

SOCIAL OUTCOMES CONTRACTING IN EUROPE

May 2021

An introductory guide to social outcomes contracting in European Union Member States

In the framework of the Social Outcomes Contracting Advisory Platform, in partnership with the Government Outcomes Lab, University of Oxford

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ACRONYMS

Acronym	Full form
DIB	Development Impact Bond
EC	European Commission
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIF	European Investment Fund
ESF (Plus)	European Social Fund (Plus)
ESIF	European Structural and Investment Funds
EU	European Union
GO Lab	The Government Outcomes Lab
IB	Impact Bond
IPE	Investment Plan for Europe
NGO	Non Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
PbR	Payment-by-Result
PSIMS	Portugal Social Innovation Mission Structure
RISE	Research Institutes of Sweden
SHIC	Social and Health Impact Center
SIB	Social Impact Bond
SOC	Social Outcome Contract
UK	United Kingdom

Social Outcomes Contracting in Europe

AN INTRODUCTORY GUIDE TO SOCIAL OUTCOMES CONTRACTING IN EUROPEAN UNION MEMBER STATES

EXECUTIVE SUMMARY

This guide provides an introduction to the use of social outcomes contracting across European Union Member States. The guide has been designed specifically for policymakers, public sector officials, and other practitioners interested in the adoption of outcomes-based approaches in their own countries, regions or municipalities, and offers a wealth of practical advice as well as examples from emergent practice across Europe. The guide does not aim to be an exhaustive review of the practice in the European Union, but rather a practical tool to consolidate the understanding of what social outcomes contracts are and how they have been in used in practice.

As such, the guide includes:

- An overview of what social outcomes contracting is and how it works in practice (§1)
- A mapping of the state of play with implementation across the Europe Union, and country snapshots for each EU Member State where social outcomes contracts have been launched (§2)
- Practical advice on developing and implementing social outcomes contracts (§3)
- Information on further resources and support available (§4)
- A selection of frequently asked questions about social outcomes contracts (§5)
- A glossary (§6)

A note on terminology

There is wide variation in the way terms such as ‘*social outcomes contracts*’ (SOCs) and ‘*impact bonds*’ (IBs) are used to describe cross-sector partnerships that fund social programmes or services on the basis of outcomes achieved, and these terms are often used interchangeably. For the purpose of this guide, and to be consistent with EU Institutions¹'s use of the term, we define ‘*social outcome contracts*’ as *outcome-based contracts that incorporate the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service or a social programme. The service or programme is set out to achieve measurable outcomes established by the outcome payer, and the investors are repaid only if measurable outcomes are achieved.* We use the same definition to describe ‘*impact bonds*’, the most widely used term in

¹ European Commission, European Investment Bank and European Investment Fund

the United Kingdom. Elsewhere in the world these approaches are also referred to as ‘*pay-for-success*’ (the United States) and ‘*social benefit bonds*’ (Australia). In Europe, these are sometimes referred to as ‘*social impact contracts*’ (France and Spain), whilst countries such as Portugal, Finland and the Netherlands have typically referred to these projects as ‘*social impact bonds*’ (SIBs). While in practice the design of these projects can vary widely, all these approaches are underpinned by a payment by results mechanism (PbR) – the practice of paying providers for delivering public services based wholly or partly on the results that are achieved. As a method of contracting out public services, PbR is generally less prescriptive than fee-for-service approaches, with providers given flexibility in the way they deliver the service to achieve results. Throughout this report, when referring to individual projects, we use the terminology predominantly used to describe the respective projects by the project stakeholders themselves. For further clarification on the key terms used in this guide, please refer to the *Glossary*.

1. WHAT IS A SOCIAL OUTCOMES CONTRACT?

Overview

In simple terms, a social outcomes contract (SOC) is a partnership aimed at improving social outcomes for service users. The service will only be paid for if and when outcomes are achieved.

A more nuanced definition² is as follows: social outcomes contracts are outcome-based contracts that incorporate the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service or social programme. The service or programme is set out to achieve measurable outcomes established by the outcome payer, and the investor is repaid only if these outcomes are achieved. Another term often used to refer to social outcomes contracts is impact bonds (IB). Impact bonds encompass both social impact bonds (SIBs) and development impact bonds (DIBs) (see *Glossary* for further information about the distinction between SIBs and DIBs).

Social outcomes contracts or impact bonds are different from traditional contracts, such as fee-for-service, or grant-based contracts as they are focused on outcomes rather than inputs and activities. For example, a social outcomes contract that is seeking to support young people's education would be more interested in improvements in grades (outcomes) rather than the fact that the children were going to after school classes or seeing a mentor (activities). This is a rather simple premise, but in practice designing a service around outcomes rather than activities or inputs can bring new challenges.

² GO Lab (2020) *The basics: Impact bonds*, available at: <https://golab.bsg.ox.ac.uk/the-basics/impact-bonds/>

Key partners in a social outcomes contract

Social outcomes contracts bring together three key partners: an outcome payer, a service provider, and an investor.

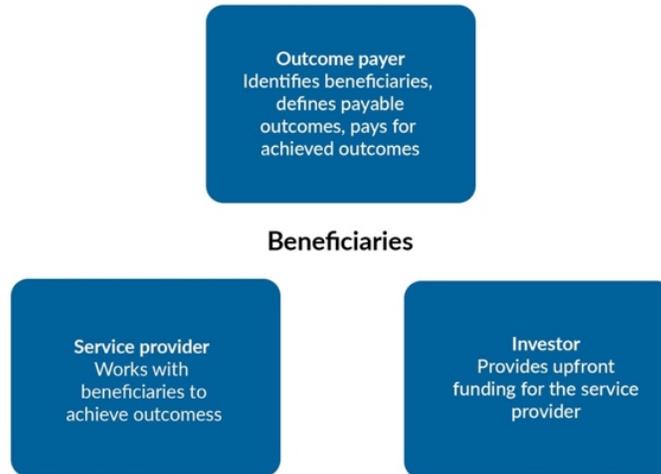


Figure 1 – Social outcomes contracts as partnerships: partners and responsibilities. Source: GO Lab (2018)

In practice, there may be multiple organisations that make up each of these partners, as explained below.

The outcome payer is usually a public sector organisation or government department that pays for the desired outcomes if these are achieved. For example, in the Belgian social impact bond *Duo for a Job*, the outcome payer is Actiris, the Brussels-Capital Region Employment Office³. In Finland, in the *Kotouttamisen* social impact bond, a project that seeks to support the integration of refugees into the labour market, the outcome payer is the Finnish Ministry of Economic Affairs and Employment⁴.

Outcome payers identify the unmet needs for a particular population and express a ‘willingness to pay’ for specific social outcomes for that population. Often the outcome payer will work with the other project partners to define and agree the desired outcomes and levels of performance, and will determine how much it is willing to pay for the set outcomes. Multiple public agencies or departments may decide to pool their funding together and jointly pay for outcomes, particularly when the specific problem they are seeking to address falls under the responsibility of more than one public sector authority. In the United Kingdom for instance, a significant number

³ GO Lab (2021) *Impact Bond Dataset – Duo for a Job*, available at: <https://golab.bsg.ox.ac.uk/knowledge-bank/indigo-data-and-visualisation/impact-bond-dataset-v2/INDIGO-POJ-0011/>

⁴ GO Lab (2021) *Impact Bond Dataset – Kotouttamisen SIB (Integration Project)*, available at: <https://golab.bsg.ox.ac.uk/knowledge-bank/indigo-data-and-visualisation/impact-bond-dataset-v2/INDIGO-POJ-0024/>

of projects have been funded by local authorities and central government acting jointly as outcome funders (as, for example, in the context of the Life Chances Fund⁵, a GBP 80 million outcomes fund set up by the UK Government to support projects that are locally commissioned and aim to tackle complex social problems such as children’s social care, mental health, homelessness, and unemployment). In Portugal, for the project *Cuidar de Quem Cuida*⁶, the outcome payers are both the Department of Social Innovation of Portugal and the Administração Central do Sistema de Saúde (Central Administration of the Health System), which is a public and autonomous entity. They were both interested in funding a project that supports informal carers of people with dementia.

In the context of EU funding, it is worth noting that managing authorities of European Structural and Investment Funds (ESIF, which will assume the denomination of shared management funds in the 2021-2027 programming period of the EU Cohesion Policy), can potentially act as outcome payers.

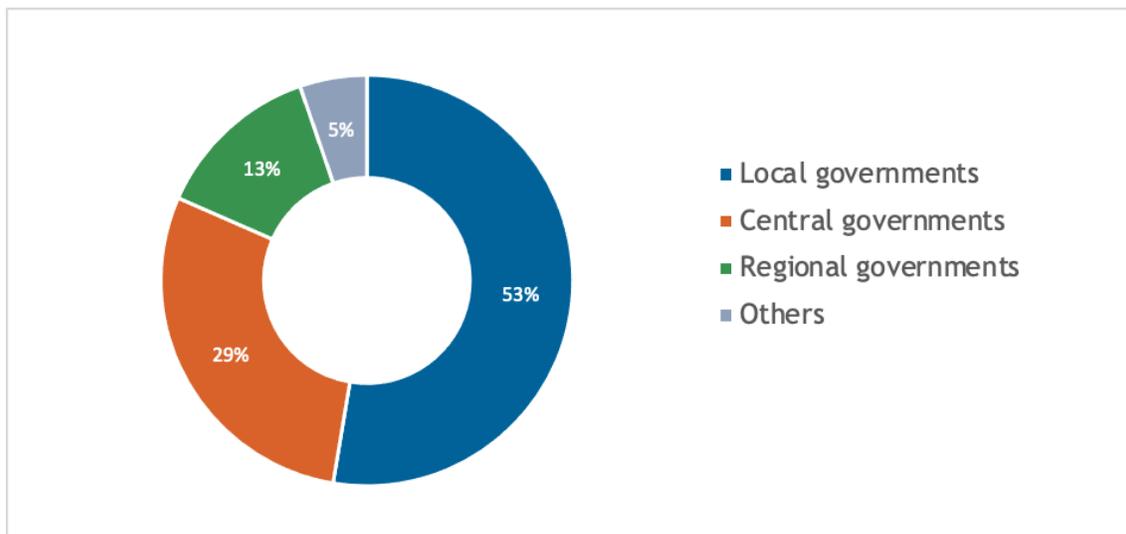


Figure 2 – Types of outcomes payers (as percentage of total outcome payers across SOC in EU Member States). Source: GO Lab Impact Bond Dataset (May 2021)

The service provider in a social outcomes contract is the organisation responsible for the delivery of a particular service or programme of support for the intended beneficiaries. The payment to the provider depends (wholly or partly) on whether outcomes are achieved.

