



**USING ESF FOR ESTABLISHING
OUTCOME PAYMENT MECHANISMS**

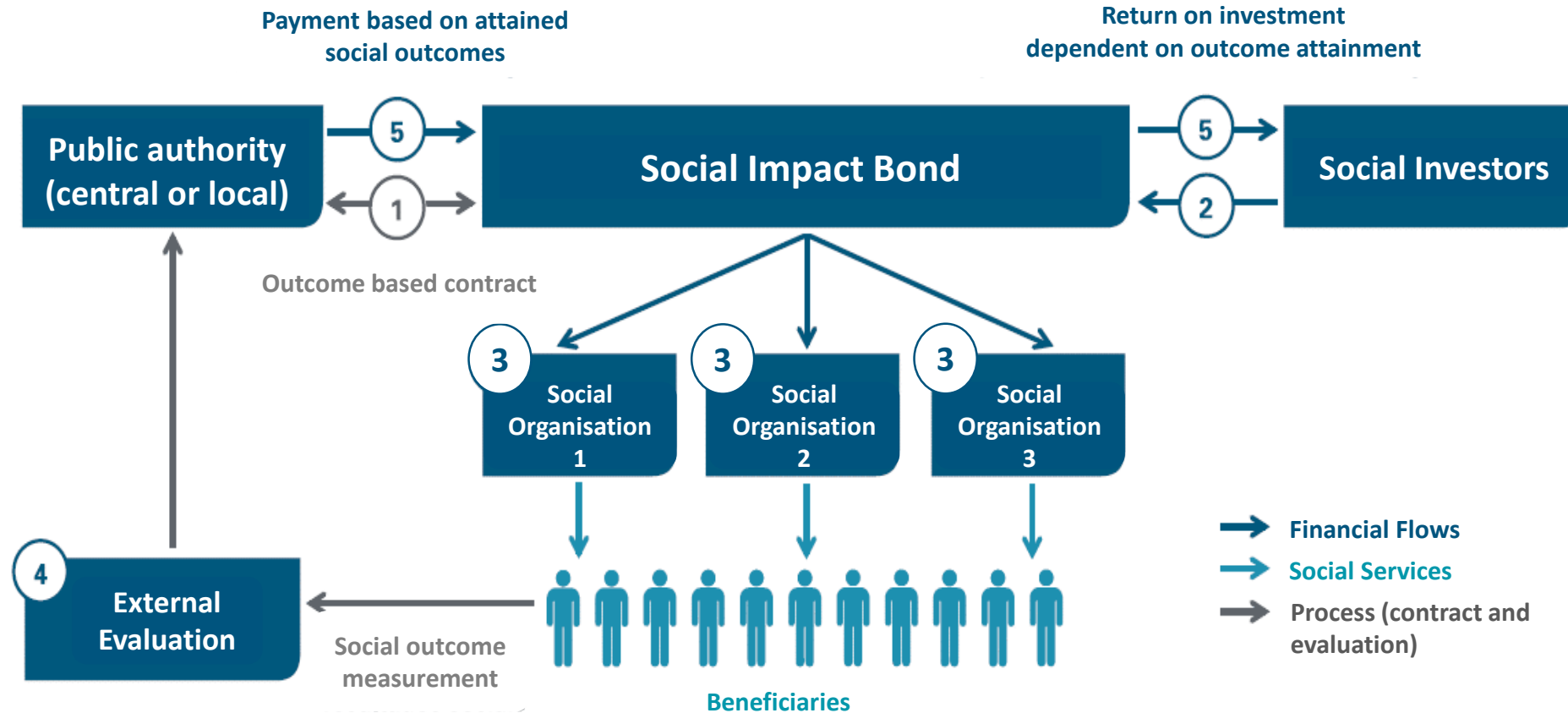
Carla Pedro & Teresa Bomba
Brussels, December 2018



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SOCIAL IMPACT BONDS (SIBs)



SIB: An outcome payment mechanism involving 3 main parties

SIB PARTIES

ROLES AND FINANCIAL FLOWS



#1: SOCIAL INVESTORS

Make the initial investment to provide implementing entities the working capital necessary for the intervention, assuming the financial risk

#2: SOCIAL ORGANISATIONS (implementing entities)

With that initial investment, develop a social intervention, directly addressing the social outcome contracted between the SIBs parties

