

**social  
outcomes**



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# **PARENT RETRAINING SOCIAL IMPACT BOND DESIGN PROJECT**

## **PROPOSAL FOR YOU ME WE, JAPAN**

**MARCH 2021**

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## Context

The Japanese government has been exploring the use Social Impact Bond (SIB) models and Payment by Outcome (PbO)/Pay for Success (PFS) contracting arrangements in social service delivery with the Cabinet Secretariat highlighting SIB promotion as part of its “Future Investment Strategy”.<sup>1</sup> In 2017 and 2018 SIBs focussed on health care were launched in the city of Hachioji and Hiroshima Prefecture. By 2019, around 20 such projects had been created by local government bodies around Japan, mostly focussed on health.<sup>2</sup> The Nippon Foundation appears to be supporting three pilot projects in the areas of foster care and adoption, youth unemployment and dementia care.<sup>3</sup> There appears to be a rapidly growing Impact Investment Sector in Japan driven largely by a decision to place dormant bank accounts into a social impact fund.<sup>4</sup>

You Me We have taken the initiative to explore what a SIB could look like in the out of home care space in Japan and have approached Social Outcomes to develop a SIB proposal that could be shared with the Japanese government. The proposal will focus on a program which re-educates parents in order to prevent children from entering the out of home care system, or to successfully reunite those who have already been removed back with their parents.

## About Social Outcomes

Social Outcomes is a for purpose enterprise that was established in 2014 to work with clients from across all sectors to maximise their desired social, cultural or environmental impact through an evidence-based design process. We have worked with a wide variety of clients to design SIBs and PBO contracts as well as impact measurement frameworks, and we have assisted with capital raises from the impact investing sector when required.

The team has worked with clients to research the evidence base, design outcomes-based payment frameworks and develop cost-benefit analyses, financial modelling and proposal documentation for eleven different social impact bonds and payment by outcomes contracts on such topics as:

- increasing the resilience and reducing homelessness of young people exiting care (including the Queensland YouthCONNECT social impact bond);
- preventing children entering the out of home care system (including the NSW Resilient Families social impact bond);
- improving health outcomes in remote indigenous communities;
- early childhood education;
- women’s recidivism; and
- improving outcomes in aged care.

We have also done design work on a development impact bond focussing on improved outcomes for women subsistence farmers in Papua New Guinea.

More generally, we have worked with a wide range of clients to increase impact, including the following:

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<sup>1</sup> The Japan Times, [The rights of social impact bonds in Japan](#), 20 January 2019

<sup>2</sup> <https://siif.or.jp/en/strategy/sib/>. See also <https://gsgii.org/nabs/japan/>

<sup>3</sup> See <https://www.nippon-foundation.or.jp/en/news/articles/2015/20150414-20915.html>; <https://sibdatabase.socialfinance.org.uk/>

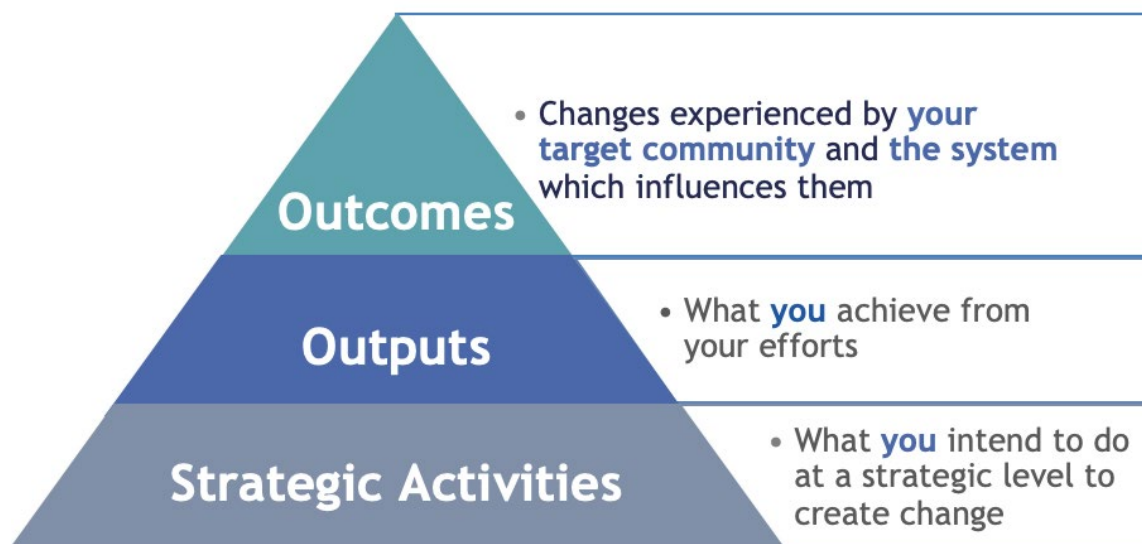
<sup>4</sup> Global Social Impact Investment Steering Group, [The Current State of Impact Investing in Japan](#), 2018; Global Social Impact Investment Steering Group, [The Current State of Impact Investing in Japan](#), 2017