Sometimes in the context of a social outcomes contract, multiple provider organisations may be funded to work together towards the achievement of social outcomes, particularly when the

⁵ ICF Consulting (2020) *Evaluation of the Life Chances Fund: Interim Report*, available at: <https://www.gov.uk/government/publications/life-chances-fund-evaluation-interim-report>

⁶ GO Lab (2021) *Impact Bond Dataset – Cuidar de Quem Cuida*, available at: <https://golab.bsg.ox.ac.uk/knowledge-bank/indigo-data-and-visualisation/impact-bond-dataset-v2/INDIGO-POJ-0065/>

beneficiaries have multiple and complex needs that cannot be addressed by a single organisation alone. For example, in the Austrian impact bond *Perspective: Work - Economic and social empowerment for women affected by violence*, both the Women's Shelter Linz (Frauenhaus Linz) and the Gewaltschutzzentrum Oberösterreich (Center for Protection Against Violence Upper Austria) worked together to empower affected women⁷. In a social outcomes contract, service providers are usually voluntary or non-profit organisations, but it is usually up to the outcome payer to determine the type of organisations they wish to work with. The selection of provider organisations often requires a public procurement process, particularly when the outcome payer is a public sector organisation⁸.

Investors in a social outcomes contract provide the up-front capital that is required for the launch and implementation of a service or programme, before any outcomes payments are made. Repayment to investors is based (wholly or partly) on whether the desired outcomes are achieved. This protects the service provider from (all or part of) the financial risk.

Investors in SOC are usually (although not always) socially motivated investors, who seek social impact in addition to financial returns. Social investors can be individuals, institutional investors, dedicated social investment funds and philanthropic foundations, who invest through their endowment. For example, BNP Paribas has invested since 2016 in ten impact bonds in Europe (in France, Finland, the Netherlands, and Belgium)⁹ and in February 2020 it launched in partnership with the European Investment Fund (EIF) a EUR 10 million fund for co-investment into social impact bonds in the EU¹⁰.

⁷ GO Lab (2021) *Impact Bond Dataset – Perspektive: Arbeit - Ökonomisches und soziales empowerment von gewaltbetroffenen Frauen*, available at: <https://golab.bsg.ox.ac.uk/knowledge-bank/indigo-data-and-visualisation/impact-bond-dataset-v2/INDIGO-POJ-0010/>

⁸ More detail on procurement and contracting for impact bonds is available in GO Lab's guide on awarding outcomes-based contracts: <https://golab.bsg.ox.ac.uk/toolkit/technical-guidance/awarding-outcomes-based-contracts/>

⁹ BNP Paribas (2020) *BNP Paribas structures its 10th Social Impact Bond worldwide and its 1st in Belgium!*, available at: <https://group.bnpparibas/en/news/bnp-paribas-structures-10th-social-impact-bond-worldwide-1st-belgium>

¹⁰ European Commission (2020) *BNP Paribas and European Investment Fund launch EUR10 million fund for co-investment into Social Impact Bonds in the EU*, available at: https://ec.europa.eu/commission/news/bnp-paribas-and-european-investment-fund-launch-eu10-million-fund-co-investment-social-impact-bonds-eu-2020-feb-04_en

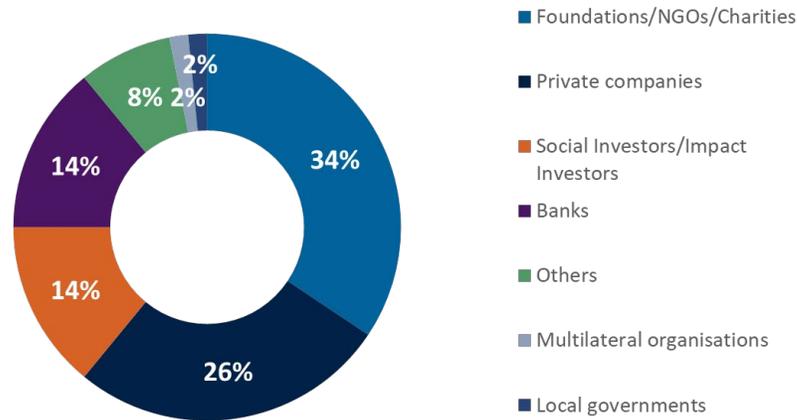


Figure 3 – Types of investors in social outcomes contracts in EU Member States (as percentage of total investors across social outcomes contracts in EU Member States). Source: GO Lab Impact Bond Dataset (May 2021)

Often other partners will be involved in the development of a social outcomes contract, for example:

1. **Technical experts or consultants** in the early development of a proposal or feasibility study. They may also play a role in raising funding and structuring the agreement. For example, Sitra, the Finnish Innovation Fund, has worked with numerous local authorities and ministries in Finland, as well as prospective investors, to explore opportunities to use social outcomes contracts and develop projects.¹¹
2. **Programme or performance managers** who help monitor, manage and report performance on the basis on which outcome payments are made by the outcome payer. Often these managers act as coordinators between the key stakeholders (outcome payers, providers, and investors) in a social outcomes contract. In Portugal for instance, Maze – decoding impact, a social investment intermediary, supports the performance management and manages the overall partnerships in number of social impact bonds projects.¹²
3. **Social investment fund managers** who manage the funds on behalf of the investors and manage the project with the service provider.
4. **Evaluators** are often commissioned in social outcomes contracts to conduct an independent evaluation of the impact of a project, to determine whether a project has achieved its objectives and to capture the lessons learnt. Evaluations can take many forms, and it is advisable for project partners to decide early on how they will measure the impact

¹¹ Sitra (2020) *SIB Funds*, available at: <https://www.sitra.fi/en/projects/sib-funds/>

¹² Maze – decoding impact (2021) *Government Performance projects* <https://maze-impact.com/government-performance>

of their project, and the scope and form of any external evaluation that they may wish to commission. It is crucial to underline the evaluator be independent (including the absence of potential conflicts of interest or vested interests), and that such independence be accepted by all parties involved in the social outcome contract. In some cases, however, the achievement of the desired outcomes is verified solely through the use of administrative data. For example, in the case of the *Apprentis d'Auteuil - Loire Atlantique* project in France, the evaluation method is based only on administrative data¹³.

How do these partnerships work in practice?

There is a high degree of variation in terms of the specific contractual arrangements within a social outcomes contract. In practice, the shape of these arrangements between the key partners will depend on a range of factors, including the nature of the social problem that is being addressed and the ecosystem of organisations responsible for addressing it; the capacity of the government outcome payer to lead the development process and actively manage the contract; the type of relationship between the investor and the provider; the extent of risk-sharing within the contract; statutory provisions and legal constraints; and requirements linked to the specific funding framework within which a project may be developed (e.g. a particular national Outcomes Fund or EU Funds).

Research by the authors has sought to distil the core elements along which impact bonds or social outcomes contracts vary and which distinguish them from other models of funding public service provision. These are summarised in the diagram on the following page.



Figure 4 – Key impact bonds dimensions. Source: GO Lab (2018)

¹³ GO Lab (2021) *Impact Bond Dataset – Apprentis d'Auteuil - Loire Atlantique*, available at: <https://golab.bsg.ox.ac.uk/knowledge-bank/indigo-data-and-visualisation/impact-bond-dataset-v2/INDIGO-POJ-0029/>

Why use social outcomes contracts?

Since the launch of the first SIB in the UK in 2010, outcomes-based approaches have been adapted and adopted in a range of European countries and beyond. The reasons for developing social outcomes contracts or impact bonds, vary from project to project, and from country to country. This will often reflect the specific social, economic and political opportunities and constraints within a particular context. They often reflect different regulations and approaches to welfare provision, and more generally attitudes towards the involvement of private actors in the provision of social services.

What these varying approaches have in common is a commitment to promoting a greater focus on measurable outcomes rather than inputs or activities, and to enabling more efficient public spending by only paying for what works. In addition, most social outcomes contracts hinge on a shared recognition among the parties involved of the need to collaborate more effectively across different sectors to unlock funding for innovative and preventative approaches, thereby addressing deep-rooted social problems.

Outcomes-based approaches as a tool for public sector reform

Research by the authors into the use of impact bonds in the UK¹⁴ found that impact bonds have the potential to help overcome three perennial challenges in government, namely the fragmentation of public services, a short term political and financial focus, and difficulty creating change. The research found that impact bonds may help to reform the public sector through facilitating collaboration, prevention and innovation.



Collaboration

Impact bonds may encourage collaboration as outcome payers and service providers can work together and 'wrap around' citizens to meet their needs.



Prevention

Impact bonds may encourage earlier intervention to prevent a crisis which saves money in the longer term and tackles the root causes of the problem.



Innovation

Impact bonds may encourage innovation as risk is transferred to the investor so there is room to try new interventions or new forms of delivery and performance management.

Figure 5 – Potential benefits of outcomes-based approaches. Source: GO Lab (2018)

The evidence regarding the impact of social outcomes contracts as tools for funding social services (and whether they are more effective than other ways of delivering public services, such

¹⁴ Carter, E., FitzGerald, C., Dixon, R., Economy, C., Hameed, T., and Airoidi, M. (2018) *Building the tools for public services to secure better outcomes: Collaboration, Prevention, Innovation*, Government Outcomes Lab, University of Oxford, Blavatnik School of Government, available at: <https://golab.bsg.ox.ac.uk/our-projects/about-evidence-report-2018/>

as grants or fee-for-service contracts) is limited and inconclusive.¹⁵¹⁶ As such, while social outcomes contracts may be a promising tool for achieving better social outcomes, there is not a wide consensus around the effectiveness and impact of this way of funding public services. In the section below we have synthesised some of the main potential benefits, but also limitations of using social outcomes contracts, as cited by proponents and critics of these approaches respectively. Please note that the benefits and limitations included below do not represent a comprehensive list of the promises and criticisms associated with social outcomes contracting. Rather they offer a summary of some of the main points as raised by those who have been implementing or researching this mechanism, and do not necessarily represent the views of the authors of this report.

Potential benefits of social outcomes contracts

Many supporters of social outcomes contracts see them as an innovative model that can help tackle complex social problems. From this perspective, outcome payers can experiment with new interventions or programmes without fearing they have to pay if they are unsuccessful. Socially motivated investors can help bring new ideas into practice, as aligned with their social mission, and providers of services can improve their practice by focusing on achieving measurable outcomes:

Bringing together expertise. Service providers often have a deep understanding of the beneficiaries and what is likely to be most effective in supporting them. Socially minded investors may have both finance and performance management experience, as well as deep knowledge of particular social problems. Social outcomes contracts can allow outcome payers to bring together these different perspectives and types of expertise. Furthermore, social outcomes contracts often encourage collaboration between multiple service providers and they can work together towards the same umbrella outcome. This is particularly relevant when seeking to support population groups with multiple complex needs, who are likely to require support services from a range of different provider organisations.

