Human Capital and Economic Opportunity Global Working Group

Transcript for Pay for Success Social Impact Finance: South Carolina Home Visiting to Improve Health and Early Childhood Outcomes, March 11, 2013

Presenters

Erica Brown
Harvard Kennedy School Social Impact Bond Technical Assistance Lab

Robert Dugger
ReadyNation / Hanover Provident Capital

Megan Golden
New York University Wagner Innovation Labs

Rhett Mabry
The Duke Endowment

Joe Waters
Institute for Child Success

Transcript

Chris: Good afternoon. My name is Chris, and I’ll be your conference operator today.

At this time, I would like to welcome everyone to the Pay for Success Social Impact Finance: South Carolina Home Visiting to Improve Health and Early Childhood Outcomes, hosted by ReadyNation and the Human Capital and Economic Opportunity Global Working Group. Dr. Rob Dugger, you may now begin your conference.

Rob Dugger: Thank you, Chris. Good afternoon, everybody, and welcome. This is Rob Dugger. I’m one of the co-founders of ReadyNation. Along with two great guys, Jim Heckman and Steven Durlauf, I co-chair the Human Capital and Economic Opportunity Global Working Group at the University of Chicago.

On today’s call, we’re going to focus on the South Carolina early health project. This is the third in a series of conference calls on social impact finance as it’s applied to early childhood. In the first call, you recall, we talked about the general theory of the subject.

In the second call, we focused specifically on the early learning social impact finance project now underway in Salt Lake City. Today, we’re going to focus on the project of the Institute for Child Success that is getting underway in South Carolina.

We’re going to hear from four people. I’ll quickly give you a bit of information about them. Erica Brown is a Government Innovation Fellow at the Harvard School of Government. She’s a member of the Social Impact Lab there. Her role is to assist states in developing social impact finance projects. I’ll let her describe more about that work.

I’ll point out that she’s done a wide variety of amazing things in the Dominican Republic, in Kampala, Uganda, as well as the wild and wooly place of Rhode Island. We’ll hear from Erica first.

Second will be Rhett Mabry. Rhett is Vice President for Early Childhood Projects at The Duke Endowment. He’s had a long career in this area. He’s got a Master’s of Health Administration from Duke, Bachelor at Chapel Hill, was the Director of Patient Care Services at the Health Corporation of America’s Ferry Hospital, Manager at Ernst & Young, Southeast Management Consulting Group. He joined The Duke Endowment in 1992. In 1998, he was named Director of Child Care. In 2009, he became Vice President.

We’ll also hear from Joe Waters, a force of nature in this early childhood social impact finance world. He is a remarkable guy. He is Vice President of The Institute for Child Success. He became Vice President May 11th after completing a year and a half as a minister at the Prince of Peace Catholic Church in Taylor, South Carolina. He has a degree from Duke University in Divinity. He has run for Congress. He is a remarkable force in getting this kind of work underway.

Megan Golden will speak last. She’ll work through and lay out a remarkable feasibility study that the Institute for Child Success has sponsored with support from The Duke Endowment, which lays out the economics of pay for success of such a project. She has a remarkable background. She is a lawyer at Skadden Arps at the neighborhood defender service. She has a B.A. in political science from Brown and J.D. magna cum laude from New York University School of Law. She has worked at a lot of places, the Bayer Institute, and she was director of Planning and Government Innovation at the Bayer Institute of Justice, in which she worked in partnership with government implementation and innovations in criminal justice, juvenile justice, child welfare, and school safety.

Those are the four people we’ll hear from. Let’s go ahead and get started. Let’s hear first, if you would, Erica, go ahead and just talk with us about this project and your perspective on it and your thoughts on its success.

Erica Brown: Sure. Rob, thank you for that kind introduction. I will give a brief overview of the project that is underway, currently being developed here in South Carolina. Joe and Megan are going to talk a lot about the feasibility study that was really the groundwork for this project. They have a lot of the interesting details.

Just to provide some background information about the state’s interest in social impact bonds, we call it Pay for Success financing here in South Carolina, and why we are exploring Pay for Success for home visiting here in the state.

The State of South Carolina, led by The Department of Health and
Human Services, which is the Medicaid agency here in the state, became interested in Pay for Success as an opportunity to create a sustainable stream of financing for high quality, high impact interventions that would allow us to fulfill our mission of purchasing the most health for our citizens in need at the least possible cost to the taxpayer. That’s DHHS’s mission statement.

The particular interest in South Carolina was in using Pay for Success to scale interventions that support a really unique initiative here in South Carolina called the Birth Outcomes Initiatives. That was a multi-stakeholder public/private initiative between the Medicaid agency here in the state and private insurers to improve birth outcomes.

