

# Pay for Success Financing for Child Care:

## Challenges and Opportunities

September 2014



INSTITUTE *for* CHILD SUCCESS

### (introduction)

It seems that wherever you turn people are talking about Pay for Success (PFS) financing as a new way to increase funding, through private sector investment partners, for services that address important social challenges. Under Pay for Success financing, government funding is transformed from payment for services to payment for outcomes. Thus, preparing for PFS financing can help organizations build capacity for outcomes-based, data-driven management. In this policy brief, we explore whether PFS financing could be used to supplement (not replace) core government funding for child care for infants and toddlers, in order to increase access to and the quality of this vital service.

#### *Key Features of Pay for Success Financing*

- Investors front capital to implement proven, cost-effective programs on a large scale
- Government contracts to pay for agreed-on, measurable RESULTS; government payments repay investors
- An impartial evaluator assesses whether results are achieved. An intermediary may contract with the government and investors, then subcontract with providers

Many interventions targeted at young children appear to be well suited to PFS financing because of the growing research base showing that effective early childhood programs produce long-term benefits for children and communities.<sup>1</sup> One of the first four PFS transactions in the US finances a pre-K program in Utah and two more early childhood PFS deals are in the negotiation stage. A spring 2014 conference ICS organized for the business group ReadyNation<sup>2</sup> revealed significant interest among state and

---

1. *From Neurons to Neighborhoods: The Science of Early Child Development*. Committee on Integrating the Science of Early Childhood Development. J. P. Shonkoff & D. A. Phillips, Eds. Washington, DC: National Academy Press, 2000.

2. Conference of the Early Childhood Social Impact Performance Advisors, ReadyNation, March 27-28, 2014. [www.readynation.org/charlotte2014](http://www.readynation.org/charlotte2014) (Retrieved on August 11, 2014).

#### IN THIS BRIEF:

- p1. Introduction
- p3. The Short Story on PFS
- p4. Context: Child Care Setting and Funding and the Challenge of Quality
- p7. Applicability of PFS to Child Care for Very Young Children
- p8. Observations on PFS Child Care Financing
- p16. The Last Word
- p17. Addendum From Stakeholders Meeting

(by)  
**Janice Gruendel**  
**Megan Golden**

local governments, foundations, and private investors in using PFS financing to expand and improve services for young children.

It is generally accepted that a comprehensive system of early childhood services includes high quality health, family support, and early care and education programs, and, often, early intervention programs.<sup>3</sup> In addition, the quality of the infrastructure supporting these services is essential. A high quality infrastructure includes governance, standards, provider and practitioner support (including professional development), monitoring, research and evaluation, financing, and consumer education and support.<sup>4</sup>

While exploration of PFS financing for early childhood interventions has thus far focused on preschool and home visiting, here we examine potential PFS financing opportunities for infant and toddler child care. This financing would not take the place of direct public funding for early child care, but could provide resources to improve quality and/or access. The key question we seek to answer is this: Are there models for early child care that could take advantage of PFS financing? The short answer is “possibly.”

#### *ICS Briefs on Pay for Success Financing for Early Childhood*

- [Using Pay for Success Financing to Improve Outcomes for South Carolina’s Children: Results of a Feasibility Study \(September 2013\)](#)
- [Pay for Success Financing for Early Childhood Programs: A Path Forward \(January 2014\)](#)
- [Climbing the Pay for Success Learning Curve: How a working group helped South Carolina understand and prepare for PFS Financing \(March 2014\).](#)

A small number of evidence-based programs, such as Early Head Start, the High Scope Perry Preschool Program, the Abecedarian Project, and Chicago Parent-Child Centers have been shown to produce outcomes that governments could be interested in paying for. Clearly, they enable parents of young children to work<sup>5</sup> and, when characterized by high standards, strong curriculum, and a workforce trained on child development and early learning, they can contribute to children’s school readiness, success in elementary school, and improved health and mental health.<sup>6</sup>

All of these programs are designed to serve infants and toddlers in addition to preschool-aged children; however, the evaluation research has focused on preschool-age children rather than on this younger cohort. Additional evidence is needed to persuade investors that these programs can improve outcomes for infants and toddlers. Several other promising programs could also be appropriate for PFS financing if they build the right evidence and capacity.

3. Bruner, C. A Framework for State Leadership and Action in Building the Components of an Early Childhood System. BUILD Initiative, undated. Online at: [www.buildinitiative.org/Portals/0/Uploads/Documents/Four\\_Ovals\\_paper.pdf](http://www.buildinitiative.org/Portals/0/Uploads/Documents/Four_Ovals_paper.pdf) (Retrieved August 11, 2014).

4. Building Ready States: A Governor’s Guide to Supporting a Comprehensive, High Quality Early Childhood State System, National Governors Association, October 2010. [www.nga.org/files/live/sites/NGA/files/pdf/1010GOVSGUIDEEARLYCHILD.PDF](http://www.nga.org/files/live/sites/NGA/files/pdf/1010GOVSGUIDEEARLYCHILD.PDF).

5. Child care disruptions cost U.S. businesses 3 billion dollars annually and three in ten employed parents experienced a “child care breakdown, resulting in absenteeism, tardiness and reduced concentration at work.” *Parents and the High Cost of Child Care, Child Care Aware of America, 2013*, p. 9. [http://usa.childcareaware.org/sites/default/files/cost\\_of\\_care\\_2013\\_103113\\_0.pdf](http://usa.childcareaware.org/sites/default/files/cost_of_care_2013_103113_0.pdf) (Retrieved August 15, 2014).

6. See The National Conference of State Legislatures 2004 report on the economic return for high quality early education citing three studies: Rolnick, A. and Grunewald, R., *Early Childhood Development: Economic Development with a High Public Return*, March 2003; Heckman, J. and Masterov, D., *The Productivity Argument for Investing in Young Children*, October 2004; *High/Scope Educational Research Foundation, The High/Scope Perry Preschool Study Through Age 40*, November 2004. <http://www.ncsl.org/research/human-services/new-research-early-education-as-economic-investme.aspx> (Retrieved August 15, 2014).

Despite these PFS-worthy outcomes (i.e., school readiness, improved health and early school success), applying PFS financing to infant and toddler child care is complicated for several reasons, including difficulties showing that a particular intervention caused specific outcomes, challenges identifying a control group, and the fact that child care for low-income families is currently funded by multiple federal, state, and local funding sources, each with different rules and requirements.

Moreover, most infant and toddler child care programs need to develop better evidence of their impact and “return on investment” before they are ready for PFS financing. We hope this paper will stimulate constructive discussion not only about PFS financing, but also about building the capacity of the field to deliver and document the outcomes it can achieve for our youngest children.

### (the short story on PFS)

With PFS (also called Social Impact Bonds, or SIBs), philanthropic funders and private “impact investors” provide the initial capital to scale up successful interventions, most often those identified as “evidence-based.” This designation is based on rigorous evaluations and several years of solid outcomes data. The services selected for PFS financing are generally delivered by nonprofits, under a management structure headed by an intermediary organization.