## Background on Payment by Outcome Contracting and Social Impact Bonds

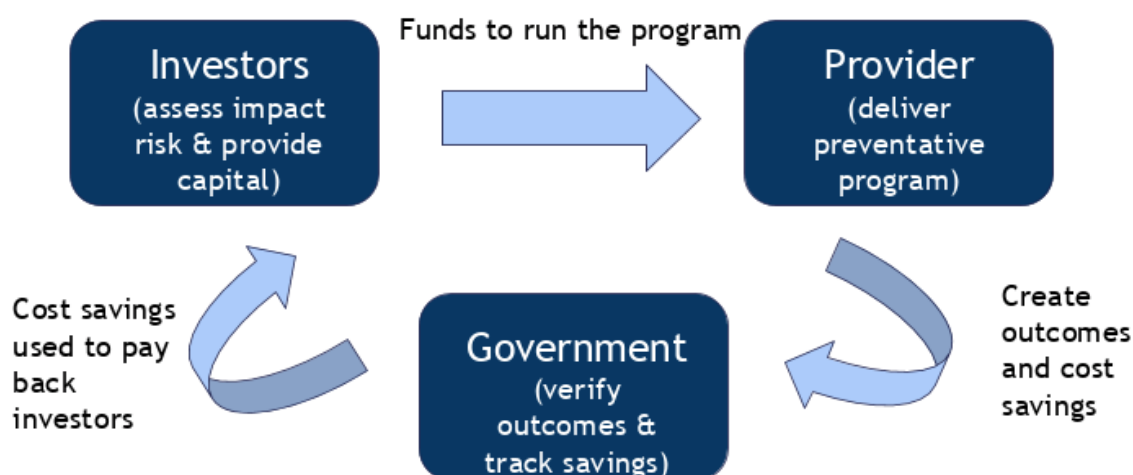
### What is the difference between outcomes and outputs?

It is important in the first instance to understand the difference between **outputs** and **outcomes**, as many organisations confuse the two, placing more emphasis on activity rather than longer term impact. Simply put, **an output** is something *the organisation* achieves and whilst important, it only adds value if things change in the lives of the beneficiaries the organisation exists to serve. The change in the lives of your *beneficiaries or target community* are **outcomes**.



