

THE FUTURE OF OUTCOMES-BASED FINANCE

HOW OUTCOMES-BASED FINANCE CAN BE EMBEDDED IN POLICY

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PREFACE

Ten years ago, the introduction of the Social Impact Bond caused quite a stir. Some saw it as the silver bullet, where the government would only pay once the desired societal outcomes were achieved. Others considered it unnecessarily complex. In recent years, the Netherlands has widely experimented with the concept of outcomes-based finance. At the same time, other countries have also experimented in various ways and made progress.

Social Finance NL was founded by the architects of the first Social Impact Bonds in the Netherlands. While we don't consider it infallible, it has taught us how to enable outcome-oriented forms of collaboration. And it forces us to make clear choices: what goals are we aiming to achieve? Which target group are we focusing on? How will we measure progress toward these goals and how can we adjust our approach to achieve even better outcomes?

Outcome-oriented work is close to my heart. In my civil service career, I have always focused on an 'evidence-based' approach to addressing societal issues. In other words: not seeking the solution that yields the most political or publicity gain in the short term, but thoughtfully considering which solution works for the target group, and how the costs and benefits of policy measures can be brought closer together. In today's reality, this is a much-needed ambition. The newly formed Dutch government faces enormous societal challenges. These must be solved with less budgetary space, a shrinking civil service, and a polarised political landscape. This makes it all the more important to put the needs of the target group at the centre and to think, work, and finance in an outcome-oriented and 'evidence-based' manner.

As mentioned, there has been a lot of experimentation with outcomes-based finance in the past ten years. This did not happen in a vacuum; in many countries, various forms of outcome-oriented collaboration have been initiated. This report highlights examples from Colombia, France, Ghana, Japan, the United Kingdom, and the United States. Combined with experiences from the Netherlands, this report forms a strong argument for embedding outcomes-based finance more firmly in policy.

Whether you are a civil servant, politician, social entrepreneur, impact investor, or philanthropist, we all have a shared responsibility to put outcomes for the target group at the heart of our work. Intelligent financing models can help with this. I believe this report will support us in taking steps toward our societal goals.

I hope you enjoy reading this report,

Bernard ter Haar

Bernard ter Haar has been a top civil servant in the central government for more than thirty years. He is the chairman of the board of Social Finance NL.



EXECUTIVE SUMMARY

BACKGROUND

Our society faces major challenges and has limited (financial) resources available to address them. Therefore, it is essential that policies aimed at solving these issues focus on effective and efficient solutions that create direct and lasting impact. Outcomes-based finance is one way to accomplish this. With outcomes-based finance, funding is tied to the outcomes achieved rather than the efforts of the implementing party.

Although this tool offers many opportunities to collaborate and finance more effectively, outcomes-based finance remains a niche instrument in the Netherlands, even ten years after its introduction. In this report, we look back on ten years of outcomes-based finance in the Netherlands, with a focus on Social Impact Bonds (SIBs), and we explore best practices in other countries.

OUTCOMES-BASED FINANCE

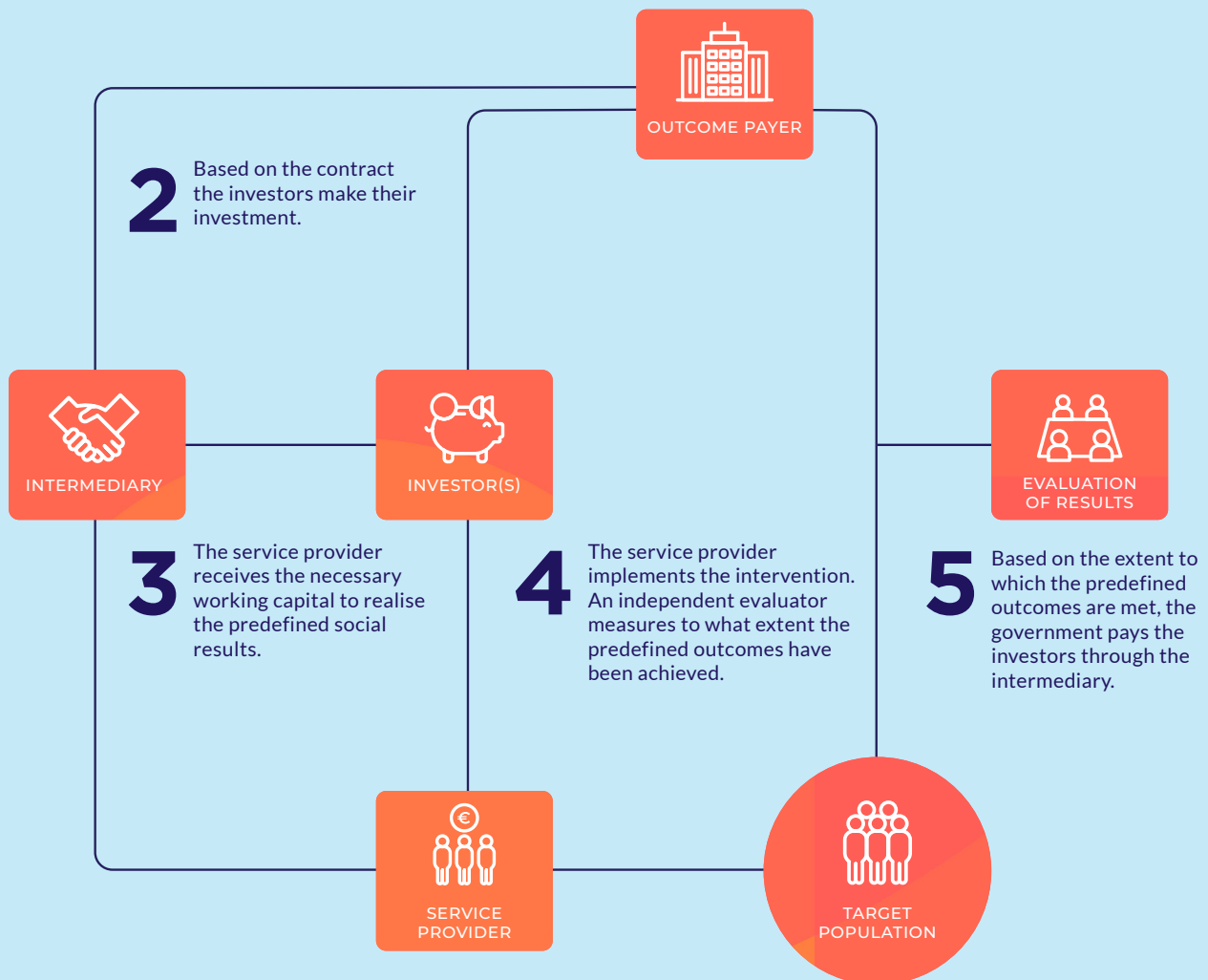
Outcomes-based finance is a funding model that depends on the results achieved by a service. The focus is on the change for the target group rather than the execution of programmes. This encourages not only efficiency but, above all, effectiveness. As a result, governments can actively steer towards outcomes for different target groups. The outcome-orientation of funding can exist in varying degrees:

EFFORT-ORIENTED		TASK-ORIENTED		OUTCOME-ORIENTED	
LUMP SUM DONATION/SUBSIDY	P X Q V AGREEMENTS	QUALITY AGREEMENTS	OUTPUT AGREEMENTS	OUTCOME AGREEMENTS	IMPACT AGREEMENTS
NO EXTERNAL FINANCING		REGULAR FINANCING		RISK CAPITAL	
Receive money for a cause where the number of participants and the price per participant are not specified	Receive a fixed amount per participant before the start of the course	Amount received is conditional on quality indicators such as customer satisfaction and well-executed materials	Number of students who successfully completed the project	Number of students who have found a sustainable job	Number of students who found a sustainable job compared to a control group

One of the best-known forms of outcomes-based finance is the Social Impact Bond (SIB). With a SIB, private money is used to solve societal problems. An Impact Bond is a close collaboration on a project between outcome payers (parties that pay for the results if they are achieved), implementers, investors, and occasionally an intermediary. Clear agreements are established upfront regarding the objectives and outcomes that must be achieved for the target group at the centre of the project. Private investors

subsequently invest in the programme. They, therefore, bear the financial risk but with the potential of being compensated for that risk. After the allotted time, an independent party measures whether the goals have been achieved. If successful, the outcome payer, often the problem owner such as a (local) government, repays the investors with a return. If the results are insufficient, the investors lose all or part of their investment. ➤

1 To tackle the social challenge, a contract is signed between government, service providers and investor(s). The government agrees to pay a return to the investors if predefined social results are met.



POTENTIAL (DIS)ADVANTAGES OF OUTCOMES-BASED FINANCE

- Greater and better insight into effectiveness
- Increasingly efficient collaboration
- Higher focus on prevention
- More room for innovation
- Enhanced government legitimacy
- Complexity
- Not suitable for all social problems
- Outcomes can be difficult to define
- Pseudo-innovation

LESSONS LEARNED FROM 10 YEARS OF SIBS IN THE NETHERLANDS

The first SIB in the Netherlands took place in Rotterdam in 2013. Since then, 17 other SIBs have been launched in the Netherlands, making the country a significant pioneer in terms of Impact Bonds. The focus of the Impact Bonds in the Netherlands is mainly on promoting labour market participation.

We observe that both outcomes-based finance and outcome-oriented working are still niche instruments for the government. Outcome-oriented working, focusing on outcomes, is often confused with task-oriented working and focusing on outputs. Moreover, we see that the development of the SIB is progressing slowly. Possible reasons for this include:

GOVERNMENT CONTROL

Governments feel responsible for existing social problems, and thus also for solving them. They find it very difficult to let go of this responsibility, which is a necessary step towards optimising outcome-orientation. Too often, governments still want to have control over the specific instrument used, but this overlooks the many insights and experiences of the implementers themselves.

LIMITED BUDGETARY FLEXIBILITY

Budget-wise, there is often little flexibility to enable outcomes-based finance, partly because it often involves multiple funding streams, but also because outcomes-based finance often spans several government terms.



CASE STUDIES

In this report, we highlight six global case studies that show how outcomes-based finance is embedded in the policy of the respective countries and what we, in the Netherlands, can learn from them to address the challenges mentioned above.



