

ACTION GUIDE

Developing Outcome Funds

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NAB Action Guide from
The Global Steering Group for Impact Investment

Outcome Funds, based on 'pay for performance' financing models, have gained considerable attention worldwide as vehicles for mobilizing new sources of impact capital to address complex social challenges. This guide outlines how the GSG can support NABs and the proponents of Outcome Funds.

1. Introduction

Today, most interventions targeted at vulnerable and underserved individuals and communities are often small scale, and their funding is often fragmented. Restrictive grants prevent social entrepreneurs and social service organisations from innovating and adapting to conditions on the ground. Donors lack transparency into what interventions work best, and their relative cost effectiveness.

This system of funding is too often holding back the results we can and must achieve. Innovative mechanisms, such as Social Outcomes Contracts, including Impact Bonds and other outcomes-based instruments, are powerful tools to help governments increase the impact and effectiveness of their spending on social issues. With appropriate government-level engagement, such instruments can enable social service providers to bring much needed innovation, agility and capacity to delivering essential social services for the benefit of vulnerable and underserved individuals and communities.

Like Impact Investment Wholesalers, Outcome Funds have emerged as one of the most exciting and innovative vehicles for accelerating the supply of impact capital to impact enterprises.

Outcome Funds are pooling vehicles for philanthropic or government capital, which attracts and pays risk capital for delivering measurable outcomes through for-profit impact enterprises or non-profits. At their core, Outcome Funds are designed

around the principle of 'paying for performance'.

As such, the potential benefits of Outcome Funds are numerous:

- ▲ They enable a step change in the scale of funding deployable against complex social and environmental challenges;
- ▲ They enable the structuring of risk-sharing among different types of financial investors with different risk, return and impact objectives;
- ▲ They ensure that scarce public and philanthropic funds are only used for programs that achieve the desired results;
- ▲ By sharing risk they foster partnership between investors and for-profit impact enterprises in tackling social and environmental issues;
- ▲ They boost transparency and accountability;
- ▲ They encourage participation from target beneficiaries in the identification of performance metrics and the design of incentives to mitigate the risk of incentivising the wrong interventions; and
- ▲ They foster data-driven learning and innovation and thereby promote adaptive management that responds to the local context.

As a result of the focus on measurable results, Outcome Funds tend to be issue specific. Early experience with the application of Impact Bonds has targeted issues from homelessness,

to infectious disease control to youth unemployment.

Outcome Funds also tend to be geographically specific, focusing on addressing a target issue in a specific city, region or country. Some Outcome Funds are now emerging with the ambition of driving change across countries, such as the Education Outcome Fund (EOF) for Africa and the Middle East.

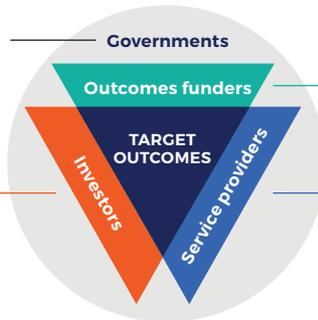
The GSG has been championing the use of Outcome Funds globally:

- ▲ As at the end of 2019 the GSG has supported the development of two Outcome Funds: the Education Outcome Fund (for Africa and the Middle East EOF), and the India Education Outcome Fund.
- ▲ GSG has also provided a grant of \$5k to two other Outcome Fund proponents to support early stage feasibility analysis.

An Example of an Outcome Fund Model – The Africa and Middle-East Education Outcome Fund (EOF)

Governments help set objectives and co-fund outcomes, to strengthen their education systems and improve learning

Investors provide upfront capital at risk to support providers, and do well by doing good



Outcomes funders pay only for results after they're achieved, and help ensure better value for money and alignment

