Understanding outcomes funds

KEY FINDINGS | March 2022

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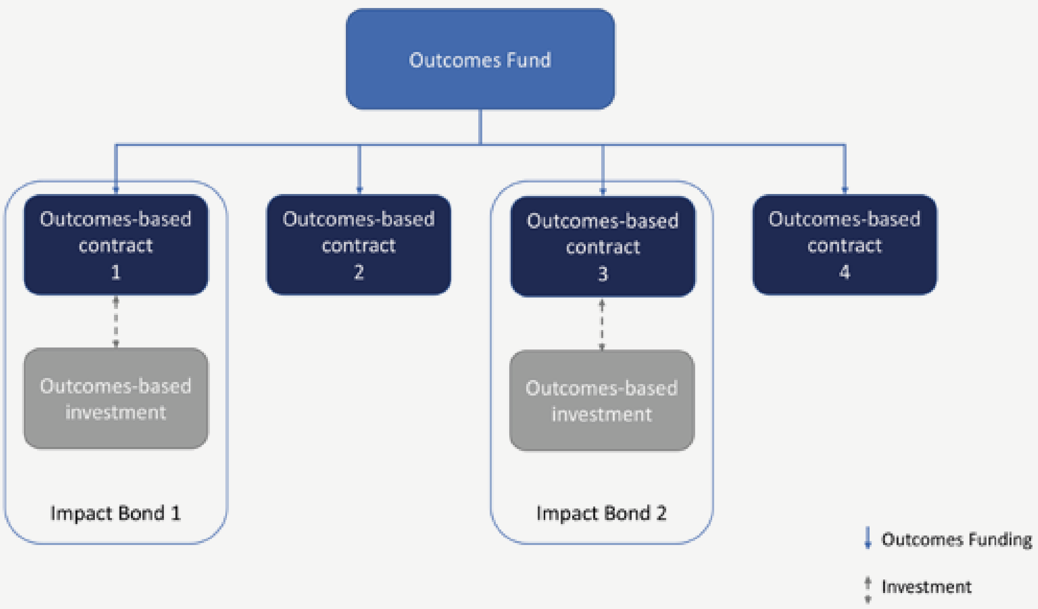
This briefing summarises the key findings from a recent Government Outcomes Lab guide to understanding outcomes funds for practitioners, governments and donors. Outcomes funds are becoming an increasingly prominent approach within the ecosystem of social outcomes contracting and impact bond development. They have been widely touted as the solution to taking outcomes-based contracts, like impact bonds, to scale. The guide aims to document and describe outcomes funds around the world and identify lessons for future fund design.

WHAT IS AN OUTCOMES FUND?

An outcomes fund is defined by three characteristics:

1. Dedicated funding to pay for social outcomes
2. Intention to issue multiple separate outcomes-based contracts
3. Open to the involvement of impact investment

