FROM FUNDING ACTIVITIES TO INVESTING IN RESULTS

How Do We Get from Here to There?

Antony Bugg-Levine
Nonprofit Finance Fund

We can orient around outcomes, as a growing set of examples across geography and sectors are demonstrating. We can put funding in the hands of capable organizations, hold them accountable for making a positive difference, free them from the red tape of project compliance, and generate better long-term results. And we can reinvigorate our collective dedication to social-sector spending by providing taxpayers with the assurance that their resources are generating strong results.

To sustain a movement that can ultimately shift the system of social spending from outputs to outcomes will require much more than an increase in the pace of new examples. Outcomes arise from complex interactions that can never be under the control of any one organization. Whether a former prisoner in an anti-recidivism program stays out of jail will depend not only on the quality of the training he receives in the program, but also on whether political winds blow toward a more or less punitive court system, how economic shocks affect the job market, how demographics affect the housing market, and how public policies concentrate health hazards in his neighborhood, etc. Innovations in government contracting, financial engineering, and impact measurement are all necessary but insufficient to build an outcomes-oriented system. The only foundation that can sustain an outcomes-oriented system is a collective, actionable commitment to being accountable for what happens to all people in all communities.

WHAT CHANGE WILL THE SHIFT TO OUTCOMES REQUIRE?

What will it take to build that collective commitment and expand take-up of outcomes-oriented solutions? Our current way of organizing people and resources to solve social problems creates frustration and inefficiency. But it is familiar, well intentioned, and entrenched. Government agencies, nonprofit organizations, philanthropic donors, and investors have all built structures and rules and career paths that perpetuate it.

For outcomes orientation to go from inspirational anecdotes to a systemic shift will require overcoming the resistance to change. We know that complex social and environmental problems — ending chronic homelessness, reducing prison recidivism, building climate change resilience—will not be solved through one program, one intervention, or one agency. We need many people on board. And we cannot hope to recruit these people and their institutions, or to enlist them to the cause of addressing complex social challenges, if we do not understand what we are asking them to do.

Although we will all be called to support an outcomes-oriented system, the most important players will be the service providers, government funders, private donors, investors, and the people this system is organized to support. Understanding what the shift from an output- to outcomes-based system will entail for them is a crucial first step in figuring out how we can all work together to support this transition.

Service Providers: From "Do What You're Told" to "Show Us What You Can Do"

Our current social services system prizes delivering services at minimum cost and ensuring timely and accurate filing of the paperwork that proves the work got done. In an outcomes-oriented system, service delivery organizations instead are freed to innovate, finding the right interventions that will most likely support their clients' long-term success. The homeless shelter operator who understands clients' unique psychological needs could invest in mental health professionals to help clients leave homelessness, just as the early childcare operator could invest in anger-management training if she believes it can improve a child's readiness to learn. And importantly, this approach aligns how funding flows with the ultimate motivation that brings most social service professionals to work in the first place—to see long-term improvements in their clients' lives.

Such freedom to innovate brings a reliance on others that can be unnerving. In our current system, the homeless shelter and early childcare center operators largely control the variables that determine their success. They will be paid as long as they keep their facilities filled and follow the

actions they committed to undertake. In contrast, outcomes are rarely within any one institution's control. A tight rental market that drives up the cost of affordable housing can curtail the ability to place homeless-shelter residents in permanent housing, just as instability in the job market can make it harder for parents of preschoolers to support the early child care center in preparing their children for kindergarten. Outcomes-oriented approaches risk shining a potentially damaging light on an organization for a perceived "failure" that's due to external forces.

The outcomes approach also requires service providers to transform how they operate internally. They will need to be able to measure and communicate the results of their work. This could require investments in data-tracking software, professional staff with impact measurement skills, and a longer-term relationship with their clients that is often difficult to sustain. They may also need to shift their internal culture to become more of a learning organization that can constantly experiment, assess, and implement what works. All this while operating in the current system where they must maintain the traditional compliance function, they lack operating reserves to cushion against potential failure, and where most funding does not cover costs. It's a tall order.

