



HBGI's Outcomes Contracting Capacity Building Workshops:

Session Four:

understanding working capital
on outcomes-based contracts

31st January 2024



स्वागत!

Bienvenu!

Bem-vindo!

مرحباً!

خوش آمدید!

¡Bienvenido!

Willkommen!

Welcome!

High level outline of session four



Introduction and Welcome

- 'House keeping'
- Introduction to the session

[Shomsia Ali](#), Development Director, HBGI



Addressing the cash gap

- Overview of outcomes, payment triggers and working capital

[Richard Johnson](#), CEO, HBGI



Social investment

- An investor's perspective

[Amit Shah](#), Investment Director, Bridges Outcomes Partnership

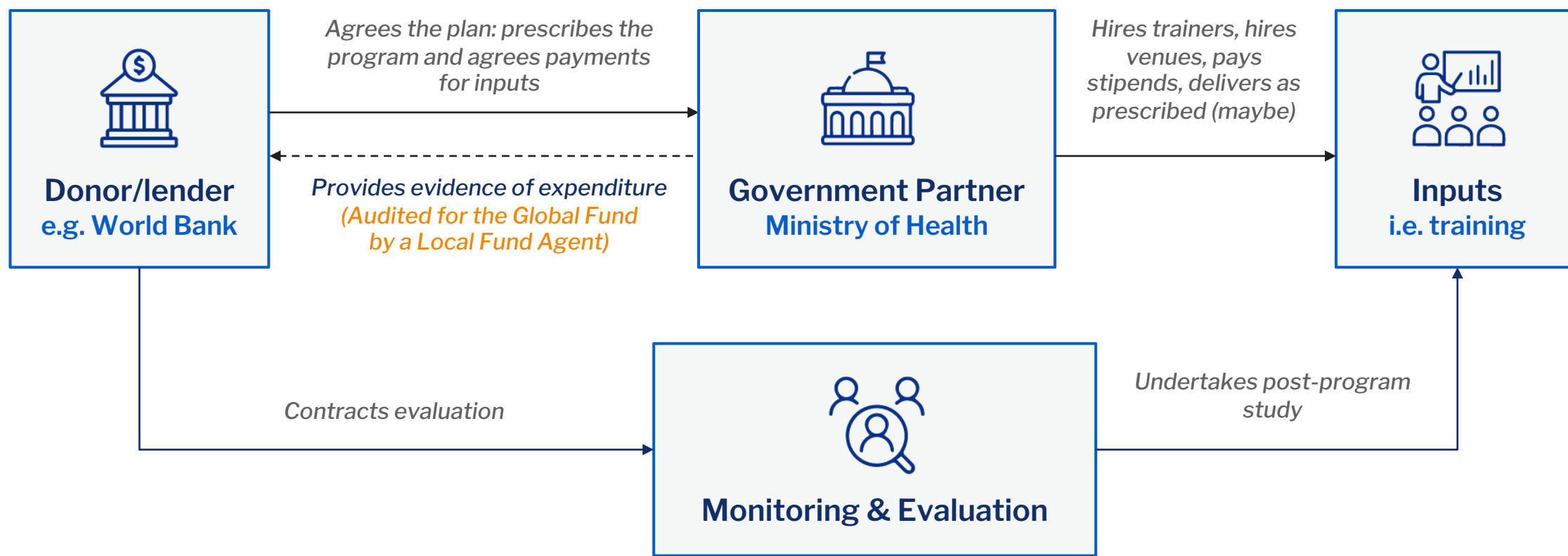


Close and Thank you



women can do anything they
put their minds to no
matter the challenge!