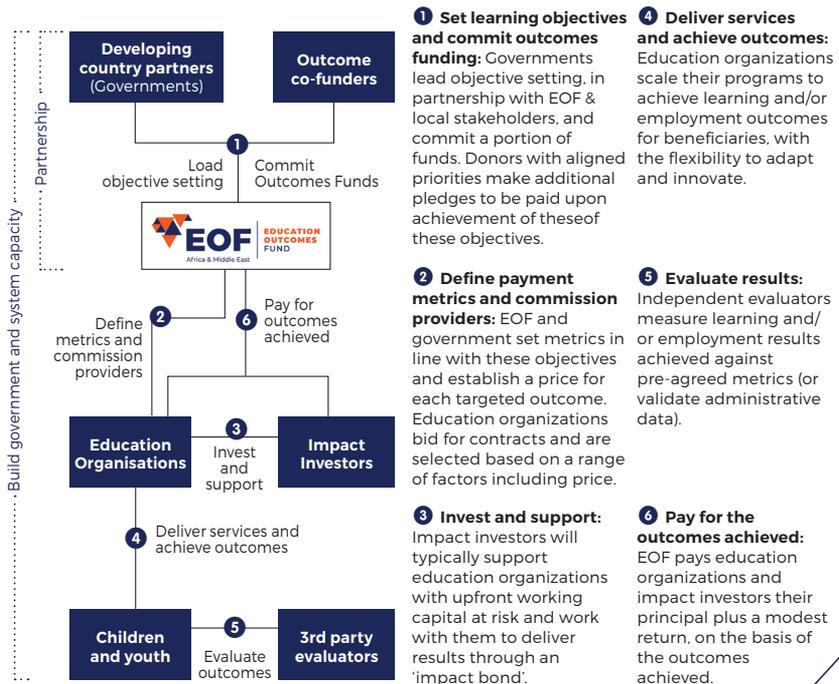
Service providers will innovate and find context-specific solutions to help children and youth learn and grow

AT A GLANCE

The Education Outcome Fund for Africa and the Middle East

The Education Outcome Fund (for Africa and the Middle East EOF) seeks to expand education opportunities in Africa and the Middle East. The EOF aims to pool USD 1 billion of public funds, aid, philanthropy, and corporate social responsibility contributions to finance innovative education and youth employment readiness programs and improve their effectiveness.

With rigorous program performance monitoring and evaluation at its core, the learnings gained from the EOF's approach will generate significant benefits more generally for the education and training systems in the countries in which the EOF is operating.



Many NABs around the global network have played a key role in supporting and advocating for national and regional Outcome Fund initiatives in their national impact economies. By drawing on the support GSC has

provided to the EOF and the India Education Outcome Fund the GSC is ideally placed to support Outcome Fund proponents and NABs in their own national and regional efforts.

The India Education Outcomes Fund (IEOF) aims to propel India towards the achievement of the United Nations Sustainable Development Goals through catalytic, pay-for-success funding for proven education initiatives. It is an early step towards a larger movement

of shifting the development sector towards success-based approaches. Through harnessing private capital and improving program delivery, success-based approaches can shift the risk of non-performance and allow development budgets to stretch further.

AT A GLANCE

IEOF as a platform

IEOF is a platform, coordinated by Social Finance India to bring all key stakeholders and activities together, to execute development and social impact bonds at scale.

Curate Service Provider Pools

Identify high impact & scalable Non Government Organizations (NGOs) & social enterprises



ORIGINATE

Finalize DIB scope

Design Outcomes Evaluation Framework
Define Payment mechanism

(outcomes pricing approach, target setting)

Contracting



DESIGN & STRUCTURE

Outcome Funders

- ▲ Government
- ▲ Philanthropy
- ▲ Corporate Social Responsibility

Risk funders

- ▲ Private capital



FUNDRAISE

Ongoing program and performance management

Outcome Assessment

Independent third party

Financial Management & Stakeholder reporting

Coordination and Communication of the DIB Partnership



MANAGE PERFORMANCE

2. Expected Benefits

Expected benefits from Outcome Funds



National Advisory Board

- ▲ An opportunity to champion the pooling of innovative, performance-driven financing to tackle national SDG priorities.
- ▲ A vehicle for encouraging evidence-based learning and innovation across public and private sectors.



National Impact Economy

- ▲ New sources of impact capital for impact enterprises.
- ▲ Attraction of more traditional pools of national capital into the impact economy, providing opportunities across the return-impact continuum.
- ▲ Encouraging a mindset shift and behavioural change towards impact measurement.



Global Impact Movement

- ▲ New role models for how Outcome Funds can be designed and funded.
- ▲ Advance innovation in the financing of SDG interventions and outcomes.
- ▲ Generate globally relevant insights into impact evaluation and programmatic effectiveness across a wide range of SDG challenges.

