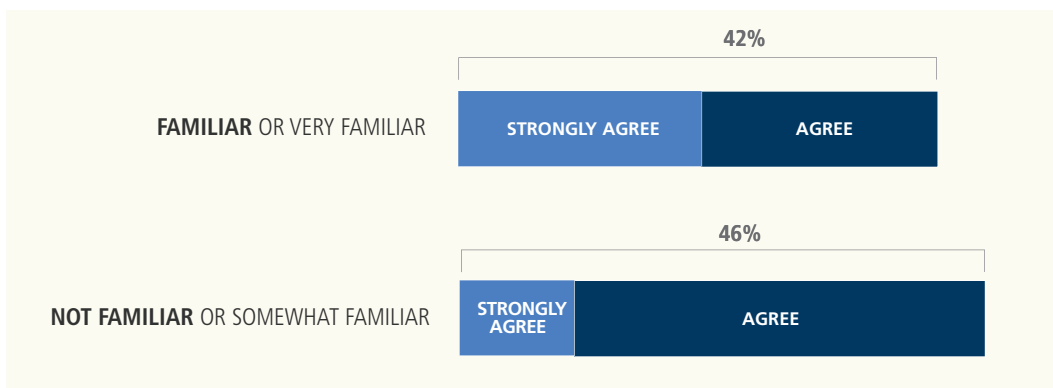
PFS enables governments to draw in greater and more diverse resources to tackle social problems by tapping private funding for the upfront costs of the programs. If programs succeed in delivering services that measurably improve people's lives, then government repays those who provided the original funding. If programs do not achieve their targets, government does not repay those who provided the original funding.



88%
NOT FAMILIAR
OR SOMEWHAT
FAMILIAR WITH
PAY FOR SUCCESS

Overall, the majority of respondents held a positive attitude towards the model. 45% of respondents agreed that PFS allows service providers to better deliver their services, while only 22% disagreed.

PAY FOR SUCCESS ALLOWS SERVICE PROVIDERS TO BETTER DELIVER SERVICES TO COMMUNITIES IN NEED.





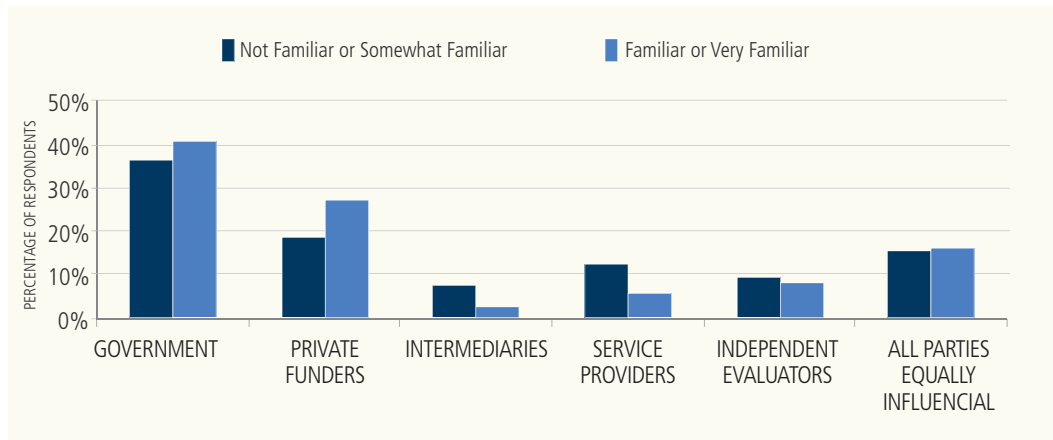
47%

AGREED OR STRONGLY AGREED THEIR ORGANIZATION WOULD BE INTERESTED IN PURSUING A PAY FOR SUCCESS PROJECT.

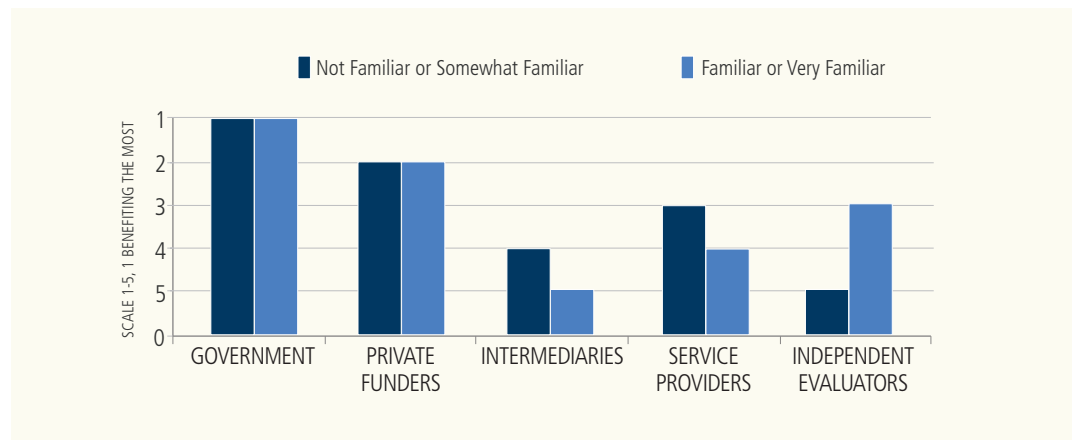
Since its launch in the U.S., the model has attracted skepticism for its use of upfront private capital, often lent at a modest rate of return, to address the timing gap between service delivery and success payments. Though the function of private funders in a PFS contract is to assume the risk of funding a new or scaled service⁷, yielding a financial benefit to the taxpayer, early commentary expressed hesitation to leverage private funding in the delivery of social services.