María Paulina from SIBS.CO tells us about the emergence of outcomes-based finance in COLOMBIA. Since it is not embedded in policy, its implementation is highly dependent on politics and therefore uncertain. That's why pay-for-success schemes are now often used, because they are less complex to set up.



We spoke with Gaëlle Humbert, who works in the department of the French Ministry of Finance responsible for outcomes-based finance. Due to the coordinating role of this ministry, it is easier to promote outcomes-based finance in FRANCE. The French situation shows that a central body does not have to bear all the responsibility for outcomes-based finance. Rather, they're mainly important in terms of promoting and standardising it.



The UNITED STATES was the second country in the world to implement outcomes-based finance. In 2018, specific legislation was passed that legally enabled the use of outcomes-based finance contracts. Ryan Martin, a staff member of the House of Representatives, was closely involved in this process. He told us that although it took a lot of time and patience, projects are now easier to get off the ground thanks to a central coordinating body.



The UNITED KINGDOM is the cradle of outcomes-based finance. Many dozens of SIBs and other outcomes-based finance models have already been launched. James Magowan from the Department for Culture, Media, and Sport (DCMS) told us about the ministry's role, specifically in relation to the Life Chances Fund, and showed us how such an Outcomes Fund can be valuable in promoting outcomes-based finance.



In JAPAN, the Cabinet Office is responsible for promoting and coordinating outcomes-based finance. We spoke with Kanu Maeda, an employee of the Cabinet Office who has been involved in setting up outcomes-based finance from the start. Maeda told us that pay-for-success contracts are particularly successful in Japan because they are less complex.



In GHANA, there is an Outcomes Fund worth \$30 million, aimed at encouraging 70,000 out-of-school children into classrooms and improving the school performance of 98,000 children: the Ghana Education Outcomes Project. We asked Hajia Nana Fatima High, the national coordinator of this programme within the Ghanaian Ministry of Education, about her experiences with outcomes-based finance within the government. This fund shows that sharing the responsibility for the outcome payments between different parties makes it easier for outcome payers to participate.

LESSONS LEARNED FOR THE NETHERLANDS



The various case studies teach us that outcomes-based finance works best in countries where its responsibility is assigned to a central body. This allows outcomes-based finance to be promoted and coordinated, and ensures there is a central point of contact for (regional) governments that also want to apply outcomes-based finance. To achieve this, it is important to embed outcomes-based finance in policy. In addition, both political and administrative support is needed.

CONCLUSIONS

To promote outcomes-based finance in the Netherlands, it must be embedded in policy. Therefore, we recommend the following:

1 INVEST IN KNOWLEDGE AND EXPERTISE

- Ensure that there is a central point where expertise is consolidated, and outcomes-based finance contracts are coordinated. This could, for example, be a ministry or another government body.
- Municipalities should join forces and combine the knowledge gained in the field of outcomes-based finance and outcome-oriented working.
- Establish a sustainable partnership with a university to stimulate research and build knowledge in the field of outcomes-based finance.

2 CREATE AN OUTCOMES FUND

An outcomes fund provides a structure in which outcome contracts can be more easily shaped. By bundling outcome contracts that pursue the same goal, the administrative burden per contract is reduced, saving time and effort. Outcomes funds can be set up around various themes, such as labour participation, healthcare, and crime.

3 START AN OUTCOMES REVOLUTION!

A pioneering coalition of politicians, civil servants, social entrepreneurs, impact investors, academics, and citizens must unite and collectively demand that public and philanthropic money be used more effectively through outcome-oriented partnerships. It's time for: the Outcomes Revolution! ●■

INTRODUCTION

OUTCOMES-BASED FINANCE

Governments face numerous societal challenges, such as housing, healthcare, education, security, and climate. Policies are developed and budgets are allocated to decide how resources will be used for these and many other issues. The most common form of financing in government is paying for a party's services, regardless of the outcome. However, when service providers are paid for their service rather than for the results achieved, there is a

risk that the target group may not be (optimally) helped. As public resources are scarce, this way of working is less than ideal. Outcomes-based finance offers a solution to this challenge by tying funding to achieved results rather than to the efforts of the implementing party. While this tool presents many opportunities for more effective collaboration and financing, ten years after its introduction in the Netherlands, outcomes-based

finance is still a niche instrument within the government. Why is this the case? How does it compare to other countries? What are the opportunities to use this tool impactfully? In this report, we reflect on ten years of outcomes-based finance in the Netherlands, focusing on Social Impact Bonds (SIBs), and explore best practices in other countries. From this, we draw conclusions on whether and how outcomes-based finance could be embedded in policy.

OUTCOMES-BASED FINANCE

Outcomes-based finance depends on the results achieved by a service. The Government Outcomes Lab defines it as follows:

“Outcomes-based contracting is one way of focusing on the overall improvements in the life of service users, rather than participation in individual services, by linking payments directly to the achievement of outcomes with service users.”

(Government Outcomes Lab, 2024)

With outcomes-based finance, the focus is on the lasting change among the target group, rather than the execution of programmes. This approach encourages efficiency, but more importantly, effectiveness. As a result, governments¹ can actively steer outcomes for various target groups.

1. Insurers, charities and international development organisations can also use outcomes-based finance and pay for results that have been achieved. Wherever we refer to governments as outcomes payer, the same applies to these organisations.

The degree of outcome-orientation in financing can vary, illustrated in the table below. Take, for example, employment support for young people on welfare. On the far left is a lump sum donation or subsidy, where no agreements are made about the goals to be achieved. In the case of p x q agreements, the contractor and service provider determine how many young people must go through a programme and what the cost per trajectory is. A step further is the addition of quality indicators. Here, the trajectory is assessed based on several quality indicators, but this does not necessarily lead to a specific result. In step four, output agreements are made, representing direct results, such as the number of young people who have successfully completed a trajectory. These are all agreements that service providers can make with the government without taking on significant risks. Step five is more challenging. Here, the service provider

is only paid if the young people have sustainably transitioned out of welfare into employment. This focuses on outcomes rather than outputs. Step six goes even further, where payments are only made if the young people are demonstrably and sustainably out of welfare, compared to a control group. These are what we call impact agreements.

In the first two categories, there is an obligation to make a concerted effort. If the service provider is paid on time and no significant pre-investments are required, external pre-financing is unnecessary. The third and fourth categories are task-oriented: the service provider must satisfactorily complete a specific task. In this case, it makes sense for the client to pay only when the quality indicators or output agreements have been met. External financing may be needed here. Because the risks are relatively low and mostly within the service

provider's control, regular financing, such as a (bank) loan, is sufficient. In categories five and six, there is an obligation to deliver results. Here, the risk for the service provider is relatively high. Additionally, there is a long period between the service provider's costs (staff for the trajectories) and the point when success can be determined. Due to the high risk, a bank loan is often not suitable. For these categories, outcomes-based finance, such as a Social Impact Bond (SIB), offers a solution.

Outcomes-based finance is particularly suitable for the fifth and sixth columns. Though a SIB is not necessarily the chosen instrument, it best represents and highlights the effects of outcomes-based finance. Therefore, we will focus on this tool to answer how outcomes-based finance can be effectively deployed. ➤

EFFORT-ORIENTED		TASK-ORIENTED		OUTCOME-ORIENTED	
LUMP SUM DONATION/SUBSIDY	P X Q V AGREEMENTS	QUALITY AGREEMENTS	OUTPUT AGREEMENTS	OUTCOME AGREEMENTS	IMPACT AGREEMENTS
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Receive money for a cause where the number of participants and the price per participant are not specified	Receive a fixed amount per participant before the start of the course	Amount received is conditional on quality indicators such as customer satisfaction and well-executed materials	Number of students who successfully completed the project	Number of students who have found a sustainable job	Number of students who found a sustainable job compared to a control group

SOCIAL IMPACT BOND

In a SIB, private capital is used to address social challenges. For a specific project, outcome payers (parties that fund outcomes upon achievement), implementers, investors, and (occasionally) an intermediary, work closely together. They write up clear agreements on the objectives and outcomes to be achieved for the target group. Private investors then invest in the program,

bearing the financial risk but with the possibility of earning a return, if outcomes are met. After the allotted time, an independent party evaluates whether the goals have been achieved. If successful, the outcome payer, often the problem owner such as a (local) government, repays the investors with a return. If the results are insufficient, the investors lose their money.