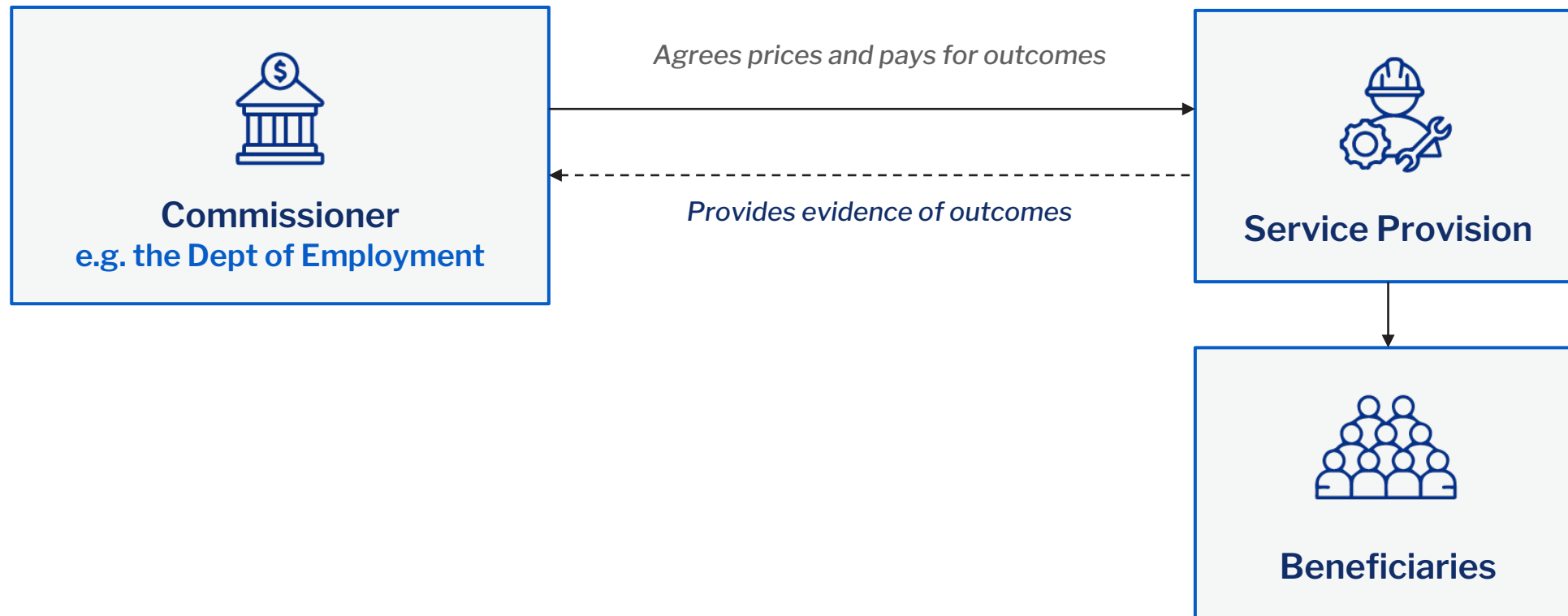
How the World Bank and the Global Fund (and others) pay for training



