

## **Outcomes fund to support sustainable well-being and economic growth**

**The National Impact Investing Advisory Board proposes that an outcomes fund be established in Finland after the parliamentary election of spring 2019, at the latest. The proposed fund would be common for all the sectors of the Finnish government, and its operation would span parliamentary terms.**

The purpose of the outcomes fund is to pay results-based bonuses on the basis of predetermined outcome indicators for successful projects in which the private sector manages to provide solutions to challenges related to well-being and environment.

The advisory group believes that an outcomes fund would substantially increase both impact-based public procurement and the flow of private capital to targets that create added value for society in accordance with the principles of impact investment. Naturally, every investor makes their investment decisions based on their own interests.

Impact investing aims at both financial return and measurable, beneficial societal (financial, social and/or environmental) impacts. From the viewpoint of investors, impact investments are an advanced form of responsible investing.

Central government and local authority procurements are worth approximately 35 billion euros each year. A significant percentage of this amount goes on services. The acquisition of impacts also means a more efficient use of tax revenue.

### **Society as the starting point: advance investments in proactive and preventive activities**

#### *1. Moving the focus of public procurement from performance to results*

The changing operating environment challenges public administrations to renew themselves. Short-sightedness, siloed thinking and partial optimisation should be replaced by a greater focus on the overall picture. Similarly, operating practices need to be improved. For example, service procurement and other public investments currently focus on the quantity and price rather than the performance. In future, we should endeavour to optimise the use of resources and take note of the long-term benefits gained through up-front investments.

## *2. Creation of well-being, prevention of problems*

The current financial situation is forcing the public sector to allocate a substantial share of its resources to addressing current threats or challenges even though the prevention of problems would be far preferable from a human and economic point of view. The health and social services system covers less than 20% of the factors that impact health and well-being. In addition to renewing the system, attention should be paid to factors that create health and well-being and, consequently, economic growth.

For example, the number of cases involving children being placed into foster care increased every year between 1991 and 2013, after which the figure has remained at the 2013 level. (In fact, with regard to teenagers, the number of children taken into foster care has continued to increase.) Research indicates that the fate of youngsters housed outside their original family homes differs markedly from the rest of the population when they reach early adulthood: less than half of them complete a degree after basic education, more than 60% have a diagnosed mental health disorder and 10% retire on a disability pension before the age of 25. According to estimates, there are approximately 60,000 young people who are either socially excluded or at risk of social exclusion in Finland.

When examining the other end of the age range, various memory disorders and other individual factors that impair functional ability cause significant costs. In addition, type 2 diabetes is one example of a medical condition that complicates the lives of many people and leads to considerable expense.

The social issues outlined above lead to human suffering as well as significant costs and losses of tax income for society, even though in many cases they could be prevented.

## *3. Measures on the basis of impact objectives*

The human and economic potential of preventive action materialises with the help of clearly defined impact objectives, carefully planned operations and the required up-front investments. The potential savings could amount to hundreds of millions of euros in the long run, even by conservative estimates. In addition, preventive action provides indirect benefits that become visible through increased profitability as the population's well-being, functional ability and capacity for work increase.

### **An outcomes fund and the SIB model as instruments of systemic change**

One form of impact investing is the Social Impact Bond (SIB). In the SIB model, private capital enables the implementation of operations and services that, for various reasons, would be difficult to fund publicly. The repayment of capital (including financial return) is based on the savings or other economic benefits that effective operations enable for the public sector. In basic terms, the investors assume the financial risk of a project while the public sector, which is the greatest beneficiary, directly and/or indirectly, only pays for separately defined results.

One of the challenges of SIB projects is identifying the public body that pays for the achieved impacts, as the benefits of positive development are often felt across a number of different administrative sectors. A common outcomes fund for all government sectors would eliminate this problem and emphasise the comprehensiveness and economic efficiency of the operations. When combined, the outcomes fund and the SIB model act as instruments of systemic change. They enable the public sector to develop its impact procurement practices.

Impact procurement using the SIB model is already being piloted in two projects in Finland, with two projects about to start and three more at the planning stage. The projects include facilitating the employment of immigrants and the long-term unemployed, and preventing environmental problems (with the Environmental Impact Bond, EIB) and the exclusion of young people.

Impact investing is also being discussed by the EU and the OECD in their plans for future development.

Target-oriented private and public investments that support beneficial development and problem prevention contribute to building a socially and financially sustainable Finland.

Helsinki, 13/11/2018

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