Through that initiative that began in 2011, the state has identified child and maternal health as a priority and thought that Pay for Success financing would be a great way to make more progress in that area.

Megan and Joe will talk about the feasibility study and how that led us to begin exploring home visiting programs in the state. After that feasibility study was completed, the state, here at DHSS in partnership with the governor’s office, has done some additional research and some work to begin developing this project.

As I said, we are in the development stages currently and continue to progress. And we’ll be moving forward with the Pay for Success project and ideally have a project launched by the end of this year.

That’s the 1,000 foot overview of the project. Again, after Megan and Joe speak, if there are specific questions that I’m able to answer, I will be happy to do that at the end of the call. But I think Megan and Joe are going to give you most of the interesting details about this.

**Robert Dugger:** Great. Thanks, Erica. Rhett? Tell us, why did you write a check to support this?

**Rhett Mabry:** Thanks, Rob, for the introduction. Just let me take a second and give you a little background on Duke Endowment. We’ve been around since 1924.

We support four areas in North Carolina and South Carolina—higher education, healthcare, Methodist churches, and childcare, which is essentially children who come in the child welfare system. We’re about a $3 billion foundation and give away about $150 million a year.

Historically, our program areas of higher education, healthcare, childcare, et cetera, we’ve almost operated as four separate foundations. Back in 2007/2008, we began to look at points of intersection where we could create some synergy and have, in effect, healthcare and child welfare doing projects together within the endowment across our program areas.

We quickly settled in on the early childhood space as a nexus point or an intersection point for a lot of our work. After about a year and a half of investigation of trying to figure out the best interventions, we selected Nurse-Family Partnership as a program to advance in the Carolinas.

Nurse-Family Partnership is a home visiting program for first-time, low income mothers. Essentially, the visits occur prenatally—once a week and about twice a week until the child is two years of age.

In our original vision, we saw Nurse-Family Partnership as the cornerstone piece of an early childhood continuum that we might build over time in North Carolina and South Carolina.

The reason we selected Nurse-Family Partnership was because of its evidence. There have been three randomized control trials dating back to the 1970s in Elmira, New York, the 1980s with a primarily African-American population in Memphis, Tennessee, and the 1990s with a population that included Latino families in Denver, Colorado.

Across those three randomized control trials there were six outcomes common to each of those trials, including improved school readiness, a decrease in childhood injuries, an increase in maternal self-sufficiency, meaning the mother either moved to a job or furthered her education, a decrease of subsequent births, better spacing of subsequent births, and improved prenatal health.

Those are the outcomes that attracted us to this intervention. That was the research that attracted us. Nurse-Family Partnership has been replicated across 42 states. They’ve got two cost benefits studies that suggested for about every dollar that you spend on the program you get about a $4-$6 return.

Importantly for us, we were also impressed by The National Service Office located in Denver. Their sole purpose is to make sure the Nurse-Family Partnership gets replicated from one site to the next consistently with fidelity to the model.

For those reasons, the evidence, the infrastructure in place, the outcomes, the cost benefit studies, we, as a foundation, became very interested in trying to replicate this program in the Carolinas, in North Carolina and South Carolina.

We were able to partner with other funders in the two states, including Kate B. Reynolds Charitable Trust, Blue Cross Blue Shield Foundation of North Carolina, Blue Cross Blue Shield Foundation of South Carolina. Also there are public sector agencies. The Division of Public Health in North Carolina puts about two million dollars a year into this project.

We’re also partnering with South Carolina First Steps, and South Carolina Children’s Trust Fund is a great partner. They’re a conduit to the McVee funding which is the federal money that’s being targeted. In addition to the outcomes I just cited, there were a few randomized control trials.

We’ve also done a comparison analysis in South Carolina around birth outcomes. We’ve been able to establish, based on our analysis, that our Nurse-Family Partnership mothers are half as likely to have a preterm delivery, half as likely to have a low birth weight baby, and a third as likely for a baby to be admitted to a NICU, a neonatal intensive care unit.

There’s a lot of good data and a lot of collaboration that’s taking place in the Carolina’s. The outcomes that I’ve just cited on the ground obviously have economic consequences.

Those economic consequences, such as avoiding placement in the NICU, led us to partner with the Institute for Child Success and Joe Waters, who you’ll hear from briefly in a few minutes, to basically help to underwrite a feasibility study to understand how we could construct social impact bonds or Pay for Success structure around expanding Nurse-Family Partnership.

The Duke Endowment put in $25,000. The Department of Health and Human Services in South Carolina, which has been a great partner in this whole effort, also put in $25,000 for the feasibility study.