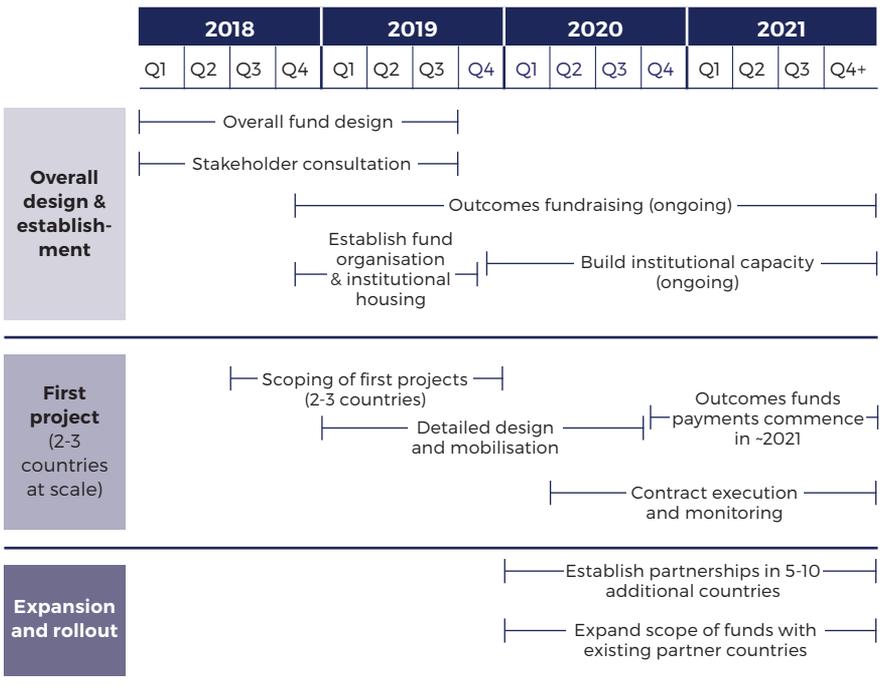
3. Pre-requisites for Success

▲ **Patience and persistence** is critical to the task of getting an Outcome Fund successfully launched. Given the general lack of familiarity with pay for performance financing mechanisms across the board, but particularly in government, international experience suggests that the early awareness

building, consultation and design phases are typically at least 12-18 months. The first close can be expected in no less than 24 months at this stage of market maturity.

For example, the Design Phase for the EOF lasted more than 12 months and involved input from over 400 stakeholders.

Timeline for the establishment of the EOF



▲ **Pre-feasibility funding:**

Success therefore also requires an early commitment of initiative development funding from progressive and like-minded champions to fund the initial

consultation and design phases of work. These early champions are typically foundations, high net worth individuals, donor agencies and multilateral organisations.

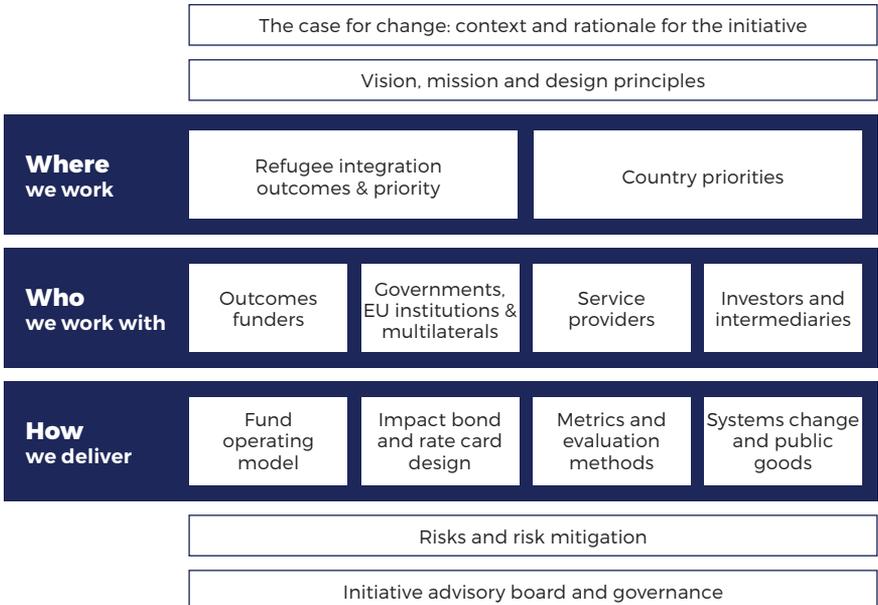
For example, over the course of 2018-19, the GSG provided small grants of USD 5,000 to support pre-feasibility research and evaluation for two Outcome Fund initiatives.