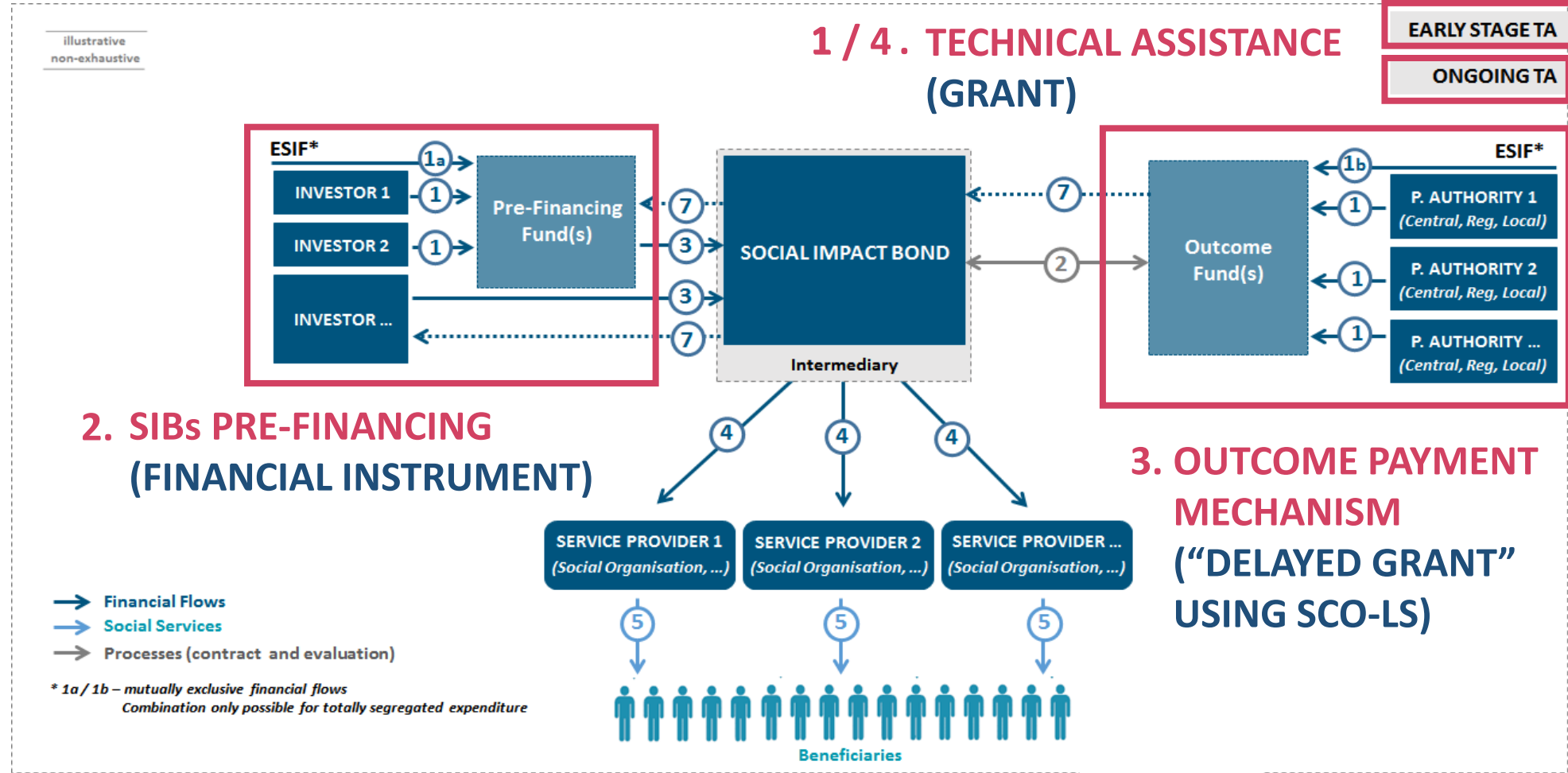
#3: PUBLIC SECTOR AUTHORITIES (commissioners)

Pay the initial investors a specific amount for that contracted social outcome once it has been achieved

#4: INTERMEDIARIES

Setting up a SIB usually also requires intermediaries to aggregate investors, perform due diligence, negotiate and develop contracts or manage the SIB throughout its implementation

THE “IDEAL SIBS PROGRAMME” AND THE USE OF ESIF - ESF



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USING ESF FOR SIB

KEY DECISIONS AND ISSUES



ISSUE #1: A FINANCIAL INSTRUMENT OR A GRANT?