The feasibility study that Megan and Joe will talk about in a moment led to our being able to contemplate an expansion of Nurse-Family Partnership in South Carolina from serving from...
somewhere just south of 1,000 first time, low income mothers a year currently to some number 4 to 5 times that amount in the next five years using a Pay for Success financing structure where if the savings are documented from the outcomes achieved, investors will get repaid plus some nominal interest.

Joe and Megan will talk more about that. Just to sum up, our interest as a foundation in this Pay for Success structure comes down to several points. We think that it’s positive in that it brings nontraditional investors, namely commercial banks, into this nonprofit space. Those are dollars we don’t typically see and try to replicate social interventions.

We also think this Pay for Success structure gives us an opportunity to test an effective intervention at scale.

Nurse-Family Partnership, as I said, is in 42 states, but it’s usually in pockets of 100 mothers in one community, 100 mothers in another community. It will be important, if we move forward with this in South Carolina, to see if we go to deeper penetration level if Nurse-Family Partnership can actually begin to affect community level data.

I think that’s something that’s particularly exciting about this. I also think the Pay for Success structure models for government this idea of greater accountability to outcomes. As I said earlier, Pay for Success is predicated on measuring outcomes, calculating the cost savings resulting from those outcomes.

If the Duke Endowment is part of the capital stack, we will, no doubt, be a subordinate lender. What we would probably do, for any dollars that might accrue to us, we would probably want to structure some arrangement where those dollars get redirected back into the intervention as opposed to repaying us dollars that may accrue to us.

I’ve got a couple more statements. I’ll wrap up. There are some risks to the foundation, obviously, but some of that is mitigated by the fact that we would be putting charitable dollars, not investment dollars, in the capital. Obviously we’ve got concerns about scale. It’s going to take hiring more than 100 nurses to ramp up the service. That’s obviously going to be challenge.

When you have early childhood interventions and investments, some of the benefits accrue beyond a typical investment horizon or investment window. To try to navigate that and manage that is also going to be a challenge. Let me stop there. I’ll be happy to answer questions when we get to the Q&A.

Robert Dugger: Rhett, that is an absolutely terrific wrap up. Thanks for your leadership and the Duke Endowment for being willing to move into this area and be an innovator and be willing to put...even though it’s a relatively small amount of money, put money at risk on an untried project. All of us deeply appreciate your commitment.

I want to remind everyone that the next part of this discussion is about a feasibility study. That feasibility study is posted on the Human Capital Economic Opportunity Working Group website, on the event page for this event.

You just go to HCEconomics.org. That’s Human capital, HC, Economics.org and look for the events. Click on the events, and this one is the top of the list. Click on that, and you’ll scroll down a little bit. You’ll see it in yellow print of the feasibility study. Click on the feasibility study, and you’ll be able to follow very easily what Joe and Megan are going to be talking about. Joe, I’m going to turn it over to you. We’ll get underway.

Joe Waters: Thank you, Rob. I really appreciate it and appreciate you hosting this call. I want to thank, as well, Erica Brown and Rhett Mabry for their leadership in South Carolina’s exciting initiative. The Institute for Child Success as mentioned by Rhett was thrilled to partner on the feasibility study with the Duke Endowment with South Carolina’s Department of Health and Human Services.

The Institute for Child Success was founded back in 2010 as a joint initiative between the Greenville Health System and the United Way of Greenville in South Carolina to focus exclusively on systems level issues affecting children prenatal to age five in South Carolina.

The way that Rhett described relative to the Duke Endowment, we are also interested in the intersection of health, education, child welfare, and so forth, for children zero to five in South Carolina. We were very interested thanks, actually, in part to Rob’s leadership in exploring Pay for Success financing to improve outcomes for South Carolina’s children.

We worked with Megan Golden, my colleague who will speak to you in just a minute, to explore the idea of using Pay for Success financing to scale and sustain the Nurse-Family Partnership program in South Carolina.

We recognize that there are great needs in our state. South Carolina is a poor and under-resourced state. A child born here faces a very challenging future.

On most indices of child wellbeing, we tend to rank very low. Yet, we know that there are proven methods out there to improve outcomes for our children. Home visiting programs are one example. With Nurse-Family Partnership in particular, as Rhett mentioned, there’s a tremendous return on investment for investing in that program.

South Carolina, through the leadership of The Duke Endowment, Blue Cross/Blue Shield Foundation, The Children’s Trust, First Steps, and others has implemented many of these home visiting programs, but nowhere near to the scale that we need to make the impact to really change the trajectory for our state.