Unlocking future savings by investing more upfront. Social outcomes contracts enable outcomes payers to focus on prevention and early intervention services that might otherwise not get funded. For example, the Finnish Children's Welfare SIB aims to help shift from a remedial to a more preventative approach to supporting children at risk of

¹⁵ Klimavičiūtė, L., Chiodo, V., De Pieri B., Gineikytė V. (2021) *Study on the benefits of using social outcome contracting in the provision of social services and interventions – a cross-country comparative assessment of evolving good practice in cross-sectoral partnerships for public value creation* [Publications catalogue - Employment, Social Affairs & Inclusion - European Commission \(europa.eu\)](#)

¹⁶ Carter, E., FitzGerald, C., Dixon, R., Economy, C., Hameed, T., and Airoidi, M. (2018) *Building the tools for public services to secure better outcomes: Collaboration, Prevention, Innovation*, Government Outcomes Lab, University of Oxford, Blavatnik School of Government, available at: <https://golab.bsg.ox.ac.uk/our-projects/about-evidence-report-2018/>

entering social care, by funding services that successfully improve children's wellbeing and prevent them from requiring welfare services.¹⁷

Enabling new interventions or programmes to be tried. Social outcomes contracts might provide a way for outcome payers to pay only for interventions that are effective, and they provide a clear measure of what has been spent to deliver that impact. They potentially shift financial risk of new interventions (with limited or no evidence of impact) away from the public sector (entirely or in part). Whilst investors will carry out due diligence and seek a track record of performance and explore the evidence base, they may be more willing than a public sector organisation to take on the risk of backing an innovative intervention or programme, or one that is being implemented for the first time in a new geography or for a new group of intended beneficiaries.

Enabling greater flexibility in delivery of interventions. Unlike traditional ways of contracting, where contracts are designed around a presumption of existing expertise, social outcomes contracts are designed for projects where all parties accept a level of uncertainty and the need for change. Consequently, this approach balances accountability for achieving outcomes, with the flexibility to innovate and try out new methods of delivering services. This is because by working towards specified outcomes, rather than activities, and by constantly monitoring performance and learning from data, service providers are able to adjust the way they deliver the service throughout the contract.

Strengthening and engaging the voluntary sector. One of the originating policy arguments for social outcomes contracts is that they level the playing field for not-for-profit or non-governmental organisations (NGOs) in delivering outcomes contracts. This remains a principal consideration where social value and the strengthening of the voluntary or the not-for-profit sector, as well as economic value, are considered key priorities. However, it is worth noting that not all social outcome contracting uses not-for-profit organisations to deliver the service, and it is up to the outcome payer (and other key stakeholders such as the investors) to determine the type of organisations they wish to engage with for the provision of services in a social outcomes contract.

Bringing in private capital in the provision of public services. In a social outcomes contract, the upfront capital required to start delivering a service is usually provided by socially-motivated investors, who are fully repaid only if the desired outcomes are achieved. This enables smaller provider organisations to be involved in outcomes-based contracts and may encourage outcomes funders to support more innovative approaches that would otherwise not get funded.

¹⁷ GO Lab (2021) *Impact Bond Dataset – Finland Children's Welfare SIB*, available at: <https://golab.bsg.ox.ac.uk/knowledge-bank/indigo/impact-bond-dataset-v2/INDIGO-POJ-0203/>

Potential limitations of social outcomes contracts

Critics may see social outcome contracting as contributing to the commercialisation of social services for the most vulnerable populations. Other limitations highlighted by critics of these approaches include:

Social outcomes contracts do not lend themselves to application to all social problems.

Social outcomes contracting approaches are not a panacea and there are cases where they may not be appropriate or even possible. These may include instances when: the outcomes cannot be measured in a meaningful and reliable way within a clearly defined period of time; intended beneficiaries with highly complex needs receive other similar or overlapping services, making it difficult to reliably attribute success to the specific service funded through a social outcomes contract; there is not sufficient capacity among provider organisations to deliver services on a payment by results basis; the costs associated with the set-up of the contract, and the management and monitoring of performance exceed the expected benefits; programmes require immediate action, such as disaster response to tackle the immediate post-disaster urgencies.

Sometimes expensive to develop. Social outcomes contracts can be complex to set up and implement, require coordination among multiple stakeholders, and can demand a high level of commitment and technical expertise. The active contract management, performance monitoring and impact measurement are key aspects in ensuring the desired outcomes are achieved, however all these activities bear additional costs and require specific expertise and systems. This capacity may not always be readily available across the public sector and within provider organisations, and bringing in additional expertise can be costly. It is also the case that social outcomes contracts are often specifically designed to respond to very particular local challenges and circumstances, therefore making it challenging to scale or replicate the service (as a way to reduce associated transaction costs in the longer term).

Outcomes might be difficult to define. For social outcomes contracting to work effectively, it is essential to identify robust outcome metrics, that can be reliably measured, are meaningful to the intended beneficiaries and are closely linked to the long-term policy objectives of the outcome payer. This is very hard to achieve and in practice often projects will measure outputs rather than outcomes, or a blend of the two. When dealing with complex, multi-faceted social issues it can be particularly challenging to identify suitable outcomes and establish attribution when positive results are achieved.

They do not always foster innovation. While for many one of the key motivations for developing social outcomes contracts is their ability to unlock funding for more innovative models of service provision, critics of this model argue that social outcome contracting does not foster genuine innovation in providing and implementing services. This is

because investors may prefer to fund proven models that have been shown to be effective - so that they are assured they will get their investment back - and will therefore not back an innovative but untested service that bears a greater risk of non- or under-performance.

2. SOCIAL OUTCOMES CONTRACTING IN EUROPE

Overview

As at May 2021, 48 social outcomes contracts or impact bonds have been launched across EU Member States, with projects delivered or currently under implementation in Portugal, France, Belgium, the Netherlands, Germany, Austria, Finland and Sweden.

In addition, a number of regional and national authorities in other countries are exploring the scope for developing social outcomes contracts, including Spain, Italy, Slovenia, and Lithuania. It is also worth noting that the first feasibility study to establish a multi-country social outcomes contract has started in 2020, under the European Investment Advisory Hub (EIAH). Initial results of the study are expected to be in the second half of 2021.

These projects seek to address a multitude of social challenges, with a particular focus on youth skills and employment, refugee integration, children’s social care, health and wellbeing. In total, these projects aim to serve approximately 138 177 beneficiaries, attracting over EUR 55 million in capital raised from social investors.



Figure 6 – Snapshot of SOC across EU Member States. Source: GO Lab Impact Bond Dataset (May 2021)

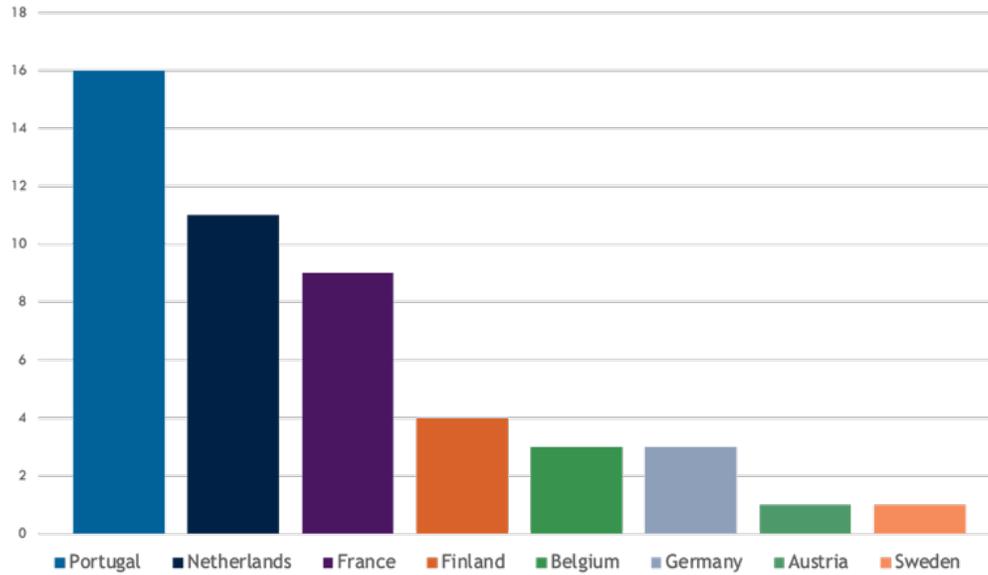


Figure 7 – Leading EU Member States by number of SOCs. Source: GO Lab Impact Bond Dataset (May 2021)

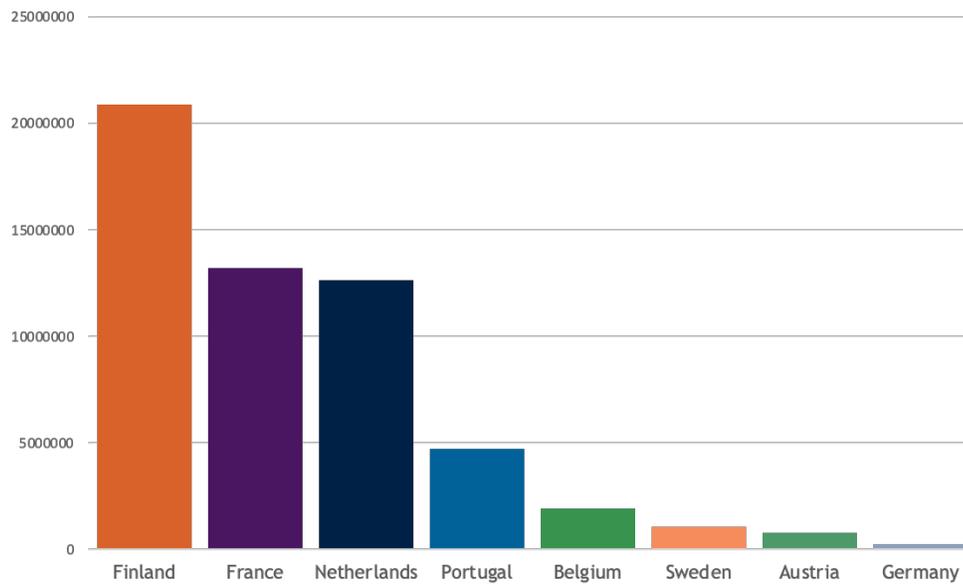


Figure 8 – Leading EU Member States by capital raised for SOCs (EUR). Source: GO Lab Impact Bond Dataset (May 2021)

Support for social outcomes contracting at EU level

At EU level, promoting social innovation and investment in the social sector has been a key priority for decades. The EC launched in 2014 the Investment Plan for Europe. The plan aims to remove obstacles to investment, to provide visibility and technical assistance to investment projects, and to make smarter use of financial resources.¹⁸ The plan is made up of three pillars, as described in Figure 9.



The European Fund for Strategic Investments (EFSI)

Provides an EU guarantee to mobilise private investment. The Commission works together with its strategic partner, the European Investment Bank (EIB) Group.



The European Investment Advisory Hub and the European Investment Project Portal

Provide technical assistance and greater visibility of investment opportunities, thereby helping proposed investment projects become a reality. The Hub is a joint venture with the EIB Group. Public authorities interested in developing social outcomes contracts, can access expertise and additional support through the European Investment Advisory Hub's Social Outcomes Contracting Advisory Platform.



