FUSE

Paid by Results

Using innovative financial instruments in the provision of social services

The FUSE project has received funding from the European Union Programme for Competence Centres for social innovation (European Social Fund and European Programme for Employment and Social Innovation) under Grant Agreement number VS-2021-0157.

Introduction

Societal challenges are growing, becoming more significant and complex. Climate change, ageing populations, the refugee crisis, fragmentation and populism are putting additional pressure on traditional social models and responses. Essential components needed to effectively address these issues are social innovation and social entrepreneurship, which are emerging as global key trends for future policy making across the EU and worldwide.

This document has been created **under the framework of the FUSE project**, with the purpose of sharing best practices across Europe. FUSE is one of the six projects supported by the European Commission in order to establish national competence centres for social innovation across the EU. The FUSE consortium is composed of organisations from Bulgaria, Cyprus, Ireland and Portugal. Over the course of two years (May 2021-May 2023) social innovation organisations, research centres, ESF managing authorities and other partners are designing and developing competence centres, which will support their countries to promote social innovation, with funding from ESF+ and other EU programmes.

What is 'Paid by Results'?

Paid by Results (PbR) is an innovative form of social finance that focuses on outcomes, rather than outputs when it comes to delivering services for the public good. Financial incentives are linked to the impact achieved rather than the outputs used. Private funding from investors is used to cover the upfront capital required for an intervention. There are various forms of PbR and methods of delivery. They can often be called different names such as Social Outcome Contracts (SOC), Social Impact Bonds (SIB), Paid by Results and Impact linked Finance. SOCs are contracts in which payments are made only when pre-agreed social outcomes are achieved by the funded programme or organisation. **SIB's are a subset of Social Outcomes Contracts that involve private capital from impact investors** to provide upfront funding for the delivery of services.

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Rationale for using Paid by Results

- **Focusing on outcomes instead of outputs:** For example, an educational PbR model would pay a provider based on outcomes e.g. number of participants who achieve an accredited educational qualification, rather than the number of outputs e.g. educational services delivered.
- **Cross-sectoral cooperation for societal and/or environmental impact:** At the heart of this approach there is the impetus to address complex social challenges by taking a collaborative cross-sectoral and multi-stakeholder approach with a strong focus on measurable outcomes.
- **Reduced financial risk for Governments to invest in social interventions:** Governments only pay for a service if it delivers measurable outcomes. The investor takes on financial or delivery risk, and this risk transfer enables innovation.
- **Coupling private and public capital for social impact:** Engaging social investors or philanthropists in the social domain can help push forward promising interventions. These actors often have more ability to take financial risks when coupled with the potential of yielding high social impact.
- **Builds an evidence base for effective interventions:** PbR models can be used to build an evidence base for interventions that prove to be effective at delivering outcomes, as well as build datasets which can be used to improve results in the future.
- **Enables flexibility in delivery:** In PbR models, because funding is tied to outcomes and not activities, there is more flexibility in how funding is used by service providers. They are not tied to delivering prescribed services which may not have a large impact on their service users, they have flexibility within the funds to maximise impact.
- **Creates a longer-term partnership for service providers:** The multi-year nature of PbR models means that they shift focus from short term partnerships between funders and recipients and annual funding cycles to multi-year commitments to support service provider services.

However, it must be noted that PbR is not always the most useful tool. The following are cases where a PbR model is not the right instrument:

- **When outcomes are difficult to define:** Clearly, in order for a social outcomes contract to work, parties need to be able to identify, quantify and measure objective outcome metrics. This can be extremely difficult to do and you can end up measuring outputs rather than outcomes.

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- **When there is limited desire/need for innovation:** If an intervention is well evidenced and tightly linked to outcome delivery then there is no need or incentive to innovate. In these cases PbR models are not worth pursuing and a grant or service-contract would be simpler to implement. Equally, if there isn't desire from parties to innovate services a PbR model is not the right instrument.
- **When there is limited consensus on the problem and solution:** A PbR model is built on a partnership driven by a shared vision for success, if this can't be established across the outcome payer, service provider and investor then a PbR model will struggle to be effective.
- **When there isn't long term commitment from parties:** PbR models have longer timelines for design, contract and implementation, therefore in situations where parties aren't willing to commit over long periods of time, or topic areas likely to have significant policy changes may not support PbR models.

Using EU funding for Paid by Results:

A study[1] by the European Investment Bank looked at the Portuguese Social Innovation Initiative that leveraged PbR with European Social Fund Finance. The purpose of the PbR model was to finance Social Innovation and Social Entrepreneurship. Three applications were approved with approximately €1.5m of funding. Two projects (Code Academy and Go Forward) sought to address youth unemployment while the third project, Project Family, aimed to prevent young people at risk from entering the foster care system.

Conclusion

The paid by Results model is creating innovative financial instruments for the provision of public services and interventions. **PbR models are an innovative tool that have been gaining growing attention worldwide by offering a new way to foster more collaboration and innovation in the provision of public services.** There is a growing body of international evidence highlighting areas where it is proving effective, while also showing areas that are in need of improvement or further refinement. **Setting up PbR schemes can be technically challenging** and expensive - therefore there is a need for capacity building within

[1] The Portuguese Social Innovation Initiative

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government & service providers in order to develop effective approaches. PbR instruments have the capacity to increase efficiencies for the delivery of public services.

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