The government contracts with the intermediary organization for specific outcomes, and an independent evaluator determines whether the outcomes are achieved, usually by comparing them to those of a control or comparison group.<sup>7</sup> The intermediary organization (e.g. Social Finance or Third Sector Capital Partners<sup>8</sup>) uses the government’s promise of payment to raise private capital for programs expected to achieve the contracted outcomes with the least risk to the investors. If the outcomes are achieved, government funds are used to repay the investors’ principal plus an agreed-upon return. These interventions often save government money by reducing the likelihood of crime, child abuse, or other expensive problems; thus, they both prevent problems and promote health and well-being. Government can draw on those savings to pay for the outcomes achieved.

“Every week in the United States, nearly 11 million children younger than age 5 are in some type of child care arrangement. On average, these children spend 36 hours a week in child care.

While parents are children’s first and most important teachers, child care programs provide early learning for millions of young children daily, having a profound impact on their development and readiness for school.”

Parents and the High Cost of Child Care: 2013 Report. Child Care Aware of America, 2013, p. 9. The benefits of these programs to society extend beyond the well-being of its most vulnerable citizens. Early interventions also produce economic benefits. Many of them deliver net savings for government in the long run, especially when they are provided to the young children who face the greatest risk of negative outcomes.

Parents and the High Cost of Child Care: 2013 Report. Child Care Aware of America, 2013, p. 9.

7. Sometimes an auditor or validator is also hired to certify the results.

8. See [www.socialfinanceus.org](http://www.socialfinanceus.org); [www.thirdsectorcap.org](http://www.thirdsectorcap.org).

## (context: child care settings and funding and the challenge of quality)

In America today, more than 10 million young children are cared for by people other than their parents. For this policy brief, we define “child care” as programs and settings in which adults provide care and supervision for young children in the absence of the parent. These settings may also provide educational, recreational, and/or therapeutic activities. We focus on child care for very young children, birth to age three. We do not include government-funded preschool, since it has already been the subject of one PFS transaction and some in-depth analysis.

As the child care field makes improvements in quality that advance children’s development and learning, “child care” has been replaced with terms like “early care and education.” In this brief, however, we continue to use “child care” to distinguish it from preschool programs,<sup>9</sup> and we pay special attention to infant and toddler care for low-income families, often already subsidized by the government.

Child care in the United States is a patchwork of care settings, funding sources, and regulations administered by multiple government agencies and provided by nonprofits, large for-profit companies and small businesses, religious institution, and individuals.<sup>10</sup> There are three main types of child care settings:

- **Center-based care:** For multiple children at a time, not in a personal residence (the minimum number of children varies by state).
- **Licensed family child care, also called home-based child care:** For multiple children at a time in a residence that is licensed by the health department or other agency. The minimum and maximum numbers of children who may be served in this setting varies by state.
- **Informal care (also called “friend and family” care):** An individual cares for a small number of non-related children or to one or more closely related children. The maximum number of children also varies by state. This type of child care is typically provided in the caregiver’s home or the children’s home. In some states, providers are required to comply with regulations including health and safety requirements, but they do not need to be licensed.<sup>9</sup>

## Funding

The federal government subsidizes care for the poorest families and sets minimum standards states must meet in administering federal child care funds. With the exception of the Child

9. It is important to note that child care usually operates for much longer hours each day (often a full day) as compared with preschool which is often half a day or slightly longer.

10. Parents and the High Cost of Child Care, 2013 Report, Child Care Aware of America. [http://usa.childcareaware.org/sites/default/files/cost\\_of\\_care\\_2013\\_103113\\_0.pdf](http://usa.childcareaware.org/sites/default/files/cost_of_care_2013_103113_0.pdf) (Retrieved August 15, 2014).

11. In its April 2013 publication “Child Care: Indicators on Children and Youth,” Child Trends reports that the “... types of care employed mothers predominantly use for their children (ages birth to four) have changed only slightly in the past 25 years,” Now, as then, the majority of very young children not cared for by their working parents are served in family-based settings. As one would expect, the types of care that families use varies by the age of the child. As children approach their preschool years, child care shifts from family-based to center-based settings. *Child Care: Indicators on Children and Youth*. Child Trends Data Bank, April 2013. Online at [--www.childtrends.org/wp-content/uploads/2012/07/21\\_Child\\_Care.pdf](http://www.childtrends.org/wp-content/uploads/2012/07/21_Child_Care.pdf) (Retrieved in August 15, 2014).

Care and Dependent Tax Credit<sup>12</sup> the federal government subsidizes care for only the lowest-income families, including those enrolled in TANF (Temporary Assistance for Needy Families, the federal public assistance program) who are looking for work and meet other criteria.<sup>13</sup> States (and sometimes localities) determine how much and for whom government will support child care beyond what is federally required. States can add funds from other sources to increase the support. In 2012, “approximately 1.5 million children and 903,500 families per month received child care assistance”<sup>14</sup> through the federal Child Care Development Fund, including but not limited to those on TANF. Among these children, 28% (about 420,000) were very young, under three years old.

In addition to subsidizing child care through the states, the federal government also funds Early Head Start, a community-based program for low-income families with infants and toddlers. Early Head Start offers services for very young children in child care settings, in their homes, or in both settings. However, in 2013 EHS was funded to reach only 3.5% of 3 million young children eligible to be enrolled.<sup>15</sup>

We have not been able to locate analyses that document the current national need for government-subsidized infant and toddler child care (in either family- or center-based care). The unmet need documented within Early Head Start coupled with the high cost of center-based infant and toddler care and the continued wage stagnation of many American working families with young children suggest that demand will continue to outstrip capacity. We continue to believe, therefore, that many low-income parents will be forced to settle for low-quality care or forego longer work hours because they cannot afford high-quality care.<sup>16</sup> The very recent reauthorization by both the US House of Representatives and the US Senate of the Child Care and Development Block Grant, including a substantial increase in funding for additional slots (as well as for policy and quality improvements), would appear to bear out this continued need.<sup>17</sup>

“The quality of care ultimately boils down to the quality of the relationship between the child care provider and the child; skilled and stable providers promote positive development.”

Seizing the Potential: Quality Infant Toddler Child Care, Zero to Three (2010).

12. Child Care and Dependent Tax Credit, Internal Revenue Service, March 2011. [www.irs.gov/uac/Ten-Things-to-Know-About-the-Child-and-Dependent-Care-Credit](http://www.irs.gov/uac/Ten-Things-to-Know-About-the-Child-and-Dependent-Care-Credit) (Retrieved August 20, 2014). Nearly a dozen states also provide their own child and dependent care tax credits. Tax Credits for Working Families, undated. [www.taxcreditsforworkingfamilies.org/child-and-dependent-care-tax-credit](http://www.taxcreditsforworkingfamilies.org/child-and-dependent-care-tax-credit) (Retrieved August 20, 2014).