Removal of regulatory barriers

Improving the business environment by removing regulatory barriers to investment both nationally and at EU level.

Figure 9 – The three pillars of the Investment Plan for Europe. Source: GO Lab elaboration on EC and EIB data

As part of the European Multi Annual Financial Framework for the period 2021-2027, InvestEU seeks to continue to support the development of robust social outcomes contracts and a sustainable ecosystem for outcomes-based approaches, as a follow-on of the current support under the European Fund for Strategic Investments (EFSI) and under the EIAH. Social outcomes contracts could as well be promoted by shared management funds, particularly the European Social Fund (ESF) Plus, which can unlock further investments the social sector, by paying for outcomes and building the knowledge and capacity of public sector organisations.

For further information on how the EIAH can support EU member states to develop and use social outcomes contracts, please go to: <https://eiah.eib.org/about/initiative-social-outcomes-contracting.htm>.

¹⁸ European Commission (2020) *What is the Investment Plan for Europe?*, available at: https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/what-investment-plan-europe_en

In addition, the EC has supported a number of regional initiatives to build capacity around the use of social impact bonds, such as the [Interreg Alpine Space AlpSib¹⁹](#) and the [URBACT SIBdev²⁰](#) projects.

Country snapshots

As at May 2021, a number of EU Member States have been leading the way in the development of social outcomes contracts, most notably Portugal (16 social impact bonds), the Netherlands (11 social impact bonds), France (9 social impact contracts), and Finland (4 social impact bonds).

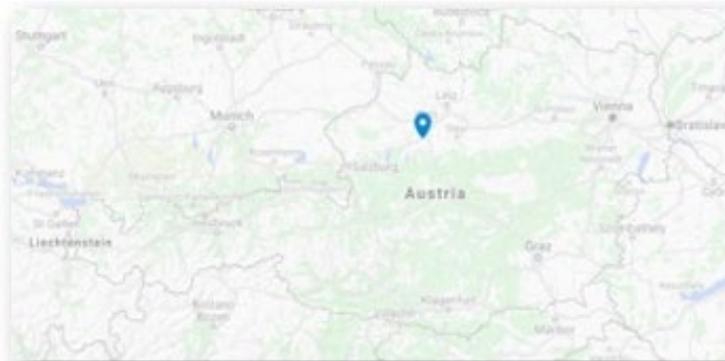
Note: The remainder of this section of the guide offers country-level snapshots for those EU Member States where social outcomes contracts have been launched or are currently under development. All snapshots are based on publicly available data from GO Lab's [Impact Bond Dataset](#) and are correct as at May 2021. In the country specific diagrams included below the data on types of investors and outcome payers refers to the total number of organisations (investors or outcome payers) across all projects in a particular country, while the distribution across policy sectors is by number of projects in the respective country.

If you are aware of or involved in a social outcomes contract or impact bond project that is not listed below, please get in touch directly with the European Investment Advisory Hub of the EIB (eiah@eib.org) or with the authors of this report (indigo@bsg.ox.ac.uk).

¹⁹ Interreg Alpine Space AlpSib (2021) available at: <http://alpsib-project.eu/en/>

²⁰ SIBdev (2020) *Boosting social impact – investing in society*, available at: <https://urbact.eu/sibdev>

Austria



IB launched in 2015

Capital raised: 804,688

Engaged service users: 75 (target)

Number of projects: 1

- **PERSPEKTIVE: ARBEIT** - Ökonomisches und soziales empowerment von gewaltbetroffenen Frauen (Perspective: Work - Economic and social empowerment for women affected by violence)
- **Policy sector:** Employment and training
- **Outcome payer:** Austrian Federal Ministry of Labor, Social Affairs, and Consumer Protection
- **Investors:** ERSTE Foundation, Scheuch Family Private Foundation, HIL-Foundation, Schweighofer Private Foundation and Juvat gGmbH.

Source: Government Outcomes Lab - Impact Bond Dataset (May 2021)

Belgium



First IB launched in 2014

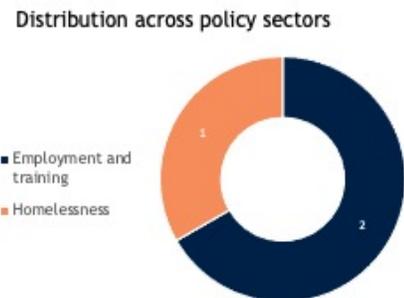
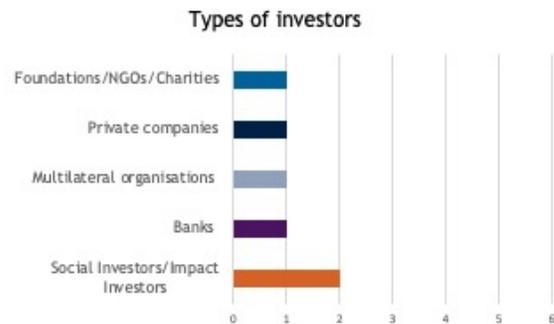
Capital raised: over EUR 1,934,000

Engaged service users: over 313

Number of projects: 3

- Duo for a job
- BeCode Youth Employment (Antwerp)
- Back on Track

All 3 outcome payers are regional governments



Source: Government Outcomes Lab INDIGO Impact Bond Dataset (May 2021). Data for this country may not be complete.

Estonia

No social outcomes contracts have been launched to date, but in 2014 the Good Deed Foundation initiated a feasibility study and cost-benefit analysis for launching the first social impact bond in Estonia to tackle adolescent recidivism.²¹ More recently, a pilot at city level has been explored as part of the [URBACT SIBDev initiative](#).

Finland

In Finland the development of social outcomes contracts has been supported by Sitra, the Finnish Innovation Fund²², an independent public foundation which operates directly under the supervision of the Finnish Parliament and which aims to promote the long-term wellbeing of Finnish society, by supporting innovative and sustainable approaches. Sitra introduced the social impact bond model to Finland as part of its impact investing development work. The interest in this approach stemmed from a willingness to explore the use of innovative, outcomes-focused funding instruments that tap into the availability of socially-motivated investment, to design collaboratively preventative approaches that tackle complex social problems.

Sitra worked with numerous regional and local authorities across Finland, as well as impact investors, and other key stakeholders to develop several social impact bonds initiatives. They provided analytical and technical expertise in the development of individual projects, acted as a convener of key partners, and helped disseminate learning and best practice to help building capacity across the system to develop and implement robust social outcomes contracts.²³

Building on the success of the Impact Investing team within Sitra, in 2020 the Finnish government, established a national Centre of Expertise for Impact Investing at the Ministry of Economic Affairs and Employment, whose main role is to assist public sector actors in developing outcomes contracting approaches.

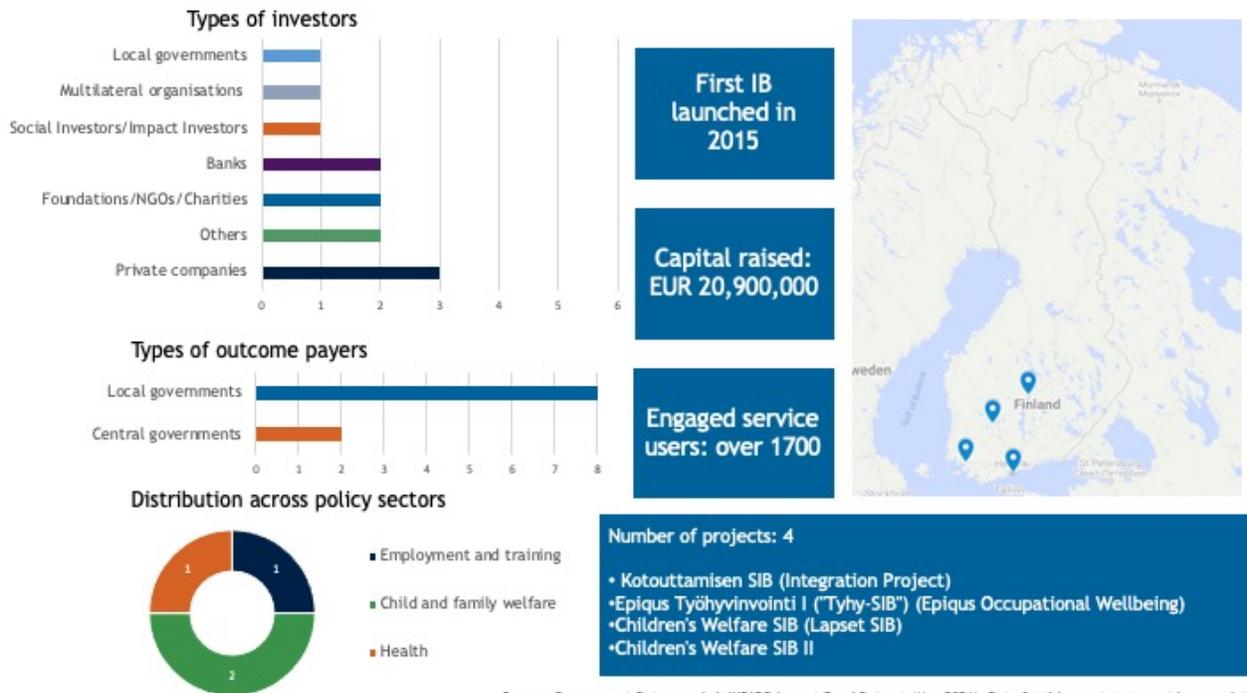
The first social impact bond in Finland was initiated in 2014 and sought to strengthen work disability management, since then two other projects have been launched, with a few more in the pipeline.²⁴

²¹ Heateo Sihtasutus (2015) *Social Impact Bonds: Feasibility study on implementing social impact bonds in Estonia, Final Report and Lessons Learnt*, available at: <https://www.heategu.ee/sib-eng>

²² For more information about SITRA's role and supported projects, see <https://www.sitra.fi/en/>

²³ Sitra (2020) *SIB Funds*, available at: <https://www.sitra.fi/en/projects/sib-funds/#sibs>

²⁴ The Ministry of Economic Affairs and Employment of Finland (2020) *Summary of outcomes-based funding agreements (SIB, EIB) concluded and under preparation in Finland*, available at: <https://tem.fi/en/sib-projects>



Source: Government Outcomes Lab INDIGO Impact Bond Dataset (May 2021). Data for this country may not be complete.

