

Incentive
Prizes and
Challenges



Social Impact
Bonds



Outcomes-
Based Grants
or Contracts



The Many Ways to Pay for Results

Funding options for
innovation and success

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From Paying for Activities to Paying for Results

A great deal of social and public sector funding has focused on activities, rather than outcomes. Often, funders pay organizations if they promise to do what funders say they want. But sometimes, these efforts fall short of achieving outcomes for the people and communities at stake.

What if funders could define the outcomes they wanted to achieve, and pay for those outcomes instead? In the last few years, there has been enormous innovation in funding, with new ways to pay for results.

In the U.S. and all over the world...

*"NASA Turns to Freelancers to Solve Challenges in Space Exploration"¹
– Forbes*

"Summa's ACO Earns Performance Payments for Beating Spending, Quality Targets"² – Akron Beacon Journal

"Letting Investors Take a Shot at Curing Social Ills"³ – Wall Street Journal

Since 2010, over 10⁴ countries and more than 30⁵ U.S. states have explored or pursued **Pay for Success** projects



In the last five years, **hundreds** of public sector **Incentive Prizes and Challenges** have been launched in the U.S., with **435** on challenge.gov alone⁶



Outcomes-Based Grants or Contracts are increasingly used by governments and donor organizations all over the world



The Many Ways to Pay for Results

Out of many new ways to pay for results, three prominent approaches include:



Incentive Prizes and Challenges that offer a cash prize to motivate people outside the funding organization to compete to create the best potential solution



Pay for Success projects that allow the funding organization to pay only when outcomes are achieved; another organization provides the upfront funding for service delivery



Outcomes-Based Grants or Contracts that provide funding for implementing activities as well as additional performance-based payments if outcomes are achieved

Compared to business as usual, using any of these funding approaches may encourage greater results, innovation, and other demonstrated benefits.¹

results [n]: real, measurable progress in addressing social issues

innovation [n]: solutions to unsolved challenges new to the world or new to the organization

other benefits can include less risk; new cross-sector partnerships; publicity, awareness, and engagement

Which Way to Choose?

When designing a results-based funding approach, you may wonder: which way to pay for results should I choose? While all three of the approaches discussed here tie some payment to results, they have important differences that make them suited for different contexts. You can start by thinking about the following:

1 The Problem

What is the nature of the problem you are trying to address: social or scientific?

Are effective solutions already identified and/or field tested, or unclear?

How much time will it take to see measurable results?

2 The Funding Organization

What is the funding organization's appetite for financial risk?

How much funding is available? How much would the solution need, both now and later?

3 The Partner Organization

Are the people or organizations that must do the hands-on work of addressing the problem apparent? What is their track record?

What is their appetite for risk?

Will partner organizations have sufficient access to resources at the start of the project?

Differences and Similarities

It may be helpful to think about how the many ways to pay for results are different and alike....

	Incentive Prizes and Challenges	Pay for Success	Outcomes-Based Grants or Contracts
Problems addressed	Social and scientific	Social, often issues conducive to preventative solutions	Social
Knowledge of solution	Unclear, ineffective, unknown, or multiple solutions	May range from a strong track record to some early evidence of success	May have a known or promising solution
Typical timeframe for achieving outcomes and making payments	Varies from a few months to many years	3 – 8 years	1 – 3 years
Typical level of outside resources leveraged	Significant time, money, and effort from solvers	Significant financial resources from external organizations	Low to non-existent
Partner organizations typically bearing most of the financial risk	Solvers – those coming up with the solution and expending money and time	Often investors – those putting up the money	Service providers – those providing the direct service, at partial funding risk

Let's learn more...