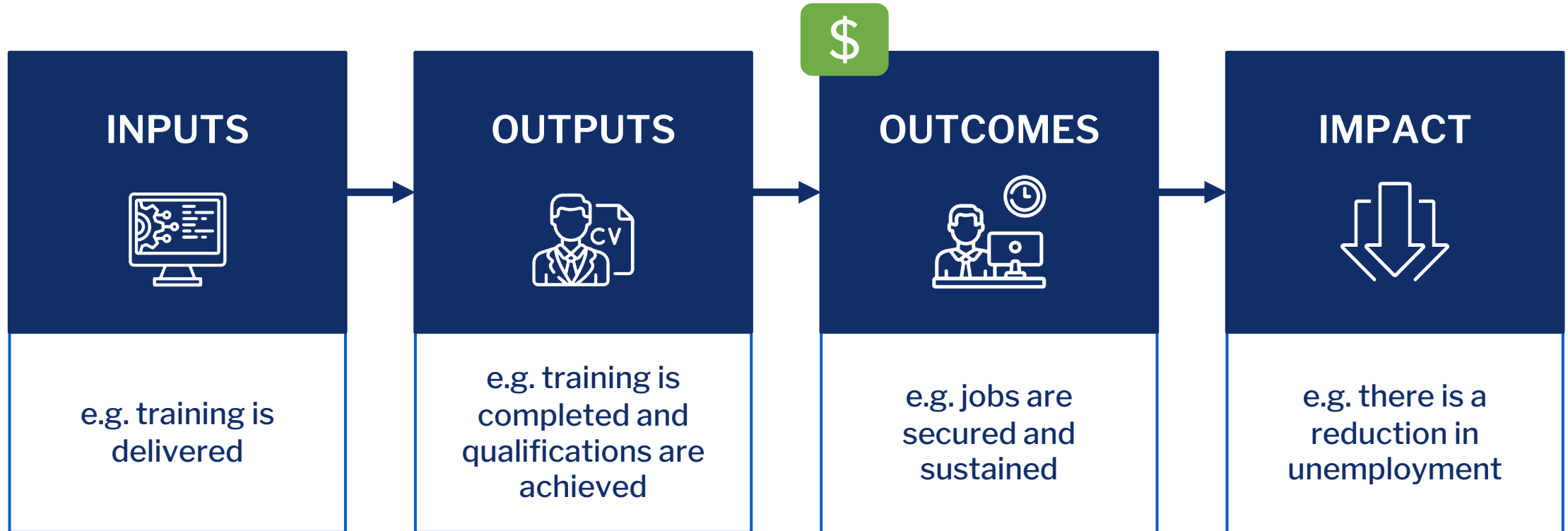


UNAMA

Connect payments to delivery and ideally to outcomes



The Results Chain



A good outcomes-based contract can:

- + **Align incentives** or policy with payment.
- + **Change the culture**, change the language and focus.
- + Increase the **quantity and quality** of performance.
- + Deliver **value for money**.
- + Pass the **risk of not achieving** to the service providers (or the investors).
- + Also possibly pass the **volume risk** to the service providers (i.e. reaching more, more excluded people).
- + Address **donor/funder/tax-payer fatigue**.
- + Increase **transparency** over where money goes (i.e. increase accountability and exclude 'leakage').
- + Focus service design on the destination and with the service user. Encourage an **individualized, localized approach** (and an 'asset-based approach' moving away from 'deficit' or a 'medical model').
- + Enable **flexibility and incentivize innovation** (including in response to conflict).
- + Create a **data rich system** because of the performance focus.

What makes a good payment trigger?

Agree a **clear, simple** definition of **success**. Define your target population. Don't prescribe the inputs. Tie the payments to activities/outcomes which are:



Not too far down the 'results chain'.



Clear, comprehensible
(and a small number of them).



Relevant, with 'face validity' (i.e. operationally real and linked to what success is).



Meaningful to the service beneficiary
(ideally selected by them).



Measurable and verifiable.



Costed with commercial nous
and considerate of cashflow.