13. This funding comes through the federal Child Care Development Fund, administered by the states. Child Care and Development Fund Fact Sheet, undated. [www.acf.hhs.gov/sites/default/files/occ/ccdf\\_factsheet.pdf](http://www.acf.hhs.gov/sites/default/files/occ/ccdf_factsheet.pdf) (Retrieved August 20, 2014); See also, Minton, S. and Durham, C. Low-Income Families and the Cost of Child Care: State Child Care Subsidies, Out-of-Pocket Expenses, and the Cliff Effect, Urban Institute, December 2013. [www.urban.org/UploadedPDF/412982-low-income-families.pdf](http://www.urban.org/UploadedPDF/412982-low-income-families.pdf) (Retrieved August 20, 2014).

14. Characteristics of Families Served by Child Care and Development Fund (CCDF) Based on Preliminary FY 2012 Data, Office of Child Care, Administration for Children and Families, February 5, 2014. [www.acf.hhs.gov/programs/occ/resource/characteristics-of-families-served-by-child-care-and-development-fund-ccdf](http://www.acf.hhs.gov/programs/occ/resource/characteristics-of-families-served-by-child-care-and-development-fund-ccdf) (Retrieved August 20, 2014).

15. Fact Sheet: Early Head Start. Zero to Three, March 2014. [www.zerotothree.org/policy/docs/ehs-fact-sheet-ztt-04-04-2014.pdf](http://www.zerotothree.org/policy/docs/ehs-fact-sheet-ztt-04-04-2014.pdf) (Retrieved September 17, 2014).

16. High-quality child care is expensive: “In every state, the average cost of center-based infant child care exceeds 25% of median income for single parents.” Parents and the High Cost of Child Care, op it. p. 13.

17. Child Care Reauthorization 20 Years in the Making Underway, Ed Central, September 15, 2015. [www.edcentral.org/child-care-reauthorization-20-years-making-underway](http://www.edcentral.org/child-care-reauthorization-20-years-making-underway) (Retrieved September 17, 2014).

## Quality of Care

Although high-quality child care is a prerequisite for positive outcomes for children,<sup>18</sup> the quality of child care in America is demonstrably uneven, with much of the child care provided for very young children of mediocre or fair quality. In its 2005 landmark study, the National Institute of Child Health and Development evaluated “regulated” and “process” features of child care quality. Regulated standards include such items as staffing ratios, group size and worker training and education. Process standards, called positive caregiving, include such actions as showing a positive attitude and having positive physical contact, responding to vocalizations, talking, praising and reading, encouraging development and eliminating negative interactions. The study found that “...children in 9 percent of child care settings receive a lot of positive caregiving; children in 30 percent of child care settings receive a fair amount of positive caregiving; children in 53 percent of child care settings receive some positive caregiving; children in 8 percent of child care settings receive hardly any positive caregiving. In other words, the data suggest that most child care settings in the United States provide care that is “fair” (between “poor” and “good”).<sup>19</sup>

The national organization Child Care America also examines quality, but as evidenced by the regulation and oversight of state child care systems rather than within individual child care settings. When Child Care America rated state child care systems in 2012 based on an assessment of 15 research-based elements, no state scored an “A” and only the federal Department of Defense (DoD) scored a rating of “B.” “The remaining top 10 states (New York, Washington, North Dakota, Oklahoma, Texas, Wisconsin, Delaware, Illinois, Minnesota and Tennessee) earned a “C.” Twenty-one states earned a “D,” and the remaining 20 states earned a score of 60 or less, a failing grade.”<sup>20</sup> A study of state systems for small family child care homes found similarly disturbing results. Of the top 10 scoring states, “one state (Oklahoma) earned a “B,” three states (Washington, Kansas and Delaware) and the DoD earned a “C,” four states (Maryland, Alabama, the District of Columbia and Colorado) earned a “D,” and the 10th state – Massachusetts, with a score of 86, at 57 percent, earned an “F” (as do all remaining states).”<sup>21</sup>

Many impressive efforts are underway across the country to improve the quality of child care (see below). But fundamentally, the government funding for child care for infants and toddlers is woefully inadequate to pay for the workforce, professional development, materials and activities, management systems, governance structures, and other elements that are associated with positive outcomes for children.

---

18. Vandell, Deborah Lowe, Jay Belsky, Margaret Burchinal, Laurence Steinberg, and Nathan Vandergrift. “Do Effects Of Early Child Care Extend To Age 15 Years? Results From The NICHD Study Of Early Child Care And Youth Development.” *Child Development* 81.3 (2010): 737-756; Burchinal, Margaret , Nathan Vandergrift, Robert Pianta, and Andrew Mashburn. “Threshold analysis of association between child care quality and child outcomes for low-income children in pre-kindergarten programs.” *Early Childhood Research Quarterly* 25 (2010): 166-176; National Center for Research on Early Childhood Education. “Increasing knowledge in early childhood.” NCRECE In Focus 1.2 (2010).

19. The NICHD Study of Early Child Care and Youth Development: Findings for Children Up to Age 4½ years. National Institute of Child Health and Human Development, January 2006. Pp. 10-11. [www.nichd.nih.gov/publications/pubs/documents/seczyd\\_06.pdf](http://www.nichd.nih.gov/publications/pubs/documents/seczyd_06.pdf) (Retrieved September 11, 2014).

20. We Can Do Better: Child Care Aware® of America’s Ranking of State Child Care Center Regulations and Oversight 2013 Update, op cit. p. 7. [www.naccrra.org/sites/default/files/default\\_site\\_pages/2013/wcdb\\_2013\\_final\\_april\\_11\\_0.pdf](http://www.naccrra.org/sites/default/files/default_site_pages/2013/wcdb_2013_final_april_11_0.pdf).

21. *Leaving Children to Chance: NACCRRRA’s Ranking of State Standards and Oversight for Small Family Child Care Homes, 2012 Update*. National Association of Child Care Resource & Referral Agencies, March 2012. [www.naccrra.org/sites/default/files/default\\_site\\_pages/2012/lcc\\_report\\_full\\_march\\_20.pdf](http://www.naccrra.org/sites/default/files/default_site_pages/2012/lcc_report_full_march_20.pdf) (Retrieved July 31, 2014).

## (applicability of PFS to child care for very young children)

Is Pay for Success financing a viable source of new funding for this underfunded system? In theory, there are two ways PFS financing could be used to fund child care: paying for new slots in high-quality care for children who would not otherwise receive it and paying for quality-improvement measures designed to improve child outcomes for existing subsidized care. This section describes how PFS financing could work, then analyzes whether current early childhood interventions can meet the three criteria for PFS financing.