## What are Social Impact Bonds (SIBs) and Payment by Outcome Contracts (PbOs)?

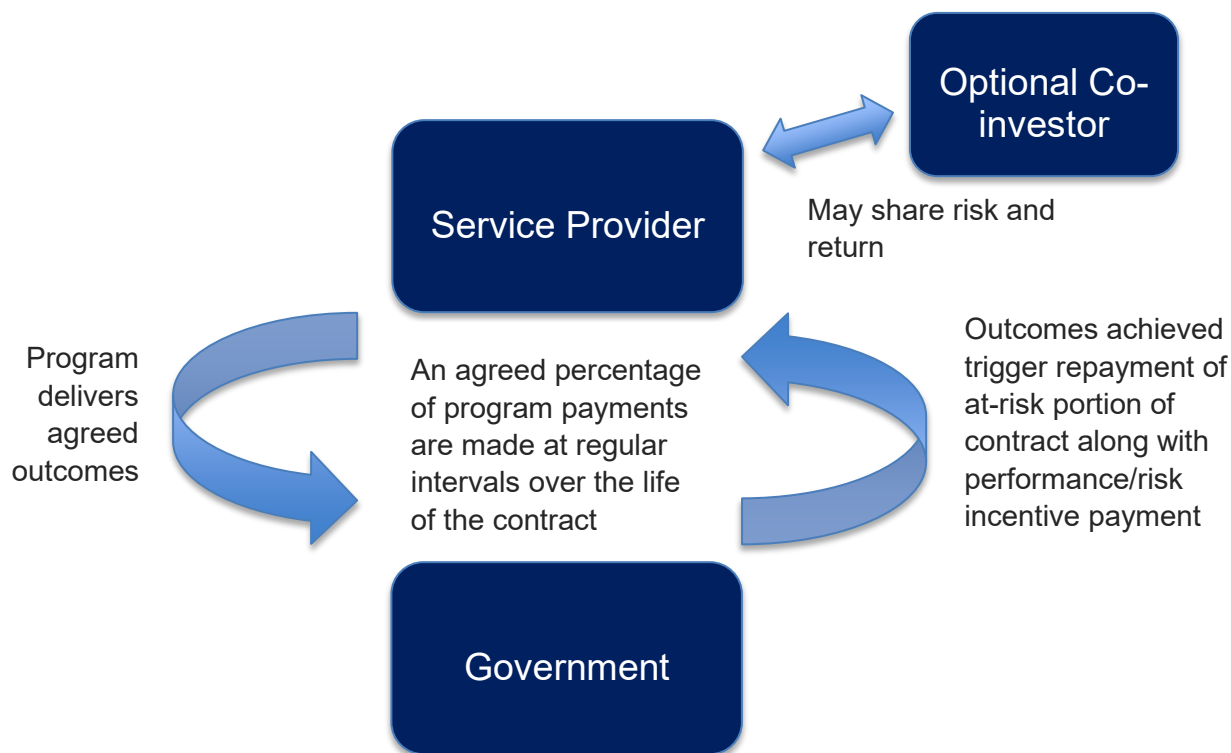
A Social Impact Bond (SIB) is a financial tool which raises money to fund outcomes-focussed programs that generate cost savings to government. Investors provide the 'up-front' money to run the program and are repaid by the government (the 'outcomes funder') if the agreed social returns (and cost savings) are in fact created by the underlying program. SIBs are generally used to fund preventative programs that focus on highly vulnerable populations with complex needs, as this is generally where the biggest gaps in social service delivery lie and where there is the highest potential for generating significant government cost savings. Investors are paid a risk adjusted return if the outcomes are created and verified. In Australia, those returns vary between 5-20% IRR, depending on the performance of the bond.



A payment by outcome (PbO) contract is a contract for the delivery of social services where some, or all, of the contractual payments made by the government (or another outcomes funder eg a philanthropist) are triggered by achieving demonstrated and independently verified social outcomes (NOT outputs). **Not all PbOs are SIBs, but all SIBs are linked to**

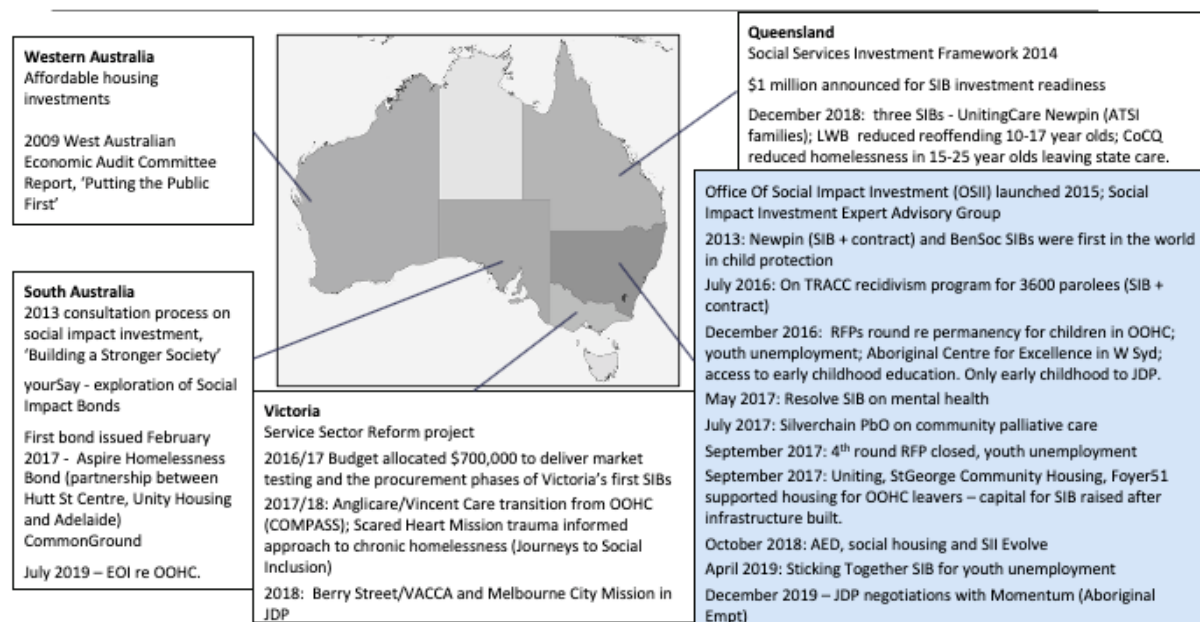
**demonstrated achievement of social outcomes.** Where a services provider does not need to raise funds from the private investor market to fund the program, there is no need to engage with a SIB structure. Australian governments are gradually shifting their overall commissioning approach towards outcomes-based contracts (replacing outputs-based contracts) and thus PbOs will eventually become the norm, whether or not they require a SIB instrument.