Government: From Control to Collaboration

In our existing system, government funds organizations that provide services for the lowest cost and monitors them to ensure taxpayer money is spent on specific activities agreed to in advance. In an outcomes-oriented system, government will instead focus on setting clear and measurable outcomes targets (e.g., reducing homelessness by a certain percentage or increasing the rate of children who complete an early childhood education program ready to learn in kindergarten) and provide flexible, full-cost funding to organizations who will decide on their own how best to achieve the predetermined goals.

Often outcomes will defy bureaucratic silos. For example, reducing foster care placement rates often requires collaboration between the housing department, the emergency shelter system, the education department, and the police and courts. We are already seeing that interventions organized around outcomes generate unexpected collaboration between institutions and agencies. After government and nonprofit leaders in Denver oriented around the outcome of ending chronic homelessness, police officers walking the beat now carry cards identifying known homeless residents so they can connect them to the local organization that can help them leave the streets. Prison department officials in New York are now proactively informing a local organization about prisoners poised for release to ensure their enrollment in a program aimed at reducing recidivism. In Los Angeles, the health department has shifted resources to invest in supportive housing after advocates generated evidence that "housing first" approaches save more in healthcare costs than they require in rental subsidy.

Government agencies also will need to invest in impact measurement capabilities. They will need to disclose data, and to strike the right balance between respecting individual privacy and sharing data on individual and community outcomes necessary to set targets and know if they've been met. And government will have to provide funding to help service providers to develop the internal capacity to use data to improve their programs and prove their results. Many service providers are already using new technologies and data, helping them to identify high-need clients more effectively, solicit real-time client feedback, and collaborate. These innovations require resources that cost-recovery contracts do not sustain.

Given these challenges, people outside government will need to back politicians and agency heads who take a stand for an outcomes-oriented system. These officials will need supporters who push for more flexible funding despite skepticism from the public and the media who are conditioned to highlight when taxpayer money pays for activities not prescribed in a government contract.

Private Donors: From Project Buyer to Capacity Builder

Like government funders, most private donors primarily provide project-based grants with detailed reporting requirements to ensure an organization did what it said it would. In a healthy outcomes-oriented system, these donors will provide flexible support that covers grantees' full costs, enabling them to invest in management teams, research, and impact measurement and monitoring, and to build up the operating reserves and fixed assets necessary to implement outcomes-based programs.

Private donors will help convene community discussions that identify goals and bring together the range of players necessary to reach them.

They will write funding contracts that focus on setting clear results targets and will release their funding based on outcomes milestones rather than activities or time. They will be an advocate for their grantees in a collective effort to bring together the private- and public-sector partners necessary to reach these goals. And they will take advantage of the flexibility that comes from operating without the glare that government agencies face to support grantee innovation, program development, and the investments in provider capacity that will be necessary but not always easy to defend politically.

Social Service Clients: From Input to Purpose

Our current output-based funding system treats the recipients of social services as units of output or activity—the filler of a bed in a shelter or a seat in a school. Funders pay organizations to provide services for these people, families, and communities. In an outcomes-based system, the activity is a means to the ultimate end. Success is measured not by what was done to a person or family but by what positive change occurred in their lives.

This has transformational implications. In our current system, many service providers know clients need tailored approaches, but their contracts prevent them from offering them. Instead, the recipients of a service are only guaranteed to receive as much attention from service providers as is mandated in a contract. In an outcomes-based system, they receive as much care and attention as is necessary to create the opportunity for better outcomes. In our current system, many people cycle through programs that do not comprehensively address the root cause of their problems. To succeed in an outcomes system, social service providers will need to coordinate to address root causes.

More people will be better off because of this shift, but for the person who is thrust into the center of an outcomes-based system, the collective investment in data tracking of his or her success could be disorienting and intrusive. To ensure clients thrive in this new system will require incorporating into program design and implementation the perspective of people whose lives social programs must ultimately impact. We will have to support people to sustain their engagement in programs that may take longer and require deep, trusting relationships. And, finally, we must guard privacy at the same time as track progress.

