NASCENT IDEA

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OUTCOMES FUNDS FOR ECONOMIC MOBILITY

/ SIR RONALD COHEN /

When it comes to tackling the urgent problems we face today, there is no time—or money—to waste.

Governments have a leading role to play in the emerging Impact Revolution. They have tremendous power to drive change and steer progress. That is why it is so important that governments shift their focus from inputs to outcomes. In this era of accelerating public sector sophistication, outcomes funding strategies will help to identify effective interventions and bring them to scale. These—including Social Impact Bonds and other Pay for Success strategies—allow policymakers to pay only for what works, to the extent that it works. Instead of buying services and hoping they will be successful, governments pay for measured results.

Outcomes funds drastically reduce the time and cost it takes to put together outcomes-based contracts.

Complex social issues, though, often don't fit neatly into one agency's purview. Consider a workforce program for veterans with post-traumatic stress disorder. It could help achieve the goals of one agency (say, a county's behavioral health department), while also contributing toward another's policy objectives (say, a state's economic development agency). Looked at through just one agency's lens, perhaps the program isn't worth it; but looked at holistically, it may be a blockbuster.

Each individual project can bring together multiple partners to contribute outcomes funding. As my colleague Nirav Shah relates in "Investing in America's Workforce," the veterans-focused project I describe above was launched by drawing together commitments from the U.S. Department of Veterans Affairs, the commonwealth of Massachusetts, and the cities of Boston and New York.[1]

But weaving that customized tapestry took four years. Overcoming institutional silos one at a time is hugely time-

[1] Nirav Shah, "Improving Workforce Outcomes with Pay for Success," in *Investing in America's Workforce: Improving Outcomes for Workers and Employers*, ed. Stuart Andreason, Todd Greene, Heath Prince, and Carl E. Van Horn (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2018), 63–74, www.investinwork.org/-/media/68AAA0BA542445508B3CAE88EAFC233D.ashx.

intensive, and hugely challenging.

SOLVING THE WRONG POCKETS PROBLEM

Outcomes funds drastically reduce the time and cost it takes to put together outcomes-based contracts. They set up the infrastructure for cooperative, cross-agency funding, in advance of a specific project, by aggregating a pool of capital. Then they actively develop new projects focused on a set of priority outcomes.

The state of California's small but successful outcomes fund serves as a useful case study. It intended to solve a typical challenge of government funding. Efforts to reduce recidivism face "vertical" wrong pockets problems: benefits of reducing reoffending accrue to both counties (via the jail system) and states (via prisons), limiting the incentive for either to fund prevention on its own—even if, taken as a whole, that prevention would pay off for taxpayers. California, under the Board of State and Community Corrections' Pay for Success grant program[2]—used a state-county collaboration to overcome that issue. With just $5 million in state match, California's outcomes fund launched three county-level projects, with up to $15.7 million on the line.

This kind of one-off effort in California, though, doesn't do justice to the idea's potential. Outcomes funds can centralize expertise in building outcomes-based funding strategies within government. This should not be underrated. Centers of excellence lead to more effective and efficient contracting, smarter project designs, and better collaborations. (Just look at the Executive Office for Administration and Finance in Massachusetts, which has become the national leader in these contracts.) Rather than building artisanal projects,

2 Assembly Bill (AB) 1837 (Atkins), Chapter 802, Statutes of 2014.

administrators of an outcomes fund can proactively create lasting, mutually reinforcing partnerships—and continue to learn about the most cost-efficient mechanisms for achieving their target outcomes.

Jurisdictions around the globe have begun to cultivate pools of funding earmarked for outcomes contracts that cut across agencies and levels of government.[3] In the U.S., Congress recently passed the first federal-level outcomes fund: the Social Impact Partnerships to Pay for Results Act (SIPPRA). Legislators enacted this bill as part of the Bipartisan Budget Act of 2018, allocating $100 million to account for the federal portion of state and local Pay for Success initiatives.

