EUROPEAN VENTURE PHILANTHROPY ASSOCIATION

POLICY BRIEF
Outcomes Funds in Europe

1. INTRODUCTION – FROM OUTCOME-BASED MECHANISMS TO OUTCOMES FUNDS

Over the last years, there has been a growing interest in **outcome-based mechanisms (OBMs)** as a tool to deliver public services and tackle social challenges in a more effective and efficient way. OBMs are "contracts financed by a risk-taking social investor to de-risk (from an impact risk perspective) the investment for other types of actors, such as public entities, philanthropic donors and commercial investors".[1]

Outcome-based mechanisms take a number of forms and names, such as Social Impact Bonds (SIBs), Development Impact Bonds (DIBs), Payment-by-results schemes (PbR) or Social Success Notes (SSN). Regardless of their names, all outcome-based mechanisms have one common feature: the outcomes payer repays the investment of the investor only when specific pre-defined outcomes are achieved by the SPO[2] (the "service provider"). Following this, OBMs seek to **foster innovation and improve the efficiency and effectiveness of social services delivery.**

The use of OBMs has spread in the last decade. There are 108 SIBs around the world, mobilising more than $392m in capital to date.[3]

Traditionally, OBMs have been set up individually (an outcome payer commissions a unique OBM). In contrast, **Outcomes Funds** allow funding several PbR, SSN, DIBs or SIBs in parallel.

1 **Gianoncelli A.**, and **Boiardi P.**, (2017), "*Financing for Social Impact – The Key Role of Tailored Financing and Hybrid Finance*", EVPA. Available here: https://evpa.eu.com/knowledge-centre/publications/financing-for-social-impact

2 **Social Purpose Organisation (SPO)**: organisation that operates with the primary aim of achieving measurable social and environmental impact – e.g. charities, non-profit organisations and social enterprises.

3 To access the Impact Bond Global Database developed by Social Finance: https://sibdatabase.socialfinance.org.uk/

The first Outcomes Fund was launched in the UK in 2012 and was the result of the lessons learned from setting up individual SIBs. To date, the UK Government has set up six outcomes funds for SIBs. This model is being replicated in other countries such as France, Germany, Italy and Portugal.

2. WHAT IS AN OUTCOMES FUND?

Outcomes Funds are financing vehicles set up by a public actor pooling public or/and donor's funding (philanthropy or corporate-giving) to finance multiple outcome-based mechanisms (OBMs) – such as SIBs, DIBs and SSN – in parallel.

Outcomes Funds pay for multiple projects/programmes that are set up in parallel, following a **thematic approach**; i.e. addressing the same social problem or issue such as homelessness, education or health. Using Outcomes Funds allows the outcomes payer to compare interventions and see what are the most efficient solutions.

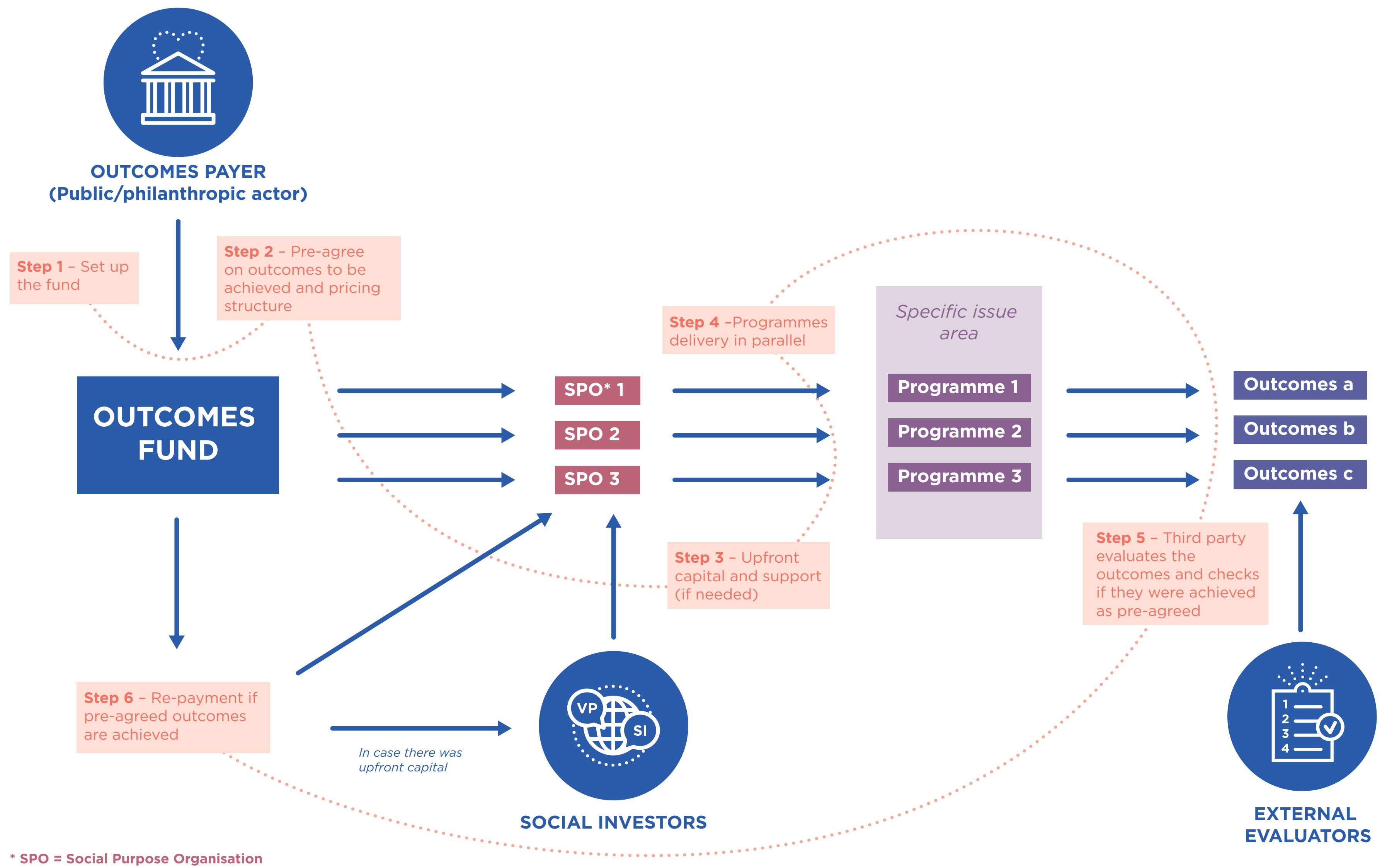
Like the other OBMs mentioned above, payments from the fund only occur if pre-agreed social outcomes are achieved. Thus, **resources as disbursed based on outcomes, and not on the basis of the completion of activities**.