- ▲ **Theory of change and high level fund design:** A well presented theory of change and high level fund design and governance approach will also be required to credibly engage stakeholders. This will need to be well evidenced with thorough socio-economic analysis explaining the scale of the social problem being addressed and the specific reasons why traditional approaches are failing the target beneficiaries and their societies as a whole.

The illustration below highlights the design considerations and complexity associated with Outcome Fund focused on refugee integration.

- ▲ **Engagement of both political and civil service stakeholders:** Given the complexity of the public policy issues the Outcome Fund is seeking to address, the timeline for 'making the case' for an innovative new approach will likely be longer than the national political cycle, underscoring the importance of engaging both political leaders and senior public servants in NAB advocacy efforts. With that in mind, the core team developing and managing the Outcome Fund initiative should be

Outcome Fund: Illustrative Design Considerations



supported by an eminent advisory board who can help facilitate meetings and introductions, and raise the profile and importance of the initiative nationally and internationally.

▲ Local technical advisory expertise:

While NABs and national political leaders and policy makers evaluating the merits of an Outcome Fund now have international precedent to draw from, the feasibility analysis and the solution design are typically very issue specific and need to be customized to a specific political or public policy context of the country and region they are targeting. Promoters of Outcome Funds need to be able to pull-in best-in-class local market expertise - from subject matter experts and local law firms

to financial market leaders and investment analysts. This is typically a role that NABs are ideally placed to support.

▲ High-quality project management:

Finally, orchestrating all of these technical and stakeholder engagement activities is a significant undertaking and one that requires not just vision and leadership but high-quality project management skills. Depending on the extent to which a NAB decides to get involved in an Outcome Fund initiative, it will need to think carefully about the resourcing implications both for the time and energy of board members and for the capabilities of the NAB Secretariat.

4. Activities, Roles & Responsibilities

Typically, Outcome Fund initiatives will be championed by passionate and highly-experienced country or regional issue experts who act as lead proponents. Their eminence on the scale of the presenting challenge and the nature of the possible solution is central to the underlying credibility of the Outcome Fund initiative. Without that issue expertise and credibility at the heart of the Outcome Fund's leadership team, it will fail to win the confidence and financial support of investors.

With that in mind, both NABs and the GSG will play supporting roles and therefore need to each determine

whether to contribute their time and energy to support each Outcome Fund initiative that comes to their attention. The extent of NAB and GSG participation can therefore vary considerably and will be determined on a case-by-case basis.

For its part, the GSG will consider three key criteria in determining whether, and if so to what extent, to support an Outcome Fund initiative:

- 1 Does the Outcome Fund Initiative present a compelling social impact case aligned with the SDGs, including a robust identification of the current market failure the Fund seeks to address and a strong theory of impact?

2 Does the Outcome Fund initiative relate to a country in which a GSG National Advisory Board is present? If so, is the NAB supportive of this initiative? NAB endorsement of an Outcome Fund initiative from a country in which a NAB exists is essential for the GSG to get onboard.

3 Does the proposed size and scale of the Outcome Fund (typically over USD 500 million) benefit from the sort of international attention and advocacy support the GSG can bring to the table?

Based on international experience to date, NABs and the GSG can determine how best to support an Outcome Fund initiative across four development phases:

Launching an Outcome Fund – Initiative Development Stages



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|---|--|---|---|
| <ul style="list-style-type: none"> ▲ Detailed socio-economic analysis of the underlying social issue(s) to be addressed ▲ Comprehensive understanding as to why existing approaches are failing to deliver the desired outcomes | <ul style="list-style-type: none"> ▲ Consultations with stakeholders including target beneficiaries, government leaders, civil servants, existing service providers and potential outcome funders ▲ Detailed regulatory, legal and governance due diligence ▲ Financial modeling and investment case design ▲ Capacity to deliver – staffing model, etc. | <ul style="list-style-type: none"> ▲ Global and national fundraising campaign ▲ Co-design, with government, of suitable enabling regulation (if needed) ▲ Legal incorporation, recruitment of leadership team and core staff for the fund ▲ Building of a pipeline of high-potential programmatic interventions for funding | <ul style="list-style-type: none"> ▲ Preparation of detailed investment cases for each programmatic intervention ▲ Negotiation with outcome funders, government and service providers ▲ Distribution of funds and launch of programs |
|---|--|---|---|

The GSG supports Outcome Fund proponents, including NABs.