This view of PFS is reflected when respondents were asked to identify which parties to a PFS contract they viewed as most influential in establishing its terms. The majority of respondents named government first as the most influential, with private funders ranked second. Respondents similarly identified government and private funders as the greatest beneficiaries in a PFS contract.

BASED ON YOUR UNDERSTANDING OF PFS, WHICH PARTIES ARE MOST INFLUENTIAL IN ESTABLISHING THE TERMS OF A PFS PROJECT?



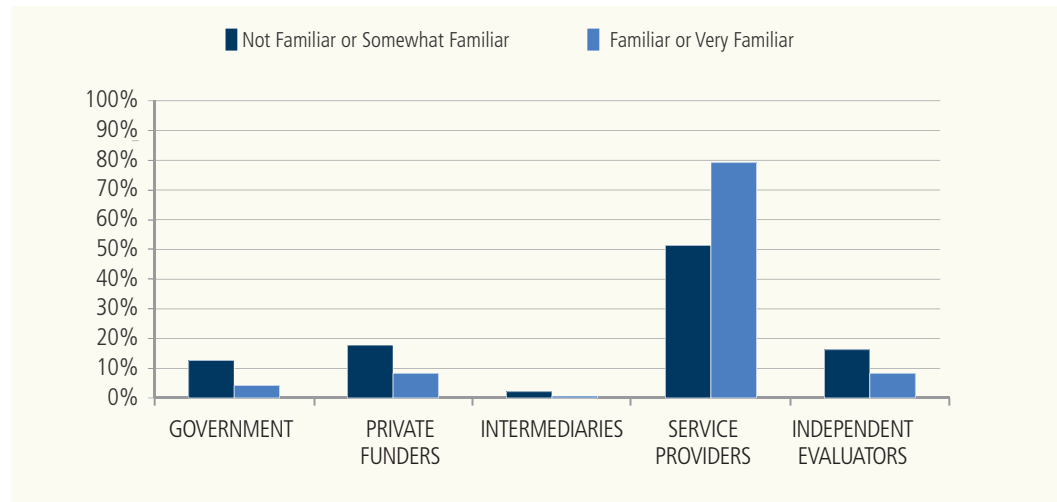
BASED ON YOUR UNDERSTANDING OF PFS, WHICH PARTY BENEFITS MOST FROM THE MODEL?



⁷ For an explanation of the role of private funding in PFS projects, see "The Intersection of Impact Investing and PFS" by Joe Gayeski and Mary Beech, Third Sector Capital Partners, Inc.

The focus on government and private funders shifted when respondents were asked to identify the party most critical to the success of a PFS project. By a significant margin, the majority of respondents identified service providers as the most critical to a project's success.

BASED ON YOUR UNDERSTANDING OF PFS, WHICH PARTY IS MOST CRITICAL TO THE SUCCESS OF A PFS PROJECT?



These responses suggest service providers view PFS as a potentially imbalanced model. Though service providers claim government and private funders are the most influential parties to a PFS contract, they view themselves as the most essential stakeholder in ensuring a project's success. As the only parties directly serving communities on the ground, service providers' knowledge of the target population and of the project's intervention is paramount to the attainment of target outcomes for the people they serve. According to respondents, government and private funders benefit most from the service provider's expertise.

This illustration of PFS contrasts with implementation, both in theory and in practice. When properly facilitated, PFS provides an uncommon opportunity for service providers to collaborate across sector lines. Projects can bring together government, funders, and service providers to construct innovative programs that can measurably address a critical social issue. In contrast to status-quo government contracting in which providers are held to contract requirements that may not be informed by relevant outcomes or service provider input, PFS allows service providers to design the terms of a project alongside government⁸. In this sense, the service provider benefits considerably from PFS: it is no longer reactive to government contracting, but *proactive* in its design.

⁸ For an in-depth analysis of PFS projects and the collaborative role played by service providers, see "[Developing the Cuyahoga Partnering for Family Success Program](#)" (Third Sector Capital Partners, Inc. 2016) or "[The Massachusetts Juvenile Justice PFS Initiative: Lessons Learned](#)" (Third Sector Capital Partners, Inc. 2014)

Nonetheless, the perception of imbalance within PFS projects underscores the importance of service-provider leadership in PFS and other cross-sector initiatives. Service providers still reported interest in the model, with nearly half agreeing their organization would pursue a PFS contract. Stakeholders in PFS projects can ensure this interest grows by exploring the following questions:

- How can parties to a PFS project empower service providers to lead negotiations on outcomes they will be tasked with reaching?
- How can governments and other stakeholders ensure the process, risks, and benefits of cross-sector models like PFS are communicated effectively to interested organizations?
- How can service providers inform governments, funders, and other stakeholders to a PFS project about the population(s) they serve and how their intervention is best delivered?