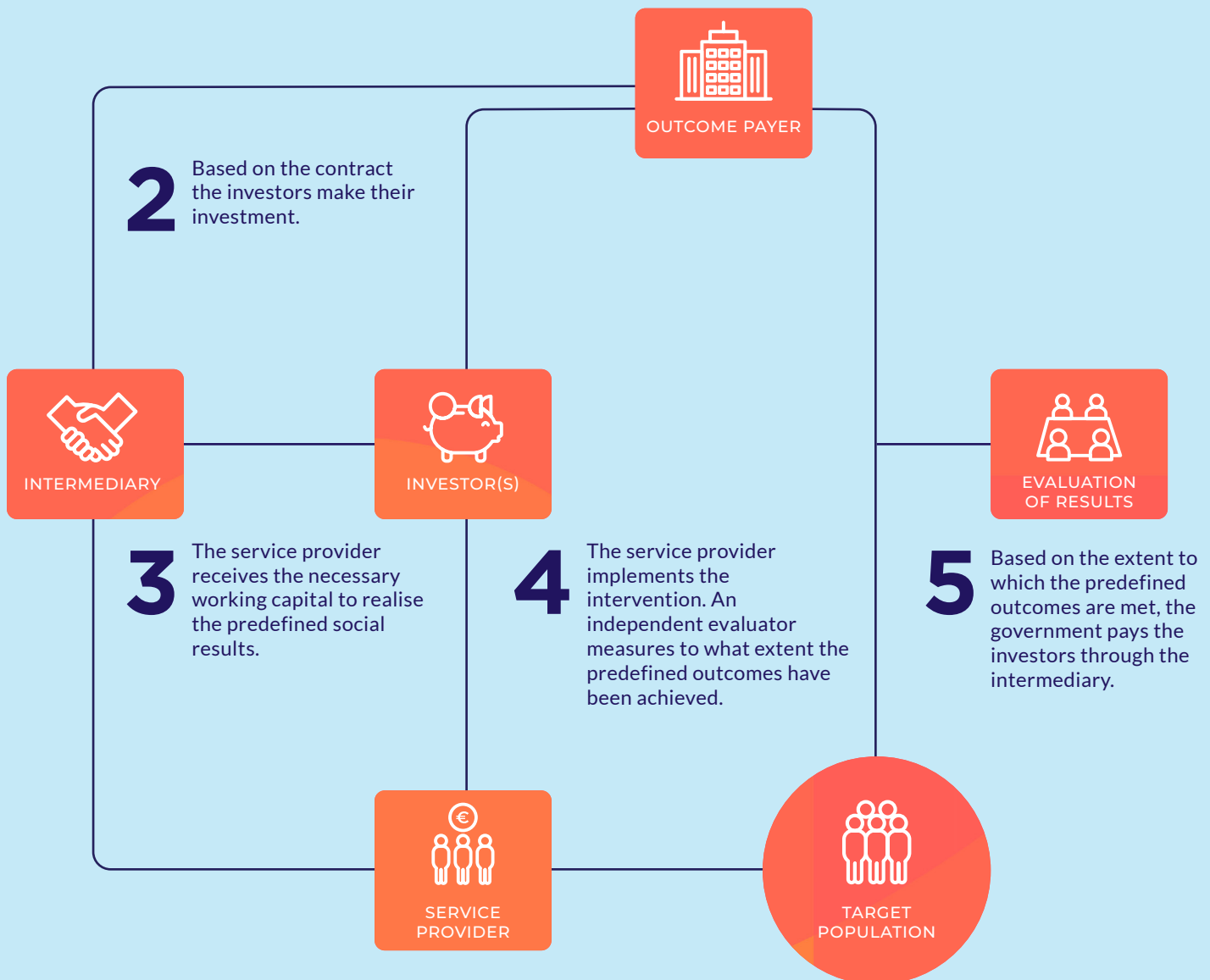
1 To tackle the social challenge, a contract is signed between government, service providers and investor(s). The government agrees to pay a return to the investors if predefined social results are met.

2 Based on the contract the investors make their investment.

3 The service provider receives the necessary working capital to realise the predefined social results.

4 The service provider implements the intervention. An independent evaluator measures to what extent the predefined outcomes have been achieved.

5 Based on the extent to which the predefined outcomes are met, the government pays the investors through the intermediary.



A SIB can take various forms, such as a Health Impact Bond (HIB) or Development Impact Bond (DIB). A DIB works similarly to a SIB. In a traditional SIB, the outcome payer is often the problem owner, whereas in a DIB, the outcome payer is often an external development organization, such as USAID or a philanthropist (Development Impact Bond Working Group, 2013). A Health Impact Bond focuses exclusively on the healthcare domain. Examples of outcomes from HIBs include increasing vaccination rates (Sulser & Madir, 2022) or reducing fall incidents, such as in the HIB Standing Strong (Social Finance NL, 2023).

Setting up a SIB is complex, partly due to the many agreements made with service providers, outcome payers, and investors. An Outcomes Fund can simplify this. An Outcomes Fund can be used to make multiple outcome payments for different outcomes contracts (Centre for Social Impact, 2023). By bundling outcome contracts aimed at the same goal, the administrative burden per contract is reduced, saving time and effort. Examples of large Outcomes Funds include the Life Chances Fund in the UK (see page 29) or the Education Outcomes Fund in Ghana (see page 24). ➤

OTHER FORMS OF OUTCOMES-BASED FINANCE

A SIB is far from the only form of outcomes-based finance. Other forms are also frequently mentioned in the literature, and, sometimes to a lesser extent, applied in practice. These forms will receive less emphasis in this report, but we would still like to highlight a few: :

- **OUTCOMES FUND**

In an Outcomes Fund, multiple outcome contracts are brought together. See the box above for more details.

- **PAYMENT-BY-RESULTS or PAY-FOR-SUCCESS**

These terms are often used for outcome contracts without the involvement of investors. These involve direct outcome agreements between the outcome payer and the service provider.

- **SUSTAINABILITY LINKED LOANS or IMPACT LINKED LOANS**

These terms refer to loans used for sustainable or social purposes. Upon achieving certain social or sustainable indicators, a discount on interest may be granted, or part of the loan may be forgiven. A well-known example is an interest discount on a mortgage when a home is successfully made more sustainable.

- **TOP-UP FUNDING**

Top-up funding (often referred to as Results-Based Finance) is used when there is already a functioning market, but a donor wants to stimulate it further. For example, manufacturers of mosquito nets may receive an additional amount per net sold to encourage the sale of affordable nets and reduce malaria.

ADVANTAGES OF OUTCOMES-BASED FINANCE

Outcomes-based finance is an alternative financing mechanism for social interventions, shifting the focus from activities to outcomes. What is the added value that outcomes-based finance brings? We have identified five key benefits:

1 INSIGHT INTO EFFECTIVENESS

Outcomes-based finance requires a results-oriented approach. This involves clearly defining the desired result, setting agreements on how this result will be measured, and determining how adjustments will be made. By focusing on results, the emphasis shifts from outputs to outcomes. The government's role is to achieve "a just, entrepreneurial, and sustainable society" (Rijksoverheid, 2024). To accomplish this, it is vital to measure whether policies effectively contribute to this goal. Additionally, outcomes-based finance requires all involved parties to make clear agreements regarding objectives, target groups, and measurement methods. When executed well, this can provide more insight into the effectiveness of interventions. Over time, outcomes-based finance contributes to more evidence-based practices and funding in general.

2 COLLABORATION

Social services are often fragmented due to the presence of numerous service providers, policy fragmentation, and the division of responsibilities among various authorities (Carter, et al., 2018). Outcomes-based finance brings these parties together, as seen in the first Social Impact Bond (SIB) in the Netherlands, see page 16. This fosters collaboration and a shared goal: achieving the agreed-upon objectives.

3 PREVENTION

Preventive policies are often neglected by governments because they require an initial investment and only provide benefits in the medium to long term. This is unfortunate, as prevention can prevent crises and ultimately be more cost-effective in the long run. Outcomes-based finance is a method to promote prevention (Government Outcomes Lab, European Investment Bank, 2021). Since payments are only made upon achieving specific results, the risk for the outcome payer is reduced. Additionally, it can address

the 'wrong pocket' problem: often, the advantages of a preventive approach do not directly benefit the party responsible for funding the prevention. This is another reason why insufficient funds are allocated to prevention. With a SIB, those who financially benefit from a preventive measure can also act as the outcome payer.

4 INNOVATION

With outcomes-based finance, and particularly with SIBs, the risk of an intervention is transferred to the investor. This makes it easier for governments to experiment with new forms of interventions and performance management, providing insights and managing performance (Carter, et al., 2018). SIBs therefore enable interventions that might not have otherwise been implemented. Since governments currently often pay for tasks and outputs, there is limited room and flexibility for service providers to act according to their own expertise. Often, a (local) government also wants control over which task is performed because they are paying for it. Outcomes-based finance creates more space for the service provider to use their expertise in determining the best way to achieve the agreed upon results. This also allows service providers to be more flexible in adapting their interventions based on monitored data.

5 LEGITIMACY

Finally, the focus on outcomes-based finance provides legitimacy to governments. Governments are democratically elected, and government spending is funded by taxpayers' money. It is therefore only right that governments can demonstrate that their policies effectively contribute to a just, entrepreneurial, and sustainable society. Recent research on the effects of 86 outcomes-based finance contracts in the United Kingdom shows that outcomes-based finance also generates significant net gains: the report shows that every £1 spent yields more than £8.59 (Stanworth & Hickman, 2024) in societal value.

DRAWBACKS OF OUTCOMES-BASED FINANCE

Despite the mentioned benefits, there is still hesitation among the involved parties to implement outcomes-based finance. This is due to the following factors (Government Outcomes Lab, European Investment Bank, 2021):

1 COMPLEXITY

The involvement of multiple parties in outcomes-based finance can make drafting and implementing contracts complex. This complexity also makes executing outcomes-based finance constructs, particularly SIBs, expensive. It requires extensive coordination between various stakeholders and demands a high level of commitment and expertise. This takes time and money. Additionally, because SIBs are often based on the local context of a project, scaling or replicating them can be challenging.

2 NOT SUITABLE FOR ALL SOCIAL PROBLEMS

Outcomes-based finance is not a panacea and will not solve all social problems. For instance, it may be that outcomes are difficult to measure, challenging to attribute to the intervention, or that outcomes manifest after such a long time that payment at that point is no longer realistic. Moreover, some social problems may be so urgent that there is no time for the complexity of outcomes-based finance contracts.

3 OUTCOMES CAN BE DIFFICULT TO DEFINE

In practice, outcomes are often hard to define. Sometimes there is no reliable data, or the focus of data collection is on outputs rather than outcomes. Especially with complex social problems, identifying appropriate outcomes and measuring them can be challenging.

4 INNOVATION PARADOX

Investors invest in interventions with the goal of achieving predetermined objectives so they can recoup their investment along with returns. Investors prefer to see a track record of results already achieved in the past. As a result, they may be more inclined to fund proven interventions and may avoid supporting innovative interventions due to the perceived financial risk. This presents a paradox: outcomes-based finance can actually add value when an innovative intervention is tested in practice, but investors might not want to run the risk. In contrast, for well-supported interventions, the rationale for outcomes-based finance is much lower, and one might opt for a grant or procurement instead.