Outcome Fund Initiatives – Potential NAB and GSG Participation

	GSG Role	NAB Contribution	Estimated Time Commitment
1 Local stakeholder engagement support	● ○ ○	● ● ○	12 months
2 Pre-feasibility research support	● ○ ○	● ● ○	On a rolling basis
3 Global fundraising support	● ○ ○	● ● ○	Up to 2 years

4.1 LOCAL STAKEHOLDER ENGAGEMENT SUPPORT

With a focus on solving public policy challenges that have typically been difficult to address through conventional public policy tools and funding arrangements, engagement of political leaders and senior civil servants is critical to the success of Outcome Fund initiatives.

In our experience, this engagement with public sector stakeholders should start early and occur frequently so that they feel invested in the model being proposed and the eventual success of the Outcome Fund. Considerable up-front time and energy is typically needed to get policy makers comfortable with what is a highly innovative approach to addressing complex issues they have probably been trying to address for many years.

The GSG's senior leadership team have supported the proponents of Outcome Fund initiatives in their outreach to,

and engagement of, senior political leaders, civil servants and potential co-investors across the impact investing spectrum.

By drawing on GSG's intellectual capital around Outcome Funds and knowledge of pay-for-performance contracting models the GSG is well placed to help Outcome Fund proponents bring international experience and evidence to bear to help 'make the case' for the proposed Outcome Fund.

4.2 PRE-FEASIBILITY RESEARCH SUPPORT

The GSG is able to provide small grant funding, up to USD 5,000 to support the pre-feasibility research and evaluation undertaken by Outcome Fund proponents.

Applications for support will be received directly from proponents or through National Advisory Boards. Requests for support should be lodged

Typical questions to be addressed at pre-feasibility stage and developed at feasibility and design stages:

- ▲ Target beneficiaries: Who are they?
- ▲ Geographical scope: What are the national priorities? What national/local funding could be drawn in? What are the national/local barriers?
- ▲ Target interventions: education, health, housing, skills & employment, etc?
- ▲ Outcome funders: e.g. EU institutions, governments, philanthropies, etc., and possible implications on fund design
- ▲ Fund design: one fund or several funds with specific geographic (or other) focus areas?
- ▲ Target initiatives: what are the effective programs that could be replicated, commissioned or scaled?

with the GSG Market Development team and are considered on a case-by-case rolling basis.

At pre-feasibility stage the GSG can:

- ▲ provide initial insights, share best practice and contacts during a starting interview
- ▲ provide feedback to an interim report
- ▲ provide feedback to the final pre-feasibility report

4.3 GLOBAL FUNDRAISING SUPPORT

Given the visibility that the GSG has established fundraising for different Outcome Funds, the GSG may support Outcome Fund proponents with the design of their fundraising strategy and identification and screening of potential philanthropic capital and/or investment capital to help fund up-front design and development costs as well as potential fund investors. The GSG will agree an appropriate structure that incentivizes success should this be

appropriate on a case by case basis.