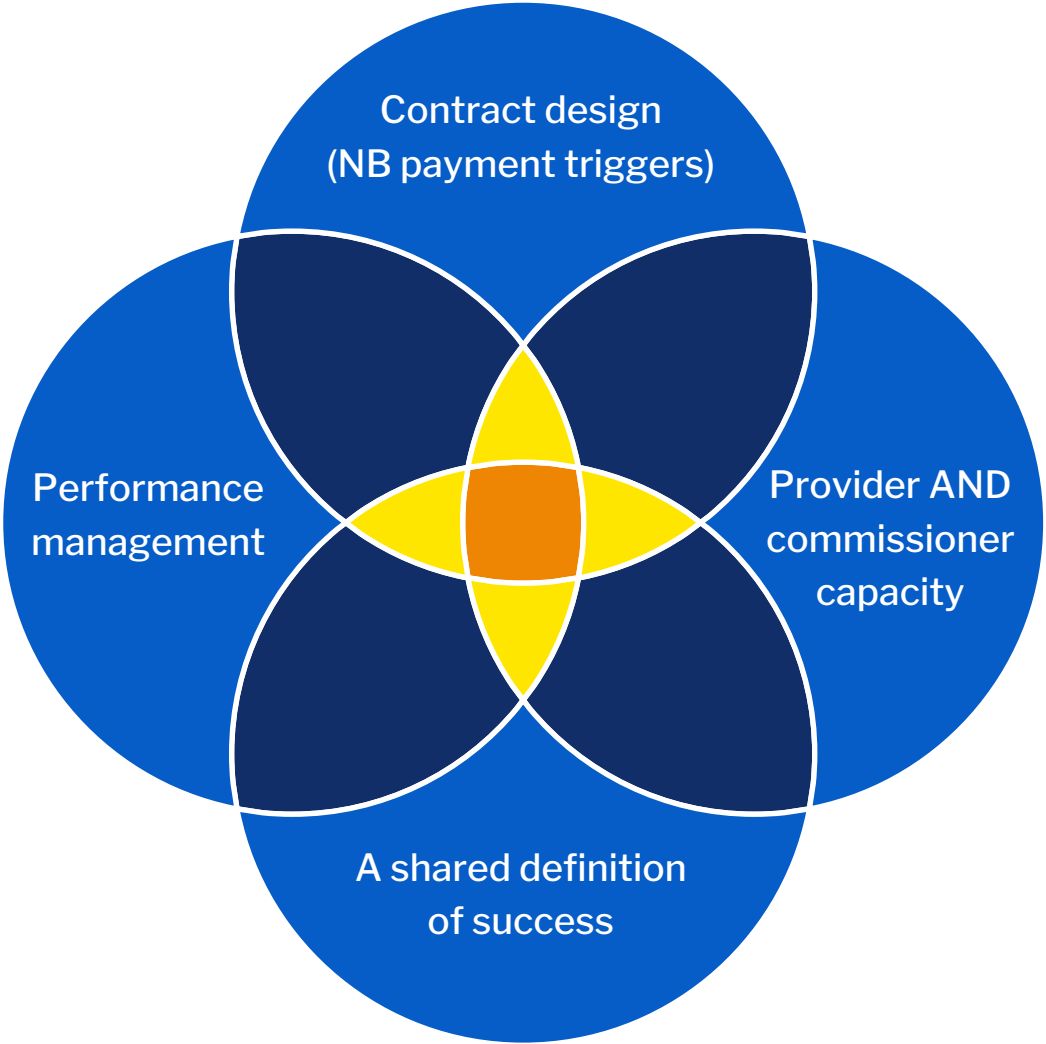
Then.....track, report and review, i.e. performance manage.

Some examples of payment triggers?

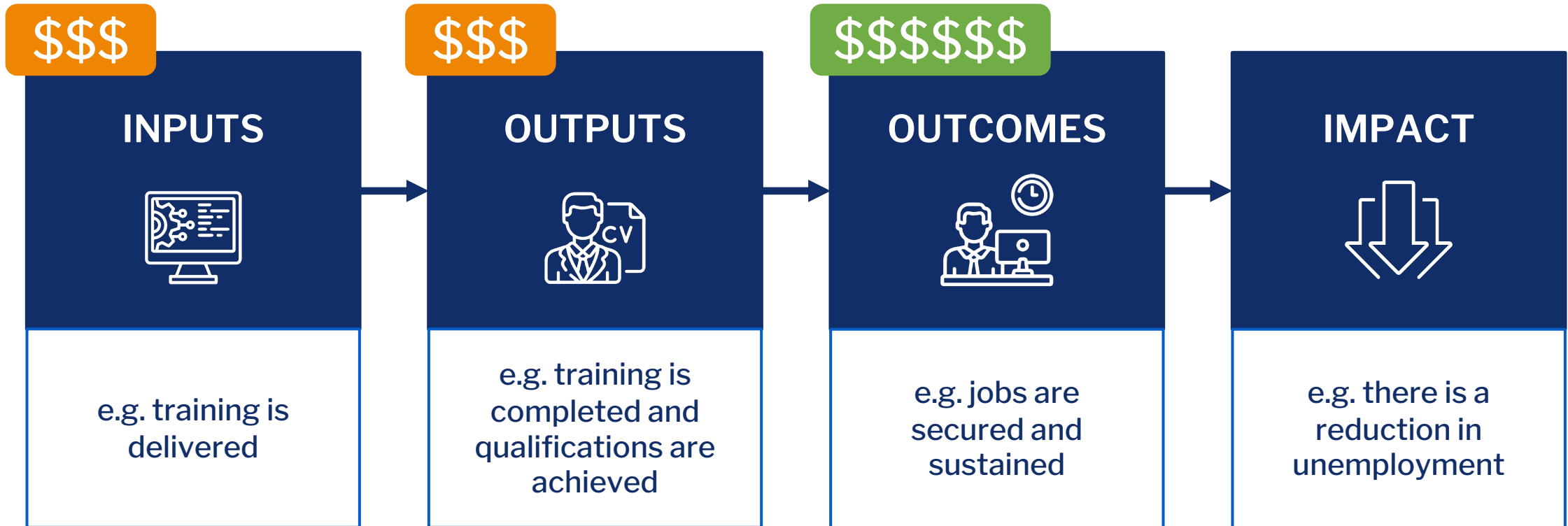
Performance-based contracts might attach the payments to different 'activities' or triggers along the Results Chain:

1. Someone long-term unemployed securing and sustaining work.
2. A homeless person moving into safe, stable accommodation, and still being there 12 months later.
3. Someone leaving prison/jail and not reoffending for 12 months.
4. A baby gaining weight (i.e. not being stunted).
5. A child attending school and passing exams.
6. A child not being taken into care but being safely and happily maintained in the family home.
7. A child in care being matched with an appropriate foster or adoption placement, and sustaining that placement.
8. A reduction in the number of child pregnancies.
9. Someone leaving the military and reintegrating smoothly and happily into civilian life (reconnected with family, accommodated, trained and employed, self-reported happiness).
10. An immunization.
11. A caesarian section.
12. A mosquito net hanging over a bed.
13. Someone adhering to their HIV treatment.
14. A change in hand-washing behavior in a health clinic.
15. Prescription of different antibiotics.
16. Screening, referral, take-up of referral, and self-reported improvement in wellbeing/happiness.

The components of success?



But linking it to outcomes, we create a cash gap?



Addressing the cash gap

There are a number of ways to address the cash gap:



Contract with providers who have cash reserves or can borrow the cash.



Provide an upfront 'mobilization allowance' tied to achievement of gateways (possibly make it a loan, which the provider repays when they start to deliver outcomes).

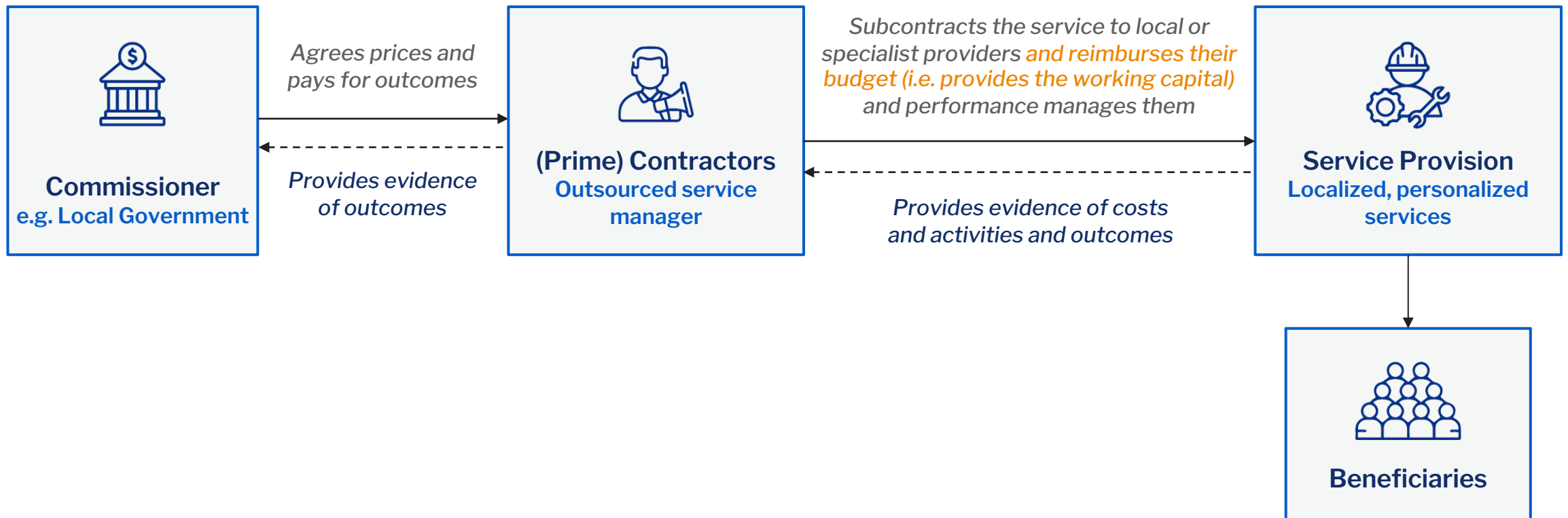


Bring some of the payments forwards and pay for *some* inputs or 'interim outcomes'.