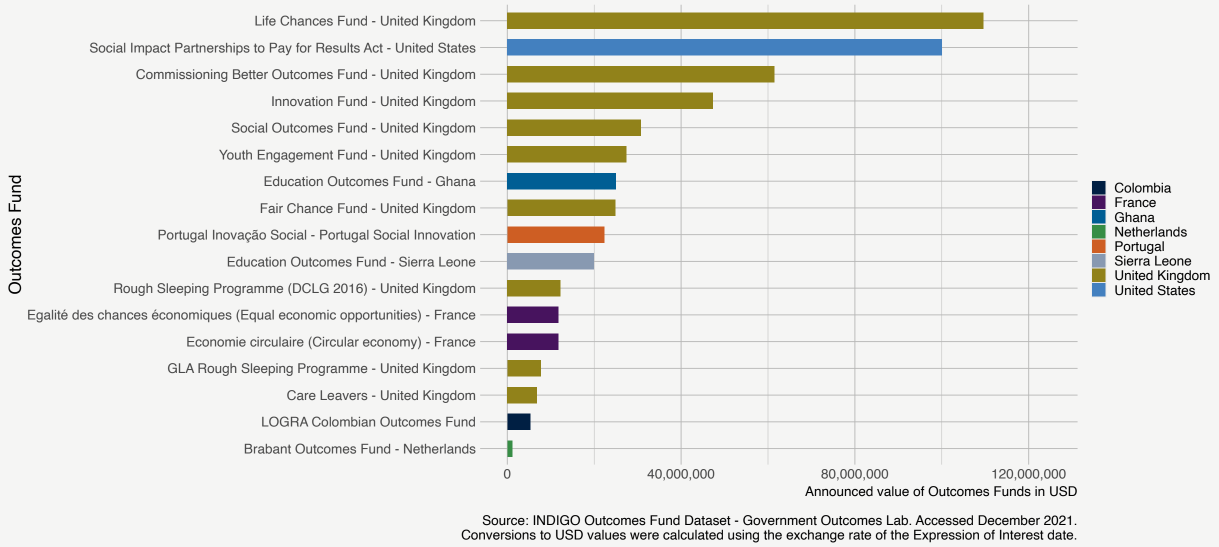


Relationship between outcomes fund and supported outcome contracts. Outcomes funds issue, or provide funding towards, multiple outcomes-based contracts, not all of which may involve independent investors

OUTCOMES FUNDS AROUND THE WORLD

17 outcomes funds were launched worldwide between January 2011 and November 2021. Nine of these were in the UK, with others in Europe, Asia, North America and sub-Saharan Africa. The names, host countries, and value of funding (standardised in USD) can be seen in the diagram below.

Announced value of Outcomes funds in USD.



DEVELOPMENT AND OPERATION OF AN OUTCOMES FUND

A simplified operational process for outcomes funds follows four key stages:

1. Outcomes funding is designated and the objectives of the fund are established
2. Call for outcomes-based project proposals
3. Selection of successful outcomes-based project proposals to be implemented
4. Payment is made for the achievement of measurable social outcomes

The **outcomes fund administrator** is the team or organisation that operationalises and takes responsibility for these stages.

DIMENSIONS OF FUND DESIGN AND EMERGING MODELS

Outcomes funds may be classified according to five key components:

- "What?" – Policy area and outcome measure
- "Who?" – Cohort of participants
- "How much?" – Outcome pricing
- "When?" – Outcome verification
- "With whom?" – Co-funders, investors, evaluator

Dimensions of outcomes fund design

Building on these five components, we have provisionally identified four emerging clusters of outcomes funds, based on the degree to which the dimensions are prescribed centrally by outcomes fund administrators ('outcomes fund defined') vs. open to definition by other market actors like service providers or co-funders of outcomes ('applicant defined').

Prescriptive outcomes funds (including investment) aim to both drive improved outcomes for a particular policy area and target population and build the market for investor-backed outcomes-based contracts (impact bonds). Example: The UK Innovation Fund

Policy prescriptive outcomes funds are tightly focused on delivering improved outcomes for a specific, pre-defined sector and target population. Metrics, outcomes pricing and evaluation methodology are often defined by outcomes fund administrators. The involvement of a third-party investor is not required. Example: The Ghana Education Outcomes Fund

Ecosystem building outcomes funds aim to incentivise new stakeholders to use outcomes-based contracting to address a range of complex social issues. They often co-fund outcomes payments alongside other government bodies. They sometimes require the involvement of third-party investors. Example: The UK Commissioning Better Outcomes Fund

Evidence-base strengthening outcomes funds primarily aim to build the evidence base around novel interventions, or scale the adoption of evidence-led interventions to deliver better social outcomes. They tend to be flexible in terms of outcomes measures, but may have strict evaluation requirements in order to strengthen and inform future policy and programmes. Example: US Social Impact Partnerships to Pay for Results Act (SIPPRA)

KEY CONSIDERATIONS FOR FUTURE OUTCOMES FUND DESIGNS

Administration

Outcomes funders must ensure that various core capacities – the ability to pool funds, create demand for outcomes, and give assurances around risk management – can be fulfilled across the life of the fund. Administrators must be able to designate outcomes funding, call for outcomes-based project proposals, select successful proposals, and ultimately make payment for the achievement of measurable social outcomes.

Clear objectives and appropriate design

The design of a particular outcomes fund should be guided by its objectives. Therefore, those designing an outcomes fund must be clear about what these objectives are, and hence how the key components above should be structured to achieve them. However, it is also important to note that the typology of outcomes funds developed here is neither exclusive nor necessarily exhaustive. Funds may take hybrid approaches – for example, they may at once try to build evidence and ecosystems. In addition, there may be new design arrangements which fall outside of the scope of the emerging clusters identified here.