### *Pay for high-quality care for those who would not receive it otherwise*

Government at the local, county, or state level could contract for improved outcomes such as school readiness for infants and toddlers at risk of poor outcomes. An intermediary organization would contract with child care providers that have evidence that their programs achieve those outcomes. Whether the PFS intervention produced the agreed-upon outcomes would be determined by comparing children who received the services with a matched group of children who did not receive the PFS-financed care. Philanthropic and commercial investors would provide the capital to implement the child care program and would receive their investment back plus a modest return if the outcomes were achieved. This financing would create new high-quality slots for families who could not otherwise afford child care, enabling parents to work and children to be not only safe but also engaged in activities that promote their healthy development.

### *Pay for quality-improvement measures to improve child outcomes for existing subsidized care*

A state, a large city or county, the federal government or some combination could use PFS financing to contract for improved outcomes such as school readiness for children at risk of poor outcomes. But instead of financing the full cost of high-quality child care, the PFS transaction would fund only interventions that improve quality of existing subsidized child care.

Many efforts are underway to improve child care quality, although most have focused on center-based care and preschool education for slightly older children, generally ages three to five years. These include establishing and funding Quality Rating and Improvement Systems,<sup>22</sup> workforce professional development programs,<sup>23</sup> state-specific early childhood learning standards,<sup>24</sup> and specific content and curricular guidance such as how to support

22. For more information and state updates, go to the QRIS Learning Network. <http://qrisnetwork.org> (Retrieved August 20, 2014). See also Regenstein, E. and Romero-Jurado, Rio, A Framework for A framework for Rethinking State Education Accountability and Support from Birth through High School, No. 3, Version 1.0, The Ounce (June 3, 2014). <http://qrisnetwork.org/lt/2014-qris-national-meeting/sessions/opportunity-alignment-rethinking-qris-part-education-accounta> (Retrieved August 20, 2014); Quality Rating and Improvement Systems, What Works for Health, August 2013. <http://whatworksforhealth.wisc.edu/program.php?t1=20&t2=2&t3=56&id=166> (retrieved August 20, 2014). "There is some evidence that Quality Rating and Improvement Systems (QRIS) lead to improvements in the quality of participating early child care and education programs...However, additional research using comparison groups is needed to confirm effects." (p. 1)

23. Professional Development for the Infant/Toddler Early Care and Education Workforce, Office for Child Care and National Infant and Toddler Child Care Initiative, 2010. [www.zerotothree.org/public-policy/state-community-policy/nitcci/professional-development-for-the-infant-toddler-workforce.pdf](http://www.zerotothree.org/public-policy/state-community-policy/nitcci/professional-development-for-the-infant-toddler-workforce.pdf) (Retrieved August 20, 2014).

24. Infant toddler early learning standards vary by state and with a state's Preschool Learning Standards constitute a continuum of expectations about what very young children are expected to know and be able to do. See for example, the Pennsylvania Learning Standards for Early Childhood: Infants and Toddlers (2009, 2nd edition). [http://static.pdesas.org/content/documents/Pennsylvania\\_Early\\_Childhood\\_Education\\_Standards\\_for\\_Infant-Toddler.pdf](http://static.pdesas.org/content/documents/Pennsylvania_Early_Childhood_Education_Standards_for_Infant-Toddler.pdf) (Retrieved August 20, 2014).

early language development.<sup>25</sup> Additionally there is increased attention to supporting family, friend, and neighbor care providers to become licensed.<sup>26</sup>

In this scenario, the funding for individual children's care would continue to come from existing subsidies, whatever form they take, and, if applicable, from the family itself. Outcomes would be determined by comparing children who received services from providers who implemented the quality improvement mechanism with a matched group of children who received care from other providers. Philanthropic and commercial investors would provide the capital to implement the improvements (which would be less than the cost of funding high-quality child care itself) and would receive their investment back plus a modest return if predetermined outcomes are achieved.<sup>27</sup> Isolating the impact of specific quality improvement interventions (individually or together) on child outcomes would be tricky but worthwhile given the potential benefits for children.

### (overarching observations on PFS financing for infant and toddler child care)

PFS financing should be a fallback plan. It would be better if government adequately funded high-quality infant and toddler child care (including the infrastructure necessary to ensure that it is affordable, accessible, and of high quality) for those who can't afford it. Any jurisdiction that can provide sufficient funding without PFS financing should do so, avoiding the transaction costs and complexities that go along with this new financing mechanism. However, in jurisdictions where advocacy and policy reform efforts have not been able to secure sufficient funding, PFS financing could provide a low-risk way for government to venture into fully funding child care for infants and toddlers when anchored in evidence-based programs and/or proven strategies designed to improve quality and achieve desired child outcomes.

PFS financing should not substitute for existing government subsidies. There are already significant government subsidies for child care. Thus the federal government has already decided, in effect, that it is worth paying for subsidized child care to enable parents to work (i.e. CCDBG funds child care for families on TANF seeking employment), and the federal government is now authorized to fund Early Head Start and Early Head Start-Child Care Partnerships<sup>28</sup> with a total appropriation of 550 million dollars annually. These funding sources should not be decreased or substituted with PFS financing. Rather, PFS financing should be used to increase the availability of high-quality subsidized child care and/or increase the quality of the care that is currently available to improve child outcomes.

PFS should focus on child outcomes in addition to employment outcomes. One of the main goals of subsidized child care is to provide a safe place for children to stay so parents can work. However, experience has shown that focusing exclusively on the employment goals can have the unintended consequence of incentivizing care that is cheap, convenient, and easily

---

25. Gardner-Neblett, N., and Gallagher, K. C. More than baby talk: 10 ways to promote the language and communication skills of infants and toddlers. Frank Porter Graham Child Development Institute, 2013. Cited from the BUILD Initiative at -- [www.buildinitiative.org/WhatsNew/ViewArticle/tabid/96/ArticleId/663/More-Than-Baby-Talk.aspx](http://www.buildinitiative.org/WhatsNew/ViewArticle/tabid/96/ArticleId/663/More-Than-Baby-Talk.aspx) (Retrieved August 20, 2014).

26. See, for example, All Our Kin. [www.allourkin.org](http://www.allourkin.org) (Retrieved August 20, 2014).

27. For an argument for using PFS financing to fund a Quality Rating and Improvement System in New York, see Lifton, Natasha. Using Pay for Success Strategies to Increase School Readiness in New York State, New York State Early Childhood Advisory Council (2012).

28. Early Head Start Child - Care Partnerships, Office of Early Childhood Development, Administration for Children and Families, undated. [www.acf.hhs.gov/programs/ecd/early-head-start-child-care-partnerships](http://www.acf.hhs.gov/programs/ecd/early-head-start-child-care-partnerships) (Retrieved August 20, 2014).



obtained but not high enough quality to produce age-appropriate child development for low-income families. To ensure that subsidized child care supports children’s development as well as parents’ employment, any child care PFS transaction should focus on child well-being and family outcomes as well as parental employment.

### *Three Criteria for PFS Funding*

There are three main criteria for PFS financing: an evidence-based intervention; a plan of implementation; and a government agency willing to pay for results. This section analyzes whether infant and toddler child care can meet these criteria. It focuses on the first criterion—the intervention—since that is a threshold requirement.