Bring in 'social investors' to provide the capital (sometimes called a Social or Development Impact Bond).

Social (or Development) Impact Bonds



The main criticisms?



“It is complex!”



“Quality will suffer.”



“It is expensive to set up.”



“Providers don’t like it.”

The main criticisms/barriers?

“It is complex!”

But what could be simpler?! Have you SEEN the World Bank’s procurement frameworks??? Define/agree ‘success’ and pay for it. Use the payment model that is most relevant. Managing performance well demands a small number of key deliverables.

“It is expensive to set up.”

It doesn’t have to be! Cut through the noise and keep it simple. Beware management consultants. Replicate. Make everything open source and share learning. Use pro bono lawyers (and the templates now available).

“Quality will suffer.”

Define your target group carefully. Then you can’t deliver quantity without quality. Select outcomes that are meaningful, ideally chosen by the service users. Involve service users and peers in governance/oversight. Report transparently.

“Providers don’t like it.”

Look at the HBGI Report: [Paying for Outcomes on Mental Health Programs](#). Providers want to be enabled to deliver greater impact.

It’s not a cure-all. But it has the potential to deliver a lot more for a lot more people in many cases!

Key takeaways

- + Connect the money as closely as possible to delivery.
- + Build a 'costed operating model' that shows the relationship between inputs/costs and delivery and payment triggers/income.
- + Understand the cash requirement.
- + Focus on bottom-up, personalized solutions, and choose a payment/funding model that facilitates this.
- + Performance manage (including inputs, costs, income).
- + Ask, "Where can I spend to deliver more"?



Questions/Comments



Our role in the outcomes contracting market

Outcomes contracts can lead to better outcomes and better value for money for commissioners (1)

Family therapy under a grant funded delivery...



Quality score

~3

families per team per year

24

Price per family

£35k

And under an outcomes contract...



Quality score

>4.5

families per team per year

46

Price per family

£16k

Outcomes contracts can lead to better outcomes and better value for money for commissioners (2)



14,400 entrepreneurs supported, of which 75% are women

95,000+ lives improved

At **similar cost per participant** to non-outcomes based programmes...

...With nearly **double the impact**

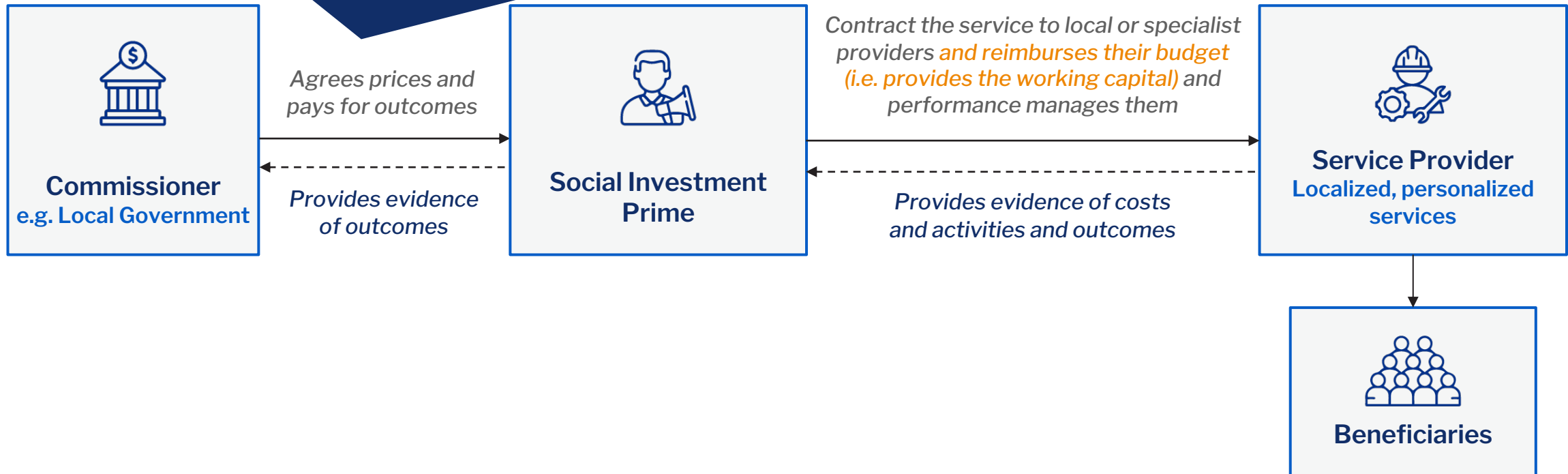
DIB: 113% increase in per capita consumption