ISSUE #2: ELIGIBLE EXPENDITURE

ISSUE #3: GEOGRAPHIC SCOPE

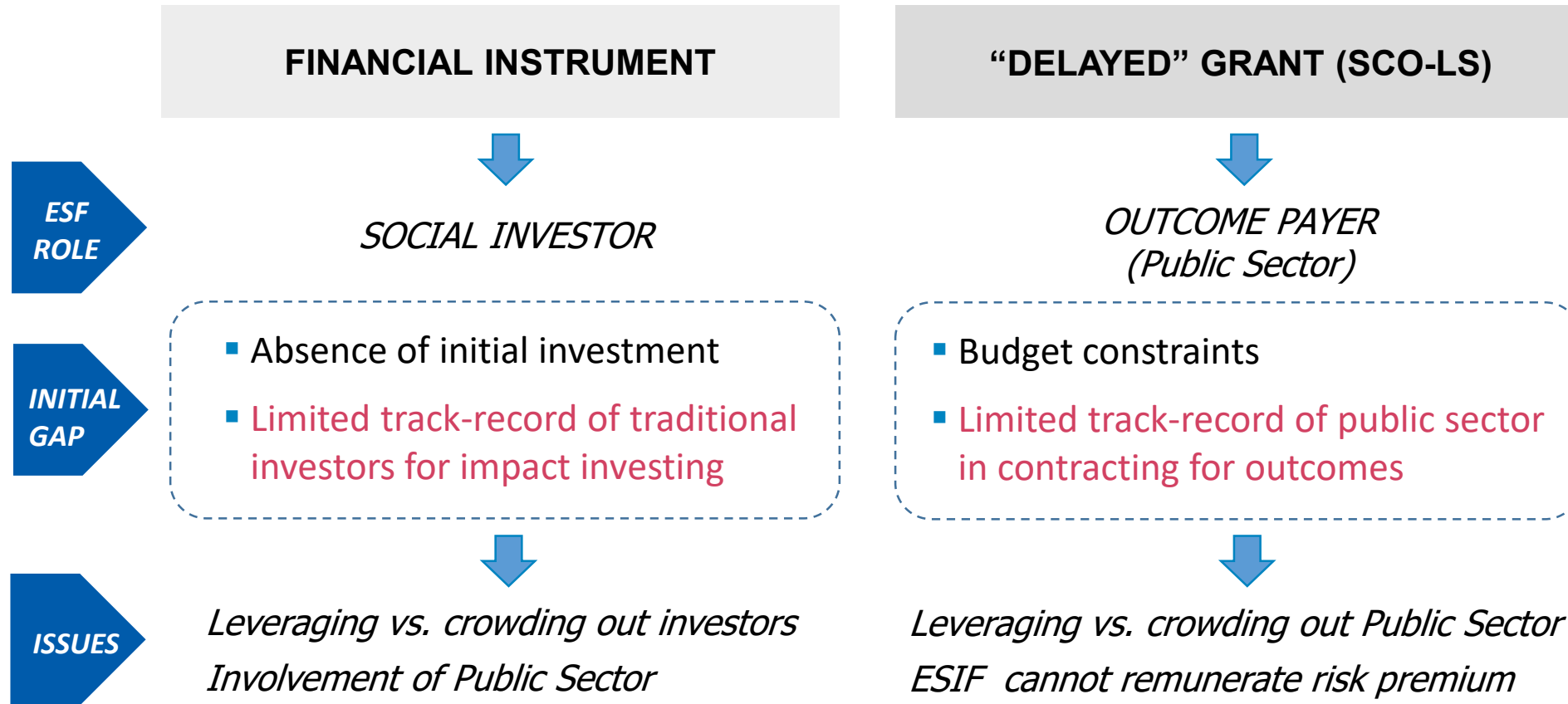
ISSUE #4: SIB DURATION AND IMPACT MEASUREMENT

ISSUE #5: REIMBURSEMENT OF REAL COSTS OR SCO LUMP SUMS?



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ISSUE #1: A FINANCIAL INSTRUMENT OR A GRANT?