Investors: From Financing Operations to Financing Progress

In an output-oriented system, many contracts are paid at least partly upfront, so organizations that have adequate funding often do not require an investor to finance upfront costs. Where financing is necessary, private investors finance the service providers and are paid when the service provider completes the activities a contract mandates. A loan to a homeless-shelter operator to build a new shelter will be repaid as long as the shelter stays full, the operator runs it efficiently, and government honors its contract to pay for each night a bed was used. In this world, debt, often secured with real-estate collateral, is the primary way that investors finance interventions.

Investors will have a more important role to play in an outcomes-oriented world, but they will need new capabilities to play it. Finance becomes centrally important because funding will typically not flow to the provider until after the service has been delivered and the result assessed. Providers will need upfront capital to implement programs before they are paid based on their outcomes contracts. In the case of the investor in the homeless shelter, the provider will not be paid, or the investor repaid, unless the people who come through the shelter escape homelessness long-term. So, the investor now needs to understand how the activities the shelter operator plans to undertake will actually help the clients transition out of homelessness. This requires insight into the social science research about whether the proposed activities will lead to positive results. Investors will need to partner with those well versed in social science insights on the wide range of issues to which outcomes-oriented financing could be applied.

Investors will also need greater comfort with the uncertainty and risk inherent in striving for outcomes. And they will have an opportunity to develop new investment products that not only provide upfront financing for social services but also help service providers manage the new risk that comes with outcomes-based contracts.

LOOKING AHEAD

This essay is just a start to encourage the empathy necessary to support the different players who will need to embrace a new way of working if we want outcomes-oriented solutions to become more than islands in a sea of output-constrained activity. If you identify with one of the actors outlined above, imagining the changes required in your own organization is likely daunting. Fortunately, you are not alone. Across the country, extraordinary leaders are overcoming the status quo, making change happen in their communities, and pushing through the challenges highlighted here. But, relying on extraordinary people to find a way to overcome the existing system is not a formula for widespread success. Instead, we must create new norms so that the vast majority can comfortably embrace this new way of working.

To do so, we need a new narrative centered in a moral commitment that our society will do better for the poorest and most vulnerable people among us, and we need to organize this new narrative around that success. Social service providers want this; that is why they got into their work/field in the first place. Government and taxpayers want this. Donors and investors want it, too. And, of course, the recipients of social services want it for themselves.

This narrative must recognize that we are embarking on a generation-long journey and must help to sustain political support for work whose results will come after current election cycles end. We must draw motivation from the opportunity to address social challenges in the long term rather than to save money in the short term. This new narrative must confront the status quo while recognizing the discomfort that change creates for many people. It must be co-created by the people and the organizations that work most closely with them. We must reject calls for defunding programs that cannot prove their results before the providers of those programs have been given the investments and trust they need to do so. And, ultimately, we must recognize that achieving the outcomes we all seek is our collective responsibility.

ANTONY BUGG-LEVINE *is chief executive officer of Nonprofit Finance Fund (NFF), a national nonprofit and financial intermediary that advances missions and social progress through financing, consulting, partnerships, and knowledge-sharing that empowers leaders, organizations, and ideas. A leading community development financial institution (CDFI), NFF has $250 million in assets under management and has provided $620 million in financing and access to additional capital in support of over $2.3 billion in projects for thousands of organizations nationwide. Bugg-Levine is the co-author of* Impact Investing: Transforming How We Make Money While Making a Difference. *Prior to joining NFF in 2011, he designed and led The Rockefeller Foundation's impact investing initiative and oversaw its program-related investments portfolio. He was the founding board chair of the Global Impact Investing Network and convened the 2007 meeting that coined the phrase "impact investing." A former consultant with McKinsey & Company, he also taught at Columbia Business School.*