Non-DIB, other geographies: 67%

Non-DIB, same geography: 57%

What we ask of commissioners

- Typically requires commissioner to manage within procurement frameworks not designed for outcomes contracts – so often needs a champion wanting to try something new. 😊
- Relationship between all parties is key to making an outcomes contract work – aim is to have a culture of joint problem solving.
- Requires a different mindset from the commissioner – letting go of the specifics of how things are delivered and focus on strategic objectives.



Bridges Outcomes Partnerships: A little about our work

**Social
Entrepreneur
Pool of
Funding**

13
outcomes
projects



Plus Individual family offices

**Social
Impact Bond
Pool of
Funding**

34
outcomes
partnerships



**Social
Outcomes
Initiative**

25
outcomes
partnerships



**SDG
Outcomes
Initiative**

11
outcomes
partnerships



Bridges Outcomes Partnerships: Some examples from the UK and beyond



Kirklees Better
Outcomes Partnership

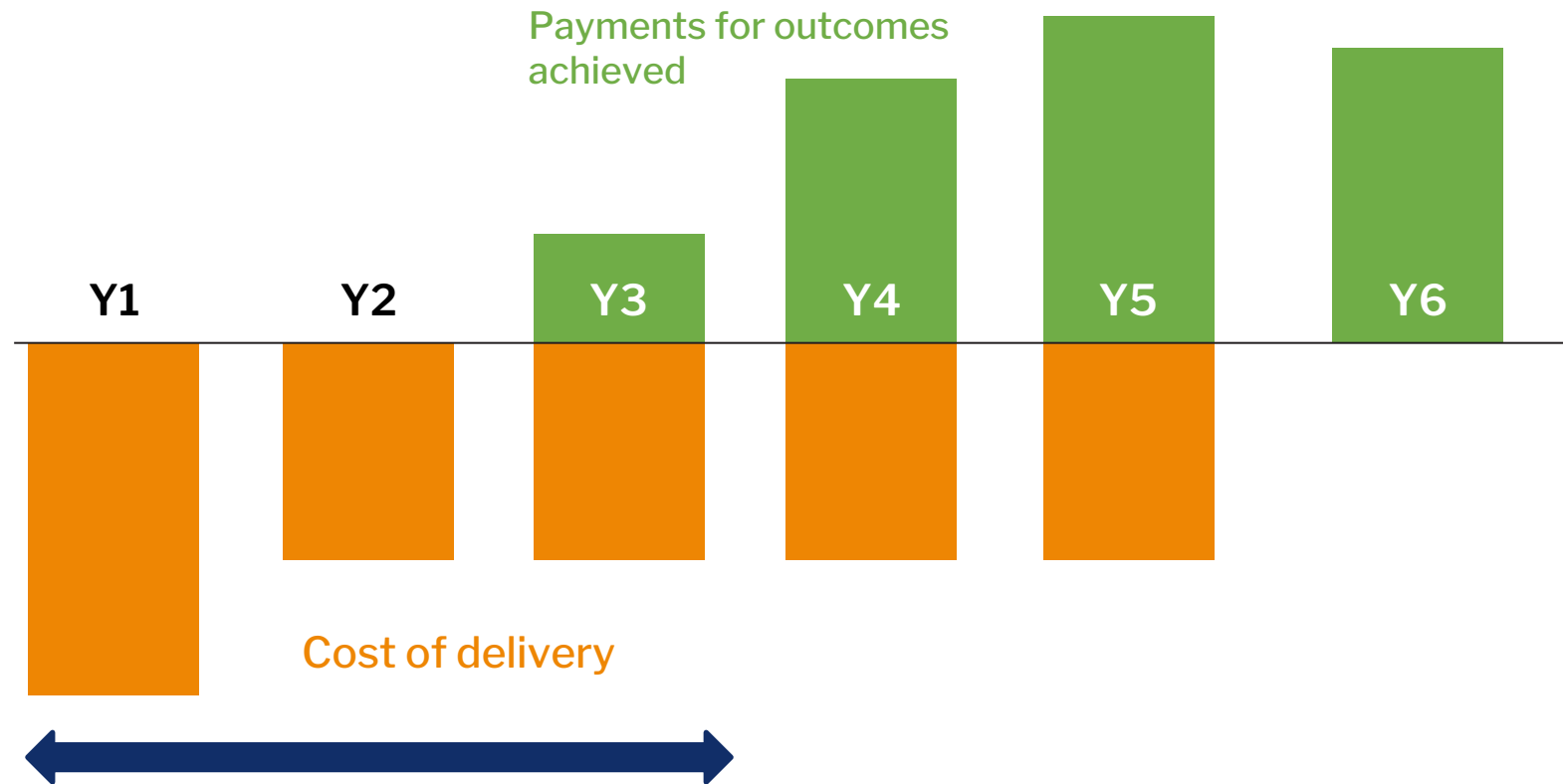


wecoolers



istanbul
Kodluyor

Yes, part of what we do is provide working capital to delivery partners...



A working capital need exists as outcomes income comes later, and service delivery (and any innovation needed) must be funded now

... but our work goes beyond this,
to help outcomes-based project have impact

Find out what works and what does not, and do more of what works

Deliver, iterate, deliver, iterate

Invest in innovation

Create culture of joint problem solving across the system

Share learnings so the system benefits

We aren't the only funding game in town



Own balance sheet

- ✓ Easy and cheap
- ✓ No DD required
- Requires taking on financial risk



Borrow from bank

- ✓ Lots of options
- ✓ Could have existing relationship with bank
- Risk on balance sheet
- Potentially high interest rates
- Stringent DD and collateral requirements



Other social investors

- ✓ Typically concessionary return requirements
- ✓ Mission aligned
- Not many options. Will require DD
- Different players offer different levels of operational support



Granted from donor / foundation

- ✓ Can be very low return, even non-repayable
- Can be hard to access