USING OUTCOMES FUNDS TO ACCELERATE ECONOMIC MOBILITY

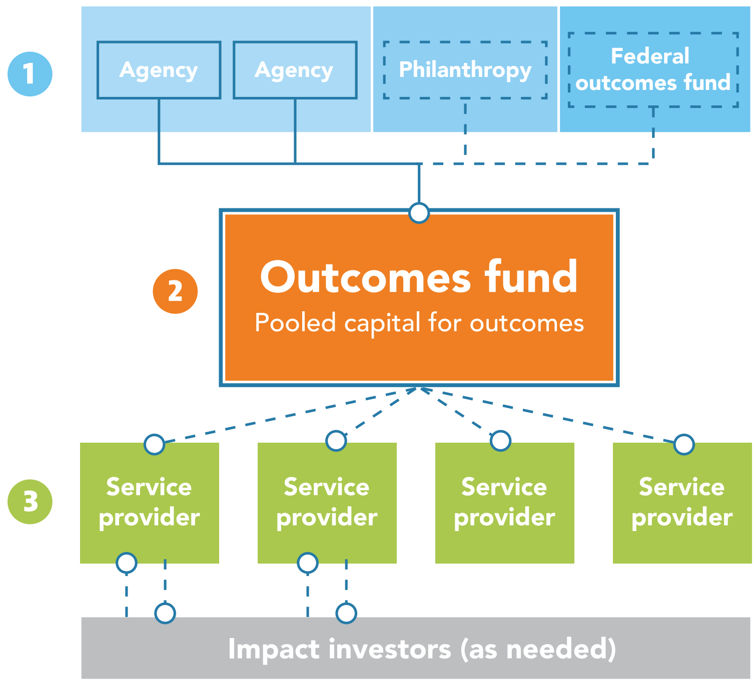
There is a remarkable opportunity here. As the federal government begins aggregating outcomes funds across its agencies,[4] U.S. states could do the same—creating their own state-level economic mobility outcomes funds as illustrated in Figure 1.

3 The U.K. is home to four outcomes funds: the Innovation Fund (£30 million) for youth workforce development, the Fair Chance Fund (£10 million) for displaced youth, the Commissioning Better Outcomes Fund (£40 million), and the Life Chances Fund (£80 million) focused on upstream interventions outside the purview of a single jurisdiction. Donor agencies and others are increasingly developing outcomes funds, such as the two $1 billion Education Outcomes Funds, one for Africa and the Middle East, and the other for India, catalyzed by the Global Steering Group for Impact Investment, which aim to bring systemic improvement to educational attainment levels. Globally, at least five other outcomes funds are in development.

4 Agencies have pursued various ad hoc efforts in this space in advance of SIPPRA. For example, in 2013, the Department of Labor—using $24 million in matching grants through the Workforce Innovation Fund—spurred large, cross-sectoral projects in Massachusetts and New York focused on the intersection between criminal justice and workforce development. In 2016, the Department of Veterans Affairs awarded $3 million for matching outcomes payments, challenging state and local governments to produce better workforce outcomes for veterans. This resulted in a three-site project launched in 2018. Also in 2016, the Departments of Housing and Urban Development and Justice partnered to support $8.7 million in grants focused on the intersection between homelessness and criminal justice, spurring a half-dozen new efforts nationwide. Other initiatives have sprung from the Corporation for National and Community Services' Social Innovation Fund; the Department of Education's Office of Career, Technical, and Adult Education; USAID; and the Department of Justice's Second Chance Act Pay for Success Initiative.

/ FIGURE 1 /

Outcomes funds allow jurisdictions to achieve better outcomes by centralizing knowledge and strategy around outcomes contracting



1 AGGREGATE CAPITAL
Funding agencies (sometimes in partnership with philanthropy) come together to **jointly contribute to an outcomes fund**. In some instances, federal outcomes funds may match.

2 CENTRALIZE EXPERTISE
The fund develops **outcomes-based contracts** to achieve key policy goals under a common framework.

3 CONTRACT FOR OUTCOMES
As needed, service providers may draw on impact investors for the **upfront capital needed** to provide services to the target population; investors are repaid if outcomes are achieved.

These funds would give states an advantage in securing federal awards by developing outcomes-contracting expertise and creating a pipeline of promising opportunities. More importantly, they would enable states to build the muscle around outcomes contracting, at a time in which making the most of public money has never been more essential. By aggregating money from across agencies, state economic mobility outcomes funds would solve "horizontal" wrong pockets problems, finding opportunities that might otherwise fall through the cracks between agencies. In some instances, we expect economic mobility funds would also attract the notice of the philanthropic and corporate communities, further bolstering their potential for impact.

Funds themselves would identify a set of priority target populations—for example, transition-aged youth living on the street; American Indians and Alaska Natives receiving unemployment benefits; and refugees and recent immigrants who are English language learners—and then define priority outcomes for each group. In only paying for achievement of those outcomes, the funds will help accelerate the uptake of effective practices.

TOWARD MORE AGILE GOVERNMENTS

The scale of our problems requires powerful new mechanisms. We are facing a moment in which governments everywhere need to maximize the impact of every dollar they spend. Fortunately, we're entering that moment armed with more information and stronger analytical tools than ever before. Sophisticated budgeting and spending tools, like outcomes funding, are not enough on their own to overcome the structural challenges we face—but they can serve as a compass, helping to navigate states and counties toward what works.

Outcomes funds are how we accelerate that journey. They are how the public sector brings these powerful, but niche, tools into the mainstream—while strengthening the forces of smart government in building collaborative, cross-sectoral partnerships around economic mobility.

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This chapter came from the book *Workforce Realigned: How New Partnerships are Advancing Economic Mobility.*
Learn more at workforcerealigned.org