Nurse-Family Partnership, for example, serves, in 2012, only 568 of 11,500 eligible high-risk mothers. And government, as in the rest of the country, is very stretched, focused on remediation and rehabilitation and is not able to really get the budgetary breathing space that they need to shift focus of funding on prevention.

We feel that Pay for Success would address both the outcomes that we want in South Carolina and also the need to scale proven programs.

I would just add we have tremendous leadership from the state in addition to the leadership of our funders and other home visiting partners.

Governor Haley’s leadership in seeking the support of the Harbert Social Impact on Technical Assistance, which has brought us Erica and the leadership of Tony Keck, who is our state’s director of Medicaid, to explore this has really just been phenomenal. We’re pleased to be among the states that are leading the country in Pay for Success financing.

I am now going to turn it over to my colleague Megan Golden, who conducted the feasibility study, to walk you through what she found. Megan?

Megan Golden: Thanks Joe. I’m going to start by asking you to imag-
ine a world where every high-risk mother in South Carolina learns to read to her child every day, to use positive parenting when the child misbehaves, and to provide healthy food and exercise, a world where high quality medical care, childcare, and early education are the norm.

Now imagine that local banks, community foundations, civically minded individuals, national foundations, and investment banks put up capital for proven early childhood interventions to accomplish this. And government paid them back several years later after it saw evidence that the programs were making children better off.

Could the state of South Carolina reach a new normal where it has robust early childhood programs and fewer children in special education, foster care, and prison? Is that feasible?

That was the question that I was trying to answer for the Institute for Child Success, and the Duke Endowment, and the State of South Carolina when I conducted the feasibility study that Joe and others referenced.

We began the feasibility study in January 2013 and completed it last August. I will give you a brief summary of what we found.

Now, do people actually have the slides in front of them that Rob just pointed us to? Rob, should I assume that people have it in front of them?

**Robert Dugger:** Yes. If everyone has gone to HCEconomics.org and clicked on the Events button up at the top, they will be taken to the events page. This is the first event. Click on that. It will take you to the detail for this conference call. And the study that you are talking about is listed. It's called Using Pay for Success Finance to improve outcomes for South Carolina's Children: Results of a Feasibility Study.

Click on that and it will take you to the study. The slides that Megan is talking about, the study is 68 pages. The slides begin on Page 9 or 10.

**Megan Golden:** I will refer to some of the slides, but if you weren't able to get them in front of you, I will try not to refer too much to them.

To give away the conclusion to begin with, we did find that Pay for Success financing is a feasible way to improve outcomes for South Carolina's children. How did we get there?

You've heard from Joe Waters that South Carolina is ranked 45th in overall child wellbeing in the country and from Erica that the government had an initiative to try to improve birth outcomes. And you heard from Rhett that home visiting programs are one example of effective early childhood interventions that can improve outcomes for children.

The Nurse-Family Partnership is a specific home visiting intervention that has a lot of strong evaluation research behind it showing it that it significantly improves the health and development of children and mothers.

What we did was we took a look at how that program is implement-ed now in South Carolina. If you can scroll forward to a few slides, Slide 7 talks about proven outcomes of the Nurse-Family Partnership.

We reviewed the research, the evaluations that had been done on the Nurse-Family Partnership, and saw well-documented outcomes in terms of pre-term birth, visits to the emergency room, child abuse and neglect, and short-term outcomes in terms of reduced crime.

Rhett mentioned this. We also looked at some cost benefit analyses of the Nurse-Family Partnership and saw that the benefit far exceeds the cost.

When you look at this Pay for Success Financing, there are two ways of...

**Rob Dugger:** Let me interrupt just for a second. That's Slide 17 in the document that people have on the website. They are with you now. Nurse-Family Partnership benefits far exceeds cost, Slide 17.

**Megan Golden:** OK. We're going to go through this...about this slide. The types of cost benefit analysis we look at, one is the overall benefit to society as compared to the costs, which we know are great and multiples of the cost of a program like the Nurse-Family Partnership.

Then there's a subset of that, which is the government savings that those outcomes produce. This analysis looked at what the government's save if we have fewer pre-term births, and fewer visits to the emergency room, and less child abuse, etc.

We found that governments save about $19,000 for every $7,754 spent to serve one family for up to two and half years in the Nurse-Family Partnership.

Joe mentioned that in South Carolina there are about 11,500 very poor women who give birth to their first child each year. That's the very high risk target population that the Nurse-Family Partnership serves. Last year they were only able to serve 568 new families. So there is a big gap between the need for the program and how many people are actually getting it now.

Given that, we looked at the data from the different counties in South Carolina, and we looked at the capacity of the service providers and came up with a proposed expansion strategy. We then spelled out by site and by county how many new families the Nurse-Family Partnership could realistically serve in each expansion site.