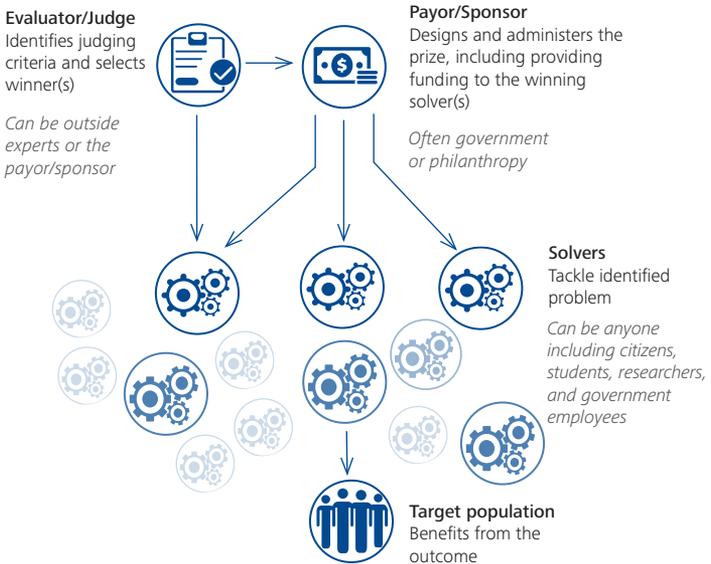
...about each
funding approach

Incentive Prizes and Challenges

Incentive Prizes and Challenges galvanize people outside the funding organization to develop innovative solutions to vexing challenges. The funding organization awards the prize funds to the solver(s) with the best solution that achieves the desired outcome.

For Example: Nesta, a UK innovation non-profit, is launching a £10 million prize to develop a quick, easy, cheap, and accurate test for bacterial infections so that healthcare professionals can administer the right antibiotic and avoid increased bacterial resistance to life-saving drugs.

Participants in a Typical Incentive Prize or Challenge



How it Works

The process for developing and launching Incentive Prizes and Challenges can vary significantly based on the outcomes desired. However, there are a series of steps typically involved in implementing a prize or challenge:

1

A payor/sponsor identifies the desired **outcomes** and designs the prize by determining the problem statement, incentive structure, participant eligibility criteria, and solution judging criteria, amongst other factors

2

The payor/sponsor advertises the prize to the target participant population, enrolls participants, and administers the **prize or challenge** (*this can include coaching, interim funding for shortlisted solvers, and other variations of support*)

3

Solvers submit entries for the prize and bring diverse skillsets and resources to develop potential **innovative solutions** to the challenge presented

4

The evaluator/judge identify the **winner(s)** whose solution best addresses the challenge and achieves the desired outcomes

5

The winner(s) receives the prize **funds** and, the solution moves to the **implementation phase**

Case Examples

Rebuilding Financial Services in Haiti

USAID and the Gates Foundation partnered together to jumpstart financial services in Haiti after the devastating earthquake in 2010. Together, they designed the Haiti Mobile Money Initiative, which incentivized mobile money service providers to launch activities in Haiti and achieve specific operational and transactional milestones. The prize used multiple awards totaling \$10 million to incentivize first-to-market services and to encourage scaling customer adoption. Six months after launching the prize, two mobile banking services were operational in Haiti, and by July 2012, one participant achieved the five million transactions milestone.

Developing Algorithms to Map Dark Matter

NASA launched a challenge designed to address the notoriously difficult problem of mapping dark matter. To encourage collaboration across disciplines and backgrounds, NASA partnered with the online challenge platform Kaggle to enable solvers to work together to develop solutions. The challenge featured a purse of \$3,000 and a visit to the NASA jet propulsion laboratory. Within 10 days of the prize launch, a doctoral candidate in glaciology from Cambridge University built an algorithm that outperformed NASA's existing one.

Learn more: "The Craft of Incentive Prize Design," *Deloitte University Press*, 18 June 2014, <http://dupress.com/articles/the-craft-of-incentive-prize-design/>

When to Consider an Incentive Prize or Challenge

An Incentive Prize or Challenge could be right for you if...