- A clearly defined intervention shown by research to produce specific outcomes
- A feasible plan to implement the intervention to serve and achieve outcomes for significant numbers of people in a specific jurisdiction
- One or more government agencies willing to pay a sufficient price for the outcomes.

#### *Criterion #1. A clearly defined intervention shown by research to produce specific outcomes*

Outcome data needs to be sufficient for an investor to have confidence that outcomes expected in the PFS contract will be achieved. Rigorous third-party evaluations are strongly preferred but not absolutely necessary if a program has other compelling data. (This requirement would apply to both child care program slots funded through PFS financing and quality improvement interventions.)

In the infant and toddler child care arena, there are a few “evidence-based” program models that have been shown to produce positive outcomes for young children. However, except for Early Head Start, they may not be quite “PFS ready” because existing evaluation research focuses on older children or because they have not been evaluated in an infant-toddler child care context. Several other promising programs could be appropriate for PFS financing if they build the right evidence and capacity, or if they find investors willing to take a significant risk. Unfortunately, those infant and toddler child care programs that neither use an evidence-based model nor have other evidence of positive outcomes for children are not appropriate at this time for PFS financing.

As noted in ICS’s publication “Pay for Success Financing for Early Childhood Programs: A Path Forward,” staking too much on a single outcome, which might be one of several outcomes an intervention produces, can be risky. Outcomes that determine payment need to be chosen carefully and expectations managed appropriately.

#### *One infant and toddler program is supported by substantial research showing positive outcomes*

Early Head Start was launched in 1995 to serve low-income mothers with infants and toddlers. The program design involved both a child care component and a home-visiting component. A randomized control trial study involving 3,000 families across 17 programs found positive outcomes. At the age of three, Early Head Start program children performed better than control children on language and cognitive development, demonstrated higher levels of sustained attention in play, and were less aggressive. Early Head Start parents were more “emotionally supportive, provided more language and learning stimulation, read to their children more and spanked less. The strongest and most numerous impacts were for programs that offered

a mix of home-visiting and center-based services and that fully implemented the performance standards early.”<sup>29</sup>

*A few other evidence-based programs might be appropriate for PFS financing*

Several government-sponsored registries identify “evidence-based” programs and programs that have enough evidence of success to be characterized as “promising.” These resources include: the Early Childhood Technical Assistance Center; the National Registry of Evidence-Based Programs and Practices, Substance Abuse and Mental Health Services Administration (SAMHSA); the What Works Clearinghouse at the US Department of Education; the Promising Practices Network; and the Washington State Institute for Public Policy. Although definitions of “evidence-based” programs vary across these rating organizations, a short list of programs delivered as part of child care settings serving young children emerges from the research literature. As identified by the Promising Practices Network, they are:

- The Abecedarian Program
- Chicago Child-Parent Centers, and
- High Scope Perry Preschool Program.

These programs all take a comprehensive approach to serving vulnerable young families, anchored in the provision of part- or full-day child care along with resources and referrals designed to meet the needs of parents. Three of these programs – Abecedarian, Chicago Child-Parent Centers and High School Perry Preschool – have been in operation within the United States for several decades. Although they primarily serve preschool-aged children, they are also designed to serve infants and toddlers. They have been studied over a long period of time, and are often referenced to show long term “return on investments” from high quality early care and education investments.<sup>30</sup> However, the evaluation research focuses on preschool-age children rather than on this younger cohort. Additional evidence is needed to persuade investors that these programs can improve outcomes for infants and toddlers.

In addition to these specific program models, there are other evidence-based interventions for young children (and sometimes their families) that may be able to be delivered in child care settings with results that show improvement in child well-being.

- High Scope Curriculum, “an early childhood education program for children ages birth to five years. Designed for children with or without special needs and from diverse socioeconomic backgrounds and ethnicities, the program aims to enhance children’s cognitive, socioemotional, and physical development, imparting skills that will help children success in school and be more productive throughout their lives”<sup>31</sup>
- Incredible Years Baby and BASIC Toddler program “...targets parents of children ages 0-2. The Incredible Years Baby program teaches parents to read their child’s cues, use effective verbal communication, and provide physical, tactile, and visual stimulation.

---

29. Love, J., Kisker, E.E., Ross, C., Constantine, J., Boller, K., Chazan-Cohen, R., Brady-Smith, C., Fuligni, A.S., Raikes, H., Brooks-Gunn, J., Tarullo, L.B., Schochet, P.Z., Paulsell, D., and Vogel, C. The effectiveness of early head start for 3-year-old children and their parents: Lessons for policy and programs, *Developmental Psychology*. 2005. Vol. 41(6):885-901. <http://policyforchildren.org/wp-content/uploads/2013/08/Effectiveness-of-Early-Head-Start.pdf> (Retrieved August 21, 2014). A 2012 Washington State Institute for Public Policy analysis found that despite the positive impacts the costs exceed the benefits; however, cost savings are not strictly required for PFS financing (see criterion 3). See <http://www.wsipp.wa.gov/ReportFile/1431>.

30. See, for example, *Early Childhood Education for Low-Income Students: A Review of the Evidence and Benefit-Cost Analysis*, Washington State Institute for Public Policy, January 2014. [www.wsipp.wa.gov/ReportFile/1547/Wsipp\\_Early-Childhood-Education-for-Low-Income-Students-A-Review-of-the-Evidence-and-Benefit-Cost-Analysis\\_Full-Report.pdf](http://www.wsipp.wa.gov/ReportFile/1547/Wsipp_Early-Childhood-Education-for-Low-Income-Students-A-Review-of-the-Evidence-and-Benefit-Cost-Analysis_Full-Report.pdf) (Retrieved August 20, 2014).

31. NREPP, op ct. <http://nrepp.samhsa.gov/ViewIntervention.aspx?id=18> (Retrieved August 20, 2014).

The BASIC Toddlers program teaches a variety of positive and nurturing parenting skills.”<sup>32</sup>

Also, it would be possible to combine an evidence-based child care model with an evidence-based home visiting program reaching children both within the context of the child care setting and in the home environment, as could be done with Early Head Start.<sup>33</sup> Of 35 home visiting programs recently reviewed by federal Office of Planning, Research and Evaluation, 14 met the definitional criteria of evidence-based and five, listed below, have been replicated<sup>34</sup>:

- Early Intervention Program for Adolescent Mothers
- Healthy Families America
- Home Instruction for Parents of Preschool Youngsters
- Nurse Family Partnership, and
- Parents as Teachers.

Since these interventions do not have published evaluations showing they produced specific positive outcomes for infants and toddlers when implemented at scale in the context of early child care, they would need to make a sufficient case based on unpublished data or other evidence to persuade investors that they can achieve outcomes specified in a PFS contract.