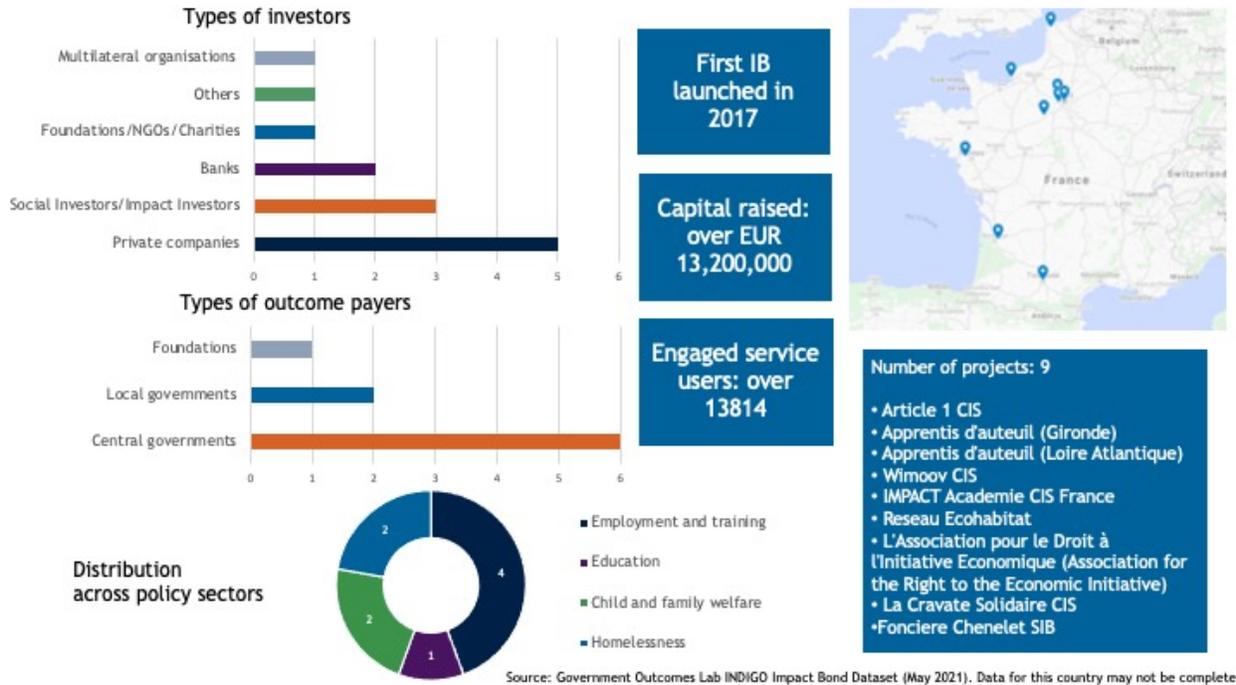
France

The French government started to experiment with social impact contracts in 2016, when it published a call for proposals for projects. Under the scheme, eight projects were launched involving a diverse range of stakeholders and each with its own outcomes frameworks.²⁵ Further projects are currently under development.

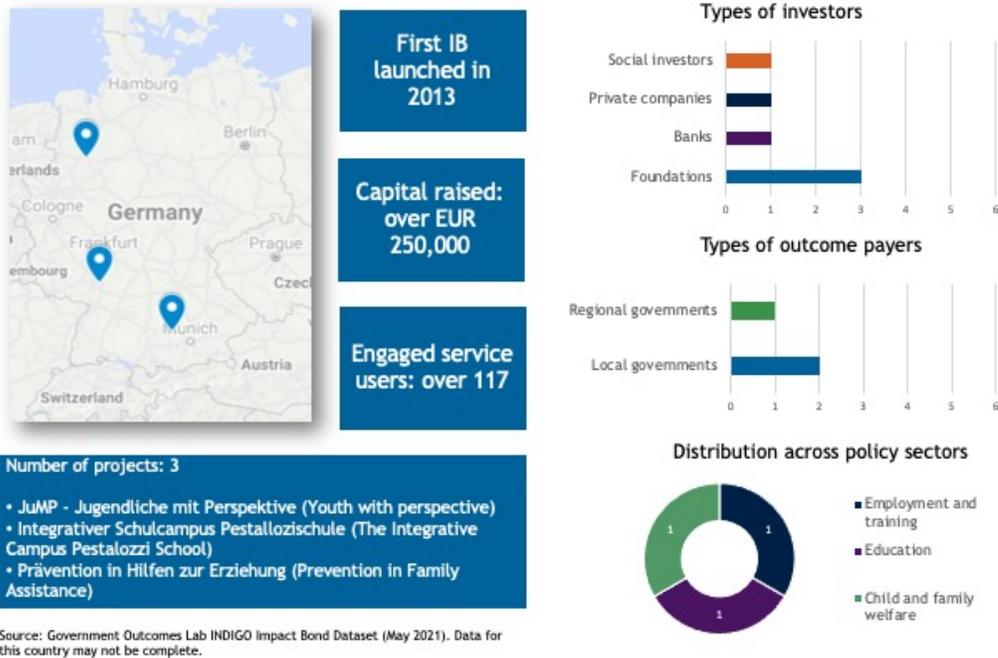
In September 2020, the French Ministry for the Economy and Finance announced new calls for proposals for social impact contracts to address social innovation and environmental challenges, each with a budget envelope of EUR 10 million. The first call for proposals relates to the circular economy and is led by France's Agency for Ecological Transition. Further rounds are expected to be focused on integration into the labour market and support for homeless people.²⁶

²⁵ Pellizzari, M. & Sebag, R. (2019) *Retour d'expérience sur les contrats à impact social en France*, Impact Invest Lab, Paris, available at: <https://iilab.fr/wp-content/uploads/2020/02/RETOUR-EXPERIENCE-CIS.pdf>

²⁶ The French Ministry for the Economy and Finance (2020) *Lancement des contrats à impact*, available at: <https://www.economie.gouv.fr/lancement-contrats-impact#>



Germany



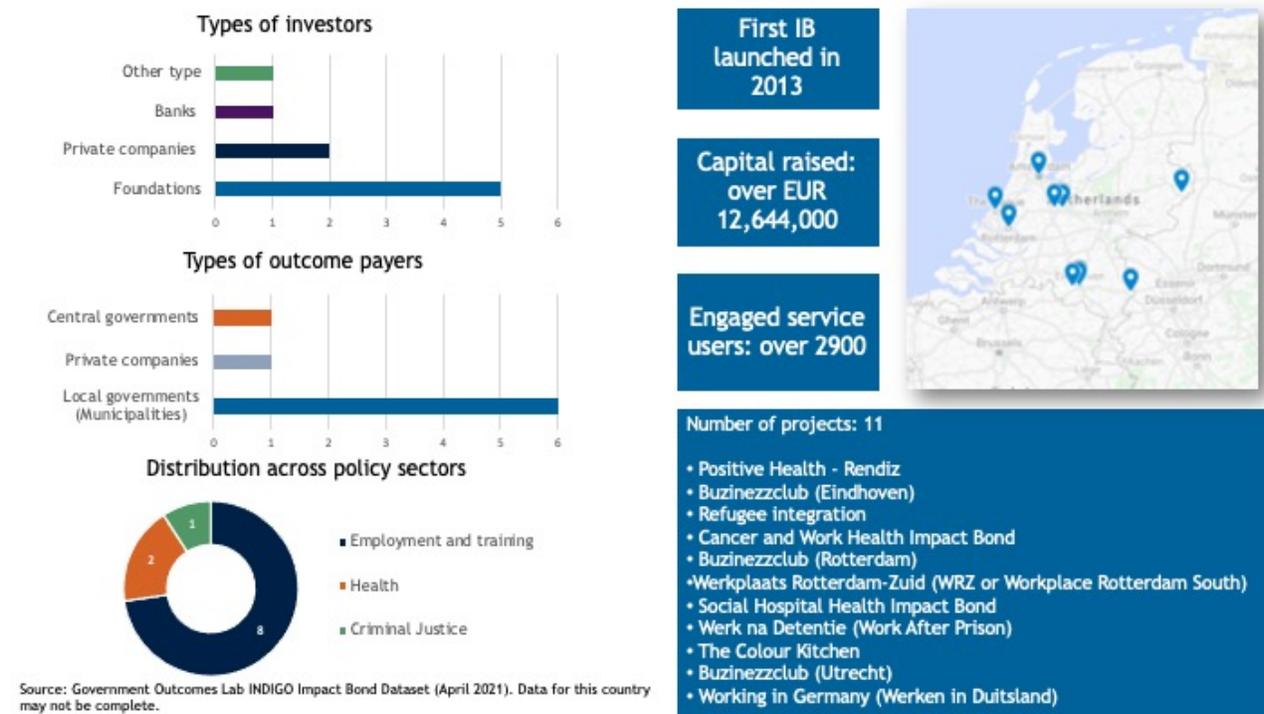
Italy

No projects have been launched to date, but exploratory work at regional level took place in the framework of the [AlpSibs project](#). In addition, the SOC Advisory Platform is supporting the Italian Ministry of Justice in launching a SOC scheme to foster job creation and the social inclusion of convicts, so as to reduce reoffending rates after release from custody²⁷.

The Netherlands

In the Netherlands, social outcomes contracting approaches have been pioneered at local level by municipalities and other local authorities.²⁸ The first social impact bond was launched in Rotterdam in 2013 to provide employment support for young people. Since then, ten other projects have been launched in the Netherlands.

In 2019, The Dutch Ministry of Defence launched a large impact bond which aims to help over 1 500 former military personnel to secure employment, financial stability, and improve their mental health and overall wellbeing.



²⁷ The European Investment Bank (2020) *Italy: EIB and Italian Ministry of Justice join forces to promote social inclusion of convicts through a social impact bond*, available at: <https://www.eib.org/en/press/all/2020-319-eib-and-italian-ministry-of-justice-join-forces-to-promote-social-inclusion-of-convicts-through-a-social-impact-bond>

²⁸ Anastasiu, A. (2019) *SIBs in the Netherlands: Part 1 – State of play, an interview with Social Finance Netherlands co-founder Björn Vennema*, Government Outcomes Lab, University of Oxford, available at: <https://golab.bsg.ox.ac.uk/community/blogs/sibs-netherlands-state-play/>

Poland

There are no initiatives at national level that the authors of this report are aware of, but a pilot at city level is being explored as part of the [URBACT SIBDev initiative](#).