In simple terms, a PbO works as follows, with the service provider taking as little as 0-20% of the contract value at risk:



## Australian and Global Context

The first two social impact bonds (SIBs) in Australia were commissioned in NSW in 2013. Since that time, Queensland, Victoria and South Australia have also commissioned SIBs, bringing the national total to 13, with several more currently in the process of negotiation.



Globally, there are over 138 SIBs and Development Impact Bonds (DIBs) on the market with a value of \$441million, and another 70+ more in development.<sup>5</sup>



As noted above, while governments are most commonly the entities commissioning the outcomes (outcomes funders), there is an increasing interest from private Foundations to become outcomes funders themselves, albeit mostly in the context of DIBs.

Foundations in the USA have also begun funding pilot programs designed to establish the case for new social impact bonds. For example, in Fresno, California, Collective Health and Social Finance are looking to develop a SIB to improve the health of low-income children suffering from asthma. 20% of children in Fresno are diagnosed with asthma, as compared to the 8% national average. The [California Endowment have funded a demonstration project](#) to prove the program's ability to reduce costs by around 30% for emergency department visits, and 50% for hospitalisations, saving around US\$5,000 per child, per year for 200 children. The targeted outcome is a reduction in asthma emergencies and related costs among 200 high-risk children. The program focuses on preventative care, including home visits, tele-health calls, education around

asthma plans and environmental triggers. It is suggested that a SIB-funded five-year program with 3,500 participants could yield \$27 million in reduced costs.

<sup>5</sup> <https://sibdatabase.socialfinance.org.uk/>



# The Commissioning Process for SIBs and PBOs in Australia

In Australia, the normal process for a State commissioning a PBO arrangement or SIB is to call for an expression of interest (EOI) or a request for proposal (RFP), or both. The State outlines the outcomes it is interested in purchasing, along with some key data on the size and scale of the issue to be addressed.

Sometimes the relevant State government uses an EOI process to develop a shortlist of candidates who are invited to participate in a further Request for Proposals (RFP) round where a smaller number of providers move into a Joint Development Phase (JDP). Other times, the State goes straight to an RFP and invites a shortlist of candidates to enter a JDP. The NSW government has also been open to market-led approaches to engage in a PBO or SIB, however our experience is that those market-led approaches can subsequently be converted to an open tender process which then follows the EOI/RFP/JDP pathway.

An EOI for a PBO or SIB generally calls for an outline of the following design elements.

1. Outcomes
  - Identifying the specific social issue(s) to be addressed
  - Explaining the proposed program that will be delivered to create impact on that issue(s), including number of people to be served, referral or entry arrangements, scalability and replicability
  - Outlining the evidence base around the issue(s), the problem to be addressed and the reasons for targeting this population
  - A description of the target population, including size, demographic and geographic reach
  - Detailing the outcomes that the program will seek to achieve, how the program will deliver these and the evidence suggesting success
  - A proposed outcomes measurement framework
2. Commercial
  - The proposed dollar value of the contract
  - The duration of the contract
  - The commercial structure of the project
  - The proposed risk allocations
3. Experience and Capability
  - Experience in delivering similar services
  - Experience in working with government and the target population
  - How the partnership will resource the management of the contract
  - An overview of the client management system
  - Experience in contracting for outcomes
4. Financial Capacity
  - Provide a summary of the financial statements for the last three years
  - Identify the government contracts over that period, their term and approximate value



# The Proposed Approach

## Develop an evidence-based SIB/PBO proposal

Social Outcomes proposes taking the following evidence-based approach to developing a SIB proposal that can be discussed with the Japanese government to test their interest in being the outcomes funder. To achieve this goal, Social Outcomes proposes to take the following steps.