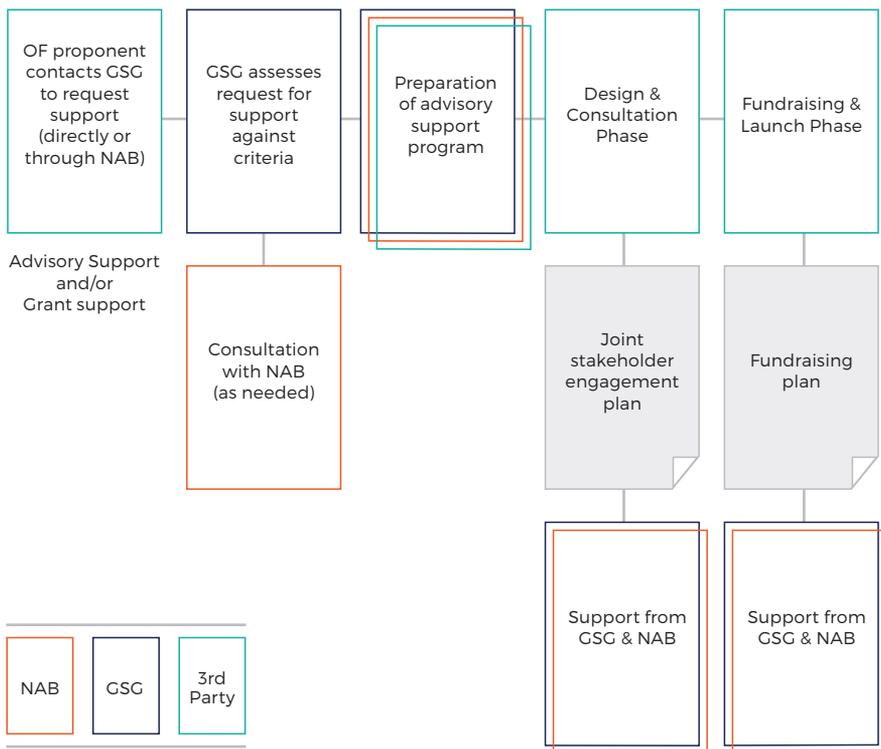
To the extent that the nature of the Outcome Fund is likely to be of interest to global impact investment capital providers, the GSG can support Outcome Fund proponents in fundraising meetings with these global investors.

4.4 USE OF GSG BRANDING

The provision of pre-feasibility grant funding or advisory support from the GSG to Outcome Fund proponents does not constitute a formal GSG endorsement of an Outcome Fund proposition. The GSG will only consider formally and publicly supporting an Outcome Fund initiative after the pre-feasibility analysis has been completed, shared with the GSG and a decision made by the GSG leadership team.

As such, use of any GSG branding, including the GSG logo in investor presentations by Outcome Fund proponents, is subject to the explicit approval of the GSG.

Outcome Fund Initiatives – GSG Support to Lead Proponents



5. Anticipating implementation challenges and risk factors

▲ **Securing buy-in:** The concept of creating an Outcome Fund to help deploy impact capital to address a long-standing social policy challenge will be unfamiliar to many, if not most, policymakers, regulators and market participants.

For the reasons outlined earlier in this guide, building a coalition of supporters – across government,

social enterprise and investment communities - who understand and then advocate for an Outcome Fund will take time. The lead proponent of the Outcome Fund will need to be willing and able to over-invest early in educating government officials, seed funders and potential investors.

▲ **Sustaining momentum:** As the experience of early Outcome

Funds highlights, the design and consultation phase and fundraising phase can both take over 12 months. Proponents of Outcome Fund initiatives need to have the passion and financial resources to sustain a campaign-style effort over a prolonged period of time.

▲ **Financial risk:** The design and consultation phase (i.e. pre-investor

funding) are typically financed by progressive philanthropic actors whose mission is aligned to addressing the social issue on which the Outcome Fund is focused. These development phase funding partners may or may not subsequently participate as investors.

6. Measurements for success (i.e. KPIs)

Ultimately, the success of an Outcome Fund initiative is measured by the impact is it able to achieve in addressing the social issue for which it was established. As has been shown through the experience of early Impact Bonds, that requires a robust impact measurement framework. Depending on the issue area and the performance measures agreed as part of the fund design at the outset, those final outcome results may not be known for 5-7 years.

In the development phases towards the launch of an Outcome Fund, the proponent of the fund initiative, the NAB and the GSG supporting it can

measure their effectiveness on a number of dimensions:

- ▲ Whether the Outcome Fund business model wins the support of key government stakeholders;
- ▲ Whether the combined stakeholder engagement and advocacy efforts of the fund proponent, the NAB and the GSG lead to the creation of the appropriate regulations in the enabling environment; and
- ▲ Whether the combined fundraising efforts of the fund proponent, the NAB and the GSG meet or exceed the fundraising targets established at the outset of the Initiative.

7. Additional and Related Information Resources

Further information related to the GSG Support Services outlined in this Action Guide include:

▲ EOF documents, IEOF documents

› <https://www.eductaionoutcomesfund.org/>

› <https://socialfinance.org.india/>

8. Contact

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