A SERVICE PROVIDER PERSPECTIVE

This survey intended to begin an inquiry into an overlooked stakeholder within discussions of trends in government contracting. Our findings provide initial answers to the critical questions we raised about service providers and their relationship with government:

- **What is the current relationship between governments and service providers?**

Service providers largely have a positive relationship with government. Though a few respondents cited cumbersome application or compliance requirements, this was not the experience of the majority of service providers. Most deemed their contracts essential to the fulfillment of their mission, and those without government contracts claimed they would pursue one if given the opportunity.

- **What is the attitude of service providers towards government contracts and program evaluation?**

Respondents were receptive to evaluation of their programs. Half of respondents agreed that rigorous program evaluation can improve services. However, given the low familiarity of performance-based contracting and Pay for Success, more resources are needed on program evaluation, public procurement, and how both affect the delivery of social services.

- **What is the attitude and awareness of Pay for Success amongst service providers?**

Service providers view themselves as most critical to a project's success. Though respondents identified government and private funders as the primary influences and beneficiaries of a PFS project, they named service providers as the most critical. This perception underscores the significant risk that service providers assume in a cross-sector models on behalf of other stakeholders.

Service providers are interested in Pay for Success, but are still new to the concept. When given a description, respondents largely agreed that Pay for Success can improve the delivery of social services, and would be interested in pursuing the model for their organizations. However, the low level of familiarity of Pay for Success among respondents illustrates the ongoing need for resources and outreach for service providers interested in pursuing the model.

The illustration of government contracting provided by this survey is only a sketch. As PFS scales across the United States and more jurisdictions become interested in performance-based contracting, more research into the changing dynamic between service providers and the governments that contract with them is warranted. Each inquiry we made only raised further critical questions, inviting a wider national conversation about how service providers can best partner with government to address our most pressing social issues.

A collaborative social sector that reaches across sector boundaries will require frequent assessments of best practices. We hope these findings provide the platform for further studies to raise the voice of service providers serving communities nationwide.

RECOMMENDATIONS

- **Incorporate local service provider input in procurement design.**

When designing a public procurement for social services, governments should actively seek the input of local service providers in their communities. Early collaboration between governments and a range of community-based nonprofits in the research stage of a procurement process, prior to formal release, can ensure application requirements, target programmatic outcomes, and payment structures are appropriate for the organizational capacity of relevant organizations.

- **Provide resources on program evaluation for service providers interested in performance-based contracts.**

Governments can address the information gap between themselves and service providers by building the capacity of local organizations for performance-based contracts. Once program evaluation is explicitly introduced to the public procurement of social services, materials, trainings, and other resources can prepare service providers for this new approach to public funding. Government contracts can then become a catalyst for more rigorous evaluation in the social sector, leading to improved outcomes for those in need.

- **Amplify the voice of service providers in Pay for Success projects and other cross-sector initiatives.**

Service providers often accept significant reputational risks in cross-sector initiatives, while also assuming the greatest responsibility. Governments, funders, and other stakeholders can ensure services best serve communities in need by formally establishing service providers in a leading role when establishing target outcomes and project terms.

- **Conduct further research into the procurement and contracting experience between service providers and government agencies.**

To better understand the dynamic between governments and service providers operating in their communities, further study is necessary. Inquiry in specific jurisdictions, issue areas, and contract types can inform performance-based initiatives and provide a valuable platform for service providers to express their attitudes towards trends in government contracting.

Authors

Joseph Gayeski served as an AmeriCorps New Sector RISE Analyst in the Boston office of Third Sector Capital Partners, Inc. from 2015 to 2016. Joe led Third Sector’s communications and thought leadership initiatives, while also supporting a range of operational capacity building efforts. Previously, Joe provided marketing, communications and programmatic support to social justice organizations in the U.S., U.K. and Southeast Asia. Joe graduated from the University of Edinburgh in 2015 with First-Class Honors in International Relations, and has served on the Board of Trustees of the Unitarian Universalist Service Committee.

Third Sector Capital Partners, Inc. leads governments, high-performing nonprofits, and private funders in building evidence-based initiatives that address society’s most persistent challenges. As experts in innovative public-private contracting and financing strategies, Third Sector is an architect and builder of the nation’s most promising Pay for Success projects including those

in Commonwealth of Massachusetts, Cuyahoga County, Ohio, and Santa Clara County, California. These projects are rewriting the book on how governments contract for social services: funding programs that work to measurably improve the lives of people most in need while saving taxpayer dollars. A 501(c)(3) nonprofit based in Boston, San Francisco, and Washington, D.C., Third Sector is supported through philanthropic and government sources, including a grant from the Corporation for National and Community Service’s Social Innovation Fund.

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