**HOW TO CHOOSE? HOW TO COMBINE,
ALSO WITH OTHER EU FUNDING?**



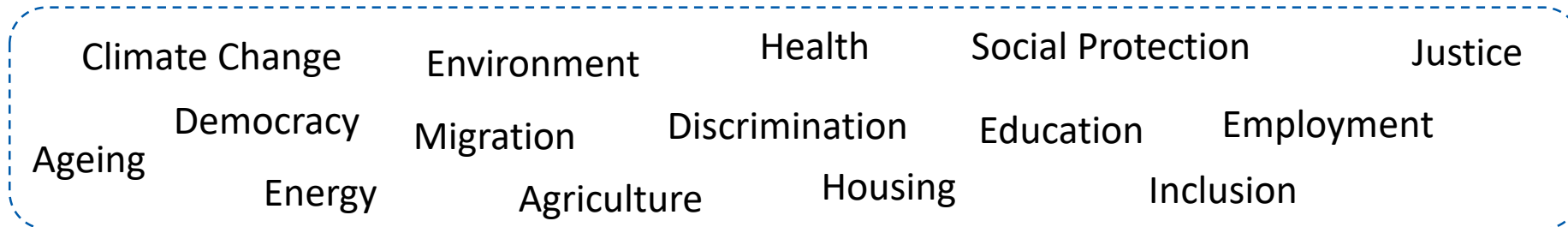
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ISSUE #2: ELIGIBLE EXPENDITURE



Main Ref. Docs: CPR – Article 69; Regulation (EU) 1304/2013 – Article 13

SOCIAL INNOVATION, SOCIAL ENTREPRENEURSHIP AND OUTCOME PAYMENT MECHANISMS FOR PUBLIC POLICIES (*incl. SIB*) ARE TRANSVERSAL BY NATURE



Interconnected areas, well beyond traditional social (ESF eligible) domains



- Societal challenges and complex social problems. Silos vs. cross-cutting approaches. How to stimulate the later?
- Complementarity with other EU financing mechanisms (EaSI, H2020, EFSI, ...)



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Main Ref. Docs: Regulation (EU) 1304/2013 – Article 13 (2); CPR – Article 70 (4) (c) for ERDF

POTENTIAL MISMATCH BETWEEN

ESIF/ESF structure and governance

AND

Public Sector structure and governance

(relevant for outcome contracting and payment)

- Who is responsible for the relevant public policy? National vs. regional vs. local scope
- How to treat multiregional projects? Minimum scale
- How to promote replication and scaling to other regions? Same vs. different projects

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ISSUE #4: SIB DURATION AND IMPACT MEASUREMENT



Main Ref. Docs: CPR – CHAPTER IV Decommithment (N+3 Rule)

1. In the case of SIB or other outcome payment mechanisms, project implementation periods are usually longer than in the case of traditional ESF projects (5+ years, several cohorts, ...)
2. Additionally, payments are linked to outcomes' validation, which can take even longer to achieve (and to measure)

1+2 might conflict with ESIF N+3 rule (and with the end of eligibility period)

HOW TO OVERCOME IT?

Short term vs. long term:

- Multiple outcomes + Multiple payments
- Available official statistics and data sets vs. External assessment (e.g. Universities)
- Existence of unit cost data

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ISSUE #5: REIMBURSEMENT OF REAL COSTS OR SCO LUMP SUMS?



Main Ref. Docs: CPR – Article 67 (1) (c); Regulation (EU) 1304/2013 – Article 14 (3)

- *“reimbursement of eligible costs actually incurred and paid”* (real costs) **proved not workable** for setting-up ESIF/ESF outcome payment mechanisms

Because most ESIF/ESF processes associated to grants are still centred on validating expenditure, outcomes payment (impact measurement) adds an extra layer of complexity to process

- All-or-nothing lump sums for *each* proposed outcome (an existing Simplified Cost Option ESIF/ESF model) is the **only** methodology that fully aligns ESIF/ESF financial flows with outcome payment mechanisms

but it is limited to “EUR 100 000 of public contribution”, well below most SIB outcome values



RECOMMENDATIONS
OTHER ADDITIONAL SUGGESTIONS



A specific **EC Delegated Act** for using ESIF to finance SIBs and other outcome payment mechanisms

A **EU-wide Technical Assistance initiative** to support MS setting up outcome payment mechanisms using ESIF



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RECOMMENDATIONS

OTHER ADDITIONAL SUGGESTIONS



IMPACT MEASUREMENT

- Supporting the creation of unit cost databases
At a MS-level, for outcome contracting; at EU level (EUROSTAT, OECD, etc.), for comparability and cross-boarder scaling and building a replication environment

JOINT ACTION PLANS

- Further adjusting the JAP mechanism for SIBs/PbR deployment
Longer durations, possibility of private beneficiaries, adjusted content/requirements to SIBs/PbR contexts, simplified governance rules and JAP content, facilitating revisions/amendments