CONCLUSION

Outcomes-based finance is not a magic solution that will effectively and efficiently solve all our social problems. However, it is a tool that can contribute to this goal. We can only address the significant challenges we face in the Netherlands by focusing on the target group and the actual changes we bring about. The focus on outcome-oriented work that outcomes-based finance entails can help achieve this. With SIBs, outcome agreements are made more stringent through agreements between outcome payers, investors, and service providers. The next chapter will describe the lessons learned from ten years of SIBs in the Netherlands. ●■

DEVELOPMENT OUTCOMES-BASED FINANCE

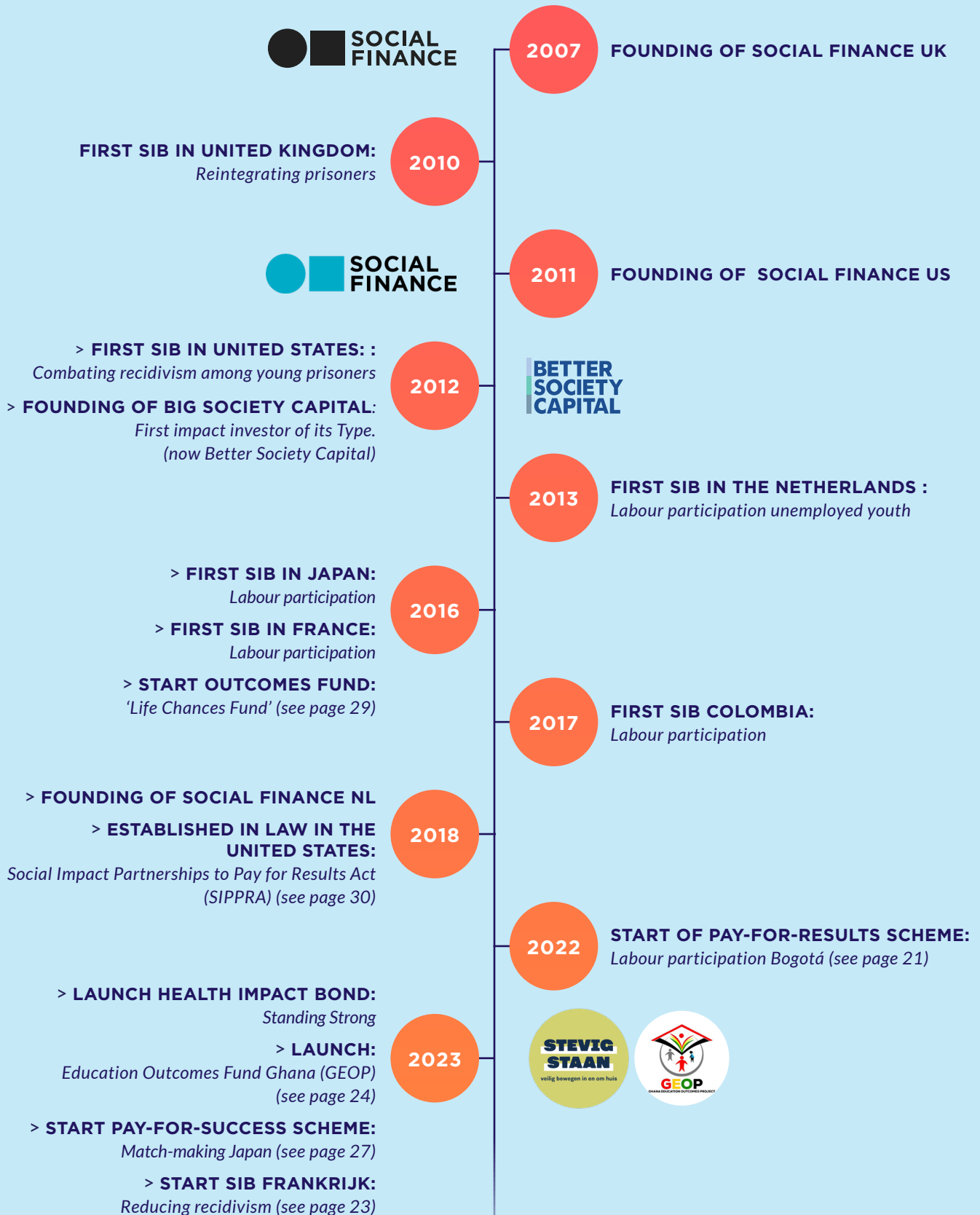




Foto door Evelien Hogers

OUTCOMES-BASED FINANCE IN THE NETHERLANDS TO DATE



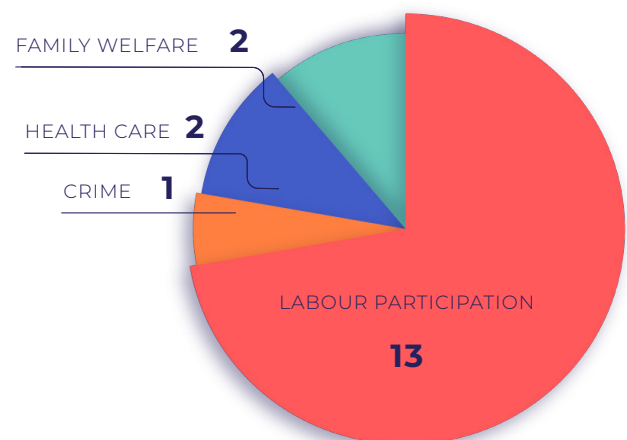
Those involved in the first SIB in the Netherlands: Buzinezzclub Rotterdam

SOCIAL IMPACT BONDS IN THE NETHERLANDS

The first Social Impact Bond (SIB) in the Netherlands was initiated in Rotterdam. In 2013, Rotterdam faced one of the highest unemployment rates in the Netherlands: 13.7% (CBS, 2013). Among young people, this percentage was even higher. The municipality had heard about the SIB as a tool to tackle social challenges and took on the task of becoming the first municipality in the Netherlands to implement a SIB. With the municipality as the outcome payer and ABN AMRO Social Impact Fund and Start Foundation as investors, the social enterprise Buzinezzclub was able to start a professional training programme that prepared 17- to 24-year-olds for the labour market or starting a business as an entrepreneur. And they did so successfully: the number of days that participants received welfare benefits significantly decreased, and investors received an annual return of 12%.

Since then, 17 other SIBs have been launched in the Netherlands. This makes our country a major player in terms of the number of SIBs: only the United Kingdom, the United States, and Portugal have more SIBs. Of all 18 SIBs in the Netherlands, 13 have a primary focus on promoting labour participation.

THEMES DUTCH SIBs



LESSONS LEARNED FROM SIB ROTTERDAM

It is now ten years since the start of the first SIB in Rotterdam. How do the participating parties look back on it? What have they learned from it, and how do they view the state of outcomes-based-finance so far? To answer these questions, we organised a small reunion with the initiators from that time. Additionally, we spoke with a broad range of experts and experienced professionals about how they look back on 10 years of SIBs.

FOCUS ON RESULTS

The participating parties look back on the first SIB with great enthusiasm, especially since the results were very good: in Rotterdam, more than 80% of all participating young people were guided towards a job, and investors received their investment back with an annual return of 12%.

Those involved saw the most significant advantage of a SIB to be the focus on results. As we face major societal challenges, coupled with even larger cuts to municipal budgets in the coming years, it becomes extra important for (local) governments to steer based on outcomes, ensuring that available funds are spent effectively.

COMPLEXITY

The participants also indicated that SIBs require a completely different way of thinking about the effectiveness of policy. This demands a lot of effort and time from the involved parties. In Rotterdam, many discussions were necessary to get everyone on the same page; each party had to compromise to eventually arrive at a broadly supported outcomes-based structure. This illustrates the complexity of outcomes-based-finance and SIBs in particular. There are so many different parties involved, each with slightly different interests, that smoothing out the wrinkles can take a lot of time.

Involving so many different parties also has a significant advantage. By involving parties such as investors, social issues are approached from a different perspective. In municipalities, a certain way of working sometimes runs deep in its veins, making it difficult to deviate from. By seeking cooperation with private parties, it becomes easier to step away from the beaten path.

LONG-TERM CHANGE AFTER COMPLETION OF SIB ROTTERDAM

Once the hurdles described above are overcome, a SIB like the one in Rotterdam has the potential to deliver the desired results. And perhaps even more importantly, the SIB in Rotterdam has also led to long-term change. Buzinezzclub now signs three-year outcome contracts with the municipality, whereas before the SIB, these contracts had a maximum term of one year. Such a long-term contract gives Buzinezzclub much more certainty. As a result, they can confidently offer their participants complete programs that give them the best chance of finding a job. This increases the effectiveness of Buzinezzclub's programmes. Buzinezzclub also closely monitors its programmes and reports the results back to the municipality. This provides a good overview of the effectiveness of the programmes, allowing for quick adjustments if necessary. The cooperation between Buzinezzclub and the municipality of Rotterdam no longer takes place in the form of a SIB, but the focus on outcomes has remained.

(PSEUDO) INNOVATION

In the previous chapter, it was noted that outcomes-based-finance, and SIBs in particular, lead to innovation. Since the financial risk lies with the investors, municipalities and implementers have more freedom to shape programmes as they see fit. However, those involved in the Rotterdam SIB differ in opinion on whether this worked out in practice. On the one hand, they indicate that there is little room for innovation in the current model because investing in, for example, a new approach can be risky. Municipalities then prefer to pay for a few recognized and proven interventions rather than take the risk of supporting a promising approach. The question is whether outcomes-based-finance will ultimately change this. Investors also want a certain level of certainty about the effectiveness of interventions; this significantly influences the return expectations and risk profile. With commercial investors, the degree of social innovation is therefore unlikely to differ much from the status quo. If the investment is made by a party with less interest in a favourable return-risk ratio, such as a philanthropic organisation, the chance of an innovative approach is greater. These parties are often willing to take greater risks, giving innovative initiatives a better chance. ➤

LESSONS LEARNED FROM 10 YEARS OF SIBS IN THE NETHERLANDS

We see that both outcomes-based-finance and outcomes-oriented working are still niche instruments within the government. Discussions with SIB pioneers from Rotterdam, as well as with other experts in outcomes-based-finance, reveal that outcomes-oriented working, a focus on outcomes, is often confused with task-oriented working, a focus on outputs. When the first SIB in Rotterdam started, there was great hope that the instrument would be widely embraced and that SIBs would increase rapidly. This has not happened. Although 18 SIBs have been launched in the Netherlands to date, we see that the development of this instrument is progressing slowly. The pioneers of SIBs have not been able to place the SIB in a broader context of outcomes-based-finance and outcomes-oriented working. We outline possible reasons for this below.