**Step 1: Review the evidence base regarding the extent, dynamics and cost of out of home care in Japan; assess alignment of the proposed program to the evidence base on 'what works' to alleviate those problems**

**Step 2: Identify potential cost savings to be generated upon achieving outcomes targets for the current cohorts to provide an indicative project cost:benefit analysis for government**

**Step 3: Develop an outcome measurement framework including cohort eligibility criteria, outcome definition and payment triggers and an attribution methodology, based on the evidence collected**

**Step 4: Develop a risk-sharing commercial structure and simple financial model**

**Step 5: Prepare a SIB project proposal for the Japanese government incorporating all elements of Steps 1-4.**

We would like to highlight, however, that this process is based upon the extensive work that we have done in this field in Australia and the Pacific. As we are not familiar with the evidence base and data sources in Japan, nor the machinery of the Japanese government, we have some hesitation about our ability to deliver to the same quality we have become known for in Australia. We suggest that we discuss the challenges posed by delivering into a Japanese context, and possibly consider having one of your interns do some data mining work as part of their development, and preferably one who speaks Japanese in case we cannot source relevant data in English.

## Timeframes and Deliverables.

The following table broadly outlines the steps we will take to design and deliver an evidence-based SIB proposal, assuming that we have assistance from a person who can assist us in accessing Japanese research and cost data and advise us on Japanese government interests and cultural context. We note that the estimated timeframes may be influenced by the availability of that person.

Project Deliverables	
SIB Proposal	Estimated Timeframes
<p>Step 1: Conduct research to identify the evidence base supporting the possible outcomes sought. This includes:</p> <ul style="list-style-type: none"> <li>Research key issues facing families at risk of separation, children in the out of home care system and the long-term consequences of poor attachment and trauma that they face and any other relevant risk factors</li> <li>Research key recent developments regarding the protective factors for the target cohorts and evidence of successful approaches in building those factors</li> </ul>	3 Weeks
<p>Step 2: Identify potential cost savings to be enjoyed by the government in the event of successful outcomes for the identified cohorts. We assume that this information will be available in the public domain in Japan or that your relationship with government might allow us to access the data we need to establish the potential value creation</p> <ul style="list-style-type: none"> <li>Research potential cost savings to government in the shorter term (within a contract period) using primary costs data</li> <li>Develop broad cost:benefit ratio for the life of the contract and an estimate of life time savings</li> </ul>	2 Weeks
<p>Step 3: Based on the findings of Steps 1-2 and in discussion with Youkikai and You Me We, develop a theory of change, outcome definitions and an outcome measurement framework, suited to a payment by outcomes contracting arrangement.</p> <ul style="list-style-type: none"> <li>Identify outcomes which correlate with key cost savings for government</li> <li>Analyse alignment between the program's strengths and ability to achieve outcomes which correlate with cost savings</li> <li>Analyse alignment between any existing measurement frameworks, evidence base and cost savings</li> <li>Identify an appropriate attribution methodology (eg baseline data, distance travelled etc)</li> </ul>	4 Weeks

<ul style="list-style-type: none"> <li>Develop appropriate outcomes payment triggers for a SIB arrangement</li> </ul>	
<b>Step 4: Develop a commercial structure</b> <ul style="list-style-type: none"> <li>Identify an appropriate risk-sharing arrangement between the parties</li> <li>Identify payment triggers and timing</li> <li>Work with the project budget provided and to convert it to a program budget for the SIB</li> <li>Undertake financial modelling</li> </ul>	3 Weeks
<b>Step 5: Prepare and deliver a SIB proposal appropriate for the Japanese government.</b> <ul style="list-style-type: none"> <li>35-45 page document to the quality required by a government tender</li> </ul>	2 Weeks

Subject to client preferences and the length of the project, we generally set up fortnightly check-in calls to discuss progress, seek feedback and/or provide draft documentation for review. The final written product is provided at the completion of the Step 5.

We will rely on You Me We and Youkikai to provide any requested in-house data, links to relevant Japanese data sources and program budgets so as to ensure the organisational relevance of our work, and translations as necessary. We will also ask You Me We and Youkikai to nominate a point person and will rely on that person to collect answers to our queries in a timely manner. At all times, we will work collaboratively to develop a design and proposal that is fit for purpose.

## Budget and Payment Terms

### Budget

The following budgets are a fixed price for delivering the scope of work described in the section of this proposal entitled “Proposed Approach”.

Proposed Approach	Budget (excluding GST)
SIB proposal research, design, financial modelling and proposal development	AUD 72,000

### Payment terms

50% payable upon commencement of work.