We reviewed this with the Nurse-Family Partnership staff as well as government officials. Through this analysis, we were able to determine that if South Carolina were to expand the Nurse-Family Partnership to serve 2,750 new families, it would cost about $21 million. And Government would save about $52 million. So that would be a net savings of $31 million.

Almost two-thirds of those savings would come from Medicaid. So that's $5 in savings for every $2 spent, which creates a pretty attractive investment opportunity.

I should say that these savings are from a whole range of outcomes. But in designing a financing mechanism, you need to have specific metrics to determine payment. We focused on early childhood health, which, as Erica mentioned, is especially important to the government of South Carolina, and also has the advantage of being relatively easy to measure because health data is systematically kept in the state's databases.

We put together a little picture of how it could work. We figured that if the Nurse-Family Partnership served 2,750 new families over three years, you could develop a Pay for Success financing deal.

The state would choose one or two health outcomes, and it would pay only if there are improvements in those outcomes as compared to a control group or a match comparison group. There's usually an external evaluator that actually does that analysis.

If you looked at outcomes like pre-term birth that happened in the
first couple years, within about six years, which is a good investor’s timeframe, you could evaluate success for almost 3,000 new families. Then we went into the specifics of pre-term birth outcomes and looked at what the current rates are in the counties where we were proposing expansion and looked at what the projected change is that’s based in the research.

The research shows that the Nurse-Family Partnership can reduce pre-term birth by about 27 percent. We applied that to the different counties to show how the outcomes could be improved by this expansion. We found that it really represents healthier children, and they need less medical care, they do better in school, and they lead more productive lives.

The final step was the financing structure. We figured that there would probably need to be a mix of philanthropic and commercial capital, because, although the state and government in general in this field are often willing to pay for outcomes, they’re not willing to pay the type of return that the market would demand, given the risk involved in a large scale expansion of a social services program.

We talked to some of the big intermediaries in the field, Social Finance US and Third Sector Capital Partners as well as a business school professor at the University of South Carolina who is an expert in finance. We gave them the scenario and said, “Could you come up with a viable financing mechanism that might mix some philanthropic and commercial investment up front?”

They looked at the data, and they came up with three or four different possible ways of structuring the financing. Our goal in the feasibility study wasn’t to actually structure a deal but rather to determine whether it was feasible. That was enough to allow us to conclude that Pay for Success financing could feasibly be used to scale up the nursing-family partnership and improve outcomes for children in South Carolina.

**Robert Dugger**: Megan, that’s terrific. Are you ready to face the questions?

**Megan Golden**: Absolutely.

**Robert Dugger**: [laughs] OK, thank you. I’ve been through this many times, and each time I’m really quite impressed by the scope of what you and Joe and, obviously, the Duke Endowment with Rhett’s help and now trying to go through the implementation with Erica’s help and others, it’s really quite a project.

I have a question for Joe Waters and Megan. Can you talk a little bit about the process of implementation, how this might evolve and others, it’s really quite a project.

**Joe Waters**: Thanks for that question, Rob. Megan, do you want to take the first stab at that?

**Megan Golden**: I think that this is a brand new field, so there are now four of these pay for success programs that have been completed in the U.S., three of them are with Goldman Sachs and one with Bank of America Merrill Lynch. Then there are other investors as well.

There are no set ways of going about this. Each project has paved its way for the field. I don’t know that I have a fast answer to that question.

**Robert Dugger**: OK.

**Joe Waters**: The only thing that I would add to that, Rob, is the tremendous interest that was generated both here in South Carolina and from national folks who were interested in South Carolina from just doing the feasibility study itself. That level of interest is promising and exciting. It’s certainly something that we felt as we were going through the feasibility process here in the state.

I would add, I was impressed by the level of willingness from those potential investors, folks who were interested in investing in this space, their willingness to roll up their sleeves and really dig in and contribute to the analysis and offer us feedback and input and insight. I think the interest is there. It’s tremendous, and it’s really exciting.

**Robert Dugger**: Excellent. I know that in Virginia we’ve looked at the South Carolina project very carefully.

We have now begun a process of monthly meetings of people to look at what possibilities there are to mesh the unique characteristics of Virginia Medicaid and managed health, the possibilities of not only focusing on Nurse-Family Partnership, but the other varieties of home visiting with strong prenatal emphasis to capture those reductions in neonatal intensive care and subsequent emergency room visits.

There seems to be a range of those kinds of programs. Do you consider using anything other than Nurse-Family Partnership in South Carolina?