GOVERNMENT URGE TO CONTROL

Governments feel responsible for existing social issues and, therefore, for solving them. They find it very difficult to relinquish control, which is necessary if you want to optimise outcomes. You need to dare to say: “We want you to achieve outcome X. How you do it is up to you, but if

you succeed, we will pay you.” Too often, governments still want to have a say over the tool that is used, but this overlooks the many insights and experiences of service providers themselves. This is unfortunate, but proves to be a very persistent tendency within the government. Furthermore, in the current political landscape, short-term results are highly emphasised, and there is a certain degree of “blame”-culture, which often makes outcomes-based-finance seem too precarious because the responsibility for failure will mainly fall on the responsible politician—a risk many are unwilling to take.

LIMITED BUDGETARY FLEXIBILITY

Another potential explanation for the slow development of outcomes-based-finance is the limited budgetary flexibility needed to support it. Outcomes-based-finance frequently involves multiple funding sources simultaneously, so it is often difficult to determine which fund should be used. Moreover, outcomes-based-finance often spans multiple electoral terms. It is, therefore, important that there is broad support among government representatives since the contract must also be honoured under new political leadership.

CONCLUSION

The transition towards outcomes-based-finance and outcomes-oriented working is progressing slowly, partly due to the ‘practical’ obstacles mentioned above. A central point where knowledge about outcomes-based-finance is collected could help support civil servants in the transition. This way, they do not have to reinvent the wheel themselves and will also feel supported by the national government. Guidelines on budgetary rules for outcomes-based-finance could help with this. In the following chapters, you will read about how these challenges have been addressed abroad.

The great advantage of the Social Impact Bond is that it stimulates outcomes-oriented working. We still see the focus on outcomes-orientation as very promising, especially in a time when there is increasing scarcity of (municipal) financial resources, yet significant societal challenges remain to be solved. The value of this should not be underestimated. However, the instrument must be applied at the right time and in the right way. ●■

SIBs IN THE NETHERLANDS

*THE BOXES SHOW THE TOTAL AMOUNT INVESTED



OUTCOMES-BASED FINANCE COLOMBIA

 FIRST SIB: **2017**

 MAIN PROPONENT: **FUNDACIÓN CORONA**
WITH THE PROGRAM **SIBS.CO**

 IN 2024 **FOUR** SIBs, **ONE** OUTCOMES FUND (LOGRA FUND)

 ALL SIBs FOCUS ON **LABOUR PARTICIPATION**



María Paulina Gómez

*Lead programme manager outcomes-based finance
at Fundación Corona*

The introduction of outcomes-based-finance in Colombia is still a recent development. The first Social Impact Bond (SIB) was established in 2017 with the aim of promoting job placement and job retention in various cities across Colombia. The results of this first SIB exceeded expectations: the number of beneficiaries surpassed predictions by 17 percentage points, and the number of participants who retained their jobs was 19 percentage points higher than expected.

This initial SIB sparked further interest. As a result, three additional SIBs have since been established in Colombia. In addition, various other forms of outcomes-based-finance have been implemented in different areas, such as outcome agreements between (local) governments and service providers. One of the pioneers of outcomes-based-finance is María Paulina Gómez, head programme manager for outcomes-based-finance at Fundación Corona, a foundation that promotes social mobility and progress in Colombia. Fundación Corona runs the SIBs.CO programme, which is entirely focused on promoting outcomes-based-finance in Colombia and aims to encourage public-private partnerships and enhance financial innovation. We spoke with María Paulina to ask about her experience with setting up outcomes-based-finance in Colombia.

How was outcomes-based-finance first introduced in Colombia?

“We received a lot of support from international parties at the start of this programme, such as the Inter-American Development Bank and SECO, the Swiss State Secretariat for Economic Affairs. They supported the programme financially, but their most significant contribution was facilitating dialogue with the public sector. This is how we connected with the Ministry of Social Affairs, with whom we carried out the first SIBs. Colombia thus became the first developing country to implement SIBs where an outcome payer was a public entity from within the country itself.”

What types of challenges are you facing?

“It is challenging for us when there are political changes, such as a new government. Outcomes-based-finance, and social innovation more broadly, was included in the national development plan by the previous government, which made it easier for us to involve (local) government bodies in SIBs. With every leadership change, we basically have to start over again to lay the groundwork, and that takes a lot of time. It would help us greatly if that foundation were in place regardless of policy plans, for example, by embedding it in legislation, and for a ministry to provide a clear guide for civil servants. This would centralise expertise and make it much easier for us to involve public parties in SIBs.”

CASE STUDY: JOB PLACEMENT IN BOGOTÁ

The labour market in Colombia was severely impacted by the pandemic. Although the unemployment rate in Bogotá is recovering, it remains in the double digits (11.2%). Additionally, there are several underserved groups, such as women, who find it even more challenging to access the labour market. In response, an outcomes-based finance structure has been established in Bogotá, aimed at guiding 22,000 people toward employment, of which 12,000 are women (Secretaría de Desarrollo Económico, 2022).

This is a pay-for-success contract, where organisations focused on strengthening the labour market receive additional financial incentives for each person they help to secure a job. This is a direct contract between the government and the service providers, with no investors involved.

How do you see the future of outcomes-based finance?

“We are seeing a trend among outcome payers towards pay-for-success contracts; direct outcomes-based contracts between the government and service providers, instead of SIBs involving investors. This isn’t due to the investors: we have no trouble finding investors in Colombia. We have a growing ecosystem of impact investors who are very willing to invest. However, we see that outcome payers prefer to engage in direct pay-for-success contracts. The challenge lies with the service providers. They are hard to find for pay-for-success contracts because they bear the most significant risks and are therefore hesitant to get involved. As a result, we are currently seeing a decline in outcomes-based-finance contracts in Colombia: service providers are difficult to find for pay-for-success contracts, while outcome payers often resist SIBs. The enthusiasm of these parties will need to grow to sustain outcomes-based-finance in Colombia.”

FACTSHEET

TOPIC: Labour Participation.

OUTCOME PAYER: District Secretariat for Economic Development in Bogotá.

TARGET GROUP: Unemployed individuals

PAYOUT: \$30.000.000.000 pesos (€6,75 million) distributed across four organisations

DURATION: 2021 – 2024

SERVICE PROVIDERS:

- » El Minuto de Dios Organization Corporation;
- » Unión Temporal Empleo 4.0;
- » Unión Temporal Gestión de Empleo (CGC);
- » Unión Temporal GT, Sinú y Cesar

LESSONS LEARNED



- If outcomes-based finance is not embedded in policy, its implementation becomes highly dependent on political factors, making it uncertain.
- The bottleneck in SIBs is often the outcome payer, while the bottleneck in direct pay-for-success contracts is often the service provider.

OUTCOMES-BASED FINANCE IN FRANCE

 FIRST SIB: 2016

 MAIN PROPONENT: **MINISTRY OF FINANCE**

 SO FAR **TEN** SIBs HAVE BEEN LAUNCHED

 LARGEST NUMBER OF SIBs ARE FOCUSED ON **EMPLOYMENT AND TRAINING**

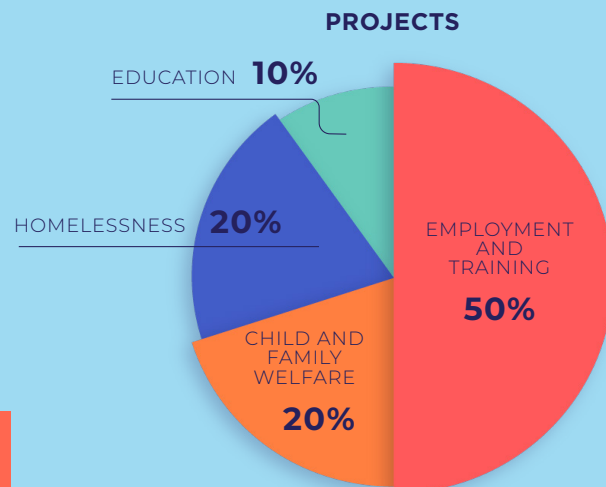
The first wave of outcomes-based finance in France emerged in 2016. In France, the outcomes-based finance focus is on Social Impact Bonds (SIBs); pay-for-success programmes have not yet been developed. Since 2016, ten SIBs have been launched.

In France, setting up SIBs occurs in waves: ministries commit a certain amount of money for a specific goal, such as several million euros to combat unemployment, and then issue a tender. NGOs or social enterprises can bid on this, after which investors are sought for the various projects. This means that in France, SIBs are not initiated from the intervention, as often happens in the Netherlands, but from the identification of a societal problem by the government.

In France, the Ministry of Finance is responsible for promoting and implementing SIBs. This falls under the department of PESSII (le pôle de l'Économie Sociale et Solidaire et de l'Investissement à Impact), the Social and Solidarity Economy and Impact Investment Financing service. Gaëlle Humbert (PESSII) explains to us the advantage of having a central organisation responsible for outcomes-based finance and the factors that contributed to its development in France.



Gaëlle Humbert
Deputy Manager at PESSII (le pôle de l'Économie Sociale et Solidaire et de l'Investissement à Impact)



Can you tell us more about PESSII's role in setting up SIBs?

“PESSII is part of the Ministry of Finance and is responsible for promoting and implementing SIBs. However, we are not the outcome payer: the outcome payers are often other government entities, such as other ministries. PESSII assists them in setting up the SIBs, mainly by providing technical expertise, including establishing internal standards that SIBs must meet. The outcome payers remain responsible for the funds and key decisions, but we help them harmonise the entire process”

It's quite unique for a ministry to be so involved in the promotion and support of SIBs. What factors contributed to this in France?

“It's crucial to have support both at the administrative and political levels. In fact, at the Ministry of Finance, it was very important to have someone within the administrative apparatus who worked for years to establish SIBs. This required a lot of patience and perseverance. Ultimately, it also needed to be embraced at the political level before we could truly get started.”

CASE STUDY: WAKE UP CAFÉ

In France, six out of ten convicted individuals reoffend within four years after completing their prison sentence (Ministère de la Justice, 2023). Wake Up Café is a non-profit organisation that supports motivated prisoners and ex-prisoners in their reintegration into society to prevent recidivism. They do this by supporting them in their personal and professional development both during and after their imprisonment. The employment prospects of participants are also increased by introducing them to companies that are partners of the programme. This structure is financed through a SIB, where the French government pays out to investors if recidivism indeed decreases and the number of participants with an employment contract increases.

How do departments now view outcomes-based finance?