*Several promising programs could be candidates for PFS financing if they build their evidence base or secure philanthropic partners*

Several interventions with more limited evidence of outcomes could be candidates for PFS financing if they build the evidence of their impact, or if investors are willing to take risks on the likelihood of their success when scaled up. One example of a program in this category is Smart Start North Carolina. Smart Start is “a comprehensive public-private community-based initiative to help all North Carolina children enter school ready to succeed. Created in 1993, the primary focus of Smart Start is to provide families with access to high-quality childcare...Currently, 81 local partnerships, encompassing all of North Carolina’s 100 counties, have begun implementation of Smart Start to assure that children in their communities begin school healthy and ready to succeed.”<sup>35</sup>

A promising program focused on improving quality along with the economic capacity of the family-based child care sector is All Our Kin.<sup>36</sup> This program was launched in New Haven, Connecticut and is now being replicated in Bridgeport, Connecticut. All Our Kin guides and supports unlicensed family care providers to achieve full state licensure through a “high touch” mentoring and professional development program including educational, advocacy and leadership opportunities. To assist unlicensed family-based providers in the process of achieving state licensure, All Our Kin partnered with the Connecticut Children’s Museum to

---

32. Promising Practices Network: The Incredible Years, undated. [www.promisingpractices.net/program.asp?programid=134](http://www.promisingpractices.net/program.asp?programid=134) (Retrieved August 20, 2014).

33. See Child Care and Early Education Research Connections, Early Care and Education and Home Visiting: A Key Topic Resource List (August 2014). <http://www.researchconnections.org/childcare/resources/28115/pdf>.

34. Home Visiting Evidence of Effectiveness. <http://homvee.acf.hhs.gov>. See especially, Home Visiting Programs: Reviewing Evidence of Effectiveness, Office of Planning, Research and Evaluation, Revised June 2014. <http://homvee.acf.hhs.gov/HomVEE-Brief2014-13.pdf#Brief1> (Retrieved August 20, 2014).

35. Promising Practices Network: Smart Start. [www.promisingpractices.net/program.asp?programid=116](http://www.promisingpractices.net/program.asp?programid=116) (Retrieved August 20, 2014).

36. Online at [www.allourkin.org](http://www.allourkin.org).

create a Tool Kit Licensing Program,<sup>37</sup> a four-step package of resources recently evaluated by the Connecticut Center for Economic Analysis at the University of Connecticut.<sup>38</sup>

Outcomes were positive for both parents and providers. Each licensed provider “enables between four and five parents to enter the workforce.” Providers who graduated from the Tool Kit Licensing Program reported increased income upon licensing, were able to pay down debt, open a savings account, and achieve either a Child Development Associate credential or an Associate’s Degree in Early Childhood Education. The study also documented a positive economic impact on the regional economy attributable to the All Our Kin Tool Kit Licensing Program. All our Kin has recently been highlighted by the Harvard Center on the Developing Child’s Frontiers of Innovation initiative as an example of “innovation in action.”<sup>39</sup>

Based on this experience, it would also appear possible to build a “hub” model of early child care in which family child care providers are linked with a center-based and evidence-based model. Family child care homes could draw on the knowledge, training and administrative resources of the center (though this would probably require additional funding to ensure the adequacy of these support services), while at the same time maintaining their own home environments.

Finally, while not a program “model,” there is considerable research evidence that a series of technical assistance services can result in positive outcomes for the child care workforce as well as children enrolled.<sup>40</sup> These include mentoring of less experienced child care workers by those with more experience,<sup>41</sup> consultation and coaching by professionals with specific content knowledge,<sup>42</sup> implementation of the Pyramid Model for Supporting Social Emotional

The Economic Impact of All Our Kin:

“ All Our Kin’s Tool Kit Licensing Program alone creates about \$12.5 million in annual tax revenue [and]... generates an average of \$7.4 million per year in macroeconomic benefit to the New Haven region. For every \$1 spent...in the Tool Kit Licensing Program, approximately \$15-20 is returned to society in terms of increased gross regional product (GRP). ”

All Our Kin: Our Impact, University of Connecticut, 2011

37. All Our Kin Tool Kit Licensing Program, undated. <http://www.allourkin.org/tool-kit-licensing-program> (Retrieved September 5, 2014).

38. The Economic Impact of All Our Kin Family Child Care Tool Kit Licensing Program: A Report of Findings of the Connecticut Center for Economic Analysis, 2011. [http://www.allourkin.org/sites/default/files/All%20Our%20Kin\\_CCEARreport.pdf](http://www.allourkin.org/sites/default/files/All%20Our%20Kin_CCEARreport.pdf) (Retrieved September 5, 2014).

39. Changing the Focus: Building the Capacities of Home-Based Child Care Providers, a multi-media interview with the director of All Our Kin, undated. [http://developingchild.harvard.edu/resources/stories\\_from\\_the\\_field/innovation\\_in\\_action/building\\_the\\_capabilities\\_of\\_providers](http://developingchild.harvard.edu/resources/stories_from_the_field/innovation_in_action/building_the_capabilities_of_providers) (Retrieved September 5, 2014).

40. Smart Start Resource Guide, op cit.

41. Smart Start Resource Guide, op cit. p. 13. Effective mentoring can result in improved job satisfaction among child care workers as well as improvements in teacher-child interactions.

42. Smart Start Resource Guide, op cit, p. 15. Research cited has shown that coaching by an expert can result in “significant increases in classroom quality and adult sensitivity” as well as in teacher knowledge of young children’s social-emotional development.

Competence in Infants and Young Children.<sup>43 44</sup> In addition, a number of activities have been shown to improve the development skills of young children, including shared reading experiences.<sup>45</sup>

It is worth noting that very few of the proven or promising interventions focus on family-based care, which serves more young children from Hispanic and non-Hispanic White low-income families than do center-based settings.<sup>46</sup> Building effective models for achieving positive outcomes for children in this type of care should be a priority if we want to improve outcomes for more low-income infants and toddlers.<sup>47</sup>

*Most infant and toddler child care does not meet this criterion for PFS financing*

As with other social services, many infant and toddler child care programs do not use evidence-based program models or have not been evaluated or otherwise demonstrated a positive impact on child outcomes. This is in part because the focus on consumer outcomes is relatively recent and in part because evaluations are expensive and funding is limited. For most child care interventions to be appropriate for PFS financing, they will need to specify their outcomes and demonstrate them through rigorous research or adopt program models that have already been evaluated for effectiveness.

**Criterion #2. A feasible plan to implement the program or PFS-financed intervention to serve and achieve outcomes for significant numbers of people in a specific jurisdiction**

This criterion has several parts. There must be:

- A significant unmet need among a target population
- A realistic way to reach that target population, and
- The capacity to scale up the program in a way that will produce documented outcomes, including ability to implement with fidelity to the program model and capacity to monitor and manage to outcomes.

Coming up with a plan for reaching the right child care target population is more challenging than it appears, since parents may not know about specific child care options or their quality, and may make child care choices based on familiarity, location, and their ability to pay rather than quality. Ensuring that the intervention reaches its target population will thus require a lot of planning and attention, especially since it will have to be done in a way that fits with the selected evaluation design.