Another innovative feature of Outcomes Funds is the shift of focus, from a short-term project-by-project approach to a **long-term programmatic approach**, as interventions are grouped and focused on a sector or thematic.[4]

The **structure** of an Outcomes Fund is illustrated below on page 2.

4 **Social Finance UK** (2018), "Outcomes Funds". Available here: https://www.socialfinance.org.uk/sites/default/files/publications/sf_outcomes_fund_note_feb_2018.pdf

STRUTURE OF AN OUTCOMES FUND



* SPO = Social Purpose Organisation

3. POTENTIAL BENEFITS & CHALLENGES

The key question then is: **how can Outcome Funds bring new opportunities beyond individual SIBs, DIBs or SNN?**

Outcomes Funds emerged in the UK as a way of solving a number of issues, typical of public interventions, such as:

1. **The "wrong pockets" problem**: social interventions often experience the "wrong pockets" problem, meaning that the benefits of a programme fall down multiple budgets and different levels of government. Since Outcomes Funds commission programmatically multiple services providers in parallel, they can centralise the commissioning capability and guarantee better outcomes measurement.
2. **Outcomes pricing**: Outcomes Funds foster a culture of monitoring and evaluation since they have a special focus on assessing the outcomes. The outcomes payments are pre-agreed before the interventions. To do so, governments calculate the maximum cost for each type of outcome, based on the price of services provided in the past[5]. The outcomes achieved by an intervention can be priced by assigning to each of them a *value in terms of public policy priorities* and based on "*value for money*". This allows governments to identify if the new intervention generated cost-savings compared to the traditional way of tackling an issue, and comparing interventions using the same criteria. Thus, Outcomes Funds allow for a comparison of interventions, identifying the most efficient ways of delivering certain services and achieving cost effectiveness.
3. **Sustainability of the programmes**: a set of programmes financed by an Outcomes Fund can be more sustainable and create greater impact than individual transactions. The fund can consolidate certain programmes by making several rounds of the interventions in the same thematic area and identify what should be improved to get better results in future interventions.

To conclude, the idea of testing different programmes in parallel could help policymakers shape **better policies** and find alternative ways of tackling social issues. Comparing programmes allows to transfer knowledge and learnings from transaction to transaction and could increase the **expertise** on a specific area. Thus, Outcomes Funds have the potential to enable **knowledge** pools, improve interventions and incentivise **efficiency** in the use of resources.

4. EXAMPLES

The **UK Government** offers several examples of Outcomes Funds for SIBs. The first Outcomes Fund was the [Innovation Fund for Young People], launched by the Department for Work and Pensions in 2012. The thematic fund pays for outcomes on multiple programmes to tackle youth unemployment. A more recent initiative is the [Life Chances Fund], an £80m fund committed by central government to contribute to payment for outcomes contracts focus on tackling complex social problems such as drugs and alcohol dependency, children's services, young people, early years, healthy lives and older people's services.

Secondly, **Portugal** set up the **Social Impact Bonds Fund**, which supports innovative projects providing measurable social outcomes with public budgeting savings. This Outcomes Fund is just one of the four financing instruments of the [Portugal Social Innovation Initiative] (2014-2020), launched by the Portuguese Government in order to create a social innovation market in Portugal and finance innovative projects in areas such as employment, health or education. The initiative is co-funded by the European Social Fund and, in particular, the Social Impact Bonds Fund is also financed by social investors. These social investors are fully reimbursed when the pre-defined outcomes are met. To date, the fund has mobilised strong political support from central government, close relationship with the Public Entities, strategic partnerships with key players, highly qualified and committed intermediaries and tax incentives.

Finally, the [Italian Government] established in the [Budget Law 2018] a **Fund for Social Innovation** with a total budget of €25m for three years. The idea is to boost innovation in the public sector and compliment traditional ways of providing public services. For the time being, some feasibility studies have been carried out, involving government, social investors and SPOs, to identify areas to invest in the upcoming years. In addition, there are some specific initiatives in the pipeline focusing on refugee's integration. The tender will be launched in autumn 2018.

5 The compilation of a unit cost database can facilitate the outcomes pricing and being very valuable when setting a SIB or an Outcome Fund. Australia, Malaysia and the UK [See http://www.neweconomymanchester.com/our-work/research-evaluation-cost-benefit-analysis/cost-benefit-analysis/unit-cost-database] have used this tool in the past. More recently, Portugal has launched a unit cost database initiative [See http://onevalue.gov.pt/].

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