The **problem**:

- Is social or scientific, ranging from addressing domestic violence to developing new ways to capture wind energy
- Can be clearly framed in a problem statement with defined desired outcomes
- Doesn't have a clear, effective, or established solution
- Could benefit from increased publicity, awareness, and engagement, as well as an activated community of interest

The **funding organization**:

- Has access to funding and/or other incentives (e.g., publicity or technical support) that will likely appeal to a broad and diverse set of solvers
- Wants solvers to volunteer time and effort to develop a range of possible solutions
- Has access to in-house or external subject matter expertise to judge potential solutions, as well as the marketing, communications, and coaching to help make the effort effective

The **potential partner organizations**:

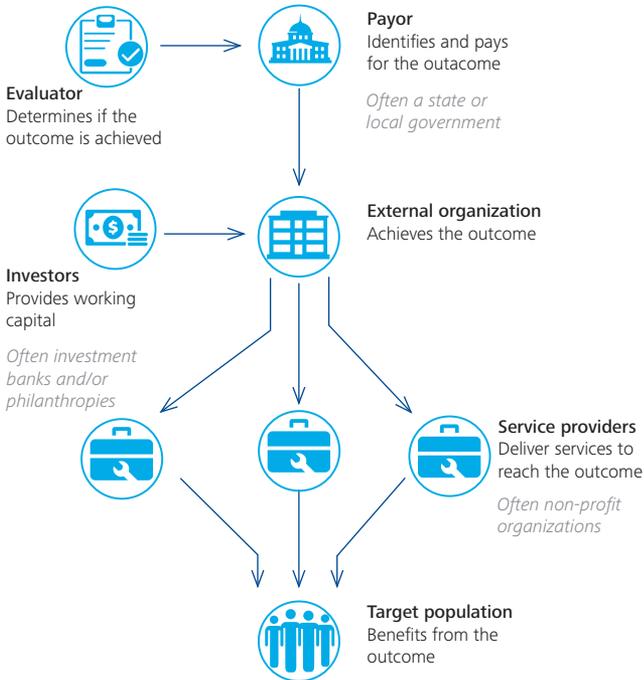
- In terms of solvers, are numerous enough to generate multiple ideas and will respond to the incentives offered

Pay for Success

Pay for Success projects, also known as Social Impact Bonds, are contracts that enable a funder, typically government, to pay only when desired outcomes are achieved. An external organization takes on responsibility for delivering outcomes: if they are achieved, the funder releases a pre-agreed amount of money to the external organization. Often, external organizations raise money from investors to fund service providers who work to achieve the outcome.

For Example: The Commonwealth of Massachusetts has set up a Pay for Success arrangement where it pays a non-profit organization only if they succeed in keeping ex-offenders from returning to prison. The non-profit has raised money from investors to fund approaches that have worked in the past, but they only get paid by government if they prove effective moving forward.

Participants in a Typical Pay for Success Project



How it Works

Pay for Success is rapidly evolving, and each contract issued to date has a structure based on the specific issue area, local context, and partner organizations. Given these differences, a typical Pay for Success project could follow these basic steps:

1

A payor, typically a government organization, defines **outcomes**, and identifies an external organization that takes on responsibility for delivering the outcomes. Both parties agree how much money will be released if the outcome is achieved.

2

The external organization often raises money from investors who contribute **working capital** to fund day-to-day program operations

3

The external organization identifies service providers to work with the target population of **program beneficiaries**, with regular performance management based on agreed-upon metrics

4

In some cases, an **evaluator** will verify that the external organization/service providers achieved outcomes

5

If outcomes are achieved, the payor delivers **payments** to the external organization, which then passes the return to investors (*If outcomes are not achieved, the payor pays nothing and investors take the loss*)

Case Examples

Reducing Recidivism in Massachusetts

The Commonwealth of Massachusetts has launched a Pay for Success project to reduce recidivism—the return to prison—for young male ex-offenders by at least 40%. Roca, a local service provider, has developed a four-year preventative intervention with a track record of effectiveness. Goldman Sachs, Living Cities, and the Kresge Foundation are providing working capital as investors in the project. The Commonwealth will only be responsible for payment if the program is successful. In this case, the state stands to save between \$7 and \$18 million, net of payouts to investors, from decreased imprisonment and increased employment.