- Typically limited operational support

Our contract with you: not dissimilar to the contract you have with a grant funder



The mechanics of working with partner like us for a delivery partner



Contractual relationship

In most cases we have contract with outcomes funders, and we also have a delivery agreement with delivery partner(s).

In some cases the delivery partner does hold the contract with outcomes funder, and we then provide a loan into the delivery partner (this has balance sheet implications for delivery partner).



Working relationship

Apart from funding, we work in partnership with delivery partners to help improve the quality of data and determine the innovations.

In most cases we will allocate members of our team to the contract, who will work closely with delivery partners to put in place the building blocks to drive performance.



Funding relationship

We usually fully fund delivery partners, covering all delivery costs and overheads. In most contracts, delivery partners are not taking a financial risk – we typically cover all costs either in advance or in arrears.



Governance relationship

Regular meetings with delivery partners to manage outcomes delivery. to help determine required innovations in delivery and manage costs and any over / underspend.

We also have regular meetings with outcomes funders to help problem solve any issues faced in achieving outcomes, as well as update them on progress on contracts.

What do we look for in delivery partners



Some **track record** of delivery in the areas of interest, some evidence that outcomes can be delivered.



A **team** that wants to solve problems at hand, has the skills to do so and will stick around.



A strong handle of the **data** available (both of own delivery but also beyond) and what it means.



Understands challenges and has **tangible ideas** for how current solutions could be improved.



Has a good grip on the costs of delivery and has a history of managing **finances** effectively.



We like, and likes us 😊... we have to work together for years!



Questions/Comments



Thank you for attending!

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