**Joe Waters**: We did consider it. As you will see as folks go through the slide deck, there are a number of home visiting programs that are implemented in the state. We chose Nurse-Family Partnership for three primary reasons, the ability of that program to achieve outcomes consistent with the state’s interest, the evidence for Nurse-Family Partnership, and the cost benefit analyses that have been done.

Thirdly, the support of the Nurse-Family Partnership national service office staff to go through the feasibility process with us, to be open to exploring a new and, for the program intervention, somewhat risky idea and to explore all of that with us. I would also say that NSO, National Service Office team, is going to be there, should the state move ahead with this, to support the implementation.

We have a better chance with Nurse-Family Partnership, given their willingness throughout this process to make sure that things go as smoothly as we all want them to go with the implementation and the scale up as well.

Certainly we are interested in Pay for Success financing for a range of early childhood interventions. For those reasons, we felt that NFP was just a good place to start for our state. But certainly we have already been in conversation with program models, with interventions, to explore the applicability of PFS financing to other models as well in South Carolina.

**Robert Dugger**: Chris, do you have anyone with any questions?

**Chris**: Yes, we did have a question from Flavio Cunha.

**Flavio Cunha**: This is really exciting. I don’t know if you guys can hear me. I hope you can.

**Robert Dugger**: Flavio, we can hear you loud and clear. It’s good to have you on the call.

**Flavio Cunha**: It’s my pleasure. I’m really fascinated with the work you guys are doing. Two things that I thought about, one is the issue of the evaluation. One thing that I’m doing in Brazil is a version of a home visitation program. I’m working with the government of
The way we are interested in conducting the analysis is by exploring the issue that the program has to expand, they have to hire people, so they cannot deploy the program at all places at the same time. Instead of randomizing people, we are randomizing locations. At different points in time, different localities receive access to the program. We keep track of the localities in which the programs have not been in place in order for us to manage outcomes. A second question is related to the question that Rob just asked.

I am a big supporter of the Nurse-Family Partnership program. At the same time, it’s a program that only serves a certain population. Expanding towards all the populations would be extremely interesting.

I worry about whether, for example, someone who is receiving...if there are too large a range of programs, you can imagine that one person will receive three or four different types of interventions. How would we, in the end, learn how much of the impact is because of a given intervention? Any thoughts about that?

Robert Dugger: Let me just introduce Flavio for you a little bit. Flavio is a student of Jim Hackman's. He's a PhD from the University of Chicago. He now teaches at the University of Pennsylvania. He's one of the leading scholars in the area of early child development.

He's got an upcoming paper in one of the top American journals that deals specifically with mothers' expectations regarding their own children and how interventions which affect those expectations affect the life success of the kids. That's a bit on Flavio. He's a remarkably talented guy.

Flavio Cunha: Thank you for the kind words. If my mom had heard you, she would be so proud of me. [laughs]

Robert Dugger: And if your father heard that, he wouldn't have believed it.

[laughter]

Megan Golden: I could tackle the first part of the question on the evaluation design. I think that what you describe sounds really interesting and, perhaps, like a design that might work for one of these transactions, which is you were randomizing by location as you were able to implement the expansion.

The evaluation has been a very important part of the transactions that have happened so far, but also a work in progress. Some jurisdictions have used historical comparison groups without a random assignment, but New York State, for example, is using a random assignment design that’s on the individual level.

Basically there’s a tension between coming up with the most rigorous method possible, which can be somewhat expensive and difficult to implement and also could mean that not everybody who is eligible gets served because some of them get randomly assigned to the control group, and coming up with something that is feasible, maybe less expensive but maybe not quite as reliable in the outcomes.

Thus far in the US different jurisdictions are striking that balance at different places. Your design sounds like a really interesting option to look at.

Joe Waters: This is Joe Waters again. I may tackle the second piece of the question there. Certainly Nurse-Family Partnership serves a very narrow subset of all mothers. Our focus certainly started with NFP for this study, but we recognize that we need a continuum of services and programs that serve children and their family.

NFP needs to be a part of that continuum. Certainly we're interested in exploring Pay for Success models, as I mentioned, for other programs and other intervention and certainly programs and interventions beyond home visits. Rhett, I know that they have toyed with this a bit at the endowment, so you might have some thoughts as well.

Rhett Mabry: Thank you, Joe. I'll agree with you. We don't see Nurse-Family Partnership as a panacea or the silver bullet or once we get that in place a lot of these challenges go away. In fact, we think it should be part of the continuum. That was our original conception of this idea.

We go back and forth on this. Our thinking is that you need to get a stake in the ground, and you need to be driven by an intervention that has credible evidence. Among the home visiting programs, my belief is that Nurse-Family Partnership has the strongest evidence.