"The great advantage of outcomes-based finance is the focus on impact management and impact measurement. Outcomes-based finance shows politicians the consequences of specific policies. We hear from all political levels that they find this very valuable. Particularly the additional step of collecting data and linking this data to specific policies is often a reason to start outcomes-based finance at both political and administrative levels."

How do you see the future of outcomes-based finance in France?

"When we started introducing SIBs, there was a lot of scepticism in France. Financing social interventions in this way was seen as undesirable by service providers in the social sector. This criticism has largely faded: people now see the value of outcomes-based finance. However, I don't think outcomes-based finance will quickly become widespread in government financing. The instrument is too complex for that."

"Ideally, you would want to set up an interdepartmental fund where all ministries invest money, but with only one ministry responsible for execution. With such a fund, you can also tackle large societal problems that span multiple domains. Unfortunately, this is currently not possible due to legal restrictions and budgetary rules. If we want to take SIBs to the next level, these kinds of restrictions will need to be removed."

FACTSHEET

TOPIC: Reducing recidivism among (ex)-prisoners.

OUTCOME PAYER: Ministry of Finance.

TARGET GROUP: (Ex)-prisoners

PERFORMANCE INDICATORS:

- » Number of participants in the programme
- » Percentage of participants who effectively followed the programme
- » Number of stable employment contracts six months after release
- » Percentage reduction in recidivism compared to the control group

» **PAYOUT:** Between €2 and €4 million

STATUS: Started in 2023, ongoing

SERVICE PROVIDER: Wake-up café

LESSONS LEARNED



- To assign outcomes-based finance to a central body, it is crucial to have support at both political and administrative levels.
- A central body does not need to take full responsibility for outcomes-based finance but can mainly assist in its coordination and standardisation.

OUTCOMES-BASED FINANCE IN GHANA



 LAUNCH GHANA EDUCATION OUTCOMES PROJECT (GEOP): **2023**

 MAIN PROPONENT: **MINISTRY OF EDUCATION**

 SIZE: **\$30 MILLION**

 AIMED AT: **INCREASING PERCENTAGE OF SCHOOL-GOING CHILDREN**



Hajia Nana Fatima High
Project coordinator of the GEOP

Outcomes-based finance is still in its early stages in Ghana, with currently only one such financing scheme in place. However, Ghana has taken a bold approach with the Ghana Education Outcomes Project (GEOP), allocating \$30 million to bring 70,000 out-of-school children back into classrooms and improve the academic performance of 98,000 children across 600 primary schools. For comparison, the total invested amount of all Social Impact Bonds (SIBs) in the Netherlands is just over €35 million.

The Ghana Education Outcomes Project is an additional funding under the Ghana Accountability Learning Outcomes Project, (GALOP). GALOP brings together governments, donors, service providers, and investors with the goal of achieving concrete outcomes in teaching and learning as well as improving the livelihoods of deprived children and their communities at large. GEOP receives technical assistance from the Education Outcomes Fund (EOF). This platform aims to scale up outcomes-based finance in education to improve effective spending. The EOF hopes to impact the lives of 10 million children and young people. Currently, projects under the EOF are underway in Ghana, Rwanda, Sierra Leone, Tunisia, and South Africa, in varying stages of implementation, to start similar funds as in Ghana.

The Ghana Education Outcomes Project differs from other projects under the EOF as the entire fund is managed by the Ghanaian government. We spoke with Hajia Nana Fatima High, the Project Coordinator of the GEOP under the Ministry of Education, Ghana.

Why did the Ghanaian government want to be closely involved in setting up an Education Outcomes Fund?

“We have many NGOs in Ghana that make many promises about ambitions and objectives, but we see too little of those ambitions and objectives realised after interventions are carried out, despite significant amounts of money being involved. Through GEOP, we ensure that only results are paid for, thus increasing the effectiveness of the money we have to spend. Our direct involvement ensures we remain well-informed about the project's status and can make adjustments as needed.”

The GEOP has not been running for long, but can you already tell us about the initial results?

“The initial results are very successful! We are still in the early phase, so we can't say much about the ultimate outcomes yet, but in the first year, we have brought 17,340 children back to school. We have even won the GovTech Prize for this, a prize for governments that come up with creative and innovative solutions to social challenges (GovTech Prize, 2024)”.

How do you see the future of outcomes-based finance in Ghana?

“If GEOP is successful, which it appears to be, the Ghanaian government will certainly consider using outcomes-based finance in other parts of the government sectors. Moreover, we are learning a lot from GEOP: we now know what challenges arise in such projects and how to mitigate and overcome them. Ultimately, outcomes-based finance is a win-win situation for the government: it addresses the social challenges we face and is an innovative solution that reduces financial risk for us.”

What other push factors contributed to the successful setup of the GEOP?

“It helps that the outcome payers of GEOP are partly philanthropic organizations. These organizations are inherently very focused on achieving results and have a lot of experience with this. Because they take on part of the outcome payments, GEOP requires less budget from the Ghanaian government and reduces the risk it faces. Political support is also very important. In Ghana, the Minister of Education is a real advocate for GEOP. For example, when we started the projects, it turned out that school uniforms are a significant factor in keeping children in school: if children don't wear school uniforms, they feel less part of the school and are more likely to drop out. When the Hon. Minister heard this, he decided to provide every participating child with two uniforms. This shows the political commitment to GEOP: the project is widely supported politically as well.”

We also spoke with Stephen Chandler, a manager at EOF. He told us that Ghanaian involvement in the EOF, specifically the fact that the government manages the GEOP, is inspiring to other governments:

“Our collaboration with Ghana often acts as a catalyst for other governments. They see that it works elsewhere and that it is very successful. This inspires them to want to apply such innovative solutions themselves. Additionally, we see that knowledge within the government about outcomes-based finance is crucial to get such projects off the ground. Often, governments in the Global South are very knowledgeable about outcomes-based finance because they are frequently funded through outcomes-based finance structures, such as outcomes-based loans by the World Bank. However, these financing structures are almost always based on outputs. That is fundamentally different from how we operate within the EOF, where we really focus on outcomes. When we talk to governments and show them that outcomes are essential to us, we see real enthusiasm start to build.”

CASE STUDY: HOW IS GEOP STRUCTURED?

The Ghanaian Ministry of Education manages the Ghana Education Outcomes Project (GEOP). Unlike other outcomes-based finance projects, the employees of the Education Outcomes Fund (EOF) in Ghana are involved only in the role of technical advisor. The fund has a size of \$30 million in outcome payments. The World Bank manages all payments, but here's where it gets complex: \$25.5 million of the funding comes from the British Foreign, Commonwealth & Development Office (FDCO), and \$4.5 million comes from the Ghanaian government itself.

The fund is divided into six lots covering five regions and 27 districts, all located in Northern Ghana, where the percentage of out-of-school children is highest. When the fund was launched, service providers had the opportunity to bid on the lots. Each provider brought their own impact investors, so there was no need to find additional investors. There are a total of three service providers, each responsible for two lots.

LESSONS LEARNED



- Successful initiatives in other countries can be used to grow enthusiasm for outcomes-based finance.
- Sharing responsibility for outcome payments between different parties can make it easier for outcome payers to get involved.

OUTCOMES-BASED FINANCE IN JAPAN



FIRST SIB: 2018

MAIN PROPONENT: CABINET OFFICE

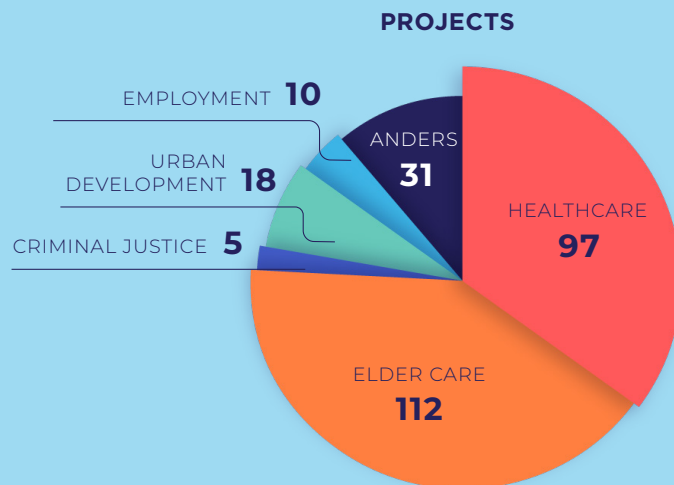
273 PAY-FOR-SUCCESS CONTRACTS, OF WHICH 27 SIBs

LARGEST NUMBER OF SIBs ELDER CARE (41%) AND HEALTHCARE (36%)

Outcomes-based finance is still relatively new in Japan. The very first outcomes-based finance structure in Japan was a Health Impact Bond (HIB) in 2018, aimed at detecting lung cancer earlier through early screening to mitigate health impacts. Since then, 27 Social Impact Bonds (SIBs) and HIBs have been established. However, the main focus of outcomes-based finance in Japan lies with pay-for-success contracts. These contracts do not require external investment; instead, they are direct agreements between the government and the service provider, where the government pays the provider once predetermined results are achieved.

Japan has a relatively large number of outcomes-based finance contracts, especially compared to other countries. The biggest factor contributing to this is the simplicity of pay-for-success contracts. There is no need to attract external financing, and fewer complex arrangements need to be made. This simplicity makes this type of outcomes-based finance particularly attractive to local and regional governments, which may have less capacity to manage the complexity of SIBs.

In Japan, the Cabinet Office is responsible for outcomes-based finance. This office handles the daily affairs of the Japanese cabinet. We spoke with Kanu Maeda, a staff member at the Cabinet Office responsible for promoting outcomes-based finance to national, regional, and local governments.



前田 関羽 — Kanu Maeda
Employee at Cabinet Office Japan

The responsibility for outcomes-based finance lies with the Cabinet Office. What are your main tasks?

“Our main goal is to promote outcomes-based finance, both at the national level with various ministries and at the regional and local levels. We do this by, for example, drafting common guidelines for standardising pay-for-success contracts and evaluating outcomes. Additionally, we provide technical knowledge to local governments to prevent them from having to reinvent the wheel.”

Is outcomes-based finance embedded in specific policies or laws?