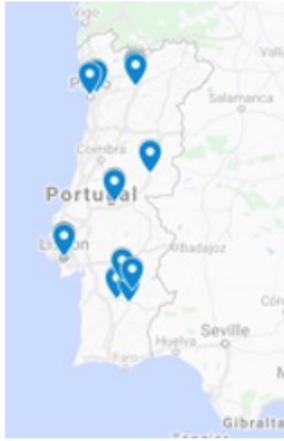
Portugal

An initial small-scale pilot - Junior Code Academy - was launched in Lisbon in 2015 to test if teaching computer programming to primary school students has a positive impact on logical thinking skills and school performance.²⁹

A more systematic approach to experimenting with social outcomes contracting as a way to promote more social innovation and more effective public services was developed within the framework of the Portugal Social Innovation Mission Structure (PSIMS) European Social Fund SIB Programme. This programme is financed by the ESF, and enables the use of such resources for the payment of outcomes in social impact bonds. The programme was developed and is being led by Social Innovation Portugal, a government initiative aimed at promoting social innovation and stimulating the social investment market in Portugal. The way Portugal has been using ESF funding to develop and pay for outcomes in a social outcomes contracts, may offer a blueprint for other countries interested in adopting this approach. Nevertheless, some of the constraints related to current ESF rules have had a substantive impact on the design and implementation processes.³⁰

²⁹ Anselmo, M. (2018) *Junior Code Academy SIB Learning and Outcomes*, Maze, available at <https://maze-impact.com/article/report-sib-junior-code-academy>

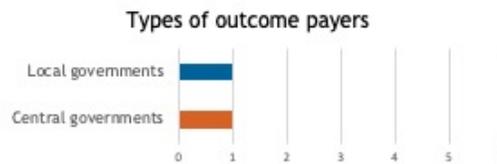
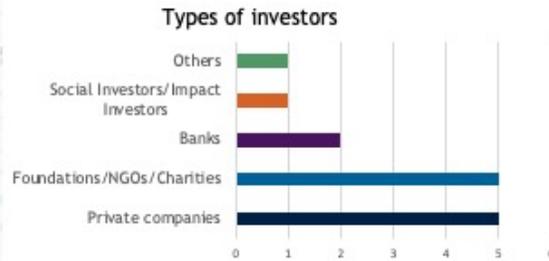
³⁰ fi-compass, CPCM Consult (2019) *The Portuguese Social Innovation Initiative: The Social Impact Bonds Programme, Using ESF to Finance Social Innovation and Social Entrepreneurship*, fi-compass, available at: [fi-compass study on the Social Impacts Bond programme under the Portugal....pdf](#)



First IB launched in 2015

Capital raised: EUR
4,745,564

Engaged service users:
119,198



Distribution across policy sectors



Number of projects: 16

- Projeto Família (Project Family)
- Academia de Código Bootcamp (Code Academy Bootcamp)
- Faz-te Forward (Bring yourself forward)
- Academia de Código Junior (Junior Code Academy)
- Breaking Bar Farms
- Cuidar de Quem Cuida
- Sapie (Alentejo)
- Sapie (Centro)
- Sapie (Norte)
- Spot Evora
- Aprender e Ensinar Matematica Com a Khan Academy (Centro)
- Aprender e Ensinar Matematica Com a Khan Academy (Norte)
- Programa Integrado de Promocao da Literacia
- Gamezone Lisboa
- TOP - Transforma O teu potencial (Transform your potential)
- UBBU: Learn to code

Source: Government Outcomes Lab INDIGO Impact Bond Dataset (May 2021)

Romania

There are no initiatives at national level that the authors of this report are aware of, but a pilot at city level is being explored as part of the [URBACT SIBDev initiative](#).

Slovenia

Since 2020, the SOC Advisory Platform has been supporting the delivery of a feasibility study for the launch of the first SOC in Slovenia, with the support of DG REFORM (under the Structural Reform Support Programme-SRSP).

Spain

There are no initiatives at national level, but exploratory work has been taking place at regional level. The Municipality of Madrid announced in July 2020 the launch of a feasibility study for a impact contract to improve the life outcomes of vulnerable people living in temporary accommodation. This initiative is being developed with support from the SOC Advisory Platform, under the EIAH.

The Spain National Advisory Board (SpainNAB), a member of the Global Steering Group for Impact Investment, launched in January 2020 a dedicated Taskforce to promote the development of social outcomes contracts and facilitate cross-sector dialogue. In partnership with Fundación COTEC, SpainNAB published a toolkit for the development of social outcomes contracts,

addressed specifically to public sector organisations in Spain interested in outcomes-based approaches³¹.

Sweden

There is currently one social impact bond project in Sweden – Noorköping SIB, a project commissioned by the Municipality of Norrköping and which seeks to prevent children and young people at risk from entering social care. More generally, in government at national and local level there is interest in experimenting with the use of social outcomes contracts (understood in Sweden to mean any contract for public services that links a degree of payment to the achievement of specified outcomes, without necessarily requiring the involvement of a private investor). One such example, is the Occupational Health SOC launched in 2018 by two local authorities in Sweden – Botkyrka and Örnköldsvik. This project aims to improve employee health and wellbeing, and thus reduce short-term sick leave costs, and unlike in a traditional social impact bond the investors are not private organisations, but rather the finance departments of the two local authorities.³² Similar to other European countries, social outcomes contracting is seen in Sweden as a tool to improve public service provision more broadly and ultimately lead to a greater focus on outcomes in the public sector. In practice, this has entailed a recognition of the need to build adequate capacity among local authorities and the public sector bodies.

In 2018, the Research Institutes of Sweden (RISE) set up the Social and Health Impact Center (SHIC) as a national knowledge and capacity-building hub. The centre supports experimentation with social investment and social outcomes contracting as tools for fostering public sector

³¹ The guide can be accessed on the SpainNAB website: <https://spainnab.org/que-hacemos/contratos-impacto-social>

³² Bokström, T. (2019) *Social investment and outcomes contracting as a tool for an outcomes focused public sector? Learning from the Swedish context*, RISE Research Institutes of Sweden, Social and Health Impact Center, available at: <https://www.ri.se/sites/default/files/2020-10/190129%20RISE%20-%20SOC%20in%20Sweden.pdf>

innovation, focusing particularly on prevention and early intervention, but working more broadly with stakeholders across all social sectors.³³



Source: Government Outcomes Lab INDIGO Impact Bond Dataset (May 2021)

³³ Bokström, T. (2019) *Social investment and outcomes contracting as a tool for an outcomes focused public sector? Learning from the Swedish context*, RISE Research Institutes of Sweden, Social and Health Impact Center, available at: <https://www.ri.se/sites/default/files/2020-10/190129%20RISE%20-%20SOC%20in%20Sweden.pdf>

3. PRACTICAL ADVICE

Getting started with social outcomes contracts

The first step in getting started with social outcomes contracts is getting a robust understanding of how this model works and the insights from the practice on the ground. This guide aims to provide an overview of the core mechanisms and practical implementation of social outcomes contracting³⁴.

Beyond accessing existing knowledge resources, it is also worth reaching out to other policymakers and practitioners with experience in the development of social outcomes contracting to better understand the practical challenges, opportunities and lessons learn from existing projects.

Social outcomes contracts, with their emphasis on tight measurement of clearly defined outcomes on which payment is contingent, do not necessarily lend themselves to application to all social problems. Before embarking on the development of a social outcomes contract it is important to carefully consider the feasibility and business case for such an approach, and how it compares to alternative ways to fund a particular social programme or intervention. In exploring the feasibility of a social outcomes contract, outcome payers will need to consider both the technical processes involved, and the relationships that need to be built and nurtured with other partners (such as the social investors and the service providers).

Designing a robust outcomes framework

Ensuring a social outcomes contract offers good value for money for the outcome payer depends to a large extent on how well-specified the outcomes are within such a contract. Research by the authors³⁵ provides a concise framework of assessing outcomes specifications (Figure 10).

In designing a robust outcomes framework, outcome payers (and indeed other project partners) need to consider the definition of the eligible cohort or intended beneficiaries; the alignment of payable outcomes to the policy intent; and the accuracy of the price set for attributable outcomes.

An outcome payer should aim for a contract that minimises service provider and investor opportunism, whilst balancing the costs associated with developing a more robust outcomes specification. The degree of technical know-how and stakeholder negotiation required to define this ‘outcomes specification’ in detail needs to be balanced with the time and resource available to develop and launch the contract (the so-called ‘transaction costs’).

³⁴ A wide range of further resources, toolkits and project-level information is available on GO Lab’s digital Knowledge Hub at: <https://golab.bsg.ox.ac.uk>

³⁵ FitzGerald, C., Carter, E., Dixon, R. & Airoidi, M. (2019) *Walking the contractual tightrope: a transaction cost economics perspective on social impact bonds*, Public Money & Management, Vol. 39, Issue 7, available at: <https://www.tandfonline.com/doi/abs/10.1080/09540962.2019.1583889>

In practice, designing a robust outcomes framework requires an in-depth understanding of the nature, scale and cost of the problem to be addressed, and extensive consultation with a wide range of stakeholders. Often outcome payers may seek to bring in additional technical assistance and expertise in the selection of the most suitable outcomes, metrics and targets.

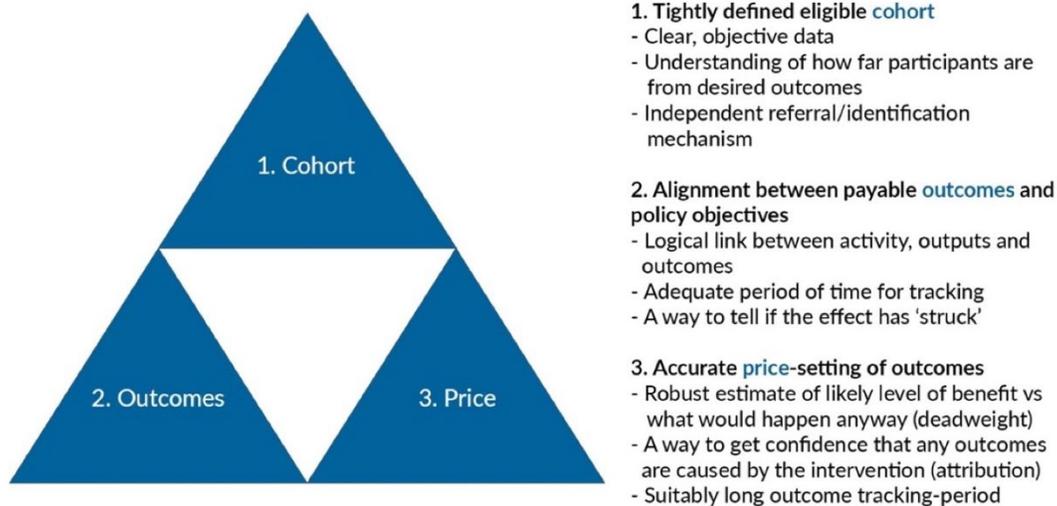


Figure 10 – Framework for designing a robust outcomes framework. Source: GO Lab

Checklist of key considerations

Developing social outcomes contracts can be technically challenging. Below we include a checklist of key considerations required for the development of outcomes-based contracts³⁶:

When developing a business case, can you confirm:

- 1. There is a clear reason to use a social outcomes contract** – It is crucial to be clear and explicit about the reason for using a social outcomes contract rather than a more conventional form of contracting. As discussed in the *Why use social outcomes contracts* section, there are many reasons why a public sector organisation might be interested in paying for social services in this way. The core reasons for considering a social outcomes contract will not only help determine whether there is a solid business case to be made for using this funding model, but will also help inform key decisions around the design of the contract, the types of outcomes, metrics and levels of performance sought, and the type of relationships with the other project stakeholders.
- 2. The social issue to be addressed is a priority for the government (outcomes payer) and there is a budget to pay for it.** Developing a successful outcomes contract requires strong leadership, commitment, and support from the outcome payer (and indeed all the parties

³⁶ For more detailed information on the key considerations at every stage in the development and implementation of a social outcomes contract, you can explore GO Lab's [Impact Bond Lifecycle](#).

involved), so it is essential that the social issue to be addressed is seen as a priority. Beyond the recognition of the need to address a pressing social issue, outcome payers will need to have a clear idea from the onset as to where the money to pay for outcomes is likely to come from. A link will need to be made between the type of outcomes which might be paid for and a budget line (or multiple lines when outcome funding is provided by more than one public sector organisation). Sometimes, a specific social challenge may fall into the domain and budget of multiple public authorities. Yet, it should be clear that there is a public authority that is primarily responsible for the challenge and that is willing to act as an outcome payer and to engage in building a business case around the social challenge.