Once we get that in the ground, figure out a way to get it sustained in South Carolina, then we start building on that building block, if you will, and trying to add other services in the continuum that have strong evidence that makes sense for serving populations either beyond where Nurse-Family Partnership drops off or populations that Nurse-Family Partnership does not reach in that early childhood space as well.

If we did the latter, I think we will also need to come up with some sort of triage function so that you don't have home visitors bumping into each other, calling on the same house. I think there are ways to do that.

Again, ours was to think sequentially as opposed to trying to do all these things at once, realizing that getting one program established within the state budget is a challenge. If you try to get several at the same time, you might confuse policy makers, and it might be counterproductive. That was our thinking. I’m not sure if it’s the right thinking, but that’s the way we’re looking at it.

Flavio Cunha: The way I was thinking, if I may say anything here, the way I was thinking about this was to have a central clearing house of who is receiving what type of intervention and that, somehow, would be an important piece for people to be able to identify.

If you imagine the situation in which this really succeeds and there are many programs being offered, the number of children that need this is so large that you can presumably be able to decompose the gains associated with each different intervention.

Each different intervention has a counterpart of an investor that actually will have some money. You would need to have a central clearing house where people are identified in terms of who received what type of intervention.

Erica Brown: Flavio, this is Erica. I think you make a great point. The state of South Carolina, when we initially began exploring this after Joe and Megan completed the feasibility study and it was handed over to the state and we began looking at it, the first thing we did was we released a formal request for information to solicit feedback on this exact issue.

As Rhett said, the initial thinking was we know that Nurse-Family Partnership isn’t the only intervention and it doesn’t serve all the mothers in the Medicaid population in South Carolina. Is there a continuum of care where we can assess individuals for risk and assign them to an intervention proportional to that risk? That was the initial groundwork and idea.
We got a lot of feedback from different parties involved. A lot of this led to it probably is the ideal implementation. It does take time and energy to build up that capacity and build up something like a central clearing house that would track all of that.

It also does complicate the structure of a Pay for Success contract, so I think that some other states, and I think we’ll begin to see this as the Pay for Success models expand throughout the country, I think that you’ll see that some of these contracts are getting more complex and they’re taking approaches similar to the one you were describing.

In South Carolina we’re moving forward with the first project. That will probably focus on just one home visiting intervention, but it definitely is something that we did consider and, as I said, hopefully we’ll begin to see these more complex structures begin to evolve as states have a better grasp on how to develop these projects and how to implement these projects.

Robert Dugger: Let me just explore with Erica and the group a couple of issues here. In states that don’t have an established Nurse-Family Partnership program but they do have other prenatal interventions some that are done as a counseling of groups of mothers. Some are even ones that involve texting over a cell phone.

These, in order to be suitable for a Pay for Success finance structure, would have to involve some sort of longitudinal study with reasonable comparative statistical rigor that runs over at least three to four to five years.

Just for the group as a whole, maybe Rhett, what would be the criteria that would enable, say the Duke Endowment, to become forward-leaning on participating in a project that involves something other than Nurse-Family Partnership.

Rhett Mabry: I think you’ve touched upon it. Obviously the quality of the research would be one of the primary issues. This whole idea of having the capacity to replicate the model consistently from one site to the next, is a critical piece. Frankly, it’s a piece that a lot of effective interventions lack.

What happens is they tend to vary from one site to the next, and there’s some customization, all of which is human nature, by the way, and natural. But what that does is it diminishes your certainty a little bit in terms of whether you can achieve the same outcomes that were achieved through a more rigorous examination, randomized control trial, etc.

Those two things, the strong data and the infrastructure, if you will, to make sure you replicate it consistently from one site to the next, are certainly two things that we look at.

Robert Dugger: I think, then, that I’d like to just explore a little bit of the matter of social finances and third sector partners. These are two of the leading new social investment banks. What will the process be for assessing which of the two banks you pursue? How do you evaluate them, that sort of thing? Can you talk a little bit about that, Joe?

Joe Waters: Sure. I would say that that is certainly a decision that is being made state by state. Certainly there are a lot of factors in different states and communities that go into that consideration. We certainly made no recommendations in the feasibility study.

Our interest is in developing this “vertical,” as I call it. If you consider that the field is being developed along verticals and along horizontals, the horizontals are the banks, the intermediary organizations, the evaluators, and others developing the capacities that we need for Pay for Success financing nationally.

The verticals are the sectors, or the various fields. Certainly, ReadyNation has been a leader in developing the vertical around early childhood. That’s where we stand. We have been focused on working with all the partners out there, all the players out there, who are working on this horizontal as we seek to develop the vertical of Pay for Success for early childhood.