43. Online at -- [www.pyramidmodel.org/about-us.html](http://www.pyramidmodel.org/about-us.html) (Retrieved August 20, 2014). See a report by Vanderbilt University on a random control study of the implementation of this model with preschool aged children in classroom setting. [www.youtube.com/watch?v=9l44DPpAg14](http://www.youtube.com/watch?v=9l44DPpAg14).

44. Smart Start Resource Guide, op cit, p. 18. "When the professional development includes high-quality workshops, implementation guides and materials, use of digital recordings, and on-site coaching (observation, debrief, and feedback), the research evidence demonstrates positive results in teachers' implementation of the intervention strategies and in child reading and child social-emotional outcomes."

45. Smart Start Resource Guide, op cit. p. 35-36.

46. Associations between Provider Training and Education and Other Quality Indicators in Low-income Children's Primary Care Arrangements at 24 Months of Age, Office of Planning, Research and Evaluation, Administration for Children and Families and Child Trends, 2009. [www.acf.hhs.gov/sites/default/files/opre/child\\_trends\\_24hr.pdf](http://www.acf.hhs.gov/sites/default/files/opre/child_trends_24hr.pdf) (Retrieved August 21, 2014).

47. This distinction is doubly important since we know that providers in center-based settings are more likely to have higher levels of education, to have attended formal early childhood training, to provide more developmentally appropriate materials, and to disagree with the use of behavior management practices focused on control. Children in these settings also receive greater access to language and literacy activities than do young children in family-based child care. Associations between Provider Training and Education and Other Quality Indicators in Low-income Children's Primary Care Arrangements at 24 Months of Age, op cit. pp. 3-4.

Additionally, the recipient of PFS financing must be able to implement the program or intervention effectively at scale and then adequately monitor and manage to outcomes.<sup>48</sup> As the emerging literature on “implementation science” has taught us, replicating a program with fidelity to the original design requires significant attention, resources and support, including access to technical assistance.<sup>49</sup> When programs are implemented without fidelity to the evidence-based model, the likelihood of achieving expected outcomes will be diminished. In general, however, child care systems do not provide significant support to ensure this level of fidelity. Jurisdictions interested in receiving PFS financing will have to develop the capacity to support effective implementation. For example, if PFS financing were used to scale up Early Head Start, there would have to be mechanisms in place to ensure that each expansion site adhered to that evidence-based program model.

“Currently, there are limited studies in education broadly, and early childhood specifically, that address implementation fidelity.”

Research on Implementation Fidelity in Early Childhood: Supporting Parent Engagement in Home Visits, 2010

### Criterion #3. One or more levels of government willing to pay a sufficient price for the outcomes

Since for a PFS transaction to work someone has to pay back the investors, government’s willingness and capacity to contract for outcomes is at the heart of any PFS financing deal. For PFS financing to be viable, one or more government agencies needs to be willing to pay for outcomes, in an amount that covers the cost of the intervention plus the evaluation, the intermediary, and return to investors.

In making this determination, government agencies look at whether the net benefits of the intervention outweigh its costs (including transaction costs). If the answer is yes and the government can identify a funding source, it makes sense for government to proceed with PFS financing. Some programs produce significant cost savings for specific government agencies (sometimes called “cashable savings), in which case funds for the outcome payments can come from the savings. However, it is not necessary that the intervention generate enough savings in a single agency’s budget to cover the cost of the program. In fact, very few programs do. What’s important is that the outcomes are important enough to the government that they are worth the necessary formal promise of repayment.

For low-income infants and toddlers in high-quality child care, savings could be expected to appear in agency budgets related to health care (e.g., fewer emergency room visits and better compliance with immunization requirements), special education (e.g., fewer numbers of children entering preschool special education), public assistance and employment (e.g., better readiness for parental employment, more sustained employment once secured, and

48. “As a newly emerging field, the definition of implementation science and the type of research it encompasses may vary according setting and sponsor. However, the intent of implementation science and related research is to investigate and address major bottlenecks (e.g. social, behavioral, economic, management) that impede effective implementation, test new approaches to improve health programming, as well as determine a causal relationship between the intervention and its impact.” Implementation Science Information and Resources, National Institute of Health Fogarty International Center, undated. [www.fic.nih.gov/ResearchTopics/Pages/ImplementationScience.aspx](http://www.fic.nih.gov/ResearchTopics/Pages/ImplementationScience.aspx) (Retrieved August 21, 2014).

49. See Knoche, L. Research on Implementation Fidelity in Early Childhood: Supporting Parent Engagement in Home Visits, Nebraska Center for Research on Children, Youth, Families and Schools, 2010. This study reveals how careful attention to program fidelity can result in intended outcomes for a program. <http://cyfs.unl.edu/ecs/2010/assets/presentations/Knoche.pdf> (Retrieved August 20, 2014).

fewer employee absences), and criminal justice (reduced incarceration later in life).<sup>50</sup> Thus, government at multiple levels could contribute to the outcome payments based on both savings and social value. However, engaging across levels of government adds to the complexity (and cost) of the PFS transaction and has not been done yet. Further, while other entities, such as insurance companies, could pay for the outcomes, a PFS deal utilizing this source of repayment not yet been attempted.

Government's willingness to pay for early childhood programs is increasing at the national level as well as across the country, although it is more focused on Pre-K than on programs and interventions focused on infants and toddlers. President Obama's Preschool for All initiative, announced in his 2013 State of the Union address, has been joined by proposed federal legislation in the US Senate to improve the Child Care and Development Block Grant<sup>51</sup> as well as expansion of early education opportunities for young children through the Strong Start for America's Children Act.<sup>52</sup> At other levels of government, San Antonio voters increased taxes to fund a PK-4 initiative,<sup>53</sup> New York State will expand Pre-K by \$340 million over the next five years<sup>54</sup> and New York City plans to increase preschool enrollment by 50,000 over the current fiscal year.<sup>55</sup> In addition, the South Carolina General Assembly has voted twice in the past two years to expand high quality Pre-K in the state's poorest communities.

As political decision makers become ever more versed in the important influence of early childhood experiences on brain development, PFS financing should enable more jurisdictions to convert this knowledge into funding commitments because it allows government to pay later and shift at least some of the risk to the private sector. Also, this type of public-private partnership model appeals to politicians across the political spectrum. In theory, then, PFS financing could be used to fund high-quality infant and toddler child care. In practice, only a few infant and toddler child care program models and interventions have strong enough evidence of outcomes to attract impact investors. Next steps would include:

- Building capacity for all programs to track and manage using child outcomes
- Developing more programs based on research/evidence that focus on child outcomes.
- Conducting feasibility studies to determine how PFS financing could work for infant-toddler programs or interventions potentially funded in partnership with the philanthropic and/or higher education sectors
- Undertaking cost-benefit analyses of infant and toddler child care interventions
- Developing plans for large-scale implementation of effective programs and identify and quantifying benefits in specific jurisdictions
- Securing funding for "pre-SIB" demonstration programs to provide evidence of

---

50. See, Early Childhood Education for Low-Income Students: A Review of the Evidence and Benefit-Cost Analysis, Washington State Institute for Public Policy (2014) p. 7.