Whilst the budget for outcomes payments is crucial, it is also important to consider how much it will cost to set up the project (including funding the feasibility work, design, development and evaluation) and how these costs will be funded.

-
- 3. There is sufficient interest and track record from service providers.** Public sector organisations interested in developing social outcomes contracts should seek to engage early with prospective social investors and service providers, to understand their willingness and capacity to be involved. To move from individual projects to lasting approaches that improve social outcomes in the long term, public sector officials need to think strategically about how they can nurture a whole ecosystem of organisations that are able to deliver successfully under a social outcomes contract model.

Furthermore, to reduce the risks involved with the SOC, investors may seek to back service providers or programmes that already have a track record of success or achieved results. It is therefore important for outcome payers (and investors) that the service provider already has experience implementing the intervention and/or can demonstrate that the desired outcomes are attainable.

-
- 4. There is sufficient interest from prospective social investors.** The investors will typically seek the prospect of financial returns on their investment. If the financial returns are expected to be negative, few investors may be willing to get on board. This means that a financial value should be attached to the results of the intervention (e.g. in case of labour market participation this could be saved social security costs). When assessing the feasibility for a potential SOC, a detailed business case may not be available yet, however there should be a sense that bringing in investors and working outcomes-based could lead to better results and a positive business case.

-
- 5. Outcomes can be measured quantitatively and objectively.** It is essential that there is consensus among all project stakeholders around the suitability of the outcomes that outcome payers are willing to pay for. They must be meaningful and measurable, and achievable within the time period given. For example, whether a young person is in employment can be confirmed by their employer or by checking tax records.³⁷ Moreover, in selecting the outcomes to which payment will be linked, it is important for the outcome

³⁷ You can read GO Lab's [Setting and Measuring Outcomes](#) guide for further guidance.

payer to consider how it can ensure it will not be paying for outcomes that would have been achieved even in the absence of the intervention or social programme (what is also known as the counterfactual - see *Glossary*). This can be challenging to determine in practice, but can be achieved by establishing robust mechanisms for evaluation and impact measurement.³⁸

6. **A well-defined set of service users (or cohort) can be identified** – The cohort of service users or intended beneficiaries is usually made up of people with historically negative outcomes, where the outcome payer believes that better outcomes can be achieved through a social outcomes contract. The cohort must be clearly and unambiguously defined so that there is no risk of the service provider ‘cherry picking’ (see *Glossary*) individuals that might achieve better outcomes. This clarity is also equally important for the provider and investor, as a poorly defined cohort or high dropout rates may lead to additional costs to achieve each outcome.
7. **There is sufficient scale to justify the set-up costs** – SOC may be used in order to scale up innovative interventions. The value and length of the contract needs to be sufficient to offset the time and cost of setting it up, and any costs associated with management and governance of the contract, which may be higher than for other forms of contracting. The size of social outcomes contracts vary considerably across Europe from EUR 125,000 in the case of the Junior Code Academy in Portugal to over EUR 6.7 million in the case of the social impact bond launched in the Netherlands for the reintegration into the labour market of armed forces veterans.

When managing relationships, can you confirm...

There is internal capacity and commitment – One of the main causes for outcomes contracts not getting off the ground is the lack of senior engagement and commitment from stakeholders. The outcome payer needs to establish an effective project team from the start, committed to the social outcomes contracting approach and adequately resourced.

The provider market has capacity and interest – Outcome payers should consider the type of providers they wish to engage, and the sort of relationship they wish to have with them. There are examples of social outcomes contracts that use both large, national providers and small, local ones. As well as provider interest in delivering programmes under a social outcomes contracts, outcome payers should explore provider capability to deliver in this way. This can be done through (pre-tender, if applicable) market engagement and ecosystem building activities. It is also important that there is a likely supply of risk capital from investors. This is particularly important where there is no established provider or social-investment backed market, or there is concern about the viability of the service being run through a social outcomes contract. Early and regular

³⁸ For more information about developing the counterfactual you can consult GO Lab’s guide on [Evaluating outcomes-based contracts](#).

engagement with prospective providers and investors is key to a successful outcomes based contract.

Outcome payers may seek to explore:

- the level of understanding amongst expected providers of outcome based contracting or impact bonds, and the rationale for using these approaches;
- whether these providers are likely to respond positively to payments being linked to the achievement of outcomes.
- the quality of experience and capacity available, and the possible role of an intermediary;
- interest from investors and whether they see the project as a viable investment;
- the best way to engage the market when developing the business case and during the formal procurement phases.³⁹

When designing the service, can you confirm...

- **the contract will integrate with (and not duplicate) services already in existence** – A proposed social outcomes contract needs to integrate with existing services. There may be organisational and/or cultural differences that challenge the relations between other teams in related public services. Consideration should also be given to the perspectives and feedback of local residents and/or the intended beneficiaries of the proposed service.
- **there are indications that effective interventions exist** – There must be either an existing evidence base, or a robust ‘theory of change’, for possible interventions which might meet the identified population need. This means that even if you do not know what will work, there should be a strong logic to show what *might* work. If there is a range of possible interventions which are well proven, and there are providers who have shown they can deliver them effectively, there is probably no need for a social outcomes contract – a straightforward service contract may be sufficient. Conversely, if there are few interventions, they are unproven, or providers are weak, investors may deem the social outcomes contract too risky.

³⁹ These processes are explained in GO Lab’s guide on [Awarding the contract for an impact bond](#).

4. FURTHER RESOURCES

A wide range of knowledge resources and support is available for those interested in developing outcomes-based contracts.

The Social Outcomes Contracting Advisory Platform, a joint initiative of the European Commission and the European Investment Bank offers expert advice and technical support to public sector organisations wishing to develop outcomes-based approaches to address key social inclusion challenges in Europe and contribute to society's increased wellbeing.

The **Advisory Platform** offers the following support:

- **Advice and individual project support**, including early exploration, feasibility studies, co-creation processes, expert advice;
- **Peer-to-peer knowledge exchange, awareness and capacity building**, leveraging local knowledge and sharing of know-how regarding project development;
- Developing **guidance** in areas of common interest for its stakeholders.

The Platform is run in collaboration with national centres of expertise on social outcomes contracting and impact investing, such as, the Finnish Centre of Expertise for Impact Investing, part of the Ministry of Economic Affairs and Employment, as well as the Swedish Social and Health Impact Center, part of Research Institutes of Sweden.

Find out more: <https://eiah.eib.org/about/initiative-social-outcomes-contracting.htm>

The Government Outcomes Lab at the University of Oxford hosts a global Knowledge Hub for outcomes-focused partnerships, which includes technical guidance on social outcomes contracting, case studies, curated publications from the field, and a comprehensive database on impact bonds across the world. All these resources are open access.

Find out more: <https://golab.bsg.ox.ac.uk>

The European Venture Philanthropists Association (EVPA)

EVPA is a community of organisations interested in or practising venture philanthropy and social investment across Europe. Its mission is to enable venture philanthropists and social investors to maximise societal impact through increased resources, collaboration and expertise.

Find out more: <https://evpa.eu.com/>

The Centre of Expertise for Impact Investing, Finland

The Centre of Expertise helps public sector organisations to understand when to use outcomes contracting and to analyse what kind of wellbeing and economic benefits can be achieved. Although the main task of the Centre of Expertise is to support the public sector in outcomes

contracting, it also cooperates with other key actors involved in impact investing, such as investors and service providers, to expand the impact investing market.

The Centre of Expertise for Impact Investing launched operations in January 2020. It is part of the administrative organisation of the Ministry of Economic Affairs and Employment, but serves the entire public sector.

Recommended reading: [Summary of outcomes-based funding agreements \(SIB, EIB\) concluded and under preparation in Finland \(2020\)](#)

Find out more: <https://tem.fi/en/tasks-of-the-centre-of-expertise-for-impact-investing>

The Social and Health Impact Center (SHIC), RISE Research Institutes of Sweden

SHIC is an independent knowledge hub which provides competence and capacity to support the public sector and other actors in designing, commissioning, procuring, delivering and evaluating solutions and innovations. SHIC seeks to catalyse the transition from knowledge to practice and improve the public sector's ability to focus on outcomes and measure social and health impact on a societal and individual level. As a cross-sectoral and multi-professional organisation, SHIC seeks to address the need for a long-term implementation support capacity focusing on the public sector.

Recommended reading : [Social investment and outcomes contracting as a tool for an outcomes focused public sector? Learnings from the Swedish context \(2019\)](#)

Find out more: <https://www.ri.se/en/shic>

The Impact Invest Lab, France

The Impact Invest Lab is a research and development platform for social impact investing. Its mission is to accelerate the development of innovative financial instruments for social impact and to help develop great collaboration between relevant stakeholders in different sectors. They provide a range of publications, research papers, and case studies of social impact bonds in France, as well as other types of social impact financing mechanisms.

Recommended reading : [Feedback on the first wave of social impact bonds in France \(2019\) \(in French\)](#)

Find out more: <https://iilab.fr>

Social Innovation Portugal (Portugal Inovação Social)

Portugal Inovação Social is a government initiative aimed at promoting social innovation and stimulating the social investment market in Portugal. Portugal Social Innovation manages four financing instruments to support the development of social innovation projects, including outcomes-based contracts.

The social impact Bonds financing instrument aims at financing, against an outcome-based contract, innovative projects committed to achieving social outcomes and efficiency gains in priority public policy areas, such as social protection, employment, healthcare, justice and education.

Recommended reading: [The Portuguese Social Innovation Initiative \(2019\)](#)

Find out more: <https://inovacaosocial.portugal2020.pt/en/>

5. FREQUENTLY ASKED QUESTIONS

This section includes several questions that those new to social outcomes contracting or impact bonds might have when getting started with these approaches.

What is the difference between a ‘social outcomes contract’ and an ‘impact bond’?

There is wide variation in the way terms such as ‘social outcomes contract’ (SOC) and ‘impact bond’ (IB) are used to describe cross-sector partnerships that are focused on outcomes. In this guide, they are used interchangeably to describe *‘outcome-based contracts that incorporate the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service or social programme. The service or programme is set out to achieve measurable outcomes established by the outcome payer, and the investor is repaid only if these outcomes are achieved.’*

However, this is not to say that this is how these terms are always used across Europe. For example, in Sweden ‘social outcomes contracts’ is used to describe any outcomes-focused contract, even when there is no upfront funding provided by private investors (what in the UK, for example, is often referred to as a ‘payment-by-results’ contract). In France, another phrase that is often used as an alternative to ‘impact bonds’ is ‘social impact contracts’.