Learn more:

<https://www.livingcities.org/blog/634-reducing-juvenile-recidivism-and-increasing-employment-in-massachusetts> and <http://www.thirdsectorcap.org/portfolio/massachusetts-juvenile-justice-pfs-initiative/>

Improving Elementary School Student Performance in Utah

The State of Utah and the United Way of Salt Lake have launched a Pay for Success project to improve early childhood education for 3,500 low-income children over several years. Many of these children fall behind before they start elementary school, requiring costly services like special education in order to try and catch-up. The United Way will administer an early childhood education program with demonstrated effectiveness preparing children for pre-school. Goldman Sachs and J.B. Pritzker are providing a \$7 million loan to the United Way. Should the program produce results, the investors stand to receive loan repayment at a 5% interest rate, as well as additional payments, funded by state savings on special education spending.

Learn more:

http://www.payforsuccess.org/sites/default/files/united_way_press_release.pdf and <http://www.wsj.com/articles/SB10001424127887324188604578542204165759948>

When to Consider Pay for Success

Pay for Success could be right for you if...

The **problem**:

- Is complex and social—ranging from education, recidivism, homelessness, to public health—making it likely that the issue could benefit from cross-government, cross-sector, and/or preventative measures
- Can be articulated as an outcome (e.g., a reduction in recidivism or homelessness), and there is a good chance that it can be achieved in 3 – 8 years
- Has a significant enough public value for the funding organization to want to invest money in tackling it
- Has established solution(s) with a track record of effectiveness, likely lowering the risks for potential investors and increasing the potential for effectiveness at scale

The **funding organization**:

- Wishes to attract external funding to try solutions, and only spend it's funds if they work
- Has a willingness to play a more hands-off role and let others address the problem
- Has strong relationship and risk management capabilities to participate in a multi-party, cross-sector contract
- Has familiarity with managing evidence-based programs including accessing and monitoring data

The **potential partner organizations**:

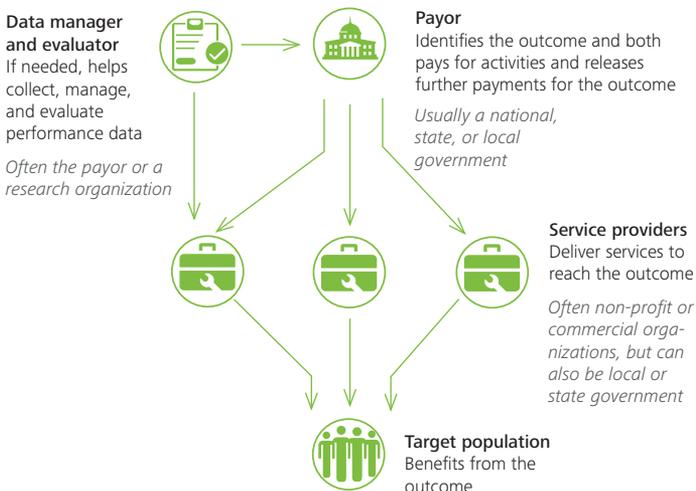
- Are apparent and attractable to the project

Outcomes-Based Grants or Contracts

Outcomes-Based Grants or Contracts are bilateral agreements between a payor and service providers. Under the arrangement, service providers receive some funding from the payor to operate the program, and receive additional performance payments if they achieve agreed-upon outcomes. *(The proportion of total funding additional payments make up can vary significantly).*

For Example: The State of Tennessee pays non-profit and private service providers to care for children in the state's custody. If service providers achieve outcomes, such as placing more children in permanent homes, they receive additional performance payments.