50% payable upon delivery of the final proposal.

All invoices to be paid within 14 days.

# The Social Outcomes Team



**Sandy Blackburn** - Managing Director

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**Sandy is one of the country's leading social innovators. She has 15 years international development experience in Southern Africa and 10 years corporate experience in professional and financial services in Australia prior to founding Social Outcomes in 2014.**

Sandy has taken an active role in growing the impact investing market and social enterprise sector in Australia, co-founding Impact Investing Australia, undertaken comprehensive grant making activities with social enterprises and has established several large-scale social innovation projects.

Sandy was the Head of Social Innovation for Westpac, part of the team that built and issued Australia's first social impact bonds. She established Westpac's organisational mentoring program and provided over 50 NFP's and social enterprises with long term capacity building on strategy, financial and risk management, culture change and organisational efficiency. Prior to this, she was Head of Learning and Culture for Westpac and had a similar role at PwC. Her work in Southern Africa included a number of impact measurement projects and she worked at a community level on leadership development and transformational change in the post-Apartheid era.

Sandy serves on the Australian Advisory Board of the International Taskforce on Impact Investing established by the G8, sits on the Advisory Board for the Australian Centre for Not-for-Profit and Philanthropic Studies at QUT, and is an Industry Fellow at Griffith University's Centre for Sustainable Enterprise. Sandy is a non-executive Director of Hand Heart Pocket, Queensland's largest philanthropic foundation. She was a Director of the Community Services Industry Alliance from its establishment until the end of 2017 and is an in demand public speaker and best-selling author.





**Nicki Hutley** – Economist

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**Nicki is a highly experienced economist with broad-based expertise gained over three decades of practice in financial and investment markets and in economic consulting. Nicki has expertise in economic modelling, cost benefit analysis and business case preparation, Social Return on Investment, impact evaluations, policy development, and stakeholder engagement. Her research has covered areas from housing affordability to modern slavery, climate change to gender equity, and Indigenous affairs.**

Nicki works with government, private and third sector clients across Australia, to provide an evidence base for current and proposed projects, policies and programs, using triple bottom line and strategic analysis. Nicki has extensive experience gained from working both in and for the private sector and government, including as a partner with Deloitte Access Economics.

Nicki's work has a strong theme of social impact and she has been involved in the design and evaluation of social impact bonds and payments-for-outcomes programs. She has been at the forefront of developing an economic framework for quantifying social outcomes in a rigorous and robust framework that is acceptable to Treasury departments and investors alike.

Her evaluation and impact work has covered programs such as the Community Development Program, the Growth Areas Infrastructure program (Victoria), NSW Ability Links, Newpin child restoration program, Last Days of Life palliative care initiative, a proposed AOD facility, and a NSW government energy efficiency initiative for low-income households.

Nicki is a Council member of the Economics Society of Australia (NSW Branch) and the executive of the Australian Business Economists. Nicki is a board member for One Million Women and an advisory board member for the Finance Women's Economic Index.



**Vanessa Lesnie** - Principal Consultant

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**Vanessa is a social change practitioner and strategist with more than 25 years' experience working with the community, government and corporate sectors, both locally and abroad. She has significant expertise in social project design, management and impact measurement; social innovation and finance; organisational and cultural change; stakeholder engagement and empowerment.**

Vanessa has been at the forefront of growing social innovation and impact investing in Australia. While at Social Outcomes, Vanessa has worked on five social impact bonds and a development impact bond, social enterprise design and capacity-building, impact measurement frameworks and impact investing strategies, amongst other things. She works with clients to address complex social challenges in an innovative, pragmatic and financially sustainable manner. Vanessa was also a founding Director on Impact Investing Australia's Board.

While working for a New York-based NGO, Human Rights First, Vanessa spearheaded a first-of-its kind Cambodian corporate-community-government partnership focussed on improving labour conditions in Cambodian factories supplying US clothing retailer, Gap Inc. She led the Australian Human Rights Commission's 2004 National Inquiry into Children in Immigration Detention as well as many other major inquiries and projects pursuing equal rights for groups including refugees, people with disability, people in same-sex relationships and young victims of bullying. She also led the Commission's business and human rights program and the Commission's strategic and cultural change process over several years.

Vanessa is a Director on the Board of the National Association of Community Legal Centres. She was previously a Leadership Council Member at The Social Outfit and an Advisory Committee Member at the Human Rights Law Centre. She is an experienced facilitator, trainer, public speaker and writer.