“No, in Japan, we don’t have specific laws that frame the use of pay-for-success contracts or SIBs. We do have several laws related to public-private partnerships, but no specific laws that include outcomes-based finance. We don’t need them either; outcomes-based finance fits within the

CASE STUDY: MATCH-MAKING

Outcomes-based finance is being used in Japan to address the country's rapidly aging population. Japan is one of the fastest-aging nations in the world, with a birth rate of just 1.3 (World Bank, 2021), while the death rate is nearly double the number of children being born. This demographic shift is increasing the strain on the healthcare system and pension funds (van der Veere, 2023). In response, the Japanese government is implementing various measures to boost the birth rate. One such measure is promoting marriage.

In the city of Saga, a pay-for-success contract has been established with a matchmaking service. This service connects single men and women under the age of 40. The service provider is compensated based on the number of marriages that result from its matchmaking efforts.

existing legal framework. The responsibility for outcomes-based finance, as it is currently assigned to the Cabinet Office, is not legally established.”

Does this mean that this role could potentially disappear if the current cabinet changes?

“It’s likely that outcomes-based finance will always be a part of the Cabinet Office, even if the political makeup of the cabinet changes. This is because there are inter-ministerial agreements about assigning this task to the Cabinet Office, and these agreements extend beyond individual government terms.”

How do you see the future of outcomes-based finance in Japan?

“I think the number of outcomes-based finance contracts will increase, especially small-scale projects. Moreover, we’re seeing more and more ministries, such as the Ministry of Health, actively engaging in outcomes-based finance and allocating funds for it. This will certainly positively impact the numbers. However, I also believe there’s still much to be gained, especially in the area of public-private partnerships.”

FACTSHEET

TOPIC: Increasing the number of married couples to reduce shrinking of the population.

DOELGROEP: Single men and women under 40.

PERFORMANCE INDICATORS:

- » Number of participants in promotion events
- » Number of registrations for the matchmaking service
 - » Number of marriages

- **PAYMENT:** 7.500.000 – 21.000.000 yen (€46.000 - €128.900)

DURATION: 2023 – 2025 (3 year)

SERVICE PROVIDER: Pure na brides

SOCIAL OUTCOMES:

- » Impact on tax revenue because of increased number of married couples in the city
 - » Impact on birth rate
- » Monetary valuation of increased childbirth

LESSONS LEARNED



- Pay-for-success schemes are less complex than SIBs, making them more accessible to governments. This can be particularly valuable for municipalities.
- Centralising the responsibility for outcomes-based finance helps to promote and standardise it.

OUTCOMES-BASED FINANCE IN THE UNITED KINGDOM

 **FIRST SIB: 2010**

 **MAIN PROPONENT: CABINET OFFICE & DEPARTMENT FOR CULTURE, MEDIA AND SPORT**

 **SO FAR 99 SIBs HAVE BEEN LAUNCHED**

 **LARGEST NUMBER OF SIBs ARE FOCUSED ON EMPLOYMENT AND TRAINING**

The United Kingdom is the cradle of outcome-based financing. The first Social Impact Bond (SIB) was set up by Social Finance UK in 2010, targeting the reduction of recidivism among short-sentenced prisoners (Social Finance UK, 2024). Since then, the number of British SIBs has rapidly increased, now totalling 99 (Government Outcomes Lab, 2024).

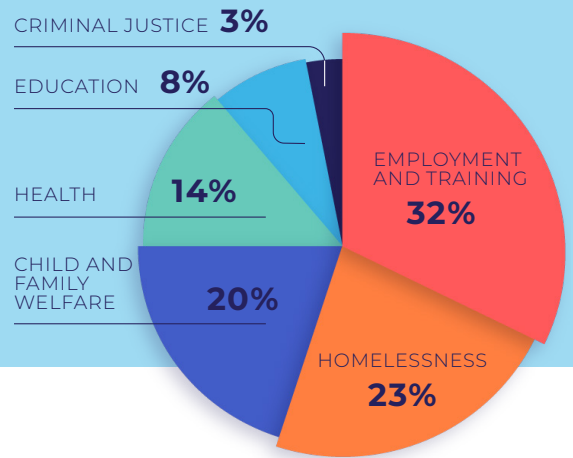
The United Kingdom also hosts the knowledge institute for outcomes-based financing: the Government Outcomes Lab (GO Lab). GO Lab is a research and policy institute located at the Blavatnik School of Government, University of Oxford. GO Lab is a public-private partnership between the University of Oxford and the British government, researching how governments can (better) collaborate with the private sector and the social domain to improve societal outcomes. Thanks to this knowledge institute and the years of experience gained with outcome-based financing, there is extensive knowledge among civil servants and in politics about outcome-based financing, making it easier to encourage governments to implement it.

It is therefore no surprise that the UK also hosts the largest Outcomes Fund in the world: the Life Chances Fund (LCF). We spoke with James Magowan, who works at the British Department for Digital, Culture, Media and Sport (DCMS), which is the department responsible for managing the fund.



James Magowan
Head of Public Service Partnerships at the British Department for Culture, Media and Sport (DCMS)

PROJECTS



What is the role of DCMS in promoting outcome-based financing?

“DCMS was chosen as the executive department because there was already a lot of knowledge and expertise within this department in collaborating with both the private sector and civil society, as well as philanthropic actors. DCMS is responsible for managing the fund, but also primarily for monitoring its impact. We find it very important to learn what works, and especially what does not work in the area of Social Impact Bonds, so that we can operate even more effectively and efficiently in the future.”

How do you view the current landscape of outcomes-based financing in the United Kingdom?

“I think the broader approach of focusing on outcomes is now better understood than 10 or 15 years ago. This does not always concern outcomes-based financing itself, but the focus on outcomes has really increased in recent years. There is more attention to prevention and the effective allocation of resources. We also use the Life Chances Fund as a learning method: through the many Social Impact Bonds, we can evaluate and improve methods and techniques.”

FACTSHEET LCF

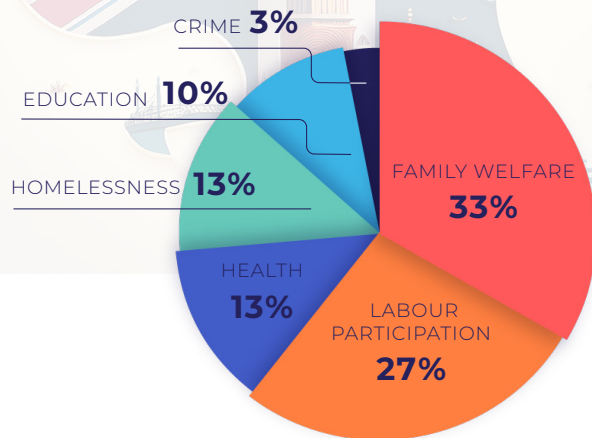
SUBJECT AND TARGET GROUP: Improving the lives of people who experience the greatest barriers in life, such as in terms of mental health or homelessness.

NUMBER OF SIBs: 29 SIBs across the United Kingdom.

DURATION: 2016 – 2025

STATUS: The LCF is still ongoing, but the initial results are very promising: both societal outcomes and knowledge and evidence of interventions have improved.

POLICY AREAS LCF:



CASE STUDY: THE LIFE CHANCES FUND

“The Life Chances Fund is an outcomes fund with a size of £70 million, provided by the national government, aimed at leading people in society who experience the greatest barriers towards a happy and productive life. The goal is to improve the lives of more than 60,000 people by stimulating the implementation of SIBs. In this setup, SIBs are locally implemented, with a local impact investor, executor, and outcome payer. If an intervention is successful, the LCF supplements the outcome payment from the local government. With this, the LCF aims to increase and scale the number of SIBs and also build the evidence base of effective methods. The content of the SIBs can vary: some focus on reducing recidivism, others on improving mental health, or reducing homelessness. The LCF and the associated closed SIBs are in the final phase. It is still unclear whether this outcomes fund will have a follow-up.”

What role does the Government Outcomes Lab play in this?

“The Government Outcomes Lab evaluates all Social Impact Bonds within the Life Chances Fund. With their extensive knowledge and expertise in public-private partnerships, they are the ideal partner for us. When we started the Life Chances Fund, there was a lot of excitement around Social Impact Bonds, but the evidence was still in its early stages. Our collaboration with the Government Outcomes Lab has enabled us to build evidence that Social Impact Bonds can indeed contribute to solving societal challenges.”

LESSONS LEARNED



- A national Outcomes Fund can be very helpful in stimulating local outcomes-based financing, especially if this national fund can supplement local outcome payments.
- Outcomes-based finance and SIBs help governments evaluate and improve methods and techniques.

OUTCOMES-BASED FINANCE IN THE UNITED STATES

 **FIRST SIB: 2012**

 **MAIN PROPONENT:
DEPARTMENT OF THE TREASURY**

 **SO FAR 28 SIBs HAVE BEEN LAUNCHED**

 **LARGEST NUMBER OF SIBs IS IN CRIMINAL JUSTICE AND CHILD AND FAMILY WELFARE**

The United States was the second country to adopt outcomes-based finance, following the United Kingdom. The first Social Impact Bond (SIB) in the U.S. was launched in 2012, targeting recidivism among young offenders. 27 additional SIBs have followed since then, and this financing tool has become increasingly recognised at both the bureaucratic and political levels.

One significant development in this area is the "Social Impact Partnerships to Pay for Results Act" (SIPPRa). Enacted in 2018, this legislation aims to enhance the effectiveness of certain social services. The U.S. Congress allocated \$100 million to the SIPPRa program to fund outcomes-based projects. States can apply to this federal programme and select projects that can receive funding from the federal pool, provided they achieve predetermined results that are validated by an independent evaluator.

To gain further insight into the development of SIPPRa, we spoke with Ryan Martin, who currently works at the National Governors Association and has been involved with SIPPRa since its inception in 2012, including his time as a staff member in the House of Representatives. He shares the journey of how SIPPRa came to be.



Ryan Martin
Deputy Director at 'the National Governors Association'

What do you find most appealing about outcomes-based finance?