Robert Dugger: Let’s conclude. We’re getting toward the end. Each one of the speakers take a moment and just recap your own perceptions of this. Let’s start, again, Erica, with you, and Rhett, and Joe, and then, Megan, if you will bring us to the conclusion, that would be terrific.

Erica Brown: It’s really interesting. It’s an exciting topic to think about. When I first learned of what a social impact bond was probably about three years ago and started doing some early work on the topic, everything was focused on these recidivism projects.

The progression towards other areas and the huge interests in early childhood has been really exciting to see. I continue to talk to people at different events and at conferences about Pay for Success, and there’s just so much excitement around the concept in general, but then also around early childhood.

It’s an exciting, an emerging field to be in. I’m excited to be working here in South Carolina and am definitely interested in learning more about what’s going on in other states, whether that be early childhood or otherwise.

If I can be a resource for anyone, please don’t hesitate to reach out. I’d be happy to share my contact information with anybody on this call.

It’s just exciting and look forward to the future both here in South Carolina and across the country.

Robert Dugger: Thank you, Erica. Rhett?

Rhett Mabry: I would just summarize my thoughts by saying that I believe there are considerable risks with this, and most of those are associated with scaling an effective intervention.

That being said, I think it’s a risk that we, as a society, need to take. We need to figure out a way to take some of these effective interventions, to take them to scale and make sure they can reach more families, in this case, mothers and children.

You often think about where government has its resources. Understandably, most of government’s resources are reactionary, meaning they are in response to something occurring and they don’t really have the luxury or the resources to put money upstream toward prevention.

This model allows for a parallel investment of our time to create a requisite savings that can make it easier for government to then transfer savings into an intervention program. That’s an important aspect of this Pay for Success financing that I’m excited about exploring.

Robert Dugger: Yes. It literally is an education process in and of itself. It teaches people what the value of prevention versus remediation is.

Rhett Mabry: Right.

Robert Dugger: Joe?
Joe Waters: First, I thank you again, Rob, for your leadership and putting together this call and with the working group here. I would just add that this is a tremendous opportunity for the state of South Carolina to improve outcomes for our children, using this innovative financing to scale programs like Nurse Family Partnership that have proven benefit.

It’s also a tremendous moment for early childhood Pay for Success. As Erica mentioned, early on a lot of focus on recidivism. It’s exciting to now think about taking the next step with more early childhood projects beyond the Utah project that is already underway.

I certainly want to commend your leadership, Rob, in ReadyNation for all the work that you all are doing nationally on this. You’ve certainly been a resource to us. And I would encourage others to take advantage of those resources.

I would just add that the upcoming ReadyNation conference that will be in Charlotte, North Carolina at the end of the month, where we have 17 different teams from 16 states coming for very intensive training around Pay for Success because they want to go back to their states and do early childhood projects. It is wonderfully exciting, and it’s a great opportunity for the field.

Robert Dugger: I feel the same way. My head’s swimming with the possibilities. We’re just starting, now, to take a look at what’s possible in Virginia.

I want to underscore to even the people who don’t have questions that the technical aspects of early childhood health questions, because they involve the healthcare system itself. Medicaid, the whole architecture of the healthcare reform act, and the provisions in that act that press forward the ideas of remediation savings, shared savings, bundled purchasing, and the like, all of that architecture can be pulled into these transactions and ultimately will be the kinds of things that make them successful. Megan, you’ve got the last word.

Megan Golden: I want to echo what others have said about the value of shifting attention of government and other stakeholders to prevention instead of remediation.

I feel that even if this specific financing mechanism didn’t end up taking off in a large way, there’s already a lot of value created in the attention that’s being brought, now, to cost-benefit analysis, to the importance of prevention, and also to the importance of measuring and creating accountability for outcomes.

It’s something that we’ve always wanted to do, but it takes a lot of work to do that, some of which is pretty unpleasant work with databases and things like that. It’s happening now, as people are trying to prepare for pay-for-success transactions. Good will come of it regardless.

I do think it will happen because we’ve gone from one deal to four, in the United States, in about a year. In early childhood, we have Utah in pre-K and, hopefully, South Carolina in other early childhood interventions and the work that ReadyNation and the Institute for Child Success are doing. I’m confident that this financing will only grow.

Robert Dugger: I am too. Thanks to all four of you, Thanks, Chris, for your help in moderating the call. Let me now bring this to an end. Thanks to everybody for being on the call and participating with us in developing this new methodology for improving the life success of America’s kids. Thanks to all of you.

Joe Waters: Thank you, Rob.