51. The US Senate passed the Child Care and Development Block Grant of 2014 in March of 2014 and sent the bill to the House of Representatives for Action. <https://www.govtrack.us/congress/bills/113/s1086/text> (Retrieved September 5, 2014).

52. Strong Start for America's Children Act, Congressional Budget Office, June 2014. [www.cbo.gov/publication/45492](http://www.cbo.gov/publication/45492) (Retrieved September 5, 2014).

53. San Antonio voters approve Mayor Julian Castro's Pre-K 4 SA Initiative, KSAT 12, January 2014. <http://www.ksat.com/content/pns/ksat/news/politics/2012/11/06/san-antonio-voters-approve-mayor-julian-castro-s-pre-k-4-sa-initiative.html> (Retrieved September 5, 2014).

54. Stunning Victory for Preschoolers in New York, Alliance for Early Success, May 2014. <http://earlysuccess.org/blog/stunning-victory-preschoolers-new-york-340-million-expansion-full-day-pre-k> (Retrieved September 5, 2014).

55. Ready to Launch: New York City's Implementation Plan for Free, High-Quality, Full-Day Universal Pre-Kindergarten, Office of the Mayor, January 2014. [www1.nyc.gov/assets/home/downloads/pdf/reports/2014/Ready-to-Launch-NYCs-Implementation-Plan-for-Free-High-Quality-Full-Day-Universal-Pre-Kindergarten.pdf](http://www1.nyc.gov/assets/home/downloads/pdf/reports/2014/Ready-to-Launch-NYCs-Implementation-Plan-for-Free-High-Quality-Full-Day-Universal-Pre-Kindergarten.pdf) (Retrieved September 5, 2014).

outcomes and illustrating how PFS financing can work.

- Identifying potential government agencies, philanthropic and commercial investors for an actual PFS transaction.

### (the last word)

In a December 2013 policy brief entitled “The First Eight Years: Giving Kids a Foundation for Lifelong Success,”<sup>56</sup> the Annie E. Casey Foundation implores us to make investments in early childhood based on the nation’s moral obligation to its children, solid evidence of effectiveness, and clear economic returns on investment. “The success of the next generation should be our highest national priority. Short-term savings are likely through more efficient coordination and alignment of programs. Longer term savings – in terms of fewer expensive interventions to get older children back on track -- require additional upfront investments...” (p. 12). The Foundation goes on to quote Federal Reserve Chairman Ben Bernanke, speaking in 2012. “Economically speaking, early childhood programs are a good investment...Notably, a portion of these economic returns accrues to the children themselves and their families but studies show that the rest of society enjoys the majority of the benefits, reflecting the many contributions that skilled and productive workers make to the economy.”<sup>57</sup>

While some early childhood interventions, such as evidence-based home visiting programs, have proven their capacity to improve child outcomes with resulting benefits and savings to government, the child care field has significant work to do before it can provide similar evidence. Nonetheless, the door of opportunity through PFS financing and rigor is open.

---

56. *The First Eight Years: Giving Kids a Foundation for Lifelong Success. A Policy Brief.* Annie E. Casey Foundation, December 2013. [www.aecf.org/m/resourcedoc/AECF-TheFirstEightYearsKCpolicyreport-2013.pdf](http://www.aecf.org/m/resourcedoc/AECF-TheFirstEightYearsKCpolicyreport-2013.pdf) (Retrieved September 5, 2014).

57. Cited from *The First Eight Years*, op cit. Original citation: Bernanke, B.S. (2012, July 24). Early childhood education. Speech presented at the Children’s Defense Fund National Conference in Cincinnati, Ohio. Retrieved September 2013, from [www.federalreserve.gov/newsevents/speech/bernanke20120724a.htm](http://www.federalreserve.gov/newsevents/speech/bernanke20120724a.htm).



## (addendum from stakeholders meeting)

On October 8, 2014, the Institute for Child Success hosted a meeting of early childhood stakeholders to review the discussion draft and examine next steps for moving forward. Organizations represented at the meeting were: the National Governors Association, the National Association for the Education of Young Children, the federal Department of Health and Human Services Administration for Children and Families, the federal Department of Education Office of Early Childhood, Third Sector Capital Partners, Social Finance US, Public Consulting Group, The Aspen Institute, the Education Law Center, the National Women's Law Center, Save the Children Action Network, Voices for Utah Children, Early Learning Ventures, the Center for Law and Social Policy, and the Brookings Center for Universal Education. We are grateful for the attendees' interest and participation.

Participants agreed with the findings of this review and identified several areas for additional analysis and work. These next steps are organized into actions to build capacity for outcome-based financing in the sector and actions to pursue Pay for Success financing.

### *Actions to build capacity for outcome-based financing in the sector*

- Fund and implement data systems that enable programs to track their outcomes, even those that occur after a child has completed the program.
- Identify early childhood outcomes (e.g., age-appropriate development 0-3) that are highly correlated with school success. These indicators should be measured during the provision of early child care to provide a basis for social impact financing of successful child care programs.
- Continue to build evidence of workforce, child and family outcomes associated with early child care.

### *Actions to pursue PFS financing*

- Initiate a series of conversations with early child care providers to get their perspective on the viability of social impact financing for (a) expansion of successful (i.e., evidence-proven) programs and/or (b) quality improvements for individual providers and for the system as a whole.
- Explore specific applications of PFS financing including using it to bring additional resources and strategies to improve “family, friend and neighbor” care
- Temper the excitement over social impact investing with the very real challenges facing providers who deliver child care and early learning to very young children, so as not to overpromise where outcomes cannot yet be shown.
- Focus attention on the financial needs of the early child care sector as a whole, independent of opportunities for social impact investing.
- Develop a financing model that matches access to capital with the life cycle of a program or intervention. Some programs are not ready for a Pay for Success effort but might be very ready for other types of government or impact investment funding.

*Janice Gruendel, Ph.D., is a Fellow at Yale University's Edward Zigler Center in Child Development & Social Policy*

*Megan Golden is a Senior Fellow at the Institute for Child Success and a Fellow in the New York University Wagner School's Innovation Labs*

*The authors gratefully acknowledge the comments and suggestions made by Dr. Sharon Lynn Kagan and Louise Stoney during the process of developing this policy brief.*

# i(cs)

INSTITUTE *for* CHILD SUCCESS

102 Edinburgh Court Greenville, SC 29607  
1201 Main Street, Suite 1980 Columbia, SC 29201  
w: [instituteforchildsuccess.org](http://instituteforchildsuccess.org) | p: 864.382.3329

FOUNDED AND FUELED BY



FUELED BY

The Institute for Child Success is fueled by BlueCross BlueShield of South Carolina, an independent licensee of the BlueCross and BlueShield Association, and by the Mary Black Foundation.