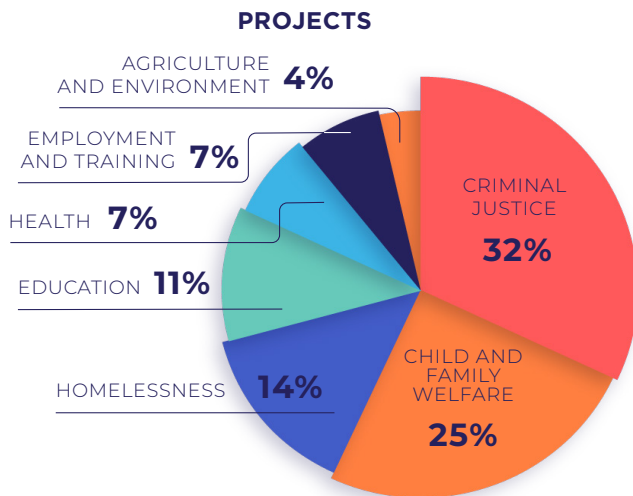
"What I find most compelling about outcomes-based finance is that it places outcomes at the forefront. This approach allows us to continue supporting programmes that demonstrate positive results. Equally important, it enables us to identify at an earlier stage when programmes or interventions aren't effective. As a result, we can allocate resources more efficiently and provide better support to our target groups."

Can you tell us more about the implementation of SIPPRa?

"The entire process, from the initial concept of SIPPRa to its official launch, took several years. It required extensive research to determine how outcomes-based finance would best fit within the U.S. context, and that was just the beginning. Crafting the legislation itself was time-consuming, involving decisions across various levels about stakeholder involvement, evaluation criteria, and outcome parameters. It took time, but in 2018, we succeeded in getting SIPPRa through both the House of Representatives and the Senate."

What factors contributed to this success?

"In a lengthy process like this, it's crucial to have a few key advocates who don't give up. Sometimes, progress stalls, and it takes dedicated individuals who see the value of outcomes-based finance and are willing to keep pushing the process forward."



What is the greatest benefit of embedding outcomes-based finance in policy?

“The main advantage is that outcomes-based finance has become much more widely recognised, both by politicians and civil servants. Additionally, SIPPPRA is largely managed by the U.S. Department of the Treasury, which means that expertise is centralised. For example, we’ve established standardised parameters that local governments can use when setting up outcomes-based contracts. SIPPPRA not only helps unlock government funds for these contracts but also promotes their use within the government.”

How do you see the future of outcomes-based finance in the United States?

“Outcomes-based finance is a very promising tool, and we’re seeing a real shift in how civil servants and politicians approach policy effectiveness. However, I believe the most potential lies in pay-for-success projects. I expect SIBs, which involve private investors, to become increasingly rare due to their complexity and associated risks. On the other hand, I anticipate a significant rise in pay-for-success contracts in the coming years, a trend we’re already seeing with other legislation, such as ARPA-H (see box).”

ARPA-H

Recently, alongside SIPPPRA, other outcomes-based finance legislation was passed in the United States: the “Advanced Research Projects Agency for Health” (ARPA-H). ARPA-H is a federal research agency that promotes biomedical and health initiatives, ranging from molecular to societal levels. The ultimate goal of ARPA-H is to provide health solutions for all. Within ARPA-H, \$100 million is available for additional outcome payments to regional projects. This means regional projects, such as SIBs, can apply to ARPA-H. If results are achieved, ARPA-H covers part of the outcome payments.

FACTSHEET ARPA-H

OBJECTIVE: Provide health solutions for all.

DOELGROEP: Various (health) groups in the United States.

PERFORMANCE INDICATORS:

- » Reduction of severe pregnancy and birth complications
- » Reduction of cardiovascular diseases
- » Reduction of opioid overdoses
- » Reduction of alcohol-related hospitalisations
- » **PAYOUT:** Up to \$15 million per region.

LESSONS LEARNED



- Embedding outcomes-based finance in policy requires time and patience.

- Once established, projects are easier to launch, partly due to the presence of a central coordinating body.

CONCLUSION AND RECOMMENDATIONS

Over the past decade, there has been significant experimentation with outcomes-based financing, particularly Social Impact Bonds (SIBs). These initiatives have not only helped many people find employment; reduced recidivism, and decreased fall incidents, but they have also provided valuable learning experiences throughout various projects.

CONCLUSIONS FROM 10 YEARS OF OUTCOMES-BASED FINANCING IN THE NETHERLANDS

INSIGHT INTO EFFECTIVENESS

After discussions with experts and scholars, we conclude that SIBs have primarily served as a compelling framework to answer several fundamental questions before launching a programme:

CLARITY PRIOR TO THE INTERVENTION:

Outcomes-oriented working helps shed light on which intervention is designed for which target group and what intended results are to be achieved.

CLARITY DURING THE INTERVENTION:

Well-designed outcome contracts make clear which results are being realised. The intake, progress, and outcomes of participants are thoroughly monitored, allowing for adjustments to make the intervention as effective as possible.

POST-INTERVENTION EVALUATION:

Evaluations and measurements carry more weight than in other projects because these reports influence funding decisions and cannot simply be shelved.

COMPLEXITY


Two major caveats must be noted regarding this improved insight into effectiveness. First, it is expensive. Both the preparatory phase, where diverse parties must find common ground, and the ongoing measurements and performance management during the intervention, require significant financial resources.

This leads to the second caveat: due to the considerable costs and time investment, many SIBs have cut corners in their design, leading to inadequate measurements and performance management.

These two caveats are often cited as the primary arguments against outcomes-based financing, particularly SIBs. It is important to distinguish between costs directly related to a SIB, such as involving and convincing investors or drafting detailed outcome contracts, and costs that should be part of good contract management regardless. This includes setting up and implementing a measurement methodology or capacity to improve the intervention during the contract's term.

HOW TO CONTINUE OUTCOMES-BASED FINANCE IN THE NETHERLANDS?

With these considerations in mind, Social Impact Bonds can be developed further in the following ways:

1  **USE OF PILOTS: PILOT PROJECTS WILL ENABLE PARTIES TO LEARN HOW TO DEPLOY THE INSTRUMENT MORE EFFECTIVELY.**

2  **LARGER CONTRACTS: DESIGNING LARGER CONTRACTS FOR LARGER TARGET GROUPS WILL REDUCE COSTS RELATIVE TO THE NUMBER OF PEOPLE HELPED BY THE STRUCTURE.**

3  **EMBEDDING IN POLICY: INVESTING IN PROCESSES AND EXPERTISE WILL ENSURE THAT OUTCOMES-BASED FINANCING BECOMES A STANDARD PROCUREMENT TOOL, REDUCING TRANSACTION COSTS AND ENABLING BROADER APPLICATION.**

When it comes to the first argument, the last ten years have provided sufficient experience with outcomes-based financing, both nationally and internationally. The second argument's danger is that scale is sought without the necessary conditions for a well-designed outcome contract. Therefore, this report advocates embedding outcomes-based financing

in policy to enhance its value in forming partnerships to address societal challenges in the Netherlands. Based on experiences in the Netherlands and international examples of outcomes contracts and their policy integration, we present the following three recommendations. ➤

1.

RECOMMENDATION 1:

INVEST IN KNOWLEDGE AND EXPERTISE

The fragmented landscape of outcomes-based finance has prevented the government from building expertise. As a result, the wheel is often reinvented, or there is too much reliance on commercial parties. We recommend building expertise on three different levels:

1. One ministry should take the lead in consolidating expertise. Internationally, dedicated departments have been established for this purpose, but it could also be managed within an existing department. Currently, knowledge is dispersed across the Ministry of Justice and Security, the Ministry of Social Affairs and Employment, the Ministry of Health, Welfare, and Sport, the Ministry of Defence, and the Ministry of Foreign Affairs. We advise concentrating knowledge in one ministry, and see the following logical departments:

a. Ministry of Finance: This ministry oversees the national budget and already has a role in assessing efficiency in other departments, making it a good fit for outcomes-based financing.

b. Ministry of the Interior (BZK): BZK is currently working on the "Every Region Counts" report, focusing on revising investment and policy logic. Outcomes-based financing could serve as a method for this. Additionally, BZK's direct connection to municipalities is important, as municipalities are often involved in outcomes-based financing at the local level, and BZK could act as a coordinating body.

c. Ministry of Economic Affairs: This ministry could also potentially take on the coordinating role, particularly since the Netherlands Enterprise Agency (RVO), which manages subsidies for many government agencies, falls under its purview.

2. Municipalities should join forces and combine the knowledge gained in outcomes-based financing and outcomes-oriented working. Organisations like Divosa, the VNG, or the G40 collaboration could facilitate this collaboration.

3. Establish a sustainable partnership with a university to stimulate research and build knowledge in outcomes-based financing to ensure the interaction between science and practice. The Government Outcomes Lab at the Blavatnik School of Government, Oxford University, is a successful example of this, see page 28.

2.

RECOMMENDATION 2:

CREATE AN OUTCOMES FUND

An Outcomes Fund provides a structure in which outcome contracts can be more easily formed. It is important that the Outcomes Fund aligns with regular subsidy and procurement processes. Consider the UK's Life Chances Fund (see page 29), which collaborates with municipalities and covers part of the outcome payments, or ARPA-H (see page 31), a federal programme that supplements outcome payments from regional projects. Within the Outcomes Fund, both Social Impact Bonds and outcome contracts without investors can be structured.

3.

RECOMMENDATION 3:

START AN OUTCOMES REVOLUTION!

Over the past decade, there has been much debate about Social Impact Bonds, with both proponents and opponents of the instrument. We advocate shifting the focus from how to deploy a SIB to how to design the most outcomes-oriented partnership possible. Across the spectrum from lump-sum agreements to paying for impact, the central question should always be how to achieve the most effective results for the target group. To realise this, it is crucial that the collaboration is evidence-based, that a measurement tool is designed and implemented, and that both ex-post and ex-ante research is conducted to assess the intended and actual changes.

This is easier said than done. Political success is often achieved through soundbites, framing, and short-term solutions, rather than an evidence-based approach that only shows visible results after considerable time. Therefore, a pioneering coalition of politicians, civil servants, social entrepreneurs, impact investors, academics, and citizens must emerge to collectively demand that public and philanthropic funds be used more effectively through outcomes-oriented partnerships. ●■

IT'S TIME FOR AN

OUTCOMES REVOLUTION!

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