Participants in a Typical Outcomes-Based Grant or Contract



How it Works

Many governments and philanthropies across the globe have used Outcomes-Based Grants or Contracts to help refocus traditional grants or contracts on outcomes as opposed to activities or outputs. While each Outcomes-Based Grant or Contract is different, they generally follow these steps:

- 1 A payor defines **outcomes** and develops an evaluation framework *(in some cases, payors choose to get help from outside organizations and evaluators)*
- 2 A payor works with service providers to establish **contracts** that define the performance payments' size, as well as the conditions and timeframes for other payments
- 3 Service providers implement **programs** to achieve desired outcomes
- 4 Payors, sometimes with help from a data manager and evaluator, **monitor and evaluate** service providers' performance and make performance **payments** when they achieve agreed upon outcomes *(If outcomes are not achieved, the service provider does not receive the performance payment and may lose the opportunity to serve additional beneficiaries in the target population)*

Case Examples

Improving Healthcare Quality and Curbing Costs through State Medicaid Accountable Care Organizations

Multiple states across the U.S.—such as Colorado, Oregon, and Minnesota—are changing how they provide Medicaid funding by establishing Outcomes-Based Contracts through Accountable Care Organizations (ACOs). Groups of hospitals and doctors form ACOs by agreeing to coordinate care and assume collective financial responsibility for improving the quality of care for patients and for reducing costs in the healthcare system. States provide ACOs incentive payments when they achieve cost and quality outcomes, instead of simply paying providers based on the amount of services provided or the number of people served.

Improving Local Government Service Delivery through Australian National Partnership Agreements

The Australian national government revamped local government funding and service delivery by establishing National Partnership Agreements, a form of Outcomes-Based Grants. In exchange for streamlined funding, greater administrative flexibility, and the potential to earn reward payments, Australian state governments strove to achieve ambitious goals set collaboratively with the national government to improve economic competitiveness globally. National Partnerships Agreements have shown improved outcomes in health and education.

Learn more: Beek Center for Social Impact and Innovation at Georgetown University, "Funding For Results: A Review of Government Outcomes-Based Agreements," November 2014, <http://www.driveimpact.org/report/>

When to Consider an Outcomes-Based Grant or Contract

An Outcomes-Based Grant or Contract could be right for you if...

Your **problem**:

- Is complex and social—ranging from unemployment, public safety, child welfare, to healthcare—where service delivery has been activity-based and/or output-focused for a long time
- Has a known or promising solution, including one that could benefit from greater administrative flexibility in achieving outcomes in exchange for a focus on results
- Demonstrates measurable results, even if just intermediate outcomes, within 1 – 3 years

The **funding organization**:

- Has the flexibility and support to administer current grant funding in a new way, and to change relationships with existing service providers
- Has experience with negotiation and stakeholder management, designing outcomes and incentives, and monitoring and evaluating evidence-based programs

The **potential partner organizations**:

- Are apparent, and can bear and manage some risk in the case of service providers

Now let's take a short
quiz...

...to learn more about
which funding
approach might be
right for you

Quiz

Considering which way to pay for results involves balancing many different factors. Take the following quick quiz to learn more about which types of results-based funding to consider further given your individual context.

Instructions: read each question, decide your answer, and circle all the colored boxes below it. At the end, you'll add up how many of each icon you circled.

1. What is the nature of the problem you are trying to address?

a. more social



b. more scientific



2. Are effective solutions already identified and/or field tested, or unclear?

a. solutions are identified and field tested



b. solution is unclear, ineffective, or unknown



Quiz

3. How much time will it take to see measurable results?

a. 3 years or less



b. 3 – 8 years



4. What is the funding organization's appetite for financial risk?

a. medium (pay for trying and when outcomes are achieved)



b. low (pay only when outcomes are achieved)



5. Are the people or organizations that must do the hands-on work of addressing the problem apparent? What is their track record?

a. one standout external organization with a strong track record



b. many service providers with mixed results



c. unknown, numerous, and likely to engage



Quiz Results

Tallying quiz results: count how many of each icon you circled to learn which ways to pay for results may be suited to your individual context (the higher the score, the more likely a better match)



Incentive Prizes
and Challenges



Outcomes-Based Grants
or Contracts



Pay for Success

Quiz Results

Choosing between different ways to pay for results is just the beginning. Once you start down a path, you may have to consider many other factors, such as:

- How much funding is available? How much would the solution need, both now and later?
- What skill sets and expertise do people within the funding organization and partner organizations have?
- Will partner organizations put forward needed resources?
- Is the timing and political environment right for this type of program?