In financial terms, an ‘impact bond’ is not technically a bond. Bonds generally have an unconditional and guaranteed rate of return, whereas in an impact bond the financial return is tied to the outcomes achieved by the provider and will therefore vary. As a financial model, an impact bond is a way to establish funding for projects, but with the investors carrying some or all the risk. If outcomes are not achieved, providers can be shielded from losing money (at a rate determined by the contractual agreement between parties).

In practice, there is a great deal of variation in terms of the contractual arrangements, risk-sharing and financial flows in impact bonds, depending on the context and types of stakeholders involved in the development of a project.

When is it appropriate to tackle a particular social challenge through a social outcomes contract?

The decision to develop a social outcomes contract should be drawn from an explicit reason for using an outcome-based contract (rather than a more traditional funding mechanism). The authors identify three main reasons why impact bonds may be a useful tool for public service reform. Firstly, as a way to overcome fragmented provision of services (through collaboration); secondly, as a way to reduce demand for high-need intensive services (through prevention); and thirdly, as a way to disrupt the usual way things are done (through innovation).

Social outcomes contracts are not suitable for all social policy areas and in many cases more traditional approaches to funding services continue to be more appropriate. Potential outcome payers should carefully consider and determine if a social outcomes contract is feasible as a way of funding a particular service or range of services to meet a particular need in the population.

What is (social) impact investment and who are the investors in a social outcomes contract?

According to the Organisation for Economic Co-operation and Development (OECD), social impact investment is the provision of finance to organisations addressing social needs, with the explicit expectation of a measurable social, as well as financial, return. Impact investments target a range of returns, depending on the investors' strategic goals. Investors can be individuals, institutional investors, dedicated investment funds and philanthropic foundations, who invest through their endowment.

Impact investment is described (and differentiated from other forms of investment) by three guiding principles:

- **The expectation of a financial return:** impact investors expect to earn a financial return on the capital invested, below the prevailing market rate, at the market rate or even above it.
- **The intention to tackle social or environmental challenges (i.e. the impact or intentionality):** in addition to a financial return, impact investors aim to achieve a positive impact on society and/or the environment.
- **A commitment to measuring and reporting against the intended social and environmental impact:** impact investors commit to measure performance using standardised metrics.

Impact investment is not limited to a specific asset class or sector: it includes, for example, fixed income, venture capital, private equity and social and development impact bonds.

Find out more about impact investing on the [Global Impact Investing Network \(GIIN\) website](#).

How much return on investment do investors typically seek in social outcomes contracts?

Impact investors seek blended social and financial returns, and the potential to make a profit on the initial investment is intended to compensate investors for the risks they take on when investing in social outcomes contracts. Rates of return vary widely and should be contractually agreed to by all stakeholders. Outcome payers may put a cap on the maximum finance payment they are willing to make when outcomes are achieved.

What is the evidence around the impact and effectiveness of social outcomes contracts?

The social outcomes contracts landscape has evolved significantly since the first such project – the Peterborough One Service SIB - was launched in the UK in 2010, and some evidence is starting to emerge around the use and impact of these approaches.

Several qualitative evaluation studies have been conducted so far, but only a few projects have been subject to a robust impact evaluation. Encouragingly, the final evaluation of the Peterborough One Service SIB, published in July 2017, showed that the project reduced reoffending of short-sentenced offenders by 9%, leading to the investors being repaid in full. Importantly, these evaluative results show that the One Service was indeed a successful intervention, but do not provide conclusive insight on the unique contribution of the SIB approach.

Due to the limited evidence, at present, the approach can be considered promising, but unproven. The GO Lab at the University of Oxford has been set up to critically assess the emerging evidence.⁴⁰

How can I get started with developing a social outcomes contract?

If you are interested in developing a social outcomes contract, a helpful starting point may be to explore what other such initiatives have been developed in your area, who is leading them, and what support may be available from regional, national or EU institutions to help you get started. Learning from practice elsewhere will give you a better understanding of the practical challenges and opportunities associated with this approach and may help accelerate the development of your own project.

If you have identified what other organisations you need to work with for your project (for example, if you are a provider organisation, what governmental agencies may be willing and able to act as outcomes payers; if you are an outcome funder, what level of capacity there is among provider organisations to deliver under an outcomes-based contract and whether they will require upfront financial support from a social investor) engage with them early and seek to develop your project in partnership from the onset.

For public sector organisations, further support around determining the feasibility of an impact bond proposal can be accessed through the EIAH's [Social Outcomes Contracting Advisory Platform](#).

⁴⁰ An initial evidence report on impact bonds in the UK can be accessed at: [About the Evidence Report \(ox.ac.uk\)](#). To access existing evaluations of impact bond projects, please visit GO Lab's [Publications Library](#)

6. GLOSSARY

This glossary provides working definitions for some of the key terms used in this guide.⁴¹

Attribution: The extent to which changes in the relevant outcomes can be attributed to an intervention or investment

Cashability: The extent to which a change in an outcome or output will result in a reduction in spending, such that the expenditure released from that change can be reallocated elsewhere

Example: An example of a cashable saving is often observed in the area of employment. If a person is receiving unemployment subsidy before an intervention and as a result of that intervention enters the labour market, government spending related to that unemployment subsidy is reduced and is available to be spent elsewhere. An example of a non-cashable saving could be observed in the health sector, where an intervention leads to, for example, less emergency visits or use of hospital services. In this case, while the intervention may result in less demand, it may not lead to cashable savings unless services become surplus to requirements and are terminated, or surplus facilities are closed.

Cherry picking: This is a perverse incentive whereby providers, investors or intermediaries select beneficiaries that are more likely to achieve the expected outcomes and leave outside the cohort the most challenging cases

The process of designing an impact bond and defining the target population, outcome evaluation methods and targets should consider potential perverse incentives and include mechanisms to avoid it. Cherry picking is also known as creaming.

Example: An intervention that promotes employment deliberately selects participants that are more likely to achieve employment outcomes.

Cohort: A group of individuals with a common defining characteristic, for example age group, health condition, employment status. In the context of social outcomes contracts, the terms is often used to describe the specific group of beneficiaries eligible for a particular social service or programme.

Counterfactual: A counterfactual is an estimate of what outcomes would have occurred without the intervention. In the impact bond context, a counterfactual enables a comparison with what would have happened without the impact bond. The counterfactual is an important element in assessing the additionality of an intervention or investment.

Evaluation: A periodic, objective assessment of a planned, ongoing, or completed project, programme, or policy.

Evaluations are used to answer specific questions, often related to design, implementation, or results. Evaluation is the application of systematic methods to address questions about

⁴¹ A full glossary of key terms relating to outcomes-based contracts can be accessed at: <https://golab.bsg.ox.ac.uk/knowledge-bank/glossary/>

programme operations and results. Evaluation can include ongoing monitoring or one-shot studies. Evaluation often relies on social science methodologies and professional standards.

In terms of impact bonds, one type of evaluation is the determination of whether and to what degree the intervention in an impact bond project has had an impact on the measured outcome variables over time. Another type of evaluation is related to determining whether the way a project is financed has had an impact on the measured outcomes variables.

Impact bond: Impact bonds are outcome-based contracts that incorporate the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service. The service is set out to achieve measurable outcomes established by the outcome payer (usually a public sector or governmental organisation) and the investor is repaid only if these outcomes are achieved.

There is no singular, standard definition of what constitutes an impact bond. In practice, impact bond approaches vary across several aspects, including: the nature and amount of payment on outcomes; the nature of capital used to fund services; strength of performance management; and social intent of service provider(s). As more projects are being developed across the world, the model is likely to continue to evolve and be adapted to specific local circumstances. Impact bonds encompass both social impact bonds (SIBs) and development impact bonds (DIBs). The term '*social impact bond*' is usually used to describe initiatives where the outcome payer is a government entity within the country where the project is being implemented, while '*development impact bond*' is a term used for an impact bond that is implemented in low- and middle-income countries where a donor agency, multilateral institution, or a foundation pays for the desired outcomes as opposed to the government (although some combination of government with third party is also possible).

Outcome: The outcome is what changes for an individual as the result of a service or intervention.

Example: Improved learning in school, better mental health, sustained employment.

Outcomes-based contracting: Outcomes-based contracting is a mechanism whereby service providers are contracted based on the achievement of outcomes. This can entail tying outcomes into the contract and/or linking payments to the achievement of outcomes.

Outcome fund: Outcome funds pool capital from one or more funders to pay for a set of pre-defined outcomes. Outcome funds allow the funding of multiple impact bonds under one structure. Payments from the outcomes fund only occur if specific criteria agreed ex-ante by the funders are met.

Outcome measure (or indicator): An outcome measure is the specific way the outcome payer and the other project stakeholders choose to determine whether that outcome can be achieved. Often this encompasses a single dimension of an outcome.

Example: The outcome measure for educational attainment can be a test score; the outcome measure for employment may be a job contract.

Outcome payer: The organisation that pays for the outcomes in an impact bond.

Example: In the Belgian social impact bond “Duo for a Job”, the outcome payer is Actiris, the Brussels-Capital Region Employment Office.

Outcome target (or metric or trigger): An outcome target is the specific value attached to the measure of outcomes for the purposes of determining whether satisfactory performance has been achieved. In an impact bond, these targets will usually determine whether a payment is made to the provider of investor.

Example: A test score of 95 out of 100 or improvement of 30 points in a test score over a 5-month period.

Output: The tangible goods and services that are produced (supplied) directly by an intervention. The use of outputs by participants contributes to changes which lead to outcomes.

Payment by Results: A way of delivering services where all or part of the payment is contingent on achieving specified results.

Perverse incentive: An incentive to act in manner that goes against the desired outcome or aims of a service or programme.

Provider: Also known as a service provider or service delivery organisation, providers are the entity(ies) responsible for delivering the intervention to participants. Providers work in collaboration with the outcome payer(s) and the investor(s) to make the impact bond work. A provider can be a private sector organisation, social enterprise, charity, NGO or any other legal form.

Rate card: In the context of payment-by-results, a rate card is a schedule of payments for specific outcomes an outcome payer is willing to make for each participant, cohort or specified improvement that verifiably achieves each outcome.

Example: The UK's Department of Work and Pensions has used [rate cards](#) to commission impact bonds.

Social impact investment: According to [OECD](#), social impact investment is the provision of finance to organisations addressing social needs with the explicit expectation of a measurable social, as well as financial return. Social impact investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on investors' strategic goals.

Social impact investment is not limited to a specific asset class or sector: it includes, for example, fixed income, venture capital, private equity and social and development impact bonds.

Social impact investor: An investor seeking social impact in addition to financial return. Social investors can be individuals, institutional investors, dedicated social investment funds and philanthropic foundations, who invest through their endowment.

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