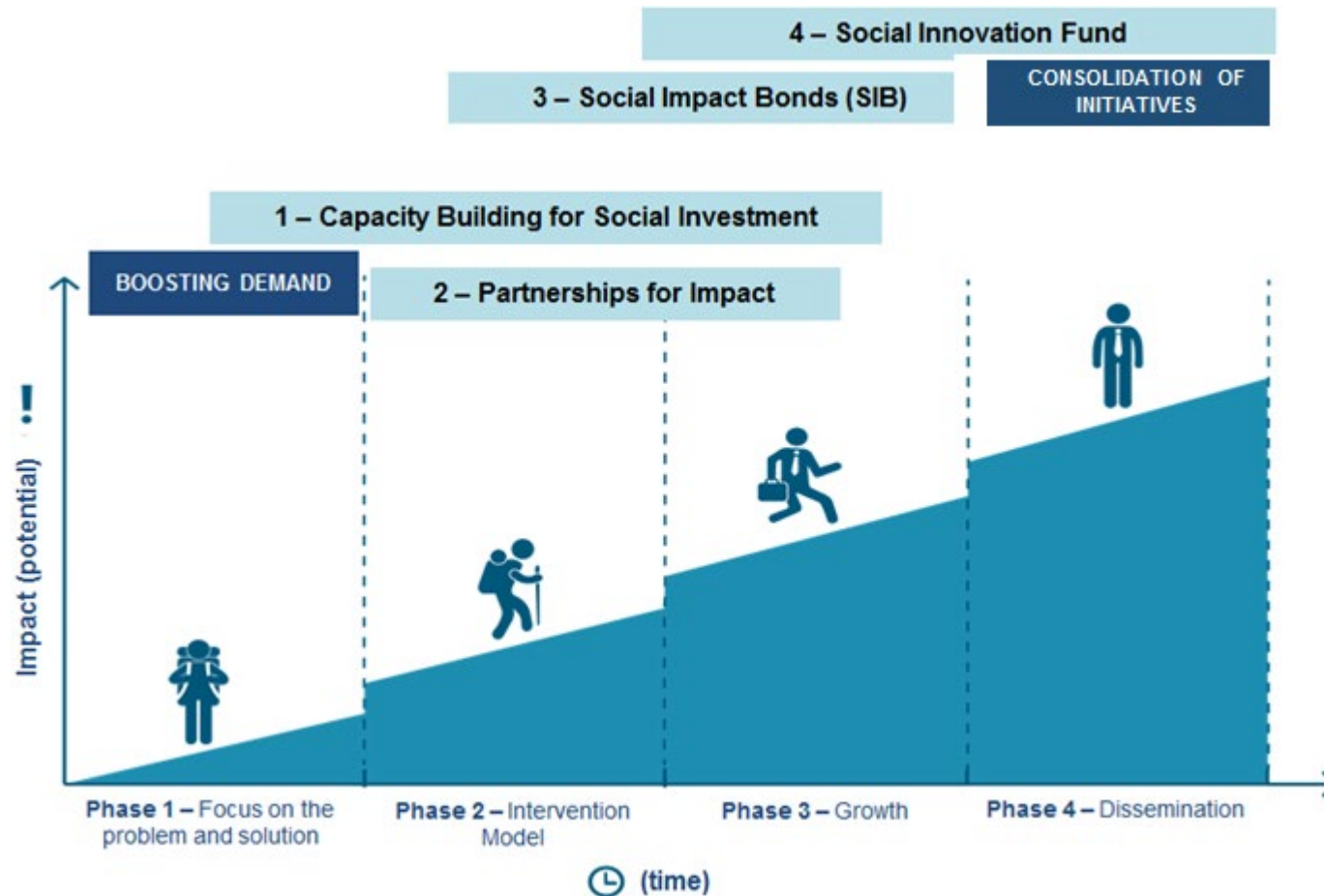
GRANT – FI COMBINATION

- Using “combined grants” to pay for investors’ risk-premium (financing the interest component)
Segregated expenditure in a SOC-LS environment, investors as final beneficiaries



RECOMMENDATIONS

OTHER ADDITIONAL SUGGESTIONS



THE PORTUGAL SOCIAL INNOVATION INITIATIVE:

Using **ESF** to finance the full **life-cycle** of social innovation and social entrepreneurship initiatives and promoting its ecosystem