Because results-based funding can require considerable work to set up, it is only worth embarking on when a payor feels that activity-based arrangements don't already result in the desired outcome.

Want to learn more?

Further Reading List

Incentive Prizes & Challenges

Jesse Goldhammer, Kwasi Mitchell, Anesa “Nes” Parker, Brad Anderson, and Sahil Joshi, “The Craft of Incentive Prize Design,” *Deloitte University Press*, 18 June 2014, <http://dupress.com/articles/the-craft-of-incentive-prize-design/>

Nesta, “Challenge Prizes, a Practical Guide,” 2014, <http://www.nesta.org.uk/sites/default/files/challenge-prizes-design-practice-guide.pdf>

Pay for Success

Kristina Costa, “Fact Sheet: Social Impact Bonds in the U.S.,” *The Center for American Progress*, 12 Feb 2014, <https://www.americanprogress.org/issues/economy/report/2014/02/12/84003/fact-sheet-social-impact-bonds-in-the-united-states/>

Jeffrey Leibman and Alina Sellman, “Social Impact Bonds: a Guide for State and Local Governments,” *Harvard Kennedy School Social Impact Bond Technical Assistance Lab*, June 2013, <http://siblab.hks.harvard.edu/files/siblab/files/social-impact-bonds-a-guide-for-state-and-local-governments.pdf?m=1419347623>

Nonprofit Finance Fund, “Pay for Success Learning Hub,” <http://www.payforsuccess.org/>

The Urban Institute, “Understanding Social Impact Bonds and Pay for Success Collection,” <http://www.urban.org/features/understanding-social-impact-bonds-and-pay-success>

Outcomes-Based Grants or Contracts

Beeck Center for Social Impact and Innovation at Georgetown University, “Funding For Results: A Review of Government Outcomes-Based Agreements,” November 2014, <http://www.driveimpact.org/report/>

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Audrey has advised clients regarding an incentive prize focused on improving results in agriculture in Africa and Asia, as well as ways to develop Pay for Success projects focused on public health. She has eight years of experience working across international development, public health, and other issue areas.



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Isabelle has advised clients regarding Outcomes-Based Grants or Contracts, and helped design and implement an innovation challenge. She has over six years of experience working in the social and public sectors across urban and housing policy, healthcare, education, and energy and natural resources.

End Notes

¹Pofeldt, Elaine, "NASA Turns to Freelancers to Solve Challenges in Space Exploration," *Forbes*, 15 Aug 2015, <http://www.forbes.com/sites/elainepofeldt/2015/08/31/nasa-turns-to-freelancers-to-solve-challenges-in-space/>, accessed online 22 Sept 2015.

²Powell, Cheryl, "Summa's ACO Earns Performance Payments for Beating Spending, Quality Targets," *Akron Beacon Journal*, 27 Aug 2015, <http://www.ohio.com/lifestyle/powell/summa-aco-earns-performance-payments-for-beating-spending-quality-targets-1.619433>, accessed online 22 Sept 2015.

³Williams, John C., "Letting Investors Take a Shot at Curing Social Ills," *The Wall Street Journal*, 23 Sept 2014, <http://www.wsj.com/articles/john-c-williams-letting-investors-take-a-shot-at-curing-social-ills-1411515133>, accessed online on 24 Sept 2015.

⁴Instiglio, "Impact Bonds Worldwide," <http://www.instiglio.org/en/sibs-worldwide/>, accessed 22 Sept 2015.

⁵Non-profit Finance Fund, "Pay for Success U.S. Activity," <http://www.payforsuccess.org/pay-success-deals-united-states#hi>, accessed 22 Sept 2015.

⁶General Services Administration, Challenge.gov website, <https://www.challenge.gov/about/>, accessed on 22 Sept 2015.

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